When business meets aid: analysing public-private partnerships for international development (Development Policy Centre Discussion Paper 28)

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Abstract

International development agencies are increasingly looking to business as a partner in achieving development outcomes. Engaging business in development has become a central plank of many countries' aid policies. However, the potential of public-private partnerships for development is still largely unrealised. Business and development agencies would benefit from a better understanding of what forms of practical partnership might be constructed, for what purposes and with what likely impact. We propose a new framework for thinking about practical engagement between business and development agencies. It is based, in the first instance, on a distinction between partnerships that increase the development impact of core business activity, and those that contribute to the private provision of public goods. Within this framework we discuss development agencies' existing involvement in inclusive business ventures, pro-poor supply chain initiatives for internationally-traded products, public-private partnerships for service delivery, and product development partnerships in health. In each of these four areas we provide short case studies and identify a set of issues for further consideration in future work. We close with some observations on cross-cutting issues, including the slenderness of the evidence base in this field, and the fragmentation of existing initiatives. Our main conclusions are three. First, the next generation of enterprise challenge funds should be designed on the basis of a broad evaluation of their predecessors and explicit consideration of a set of issues that we identify. Second, more effective brokerage arrangements, and some flagships, will be needed in order to expand public-private partnerships for service delivery. Third, a comprehensive review of product development partnerships should be undertaken which, among other things, compares them to market-based alternatives.

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When business meets aid: analysing public-private partnerships for international development[1]

1. Introduction

Business has long been viewed by international development agencies as a potential partner in achieving development outcomes, though interest in the subject tends to wax and wane. Most recently, the role of business in development was discussed extensively in the lead-up to the Fourth High-Level Forum on Aid Effectiveness (HLF4) in Busan, Korea, in December 2011.[2] Actual partnerships between development agencies and business, which we shall refer to as "public-private partnerships for development", are still rare. The Australian Government's Independent Review of Aid Effectiveness recommended in April 2011 that the Australian Agency for International Development (AusAID) set up mechanisms to work more closely with Australian business in developing countries. In response, the Government established a high-level Business Engagement Steering Committee, held a Consultative Forum with Business in Canberra on 21 August 2012 and, at this event, released a new private sector development strategy for Australia's aid program that, among other things, commits AusAID to engage more fully with the business community in Australia and in developing countries. AusAID also commissioned the *Business in Development Study 2012* from Accenture Development Partnerships and Business for Millennium Development as a first survey of Australian business engagement in international development.

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[1] An earlier version of this paper was prepared as a background document for the Development Policy Centre forum, "Engaging Business in Development", on 17 October 2012. The present, substantially revised version has benefited from presentations and discussions at that forum and also incorporates comments received subsequently from a number of other people. Thanks are due particularly to forum presenters, panellists and session chairs: Wayne Best, Joshua Bishop, James Ensor, Dan Evans, Ross Hutton, Andrea Iffland, George Jagoe, Peter Leahy, Rachel Levine, Sandra Mendez, Mary Moran, Annmaree O'Keeffe, Anthony Perkins, Gabrielle Persley, Gary Powell, Sean Rooney, Jane Thomason, Michael Toliman, Paul Voutier and Tim Wilson. We also benefited from contributions at the forum, or subsequently, by Stephanie Copus-Campbell, Richard Curtain, John Eyers, Stephen Grant, John Hardin, Stephen Howes, Nicolette Jackson, Marianne Jago-Bassingthwaighte, Rebecca James, Caleb Jarvis, Amanda Jupp, Daniel Mackey, Tess Newton Cain, Marc Purcell, Morgana Ryan, Marcos Vaena, Thiev Viseth, Stephanie Von Gavel, and Jim Woodhill. We are grateful also to Cleo Fleming and Jonathan Pryke for editorial assistance. Presentations given at the forum are accessible as video, and in some cases in written form, via the Events section of the Development Policy Centre's web page.

[2] Several useful documents were prepared for the Working Party on Aid Effectiveness, hosted by the OECD Development Assistance Committee, in the lead-up to the Fourth High-Level Forum on Aid Effectiveness in Busan—particularly Davies (2011). The Reality of Aid Network (2012) picked up on this strand of the discussions in Busan, characterising the private sector as the new "donor darling".

At present, little Australian aid is provided in support of public-private partnerships for development[3]—though this might be expected to change as the Government's commitment to engage more fully with the business community is implemented over time. There is as yet no comprehensive policy framework for business engagement; nor is there any explicit set of principles to guide decisions on the allocation of aid funds to business partnerships. These latter points apply equally to other bilateral donors, even including donors that are quite active in a funding sense, such as the United States (US) and the United Kingdom (UK). At the international level, information on public-private partnerships is both general and partial; there is nothing resembling a comprehensive overview of development agencies' partnerships with business.

Some donors claim to be well along the road in forming public-private partnerships for development, though specific information on the objectives, working arrangements and achievements of individual partnerships is very hard to find. The US, in particular, has formed a series of "Global Development Alliances" with corporate actors since 2001, and says it has leveraged nearly $US19 billion in combined public and private resources through more than 1,600 alliances with over 3,000 distinct partners.[4] Partners are expected to share costs and/or risks, and not merely to play a fully-compensated program implementation role. In a similar vein, the G8 launched at its Camp David summit in 2012 the New Alliance for Food Security and Nutrition, which gives prominence to public-private partnerships and claims that "first-wave private sector investment pledges across the agricultural value chain, including irrigation, processing, trading, financing and infrastructure, already stand at over $US3 billion and could potentially impact millions of smallholders" (USAID 2012, p. 1).

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[3] The aggregate level of funding is not easily quantified but is likely to be under $A30 million per annum. Under a broad interpretation of "public-private partnerships for development", relevant initiatives include the Enterprise Challenge Fund for the Pacific and South East Asia, the Africa Enterprise Challenge Fund, Business for Millennium Development, several International Finance Corporation private enterprise development facilities in the Pacific, Indonesia and the Mekong sub-region, agriculture value chain programs in Indonesia and Cambodia, the Private Infrastructure Development Group, output-based aid for water and sanitation in Indonesia, and various microfinance programs, particularly in the Pacific region. (From publicly-available program documentation, it appears unlikely that the Australian government's $A120 million, four-year Mining for Development Initiative, announced in late 2011, will involve partnerships with mining companies.)

[4] The fullest account of the rationale for, and operation of, these alliances is provided in USAID (2006). Shah (2013, p. 9) states that USAID leveraged $US383 million through public-private partnerships in 2012.

The UK, also, has sharply increased its engagement in public-private partnerships for development, though with a more recent starting point than the US (early 2011), a somewhat stronger emphasis on partnerships that promote local private sector development, and a more explicit insistence that it is not seeking to promote commercial opportunities for UK firms.[5] The scale of this engagement is so far difficult to perceive on the basis of the UK Department for International Development's (DFID) own public information sources. As for other European donors, we know that over the last decade or so, Germany is said to have initiated more than 3,000 public-private partnerships with a value in excess of €1.4 billion, and the Netherlands 75 much larger partnerships with a value of around €2.2 billion (Conley and Dukkipati 2012, p. 3).

In pursuing public-private partnerships with multinational corporations, as opposed to local companies, it appears that donors tend somewhat to favour corporations headquartered in, or identified with, their own countries. For example, the US Agency for International Development's (USAID) most prominent corporate partners include Apple, Motorola, Ford, Microsoft, Intel and Cisco—though it also works with non-US companies such as Ferrero Rocher, in Georgia, and Asiacell, in Iraq (Shah 2013, p. 6). DFID's partners include UK companies Diageo and SABMiller, but also many foreign and local firms. Giving particular attention to the companies in one's own vicinity is defensible on efficiency grounds, particularly as more donors step up business engagement in their jurisdictions, but can give rise to a perception that public-private partnerships are vehicles for the pursuit of donor countries' own international trade and investment promotion agendas. It does not help that, as noted later in this paper, some donors' private sector "linkages" programs are in fact precisely that. However, there is nothing inherently self-interested about donor countries' giving a degree of priority to engagement with their own business sectors, and any public-private partnerships for development that grow from such engagement must be evaluated on their merits.

The universe of possible public-private partnerships for development is quite large, sparsely populated and largely uncharted. Donors tend to advertise such partnerships in very general terms, and often as if partnership were an end in itself. There is very little in the way of guidance or codified experience for a donor—Australia, for example—wishing to expand its engagement with business from a low base. Donors,

[5] An account of the objectives and priorities of DFID's work in this area can be found in DFID (2011).

and also their prospective business partners, would benefit from a better understanding of what forms of practical partnership might be constructed, for what purposes and with what likely impact.

In that context, the present paper proposes a new framework for thinking about public-private partnerships for development, provides brief case studies of activities within that framework that exemplify four categories of partnership,[6] and identifies some key questions for consideration or further research in connection with each category. Our aim is to provide greater clarity about the several purposes that might be served by public-private partnerships for development, and about the main practical questions that must be considered in connection with each category of partnership. Our larger aim is to help lay some of the groundwork for the development of practical principles that might guide decisions on the allocation of aid funds to development partnerships with the private sector, as well as decisions on the design and management of these partnerships. Such principles are, at present, either lacking, implicit, or very general.

2. Framework for the discussion

Foreign firms operating in developing countries often undertake or sponsor various forms of development assistance under their own steam for several reasons. They consider it the right thing to do, or need a social licence to operate, or want a healthy and well-educated workforce, or need a strong base of local suppliers. Perhaps they believe that being perceived as responsible and generous, both within and beyond their zone or sector of operation, gives them a competitive advantage.

Such efforts in themselves are not our concern here. The subject of the present paper is what might be termed "ground-level" engagement between international development agencies and firms operating in developing countries—more specifically, engagement that involves a transfer of resources from a development agency, either to, through or in close co-operation with a private sector partner, with the objective of achieving or enhancing development outcomes for poor countries or specific groups within them.

[6] These case studies were presented in some detail at the forum referred to in footnote 1. Presenters closely associated with each initiative explained its objectives, main features, achievements and cost structures, and reflected on lessons learned. Invited experts and a general audience then discussed issues arising from the presentations, which discussions we have sought to reflect.

The general question is: how can public resources—both financial and human—be used to best effect to maximise the development impact of private sector activity?

We are, moreover, not discussing public-private partnerships in the most commonly-encountered sense of that term—that is, public-private partnerships (PPPs) for infrastructure. PPPs for infrastructure do not normally involve direct engagement between development agencies and private investors and developers, though development agencies will sometimes play an enabling role with respect to these PPP transactions. In the case of output-based aid, development agencies do subsidise private service providers to extend services to poor communities (this kind of arrangement is touched upon in section 5). While agencies such as the International Finance Corporation (IFC) and the Private Infrastructure Development Group (PIDG)[7] work directly with the private sector to facilitate investment in PPPs in developing countries, they operate with a broad growth-promotion objective. Though they conduct socio-economic impact assessments, they do not systematically aim to include poorer sections of the community as input suppliers or consumers.

Two other forms of engagement between international development agencies and firms operating in developing countries are also beyond the scope of this paper. The first relates to broad consultation and knowledge-sharing in the development of general aid policy, country strategies and sector-specific policies and strategies. Official development agencies and the private sector do not currently interact much on these topics, certainly nowhere near as much as development agencies and non-government organisations (NGOs) do. Much of the discussion at AusAID's August 2012 consultative forum with business centered on this form of engagement. It is almost the sole form of engagement indicated in AusAID's Business Engagement Agenda. AusAID's interaction with business since the August 2012 forum, up to the time of writing, has consisted primarily in the sharing of perspectives on development challenges in Indonesia and the Pacific. Dialogue of this nature is undoubtedly valuable and overdue, but sits above the level of practical cooperation that is our concern.

[7] Originally an initiative of the UK, PIDG is an aid-funded multi-donor initiative that uses private sector project development approaches, including equity financing, to get infrastructure projects going in developing countries.

The second category of engagement that we are not here addressing, important though it is, relates to what might be termed "corporate conduct". A variety of codes, structures and processes have been established at the global and national level—for example, the UN Global Compact and its various country-specific private sector networks—to encourage the private sector to conduct business in ways that have beneficial, or at least not harmful, social and environmental impacts in developing countries. Again, there is not currently much engagement between official development agencies and the private sector in connection with the framing and implementation of the corporate conduct agenda. It might be that there is little need for such engagement, and that the conduct agenda is best driven by the corporate sector itself, or through dialogue between the corporate sector and civil society. In any case, we leave this topic aside.[8]

Even with the above exclusions, it is a problem that the term "public-private partnership" is so bewilderingly catholic. Its meaning needs to be broken down in some way in order to permit sensible discussion. For the purpose of structuring the present discussion, we have started with two very broad categories of partnership between development agencies and firms. We have then subdivided them into two further categories. Our taxonomy, as detailed below, might of course be considered a little arbitrary. Some might think we have drawn distinctions where there are none, others that we have not drawn enough. However, we consider it useful without being excessively fine-grained.

The first category is inclusive business, which comprises approaches whose common feature is that they promote development through "core" business activity. These approaches are inclusive in the sense that they seek to bring poor people into the orbit of business activity as suppliers, workers or consumers, without compromising commercial viability or competitiveness. Within this category, we separately identify and discuss consumer-oriented approaches that have a normative dimension relating to fairness or sustainability (usually embodied in minimum standards) in the production process and along the supply chain. The consumers and norms are of the developed

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[8] One of the forms of partnership we discussed below, relating to the certification of internationally-traded commodities, sometimes involves self-imposed constraints on corporate conduct in areas such as labour standards and environmental sustainability. However, our interest in certification relates more narrowly to its potential to include poor producers in supply chains and deliver sustained improvements in their living standards.

world; the supply chain originates in developing countries. We place this latter subset of approaches under the unlovely heading "pro-poor supply chains for internationally-traded products".

Our second broad category is the private sector provision of public goods, within which we distinguish local or national public goods—in particular, universal public health and education services[9]—from international or global public goods, such as vaccines or new crop varieties. The former, in which development agencies use the corporate infrastructure and logistical capabilities of private sector entities to deliver services to the poor, we place under the heading "public-private partnerships for service delivery"[10]; the latter, in which development agencies subsidise product discovery and development, under the heading "product development partnerships". This term is admittedly not particularly self-explanatory but it already has currency in the health sector.

In all, then, we are working with four categories of partnership. The first two promote the production and exchange of private goods, albeit with interventions by development agencies on the supply or demand side in order to promote development outcomes. The second two involve the provision of public goods through or by the private sector, with development agencies meeting a proportion of the associated costs.

It will be apparent from the above that our subject is not private sector development as such. The two categories of partnership relating to the provision of public goods involve the pursuit of human development outcomes. That does not mean they are confined to the social sectors—arrangements sharing some of the features of health-sector product development partnerships also exist in agriculture, and some output-based aid partnerships involve the provision of hardware at the household level, such as

[9] Health and education are what economists term "merit" goods rather than pure public goods. Their consumption generates both private and societal benefits, with the magnitude of the latter being sufficiently large that governments generally opt to function as primary suppliers—even compelling consumption to a degree. We here use the term public goods as shorthand for public and merit goods.

[10] Binder et al. (2007) define a related but narrower category of partnership, which they label "Corporate Development Responsibility" on the analogy of "Corporate Social Responsibility". This covers only arrangements in which a development agency funds or subsidises a firm to deliver through its business systems goods or services other than those it delivers as its core business. This might be unnecessarily restrictive. For example, and as mentioned later, output-based aid, in which a firm receives results-based subsidies to extend its (core) services to poor consumers, might in some cases constitute a public-private partnership for service delivery. However, the extent to which the firm contributes to the partnership through risk-bearing would need to be assessed.

infrastructure for water supply and energy connections—but it does mean that such partnerships do not have as their principal objective the development of markets. The inclusive business category does of course represent a particular form of private sector development. However, interventions in this category have quite a specific purpose. The aim is not to promote private sector development in general, or even with respect to particular locations or value chains. That requires action on a range of fronts, including support for improvements in the enabling environment. Rather, inclusive business approaches aim, in a given environment, to catalyse a shift from less inclusive to more inclusive private sector activity.

3. Inclusive business

The concept of inclusive business is generally explained as the conduct of core business in such a way that it benefits people who occupy the "base of the economic pyramid"[11] as producers or consumers of goods or services. In turn, core business may be defined as business undertaken for none other than commercial objectives, and the base of the pyramid is most often defined as the four billion people whose annual consumption is below about $US3,000 in local purchasing power terms. The base of the pyramid is several times larger than the category of absolute poor.

Much of what one would consider to be inclusive business activity is undertaken without recourse to the assistance of international development agencies. There is a great deal of discussion about the role of business in development in the academic literature[12], in peak business circles[13] and in high-level multilateral forums such as the World Economic Forum[14], the G20[15] and the United Nations[16]. Most of this discussion proceeds on the assumption that development agencies and the private sector do and should play largely separate, complementary roles.

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[11] One widely-cited piece on this topic is Hammond et al. (2007). The concept of the base of the pyramid was developed in particular by the economist C.K. Prahalad in a series of publications, including Prahalad and Hart (2001).
[12] Including that associated with Harvard University's Corporate Social Responsibility Initiative.
[13] Particularly the World Business Council on Sustainable Development.
[14] For example, WEF (2009).
[15] The G20 ran an inclusive business innovation challenge (a beauty pageant rather than a funding mechanism) for the Los Cabos summit in June 2012.
[16] The UN oversees the Global Compact and administers the Business Call to Action and the Growing Inclusive Markets initiative.

When interaction between development agencies and the business community is explicitly considered[17], it is generally said that development agencies can play three main roles in making business activity more inclusive of the base of the pyramid:

- improving the knowledge base for inclusive business activity, particularly through the provision of information on opportunities and effective approaches;
- providing risk-sharing subsidies to early market entrants and/or innovators; and
- exercising convening power in order to broker inclusive business partnerships between private sector, public sector and civil society actors.

In short, the role envisaged for development agencies is to help provide the public goods (knowledge and disinterested convening services) that are important for inclusive business activity, and to help overcome market failures which relate mainly to information deficits and consequent misperceptions of opportunity and risk.

Inclusive business ventures operate across the economy. The base of the pyramid can provide produced inputs and labour to agribusiness, manufacturing, resource extraction and tourism ventures, and may consume goods and services in areas such as water supply, sanitation, transport, energy, telecommunications and finance. Transport and finance deserve special mention—the former because it allows the poor to access goods, services and markets, and the latter because access to finance is a prerequisite for people's participation as producers and consumers in a market economy. The provision of financial services—savings, loans and insurance—to the "unbanked" poor, through support for micro-finance institutions, has been by far the most prominent example of donor support for inclusive business to date.

3.1. Risk-sharing mechanisms

It should be noted that for large-scale business ventures, the International Finance Corporation (IFC) exists as a specialised agency within the World Bank Group to provide debt, equity and guarantees to help reduce project risks perceived by private investors in developing countries. However, even though the IFC is prominent in global discussions about inclusive business, its model primarily involves a "whole pyramid"

[17] For example, in UNDP (2008), WEF (2009) and IFC (2012).

approach[18]—that is, it works with companies that sometimes get their inputs or extend their services to the base of the pyramid, but do not exclusively target the latter market—and, generally speaking, it operates on a scale that is beyond the reach of bilateral and non-government development agencies.

At present, the main instrument used by bilateral development agencies for providing subsidies to inclusive business ventures is the "enterprise challenge fund". Australia operates such a fund in the Asia-Pacific region[19], similar to one established by the UK in Africa[20], which now has support from multiple donors including Australia[21]. Enterprise challenge funds involve one or more calls for inclusive business proposals that are assessed competitively. Successful proposals attract grants or sometimes success-linked loans on a matching basis, with the firm required to prove that it is really putting some capital ("hurt money") at risk. A successful proposal must demonstrate that an activity has reasonable prospects of achieving commercial viability within a certain timeframe, that it is likely to deliver strong development impacts, and that it has little or no prospect of proceeding without the subsidy.[22]

All this can be hard to explain in a nutshell to those instinctively opposed to using aid funds to subsidise private sector activity. The "viable but not viable right now" test is a technical one but is reliant on many assumptions and therefore difficult to apply without subjectivity. The "wouldn't proceed without the subsidy" test involves evaluating a counterfactual conditional and will often require assumptions about what a particular firm's board might have decided to do in the absence of any prospect or knowledge of an aid subsidy.[23] Critics of enterprise challenge funds therefore feel able to accuse them of adding gratuitously to the profits of wealthy corporations. There will rarely be a knock-

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[18] For more on this, see Baptista et al. (2011). For more on "whole pyramid" approaches more generally, see Jenkins et al. (2010).

[19] The Enterprise Challenge Fund for the Pacific and South East Asia is a $A20.5 million, six-year program that started in 2007 and will conclude in late 2013. The fund's resources were fully committed in the first three years of operation. The program manager, Coffey International, is now primarily monitoring existing grants.

[20] The UK pioneered the use of enterprise challenge funds for international development with the establishment of the Financial Deepening Challenge Fund and the Business Linkages Challenge Fund in 2000. In 2008, the UK started the $US50 million Africa Enterprise Challenge Fund. Sweden also operates an enterprise challenge fund, Innovations Against Poverty, which started in 2011.

[21] Through its Zimbabwe window.

[22] Or could not proceed within the required timeframe—i.e. would not have happened now, rather than would not have happened at all.

[23] For a survey and discussion of *ex ante* approaches to assessing the additionality of funding provided through risk-sharing mechanisms, see Heinrich (2013), pages 13 to 19.

down argument to use in response to such accusations in particular cases, but the underlying logic of enterprise challenge funds is not thereby impugned.

A challenge fund grant might be used for specific purposes by the private sector project proponent and is sometimes attributed to the provision of public goods necessary for a project to succeed, such as financial literacy training (see Box 1). However, such attribution is really cosmetic. The effect of the grant is to reduce the ratio of risk to expected return to a level that is acceptable to the proponent. For this reason enterprise challenge funds are normally presented as "risk-sharing" mechanisms. To achieve a decisive impact on the risk-return ratio, the overall investment has to be quite small or the grant quite large. Generally the former is the case (Binder et al. 2007). The grant is usually paid up front on the basis of a proposal, or in tranches on the basis of milestones.

In principle, challenge fund grants could also take the form of results-based payments that are linked, for example, to demonstrated impact measured in terms of the consumption of a beneficial good or service by poor people, or in terms of other benefits such as employment. The AgResults initiative, an agricultural "pull mechanism"[24] launched at the G20 summit in Los Cabos in 2012 will involve such payments, and may be regarded as an inclusive business initiative with results-based subsidies (AgResults Steering Committee 2012). At least, the initial pilot projects to be supported by AgResults have this character; later pilots are more likely to involve the provision of incentives for product discovery and development, and will not necessarily link payments to the level of product adoption.

Box 1: WING Cambodia

WING is a provider of mobile phone payment services that allow customers to transfer, store and access their money using a mobile phone at low cost.[25] Established in 2008, it was originally conceived as targeting garment factory workers in urban areas, other workers of rural origin and the student population in urban areas. However, roughly 80

[24] As opposed to "push mechanisms" which pay for inputs rather than results. Funding for international agricultural research centres is "push" financing. Prizes for the development of solutions to development problems represent the simplest form of pull financing.

[25] WING was a wholly-owned subsidiary of the Australia-New Zealand (ANZ) Banking Group Limited at the time of the ECF grant. It was subsequently sold to Refresh Mobile in 2011 when ANZ's Cambodia business strategy changed.

per cent of the Cambodian population of about 14 million people lives in rural areas. Some 35 per cent of these people live on less than $US1.25 a day.

WING received a grant of $A1.5 million from Australia's Enterprise Challenge Fund (ECF) for the Pacific and South East Asia in 2009 to help expand its services to rural provinces. WING used this funding, constituting about 25 per cent of the cost of the expansion project, to fund initial education programs that built community awareness of mobile technology and banking, and financial literacy campaigns. WING's own funds were used for mobile technology, advertising and staff costs. WING would likely have expanded into the rural market sooner or later but the ECF grant accelerated this process and allowed the company to expand in both urban and rural areas simultaneously, thus "closing the payment ecosystem loop" between the two areas.

WING's mobile payment service allows money earned in urban areas to be transferred to rural relatives, and sometimes vice versa. It also provides a secure way for individuals and small businesses to purchase goods and services, and supports payroll processing and bill payment. It is anticipated that rural users of the service might save up to $US16.8 million per annum in transaction costs relative to more traditional ways of transferring funds, with internal remittances charged at only $US0.10 and withdrawals $US0.40.

After three years, WING has signed up around 380,000 customers, of whom 82 per cent are in rural areas[26] and 34 per cent women. The value of remittance transactions grew from less than $US1 million in early 2011 to over $US12 million in September 2012, just under half of all Cambodia's documented domestic remittances. It should be noted that at one point some 87 per cent of customers were inactive – a point to be considered when the "reach" of initiatives like this is advertised – but also that the global average active user rate for mobile payment systems is only around eight per cent. WING is investing additional funds to increase active user rates, particularly by facilitating access to cheap Khmer-enabled phone handsets and encouraging customers to use third-party payment agents to assist with transactions.

[26] Its original target was to reach 560,000 rural payment receivers, which seems ambitious if all users are required to be active. The annual savings estimates were premised on reaching this target.

Refresh Mobile, a company that operates a point-of-pay technology service with over 8,000 outlets in Cambodia, purchased WING in late 2011[27]. An assessment of WING's commercial viability at that time indicated that it would be close to break-even by the end of 2012. Two reviews of the ECF made very positive findings in relation to the grant to WING, while raising a note of caution about the use of ECF funds in ways that might create barriers to entry for competitors.

WING is now looking to further strengthen its position by establishing additional partnerships with telecommunications companies and micro-finance institutions, expanding financial literacy training, acquiring larger payroll processing accounts and exploring options to tap into the enormous market for international remittance services. In addition, WING's rapid expansion has sparked interest from development agencies, such as the World Food Programme, that could lead to an expansion of its services to facilitate access to finance for poor "day to day survivors". In other words, a small injection of aid helped WING to grow to such an extent that it now looks attractive as a delivery channel for potentially much larger volumes of aid.

This summary case study draws on a presentation given by Anthony Perkins and Thiev Viseth of WING during the Development Policy Centre's forum, "Engaging business in development", on 17 October 2012.

A number of bilateral donors run private sector "matchmaking" schemes[28] that at first glance might be taken for inclusive business financing mechanisms. They offer grants to foreign firms considering direct investment in ventures in developing countries, usually to support exploratory work (for example, "investment studies"), more detailed feasibility studies or small-scale pilot activities. However, on closer inspection most of these schemes are outward trade and investment promotion vehicles.[29] Though funded by aid budgets, they are restricted to firms within the donor country[30] and seem to involve only a cursory assessment of development benefits at any level. In common with enterprise challenge funds they tend to have a competitive grant allocation process,

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[27] Interestingly, WING continues to benefit substantially from its perceived association with ANZ in the minds of existing and prospective customers.

[28] In Binder et al. (2007), these are placed under the heading "Probing Business Opportunities" and described rather uncritically as mechanisms for increasing foreign direct investment in developing countries.

[29] For example, the MatchMaking Program (MMP) of the Norwegian Agency for Development Cooperation (NORAD).

[30] Procurement is untied for activities located in Least Developed Countries (LDCs), in accordance with the OECD Development Assistance Committee's agreement on the untying of most forms of aid to LDCs.

though this is not always the case, and a requirement that activities be capable of achieving commercial viability within a certain timeframe, but little else is similar. Australia ran such a scheme—the Private Sector Linkages Program—until the late 1990s, when commercially-motivated schemes[31] were terminated following a change of government.

3.2. Advisory and mixed services

In addition to enterprise challenge funds, some bilateral donors have established business advisory services of various kinds, including the UK government's Business Innovation Facility, which has an explicit inclusive business mandate. Donors have also long funded advisory services (sometimes with internal or linked financing capacity, in which case we call them "mixed" services) that seek to foster the development of small and medium-sized enterprises that generate employment and other local economic benefits. While not badged as inclusive business mechanisms, these services do target the base of the pyramid as suppliers of goods and labour and as consumers of inputs for smallholder production, if not so much as consumers of final products.

It is notable that the increasing level of interest in fostering inclusive business ventures has been accompanied by a declining emphasis on small-to-medium enterprise (SME) project development facilities—seen as expensive, not strategic and of indeterminate impact (IFC 2005). These have to some extent been superseded by the more "light touch" challenge funds. What were previously IFC-managed multi-donor "project development facilities" in the Pacific, Indonesia and the Mekong sub-region have now been rebadged as "enterprise development" or "private sector development" facilities, with a greater emphasis on support for improvements in the business enabling environment, broad-based capacity-building for private enterprises and measures to include poor communities among the beneficiaries of mainstream IFC investments.[32]

In parallel with the declining emphasis on SME-oriented project development facilities and the growth of enterprise challenge funds, there has been an increasing emphasis on "value-chain" projects that seek to improve (by means of both technical advisory and

[31] Most notably the Development Import Finance Facility, which provided the grant component of mixed credit packages.
[32] For example, as suppliers of produce and services to the Gold Ridge mine in Solomon Islands.

convening services, as well the provision of financial incentives) the functioning of markets for the produce of the rural poor. These are hands-on, intricate private sector development programs that will often involve working with, and sometimes providing financial incentives to, medium- to large-scale business enterprises to make their production, marketing and distribution processes more inclusive of the rural poor. For example, suppliers of agricultural inputs such as fertilisers might be induced to make them available in smaller, more affordable packages. Advice and financial assistance is also provided to public sector entities, smaller businesses, smallholder farmers and cooperatives—that is, to any or all actors in a value chain, depending on where market failures are believed to exist. Australia has supported such a program in Cambodia since 2010 and is (at the time of writing) about to launch a similar program in Indonesia.[33] Because programs of this nature do not work exclusively with business, they tend not to carry the "inclusive business" label. However, given that their objective is fundamentally to develop inclusive value chains, and that much of their work is with the private sector, the label fits much of what they do.

3.3 Review and evaluation

For the most part, inclusive business funding and advisory programs do not lend themselves to rigorous evaluation. They support diverse private sector actors to undertake diverse activities with a high expectation of risk and often with only such impact information as can be collected from the firms supported. In addition, most of these programs have not been in operation for very long. On the basis of a thorough survey of public-private partnerships in this area for the Donor Committee for Enterprise Development, Heinrich (2013) observes that "we know relatively little about the results achieved, and in particular their development impacts." Some lessons can be, and have been, drawn from early experience[34]—to the effect that:

- an excessively "light touch" approach involves false economies;

[33] These are the Cambodian Agricultural Value Chain program (CAVAC) and the Australia-Indonesia Partnership for Decentralisation—Rural Economic Development program (AIPD – Rural), respectively. A positive mid-term review of CAVAC was completed in May 2012: see Hitchins et al. (2012).

[34] With so-called "first generation" challenge funds. The challenge funds for Africa and the Asia-Pacific are described as "second generation" funds. Reviews of the latter have questioned how far the lessons drawn from first-generation funds have been applied in practice.

- funding should target carefully selected sectors and be combined with a depth of technical expertise so as to ensure thorough analysis and effective implementation of proposals;

- care should be taken to maintain competitive neutrality, such that public support for a firm does create structural disadvantages for other firms wishing to enter, or operating in, the same market; and

- grant funds should, as far as possible, leverage rather than substitute for commercial financing.[35]

Two reviews[36] of Australia's Enterprise Challenge Fund for the Pacific and South East Asia have forcefully reiterated the importance of these lessons.

Microfinance programs, given their maturity and geographic spread, have been subject to fuller evaluation than other inclusive business ventures, with mixed but often positive findings.[37] SME project development facilities, as noted above, have received more consistently negative reviews. Overall, one perceives a tendency for donors to oscillate between, on the one hand, light-touch approaches that use financial incentives to spur private sector entrepreneurship, and, on the other hand, advice-heavy approaches that seek to address capacity and information deficits, coordination failures and sometimes also provide or arrange financing. As noted above in connection with several IFC project development facilities, advice-heavy approaches are now less likely to operate at the level of individual projects or enterprises, and more likely to operate across a sector or region containing multiple value chains.

One could speculate that, in time, enterprise challenge funds will be found to share some of the weaknesses of project development facilities and that the emphasis will shift to more comprehensive value-chain approaches, which offer a range of services to all relevant market actors. Alternatively, the latter approaches may be found to be excessively complex, and the emphasis might shift to more sophisticated challenge-fund approaches—perhaps with greater use of results-based subsidies and correspondingly

[35] One review of the Australian ECF noted with concern that in order to be eligible for an ECF grant, a proponent had to demonstrate that they could not raise commercial financing.
[36] An independent mid-term review from November 2009 (ECF 2009) and an independent progress report from November 2011 (ECF 2011), both of which AusAID, to its credit, has made publicly available.
[37] See, for example, Roodman (2012).

less reliance on up-front project selection. It is not currently possible to reach any definitive conclusion about the fate of the enterprise challenge fund or value-chain program models. A comparative assessment of existing programs within and across these two models, from an inclusive business perspective, does not currently exist, and would be a useful product for donors to have.

3.4. Key issues for consideration

Recall that our aim here is to consider how aid funds might best be used to induce private investment in poverty-reducing enterprises. Where such inducement is required, it is required in order to reduce, or more precisely share, real or perceived risks inhibiting investment by specific private actors. Aid funds might also be required to improve the overall enabling environment for investment in a given country or sub-national area—for example, through revision of laws and regulations bearing on the ease of doing business generally, or in a certain sector. However, in the latter case the allocation of aid funds requires no close coordination with specific private sector actors. Our interest relates to situations in which aid funds are deployed so as to trigger specific investments. This will often involve the provision of aid funds to private investors as direct subsidies.

The use of aid funds in this way makes sense in principle but raises a host of practical questions. We identify below seven such questions which, it seems to us, are at least partially independent of one another, though choices made in relation to some are likely to influence those made in relation to others.

1. *Who should the partners be?* Should development agencies work only with and through private sector partners to create the conditions necessary to trigger an investment? Or should they also work with and through public sector or in some cases civil society partners to this end? The latter, more holistic approach involves a substantially expanded concept of "public" in the term "public-private partnership"—to include the host country or region's public sector, as well as the donor country's. Value-chain programs, as described above, take this approach. An approach confined to private sector partners is of course much easier to manage. The holistic approach has the potential to benefit multiple, competing private sector actors, and also brings with it both the benefits and challenges of

government engagement. A half-way house toward the holistic approach might involve partnering with civil society organisations to provide public goods necessary to support certain investments (for example, financial literacy training), and with the private sector, but leaving the public sector out of the picture. Clearly the choices here are not mutually exclusive: a development agency might take different approaches in different places. However, in each place it is necessary to consider whether funds will be used most effectively and efficiently in partnership with just the private sector, or with a broader array of actors.

2. *Light-touch, or more hands-on?* The "light-touch" approach adopted by first-generation enterprise challenge funds appears not to have been regarded as particularly successful. However, it was adopted for good reasons—both for efficiency, and to avoid stifling private sector innovation. It remains plausible that for certain types of investment, a one-off injection of aid funds without much other engagement could deliver, across a portfolio of activities, development returns substantial enough to dwarf the costs of any failed activities. As noted above, experience with project development facilities does not really argue in favour of a wholesale hand-on approach. At the same time, there might be a happy medium, relative to a given environment or type of investment, between simply offering subsidies, and offering complementary support for the development or initial management of projects, as well as support for the replication and scaling up of successful activities. Such support could be offered within the framework of a risk-sharing program, or through coordination with other programs specialising in the provision of business advisory services.

3. *Open slather, or targeted to specific places and sectors?* Enterprise challenge funds have tended to want to promote private sector innovation wherever it might be found, rather than limiting their scope to narrow geographic regions or individual sectors of the economy. This is of course linked to the light-touch philosophy mentioned in the previous point, and also reflects a choice (with respect to the first point above) to work only with and through private sector partners, which reduces the need for geographic restrictions. However, even from a light-touch perspective, one might decide that it makes sense to narrow the focus of at least some risk-sharing mechanisms to certain places or sectors.

For example, a donor's country office might form a desire to allocate a substantial proportion of its resources to an enterprise challenge fund for a given sub-national area or for the country as a whole, after consideration of all the alternatives.[38]

4. *How large or small?* As noted above, in order to achieve a substantial impact, a donor subsidy has to be reasonably large in proportion to the scale of the intended investment. Thus the investment scale in bilateral enterprise challenge funds has been quite small, owing to the limited resources allocated to those funds to date—which has tended to keep their less successful ventures under the radar. Larger-scale investments are supported by the IFC and PIDG, but those programs are not pitched as inclusive business initiatives. This raises the question what the basis should be for determining the range of subsidies to be made available under risk-sharing schemes. If one had an effectively unlimited amount of money to allocate through an enterprise challenge mechanism, how would one decide on the minimum and maximum grant amounts? To a large extent, the answer to this is likely to be suggested by an analysis of actual cases to date, but pragmatic considerations—relating to the level of public tolerance for absolute losses—will also play a part.

5. *Pay for inputs, or results?* The typical enterprise challenge fund approves a project proposal from a particular business, then subsidises said business to get the project going. The funding meets input costs. An alternative approach would be to reward a business or businesses after the fact for achieving specified inclusive business impacts, for example by topping up prices paid by consumers for a certain product for a certain period of time. This carries obvious advantages in principle: funds are released if and only if impact is demonstrated, and funds are released to whoever can demonstrate impact, rather than to a single, pre-selected project proponent. Provided the promise to pay is credible, the incentive effect should operate for any companies with sufficient up-front financing capacity. Results-based payment involves very substantial design challenges, which fall heavily on the funding agency. One must know in advance

[38] This does not happen much at present, since allocation decisions of this kind normally require partner government approval.

what result one is aiming for, and roughly what it should cost to achieve it. However, if these challenges can be overcome, results-based payment could help maintain competitive neutrality and deliver benefits to multiple actors in a given market, rather than privileging a single actor.

6. *Subsidise by means of grants or success-linked loans?* The risk-sharing mechanism does not exist to compete with banks, so will not provide debt. However, in some cases success-linked loans might stretch resources and deliver the desired incentive effect, given that the loan is converted to a grant in the event that the supported project does not achieve viability within a certain timeframe. For small projects, success-linked loans might be too complex for proponents and administratively onerous for development agencies. For larger-scale projects, they might begin to be attractive. Another option further along this spectrum, and involving high levels of complexity, is for the development agency to function as an equity investor and, in time, either sell or write off its stake.

7. *Manage bilaterally or multilaterally?* This choice, in particular, is closely related to some of those above. It makes little sense for multiple bilateral development agencies to run open-slather enterprise challenge funds, particularly if those funds come with substantial administrative and advisory infrastructure, or involve the appraisal of large-scale investments, or the administration of loan, equity or quasi-equity portfolios. Consolidated, multi-donor programs should in principle offer scale, efficiency, visibility and greater overall impact, and are better able to defend the provision of subsidies to private sector actors as they are less vulnerable to accusations of bias in the selection of partners. However, it might well make sense for a bilateral donor to establish a single-country or sub-regional risk-sharing mechanism, particularly where this is closely integrated into its wider country or regional program. In either case, there is a further question about what existing agencies are most fit to manage risk-sharing programs. The suitability and willingness of the IFC to take on this role, at a scale below that of its typical operations and with an explicit inclusive business objective, could be further explored.

Existing risk-sharing mechanisms, or broader private sector development mechanisms with risk-sharing elements, have of course implicitly answered the above questions in certain ways. However, there is no indication that anybody has explicitly and comprehensively weighed all these questions in designing such mechanisms. It would be desirable to have more systematic consideration of the above questions, both in general and before further such mechanisms[39] are launched.

It would be still more desirable to have a strong basis of information on which to base answers to the above questions. At present there is simply not enough evidence to judge whether project-level subsidies, largely unalloyed with other forms of assistance to firms or other actors in the markets in which those firms operate, are or are not an efficient or an effective instrument for promoting inclusive business. It is not possible to be sure whether value-chain programs, which make sense in principle, are really successful in dealing with so many actors, value chains and market failures under one roof. Nor are there processes in place for collecting the necessary evidence across a variety of donors, regions and sectors. Donors committed to supporting the growth of inclusive business in partnership with the private sector would do well to allocate time and resources to a collective reflection on experience to date, including through a multi-donor, multi-program evaluation of past and present enterprise challenge funds and value-chain initiatives. This would help development agencies in their consideration of the various choices embodied in the seven questions above, and others, in a range of specific circumstances.

4. Pro-poor supply chains for internationally-traded products

As we indicated in section 2, an important sub-category of inclusive business approaches contains consumer-oriented approaches with a normative dimension. By creating incentives for business and consumers to cooperate in various product certification and labeling schemes, these approaches seek not only to increase the involvement of poor producers in supply chains but also to improve fairness in those supply chains and/or minimise social and environmental harms associated with business activity, such as poor labour standards or illegal and unsustainable harvesting of natural resources. Given their reliance on influencing the buying habits of affluent consumers in developed countries, these approaches tend to involve internationally-

[39] Such as the successor to Australia's Enterprise Challenge Fund for South-East Asia and the Pacific, if there is to be one.

traded products that mainly originate in developing countries or the global commons, undergo limited processing such that they remain recognisable[40], and are mostly consumed in developed countries—such as coffee, ocean fish and products incorporating rainforest timber.

Labeling and certification mechanisms are intended to allow producers and consumers to identify products considered to be produced and traded ethically and managed sustainably. They are promoted by organisations such as Fairtrade, the Forest Stewardship Council, the Marine Stewardship Council, the Rainforest Alliance and the World Wide Fund for Nature (WWF). Some large retailers also label goods as having met industry codes of practice, for example, environmental and agricultural standards for fresh produce.[41] These mechanisms are promoted as providing development benefits through the commercial relationships they establish between developing country producers and traders and developed country importers and consumers.

Labeling and certification mechanisms usually operate as follows.[42] A development or environment organisation—generally an NGO—identifies farmers or other natural resource-based producers with the potential to benefit from adopting productivity-enhancing, environmentally-sustainable practices. The sponsoring organisation provides technical and other support to these producers so that they can meet certification requirements, often in liaison with local extension services. Once producers have reached the required standards, the sponsoring organisation often assists them in gaining certification from the relevant authority. In many cases, sponsors also facilitate negotiations with potential buyers and use their international networks to help producers to access new markets.

In the case of Fairtrade certification, producers gain access to long-term contracts at a guaranteed minimum price plus a premium that is pooled for community-endorsed investments. Importers and retailers gain access to long-term supplies of quality

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[40] Palm oil is an example of a commodity that does not meet this recognisability criterion. The fact that palm oil is incorporated into other products substantially increases the difficulty of gaining acceptance of a certification and labelling regime for it.

[41] These examples have been drawn from projects supported by the UK's Food Retail Industry Challenge Fund.

[42] Elliott (2012) gives a contemporary and comprehensive survey of fair trade certification and labelling approaches, with historical context and some critical analysis—to be followed by more in-depth analysis in future papers, including one on benefits to producers.

products to offer to customers. For the consumer, the value lies in the ability to buy products they consider to have development and environmental sustainability benefits. Customers willing to pay more for certified products might consider themselves to be meeting the costs of involving more poor producers in the supply chain or adopting higher standards of various kinds, or they might simply regard the additional cost as a form of "direct giving" to the poor producer community for development purposes. Licence fees paid by retailers, based on the volume of the certified product that has been sold, provide ongoing income for the sponsoring organisation which allows it to provide support to producers and promote Fairtrade certified products among manufacturers, retailers and consumers.

4.1. Development impacts of labeling and certification mechanisms

The Overseas Development Institute (ODI) undertook a review (Ellis and Keane 2008) of a number of ethical standards and labels in 2008 in order to identify their development impacts. It found that labels can deliver the benefits they promise including improved productivity, reduced environmental costs and price premiums. They can also provide access to high-value markets with corresponding benefits to developing-country producers, although only Fairtrade has an explicit objective of assisting producers.

The review also concluded that the costs of compliance were high and largely borne by developing-country producers. One explanation for this might be that consumers increasingly expect all products to be sustainably produced so that it is difficult for manufacturers and retailers to realise a "green premium". The review noted that, while consumer support for these schemes has grown, they remain relatively small in terms of global trade and therefore have a modest development impact. For example, Fairtrade coffee accounts for seven per cent of UK coffee imports and certified coffee accounts for 1.3 per cent of the global market; Fairtrade and Rainforest Alliance bananas represent one per cent and 15 per cent respectively of the global banana trade.

The authors argue that existing labeling schemes give the impression that conventional trade is somehow "unethical and unfair", when it is generally accepted that international trade in agricultural products provides significant benefits to developing country producers, with the potential for much greater benefits as a result of trade liberalisation. However, a report from another research project also sponsored by ODI notes that the link between international trade and poverty reduction has not been a strong focus of trade theory, and argues that poor people in rural areas lack economic power compared with major importing firms (Mitchell et al. 2009). The authors propose that more value chain analysis be done to identify opportunities for the poor to improve their position and, by inference, their share of the benefits of international trade.

Critics of certification schemes contend[43] that where certification becomes a de facto or de jure requirement for market access, certification schemes reduce competition, force prices up, and impose additional and unreasonable compliance and administration costs on producers. Fairtrade certification, though less likely to raise market access issues, has also generated controversy over the years. Its proponents claim benefits in terms of higher farmer incomes, protection from damaging market instability, improvements in community infrastructure, and more sustainable farming practices; its critics claim[44] it disadvantages those who cannot meet its standards, fails farm labourers, and keeps poor farmers "in their place" by discouraging smallholders from diversifying production or leaving agriculture. Contesting this last point, Fairtrade points to examples of farmers diversifying their sources of income by investing pooled premiums in processing facilities or shares in manufacturing and retailing companies.

A program evaluation published by the Centre for International Development Issues tests Fairtrade's claims using case studies for two products in three countries (Ruben, Fort and Zuniga 2008). It concludes that, although the direct net income effects on participants were modest, mainly because recent buoyant markets reduced Fairtrade's price advantage, they were associated with better household nutrition. Farmers with access to long-term contracts also exhibited a higher willingness to use credit, make yield-enhancing investments and allocate more household expenditure to investment. The evaluation found that once Fairtrade reached a critical mass in one region, it generated spillover benefits in terms of higher prices and wages for all farmers and agricultural labourers. By contrast, there was not strong evidence of positive impacts on environmental management, and benefits from community investments were limited because pooled funds often remained unused.

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[43] For example, Bennett (2012), on forest certification.
[44] See for example, Sidwell (2008).

Box 2: Fairtrade ANZ – Neknasi coffee cooperative, Papua New Guinea

Fairtrade Australia & New Zealand (ANZ) works with consumers in Australia and New Zealand to raise awareness about Fairtrade certified producers, and with producers to support their entry into the Fairtrade system. Fairtrade ANZ's Pacific strategy involves promoting the competitiveness of selected producer groups or supply chains in New Zealand, Australia and global markets, and increasing the participation of micro and small enterprises within these supply chains. Fairtrade ANZ assistance includes training for producers, guidance on certification, facilitation of relationships with buyers, and strengthening supply chain cooperation and integration.

In Papua New Guinea, coffee is the leading source of cash income for a significant proportion of the population. Almost 85 per cent of all coffee produced is grown, harvested and partly processed by smallholder growers. The Coffee Industry Corporation (CIC), established through legislation in 1991, undertakes *inter alia* training and extension services for coffee farmers, export and quality control, and marketing and promotion.

In June 2010, Fairtrade ANZ started providing support to the Neknasi Coffee Growers Cooperative Society in the Morobe province of Papua New Guinea. Initially this focused on governance and other requirements to achieve certification. In March 2011 Fairtrade ANZ made its first field visit to Neknasi. These visits have since continued on a quarterly basis. Fairtrade ANZ received funding from NZAID and the United Nations International Fund for Agricultural Development (IFAD) for its support to Neknasi. To date, Fairtrade ANZ has invested $A30,000 in supporting 491 farmers from nine villages who are members of Neknasi.

Neknasi gained certification in May 2011. By December 2011, 14 per cent of Neknasi sales of green bean coffee were in Fairtrade markets in New Zealand and elsewhere and the cooperative had earned its first premium of $A8,000, which it plans to use to improve the water supply system to include coffee gardens close to members' villages.

By galvanising the Neknasi community, Fairtrade has been credited with bringing other benefits to improve livelihoods. These include better record keeping (required by Fairtrade to track progress and audit the program) and improvements in the coffee marketing system for smallholders, processors and exporters (Fairtrade requires dialogue and cooperation along the supply chain). The Neknasi cooperative has also purchased vehicles to transport coffee and other farm produce to markets, and negotiated with the Forest Research Institute to provide seedlings for villages.

Following Neknasi's experience, in June 2012 CIC signed a memorandum of understanding with Fairtrade ANZ to work together through provincial farmer training and extension coordinators to enable Papua New Guinea producers to reach the Fairtrade market. Eight other farmer groups in Morobe province are now undergoing certification.

One of the main lessons in implementing this program was the need to take into account the time Fairtrade participatory processes would require in Papua New Guinea, particularly given that coffee growing is only one activity for Neknasi farmers who also grow food for subsistence and local markets and participate in community activities.

This summary case study draws on a presentation given by Rachel Levine and Sandra Mendez of Fairtrade ANZ and Michael Toliman of the Neknasi Coffee Growers Cooperative during the Development Policy Centre forum, "Engaging business in development", on 17 October 2012.

4.2. What role for official development assistance?

In principle, schemes that improve the livelihoods of poor farmers and farm labourers and promote environmentally-sustainable production could contribute to a number of Australia's international development objectives, including: improving food security by investing in agricultural productivity; improving incomes, employment and enterprise opportunities for poor people in rural areas; and reducing the negative impacts of climate change and other environmental factors on poor people. Two examples of aid donor support for such schemes follow (in addition to NZAID and IFAD support for Fairtrade ANZ described in Box 2).

UK aid supports the six-year, £7.6 million Food Retail Industry Challenge Fund, described as a competitive fund for activities to improve the lives of African farmers by connecting them with global retailers. Activities of the Fund are promoted in terms of removing blockages to market access and making European shoppers aware that they can make a difference to poor farmers. Many Fund projects include Fairtrade as a partner. The Fund started in July 2008, with grants from £150,000 to £1 million. It has not yet been evaluated.

The Dutch and Danish aid programs fund IDH–The Sustainable Trade Initiative, which convenes public-private coalitions to increase global trade in sustainably-produced products and economically empower the poor. The initiative is based on a matched-funding model. In 2011, IDH program expenditure of €9.9 million was matched by private partner contributions of €6.8 million. One success cited by IDH is a collaboration that they have brokered in Vietnam between fish farmers, WWF, government and European traders to adapt production and working methods to the requirements of the Aquaculture Stewardship Council (ASC), so that Vietnamese products with the ASC logo are available in European supermarkets. Like the UK Food Retail Industry Challenge Fund, IDH started in 2008 and has not yet been evaluated.

Product certification schemes are administratively onerous, target a relatively small number of producers and account for a modest share of the international market. They are frequently couched in emotive or politically-charged terms and have objectives that extend well beyond inclusive business. It is therefore important that development agencies considering such schemes assess them dispassionately, and consider all alternatives for improving the livelihoods of farmers and other natural resource-based producers. Development agencies should also take account of possible perverse consequences. For example, schemes to link farmers directly with importers or retailers frequently imply that "cutting out the middleman" is a desirable objective. However, the middlemen might well employ individuals who are no better-off than the farmers whose products they handle. From a broad inclusive business perspective, cutting them out might be a net negative.

4.3. Key issues for consideration

As we have pointed out, product certification schemes form a special sub-category of inclusive business approaches—or at least this is true of schemes that aim to deliver "livelihoods" benefits to poor smallholder producers rather than, or in addition to, improvements in the areas of environmental management or human rights. As such, the choices identified at the end of section 3 also have to be made in connection with these schemes. For example, while these schemes tend to involve donor support to NGOs who connect businesses with small producers and assist the latter to meet quality standards, it is also an option to channel support directly to businesses or to government extension services. These schemes also face the questions previously identified about how light-touch they should be, on what scale they should operate, how broad they should be in terms of products and locations, how payments should be structured, and by what kind of agency or agencies they should be managed.

Several additional questions arise in connection with product certification schemes. Like those at the end of the previous section, they are partially independent, but linked.

1. *Objectives: inclusion, safeguards or just giving?* What is particularly distinctive about product certification schemes is the fact that the end-user of the product is explicitly asked, and willingly agrees, to share an additional, development-related cost built into the product's price. But how is this premium payment to be conceived? Is it to meet the additional cost of involving small producers in the production process, or the cost of implementing social or environmental safeguards? Is it a market-borne gift to producer communities? Is it, to varying extents, all of these things? The answer might well be academic to producers provided they see a reasonable proportion of the premium, but it will certainly matter to development agencies interested in subsidising the formation of "fair trade" arrangements between businesses and producers in order to promote inclusive local economic development. A development agency with that objective will wish to be sure that premium payments are neither swallowed up by certification compliance and administration costs, nor simply treated as international donations to community development.

2. *Scheme neutrality*. Some product certification standards, such as FSC certification for rainforest timber, have both fervent supporters and staunch opponents, disputes between whom often revolve around the proposed use of standards to reduce international trade in non-certified products. While such disputes are less likely arise in connection with smallholder agricultural products like coffee, they highlight an important point, which is that NGOs tend to be wedded to one or another proprietary standard and keen to see it spread. Development agencies, by contrast, would more properly be interested in helping producers meet any credible standard that will gain them access to new markets and increased

incomes. Moreover, development agencies might be expected to favour a convergence of standards, given that a proliferation of them is confusing for consumers and therefore damaging to producers. For development agencies, therefore, maintaining "scheme neutrality" seems an important consideration.

3. *Avoiding vested interests.* This follows from the previous point and the observation in the introductory paragraph that donor support for product certification arrangements tends to go to NGOs who link businesses and producers under the banner of their favoured certification standards. One alternative to this approach would be to fund business directly, and allow them to sub-contract other parties as they see fit. Another, better alternative would be to fund disinterested third-party brokers, who can advise communities what arrangements are likely to be in their best interests, and help negotiate those arrangements.

4. *Evaluation.* Given that a degree of confusion and controversy surrounds certification schemes, more robust assessment of past and present initiatives, including more independent evaluations, would assist in better informing both public debate and development agencies' programming decisions. While there is no good information on aggregate funding from aid sources for product certification schemes, it appears the level of funding is at present very low. Without better evaluation information, there is no way of knowing if this is appropriate.

Regardless of debate about their impact, it is clear that certification schemes are not going to go away and that there will be continuing demand from producer cooperatives and local businesses to achieve certification, either to gain advantage or avoid disadvantage. This implies a case for donor support for certification-related measures aimed at improving competitiveness and access to markets for poor producers, if not for measures aimed at spreading the coverage of specific certification regimes.

5. Public-private partnerships for service delivery

Most discussion on public-private partnerships for development is focused on the financial and other resources (including management skills, logistical capacity and innovation) that business brings to efforts to reduce poverty and achieve sustainable development. Less explored are resource flows in the opposite direction—to the private sector from aid agencies and developing country governments. This section considers the case for development agencies to invest resources in the private sector to improve the delivery of basic services.

At the outset, we should clarify that we are not dwelling on the case of private enterprises whose core business is the delivery of basic services, for example, private education or health providers, water supply and sanitation companies, or agricultural companies. In principle, there are opportunities for donors to support the extension of services to poor communities in partnership with private providers of those services. For example, output-based aid programs in health, education, water supply, sanitation or energy distribution could in principle be configured as public-private partnerships, if public subsidies were used to share risks with private partners, and gradually reduced as markets matured and risks declined.[45] Likewise, though less probably, service delivery partnerships could be established with private health and education providers if they were willing to absorb some ongoing costs. However, in general, output-based aid programs and private sector service delivery programs in health and education are run along purchaser-provider lines, with no costs or risks borne by the private partners.

Our primary focus here is on private enterprises engaged in other commercial activities, particularly resource extraction, that choose to provide or support the provision of basic services for the various reasons outlined earlier—regardless of whether those reasons are essentially commercial or moral in nature. We explore two kinds of practical partnership with the private sector for the delivery of basic services. The first involves a development agency providing in-kind contributions, in the form of expert advice and support, to enhance private sector contributions to service delivery. The second involves development agencies funding private enterprises to expand and improve the provision of services.

[45] See World Bank (2009) for a review of the use of output-based aid in countries eligible for concessional financing from the Bank's concessional financing arm, the International Development Association.

5.1. Partnerships to enhance private sector contributions to service delivery

Many private enterprises have programs to provide services to employees, their families and local communities, particularly in health and education. In developing countries such programs are often expected, especially of foreign-owned businesses, because local services are inadequate and low-quality or because cost is a barrier to access. Development agencies are often well placed to encourage and assist business to do more to contribute to service delivery, or to do it better.

The Asia-Pacific Business Coalition for AIDS, launched in 2006, is an Australian organisation leading the private sector response to HIV/AIDS in the Asia-Pacific region. It is a good example of private sector mobilisation for the delivery of services. For business, the bottom line impact of HIV/AIDS is clear—the vast majority of people infected with HIV are of working age. Business therefore has a direct relationship with those most vulnerable (employees and their families) and a direct stake in their well-being. AusAID assisted in harnessing the private sector's interest in doing more about HIV/AIDS by working with key business leaders to develop a practical response initiative, and then providing modest initial funding and technical support for the coalition. In Papua New Guinea, AusAID provided financial support to establish the Business Coalition on HIV/AIDS, Papua New Guinea's principal avenue for promoting coordinated workplace policies and programs. Both organisations quickly became self-funding.

Another opportunity for a development agency to enhance the services provided by business was recently highlighted in an evaluation of Australia's contribution to the national HIV response in Papua New Guinea (Andrew et al. 2012). This noted that the large-scale resource and infrastructure projects that are an increasingly important feature of the Papua New Guinea economy are aggravating the HIV epidemic. It proposed that AusAID engage early with the government and project developers to advocate for greater investment in mitigation activities and to offer expertise and experience to enhance the effectiveness of HIV prevention programs in the mining sector. The evaluation noted that while many mining companies accepted their responsibility to develop workforce and community HIV programs, experience showed that they often spent large amounts on prevention programs known to have little effectiveness (Rudland 2011).

This example highlights a broader issue for resource-rich developing countries. Many mining projects are located in remote areas that are among the poorest and most under-serviced in the country. Resource companies are often in a position to make a significant contribution to redressing these disadvantages through their employee and community programs. Development agencies, including AusAID, recognise the value of assisting developing countries to maximise the benefits and opportunities of mining. However, their focus to date has been mainly on improving governance, regulatory capacity and the transparency and accountability of payments to government, including through support for the multi-donor Extractive Industries Transparency Initiative. AusAID's Mining for Development initiative is a good example of this kind of donor support for resource-rich developing countries.

While such support is valuable, the missing link in most donor programs is activity that focuses on engaging with mining companies, government and local communities before operations commence. Such engagement would seek to identify the opportunities and risks posed by operations and facilitate planning by all parties (companies, governments, service providers and communities) to work cooperatively to mitigate negative impacts and maximise opportunities for affected communities over the long term. In Mongolia, Papua New Guinea, Solomon Islands and other mineral-rich developing countries, development agencies could advocate for more effective and sustainable mining industry investments in basic health and education, infrastructure, law and justice, and local economic opportunity.

5.2. Partnerships to expand private sector contributions to service delivery

Private enterprises are often willing to supplement the capacity of governments and aid agencies to deliver services in return for reimbursement of their out-of-pocket expenses, such as fuel and wages. In the most common examples of this, companies provide logistical support to deliver books to schools, medicines to health clinics or emergency supplies to stranded communities when natural disaster strikes. At the other end of the spectrum, in recent years various initiatives have channelled aid funds to private enterprises for the delivery of basic services, especially in health and education.

Perspectives from the Global Fund to Fight AIDS, TB and Malaria (GFATM) and two experiences from Papua New Guinea may assist in drawing out the case for, and experience with, this use of aid funds in the health sector. We would expect these perspectives also to be broadly relevant to consideration of public-private partnerships in the education sector.

The GFATM provides grants to governments, civil society and the private sector for the delivery of prevention and treatment services for the three diseases with which it deals. According to the GFATM's 2011 regional results reports, grants to the private sector have accounted for a relatively small proportion of total grants since the Fund began in 2002. For example, in the Eastern Europe and Central Asia region, grants to the private sector were 2.2 per cent of the total, while in Latin America and the Caribbean, the private sector's share was 18 per cent of which Haiti, where government capacity is weak, accounted for 14 per cent. Grants to the private sector from the GFATM are far outweighed by private contributions to the GFATM in the form of donations, supporting activities and co-investments.

The GFATM has published some case studies of the private sector as a grant recipient. These indicate that national governments are generally supportive of the grants because they help to expand successful models for disease control and treatment. Private sector grantees find GFATM documentation, monitoring and reporting requirements onerous and need to engage extra staff and/or seek technical support from the World Health Organisation (WHO) or bilateral aid agencies. Some companies have created not-for-profit subsidiaries to satisfy the accountability and financial transparency requirements of the GFATM. Results from the grants go beyond expected improvements in disease prevention and treatment to include savings in time and money from using company supply and procurement systems in place of government systems. These findings are echoed in the case study of the Oil Search Health Foundation in Papua New Guinea which is provided in Box 3.

Box 3: Oil Search Health Foundation

Oil Search Limited, Papua New Guinea's largest oil and gas producer, has a long history of delivering health programs in and around its operations. These include maternal and child health programs, HIV prevention and control, and malaria management. Health programs accounted for more than three-quarters of all Oil Search community program expenditure in 2010.

In 2011, the company embarked on an expansion of its health programs and in February 2012 the Oil Search Health Foundation was established with the objective of expanding Oil Search programs across the whole of Papua New Guinea. The Foundation is a not-for-profit wholly owned subsidiary of Oil Search, set up to work on public health initiatives with government, donor bodies, NGOs and faith-based health services.

Oil Search was selected by the GFATM to manage the phase-2 components of the National Department of Health's National Malaria Grant of $US22 million, and to be the principal recipient to manage and implement the 2012-17 Round 10 HIV Grant of $US46 million.

By stepping forward to manage these GFATM grants, Oil Search helped Papua New Guinea to continue accessing international financing for health after a 2010 GFATM audit of the National Department of Health identified failures in financial management. Its willingness to do so reflected Oil Search's experience in delivering successful programs integrated with national and local health authorities in and around its operations.

The grants are being implemented by the Oil Search Health Foundation, whose working model for the partnership is as follows. The Papua New Guinea National Department of Health and its provincial partners contribute their health sector policy and management capacity and front-line health workers to implement programs set in accordance with national policy, standards and strategy. The Oil Search Health Foundation contributes private sector corporate and financial management capacity, procurement and supply chain logistical capacity, technical and training expertise and program management skills. The GFATM contributes performance-based funding.

One of the lessons for Oil Search in negotiating and implementing the HIV grant is that, by contrast with commercial contracting arrangements, all the risk in terms of program deliverables falls on the company, even though it has little, if any, control over the actions of its program partners. Oil Search sought to manage this risk by establishing contractual arrangements with sub-recipients to monitor and audit their activities and to disburse funds progressively. Oil Search also agreed with the National Department of Health, which is responsible for significant components of the GFATM programs, that Oil Search would have authority over all grant finances and associated administrative tasks such as procurement of health products and services, and staff training, travel and allowances.

This summary case study draws on a presentation given by Ross Hutton of the Oil Search Health Foundation during the Development Policy Centre's forum, "Engaging business in development", on 17 October 2012.

Another example from Papua New Guinea in which aid agencies have provided funds to the private sector to extend the delivery of services is the Asian Development Bank's (ADB) HIV/AIDS Prevention and Control in Rural Development Enclaves Project 2006-10 (ADB 2006). One of the aims of this project was to demonstrate the value of operational partnerships in health between public and private sectors, and to develop and embed governance and practical approaches for future replication. Three mining companies and three agricultural companies undertook and/or oversaw the rehabilitation of company, government and church-run health facilities in the locations where they operated in order to improve and extend the provision of health services to surrounding communities. The companies' costs were met by the project. Professional training, equipment upgrades and improved medical supplies for all facilities complemented infrastructure improvements.

Oil Search was one of the participating companies. For Oil Search, the experience raised two key issues. First, project results in terms of health services were limited by the project's focus on infrastructure and the lack of follow-through by authorities responsible for staff, supplies, operational costs and maintenance. Second, the project's financial arrangements were onerous and unrealistic for many of the private sector partners—though the ADB subsequently modified them.

For the ADB the project highlighted the difficulty that aid agencies face in having sufficient flexibility in financial management and accountability systems to be able to work pragmatically with private sector partners. The ADB also learned that not all companies have the level of commitment, leadership and willingness to accept risks that are required for innovative programs such as this to succeed.

5.3. Development benefits of public-private partnerships for service delivery

The above examples suggest that donors should consider working with the private sector to provide basic services in:

– locations that are poorly served by government or private providers and where the private sector has a long-term presence and a demonstrated capacity to deliver services effectively;

– circumstances where private sector innovations in service delivery are proving effective and worthy of replication; and/or

– situations where a new service delivery model can be tested for effectiveness and value for money, and replicable legal, governance and practical frameworks can be developed.

In mining areas, projects often have a life of 20 years or more, far longer than the average aid program. This provides a reasonable period for building a sustainable system of service delivery for the long-term, or at least for having a sustained effort that has the potential to provide enduring benefits. The long time horizon of many private investments also allows a public-private development partnership to take an incremental approach, to document experience and make adjustments over its lifetime.

There are, however, very substantial impediments to the development of public private partnerships for service delivery. Business often perceives that aid agencies make little effort to understand what motivates firms and how they operate. In addition, they think aid agencies impose high transaction costs, move slowly and provide insufficient policy and funding certainty. On the other hand, aid agencies often perceive that business has a poor understanding of, and commitment to, public accountability, and that most firms lack the will and patience to work collaboratively with partner governments and communities in designing relevant, sustainable and effective programs.

5.4. Key issues for consideration

It is clear from the case studies and examples in this section that the public and private sectors often share similar development goals and can work together to improve the delivery of basic services. But collaboration is likely to remain limited until some of the fundamental differences in approaches and practices between the sectors are addressed. We identify below six key issues that will need to be addressed if these differences are to be overcome.

1. *Building on success.* Successful cases of practical public-private partnership for service delivery appear to be few, and are not well known. Development agencies and business could certainly do more to identify and publicise successful approaches. However, the over-riding priority should be to move beyond statements of commitment and begin to build on isolated instances of success through extension or replication. If this were to result in a growing global portfolio of flagship activities, with high levels of transparency and robust monitoring and evaluation components, there is some prospect that, over time, the type of partnership in question would become increasingly normalised and widespread.

2. *Increasing upstream engagement.* It is a given that development agencies and business should seek to begin working together as early as possible in the process of project development, rather than turning to each other only when their room to move is quite limited. However, the latter is more the norm. More upstream engagement would enhance the quality of programs, including by ensuring that privately-implemented investments and development programs are developed in ways that maximise sustainability. This is particularly important in relation to health and education programs in low-capacity countries such as Papua New Guinea, where external investment has supported much construction with scant regard for the associated recurrent cost burdens.

3. *A neutral broker?* A neutral broker who brings private sector experience to public sector problems may be able to bridge the divide that exists between public sector development agencies and business. A broker can help communicate with sympathetic and motivated business leaders, identify and

develop initiatives likely to appeal to a company's self-interest, and propose ways of working that are compatible with private sector approaches and public sector requirements. There is a case for using aid to meet much of the cost of establishing a neutral broker function, but private sector partners would preferably also make a contribution when they start to derive benefits from its services.

4. *Aligning approaches to risk.* There is certainly scope for aid agencies to do more to reduce transaction costs for business by modifying existing administrative and financial requirements. For example, the Australian Government's Independent Review of Aid Effectiveness in 2011 drew attention to the aid program's strong emphasis on the management of fiduciary risk, and the very low incidence of fraud in the program (0.017 per cent of AusAID's total budget appropriations over a period of six years), to make the point that excessive emphasis on financial risk can lead to missed opportunities and detract from the mitigation of "development risk". The review recommended that the aid program "… should foster a culture of risk management rather than risk aversion by balancing various forms of risk … There should be a greater focus on results and reward for innovation and acceptance that in a big program some activities will fail" (Denton et al. 2011, p. 30).

5. *Transparency and accountability.* Given that partnerships for service delivery will in most cases be established by direct negotiation between public and private sector partners, it is particularly important that the partners be able to agree on mechanisms for ensuring acceptable levels of transparency and mutual accountability. This is essential given that donors must make and defend judgements about value for money without the benefit of competitive bidding, and also that they must make and defend judgements about additionality without full information on their partners' business strategies. The experience of some GFATM private sector partners in establishing separate not-for-profit subsidiaries offers one model for separating development activities from a company's core business and allowing readier access to financial information.

6. *Monitoring and evaluation.* It is in the interests of both aid agencies and private sector partners to agree on robust and independent monitoring and evaluation

arrangements, particularly in view of the fact that international guidelines for corporate responsibility and sustainability reporting increasingly emphasise outcomes and results. Indeed, new public-private service delivery partnerships could provide opportunities to publicise the commitments of all relevant parties (aid agencies, private sector actors, government authorities and community organisations) in terms of responsibilities, risk-sharing, specific inputs, monitoring and evaluation, and reporting. Aside from its benefits to aid agencies and their private sector partners, this approach could contribute to building a stronger culture of accountability for the delivery of basic services in communities.

Though it relates to a process matter, the third of the above points is likely to be particularly important, and key to addressing the other points. In the absence of any credible, specialised and appropriately resourced capacity to broker partnerships for service delivery between development agencies and business, it seems unlikely that the present situation will change.

6. Product development partnerships

In 1990 an international commission on health research for development drew attention to a "gross mismatch between the burden of illness, which is overwhelmingly in the Third World, and investment in health research, which is overwhelmingly focused on the health problems of industrialised countries" (COHRED 1990). It provided the basis for the concept of the "10/90 gap"[46] with its finding that in the late 1980s only five per cent of the then $US30 billion in annual global health research expenditure related to the health problems of developing countries, which bore 93 per cent of the world's burden[47] of preventable mortality. This monumental market failure was worsened by a series of mergers and acquisitions in the global pharmaceutical industry during the late 1990s which increased both investment thresholds and risk aversion. In the period 1975 to 2000, only 16 of 1,393 medicines developed were for diseases specific to developing countries (Grace 2010).

[46] This term was coined for advocacy purposes in the late 1990s by the Global Forum on Health Research. It appears the situation has not changed greatly since then: global health research spending now stands at about $US160 billion per annum (2009 World Bank figure), of which about $US3 billion is spent on neglected diseases.

[47] Measured as years of potential life lost.

In response to this situation, international organisations, private foundations and some official donors progressively established a number of so-called product development partnerships[48] (PDPs), commencing with the International AIDS Vaccine Initiative (IAVI) in 1996. A further 16 partnerships were established as not-for-profit entities by philanthropic foundations and official donors from 1999 to 2003. PDPs are public-private partnerships of a very specific kind[49] in which "virtual" research and development organisations use the management practices, methods and resources of private corporations, as well as academic expertise, to develop medicines or technologies relevant for the prevention, diagnosis and treatment of neglected diseases[50]. Products include vaccines, drugs, microbicides, diagnostic technologies and vector control agents. There are currently upwards of 20[51] health research and development PDPs, of which 17 have been quite well studied. The four largest—IAVI, the Medicines for Malaria Venture (MMV), the Program for Appropriate Technology in Health (PATH) and the TB Alliance—accounted for just over half of the $US483 million[52] donors provided to PDPs in 2010.

Each PDP has quite specific characteristics, though typically a PDP will have the following features.

- It will work with a diversified portfolio of candidate products, with regular reviews of progress informing decisions on which projects to terminate and which to take forward into increasingly demanding (and expensive) clinical trials, leading ultimately to registration for use in relevant markets.

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[48] Also sometimes known, less elegantly, as "product development public-private partnerships" (PD-PPPs).

[49] One can count roughly 100 public-private partnerships relating to neglected diseases, of which about one-quarter are product development partnerships. The remainder work on complementary challenges relating to product availability and adoption, including through education and advocacy (Widdus and White 2004, p. 102).

[50] The term neglected diseases is most often interpreted broadly to include all communicable diseases that primarily affect developing countries, numbering some 25 and affecting around a billion people, with the most significant being HIV/AIDS, malaria and tuberculosis. These latter diseases account for about three-quarters of global funding for neglected disease research and development. Sometimes the term "neglected disease" is used more narrowly to include only the most neglected communicable tropical diseases, such as sleeping sickness, leishmaniasis and Chagas disease.

[51] Ponder and Moree (2012) counts 26 PDPs.

[52] Total funding from all sources for research and development related to neglected diseases was about $US3.1 billion in both 2010 and 2011. See Moran et al. (2012) and Moran et al. (2011).

- It will have a lean operating model, with all laboratory work and clinical trials conducted by other parties—academic institutions, large private corporations and small biotechnology companies, in both developed and developing countries—under contract or agreement.

- It will require private sector partners to either assign intellectual property rights to it in relation to the intended use of a product under development, often by means of a royalty-free licence[53], or to apply preferential product pricing in developing country markets.

- It will receive substantial in-kind contributions from industry partners other than those engaged on contract. Industry partners are reluctant to quantify such contributions but they are very substantial[54]; MMV (MMV 2011) and the TB Alliance (TB Alliance 2011) both estimate the value of the in-kind contributions they receive to be around 1.5 times the value of cash contributions from donors.

While PDPs are a health sector phenomenon, there are also examples in agriculture of public-private partnerships with some of the features of PDPs. Perhaps the best known of these is the golden rice initiative, initially supported by the Rockefeller Foundation and subsequently by governments, Syngenta, the Bill and Melinda Gates Foundation and many other organisations. The initiative aims to make beta-carotene-fortified rice widely available to poor communities in developing countries in order to reduce vitamin A deficiency, subject to the conditions of "humanitarian use" licences.[55]

6.1. Impact of PDPs

The advent of PDPs in health has made a big difference. Twelve new technologies have already been brought to market (TB Alliance 2011) and, as of 2011, there were a further 143 candidate products in PDP pipelines (DNDi 2011)[56]. PDPs accounted for more than 40 per cent of new global health products registered in the decade to 2010 (Policy Cures 2012). An annual average of 2.6 new products was approved between 2000 and 2009,

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[53] For the intended use of the product. In some cases, a product might turn out to be effective for the treatment of other diseases or conditions, with the rights for that use retained by the partner.

[54] Kettler and White (2003) provide a detailed discussion of in-kind contributions, though they do not attempt to estimate any aggregate contribution.

[55] For more on public-private partnerships in agriculture, see Persley (2012).

[56] This figure includes 104 biopharmaceutical and 39 diagnostic and vector control products.

compared to 1.8 between 1975 and 1999. Around one-fifth of global health research funding now flows to and through PDPs, or more like 40 per cent if one excludes funding from the US National Institutes for Health, the behemoth of global health research.

Products have been developed more quickly than is the norm in an industry where 10-20 year lead times are not unusual, and more cheaply. Estimates suggest product development costs have generally been in the $US120-$200 million range, whereas the cost of developing a drug is normally in the $US600-800 million range and the cost of developing a vaccine might be anywhere from a few hundred million dollars to $US1.5 billion.

Products registered have also been delivered at low cost: a course of treatment of Coartem Dispersible (see Box 4), developed by MMV with Novartis, costs $US0.38; a dose of the MenAfriVac meningitis vaccine, developed for Africa's meningitis belt by PATH and manufactured by the Serum Institute of India, will cost $US0.50.

Box 4: Medicines for Malaria Venture (MMV)—Coartem Dispersible

MMV was the first drug development PDP. It was established in 1999 to discover, develop and deliver safe, effective and affordable antimalarial drugs. Over the subsequent decade, MMV and its partners have assembled the largest pipeline of antimalarial drugs in history[57] and have registered several products. One of these is Coartem Dispersible, the first child-friendly formulation of the artemisinin-combination therapy Coartem, developed in partnership with Novartis.

Malaria kills approximately 655,000 people every year, mostly in sub-Saharan Africa, 86 per cent of whom are children under the age of five. A child dies every minute, with malaria accounting for about 20 per cent of pediatric mortality in Africa. Before the introduction of the pediatric formulation of Coartem, children and infants were administered with the bitter-tasting adult formulation in ground-up form. Coartem Dispersible, by contrast, is sweet-tasting and dissolves easily in small amounts of water, easing administration and ensuring effective dosing. A phase 3 study published in *The Lancet* showed that Coartem Dispersible provides a cure rate of 97.8 per cent for

[57] In the third quarter of 2012, MMV had about 65 products under development, targeting malaria treatment, prevention and ultimately eradication.

uncomplicated *Plasmodium falciparum* malaria, comparable to that of the adult formulation. By September 2012, over 140 million treatments had been delivered to 35 malaria-endemic countries, accounting for 100 per cent of total Coartem deliveries for patients with a bodyweight from five to 25 kilograms. Novartis supplies Coartem Dispersible without profit to the public sector in these countries, as it does with the adult formulation.

The development of Coartem Dispersible commenced with the establishment of the MMV-Novartis partnership in late-2003 and the signing of a formal agreement in 2004. Once this product was selected as the lead candidate in 2004, product development proceeded rapidly through a series of clinical studies of palatability, bioavailability, efficacy and bioequivalence. The product gained approval in Switzerland in 2008 and was launched in 2009. Following the launch, MMV played an active role in supporting access to it in target markets, including by analysing barriers to access in francophone Africa, assisting with the introduction of simple stock management systems at health posts and undertaking advocacy for policy change at the national level in line with WHO guidance on Better Medicines for Children. In addition, Novartis and MMV provide malaria case management educational programs which include hands-on training for local healthcare workers, customised training manuals, and user-friendly packaging to improve patient compliance and ensure that Coartem Dispersible is properly used.

Product development does not always move so quickly. In this case the pharmaceutical company, Novartis, already had strong CEO-level commitment to the provision of low-cost anti-malarial drugs to developing countries, a global footprint for product promotion and introduction, and global manufacturing capacity. In addition, the scientific hurdle was relatively low—this was an extension of an existing formulation—and the acceptance hurdle was also quite low because Coartem was already in wide use in its adult formulation.

This summary case study draws on a presentation given by George Jagoe of MMV during the Development Policy Centre's forum, "Engaging business in development", on 17 October 2012.

6.2. Support for PDPs

PDPs have a number of attractive features for donors. They are inherently outcome-oriented and have been quick to show good results. They are lean. They leverage substantial, if not precisely quantified, resources from big business. They usually manage a portfolio of projects, thus spreading risk (or "de-risking bets"). They concentrate expertise in a way that no individual donor agency could. They also allocate resources competitively and transparently to research institutions in both the developed and developing world, thus relieving donors of the burden of "picking winners". Private foundations particularly the Bill and Melinda Gates Foundation have provided the lion's share of PDP funding—60 per cent in the case of MMV. It might be considered surprising that relatively few bilateral donors[58] have so far provided support to PDPs. However, this is likely to reflect the rapidity of their emergence and proliferation, the highly technical and exploratory[59] nature of their work, the inflexibility of donor resource allocation, and perhaps a preference in some cases to restrict funding to the donor's national research institutions.

It is less easy to be certain about why PDPs might be attractive to industry partners. One reason is clear: during the 1990s, large pharmaceutical companies experienced a high level of negative publicity about their engagement in developing countries, either because they were seen as charging unconscionable prices or because they were not engaged at all. Their cooperation in PDPs is probably not accurately described as part of their corporate social responsibility agenda, but certainly has something to do with bolstering their public image and competitive edge. A second reason is more altruistic, if also more fragile: these companies contain dedicated individuals, including at senior management levels, many of whom likely entered the field of medical research with the intention of contributing to the public good. In general, employee morale and loyalty is increased as a result of a company's involvement in public-good efforts such as PDPs. A third reason, cited by those who harbor suspicions about the worth of public-private partnerships in health research[60], is market positioning: a company might, over time, attract commercial benefits from having assumed a prominent position in a developing

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[58] The UK is the most prominent bilateral donor. Smaller contributors are Canada, Denmark, Ireland, the Netherlands, Sweden, Switzerland, Norway and the US.

[59] PDPs, while they generally establish quite specific broad goals and produce good business plans, annual reports and the like, do not lend themselves to much of the paraphernalia of bilateral aid funding: detailed results frameworks with theories of change, elaborate monitoring and evaluation plans, and so on. A 2007 review by the World Bank's Independent Evaluation Group of MMV notes that "MMV follows a managed innovation business model that does not lend itself to *ex ante* investment planning like a typical Bank-financed public sector project" and that it is "a long-term program requiring continuous adaptation and change".

[60] See for example, Richter (2004).

country market through its engagement in PDPs. It should be noted that the reasons offered here for industry participation in PDPs are also reasons for companies to invest in neglected disease research in the absence of PDPs, and in fact there have been renewed efforts in this area by the major pharmaceutical companies.[61]

There are indications that funding for PDPs in health has suffered as a result of the global financial crisis and subsequent reductions in aid budgets. Total donor funding for PDPs fell by amounts between $US30 million and $US50 million in each of 2009, 2010 and 2011, from a high of $US580 million in 2008 to $US451 million in 2011 (Moran et al. 2012). At the same time, more products are advancing to more costly stages of the development process. A phase 3 clinical trial, the last hurdle before product approval, can involve administering a treatment to thousands of people in developing country environments. The current shortfall in donor funding against estimated health PDP financing needs is not known with any precision, but in 2004 it was estimated to be somewhere between $US1.2 billion and $US2.2 billion (Widdus and White 2004, p. 2). In its most recent business plan (2012-16), MMV estimated a five-year funding gap of $US61 million. However, MMV has been an outstandingly successful fund-raiser and this estimate is based on the quite demanding assumption that current donors continue their support at current levels, and that annual operating costs can be reduced by 15-20 per cent each year to 2016.

6.3. Review and evaluation

It appears there have been few rigorous external evaluations of PDPs to date, with the exception of IAVI and MMV[62], though there have been many informal assessments, for example, by the philanthropic investment advisory organisation, Fastercures, and by academic commentators.

A 2007 review of MMV by the World Bank's Independent Evaluation Group (IEG) is a particularly clear and useful appraisal, and many of its findings are likely to apply to other PDPs. Building on an earlier independent evaluation (Fairlamb et al. 2005), the

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[61] The major such companies, as identified in Moran et al. (2005), are GlaxoSmithKline, Novartis, AstraZeneca and Sanofi-Aventis. More recently, Ponder and Moree (2012), find that more than half of global health research on neglected diseases in 2010 was conducted outside PDPs.

[62] An external evaluation of IAVI was undertaken in 2009 (Druce et al. 2009). An external evaluation of MMV was undertaken in 2004 (Fairlamb et al. 2005), and later validated and extended by the World Bank's Independent Evaluation Group (IEG 2007).

review found that MMV had made "tremendous progress" and had well exceeded expectations. It concluded that MMV was an effective, well-managed mechanism and an efficient allocator of public and private resources to finance potential new malaria drugs. The size of its portfolio, and its active management of this, was found to have delivered substantial efficiencies. Questions were raised about the comparative advantage of MMV in delivering on its "access" agenda—MMV, like some other PDPs, has extended its mandate beyond product discovery, development and registration (all global public goods) to encompass limited measures aimed at improving the availability and uptake of products.[63] Further questions were raised about the proliferation of PDPs generally, which IEG suggested called for better coordination and perhaps a new overarching structure along the lines of the Consultative Group on International Agricultural Research.[64]

Other assessments of PDPs have generally been provided in an advocacy context or at least by interested parties. For example, MMV and associated parties made a submission in 2010 to Australia's Independent Review of Aid Effectiveness, as did the TB Alliance, outlining the benefits of PDPs and urging the Australian government to support PDPs generally and their own in particular. The submission, perhaps assuming a multilateral contribution was unlikely, proposed that the Australian National Health and Medical Research Council (NHMRC) "oversee" financial support for PDPs from the Australian aid program, specifically to support the conduct of clinical trials in countries such as Papua New Guinea. In briefings for Australian parliamentarians, representatives of the Drugs for Neglected Diseases Initiative (DNDi) have stressed the benefits of PDPs for developing countries and for Australian research bodies, many of which are already heavily engaged with PDPs[65].

It appears that the above advocacy efforts have borne modest fruit: AusAID's medical research strategy, released in late October 2012, includes a commitment to support PDPs, with an initial focus on malaria and tuberculosis. However, the level of funding

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[63] Measures to ensure the availability and uptake of a product, when they involve subsidies for private-sector marketing and distribution, will fall more properly into either the inclusive business or private sector service delivery category.

[64] Collaboration and coordination among PDPs is presently encouraged and monitored by the PDP Funders Group, chaired by the UK Department for International Development.

[65] MMV, for example, says that it has invested about $US9 million in the period 2000 to 2010 in research and development projects at eight Australian institutions (Reddy 2011).

provided will be quite limited: annual funding in the vicinity of $A10 million will be divided between multiple PDPs and a planned partnership with the NHMRC to support Australian medical research for development. Assuming an annual contribution of say $A5 million to PDPs, Australia would be contributing around one per cent of total donor funding to PDPs, which is about one-quarter of its share of global aid, or one-half of its typical share in multilateral funds.

6.4. Key issues for consideration

Based on the preceding discussion, we identify below five substantial questions requiring further consideration in connection with public-private product development partnerships.

1. *Funding levels and processes*. There is no easy way of determining what absolute level of bilateral donor funding is appropriate for the PDP "system". However, results to date might be taken to constitute a strong *prima facie* case for higher levels of funding, even relative to the levels achieved before the decline that has occurred over the last three years, since 2008. Any increase in funding levels would likely require the engagement of additional bilateral donors, as well as a shift to more formal, traditional resource mobilisation approaches such as pledging conferences and replenishment-based funding cycles. However, these latter carry some risks: they tend to be characterised by the tying of contributions to specific purposes and the creation of rigid and onerous oversight structures and processes, both of which are antithetical to the PDP model.

2. *Systemic governance*. The term system appears in inverted commas in the first point above because PDPs do not at present comprise a system at all. There is no overarching body comparable to the Consultative Group for International Agricultural Research, which provides strategic oversight of a consortium of 15 international agricultural research centres. Nor is there is a coordinated approach to priority-setting, evaluation and review or resource mobilisation. Putting such things in place does create risks—as noted above in relation to the governance of individual PDPs—but not having any structures for systemic governance might well create larger risks.

3. *Comparison with market-based approaches to product discovery and development.* PDPs essentially develop products for supply to the public sector in developing countries on a non-profit basis. They do venture into product marketing and distribution but are not in the business of creating markets for their products. Some would argue that the PDP model misses or, worse, spoils opportunities to support the establishment of competitive markets for certain drugs, vaccines and other products. The Advance Market Commitment (AMC) for pneumococcal vaccines uses an alternative model under which fixed-duration price subsidy offers, backed by donors, are used to stimulate market-based production of vaccines for, and ensure their uptake by, developing countries (GAVI Alliance Secretariat 2012). The AMC model is in quite direct competition with the PDP model with respect to product discovery and development. The AMC model seeks to promote private sector engagement by effectively offering a revenue "prize"; the PDP model relies on corporate goodwill and cooperation, which could well be reduced by the availability of AMC resources. The two models are also in direct competition with respect to public funding. The pneumococcal AMC attracted funding pledges of $1.5 billion for a single vaccine, equivalent to several years' worth of donor contributions to PDPs for multiple drugs, vaccines and other products. WHO estimates that other single-disease AMCs would each require donor funding in the range $US1-6 billion. There is an obvious—yet surprisingly little-remarked—need for greater clarity about the circumstances under which the provision of market-based incentives for neglected disease research and development should be preferred to support for public-private partnerships.

4. *Product availability and uptake.* It is one thing to discover and develop a product and quite another to manufacture, market and distribute it on a large scale. The AMC model just mentioned might therefore be considered to complement the PDP model in one way: it offers an effective solution to the question how to achieve product availability and uptake, using a payment-for-results approach. Thus, even if the PDP model were ultimately to prevail over the AMC model with respect to product discovery and development, the latter model might still have an important role to play in relation to product adoption—private sector actors might be rewarded via price subsidies for delivering certain products in certain

quantities to certain countries, as in fact has happened through the Affordable Medicines Facility—malaria (AMFm). PDPs, as just noted, do take some measures to promote availability and uptake, but they are fundamentally research and development bodies. PDPs need to consider carefully how far they proceed along the path of promoting access and delivery, whether through market-based or public sector approaches, before passing the baton to other organisations. Clearly they should not seek to run complex, market-based incentive schemes, as this would fall well outside their mandates and competence. At the same time, donors will need to make resource allocation decisions holistically to ensure an adequate and balanced provision for research and development on the one hand, and access and delivery on the other.

5. *Evaluation and review*. The sustainability of the PDP model is not certain. It is not possible to be sure of continued, significant industry participation in PDPs. In addition, it is possible that much of the low-hanging fruit has been harvested, such that future projects will increasingly be beyond the reach of available donor funding. These uncertainties suggest the need for better evaluation of the progress and achievements of PDPs to date, based on performance metrics that permit comparison between them. It could be argued that the time is right for an overarching review of PDPs, covering:

   - their progress and achievements,
   - resource requirements,
   - the outlook for industry participation,
   - governance, resource mobilisation and resource allocation at the "system" level, and
   - relationships with other international programs and partnerships aimed at promoting product discovery and development, and also product availability and uptake, through engagement with the private sector.

The health sector is notoriously crowded with funds, programs, partnerships and movements. PDPs sprang up spontaneously and quickly, and evolved in parallel with market-based incentive mechanisms like the pneumococcal AMC and AMF-m, which do not comfortably co-exist with PDPs. Without venturing to suggest a wholesale effort to tidy this cluttered landscape, it would seem important, particularly at a time when global aid levels appear to be in decline, for the relevant donors to take a more holistic and strategic view of the multiple and competing mechanisms that now exist for engaging the private sector in the discovery, development and delivery of medicines essential for developing countries.

7. Conclusion

It is not our intention to draw firm conclusions on the basis of the above discussion; indeed this would be impossible given the breadth of the field of possible public-private partnerships for development, the quite limited base of evidence on the impacts—intended and collateral, positive and negative—of most actual public-private partnerships, and the contested nature of some of the partnerships we have considered. Our aims for the present paper were more modest: to provide a conceptual framework that we believe can help structure discussions on public-private partnerships for development, and to identify key questions for further consideration in connection with the forms of partnership that we have identified within that framework.

Our framework was presented in Section 2. Essentially, it distinguished between partnerships between business organisations and development agencies for the delivery of private goods, and those for the delivery of public goods. On this basis, we considered four forms of engagement: inclusive business approaches in general; inclusive business approaches in the special form of pro-supply-chain initiatives; service delivery partnerships; and product development partnerships in health. The next four sections considered each of these in turn, in each case identifying key questions for further consideration and research.

As we formulated the key questions mentioned above, a number of cross-cutting issues also emerged. We briefly summarise the five main such issues below.

First, in surveying what information is available on various forms of public-private partnership for development, we have been struck by the slenderness of the evidence base on their impact and cost-effectiveness. This partially reflects the reality that private sector actors cannot be expected to design, monitor and evaluate development interventions in the same way as public sector agencies. Another factor is that new approaches, including enterprise challenge funds, service delivery partnerships and product development partnerships, most of which are only a decade old, have grown organically. They now look ripe for better coordination, more transparency and greater evaluative rigour. Development agencies like AusAID that want to increase their engagement with business would do well to support comprehensive evaluations of past efforts and to build more rigorous evaluation arrangements—though not unduly heavy—into new partnerships.

Second, we have repeatedly encountered the view that relationships between development agencies and private sector actors need to be mediated by "brokers" who understand the imperatives and operating methods of both parties and can provide them with advice and support as necessary. This is a persuasive suggestion, on which there has been appears to have been little action to date, but some qualifications are needed. Given the range and complexity of possible public-private partnerships for development, it is quite unlikely that a single "hub" could effectively provide such brokerage services. More likely, it will be necessary to look to different service providers in the areas of inclusive business[66] and service delivery, and possibly also research and development (not limited to health). Service delivery appears to be the area meriting highest priority. The understandable temptation to have such brokers recover their costs from the private sector should be met with caution. There is certainly a case for seeking private sector contributions, but these should probably be kept small relative to funding from development agencies, or else brokers are liable to become extensions of firms' corporate social responsibility units.

Third, some of the thorniest issues that arise in connection with public-private partnerships for development relate to agent selection. The provision of public subsidies to a selected private sector actor always carries the risk that other actors in the same market will be disadvantaged in some important way. This is not just a matter of fairness, which can be at least partially assured through competitive, transparent resource allocation processes. The risk is that privileging one actor will have anti-competitive effects, for example by allowing them space to erect effective barriers to market entry for other prospective players. One solution is to explore, where possible, the use of approaches that tie payments to results, regardless of who delivers those results, rather than tying payments to proposals from specific proponents. As noted

[66] To an extent, the small non-profit organisation Business for Millennium Development (B4MD), mentioned in section 1, functions as an inclusive business broker in Australia. It also has a more general advocacy function. B4MD has received most of its funding to date from the Australian aid program.

above, this is not an easy path to take because one must know in advance what results are wanted and roughly what it should cost to deliver them. However, it is an option that should be further explored. Another solution is to ensure one makes available sufficient resources to support, wherever feasible, multiple competing actors in the same market, as is done in effect by the public and private donors who support the present array of health sector product development partnerships. In some cases, of course, there is no choice to me made; only one player is in view. In such cases, of which the Oil Search Health Foundation is a good example, the best one can do is ensure absolute transparency about responsibilities and costs.

Fourth, private sector interest in and commitment to public-private partnerships for development is no less fickle than public sector interest at an aggregate level. An important exception to this is the local private sector in developing countries, which is likely to the best and most consistent source of partners for inclusive business approaches. As far as multinational companies are concerned, it is difficult to know whether the current commitment to more inclusive business and the private provision of public goods is robust. It is also difficult to know how easy it is to generalise from the existing positive case studies. There is an important role for official development agencies, or the governments to whom they are responsible, in cementing and broadening private sector commitment in this area. While this can be done partly through dialogue and the facilitation of peer-to-peer communication on best practice, it is important above all to build a strong portfolio of effective, replicable and scalable "flagship" partnerships.

Fifth, and finally, we see much scope for consolidation of effort in this field. There is little sense in multiple donors' seeking to fund multiple mechanisms to promote inclusive business or the private provision of public goods, except where there are defensible "division-of-labour" reasons for doing so. The default position should be that such efforts are consolidated in global or regional mechanisms so as to allow for a concentration of scarce expertise, economies of scale, fewer burdens on the private sector and other partners, avoidance of selection bias and better evaluation of progress and results. It could be argued that this would work against the integration of private sector partnerships into bilateral aid efforts, and that consolidation of some mechanisms, such as product development partnerships, would be inimical to their operating model and would stifle them. These objections warrant consideration but are in our view ultimately unconvincing.

In conclusion, we reiterate that the considerable potential of public-private partnerships for development is still largely unrealised. That is in part because the purposes that such partnerships might serve, and the forms that they should take in order to serve those purposes, are rarely distinguished and given explicit consideration. We have tried to rectify that omission by proposing a new framework for thinking about practical engagement between business and development agencies. At its most general, that framework is based on a distinction between partnerships that increase the development impact of core business activity, and those that contribute to the private provision of public goods. Our main conclusions are three. First, the next generation of enterprise challenge funds should be designed on the basis of a broad evaluation of their predecessors and explicit consideration of a set of issues that we have identied. Second, more effective brokerage arrangements, and some flagships, will be needed in order to expand public-private partnerships for service delivery. Third, a comprehensive, system-level review of product development partnerships should be undertaken which, among other things, compares them to market-based alternatives.

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