Engaging the Private Sector in Health Market Systems Development

IMPLEMENTATION SERIES # 4

The Private Sector Innovation Programme for Health (PSP4H)

The Private Sector Innovation Programme for Health (PSP4H) serves as an action research project for the UK's Department for International Development (DFID), commissioned to explore the markets in which poor people pay for-profit providers and shop-keepers for healthcare – a new area for DFID Kenya. The PSP4H programme employs action research to learn lessons about how a market systems approach might benefit pro-poor health interventions, to inform future programming throughout East Africa and beyond. PSP4H's primary target group involves the 'working poor', the informally employed who largely survive without insurance and pay out-of-pocket (OOP) for healthcare expenses. The target low income group comprises more than 83% of employment in Kenya (Muiya and Kamau 2013) while OOP represents almost one-half of all healthcare spending (PSP4H 2014b).

The Market Systems Approach is Valid in the Health Sector

PSP4H utilises the M4P (Making Markets Work for the Poor, *aka* Market Systems Development) technical approach. Programme experience in Kenya shows that M4P works as a valid approach for technical assistance to the for-profit private healthcare sector. The fundamental M4P market systems development framework of a pro-poor, facilitative, systemic, sustainable, scalable approach does not require radical alterations to operate in healthcare. Implementers must contextualise the framework and put it in perspective as part of a comprehensive strategy for the overall healthcare sector in which public, private, and hybrid delivery systems coexist to serve low income populations.

Partner Engagement is the Key

Although a thorough understanding of the market system forms the necessary starting point to any intervention, analysis alone does not sufficiently guarantee programme success. Development actors create positive change by driving well beyond analysis. PSP4H's experience indicates partner engagement as fundamental to programmatic success. Choosing the most appropriate partners proves at least as important, or possibly more important, than completing a comprehensive analysis. In the absence of a motivated private sector partner with mutual objectives who desires to engage and invest, analysis alone leads to a dead end. Some principles observed by PSP4H include:

- **Go with existing initiatives and support early adopters**. As much as the literature obsesses over innovation and innovators – including the title of this very programme – PSP4H experience demonstrates that partnering with *early adopters* best utilises programme resources. Early adopters may not necessarily introduce a new product or service first, but they embrace the innovation before it becomes commonplace (Rogers 2003). Early adopters already understand the market challenges and do not need convincing in order to change. Such entities represent only a minority of market players, but prove highly influential in the diffusion and market adoption of innovations.

- **…as opposed to creating initiatives and convincing partners.** Alternatively, implementers may throw substantial amounts of resources and energy towards educating the market, convincing partners that the market systems approach represents the "right" one and they should shift preferences and adopt the approach. The preceding scenario stands particularly true in healthcare where the preponderance of development support comes in the form of grants, subsidies and free goods. Inasmuch, funding agencies condition market players towards receiving compensation based on implementing the agencies' own priorities. Research shows that grant-created programmes recurrently fall short of economic sustainability beyond their external funding period (PSP4H 2014a).

PSP4H does not create new private sector initiatives to solve market problems. The programme supports partners to implement initiatives that they already thought about but lack sufficient information or appropriate business models to bring to full scale. Key attributes include an existing coincidence of interests between the programme and the partner. A mutual interest must exist in order to bring better access and quality of healthcare to low income consumers.

- **Leverage existing networks.** Experts understand from extensive history that working with aggregations creates scale advantages. Clusters embodied all the development rage in the previous decade. Networks represent the key to scale-up potential. Scale-ups occur much easier when support extends to a group of partners with similar interests as opposed to working with individual enterprises and their associated value chains. Following the observation above, PSP4H works with existing networks to enhance their capacity as opposed to creating new networks, for reasons encompassing both sustainability and efficiency. PSP4H's intervention partners often provide access to hundreds of existing field sites in a "hub and spoke" model that the programme does not need to reinvent.

Low-Cost Business Skills Training – Rapid Replication across Networks

Given the pilot concept proven in PS-Kenya's network of Tunza Clinics across three Kenyan regions, PSP4H quickly replicated its low-cost business skills training to serve the needs of the Private Community Midwives Society in Bungoma County as well members of the Pharmnet retail pharmacy network in Nairobi and Mombasa.

- **Networks overlap.** Highlighting some examples from the healthcare field, provider networks (clinics) need consumer payment networks (insurance). Retail pharmacy networks require supply chain networks as well as consumer payment networks. Stand-alone interventions that help private sector partners address obvious market constraints frequently converge with other interventions in ways non-obvious at the analytical stage, before private sector partners were on board. Networks can connect and interventions can reach scale with nominal effort. Concurrently, intervention concepts may apply to more than one partner and can scale up rapidly by replicating them through pre-existing partner networks.

- **Get the incentives right.** Engage private sector partners who do not merely desire partnerships for the money. Avoid utilising cash to create unnatural incentives. Cash exists as a fungible asset and tends to create its own incentive. Cash originating from a grant shifts the partner's own cash into other uses which may stand as opaque to the funding agency. Once cash proxies for technical assistance, observers cannot reasonably differentiate if the partner holds motivation by the cash or by the technical assistance itself. PSP4H does not give grants but rather works on the basis of partnership agreements covering a set of mutually agreed intervention activities for each partner. Thereafter the partners fund their own activities. Effective support does not necessarily need to come in cash form.

Once partners understand the above principles, then construction of a robust intervention portfolio with active, motivated partners commences. Benefits of using the market systems approach in healthcare revolve around sustainability by design and value for money for the funding agency. Funding agencies may leverage their development investment by engaging the private sector through a facilitative approach as opposed to traditional direct market intervention. PSP4H recently discovered a traditional donor health programme that offers grants to a single partner that actually equal the entire PSP4H intervention budget. Meanwhile PSP4H utilises its budget to facilitate *fifteen* private sector pilots!

Best Practices for Engaging with the Private Sector

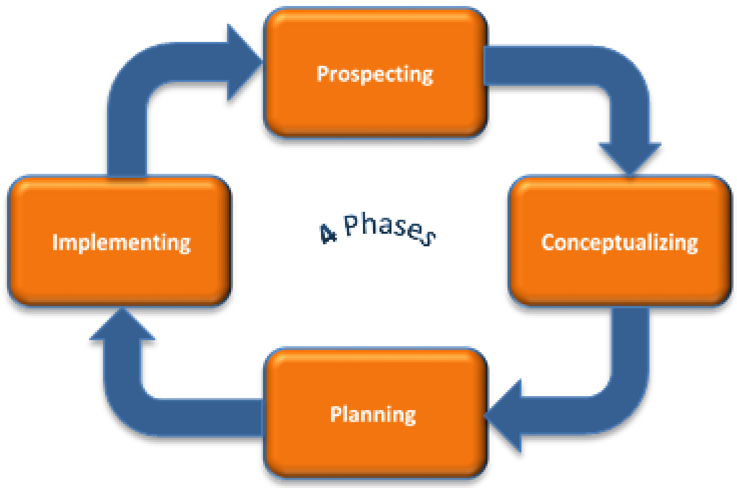
In order to engage with business, development actors must think like a business. Such thinking should not prove difficult since many implementing contractors take the form of for-profit enterprises and even not-for-profits often run on business principles.

- Make a concerted effort to understand private sector incentives
- Understand how the private sector views sustainability. *PSP4H Policy Brief No. 6 – Sustainability* defines sustainability in the context of M4P (http://www.psp4h.com/wp-content/uploads/2014/05/PSP4H-Policy-Brief-No.-6-Sustainability-.pdf)
- Look at the market system from the customer backwards
- Find private sector partners in the same way a business finds customers

Native American proverb:
"You cannot understand a man until you walk a mile in his moccasins."

Interventions Follow a Life Cycle

Successful businesses engage customers via perpetual search through all appropriate, targeted sources, and through experience come to understand the most fruitful channels. Customer engagement never ceases since the market perpetually changes. Fortunes wax and wane. Some players drop out and others enter. Technologies come and go. The market colloquially knows the cycle as developing a "pipeline". Similarly, implementing agencies identify and qualify market-based intervention partners through a perpetual search process. In practice, every intervention follows four distinct phases:



Prospecting – Identifying Partners and Potential Interventions

Appropriate and engaged intervention partners do not naturally fall out from market analysis. Analysis may identify market gaps but does not necessarily point out private sector partners with mutual objectives who would willingly invest their own resources in an intervention opportunity. The dynamic market ideally offers an ongoing stream of potential interventions throughout the life of a programme. Due to market dynamism, missteps flourish when a programme fixes its intervention portfolio after inception analysis. Attempts to second-guess the market and pick winners, and then stay with the selected interventions regardless of market circumstances, proves ill-considered.

Sources of Potential Partners and Pilot Interventions

Identify prospective private sector partners from a multitude of sources, including:

- Databases and directories

- Desk analysis and published reports
- Forums and roundtables
- New ideas from existing partners
- Referrals (networking)
- Social media
- Trade associations and business organisations
- Trade fairs
- Traditional media
- Web sites

Referrals provide the top source of active PSP4H interventions.

Conceptualizing – Screening, Defining, and Scoping the Intervention

Potential partners and interventions proceed through a discrete series of steps to assure a foundation based on sound logic, compliance with programme criteria and application of a market systems approach. *PSP4H Implementation Series No. 1 – A Systemic Approach to M4P* explains the process in detail (http://www.psp4h.com/wp-content/uploads/2014/05/PSP4H-Implementation-Series-No.-1-A-Systemic-Approach-to-M4P.pdf). The process includes a screening tool called R-I-E-D where the "E" signifies *engagement*. The tool helps explore if the potential private sector partner has mutual objectives, exhibits willingness to invest in the intervention, and will share data with PSP4H. *PSP4H Implementation Series No. 2 – Intervention Screening* explains R-I-E-D screening (http://www.psp4h.com/wp-content/uploads/2014/05/PSP4H-Implementation-Series-No.-2-Intervention-Screening.pdf). Interventions that pass screening then require a concept note which sets out the business case and outlines how the intervention will operate.

Planning – Agreeing What Will Be Done with the Partner

PSP4H and the partner define mutual roles, responsibilities and actions interactively to gain buy-in and accountability. Partner contribution proves critical. A formal document of agreement memorializes the partnership framework. Then comes the action plan, the single most critical document, completed *with* the partner, not *for* the partner. The action plan serves to hold all parties accountable, and includes specific actions, responsible individuals, deadlines, and outputs. It insures that ownership of the intervention clearly belongs to the partner, with the programme playing a consultative, facilitative role.

Implementing – Doing It and Measuring It

The implementing phase presents the only phase where PSP4H actually adds value and helps create impact. Until the programme reaches implementation, the intervention exists only in preparatory phases. PSP4H advises implementers to get to implementation as quickly and accurately as possible - *without skipping any steps*. Spend the **vast majority** of programme time and budget in the implementing phase.

Once completing the engagement cycle, go back to the first step and start the cycle again.

References

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Implemented by Cardno in partnership with Insight Health Advisors, Oxford Policy Management and Mannion Daniels.

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Private Sector Innovation Programme for Health (PSP4H). 2015. *Engaging the Private Sector in Health Markets Systems Development. Implementation Series No.4.* Nairobi: PSP4H.

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