NetMark Alliance

Malaria is arguably the most devastating infectious disease in Sub-Saharan Africa. The affliction kills over 2 million people each year – mainly children and pregnant women – while Malaria-related morbidity is estimated at 300-500 million clinical cases per year. Further, the decreased productivity and health expenditures related to malaria negate annual economic growth in sub-Saharan Africa by 1.3% each year. Multiple studies over the past 15 years show that insecticide-treated bed nets (ITNs) reduce all-cause mortality rates among young children by at least 20%, severe malaria by an average of 45%, and pre-mature births by 40%.

ITNs have the potential to reduce child death from malaria by half, but require tremendous donor investments in purchase and distribution of nets. As demand grows for free or partially subsidized ITNs so too does the donor and public fiscal burden. Research has shown that many people are willing and able to pay for nets, while some cannot. Unfortunately donor resources are often wasted by supplying subsidized product to those already willing and able to pay, while the neediest often go unreached. Clearly there is a need to involve the commercial sector in providing nets for certain segments of the population, enabling donor resources to target the neediest and thereby creating a cost-effective and sustainable model for long-term malaria prevention.

USAID's answer is the **NetMark Alliance**, a $65 million initiative to reduce the impact of malaria in sub-Saharan Africa by helping international and African manufacturers and distributors of ITNs develop sustainable markets that do not rely on donor funding over the long term. In addition to enlisting local commercial investment through a generic marketing campaign communicating the need to sleep under insecticide-treated mosquito nets, the alliance provides targeted, timed-limited subsidies to prime new potential markets and distributes discount vouchers through public neonatal clinics and other outlets in order to reach vulnerable populations unable to pay market prices. Finally, the alliance works in the national and international policy arena to reduce or eliminate tariffs, quotas and other impediments to the proper enabling environment needed for a functioning market.

Communication partners include Exp. Momentum (formerly Group Africa) and FCB Advertising. NetMark's 30-plus formal commercial partners include A-Z Textiles, BASF, Bayer AG, ExxonMobil, Harvestfield Industries, Mossnet Industries, Siamdutch Mosquito Netting Company, , Sunflag Nigeria, Syngenta, and Vestergaard Frandsen.. NetMark is designed and implemented by The Academy for Educational Development (AED).

NetMark is at the vanguard of USAID efforts to enter into partnerships with for-profit and other nontraditional partners to leverage additional funding and expertise, add value to existing USAID efforts, and inculcate a development agenda into the counsels of local and international business leaders as they further develop their strategies to reach markets at the bottom of the economic pyramid.[1]

[1] The Fortune at the Bottom of the Pyramid. C.K. Prahalad and Stu Hart. Wharton School Publishing, 2004.

Building the Alliance

What evolved into the NetMark Alliance began in 1998 when Dennis Carroll, an infectious disease specialist from the Centers for Disease Control (CDC) but attached to USAID, convened a quorum of leading epidemiologists, public health specialists and commercial sector professionals as a kick-off for the Agency's Infectious Diseases Initiative. The purpose was to examine the latest field trials for malaria drugs and formulate fresh approaches to treatment and prevention. This was a problem solving conference, and Carroll was among those who hoped to build a consensus around ITNs as tools that met both immediate public health needs and the challenge of sustainability.

One of the attendees, David McGuire, was already convinced of the potential for partnerships with the private sector to build a momentum around ITNs carried by market forces rather than donor subsidy. "Using donor money has its place and is very effective in some ways," he said. "But in terms of creating something that would last in terms of whether donor funding is available or not - I came to realize that you needed to engage the commercial sector in a much different way.

"It's about getting behind the commercial sector rather than in front and dragging them into it."

Having worked in social marketing in Africa and Asia since the early 1990s, McGuire had witnessed firsthand the lack of sustainability of donor funded social marketing programs. "Implementing partners would go out and get the cheapest product they could from the lowest bidder," McGuire recalled. "They'd ship the goods into a country and a social marketing organization would repackage it and create their own brand and do promotion and it was great and you increase distribution and get a lot of people using them.

"And then six months before program funding is going to end the donor gets nervous and says – what about that sustainability thing? And the implementers go to the manufacturer and say 'Okay, we've really worked hard in developing this market for you but we're going to leave now- you'll take it over, right?'

"And they say, 'Are you kidding me? We hate your brand, your pricing strategy is totally unrealistic, and the distribution network is incompatible with the way we do business.'

"And then everything comes crashing down - I've seen it happen with contraceptives, oral rehydration salts and ITNs."

McGuire will be the first to add that such an account exaggerates the sustainability concerns in what all would admit is a still-evolving approach to achieving widespread distribution of goods promoting the public health. But he is equally as adamant for the need to design an approach that takes sustainability seriously.

A solicitation was issued soon after the 1998 kick-off meeting to implement the new approach to preventing child deaths from malaria. The solicitation that became NetMark was written in some

respects as an experiment. At the time, the question whether the commercial sector could carry ITNs as a valued good was highly uncertain; that the commercial sector could be seen as a complement to and replacement of direct donor subsidy seemed almost heretical.

When AED won the solicitation in September 1999, the organization therefore faced an immediate challenge in executing an experimental new strategy in the face of some skepticism and uncertain prospects for success. But McGuire, as director of the NetMark team, was determined to show that commercial sector partnerships could achieve public health goals.

Implementation

In 1999, AED forged a partnership with SC Johnson, a global leader in the marketing of consumer insect control products. The organization felt it necessary to work with a company that had insect control as part of its core business and the distribution and marketing capacity to take on a new product under an existing well-known brand. Such a relationship would increase the likelihood of creating a viable ITN market in at least four countries — as stipulated in the agreement between USAID and AED — within the original five-year timeframe of the project.

AED understood that there was a risk in partnering with a company that did not have nets or net treatments as part of its current business, but strongly felt that the consumer product development and marketing capacity of SC Johnson as well as its multinational, sub-Saharan distribution network was a critical advantage that was not found in any of the other company units that were producing nets and treatment kits. SC Johnson made it clear from the start, however, that it would work closely with NetMark to conduct extensive market research before it would make a final commitment to develop and market a RAID line of ITNs.

When the market research yielded mixed results with regard to the potential for developing an ITN market in Africa, SC Johnson proposed launching a test market of its newly developed ITN treatment during the first year in Nigeria, before making a final decision to roll out on a larger scale after three to six months. SC Johnson had understandable concerns about the viability of a commercial ITN market in an environment of low ITN demand, highly subsidized and free ITNs as competition, and uncertain tax and tariff policies. In addition, its timeframe was not consistent with NetMark's commitment to USAID to launch in at least four countries on a national scale. SC Johnson ultimately decided that it was not a good business decision for it to enter the ITN market at that time, and withdrew from the partnership.

It was a heavy blow to AED, which then had to contemplate whether NetMark should continue or be dismantled. For McGuire there was no time to lose. AED's program design had unraveled before it had time to fully develop, and quick action was needed to salvage the entire concept of engaging the private sector for commercial expansion of a market for bed nets.

McGuire and Dr. Shaw, a co-director of NetMark, made a case to senior staff at USAID and AED for presenting market data to all major net and insecticide manufacturers to determine if these manufacturers would reach the same conclusion as SC Johnson. They suspected that the data could be interpreted differently, particularly among potential for-profit partners with a better

grasp of less developed markets. Because some of the analysis was based more on developed markets in Europe and North America than on those in Africa, it was possible that a bias in the data led to lower sales projections than might be achievable. Finally, companies already producing ITN nets or treatment kits for the donor market might be in a position to expand into the commercial market.

The six major suppliers of nets and insecticides— Aventis, Bayer, BASF, Siamdutch Mosquito Netting, A-Z Textiles, and Vestergaard Frandsen—were visited by McGuire and Shaw to receive a most compelling value proposition: "How would you like to at least double your marketing budget and gain the support of key policy makers and community groups to enter a new market where few competitors exist, all while saving the lives of millions?"

The sales pitch was accepted. "Many of them signed on so now the alliance is not exclusive at all," said McGuire. "Anyone can be a formal partner if they're willing to invest their own money, put together a reasonable business plan for reduced pricing and increased distribution, and use a World Health Organization (WHO) recommended product.

"If they do these things they benefit from our matching funds and our communications campaign and our brand strength - a seal of quality we give our partners. In some of our advertising we say look for the products with this seal so that anyone willing to invest and use a WHO approved product can be our partner."

That is not to say that a blitzkrieg approach does not experience a regular flow of partners joining and leaving the alliance. But that was the new par for this alliance in the absence of a single major player. "The whole experience taught us to learn how to make choices that capture partners who are hungry and committed and ready to stick for the long haul," explained McGuire. "This is an evolving understanding that we have and NetMark is better than it was before and will continue to improve as we build on lessons learned and demonstrate how our model achieves sustainable business and public health impact."

Achieving Equity

While the initial NetMark alliance was conceived as a way to channel commercial investment into a functioning market for mosquito nets, there was always the awareness of the ever-present need to deliver bed nets to populations unable to afford the market price, even a declining market price due to program impact. Accordingly, the NetMark agreement between AED and USAID was modified to include action to achieve the proper balance between achieving sustainability through local commercial participation and equity through delivery of mosquito nets to the poorest populations.

The challenge was how to achieve equity in a manner consistent with the NetMark philosophy of strengthening the local commercial sector, and not crowd out market potential with insufficiently targeted donor intervention. Many African nations are expected to apply for funding from the Global Fund for AIDS, Tubucurlosis and Malaria in order to purchase as many bed nets as possible and distribute them free of charge. Every dollar invested in donor procurement,

marketing and distribution of ITNs is a dollar that could go towards building up local commercial capacity for these functions, and each dollar invested in donor subsidy could also crowd out a dollar of investment from any other source.

No one would deny the great need for mosquito nets for those unable to afford them. But the NetMark solution is to stress a segmented market approach. "We shouldn't bother giving nets away to people who have money and are willing to pay for them," said McGuire. "Particularly when the donor funding is not necessarily going to be there forever, and if you're not working to build a sustainable delivery system, once donor funding shifts or decreases the whole house of cards comes down and people don't have access to nets anymore."

"We are all trying to achieve the Abuja[2] objectives, but some strategies to achieve short-term goals can compromise long-term impact," McGuire said. "If we ship millions of nets into Africa then we can all feel good about ourselves and check it off and say we got that many nets into Africa and achieved 70% of our objectives. But the problem is that nets sitting in a warehouse in port doesn't translate into people actually using them and getting the protection. Mobilizing additional resources for free nets is critical, but we also need to think about the entire distribution effort and how to coordinate it with the building up of Afrcian commercial capacity, and all strategies must be supported by consumer-based education and promotion campaigns."

According to McGuire the proper balance between delivering bed nets regardless of method and cultivating a framework for sustainable production and distribution of nets is the great unknown in assessing how best to move forward to mitigate the impact of malaria on the African continent. Strategies must be based on the particular situation in each country.

Equity

The NetMark solution to achieving equity while maintaining the focus of building up an African commercial capacity to distribute and promote ITNs was, in part, to issue discount vouchers through public antenatal clinics, on the presupposition that pregnant women from indigent families were self-selectively receiving care at public clinics.

Because the vouchers were redeemable at local retail outlets rather than donor distribution points, the subsidy was still channeled through local commercial distribution channels. Also, the vouchers was not necessarily worth the full price of a typical bed net, as NetMark wanted to retain the basic feature of a market economy in that consumers must assign utility to the range of available goods against the finite resources they have to spend for those goods.

Implementing a discount voucher program component was therefore an opportunity to observe consumer behavior in a population which normally had a severely prescribed range of purchase options. There have been indications that, as would be predicted by Bottom of Pyramid scholars C.K. Prahalad and Stu Hart, new consumers act like any other consumer by evincing a desire for and appreciation of a variety of styles and colors in making a purchase. Rather than use a $3

[2] Site of Roll Back Malaria Campaign launch. www.rbm.who.int/cgi-bin/rbm/rbmportal/custom/rbm/home.do

discount for a low-end $4 net, for example, the consumers add their own resources to purchase higher end nets that are bigger, last longer, and even serve as something of a household fashion accessory in addition to a life-saving public health good. At the same time consumers see the true market price of nets, so if and when subsidies are withdrawn the market is more likely to weather the storm. As retailers see the demand they decide to stock more product and the number of outlets where nets are available expands.

ExxonMobil

In order to expand the successful discount voucher program AED initiated a partnership with ExxonMobil. Rather than tapping into the direct business interests of a for-profit partner, this relationship capitalized on the more general motivation to practice good corporate citizenship.

ExxonMobil has been in Africa for over a century as both a producer and retailer. They maintain 2,000 service stations in over 30 countries while producing a million barrels of oil each day – a feat requiring more than 5,000 direct employees and 50,000 through their in-country supply chain needs.[3] Among their many corporate citizenship initiatives addressing malaria, they joined the NetMark alliance on a pilot basis in Zambia as a part of participation in the broader Roll Back Malaria Campaign.

ExxonMobil participation provided the NetMark alliance with an extensive network of service stations through which to sell the mosquito nets, and where coupons for the nets were honored. In addition to providing their distribution network, ExxonMobil Foundation contributed cash resources, while additional funds were generated through a cause-related campaign at the pump in Zambia that put aside a percentage on every gallon of gasoline sold .

The pilot would be both expanded and replicated. When the pilot program realized a greater than 70% redemption rate on the coupons, ExxonMobil invested over $700,000 dollars and scaled up the partnership to include several other African countries. UNICEF joined as a NetMark partner in Zambia and Senegal, while the UK Department for International Develepment (DfID) replicated the model in a large-scale initiative in Ghana. The NetMark-ExxonMobil partnership is now considered a best practice in public-private alliances. Expanded programs are achieving redemption rates of over 80% on average.

One upshot of these activities was to help weigh in on the question of how best to move forward with Global Fund resources – through heavy donor intervention or by building up sustainable capacity through local in-country networks. NetMark's success is persuading government health ministries that rather than using global fund resources exclusively for procuring a volume of nets, they ought rather to invest in vouchers and have a longer-term impact that empowers African countries to build up the systems needed to fight malaria on their own.

Lessons Learned

[3] www.exxonmobilafrica.com/files/PA/Africa/BROCHURE_AFRICA_ENG.pdf

The loss of SC Johnson as a key partner in a major USAID procurement is one of the more instructive episodes in USAID and traditional implementing partners' experience in engaging nontraditional partners in public-private alliances. The immediate and obvious lesson was that AED had bet all their money on one exclusive player. Despite the clear advantages of partnering with a major US-based company with a good reputation and strong business case for partnership, the time was simply not right for the relationship to mature.

Several lessons arise out of this experience. First, the benefits of diversification have now become clear: increased investment and competition have lowered prices, expanded consumer choice, and provided a hedge against production or supply problems. "The idea of working exclusively with SC Johnson had many advantages," McGuire said. "But looking back from now, we see the benefit of involving more companies."

The second lesson flows from the first. One avenue in engaging low income markets at the bottom of the economic pyramid is for large multinational investment to follow initial market development by local small and medium enterprises (SMEs). If SC Johnson's market research justified, from a strictly business perspective, only a small pilot project and not a four country roll out as mandated by the original agreement, the present situation is that multinationals are now eyeing with interest the current success of NetMark in developing local commercial capacity. A best practice that may apply here is that an appropriate amount of local SME development should precede substantive negotiations with potential multinational partners.

Finally, the episode serves as a startling exception to what is considered the general rule in engaging private sector partners. Current understanding of the public-private alliance model suggests that engaging the direct business strategies of a for-profit partner will result in greater investment – both in terms of resources and stakeholder involvement in desired outcomes (see Appendix V of the Tools for Alliance Builders for a more detailed discussion).

In this case, however, an alliance predicated upon the direct business interests of a private sector partner failed when those business interests conflicted with the time-frame and expectations of the project. "It was quite frustrating for us," recalls McGuire. "And of course it was no fun contemplating the end of a major initiative before it got a chance to start. But it was a completely rational decision on their part. If I was in their position, I would likely have done the same." Alliances expressly designed to further a partner's business interests are the most vulnerable to competitive environment in which those interests operate.

At the same time, companies may consider rethinking short-term profit and loss requirements associated with social programs. The successful partnership with ExxonMobil leverages their existing brand image and network of service stations in a manner not directly tied to their business strategies for future growth. SC Johnson's decision to break from the alliance, on the other hand, was entirely a business decision made by the marketing unit at SC Johnson. Had SC Johnson's external relations unit been able to underwrite some of the business risk, the original partnership might still exist.

"In retrospect, the initial breakup of the alliance may have been an opportunity," commented McGuire. "Had we taken a fresh look at each other and redefined the collaboration more as a hybrid business and Corporate Social Responsibility (CSR) opportunity, if SC Johnson could have talked with their regional guys and reassured them that they would not be held to the regular standards of profit and loss within a discrete time frame… things might be different today."

Public and private sector tension

A challenge at the programmatic level is that public health advocates and for-profit partners can have different measures of success. "When you are trying to achieve a public health agenda, you want to save lives yesterday not a year from now," McGuire explains. A commercial partner that sees a 4-5% increase in its market share due to the partnership with NetMark might consider that an astounding success. But for public health advocates who need to impact 50-80% of the target population such 'success' is clearly unacceptable. Said McGuire: "These public versus commercial agendas can lead to success when bound by a shared commitment around mutually beneficial goals, but also create interesting dynamics and tensions."

This lesson dovetails with the case of SC Johnson. Amid the company's split from the alliance, they showed a willingness to proceed on a much smaller scale – a scale that did not approach the level of buy-in considered necessary for the initiative to be considered a genuine alliance. This then is the exact same tension between one for-profit partner looking for ways to increase market share, gain a foothold in new markets, or demonstrate good corporate citizenship on the one hand, and public health advocates' need to target and reach entire populations that far exceed the commercial purview of targeting those who might purchase a product on the other. "The needs of the public sector to achieve high impact quickly isn't really consistent with a typical approach to business or market development," McGuire said. "In the short to medium term this can lead to opposing tendencies."[4]

Results

The lessons learned, while instructive and requiring deep consideration as USAID and its traditional implementing partners such as AED struggle to integrate public-private alliances into the standard toolbox of development interventions, should not obscure the tremendous success NetMark has realized.

The original agreement between USAID and AED included sales targets tied to AED's cost share requirement, such that AED was incentivised to sell a minimum of 2.7 million nets through drawing forward commercial sector investment. "At 2.7 million nets sold we essentially met our cost sharing requirement under the agreement," said McGuire. "But prior to reaching that target we had a significant risk involved in demonstrating project success."

[4] Practice to date indicates that public and for-profit strategies are much closer aligned in the medium to long run, and that in not a few cases the for-profit partner acts within a strategic time horizon that extends beyond that of the donor community, who often act within a life-of-project horizon of 1-5 years, or a country strategic plan of 3-10 years. This lesson is especially poignant for alliances in the extractives sector, where companies plan for timelines of 30-50 years.

There was no need for concern, as total commercial sales in eight countries where the alliance is active have exceeded nine million nets. NetMark's new goal is to sell no less than 20 million bed nets over the life of the project. This will proceed while holding local partners accountable for the distribution of goods by economic quintile. "We don't want these goods to end up only in the hands of the wealthy; we need to make sure there is a balance between poor and wealthy," McGuire stressed. Research conducted in 2004 has shown that equity is being achieved in NetMark countries, with ownership rates increasing anywhere from 13% to 28% in a surprisingly even manner among the rich and poor, and urban and rural populations.

When the agreement was amended to include the discount voucher component, cost-share was reformulated as a straight 7.2% of the agreement price ($65.4 million) drawn forward in commercial investment. This target was also quickly met, as over $12 million in commercial investment has already been documented. This translates to $0.61 for every dollar invested by USAID in promotion, procurement of products, research and development, and management over the life of the project, and $.88 for every dollar spent in 2004.

If considering the harder to quantify contributions of ExxonMobil's distribution network and overall market growth the amount of leverage[5] is likely even greater: supply and demand for ITNs in target countries is on the rise, and the increased competition caused by NetMark's multiple partner approach and generic promotion has led to downward pressure on prices and increased attention to quality.

Amidst great program success, McGuire's final caution is that the NetMark approach does not promote the involvement of the commercial sector as a "silver bullet" solution, but seeks to maximize its involvement within the context of the Roll Back Malaria Campaign. The exact extent of the role the private sector can play in delivering ITNs throughout Sub-Saharan Africa has yet to be fully demonstrated, but if the NetMark alliance has demonstrated anything it is that a lasting solution will not be found without it.

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[5] See Appendix III of the GDA *Tools for Alliances Builders*.

NetMark Partners

Academy for Educational Development (AED) is one of the world's foremost human and social development organizations, focused on improving access to high quality education. Around the world, the nonprofit organization builds local capacity to improve education for boys and girls, health care, leadership capabilities and economic opportunities. AED is the primary implementing partner for NetMark.

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NetMark's 30 plus Commercial Partners include A to Z Textile Mills, BASF, Bayer CropScience AG, Siamdutch Mosquito Netting Co., Vestergaard Frandsen, Syngenta, Mossnet Industries, Harvestfield Industries, and Sunflag Nigeria.