

PROFIT

PD-ABI-542

- *Private Health Care Providers*
 - *Employer-Provided Services*
 - *Innovative Investments and Transfers*
-

Promoting Financial Investments and Transfers

PROJECT PERFORMED FOR
U.S. Agency for International
Development *(Office of Population)*

**Deloitte &
Touche**



Member DRT International

In association with:

Boston University Center for International Health

Multinational Strategies, Inc.

Development Associates, Inc.

Family Health International

PROFIT

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SECOND YEAR WORK PLAN

PROMOTING FINANCIAL INVESTMENTS AND TRANSFERS

PROFIT PROJECT

Deloitte & Touche

Contract Nos.: DPE-3056-C-00-1040-00
DPE-3056-Q-00-1041-00

December 23, 1992

**Deloitte &
Touche**



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December 23, 1992

Mr. Craig Carlson
U.S. Agency for International Development
Office of Population
Family Planning Services Division
Room 809, SA-18
Washington, D.C. 20523-1819

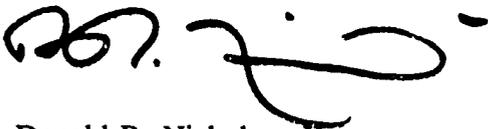
Dear Mr. Carlson:

Deloitte & Touche is pleased to submit the Second Year Work Plan for PROFIT (Promoting Financial Investments and Transfers) to the Office of Population (R&D/POP) of the U.S. Agency for International Development. The Second Year Work Plan describes all project activities to be undertaken during Fiscal Year 1993 in support of PROFIT's five-year strategy.

We look forward to continuing our work on this important project.

Please feel free to contact me at (703) 276-0220 should you have any questions related to this report.

Very truly yours,



Donald R. Nicholson II
Project Director
PROFIT

DRN/cs

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Touche**



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SECTION 1 INTRODUCTION

This document presents the Second Year Work Plan for the PROFIT project, also known as "Promoting Financial Investments and Transfers," for the U.S. Agency for International Development's (A.I.D.) Office of Population. The document describes in some detail the technical activities to be undertaken during Fiscal Year 1993 in support of PROFIT's five-year strategy, which defined an overall framework for the project's approach. Although some material is repeated here from the strategy document, it is assumed that the reader has access to both documents, which complement each other.

1.1 Project Description

PROFIT, or "Promoting Financial Investments and Transfers," is a project of the Family Planning Services Division (FPSD) of A.I.D.'s Office of Population (R&D/POP). PROFIT was designed to increase the for-profit sector's contribution to family planning service delivery in developing countries.

PROFIT fills a new and unique role among FPSD's projects. This five-year project is to use financial investments and leveraging techniques in support of private sector family planning. As such PROFIT represents a new way of thinking about how donor institutions can contribute to family planning. The fundamental goal of the project is to motivate the private sector to meet the demand for family planning services and programs in developing countries, thus freeing up scarce public resources.

PROFIT looks to develop projects that stress sustainable private sector initiatives. A.I.D. has established an investment fund of \$17.4 million to be used for such transfers, which may involve equity investment, debt placements, purchase and conversions of developing country debt or of corporate blocked funds. The PROFIT team expects to show, at the end of PROFIT's five years, that A.I.D.'s investment fund was substantially leveraged by mobilizing private sector resources into sustainable and profitable family planning ventures.

1.2 PROFIT's Projects

PROFIT looks to create model projects demonstrating that family planning in the private sector can be profitable and sustainable. Once this has been demonstrated, PROFIT expects that corporations and entrepreneurs will be motivated to create additional initiatives, based on the PROFIT model. PROFIT offers three important factors as a catalyst:

- **Money.** PROFIT's investment fund of \$17.4 million will provide crucial start-up funds or risk capital, and will induce investors to team up with PROFIT on a risk-sharing basis.

- ***Private sector skills.*** The PROFIT team is primarily drawn from private sector financial institutions, and knows how to attract outside investors. The team also knows how to manage investments for longer-term success and profitability. These skills can be brought to bear as technical assistance to design and implement worthy projects.
- ***Contacts.*** The PROFIT team has worked around the world, and has extensive background and contacts in the business, financial and family planning communities. These can be tapped to identify promising investments and to find partners.

PROFIT is to create twenty projects in ten countries -- a limited number of significant projects in a limited number of countries. Sustainability and profitability are key criteria for selecting projects. PROFIT's project emphasis falls into three major sectors:

- ***Private, market-based providers.*** PROFIT is designing projects that involve as partners groups of health care personnel, group practices, physicians' cooperatives, or professional associations. This sector also includes hospitals, health maintenance organizations and insurance companies. The types of projects may include establishing new facilities, adding family planning services to an existing practice, supplying training, or adding family planning to insurance coverage on a commercial basis.
- ***Employer-based providers.*** PROFIT is approaching employers of large numbers of workers, such as manufacturing plants, industrial estates, and employer associations, to offer family planning as a benefit. Types of employer-based projects may include adding family planning as a benefit, establishing work place clinics, establishing joint clinics for use by employers in an area, and so on.
- ***Manufacturing, marketing and distribution.*** PROFIT seeks opportunities for investment in production or processing facilities, packaging of drugs or condoms, distribution, and in assisting to bring new technologies to market. Types of projects may include establishing new production facilities, upgrading old plants, expanding a distribution network, expanding an export market, or introducing a new type of condom, among others.

Two additional types of PROFIT projects apply to any of the sectors mentioned above:

- ***Privatization*** of service delivery, production, or insurance currently in the public sector.
- ***Reduction of trade barriers,*** either in importing raw products or finished goods used in family planning programs.

1.3 First Year Activities

PROFIT initiated an important range of project activities during its first year of operations, many of which form the foundation for this Second Year Work Plan. These activities are summarized below.

Establishment of Project Office - PROFIT established a dedicated and fully-equipped office in Rosslyn, Virginia, to accommodate all core staff and to facilitate project development activities.

Completion of Country Assessments - PROFIT completed country assessments for Brazil, Nigeria, Mexico and Indonesia. Country visits were also made to Colombia, Jamaica and Bangladesh to investigate specific project opportunities at the request of A.I.D. Planned visits to India and the Philippines were postponed due to external factors, but are programmed for Year Two.

Processing of Projects - PROFIT began processing four potential projects (two in Brazil; one in Colombia; one in Mexico) for eventual submission to A.I.D. for review and approval. The two Brazil projects have since been submitted to R&D/POP, and the other two are still being processed.

Identification of Projects - In addition to the projects "in process", PROFIT identified a number of viable project opportunities for further development in Year Two. These projects are located in Nigeria, Mexico, Indonesia, Jamaica, and Ecuador.

Recruitment of Country Directors - PROFIT began initial recruitment of Country Directors for Brazil and Indonesia, and anticipates staffing these positions in early 1993.

Completion of Project Evaluation Plan - PROFIT developed a detailed Evaluation Plan for review by R&D/POP that would address an overall evaluation for the PROFIT projects and evaluation strategies for individual investments (subprojects).

Completion of Administrative Tasks - PROFIT completed all defined administrative tasks in its First Year Plan, including establishment of internal and external reporting procedures, conducting dissemination activities (including publication of a project newsletter), establishment of project databases and a project library, and convening two meetings each of its Expert Advisory Panel and its Oversight Board.

Establishment of Non-Profit Organization - PROFIT established a non-profit organization (The Summa Foundation) to hold all PROFIT's investments and to form a longer-term endowment for other family planning activities by A.I.D. Although the concept of establishing the non-profit organization was approved by the Office of Population, its specific relation to the project are currently under review by A.I.D.'s Contracts Office.

1.4 Overview of this Document

The balance of this document is organized in the following manner:

- A detailed discussion of PROFIT's objectives and goals for the second year, including countries to be visited, projects to be developed and funds to be committed
- An integrated technical work plan, discussing PROFIT's approach for attaining its objectives
- An implementation plan, which defines PROFIT's organizational structure to carry out its work
- A summary of current implementation issues and their proposed resolutions.

SECTION 2 SECOND YEAR WORK PROGRAM

PROFIT's second year of operations presents the project with immediate challenges and opportunities. Efforts are ongoing to complete project analyses initiated in the first year. Newly identified, potential projects are being evaluated for further action and assessments. PROFIT must also continue the process of new country visits and assessments in order to advance its Five-Year Strategy.

In this section, PROFIT details its plan related to:

- Country Assessments
- Sectoral Emphasis
- Project and Investment Goals

2.1 Country Assessments

PROFIT will continue to conduct country assessments to define appropriate interventions in target countries, and to identify potential projects and local investors. PROFIT will also work in first year target countries to complete project development efforts already in progress. These countries are:

- Brazil
- Mexico
- Nigeria
- Indonesia
- Colombia

PROFIT plans to visit four more countries in Year Two, as originally identified in its Five-Year Strategy document, and in accordance with guidance found in the contract and the RFP. The target countries and scheduled visits are presented below.

Country	Planned Activities
PHILIPPINES	Initial visit October 1992 Follow-up trip December 1992 1 to 2 subsequent trips for project development
INDIA	Initial visit February 1993 Follow-up trip April 1993 1 to 2 subsequent trips for project development
EGYPT	Initial visit and follow-up in 2nd quarter
MOROCCO	Initial visit and follow-up in 4th quarter

There may be a need to modify this schedule during the course of the year, in which case other potential countries could be added to this list, such as Zimbabwe, Turkey, Ecuador, Peru, the Commonwealth of Independent States or Eastern European countries.

In selecting alternative countries for country assessments, and as part of our assessment process, PROFIT's experience in its first year has shown that the most "mature" countries from a contraceptive prevalence rate standpoint may not always be the most promising for PROFIT. The reason for this is that these countries have already been targeted by the private sector (e.g., Brazil) or may have an extensive public sector family program (e.g., Mexico) that distorts private sector initiatives. Rather, early indications point to "intermediate" category of countries with prevalence rates of between 16% and 49% as offering better prospects for PROFIT. This pattern will be factored into PROFIT's country selection process.

2.2 Sectoral Emphasis

PROFIT's principal sectoral focus in the second year will remain:

- *Innovative Investments*, which include manufacturing, distribution, and marketing of contraceptive products
- *Market-based service providers*, such as insurance companies, health maintenance organizations, private clinics or hospitals, and other private groups of health care providers active in family planning activities
- *Employer-based providers*, including manufacturing plants, industrial estates, employee associations, and other employee groups that may offer family planning benefits.

PROFIT will also look to expand the scope of project activities to include broader, "non-traditional" areas of interventions, such as:

- Funding of media-related activities, such as soap operas, movies, and other forms of mass entertainment products, with family planning contents or messages
- Technical assistance to design and develop interim private sector-based mechanisms to assist A.I.D. donors with procurement of commodities in countries (such as Brazil, Jamaica, and Mexico) where an A.I.D. "exit strategy" may impact PVO family planning programs
- Financing of broader women's health facilities, which include family planning services or associated medical services, to provide cross subsidies for family planning service provision

- Collaboration with PVOs or NGOs in target countries to establish "stand-alone", market-based ventures for the provision of health and family planning services
- Funding of manufacturing, marketing and distribution efforts that focus on new contraceptive technologies (such as implant contraceptives), as a means of expanding contraceptive choices to consumers in target countries.

These examples involve private sector mechanisms or ventures to expand either the awareness, use, availability or provision of contraceptive goods and services. PROFIT will therefore investigate promising projects in these "non-traditional" areas to enhance investment options in target countries.

2.3 Project and Investment Goals

PROFIT's project and investment goals are detailed below, in terms of the number of projects and amount of funds PROFIT expects to commit during its second year. These goals reflect PROFIT's current "pipeline" of projects, that is those projects under evaluation, and project opportunities identified through first year country assessments.

Second Year Investment Goals

Country	Number of Projects	Funds Committed (000s)
Brazil	2	\$ 2,000
India	1	1,500
Philippines	1	1,000
Colombia	1	1,000
Egypt	1	500
Indonesia	1	300
Mexico	1	250
Jamaica	1	250
Nigeria	1	200
TOTAL	10	\$7,000

In addition to these investment goals, PROFIT has established technical assistance objectives of \$200,000 in specialized services to be provided under these projects to assist with design, implementation and ongoing support tasks.

PROFIT will seek to leverage its funds through appropriate use of matching investment resources from local investors, innovative financing techniques such as debt swaps, and through the involvement of other CAs in such areas as training. Of the 10 projects estimated in its second year, PROFIT looks to arrange at least two debt swaps as a means of leveraging A.I.D. funds.

SECTION 3 TECHNICAL WORK PLAN

Attainment of PROFIT's investment objectives will depend on a comprehensive technical approach which addresses a number of critical activities including country assessments, project development tasks, dissemination, organizational structure, and required resources to implement the proposed plan.

3.1 Country Assessments

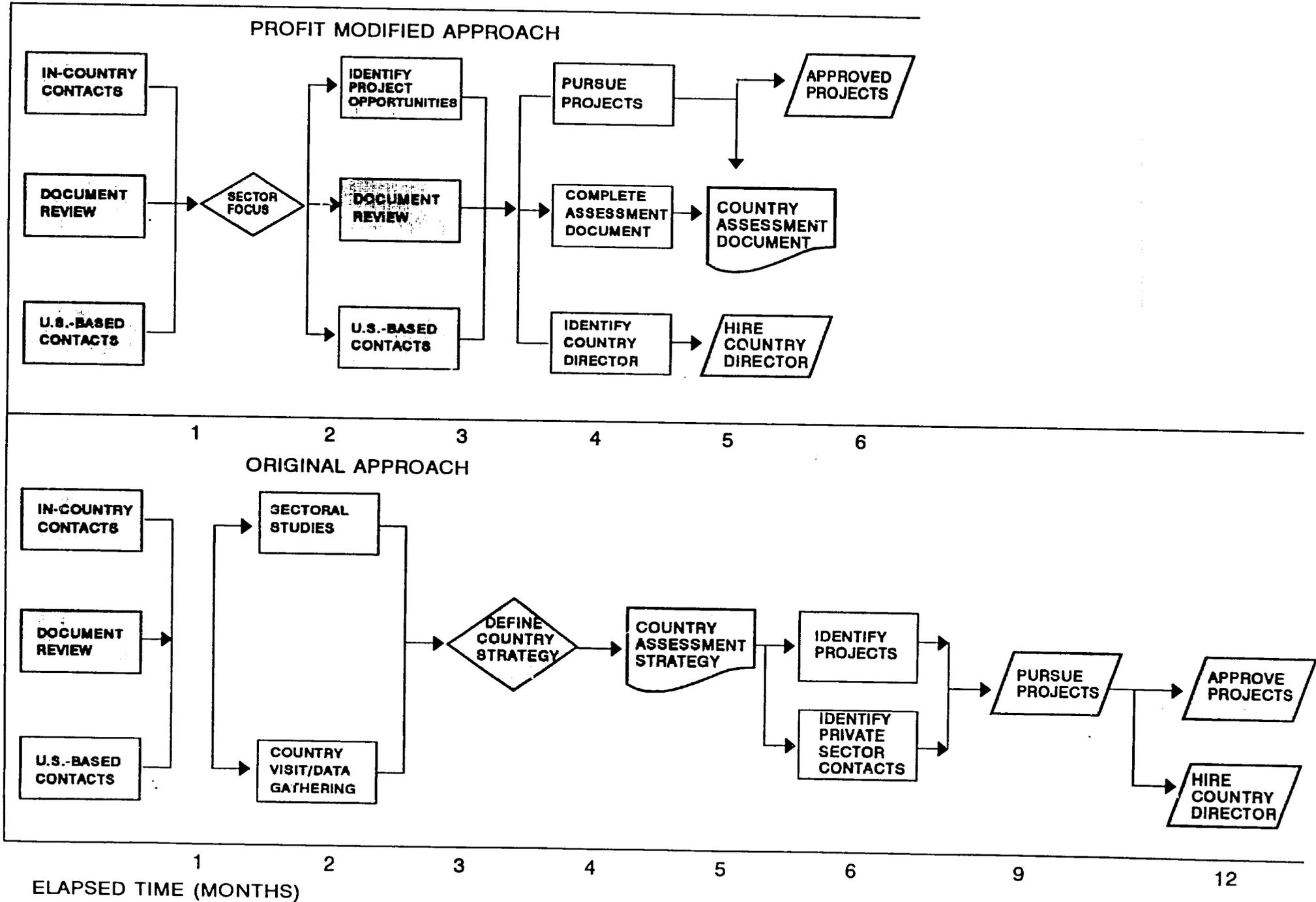
PROFIT has slightly modified the country assessment approach to define country strategies and identify potential projects rapidly. The original approach stressed conducting comprehensive and detailed analyses of all three major sectors (innovative investments, market-based providers, and employers) in each target country before identifying or pursuing project opportunities.

Implementing this approach presented some practical difficulties to PROFIT's goal of rapidly identifying and pursuing project opportunities. First, conducting entirely new analyses or surveys of all potential sectors would entail expenditures of effort and time taken from pursuing opportunities with entrepreneurs and private sector firms that are immediately ready to invest in projects. Such an approach could take nine to twelve months of preliminary analysis per country. If PROFIT is to attain its intended goal of closing 20 projects by its thirtieth month of operation, the potentially lengthy assessment process must be shortened considerably to facilitate the time demanding task of identifying, developing and structuring projects.

Second, many target countries have been subjected to studies, analyses and assessments to identify the types of opportunities being sought by PROFIT. It is likely that new studies and surveys of these sectors would be redundant and yield little in new findings or options. PROFIT has considered whether such studies are warranted to identify viable projects, or whether it could rely on recent analytical efforts coupled with direct contacts with private sector firms or CAs already working in the target sectors.

For these reasons, PROFIT chose to adopt a shortened and more practical approach in conducting country assessments. Chart 3-1 graphically depicts this approach, along with the intended approach elaborated in the design document.

COMPARISON OF ASSESSMENT APPROACHES



PROFIT's proposed approach is to identify investors and project opportunities in a rapid fashion while still preserving the analytical soundness of the original approach. The modified approach has the following steps:

- PROFIT staff perform a thorough review of existing studies and analyses of family planning activities, and the target sectors, for the country in question. These analyses are reviewed and supplemented with in-depth discussions with other CAs working in the country and with local Deloitte & Touche offices which serve the local private sector. This initial sounding of the country environment provides specific avenues of project options to pursue, and highlights those sectors that have more promise than others.
- PROFIT core staff (particularly the Project Director, Family Planning Director, or Marketing Director) perform an exploratory visit, which results in confirming the validity of existing studies, or in filling specific information gaps, and in identifying preliminary project options worth pursuing. The initial visits focus specifically on forging important contacts with the private sector and other organizations active in family planning activities. The initial visits also lay the groundwork for pursuing subsequent sectoral studies, but always in the context of developing and assessing specific projects.
- Follow-up visits are undertaken to develop project ideas into specific investments. Feasibility studies are undertaken to determine the marketing and family planning soundness of these potential projects. These studies also advance the overall country assessment project by testing prior data.
- Country assessment documents are prepared outlining PROFIT's findings and its proposed strategy for working in a given country. The strategies address areas of potential intervention, and identify specific projects to be pursued.

This revised approach will greatly accelerate the project development process and avoid time consuming and redundant analyses of all potential sectors within PROFIT's mandate.

3.2 Project Development

3.2.1 Project Opportunities

PROFIT is presently evaluating numerous potential projects. On the following page is a summary of the projects that are currently being evaluated and those that show particular promise in PROFIT's second year. The summary does not include projects yet to be identified in India, the Philippines, Egypt or Morocco as a result of new country assessments.

**TABLE 3-1
PROFIT PROJECTS UNDER CONSIDERATION**

COUNTRY	PROJECT NAME	DESCRIPTION
BRAZIL	UNIMED/Maceio	Purchase and operation of clinic providing family planning services
BRAZIL	UNIMED/Aracaju	Purchase and operation of clinic providing family planning services
BRAZIL	Commodity Procurement Organization	Establish commercial contraceptive distribution venture
MEXICO	FEMAP Family Planning Clinics	Establish fund to provide equipment for clinics in rural and peri-urban areas
COLOMBIA	PROFAMILIA Endowment	Design financial endowment for PROFAMILIA; provide matching funds
NIGERIA	Depo Provera Marketing	Joint venture with local Depo Provera distributor
JAMAICA	Private Insurance Fund	Design fund for insurers providing family planning coverage
INDONESIA	Industrial Estate Clinic	Establish family planning clinic at industrial estate
ECUADOR	Debt Swap	Debt swap to fund 2 endowments for family planning NGOs
BANGLADESH	Social Marketing Project Endowment	Design financial endowment for social marketing project

3.2.2 Development Process

A cornerstone of PROFIT's second year work plan is adhering to an efficient and "proactive" project development process which minimizes the time and efforts needed to develop projects. PROFIT's project development process is depicted in Chart 3-2, on the following page.

The process will address the critical aspects of a project as soon as possible. It will also involve input and review by all members of the Technical team at appropriate junctures. A summary of this process follows:

Step 1: Project Identification

The project development process is initiated through the country assessments, as detailed in Section 3.1, which focuses on identifying potential investments and collaboration with private sector partners. PROFIT will identify projects in the following manner:

- Use of core team resources (Project Director, Family Planning Director, Marketing Director) to identify private sector partners and attractive project opportunities in selected sectors during the initial country assessment visits
- Continued contacts with other CAs, PVOs, and NGOs in target countries for potential leads of project opportunities
- Use of PROFIT consortium "network", including Deloitte & Touche member firms in target countries, to provide access to private sector firms, local entrepreneurs, and potential projects.

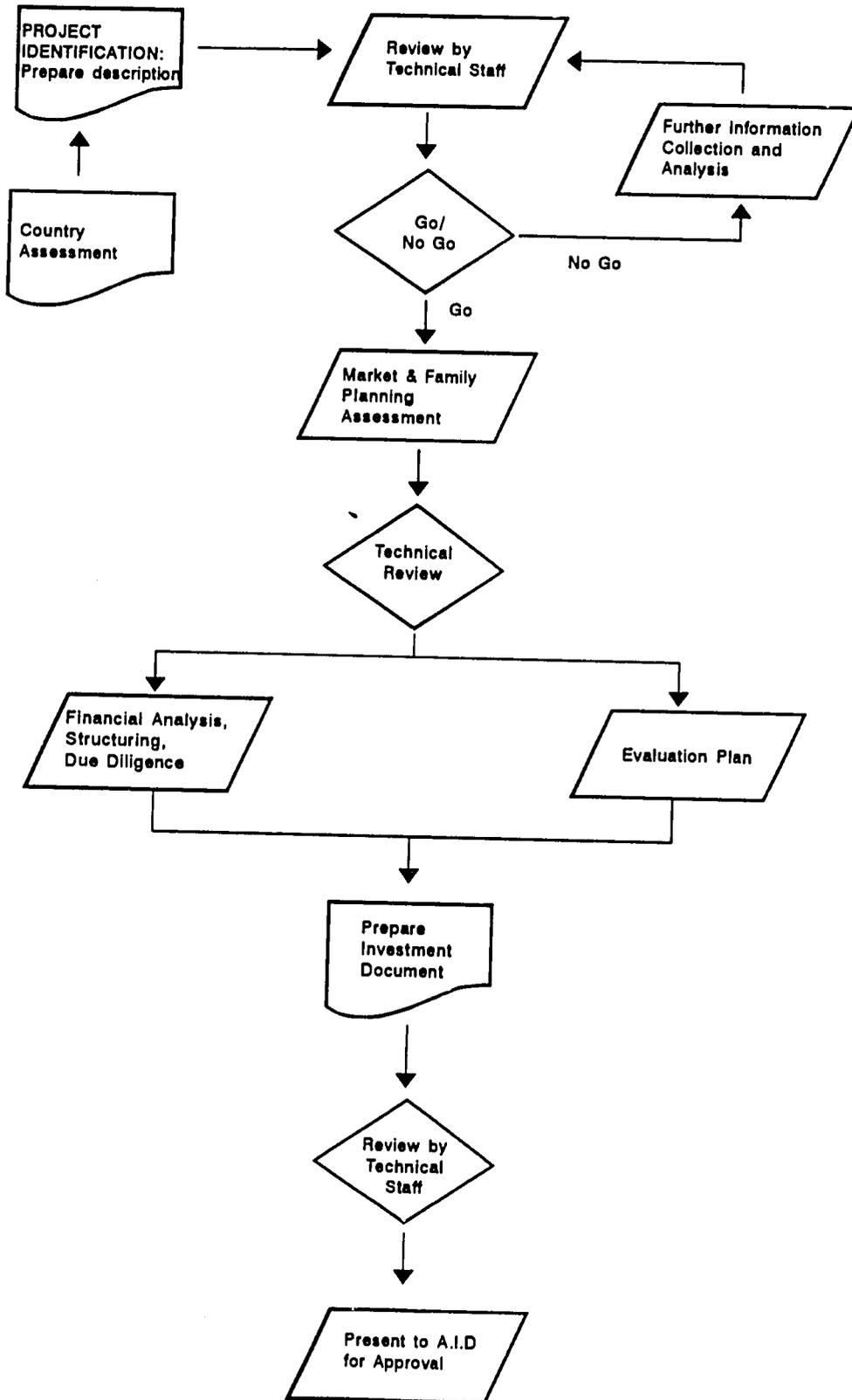
During this initial phase, PROFIT core staff will begin the process of identifying qualified candidates to be recruited as Country Directors, or will identify individuals available to work on short-term assignments to develop or follow up with projects on behalf of PROFIT.

Step 2: Review by Technical Staff

Once identified, each project opportunity will be reviewed by the PROFIT Technical team and a "Go/No Go" decision will be made whether to pursue the project in further detail. If approved, a project will be considered as being in process and will be subjected to market, family planning and financial analyses. Projects that are rejected may require additional information for subsequent reconsideration. PROFIT estimates that as many as half of all projects identified may not be considered for further analysis due to lack of technical or commercial merit.

PROJECT ANALYSIS & DEVELOPMENT

Chart 3-2



Step 3: Preliminary Market and Family Planning Assessment

An assessment of a project's family planning objectives and its market potential will be conducted. At this point, the assessment will concentrate on defining the family planning program and intended impact of a proposed project. PROFIT will examine the target population, contraceptive method mix, service provision, and other critical aspects of the project in question. Likewise, an early assessment of market considerations will be made, such as defining the potential demand for the product or service, competition factors, pricing, distribution, and other market-driven components. The assessments will be reviewed by the technical team to decide whether the project has the requisite elements to be structured into an investment.

Step 4: Financial Analysis and Structuring & Evaluation Plan

The financial analysis and structuring functions are conducted by the Investment and Finance Directors, assisted by one or two core team financial analysts. Each investment is analyzed for financial soundness and a proper capitalization structure is defined for PROFIT's involvement (i.e., equity, loans, etc.) and the contribution of local partners. The Directors will also be responsible for developing the Investment Documents describing all technical and financial aspects of proposed projects for A.I.D. review and approval.

Likewise, an Evaluation Plan is structured to measure on a regular basis all pertinent aspects of a proposed project. The Evaluation Director will be responsible for defining appropriate evaluation indicators, both family planning and financial, for all investments. Each evaluation plan will specify baseline data, along with data collection practices, data analysis strategies, and regular monitoring of the investments.

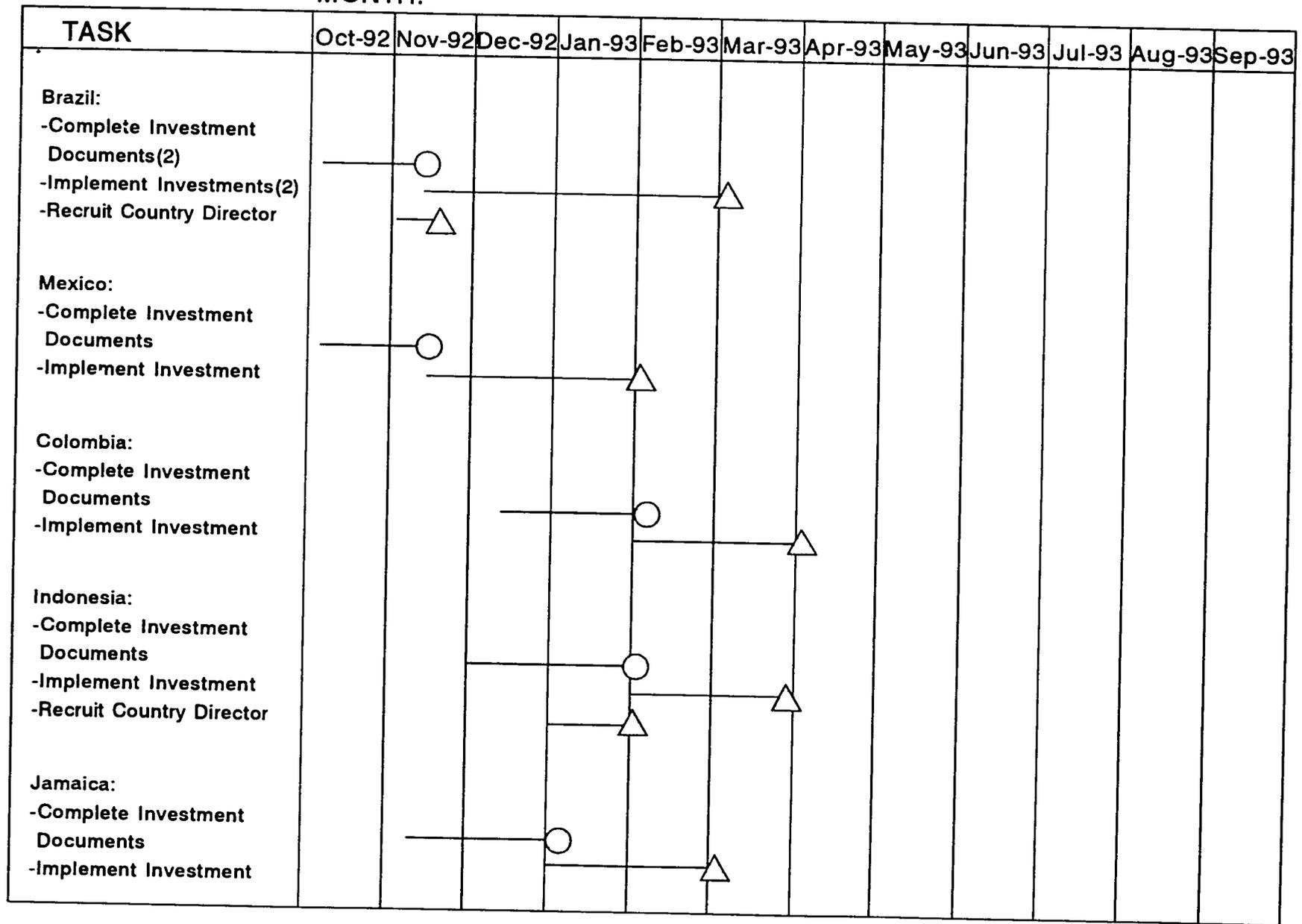
Step 5: Final Review and A.I.D. Approval

All aspects of a proposed investment will be outlined in an Investment Document, which will be reviewed internally and finalized prior to being submitted to A.I.D. for approval. Due to time considerations, some aspects of an investment, such as legal documentation and financial audits, may be postponed until after A.I.D. approval is requested and obtained on a conditional basis.

The projected timing for accomplishing the major milestones related to these technical activities for year two is depicted in Exhibit 2-1, on the following page. This will include conducting the four new country assessments, completing project evaluations for 10 projects, and recruiting at least four Country Directors.

EXHIBIT 1: TROPIC PROJECT SECOND YEAR WORK PLAN MILESTONES

MONTH:



△ Denotes task completion
 ○ Denotes deliverable

EXHIBIT 1 PROFIT PROJECT SECOND YEAR WORK PLAN MILESTONES

MONTH:

TASK	Oct-92	Nov-92	Dec-92	Jan-93	Feb-93	Mar-93	Apr-93	May-93	Jun-93	Jul-93	Aug-93	Sep-93
Philippines												
-Country Assessment	—			○								
-Prepare Investment Documents(2)				—			○					
-Recruit Country Director			△									
India:												
-Country Assessment												
-Prepare Investment Document					—			○				
-Recruit Country Director								△		○		
Egypt:												
-Country Assessment												
-Prepare Investment Documents								○				
										○		
Morocco:												
-Country Assessment												○

- △ Denotes task completion
- Denotes deliverable

3.2.3 Project Development Resources

This project development process will be implemented through the judicious use of core and external resources. PROFIT expects to undertake the following measures to support project development activities:

- Recruitment of short-term personnel in-country, along with staff of Deloitte & Touche local offices, to follow up with project development and "deal-making" efforts; these short-term personnel may eventually be considered for permanent Country Directors, as appropriate.
- Greater use of short-term consortium staff and consultants to conduct market studies, feasibility studies, etc.
- Assignment of two financial analysts to the core team for preparation of financial projections and development of Investment Documents.

These measures will greatly facilitate the project development process, which is the critical activity to be conducted by the project in the second and third years of operation.

3.3 Dissemination and Linkages

PROFIT's second year will feature expanded efforts for disseminating the activities and achievements of the project. Among the activities projected for the year are:

- Production and dissemination of a quarterly PROFIT newsletter to about 1,000 "contacts" in the banking, private sector, A.I.D., and CA community; the newsletter's focus will continue to be on private sector initiatives or approaches in family planning activities, as well as highlighting PROFIT's accomplishments.
- Expansion of conference and seminar participation by core staff to promote PROFIT's activities to targeted audiences, such as health care providers, business groups, and financial institutions.
- Expansion of speaking engagements and presentations to relevant private sector groups in target countries. PROFIT will make greater use of its ties to Deloitte & Touche local offices to arrange and promote meetings and gatherings conducive for PROFIT speaking opportunities.
- Development of case studies focussing on PROFIT projects, special industry studies (e.g., the implant contraceptive industry), and on previous subprojects of the Enterprise project whose impact were not evaluated. PROFIT will develop at least one case study during the second year.

- Organizing and hosting one business conference in a target country, to be scheduled for the third or fourth quarter.
- Continued linkages to the CA community, the pharmaceutical industry, and other specialized private sector groupings (LDC debt traders or money center banks, etc.) for the purpose of obtaining information on trends and events.
- Closer coordination with R&D/POP to inform USAID Missions in target countries of PROFIT activities and objectives, and potential for involvement in the Missions' private sector and family planning strategies.

3.4 Project Evaluation and Monitoring

Project evaluation and monitoring are critical and related facets of PROFIT's investment activities. PROFIT has submitted a comprehensive Evaluation Plan to R&D/POP for review and presentation in the month of November. The Plan details appropriate indicators for PROFIT's overall mission and its discrete investment (subproject) activities. Part of every investment project will be a specific evaluation and monitoring component to enable ongoing tracking of the investment along family planning and financial domains. Assuming that PROFIT's proposed plan is accepted by R&D/POP, a key second year activity will involve implementation of the plan and monitoring strategies for each investment. These are addressed below.

Develop Subproject Evaluation Plans - The Evaluation Director will work with other members of the Technical team to develop evaluation plans for each investment (subproject) that is submitted for A.I.D. approval. These evaluation plans will define specific areas that will be monitored on a regular basis, such as service provision and quality, sales of contraceptives, new contraceptive users, expansion of distribution channels or networks, employer costs, etc. The plans will define baseline data collection needs, reporting requirements, data analysis requirements, and project site visits.

Implementation of Evaluation Plans - The Evaluation Director will coordinate the implementation of each investment's evaluation plan. He will arrange for appropriate data collection surveys to be conducted, for data to be collected and transmitted to Washington, D.C., for analysis, and for regular data evaluation. As needed, the Evaluation Director will report on the trends and conditions of each investment to the PROFIT team and A.I.D. If needed, additional data requirements will be suggested to improve the evaluation process.

Implementation of Evaluation System - A dedicated, stand-alone management information system will be implemented to collect and analyze evaluation data from all PROFIT investments. The management information system will be tailored to collect both financial and family related data supplied by each investment. PROFIT expects that the system will be designed and completed by the middle of the second year, with sufficient lead time to receive and analyze initial evaluation data submissions from implemented projects.

Project Monitoring - Project monitoring activities will flow from the monthly submissions of selected business indicators supplied by each PROFIT investment. These indicators will differ by type of project, but some will be comparable. For example, contraceptive sales may apply over a number of investments. Selected business indicators may also include basic financial and operational measures, such as inventory levels, cash positions, current assets, sales, monthly profits and losses, etc., that will need regular monitoring to ensure projects are being implemented according to plan.

The project monitoring functions will be an ongoing project activity. The primary reviewers of this data will be the Project Director, Finance and Investments Directors, and the Deputy Director. They will review this data and take appropriate measures to resolve operational or financial difficulties faced by investments.

SECTION 4 IMPLEMENTATION PLANS

This section summarizes how PROFIT's work program will be implemented from an organizational perspective. The proposed approach reflects a shift from the first year's structure based on the experience gained through first year activities.

4.1 Organizational Structure

PROFIT has slightly modified its organizational structure to respond more effectively to analytical requirements and project identification and development needs. PROFIT's core team consists of a technical specialist in each field pertinent to PROFIT's activities (investments, finance, marketing, family planning, evaluation and MIS). As such, the team is functionally well-represented and can rapidly identify, analyze and evaluate project opportunities in target countries.

The first year's experience, however, underscored a need for additional support to pursue and close deals, especially across numerous countries. This was due to the limited number of core technical staff available to pursue and close deals. Also, technical specialists could not adequately coordinate country responsibilities and undertake analysis in their areas of expertise in other countries due to travel needs.

To address these issues, PROFIT has redefined organizational responsibilities among its core technical staff to reflect more functional focus, rather than geographic responsibility. There are several important aspects to the new organizational approach:

First, the *Project Director* will continue to have primary responsibility for all PROFIT activities, direct PROFIT strategy and establish PROFIT policy. He will assume principal responsibility for leading the deal identification efforts in new countries that are assessed in the second and subsequent years. In tandem with the Family Planning and Marketing Directors, the Project Director will generate potential project opportunities, which will be evaluated in terms of family planning and marketing soundness.

Second, more in-country support to identify and close deals will be obtained by recruiting "Country Directors" during early stages of the country assessment process. This might involve redefining the "Country Director" position to be, in some cases, one individual retained to follow through on project opportunities in country; in other cases, two individuals may need to be retained: one to find and advance deals, another to manage and monitor their actual implementation. Each country will need to be treated differently, depending on the types of potential opportunities, the number of projects being evaluated, the location of the country, the working conditions, etc.

Third, PROFIT's *technical unit* (Directors) will focus on their key functional areas (i.e., the Marketing Director will address marketing related issues on all projects and countries), rather

than being responsible for specific countries. The project development burdens will shift to Country Directors, as discussed above. Once the projects have been identified and initially evaluated, they will be developed and processed by the Investments and Finance Directors for final structuring and submission to A.I.D. for approval.

To facilitate this functional focus, the Investments Director's role will not include responsibility for overall integration of the technical team's activities. This function will shift to the current Contracts Officer, who will assume the duties of Deputy Director to permit a more regular, U.S.-based, tracking and monitoring of all project activities, both technical and administrative. The Deputy Director will continue to assume interim command of the project during the absences of the Project Director.

Last, project analysis and monitoring functions will be strengthened by adding two financial analysts to the core staff from the existing pool of short-term staff budget (the level of effort might be set at 16 person-months per year for 2 years as a start). These individuals will be responsible for assisting the technical team with financial analysis and review of project investments, monitoring the progress and status of existing investments, and ensuring that problem situations receive proper attention from the technical staff.

4.2 Field Team Support

As discussed above, field support will play an increasingly larger role for PROFIT's project development activities. There are several areas where field assistance will further project objectives.

Country Directors will constitute the first line of field support for PROFIT. Country Directors will be recruited early in the country assessment process, rather than after projects have been approved. They will bear primary responsibility for furthering the project's "deal-making" through participation in project analyses, negotiations with partners, and overall "follow-up" functions in their respective countries. Some Country Directors may also be given regional responsibilities in certain cases where geographic proximity of countries and workloads make this viable and cost-effective.

PROFIT expects to recruit at least four of the six Country Directors in the second year. In addition, PROFIT may need to recruit short-term support from consultants to perform "deal-making" activities, but who may not be retained as Country Directors once projects are approved. There may also be instances where a project manager is hired directly by the venture that PROFIT invests in, rather than being employed by PROFIT. Such individuals would also perform some project management functions but not report directly to PROFIT. Each country situation will need to be taken into consideration to determine the proper level of field support required.

PROFIT will continue to look for private sector experience in the Country Directors it recruits, as well as the ability to function independently. PROFIT's Project Director will still

manage the activities of Country Directors, but it is clear that these individuals will act as PROFIT's representatives in each country and exercise project supervision and management authority in their countries. In addition, Country Directors and their staff will participate in local dissemination, monitoring of local currency disbursements, and data collection activities for evaluation of investments.

PROFIT will provide Country Directors with office space and support, more than likely through Deloitte & Touche affiliate offices. Regular reporting activities will be established, and periodic visits to and from these countries will be conducted to maintain liaison with Country Directors and their staff.

4.3 Organizational Resources

PROFIT will also continue to rely heavily on the resources it has through its own organization and that of its subcontractors. Support from these resources will take the following forms:

- Deloitte & Touche (D&T) member firms in target countries will be tasked to identify and recruit in-country representatives, and to provide logistical and office support to these representatives. D&T staff will also become involved with investment valuation tasks, and may design accounting and financial control systems for certain investments.
- Staff from subcontractor firms will be involved in market and other feasibility studies, and also develop case studies for publication.
- PROFIT will collaborate with projects managed by subcontractor firms (i.e., FHI's AIDSCAP Project or Development Associates' Family Planning project) to the extent that there are mutual interests to be furthered from such collaboration.
- PROFIT intends to expand the membership of its Expert Advisory Board by one or two new members to maximize participation in its meetings, given normal difficulties in scheduling.
- Independent consultants with established work experience with the PROFIT consortium members will continue to provide short-term assistance, in specialized areas such as health care financing, actuarial studies, and the like.

SECTION 5 IMPLEMENTATION ISSUES

On the basis of PROFIT's experience in its first year, certain issues have arisen that require attention and clarification. This section will summarize these issues and describe proposed resolutions.

5.1 Investment Criteria

PROFIT identified dozens of potential project investment opportunities in its first year. Many of these opportunities were screened for suitability as PROFIT investments and eliminated from further consideration. On the basis of this experience, PROFIT wishes to modify its original set of investment criteria. PROFIT also wishes to clarify the profitability goals of the project in order to develop more sound project risk sharing structures within the intent of the project's design. These issues are outlined below.

5.1.1 Investment Criteria

PROFIT's proposed investment criteria are currently:

- "Significant" projects -- ones that would involve an investment of at least \$500,000; that would involve one of the three biggest health or family planning providers in the country; or that would involve a corporate entity with at least 5,000 employees.
- "Sustainable" projects -- those generating sufficient funds to continue after PROFIT is over, or having access to continued local funding from other sources and/or access to continued technical assistance.

The minimum investment size criterion (\$500,000) has proven to be difficult to attain in some cases. PROFIT has discovered that larger investments may only be required for manufacturing projects, mostly due to plant and equipment needs. Thus, some service provider (either market-based or employer-based) projects have tended to be small in investment size. Moreover technical assistance (i.e., services, not investments) constitutes a large part of the "contribution" required from PROFIT for those types of projects.

An additional element to consider is that many of the concerns PROFIT has identified as investment partners are small businesses, both in terms of net equity or their asset base. For PROFIT to inject large amounts of new capital in these companies, or even new "joint ventures", would make PROFIT the majority stockholder, which is not a position PROFIT desires. Likewise, injections of large amounts of debt (even if subordinated) may weaken the financial position of the venture in the eyes of lenders or other potential creditors. In too many cases, PROFIT is having to consider smaller investments (\$250,000-350,000) because of balance sheet considerations and the need to remain a minority partner in these ventures.

PROFIT is proposing to reduce its investment size criterion to \$250,000 in cases where the financial condition of the joint venture partner is such that PROFIT cannot properly structure an investment without becoming majority shareholder, or weaken the debt/equity base of the new firm. This minimum investment criteria would particularly apply to innovative projects, i.e., ones with privatization features, projects which involve new contraceptive technologies or products, and those offering replication, etc.

5.1.2 Project Returns

PROFIT fully expects that the projects in which it invests will be commercially profitable, and will yield returns in the form of dividends, interest payments, or annuities, and that over time, A.I.D.'s capital will be returned in a manner specifically negotiated under each investment. PROFIT does not expect that any dividends or other forms of investment income will be realized in Year Two, as most of the projects will still be in an implementation phase or early start-up. Nonetheless, PROFIT wants to detail the anticipated processes for the flow and uses of the returns generated by its investments.

As was noted earlier, PROFIT has established a non-profit organization, the Summa Foundation, to legally hold all investment assets created by PROFIT and to be the legal beneficiary of any investment income or returns. When PROFIT invests in a venture, the Summa Foundation will be the legal owner of any shares or obligatory notes created through the investment. The investment agreements with joint venture partners will stipulate the amount and mode of any returns to the Summa Foundation. For example, PROFIT's proposed investment with UNIMED/Maceio in Brazil calls for a 49% share in net profits for the Summa Foundation, as yearly dividends. A.I.D. will have the option of using those dividends in Brazil for other family planning projects, or will decide to repatriate those earnings back to Summa for other uses by PROFIT.

The Memorandum of Understanding (MOU) with A.I.D. governing the establishment of the Summa Foundation also stipulates that, at the end of PROFIT's five-year term, A.I.D. will designate the disposition of any assets or income still held by the Summa Foundation. Thus, A.I.D. may decide to extend the "life" of the Summa Foundation through a separate management contract, or even to sell the assets Summa holds according to the investment agreements negotiated by PROFIT. Thus A.I.D. will always control the returns generated by PROFIT's investments and will have the capability to continue earning returns on its capital even after PROFIT's term has expired.

5.2 Buy-Ins

Mission buy-ins have not materialized as anticipated in PROFIT's core funding projections (13% of the core staff is to be funded through buy-ins). Due to delays in staffing, the funding shortfall did not materialize in the first year, and a financial cushion is available in Year Two to cover the bulk of the contractual funding shortfall. As such, PROFIT feels there is some time to redress this issue.

PROFIT believes buy-ins will be generated when Missions have tangible results with which to evaluate PROFIT's benefits to their programs. PROFIT believes buy-ins should be suggested in the following conditions:

- If PROFIT becomes involved in existing Mission projects
- If PROFIT is requested by a Mission to add more funds to successful investments made by PROFIT
- If PROFIT is requested either to visit or to provide technical assistance in countries not originally designated as targets.

The assistance of R&D/POP in facilitating buy-ins in these circumstances will greatly enhance PROFIT's ability to obtain these additional funding sources.

5.3 Contractual Modifications

PROFIT experienced expenditures in several categories which were not originally covered in the original budget, but which will continue to impact the project. These include:

- Legal fees to establish the non-profit foundation and to facilitate project investment documentation
- Dissemination expenses (newsletter, brochure, conferences, seminars, etc.)
- Expenditures to establish a separate and dedicated project office to facilitate formation of a project "identity", to expedite information flows with R&D/POP, and to accommodate all core staff and other office needs, such as dedicated library space, conference rooms, and support.

The PROFIT CTO approved the reimbursement of some of these expenditures with funds from other line items. PROFIT believes that a permanent contractual realignment should be undertaken to fully fund these expenses, as they will continue to be experienced by the project. These modifications have been submitted to the A.I.D. Contracts Officer for approval, with R&D/POP/FPSD's concurrence.

5.4 Leveraging Opportunities

Changes in developing countries' external debt positions and liberalization of currency regimes have markedly decreased opportunities to obtain sizable leveraging gains. Although debt swaps can still generate discounts of 15-25% for some of our target countries (Mexico, Nigeria), many do not have a debt swap program in place (India, Colombia). The change and present status of debt instruments of PROFIT's countries is shown on the following page.

Country	Debt Swap Program?	Debt discount % (6/91)	Debt discount % (9/92)
Brazil	suspended	32	29
Colombia	NO	N.A.	N.A.
Mexico	YES	56	82
Peru	NO	12	15
Nigeria	YES	42	43
Kenya	NO	N.A.	N.A.
Zimbabwe	NO	N.A.	N.A.
Egypt	YES	42	45
Morocco	not active	N.A.	N.A.
Turkey	NO	N.A.	N.A.
India	NO	N.A.	N.A.
Indonesia	NO	N.A.	N.A.
Philippines	YES	48	60

(Note: debt values stated as number of cents on each dollar of debt.)

Another important development is that the lifting of currency restrictions in most developing countries has all but eliminated blocked currencies as a viable leveraging tool.

These changes indicate that leveraging of A.I.D. funds will need to be obtained primarily from joint venture partners, other co-investors, and other sources of capital (bank credit, leases, guarantees, export credits, etc.). On average, these sources may contribute 50-65% of a project's total cost, bringing PROFIT's leveraging to between 2:1 to 3:1 of A.I.D.'s funds, and not 4:1 as originally estimated. While PROFIT will endeavor to maximize its leveraging capabilities, lower targets may be more realistic.

Overall, it is important that A.I.D. recognize the need for PROFIT to retain a certain flexibility to adapt to changes in financial markets to achieve its leveraging objectives. The project design, already close to 3 years old, should be seen as a starting point for defining leveraging techniques and not as a static model. New financial techniques for leveraging may well emerge that PROFIT will evaluate and use if deemed valid.

SECTION 6 CONCLUSIONS

In developing this Second Year Work Plan, PROFIT has attempted to focus on key goals and objectives and the principal implementation issues facing the project. PROFIT considers that rapid identification and processing of projects to be the most critical activity for the second year. Currently, only two projects have been fully processed amounting to slightly under \$1.5 million in commitments, if approved. Although two other projects are under evaluation, PROFIT recognizes the need to expand its project development activities in order to reach its goal of committing funds to ten projects during the year. Only this accelerated pace will allow PROFIT to commit to 20 projects by month 30 of its term.

The tactical, process-oriented approach that PROFIT has proposed to reach this goal is not, in itself, a guarantee that these goals can be achieved. Much of PROFIT's success depends on external factors, such as the willingness of private sector firms to collaborate in family planning ventures, and the availability of worthy opportunities in target countries. In addition, the project development cycle has shown to be much more time-consuming than originally anticipated. Given these inherent constraints, PROFIT must be alert to take advantage of all appropriate project opportunities, and must exercise flexibility in pursuing certain projects or new target countries. In other words, this Second Year Plan must be a planning tool and not a fixed set of activities.

PROFIT is also mindful of the need to enhance its project development capabilities through additional core staff and by earlier use of personnel in target countries to assist with project development efforts. These measures are being pursued and will begin to facilitate our work fairly soon.

PROFIT's internal efforts will also be well complemented by close coordination with R&D/POP and the USAID Missions, upon whose concurrence PROFIT's work depends. PROFIT has already experienced certain delays in country assessment visits, or to project development efforts, due to preferences of target USAID Missions. These factors often contribute to longer development processes or the elimination of certain project opportunities. PROFIT will therefore continue to work closely with its client organizations at A.I.D. to improve project development efficiencies.

With these considerations in mind, the PROFIT staff remains totally committed to the objectives and the design of this project. The PROFIT team has accomplished much during its first year, and considers that it has a solid foundation from which to expand. PROFIT looks forward to a productive and successful second year, and a continuing close working relationship with the Office of Population in this most important effort.