

PD-ABI-554

PROFIT

- *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**



Deloitte Touche Tohmatsu International

In association with

Boston University Center for International Health

Multinational Strategies, Inc

Development Associates, Inc

Family Health International

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THIRD YEAR WORK PLAN

by

Deloitte & Touche

Contract Nos.: DPE-3056-C-00-1040-00
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January 14, 1994

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January 14, 1994

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 Third 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 Third Year Work Plan describes all project activities undertaken during Fiscal Year 1994 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,



Robert R. Bonardi
Deputy Project Director

RRB/sf

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Touche**



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EXECUTIVE SUMMARY

The PROFIT (Promoting Financial Investments and Transfers) Project of the U.S. Agency for International Development's (A.I.D.) Office of Population (R&D/POP) was designed to increase the for-profit private sector's contribution to family planning service delivery in developing countries. PROFIT is a unique project that uses financial investments and leveraging techniques to support family planning ventures. PROFIT's fundamental goal is to attract the financial resources and capabilities of the private sector to meet family planning needs in developing countries, thus freeing up scarce public resources.

PROFIT develops and finances projects that stress commercially sustainable family planning initiatives in three major sectors:

- Private, market-based providers
- Manufacturing, marketing and distribution
- Employer-based providers

PROFIT has established five strategic goals:

- Act as a catalyst for private sector initiatives in family planning
- Establish twenty significant and sustainable ventures
- Achieve a measurable family planning impact through its projects
- Leverage A.I.D. funds
- Create a resource base of information and skills for A.I.D.

The PROFIT Project enters its third year of operations with a number of important accomplishments towards those objectives. These accomplishments include:

- Development and approval by A.I.D. of six projects (three in Brazil, two in Indonesia, one in the Philippines) totalling over \$2.7 million in commitments.
- Identification of a "pipeline" of a dozen active projects in Brazil, Indonesia, the Philippines, Russia, Ghana and Mexico.
- Hiring of Country Representatives in Brazil, Indonesia and the Philippines.
- Provision of technical assistance to enhance private sector family planning initiatives in Colombia, Peru, Ecuador, the Dominican Republic, and Zimbabwe and Bangladesh.

PROFIT's project development efforts, while not fully achieving the ambitious goals set at the beginning of the second year, yielded important results. PROFIT formulated two joint ventures with UNIMED, Brazil's largest health maintenance organization, to establish family planning

and maternal child health facilities in Maceio and Aracaju, located in the northeast of Brazil which remains USAID/Brazil's priority region for the country. The two UNIMED projects totalled \$1.4 million in project commitments. In addition, PROFIT received approval to provide a \$650,000 loan to PT Bonnys, a private chain of vaccination clinics in Jakarta, Indonesia, to launch a commercial family planning service delivery program, with particular emphasis on large employer groups. The project will support USAID/Jakarta's aim of attracting family planning recipients away from public to private sector delivery provision.

In the second year, PROFIT also identified and developed other key projects, three of which were approved by A.I.D. in the first quarter of FY 1994. The first is the establishment of a commercially-based Commodity Procurement Organization in Brazil, in collaboration with the SOMARC Project, to meet the needs of family planning organizations for reliable, affordable and quality contraceptive supplies. PROFIT will provide \$400,000 to the venture, which will market and/or distribute condoms, oral contraceptives, IUDs and, potentially, injectables to both commercial and nonprofit family planning organizations. PROFIT also structured and received approval for the funding of a low-cost health insurance program in the Philippines through PhilamCare, a private Philippine insurance company. The plan will make basic health and family planning services available to the informal sector in Manila and Cebu working with three large hospitals in those cities. PROFIT's commitment of \$165,000 will serve to offset operational costs, thereby inducing PhilamCare to participate in the test marketing of the program. In addition, PROFIT is providing \$35,000 of technical assistance to YKB in Indonesia to work with the JIEP Industrial Estate outside Jakarta to market preventative health and family planning services to employers in the estate.

During its second year, PROFIT met and exceeded its goal of providing technical assistance to USAID missions and family planning projects, for a total of \$270,000 in specialized services for the year. The technical assistance encompassed support to establish financial endowments in Colombia, Bangladesh, and Ecuador; assessment of Peruvian NGOs and their efforts at achieving financial sustainability; and evaluating the economic feasibility of local condom manufacturing in Zimbabwe, for USAID/Harare. The project also organized a seminar for the A.I.D./CA community in Washington, D.C., on establishing financial endowments, and began development of a Handbook on Endowments, which will be published in early 1994.

These efforts reflected several initiatives within PROFIT to improve and expedite the development of projects. First, PROFIT made important strides towards building a more effective and focused team. In April 1993, PROFIT restructured its core team along country and geographic lines, and assigned project identification and development responsibilities to the key "business" technical staff members. The team enhanced its capabilities by adding a Family Planning Advisor and a Financial Analyst to its core team, while effecting a smooth transition in recruiting a new Investment Director and a new Finance Director. In its in-country operations, PROFIT also made progress by recruiting Country Representatives in Brazil, Indonesia and the Philippines, thus adding to its ability to identify, develop and implement projects in those countries.

PROFIT's work plan for the third year is to build on the accomplishments to date and to focus on the following objectives:

- 1) Successful implementation of approved projects in Brazil, Indonesia and the Philippines.
- 2) Development and financial commitment to ten identified projects in Brazil, Indonesia, the Philippines, Russia, Ghana, Mexico, Kenya and Ecuador. These efforts involve both investment-related activities and technical assistance efforts. To this end, PROFIT will recruit an additional two Country Representatives: one in Russia, another for either Ghana or Mexico, depending on project development needs.
- 3) Initiation of country assessment activities in Peru, Egypt and Turkey.
- 4) Expansion of dissemination activities to include development of case studies, organization of a regional conference, and conducting seminars for the benefit of A.I.D. offices and the CA community.
- 5) Increased efforts in evaluation and monitoring activities, in order to establish evaluation plans for new projects, develop information systems to obtain and track evaluation and monitoring information, and to measure family planning and financial performance indicators.

PROFIT is estimating that it will have a funding requirement of some \$842,000 to cover operational expenses in FY 1994 and approximately \$3.0 million in FY 1995. In addition, subproject expenditures may create the need for about \$1.5 million in FY 1995.

PROFIT has identified a number of implementation issues that need to be addressed.

Country Assessments

PROFIT's planned country visits to India, Egypt and Morocco were postponed during the second year due to A.I.D. missions' delays. These postponements have limited PROFIT's potential country targets to "non-priority" countries where projects are likely to be either smaller in scope or more difficult to develop due to less than optimal private sector environments. Likewise, project development efforts were limited in Kenya and Zimbabwe due to the USAID missions' preferences for working with their established cadre of CAs in those countries. The potential impact on PROFIT's ability to fulfill its mandate due to these constraints should not be underestimated, and should be addressed through a more vigorous information and communication program with USAID missions and regional bureaus.

Sectoral Constraints and Opportunities

PROFIT's successful development of investments is subject to a number of sectoral factors.

- Opportunities in the manufacturing and local production of contraceptives is limited by competitive and market situations, including donations of commodities and less costly imports. As such, PROFIT may not develop large number of manufacturing projects.
- Contraceptive marketing and distribution ventures offer an attractive alternative to full manufacturing endeavors: they are less capital intensive and permit a gradual entry into a new market, although competitive forces and donated commodities still impact the prospects for commercially-based operations.
- Efforts with employer-based programs have not yielded anticipated results, with only one project having been recently approved. This reflects the difficulty in applying the TIPPS/Enterprise model within PROFIT's other "investment-related" approaches. PROFIT will continue to develop employer programs, but may shift its approach to structure investment-related mechanisms with employers for this purpose.
- By far, projects involving market-based provision of services have proven to be the most sought after by USAID missions and potential partners. The preponderance of service delivery projects in PROFIT's efforts to date also reflects a broad need in its target countries for improved access to family planning provision and interest by potential partners in expanding service delivery activities.

Financial Leveraging

Due to positive changes in the external debt positions of many developing countries in recent years, the prospects for conducting debt conversions have substantially diminished or have been limited to special programs (such as conservation of natural resources). In PROFIT's target countries, there are few opportunities for debt conversions at present, and future country target offer no better prospects. As such the leveraging results originally envisioned in our Five-Year Strategy have not been attained. PROFIT now pursues financial leveraging through the financial contribution that its partners make in the ventures being financed, and through co-financing from other lenders or investment organizations, such as the International Finance Corporation. These developments imply that PROFIT will not attain the original 4:1 leveraging goal, but will likely attain a 2:1 leveraging of A.I.D.'s funds through the investments it creates.

SECTION 1 PROGRAM OVERVIEW

This document presents the Third Year Work Plan for the PROFIT project, also known as "Promoting Financial Investments and Transfers," of the U.S. Agency for International Development's (A.I.D.) Office of Population (R&D/POP). This is the third of five annual work plans, and describes in detail the technical activities to be undertaken during Fiscal 1994 in support of PROFIT's Five-Year Strategy. This Third Year Work Plan also provides an assessment of the project's accomplishments to date, and describes the project's current goals and objectives, country programs, implementation plans for the third year, and issues that are affecting the project.

1.1 Program Strategy and Priorities

The PROFIT Project was designed to increase the for-profit private sector's contribution to family planning service delivery in developing countries. PROFIT fills a new and unique role among the projects of A.I.D.'s Office of Population through the use of financial investments and leveraging techniques to support private sector family planning ventures. 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 develops projects that stress commercially sustainable private sector family planning initiatives in three major sectors:

- *Private, market-based providers.* PROFIT finances projects for the delivery of family planning services through market-based providers. Such projects can involve: private clinics and hospitals, health maintenance organizations and insurance companies, groups of health care personnel, group practices, physicians' cooperatives, or professional associations.. The types of projects may include establishing new facilities, adding family planning services to an existing practice, or adding family planning to insurance coverage on a commercial basis.
- *Innovative Investments in manufacturing, marketing and distribution.* PROFIT can invest in contraceptive production or processing facilities, marketing and distribution ventures, and assist in bringing 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 broader mix of contraceptives to certain countries.

- *Employer-based providers.* PROFIT works with 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, or providing technical assistance to employers for the purpose of demonstrating the benefits of family planning to their employees.

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

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

A.I.D. has provided PROFIT with funds (\$17.4 million) to be used for financing PROFIT's subproject activities. These funds can be provided through equity investments, debt placements, and other financial mechanisms and transfers, including endowments, the purchase and conversions of developing country debt or the use of corporate blocked funds. The PROFIT Project expects to show, by the end of its five year term, that A.I.D.'s funds were substantially leveraged by mobilizing private sector resources into sustainable and profitable family planning ventures.

1.2 Goals and Objectives

In its Five-Year Strategy, developed at the project's inception, PROFIT established five strategic goals for the project:

- Act as a catalyst for private sector initiatives in family planning
- Establish twenty significant and sustainable projects
- Achieve a measurable family planning impact through its projects
- Leverage A.I.D. funds
- Create a central resource base of information and skills for A.I.D.

These goals remain the cornerstone of PROFIT's day-to-day activities, although they have undergone some alteration and refinement over the past two years, as PROFIT has developed projects and tested the assumptions behind its strategy. The following represents PROFIT's current view and approach toward realizing those strategic goals:

Act as a catalyst

PROFIT constitutes a new way for A.I.D. to attract and involve the commercial, private sector in family planning activities. The underlying approach that PROFIT is taking is to create profitable and sustainable ventures, on a risk-sharing basis, with businesses and entrepreneurs in developing countries. This differs substantially from traditional approaches that relied primarily on grants, donations, or extensive technical assistance inputs to family planning activities. PROFIT requires that its partners substantially contribute, in terms of financial resources and corporate capabilities, to the success of proposed ventures. The ultimate aim is for those ventures to generate profits and to be sustainable such that family planning can continue to thrive on an on-going basis. Once these successes are demonstrated, PROFIT seeks to replicate worthy models in new countries and encourage entrepreneurs to create additional initiatives.

To achieve this goal, PROFIT has financial resources to provide risk capital and start-up funds, a "private sector" orientation and skills set to identify appropriate partners and structure profitable ventures, and contacts in the business and family planning communities world-wide, drawn from the combined network of the prime contractor (Deloitte & Touche) and its consortium members.

Create twenty sustainable projects

PROFIT's principal goal is to create twenty sustainable projects in some ten countries. PROFIT selects target countries on the basis of the Office of Population's "priority country" list, as well as each country's private sector environment, and the potential for commercial undertakings in family planning. PROFIT develops projects after a careful assessment of each country's family planning needs and the potential for collaboration with private sector entities. In addition, PROFIT also works with local USAID missions to ensure complementarity with mission strategies and family planning programs.

Commercial sustainability of each project is a critical factor to ensure the long-term prospects for family planning sustainability, which is central to PROFIT's overall objectives. Attainment of commercial sustainability objectives are measured through financial indicators, such as profitability and positive cash flow generation by the venture or project; ability to implement family planning activities without recourse to subsidized or donated commodities; institutional strength and management quality; market penetration and positioning; and opportunities for effective cross-subsidization of products or services.

Achieve Measurable Family Planning Impact

Achieving measurable family planning outcomes are key criteria for selecting projects, as well as potential replicability in other countries and involvement of the private sector in family planning. PROFIT has defined a set of family planning objectives through its Evaluation Plan that it pursues through its projects. These family planning objectives include:

- *Increased availability of family planning products*, through improved distribution or marketing; by broadening the method mix, or by reducing the cost of products.
- *Increased availability of family planning services*, through improved marketing; the creation of new delivery sites; the expansion of clinical services; by adding family planning to insurance coverage; or by reducing the cost of services.
- *Improved quality of services/care*, by improving existing products, introducing new improved products, improving service provider training, or increasing access to equipment or technology to service providers.
- *Expanded family planning information, education and communication*, by expanding media activities, improving marketing efforts, reaching new consumers, and educating users about family planning issues.
- *Decreased reliance on public sector resources*, by shifting costs of products or services from the public sector to the private sector and expanding family planning provision in the private sector; or privatization of publicly-provided services.

These potential outcomes are quantified for each project and are measured through their specific evaluation plans.

Leveraging A.I.D. funds

PROFIT seeks to leverage A.I.D.'s funds through a number of mechanisms, but primarily through the financial and corporate resources of its partners in the ventures it is funding, and through co-financing from other funding sources (banks, development finance organizations, etc.). PROFIT also seeks leveraging opportunities through the conversion of developing country debt or use of blocked funds, although these mechanisms have much more limited applications in PROFIT's current target countries due to changes in debt markets and currency restriction regimes of developing countries. In addition, PROFIT has established for itself the goal of preserving the value of the capital it invests, by structuring appropriate repayment terms, buy-out provisions, and profit-sharing agreements with its partners, to the extent that these do not impact on family planning and sustainability objectives of the projects in question.

Provide an information and technical resource base for A.I.D.

The PROFIT project is a resource and information base for the Office of Population, other A.I.D. offices, other CAs, and USAID missions. The resources include financial expertise to be used in establishing endowments, assessing and conducting financial transfers, and providing technical assistance on issues related to financial sustainability, among others. In addition, PROFIT has an objective to disseminate its experience and "lessons learned" from its activities.

1.3 Accomplishments to Date

This section will summarize PROFIT's major accomplishments against its goals and objectives. Specific details will be incorporated through the discussion of PROFIT's country programs and proposed Third Year Work Plan, in the chapters that follow.

Establishment of Projects

To date, PROFIT has developed and obtained approvals for six projects, whose total commitment value is \$2,733,000. These projects are:

Brazil: UNIMED/Maceio Maternal and Child Health/Family Planning Clinic

PROFIT formed a joint venture with UNIMED, a Brazilian health insurance cooperative with 50,000 participating doctors and 7 million insured clients, to purchase and operate a clinic in Maceio, a city of 623,000 inhabitants in the northeast region of Brazil. The venture calls for the provision of family planning services to UNIMED clients in Maceio (numbering about 35,000), and the inclusion of maternal and child health diagnostics services, in addition to the provision of in-patient and out-patient medical services. The Maceio clinic will serve an existing UNIMED client base of 10,000 women between the ages of 15 and 49. This program would provide a full range of family planning services, including counselling, examinations, provision of contraceptive products, and surgical procedures.

PROFIT's investment participation in this venture was approved at a \$1,078,000 equity participation, or 49% of the total capitalization of \$2.2 million for the project.

Brazil: UNIMED/Aracaju Maternal and Child Health/Family Planning Clinic

PROFIT also concluded a joint venture with the UNIMED cooperative operating in Aracaju, a city of 400,000 inhabitants, in the northeast region of Brazil. As in the venture concluded in Maceio, PROFIT and UNIMED/Aracaju agreed to establish a maternal and child health/family planning clinic to service UNIMED's clientele of 17,000 members, including 7,000 women between the ages of 15 and 49. The venture would be supported by a newly established medical facility that would provide diagnostic and laboratory examinations. PROFIT's investment in this venture was approved for \$360,000 in commitments, and represented 49% of the joint venture's capitalization.

At the writing of this report, this approved venture had been unilaterally abandoned by UNIMED/Aracaju due to its reluctance to share in the commercial benefits of the diagnostic clinic. In addition, the UNIMED chapter in Aracaju appropriated approximately \$90,000 of PROFIT's funds to cover its "project development expenses." These actions forced PROFIT to pursue legal actions against UNIMED of Aracaju, which are still under adjudication.

Indonesia: P.T. Bonnys Vaccination and Family Planning Clinics

PROFIT developed and received approval to fund a \$650,000 loan to P.T. Bonnys, an Indonesian firm operating a chain of Hepatitis B vaccination clinics in Jakarta, Indonesia, for the purpose of adding family planning to its service delivery activities. The goal of the project is to attract family planning users away from public family planning provision sites and to provide a broad range of contraceptive products at an affordable price. An estimated 10,000 family planning clients per year are expected to be served through Bonnys' chain of 9 mobile and 6 fixed sites clinics.

PROFIT's loan was in the form of a five-year term loan for \$300,000 and a working capital loan of \$350,000. Both loans were made at a 10% annual interest rate, with an interest and principal moratorium of six months. The working capital loan has an equity conversion clause that can be exercised by Bonnys if it meets its family planning targets after the first year of operation. Additional funds were also provided to set up an evaluation and monitoring system for the family planning components.

Brazil: Commodity Procurement Organization

PROFIT is concluding its development effort to establish a contraceptive commodity procurement organization in Brazil to serve the needs of commercial and NGO sector family planning organizations to access reliable and affordable supplies of high-quality contraceptive products. The organization will be established in collaboration with the SOMARC III Project, and will undertake a number of activities including: distribution of IUDs; social marketing and promotion of oral contraceptives distributed through private pharmacies; provision of marketing agent services for distribution of condoms and other latex-based products; and, potentially, distribution of injectables. At the writing of this document, the project has been approved by R&D/POP and USAID/Brazil, in the amount of a \$400,000 commitment to be funded as equity for the venture, along with SOMARC's funds of about \$600,000 over the next three years. PROFIT expects to use these funds to cover operational costs until break-even, projected in the third year of operations.

Philippines: Low Cost Health Care Plan

PROFIT's assessment activities in the Philippines identified a need for expansion of health care coverage for the informal sector of the population, as a way to include family planning services under such a scheme. As a follow-up to a previous study in this area conducted by the Enterprise Program, PROFIT conducted a technical analysis of a proposed scheme by a local HMO, PhilamCare, to introduce a low cost health care plan that would include comprehensive family planning services. The study revealed a strong interest among providers in Manila and Cebu to participate in such a program, and that family planning could be included on a commercially sustainable basis. PROFIT developed and structured a project with PhilamCare to provide low-cost health insurance, which will commit \$165,000 in PROFIT's funds in risk

sharing capital. Additional funding will be requested to cover technical assistance, training and on-going evaluation activities.

Indonesia: Industrial Estate Clinic

PROFIT funded a survey with YKB (Yayasan Kusuma Buana), a family planning organization, to determine the interest among employers at the JIEP Industrial Estate outside Jakarta to establish a clinic that would provide family planning services to their employees. The survey's implementation was delayed, but a partial completion of the survey indicated a high degree of interest among employers for such a clinic. As such, a trial marketing of such services will be funded in PROFIT's third year, through technical assistance of \$35,000.

Family Planning Outcomes and Leveraging

Set out below is a summary of the intended family planning outcomes and financial leveraging results which are anticipated from the projects approved to date. As these projects are still in the early stages of implementation, no specific results have been achieved as of yet. These two goals are addressed together to facilitate an understanding of each project.

**Table 1-1
Comparison of Family Planning Outcomes and
Financial Leveraging by Project**

Project	Intended Family Planning Outcomes	Leveraging
UNIMED/Maceio	<ul style="list-style-type: none"> ● Improved method mix ● Increased availability of FP services by creating new delivery site, adding FP to insurance coverage ● Improved quality of care through service provider training ● Expanded IEC efforts 	PROFIT: \$1,115,000 commitment UNIMED: \$1,122,000 Ratio: 2.01:1
UNIMED/Aracaju	<ul style="list-style-type: none"> ● Improved method mix ● Increased availability of FP services by creating new delivery site, adding FP to insurance coverage ● Improved quality of care through service provider training ● Expanded IEC efforts 	PROFIT: \$363,000 commitment UNIMED: \$336,000 Ratio: 1.93: 1

Project	Intended Family Planning Outcomes	Leveraging
P.T. Bonnys	<ul style="list-style-type: none"> ● Increased availability of FP products and improved method mix ● Increased availability of FP services through expanded clinical services ● Improved quality of care through provider training ● Decreased reliance on public sector 	PROFIT: \$680,000 commitment PT Bonnys: \$1 million Ratio: 2.47:1
PhilamCare Low-Cost Health Insurance	<ul style="list-style-type: none"> ● Increased availability of FP services through expanded clinical services, adding FP to insurance coverage and reducing cost of services ● Improved quality of care through provider training ● Expanded IEC efforts ● Decreased reliance on public sector 	PROFIT: \$165,000 commitment PhilamCare: \$689,000 Ratio: 5.18:1
Brazil Commodity Procurement Organization	<ul style="list-style-type: none"> ● Increased availability of FP products through improved distribution, method mix broadening, reduced product costs ● Expanded IEC efforts via media activities (social marketing) ● Decreased reliance on public sector 	PROFIT: \$400,000 commitment SOMARC: \$600,000 Ratio: 0.0
JIEP/YKB Employers TA	<ul style="list-style-type: none"> ● Increased availability of FP services through improved marketing, new delivery site, reduced service costs, and adding FP to insurance coverage ● Improved quality of care through provider training 	PROFIT: \$35,000 commitment YKB/JIEP: \$18,000 Ratio: 1.51:1
Total to Date		PROFIT: \$2,733,000 commitments Others: \$3,165,000 Ratio: 2.16:1

As evidenced by the chart above, PROFIT is endeavoring to create projects that address specific family planning outcomes based on the needs of particular countries. In each case PROFIT is attempting to expand the availability of family planning products and/or services through private sector mechanisms and on the basis of projected sustainability. There is also a clear attempt to address issues of quality of care in each project, usually through the provision of provider

training. Of particular note is PROFIT's involvement with insurance-based mechanisms to expand service delivery and benefits.

Likewise, PROFIT is structuring financial arrangements with its partners that require, for the most part, an equal or higher financial contribution to the projects from PROFIT's partners. This results in financial leveraging ratios of about 2:1 or better on most projects. The notable exception to this is the Brazil Commodity Procurement Organization, which is essentially funded with A.I.D. monies for the first three years, but which is projected to be commercially sustainable thereafter and able to operate financially on its own. Overall, PROFIT's leveraging stands at 2.1:1 as a result of the approved projects to date.

Technical Assistance

PROFIT has met its technical assistance objectives to support A.I.D. private sector family planning initiatives in a number of countries. These efforts are summarized below.

Bangladesh: Endowment Assessment

PROFIT responded to USAID/Dhaka's request for technical assistance in assessing the feasibility of establishing a financial endowment to benefit the USAID-funded Social Marketing Company (SMC). PROFIT reviewed SMC's efforts to achieve financial sustainability, and its on-going financial requirements. On this basis, PROFIT advised against an endowment but recommended specific measures to USAID/Dhaka to enhance the SMC's financial stability and operational soundness.

Colombia: PROFAMILIA Endowment Assistance

PROFIT provided technical assistance to R&D/POP and PROFAMILIA, the International Planned Parenthood Federation-Western Hemisphere affiliate in Colombia, and the largest family planning provider in the country, in the design of a \$6 million financial endowment to benefit PROFAMILIA. PROFIT provided input regarding its legal, organizational and financial structure. The endowment was approved in July 1993, and PROFIT currently serves on the endowment's Board of Directors as R&D/POP's representative.

Peru: PRISMA Project Evaluation

PROFIT fielded an evaluation team in Peru to assist USAID/Lima to evaluate the progress of the PRISMA Project, under which six Peruvian family planning organizations were receiving USAID assistance. PROFIT focussed on the organizations' efforts to improve their operations and management capabilities, and activities aimed at enhancing their financial sustainability.

Zimbabwe: Condom Manufacturing Cost Study

At the request of USAID/Harare, PROFIT conducted a study of the economic feasibility of setting up a condom repackaging plant in Zimbabwe to service local contraceptive needs. PROFIT's team investigated the economic costs of establishing a repackaging facility, and analyzed cost structures of imported/repackaged condoms versus fully finished imported condoms from other countries such as Malaysia. PROFIT determined that these imports had a considerable cost advantage, and that the potential scheme would not be economically feasible.

Endowment Seminar and Manual

In order to familiarize the family planning community and A.I.D. offices and bureaus with financial endowments, PROFIT organized and conducted a seminar in April 1993 which focused on issues related to the establishing endowments. In addition, PROFIT began development of a formal endowment manual for the benefit of non-governmental organizations interested in assessing endowments for their own use.

Ecuador Debt Swap Assessment

PROFIT provided technical assistance to USAID/Ecuador's efforts to conclude a debt swap for the benefit of two Ecuadorian family planning organizations, APROFE and CEMOPLAF. PROFIT evaluated the funding needs of the two organizations. PROFIT also researched Ecuador's debt swap program and determined that important restrictions existed to enable the transactions to take place. However, PROFIT was asked to provide further assistance to APROFE and CEMOPLAF in the establishment of endowment funds.

Mexico Debt Swap Assessment

PROFIT looked into debt swap opportunities, particularly to benefit FEMAP, a family planning NGO headquartered in Ciudad Juarez with affiliates throughout Mexico. As part of its effort to leverage funding for potential projects with FEMAP, PROFIT developed preliminary plans to process a debt swap for FEMAP utilizing funds to be contributed by A.I.D. and other FEMAP donors. Collaborating with the Debt-for-Development Coalition, PROFIT arranged for the debt swap research to be conducted into a \$250,000 swap. Due to delays with development of project opportunities, however, the transaction was not consummated.

Dominican Republic Sustainability Assessment

PROFIT assisted USAID/Santo Domingo by conducting an assessment for five Dominican family planning organizations who have undertaken efforts at achieving greater financial sustainability. PROFIT analyzed efforts taken to date and made recommendations related to each organization's management capabilities, service delivery strategies, and cost recovery efforts.

SECTION 2 THIRD YEAR WORK PLAN

2.1 Country Programs and Project Activity

As discussed through the profiles of approved projects, PROFIT has established active programs or is pursuing projects or technical assistance tasks in a number of key countries, which include:

- Brazil
- Indonesia
- The Philippines
- Russia
- Mexico
- Ghana
- Kenya
- Ecuador

In addition to this current set of country programs, PROFIT is proposing to undertake assessment activities for an additional three countries in Year Three: Peru, Egypt and Turkey.

Set out in this section is a detailed description of each country program including its strategy, projects under development for the Third Year, funding projections, efforts with collaborating institutions, technical assistance endeavors, and special interest issues.

2.1.1 Brazil

Program Strategy:

PROFIT will focus on supporting USAID/Brazil's strategy in the Northeast region of the country, which seeks to improve private sector service delivery mechanisms and ensure commodity supplies to family planning organizations resulting from A.I.D.'s "phase-out" from Brazil. As such, PROFIT will primarily concentrate on the implementation of its project with UNIMED/Maceio and the establishment of the Commodity Procurement Organization. Secondly, PROFIT will be working to resolve its pending legal dispute with UNIMED/Aracaju and to recapture its investment funds. Potential new endeavors will include development of an employer-based project, possibly with the Odebrecht Foundation in Salvador de Bahia, associated with the Odebrecht conglomerate that include paper mills, supermarket chains, and other industrial companies.

Funding Levels:

PROFIT has approved commitments of \$1,428,000 for the two UNIMED projects (\$1,328,000 of which has been disbursed) and \$400,000 for the Commodity Procurement Organization, most

of which will be disbursed in Year Three. An employer-based project with the Odebrecht Foundation might require an estimated \$350,000 in funding.

Collaborating Institutions:

PROFIT is working closely with SOMARC in the establishment of the Commodity Procurement Organization (CPO), to which SOMARC will contribute \$600,000 over the next three years. In addition, PROFIT will collaborate with Pathfinder in shifting its commercial commodity recipients to the CPO. PROFIT will receive technical assistance from JHPIEGO and PCS in training support for UNIMED/Maceio staff, which is scheduled for the spring/summer of 1994.

Technical Assistance

PROFIT will provide technical assistance to UNIMED/Maceio in several areas: training of clinical staff (through JHPEIGO); and for its IEC activities from Population Communication Services (PCS). PROFIT has also funded a baseline contraceptive prevalence survey of UNIMED/Maceio clients which will be used for evaluation purposes.

Special Interest Issues:

PROFIT's venture with UNIMED/Maceio will focus substantially on quality of care as it relates to the activities of the Maternal Child Health and Family Planning services. The project will also address prevention of STDs and teen sexuality issues through IEC efforts.

2.1.2 Indonesia

Program Strategy:

PROFIT's program strategy in Indonesia focusses on private sector service delivery, consistent with the government's goal to shift family planning users from public to private sources. In addition, PROFIT is exploring mechanisms for expanding employer-provided family planning services. Thus, PROFIT's attention will be to implement its project with PT Bonnys, which will provide family planning services at employer sites with mobile clinics; and implementation of the JIEP/YKB Employers project.

New project development activities include: 1) loan financing for local production of sterilization occlusion rings with PKMI (potentially \$250,000); and 2) loan financing to establish family planning clinics for Marie Stopes International (\$150,000).

Funding Levels

Approved projects (PT Bonnys and YKB/JIEP) total \$715,000 in commitments, all of which will be disbursed in Year Three. Funding requirements for PKMI and Marie Stopes International

may reach \$400,000, with some additional amounts for technical assistance components to develop the projects.

Collaborating Institutions

PROFIT worked with PATH in the development of the PT Bonnys project, with whom it will continue to collaborate on future financing endeavors in Indonesia.

Technical Assistance

PROFIT will provide technical assistance to PT Bonnys to develop a computerized management information system for monitoring family planning activities (\$15,000).

Special Issues

Quality of care is receiving special focus in the PT Bonnys project, as reflected by specialized training being provided to the project staff in preparation of the project's start-up. The monitoring system will collect regular quality of care information obtained from clients, to ensure consistent standards of service delivery.

2.1.3 The Philippines

Program Strategy:

PROFIT's program in the Philippines focusses on family planning service delivery. PROFIT's two priority projects involve the Low-Cost Health Care project with PhilamCare, and establishing a loan fund for private providers (primarily doctors) to expand family planning activities. PROFIT will concentrate on implementing these projects prior to pursuing other efforts. For this purpose, PROFIT has recruited a Country Representative, who will open a PROFIT office in Manila beginning in January 1994.

Funding Levels:

The Low Cost Health Care project will require about \$265,000, including a technical assistance budget of approximately \$100,000 to cover family planning training, training in managed care for the contracting hospitals, and the design and implementation of an evaluation and monitoring system.

A proposed Loan Fund for Private Providers is currently under development. The fund will be used to offer low cost loans in order to encourage private doctors to establish or expand the delivery of family planning services through existing or new private medical practices. The Loan Fund is estimated to be launched in FY 1994 with an estimated budget level of approximately \$350,000.

Collaborating Institutions:

PROFIT pursues extensively, collaborative efforts with other CAs in the Philippines. PROFIT is in touch with SOMARC, OPTIONS, RAPID, AVSC, John Snow's SEATS Project and The Evaluation Project on an ongoing basis regarding potential collaboration. AVSC is proposed as a partner in current projects, and SOMARC may be involved with their Couple's Choice marketing program. PROFIT also met with local representatives from the FPLM and PCS projects in the Philippines. Finally, PROFIT has met with almost every local family planning NGO to discuss activities, and is in close contact and regularly shares information with the local CA community through USAID/Manila, the Health Finance Development Project (HFDP) and the Philippine Department of Health (DOH).

Technical Assistance:

The PhilamCare Low Cost Health project includes an extensive effort in evaluation and monitoring, which will not only assist PROFIT but assist HFDP, USAID/Manila and the DOH gain critical information regarding health care delivery and financing. Added to this effort, PROFIT will provide technical assistance in the areas of family planning and managed care. It is anticipated that the proposed Loan Fund project will also feature technical assistance to the doctors in the areas of family planning and business training.

Special Interest Issues:

Quality of care is a special concern with the PhilamCare project, and will be given heavy emphasis in the implementation of the Low Cost Health Care Plan through training of selected providers.

2.1.4 Russia

Program Strategy:

Although Russia is not an Office of Population "priority country", PROFIT considered the country had project potential, due to its reproductive health needs and its recent reforms to a market-based economy. PROFIT's assessment of Russia confirmed that the country faces a grave need for improved access to quality reproductive health care and a dependable source of affordable, quality contraceptives. Training of physicians and other providers is greatly needed to alleviate these misinformation regarding modern contraceptives and to allow women to choose the most appropriate and safe method for their reproductive health care needs.

PROFIT identified an opportunity to form a joint venture to import and distribute a complete range of quality family planning and reproductive health products, including IUDs, condoms, and pills, that are safe, reliable, and affordable. The products will be marketed and distributed through an established pharmaceutical distribution network, and will be introduced into the marketplace through service provision sites with a comprehensive training program. PROFIT's

aim will be to assist all existing service delivery tiers operating in Russia, including public health institutions, non-governmental organizations, semi-private provider groups, and for-profit entities involved in family planning.

Funding Levels

The development of the proposed commodity project is estimated to require about \$650,000 to set up a distribution company, initiate operations, and to provide a comprehensive training program for physicians, pharmacists and project staff.

Technical Assistance/Collaborating Institutions:

PROFIT is developing a training program through technical assistance that will involve a number of A.I.D. CA organizations, including JHPIEGO, Development Associates, the Futures Group and Population Communication Services (PCS), who would provide training to physicians, pharmacists, and the project's staff in IEC program delivery.

In addition, PROFIT will initiate efforts to address the need in Russia for health maintenance organizations and other types of health insurance financing mechanisms. This may include collaborative efforts with UNIMED in Brazil to establish insurance or physicians' cooperatives.

Special Interest Issues:

Reproductive health care issues will be a dominant aspect of PROFIT's proposed project in Russia, along with access to quality and affordable contraceptive commodities.

2.1.5 Mexico

Program Strategy:

PROFIT will return to Mexico in Year Three after an unsuccessful attempt during the first two years to develop projects. As one of PROFIT's "priority countries", Mexico offers a positive private sector environment, a sophisticated commercial infrastructure and a supportive government policy toward family planning. PROFIT will focus on three potential new project activities: developing a large employer-based project; structuring a marketing support venture for the regional distribution of Depo-Provera in Latin American countries; and forming a service delivery project with private providers.

Funding Levels:

Projected funding levels for the three identified projects are approximately \$ 800,000, as follows: \$400,000 for the Depo-Provera marketing support, and \$200,000 each for the

employer-based project and the private providers project. These funding levels are preliminary in nature, and subject to modification.

Technical Assistance:

PROFIT anticipates a certain amount of technical assistance may be necessary to implement the employer-based project, in terms of a cost-benefit analysis, but funding levels have not yet been determined.

Collaborating Institutions:

PROFIT looks to collaborating with SOMARC and IPPF in Mexico, as it develops these projects.

2.1.6 Ghana

Program Strategy:

PROFIT visited Ghana in November 1993, as part of a collaborative effort with the A.I.D.-funded Health Initiatives Project to assist in the development of projects identified by Initiatives. There are two potential projects where PROFIT may play a role: financing the expansion of a private clinic into family planning service delivery; and assistance in the development of an employer-based health and family planning provision scheme with a large gold mining concern. Both of these projects are in the early stages of development.

Funding Levels:

Preliminary funding levels for these two projects are set at \$200,000 combined.

Technical Assistance:

No specialized technical assistance efforts have been programmed to date.

Collaborating Institutions:

PROFIT will work in collaboration with the Health Initiatives Project to develop complementary components of each project in question, with Initiatives addressing the health service delivery aspects and PROFIT assisting with family planning issues.

2.1.7 Kenya

Program Strategy:

PROFIT's program strategy in Kenya is to provide support to the USAID/Nairobi mission relative to its efforts of bringing about reforms to the health care financing and insurance field in Kenya through the Health Care Financing Project (HCFP). PROFIT will be providing technical assistance to HCFP in assessing Kenya's private health services and insurance system.

Funding Levels:

There are no set program funding levels for the technical assistance, as it will not be funded through subproject funds.

2.1.8 Ecuador

Program Strategy:

PROFIT is providing technical assistance to USAID/Quito in the establishment of financial endowments for two family planning organizations, APROFE and CEMOPLAF.

Funding Levels:

PROFIT has budgeted \$50,000 to facilitate the establishment of the endowments.

2.1.9 Third Year Target Countries

PROFIT plans to visit Ghana and three additional countries in Year Three. These visits are listed below in Table 2-1.

**Table 2-1
Country Assessment Targets and Visits
Fiscal Year 1994**

Country	Planned Activities
GHANA	Initial visit November 1993 Follow-up trip: To be determined
PERU	Initial visit: 2nd quarter Follow-up trip: To be determined
EGYPT	Initial visit: 3rd quarter Follow-up trip: To be determined
TURKEY	Initial visit: 3rd quarter Follow-up visit: To be determined

Although PROFIT is proposing this schedule, it may be modified during the year to add other potential countries such as Bolivia, Uganda or other NIS countries.

2.2 Organization and Staffing

Organizational Structure

To facilitate and streamline project development efforts, PROFIT re-structured its core team along geographic/country responsibilities. All project development efforts in PROFIT target countries have been assigned to a Country Coordinator, chosen from among the key "business development" Directors (Investments, Finance, Marketing) and the Project Director. These individuals have primary responsibility for identifying, developing and structuring all projects, and lead these efforts in specific countries, thus centralizing all information and activities for countries and projects.

The Country Coordinators are assisted by the Family Planning Director and Advisor, and the Evaluation Director, who provide support across all projects and countries, as required by project development needs. Other core staff also have specific country assignments and responsibilities. PROFIT's current staff and country/geographic assignments are detailed in Appendix A.

Staffing Plans

PROFIT's core staff expanded during the second year to include a Family Planning Advisor, who provides technical support in family planning service delivery across a growing number of countries and projects, and a Financial Analyst, who assists with financial analyses and project monitoring activities.

PROFIT has also recruited Country Representatives in Brazil, Indonesia and the Philippines, and has established project offices in those countries.

Staffing plans for Year Three include the hiring of a Dissemination Coordinator to manage all communications and dissemination efforts for the project. PROFIT also plans to recruit an additional two Country Representatives, tentatively for Russia and Mexico or Ghana, as projects in those two latter countries unfold. These field positions are extremely valuable in advancing project development and implementation tasks.

2.3 Dissemination and Linkages

PROFIT's will greatly expand its efforts for disseminating the activities and achievements of the project. A key ingredient for this expansion will be the formulation of a comprehensive dissemination strategy that will define and integrate all dissemination components. Among the activities projected for the year are:

- Organizing and hosting a regional conference on private sector family planning issues; the conference may be located in Brazil or Indonesia.
- Production and dissemination of two more issues of the PROFIT newsletter to over 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 current activities.
- Completion and publication of PROFIT's Endowment Manual, to be made available to non-governmental organizations interested in endowment related issues.
- Development of a minimum of two "case studies" focussing on PROFIT projects, special industry studies (e.g., the Brazil Commodity Procurement Organization; the Philippines Low Cost Health Care Plan), and on other topics studied by PROFIT in its project development efforts.
- Hosting seminars on specialized topics related to commercial family planning activities, such as insurance programs, loan financing, and new employer-related mechanisms for expanding family planning coverage.

- Continued linkages to the CA community, the pharmaceutical industry, and other specialized private sector groupings (i.e., contraceptive distributors) for the purpose of obtaining information on trends and activities.
- Expansion of conference and seminar participation by core staff to promote PROFIT's activities to appropriate audiences. Specifically, PROFIT plans to attend conferences of the American Public Health Association (APHA) and the National Council on International Health (NCIH).
- Expansion of speaking engagements and presentations to relevant private sector groups in target countries, taking advantage of promotional opportunities through television and other media.

This strategy will be defined and implemented through the recruitment of a dedicated Dissemination Coordinator, who will manage all communication and dissemination activities on a permanent basis.

2.4 Evaluation and Monitoring Activities

Subproject evaluation and monitoring tasks will assume a more visible and expanded role in PROFIT's third year, as new projects are implemented and begin operations. This will be evident through the following:

- The development and installation of management information systems at each subproject to track and report on specific family planning and financial indicators. Such systems will usually need to be developed and designed with PROFIT technical assistance and funding, and involve local implementation efforts.
- Organization of research activities to define appropriate baseline family planning indicators, through consumer research, marketing studies, focus groups, and other research mechanisms.
- Regular monitoring efforts to collect and analyze data at subproject sites to track and improve subproject performance.
- Expanded financial monitoring and family planning evaluation activities at PROFIT to ensure compliance against planned performance.

The implication from these developments is that PROFIT funds and resources will need to be committed to evaluation and monitoring activities, to properly implement PROFIT's overall Evaluation Strategy. PROFIT's Evaluation Director will be primarily responsible for supporting these various tasks, and coordinating with Country Representatives and other local resources for the implementation of all subproject evaluation plans. In addition, PROFIT's Financial Analyst

will be responsible for tracking the financial performance and status of all PROFIT's investments, and for reporting on the financial condition of PROFIT's "portfolio".

A separate Evaluation Report will be published at the end of the third year, to disseminate the evaluation activities and performance of each subproject implemented.

2.5 Funding Requirements

PROFIT's funding requirements for the Third Year (FY 1994) and FY 1995 are summarized in Table 2-2. A distinction is made between funds that are needed for PROFIT's operational expenses (core staff salaries, consultants, travel, equipment and other direct costs) and funding required for subprojects and related technical assistance. PROFIT's contract funds are made available on this basis and cannot be intermingled.

Table 2-2
PROFIT Funding Requirements
(thousand US\$)

<u>Operational Expenses</u>	<u>Actual thru 9/93</u>	<u>FY 1994 Estim.</u>	<u>FY1995</u>
Salaries	3,355	2,100	2,300
Travel, Per Diem	346	225	250
Other Direct Costs	180	350	425
Equipment	61	25	25
Subtotal	3,942	2,700	3,000
Obligated Pipeline/ (Shortfall)	5,800 1,858 ====	(842) ====	(3,842) =====
<u>Subprojects Funding</u>	1,338	4,200	4,500
Obligated Pipeline/ (Shortfall)	8,500 7,162 =====	2,962 =====	(1,538) =====

As indicated, PROFIT will require funds for its operational expenses in FY 1994 to offset a projected shortfall of \$842,000; and will require an estimated additional \$3 million to cover FY 1995 expenses.

Additional funding for its subprojects will occur only in FY 1995, given current projections of \$4.2 million in FY 1994, as detailed in Table 2-3.

Table 2-3
Estimated Subproject Expenditures (Year Three)

Country/Project	Commitment
Brazil: Commodity Procurement Organization**	\$ 400,000
Brazil: Employers Project	350,000
Philippines: Low-Cost Health Insurance**	265,000
Philippines: Providers Loan Fund Research**	20,000
Philippines: Providers Loan Fund	350,000
Russia: Commodities Marketing Project	650,000
Indonesia: PT Bonnys**	680,000
Indonesia: JIEP/YKB Employers	35,000
Indonesia: PKMI Manufacturing	250,000
Indonesia: Marie Stopes	150,000
Mexico: Regional Injectables Marketing	400,000
Mexico: Private Clinics	200,000
Mexico: Employer-based Project	200,000
Ecuador: Endowments Technical Assistance	50,000
Ghana: Providers clinics	200,000
Subtotal	\$ 4,200,000

** Subprojects already approved, but not disbursed as of 10/1/93

These projections do not take into consideration project opportunities that may arise from new country assessments, as these may likely take longer to develop into full projects.

SECTION 3 OPPORTUNITIES AND CHALLENGES

As PROFIT enters its third year of operations it faces a number of exciting opportunities in the countries where it has an established presence: Brazil, Indonesia, and the Philippines. In addition, PROFIT has made important progress towards developing projects in Russia and Ghana, and potentially Mexico. PROFIT is confident that it has made significant progress in a number of key operational areas to improve its ability to identify and develop projects. There are nonetheless important implementation challenges which PROFIT must address, and which will be discussed in this section of this document.

3.1 Country Assessments

PROFIT initiates all project development activities by conducting country assessments of target countries. The assessments determine appropriate interventions by PROFIT in the more promising sectors in each country (e.g., private providers), and serve to identify potential projects for development. During its first two years of operations, PROFIT's ability to assess its original set of target countries has been compromised by not being able to visit some key target countries including India, Egypt, Morocco and Turkey. In addition, while it has been allowed to visit Zimbabwe and Kenya, its scope of activities were limited to a select number of projects or technical assistance tasks, at the request of the respective USAID missions.

These developments are forcing PROFIT to adopt a strategy that differs from its contract design by working in some countries with less than optimal conditions for commercial sector undertakings in family planning. To compensate, PROFIT is pursuing multiple projects in its original target countries, in order to develop the 20 subprojects as called for in its contract. The restrictions placed on PROFIT by certain USAID missions' preferences, while legitimate, should be understood as posing some constraints on PROFIT's ability to fulfill its mandate. To overcome these constraints, PROFIT has worked with the R&D/POP Project Manager to establish a more positive dialogue with USAID missions and Regional Bureaus regarding the benefits and complementarity of PROFIT's objectives to their country strategies. This process must continue and be expanded, particularly for the original set of target countries where PROFIT has not had the opportunity to conduct assessments.

3.2 Sectoral Constraints

PROFIT's project development experience over the past two years has revealed sectoral trends that should be considered for future activities.

3.2.1 Innovative Investments: Manufacturing

This sector offers the best potential for large, capital intensive investments, but far fewer opportunities for tangible projects. Our experience has shown that the constraints to identifying opportunities in this sector include: existing activities by established pharmaceutical companies; A.I.D. requirements that PROFIT work only with FDA-approved commodities; competition from inexpensive imports; and competition from public sector efforts or even A.I.D.-sponsored projects (e.g. social marketing). In addition, manufacturing projects have taken a longer time to negotiate and structure, given operational and technical considerations.

Due to these constraints, PROFIT will rely less on the manufacturing sector to generate large numbers of projects. PROFIT must continue to be quite selective about pursuing the more promising opportunities, and to approach manufacturing on a phased manner: first distribute, then manufacture. Another strategy may be to identify products that are related to family planning other than contraceptive products, such as surgical medical equipment, which may face less competition, as an area that PROFIT could support to lower costs or expand coverage. Regardless, PROFIT should not count on manufacturing as a major source of investment opportunities, and should therefore understand the potential impact on committing investment funds through this sector.

3.2.2 Innovative Investments : Marketing/Distribution

This sector has all the constraints of manufacturing, but does not offer large, capital intensive investment needs. Its attractiveness is that distribution projects are quicker to implement than manufacturing ventures. PROFIT has identified a number of marketing projects to date, and two of its more important current project opportunities, the Brazil Commodity Procurement Organization and the Russia Commodity Marketing project, involves a marketing and distribution scheme for contraceptives.

To be more successful in this sector, PROFIT may well need to define a niche role for itself. Specifically, PROFIT may well play an important role in organizing marketing and distribution schemes in countries where A.I.D.'s "phase-out" is creating a commodity supply problem, such as in Brazil, or in countries where distribution of contraceptives is nascent, as in the case of Russia. As with manufacturing, PROFIT will need to take note of the inherent competitive constraints in each local market, and determine whether it can fill an unmet role or need in a particular country due to market factors. Additionally, PROFIT must be aware of existing market distortions brought on through programs that donate or subsidize commodities through the public sector or NGOs.

3.2.3 Other Innovative Investments

This sector includes media-related projects, supporting the market development of new contraceptive technologies, and other innovative mechanisms to promote or finance family planning related activities. This area represents new, fertile ground for a project like PROFIT,

where it can apply its private sector orientation and expertise to the fullest, while creating opportunities and benefits on the family planning dimension.

The PROFIT Team has pursued many of these prospects and should continue to do so. In many cases, particularly with new products, such as generic implants. PROFIT is also well-positioned to provide financial management expertise to assist A.I.D. programs with endowments, debt conversion, trade finance issues, etc., that may impact family planning programs.

3.2.4 Private Service Providers

This sector has offered PROFIT the most project prospects, due to the wide range of provider organizations in PROFIT's countries. Service provision stands out as the most important component in family planning, particularly as it involves quality-of-care, access and affordability issues for consumers. Service provision also presents an area where PROFIT can be effective by promoting notions of commercial sustainability for organizations who are relatively unfamiliar with this concept, such as NGOs, or by promoting expansion into family planning by companies who deliver related services.

Indeed, PROFIT has learned that the most pressing project development constraints faced in this sector are: that family planning services are usually not commercially sustainable unless cross-subsidized; or that the commitment to family planning by potential PROFIT partners may be new or difficult to guarantee over the long run.

To overcome these constraints, PROFIT has had to examine and structure a number of "cross-subsidy" models, which include "nesting" family planning in maternal/child health clinics, or inserting family planning in pre-paid low cost health care, or adding family planning to related health services, such as vaccination clinics. In each case, PROFIT must address how to cross-subsidize in a cost efficient manner, and how to ensure commitment to its family planning program over a long-term horizon.

One alternative is to work more with family planning organizations which are ready to embark on the provision of commercially self-sustaining services. This strategy may require PROFIT to consider how far it is willing to sacrifice on initial returns in order to provide such organizations with seed capital on preferential or "soft" terms. PROFIT should also recognize that NGOs will require a longer time to become fully commercial or "private sector-like" in outlook and performance. Another tactic for PROFIT is to structure its participation and funding in a phased manner, to ensure that family planning objectives prove achievable and self-sustaining.

Regardless, PROFIT must continue to concentrate on this sector for a majority of its projects. As such it must be noted that service provision projects typically do not require large capital infusions, other than for clinical equipment or site expansion or improvements. This will surely impact PROFIT's ability to disburse large sums of its investment capital, but this yardstick is only one measure of PROFIT's effectiveness as a project.

3.2.4 Employer-Based Projects

PROFIT has not identified many employer-based projects for development. The reasons for this are: 1) Lack of support by local A.I.D. missions for PROFIT to pursue such opportunities (e.g., the Philippines); 2) Skepticism among many A.I.D. missions and PROFIT project staff as to whether the TIPPS/Enterprise cost benefit analysis model is successful in creating sustainable employer-based programs; and 3) the substantial on-the-ground effort that is required to implement such activities.

This sector continues to be an Office of Population priority and one of PROFIT's three principal sectors. As a result, PROFIT will need to develop a larger in-country effort, particularly where it has appointed Country Representatives who will be able to identify and cultivate potential employers for PROFIT's assistance. However, PROFIT proposes to focus on broader and more sustainable investment activities in this sector, rather than relying on the traditional technical assistance/cost benefit model initiated by TIPPS/Enterprise. Examples of such activities might include: 1) pursuing investment to provide family planning services through a contract mechanism, as in the JIEP/YKB project; 2) to assist management in establishing a health delivery system for its employees using third party providers; or 3) working with large employers to finance family planning service provision through a captive health facility.

3.3 **Financial Leveraging**

The specific approaches outlined in the PROFIT contract for pursuing financial leveraging through debt conversions and blocked funds have, to date, proved of limited use because of cessation of these programs, rigid qualification requirements, or inopportune venture timing. However, PROFIT has and will continue to pursue these and other means of leveraging its funding through partner and other participant contributions to the ventures' capitalization requirements. At this juncture, however, it is doubtful PROFIT will attain its original goal of leveraging its investment funds by a factor of 4:1. A more likely scenario is that PROFIT will obtain matching funds, through partner contributions, equal to the investments it makes, thus realizing a 2:1 leveraging ratio.

PROFIT has, and will continue to pursue opportunities to leverage its capital to expand private sector activities in family planning activities. However, the form that leverage takes has changed over time and will continue to change as new opportunities present themselves.

The initial means of leveraging funds envisioned in the contract, such as debt conversions or blocked currencies, offer significantly fewer opportunities as very few conversion programs continue to exist. This is particularly true of countries in which PROFIT has attempted to develop projects over the past year. (See Appendix B).

To compensate for this situation, PROFIT has sought to obtain leverage through other means. These have focused largely on leveraging funds through the financial contribution of local partners who have capabilities or existing structures that will allow for significant expansion of

family planning activities. By forming joint ventures or establishing new projects with on-going businesses, PROFIT is able to allocate the resources, organizations and market experience of local firms and entrepreneurs. In addition, PROFIT has pursued opportunities for suppliers and other participants to contribute funding through these ventures.

In the case of Brazil, where PROFIT has completed two agreements with UNIMED, the largest Brazilian HMO, the debt conversion program has been discontinued and no blocked funds exist. However, as their contributions to the ventures, the UNIMED chapters are contributing 51% of the project's capitalization, as well as their experience and reputation as a quality-conscious health care provider. Thus, PROFIT's paid-in capital of about \$1.3 million is being matched through UNIMED's contributions, and will grow as the ventures expand.

Debt conversions were not an option for the Indonesian Bonnys venture, as the country does not have a program. However, again the venture partner has pledged and committed the capabilities of his current operations, which include 15 immunization clinics in Jakarta to engage in family planning service delivery. In addition, Bonnys' contribution to the project has been valued at about \$1 million per year, in terms of staff and firm resources being devoted to the family planning activities. Through this project, PROFIT's investment of \$650,000 allows expanded family planning, more broadly and at a lower cost, as the funds go toward incremental capacity on existing facilities, as well as several new sites, rather than an entire start-up structure. More importantly, as PROFIT's loan proceeds are repaid, the leveraging increases.

In the Philippines, where PROFIT concluded an agreement with PhilamCare, the country's debt conversion program was discontinued in July 1992. Nonetheless, PROFIT's participation in the Low-Cost Health Care Plan (\$165,000) will be exceeded by PhilamCare's budgeted expenditures for project activities of \$689,000. PROFIT's funds will be used only to offset potential losses in the first three years of operations, and only up to certain maximum amounts each year. Thus, PROFIT is providing PhilamCare with the requisite financial incentives to participate in this important and innovative scheme.

For a number of countries where ventures are in the formulation stage, such as Ghana, Russia, and the Central Asian Republics, leveraging opportunities are being explored. Although formal debt conversion or blocked fund programs have been suspended, or are in an uncertain status, there may be opportunities to work with multinational corporations or NGOs to arrange for party-to-party conversions. In addition, in the case of the two opportunities being evaluated in Ghana, PROFIT has already attracted interest from other funding sources such as the International Finance Corporation and the Ghana Venture Capital Fund. Resources and contribution from the local venture partners will be also pursued for both Ghana and Russia. In the case of the Central Asian Republics, PROFIT is exploring financial instruments or approaches that would share the risk which American suppliers are assuming as a means of facilitating their entering into commercial transactions.

3.4 Risk Management

Because PROFIT is primarily involved in structuring financial investments in family planning ventures, it must address risk management responsibilities not originally contemplated in the design of the project. The risk dimensions that PROFIT's investments carry are those normally associated with private sector investments: one, that the ventures may not succeed in financial terms or possibly go out of business; two, that certain market objectives may not be met, in terms of achieving market penetration or achieving clients/sales projections. These types of risks are compensated for by probable financial returns on PROFIT's investment.

PROFIT also carries the additional risk related to the achievement of family planning goals. It must therefore balance the needs of the ventures to achieve a certain level of financial sustainability against the requirements to maximize family planning outcomes, either through expanded service delivery, lower costs, or improved quality of care.

In dealing with these issues, PROFIT is conscious that its fundamental objective is to ensure that family planning objectives are met, even at the temporary expense of commercial sustainability. PROFIT is therefore willing to assume a greater level of financial risk, if it is likely or reasonable that family planning outcomes will be achieved. The implications of such a policy is that PROFIT's ventures may carry greater-than-normal risk, and may be suffer from a financial point of view.

PROFIT's task is to assess these risks in an analytically consistent manner and to take all necessary precautions to safeguard the long-term viability of A.I.D.'s funds in each venture. Appropriate precautions and "due diligence" cannot remove all notions of risk from these transactions, however. Financial and family planning risks therefore must be regarded as an integral part of PROFIT's approach in working with the private sector.

APPENDIX A
PROFIT STAFF AND COUNTRY ASSIGNMENTS

PROFIT

PROFIT Project Staff

Project Director	Donald R. Nicholson II Deloitte & Touche
Deputy Project Director/ Contracts Officer	Robert R. Bonardi Deloitte & Touche
Director of Investments	A. Michael Van Vleck Deloitte & Touche
Director of Family Planning	Vacant
Director of Finance	Gale E. Thompson Multinational Strategies
Director of Marketing	Susan Mitchell Boston University
Director of Evaluation	W. Timothy Farrell Development Associates
MIS Director	Claire Sellers Deloitte & Touche
Family Planning Advisor	Fernanda Kaplan Boston University
Financial Analyst	Diana Escueta Shirley Development Associates
Project Analyst	Catherine Connor Multinational Strategies
Finance Officer	DeAnne McCullah Deloitte & Touche
Project Assistants	Lisa Elam Deloitte & Touche
	Sandra Kowalehek Deloitte & Touche
Executive Secretary	Sina Rene Franques Deloitte & Touche
Receptionist/Project Secretary	Pia Videla Hart Deloitte & Touche
Country Representative, Brazil	Ronaldo Tavares Deloitte & Touche
Country Representative, Indonesia	Lucia Ferraz-Tabor Deloitte & Touche
Country Representative, Philippines	John Dioquino Development Associates

BEST AVAILABLE DOCUMENT

PROFIT Project
Staff Country Assignments

BRAZIL

Coordinator: A. Michael Van Vleck
Support Staff: Catherine Connor
Sandra Kowalchek
Representative: Ronaldo Tavares

INDONESIA

Coordinator: Susan Mitchell
Support Staff: Lisa Elam
Representative: Lucia Ferraz-Tabor

PHILIPPINES

Coordinator: Susan Mitchell
Support Staff: Diana Escueta
Representative: John Dioquino

MEXICO

Coordinator: A. Michael Van Vleck
Support Staff: Lisa Elam

RUSSIA

Coordinator: Gale Thompson
Support Staff: Sandra Kowalchek

GHANA

Coordinator: Gale Thompson
Support Staff: Lisa Elam

APPENDIX B
STATUS OF DEBT CONVERSION PROGRAMS
AND
BLOCKED FUNDS

Countries where PROFIT has developed projects:

COUNTRY	DEBT PROGRAM	CONDITIONS OR TERMS	BLOCKED FUNDS	CONDITIONS OR TERMS	OTHER PROGRAMS
Brazil	Yes - with restrictions	Formal program suspended in 1989; Debt-for-nature funds available but at unappealing terms	No		Nonresident currency funds may be purchased at a discount (Treasury note or "Blue Chip" Swap) \$100,000 minimum amount, modest spread.
Indonesia	No		No		No
Philippines	Yes - with restrictions	High social impact projects (for NGOS) considered case-by-case. Government converted debt to bonds. Minimum denomination of bonds: \$250,000, so project must be at least \$200,000. Minimal gains: 10%	No		No

Countries where PROFIT is evaluating projects

COUNTRY	DEBT PROGRAM	CONDITIONS OR TERMS	BLOCKED FUNDS	CONDITIONS OR TERMS	OTHER PROGRAMS
Central Asian Republics	No		No		Possible multinational counterparties
Ecuador	No	Program temporarily halted; meant to finance NGO development activities.	No		
Ghana	No		No		NGO with local currency might be counter parties; opportunity to be 1-2% better than official rates
Kenya	No		No		Preferential exchange rates through "interbank exchange rate" are converging; no immediate opportunities but others may arise in the future
Mexico	Yes	Conducted case-by-case; <u>ad hoc</u> transactions for NGOs; (funds largely for investment in fixed assets); priority given to social benefit projects			
Russia	No	Impasse with bank creditors	Not currently		Possible - multinational companies as counterparties; DDC not involved

COUNTRY	DEBT PROGRAM	CONDITIONS OR TERMS	BLOCKED FUNDS	CONDITIONS OR TERMS	OTHER PROGRAMS
Zimbabwe	Yes - with restrictions	For-profit investors gains: 100%	Yes, with restrictions	Blocked remittances ; issued bonds in lieu of remittances for purchase or conversions Significant gains possible: 100%	

Future PROFIT Target Countries

COUNTRY	DEBT PROGRAM	CONDITIONS OR TERMS	BLOCKED FUNDS	CONDITIONS OR TERMS	OTHER PROGRAMS
Egypt	No		No		
Morocco	No		No		
Turkey	No		No		
India	No		No		
Peru	No		No		