

PROFIT

Promoting Financial Investments and Transfers

PD-ABI-556

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

FIRST YEAR ANNUAL REPORT

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

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**Deloitte &
Touche**



Deloitte Touche Tohmatsu International

In association with

Boston University Center for International Health

Multinational Strategies, Inc.

Development Associates, Inc.

Family Health International

PROFIT

Promoting Financial Investments and Transfers

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FIRST YEAR ANNUAL REPORT

PROMOTING FINANCIAL INVESTMENTS AND TRANSFERS

PROFIT PROJECT

Deloitte & Touche

Contract Nos.: DPE-3056-C-00-1040-00
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October 30, 1992

**Deloitte &
Touche**



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October 30, 1992

Dr. Jennifer Adams
U.S. Agency for International Development
Office of Population
Family Planning Services Division
Room 809, SA-18
Washington, DC 20523-1819

Dear Dr. Adams:

Deloitte & Touche is pleased to submit the First Annual Report for PROFIT (Promoting Financial Investments and Transfers) to the Office of Population (R&D/POP) of the U.S. Agency for International Development. The Annual Report reviews all technical and management activities undertaken in support of PROFIT's objectives undertaken in Fiscal Year 1992.

PROFIT believes substantial achievements were attained during its first year of operations, and looks forward to continuing its vital work on behalf of R&D/POP with enthusiasm and commitment.

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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EXECUTIVE SUMMARY

The PROFIT (Promoting Financial Investments and Transfers) project had a successful and productive first year. The bulk of its primary objectives for the year were attained, and the project is now well positioned and organized to continue implementing its Five-Year Strategy.

Highlights of PROFIT's first year include:

- Establishment of the project in dedicated and fully-equipped offices.
- Completion of country assessments for Brazil, Nigeria, Mexico, Indonesia, Jamaica, Bangladesh, and Colombia.
- Identification and processing of four investment projects, to be completed for A.I.D. review in the first quarter of PROFIT's second year.
- Development of a sizable "pipeline" of projects to be more fully developed.
- Initial recruitment efforts for Country Directors in Brazil and Indonesia.
- Completion of all administrative and management support tasks identified in PROFIT's First Year Plan.
- Development of a detailed Evaluation Plan for review by R&D/POP.
- Establishment of a non-profit foundation to hold PROFIT's investments, and to form the basis of a longer-term endowment for other family planning activities.

PROFIT also identified organizational and implementation issues requiring attention as its second year commences. Key among these is the need reinforce the country assessment efforts with short-term resources, and to organize the core team along functional responsibilities. In addition, PROFIT first year of operations underscored the need for the project to modify its investment size criteria from \$500,000 to \$250,000. These changes should provide the project with the sufficient level of effort to identify and process a more substantial number of projects and investments.

As the ~~second~~ year of operations begins, PROFIT is focussing on completing the processing of pending projects and advancing projects identified through its pipeline. PROFIT has targeted the Philippines, India, Egypt and Morocco as its next countries to be visited and assessed. PROFIT will continue to focus on its principal sectors: Innovative Investments and Transfers, Private Health Care Providers, and Employer-Provided Services; other areas of involvement will be considered to enhance private sector resources in family planning activities. Overall, however, the organizational and infrastructure support mechanisms to be put in place will play a deciding role in PROFIT realizing its investment objectives and mission of mobilizing private sector resources in family planning activities.

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SECTION 1 PROJECT OVERVIEW

This document presents the first year annual report 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 first of five annual reports describes the first year's activities and accomplishments. The document also looks forward to tasks and activities to be undertaken in the second year, and highlights project implementation issues that require attention.

This annual report provides the reader with an objective comparison of the project's activities and accomplishments against the project's Five Year Strategy and First Year Work Plan. Both documents were submitted to R&D/POP on January 31, 1992, and were approved. Although we repeat some material here from both predecessor documents, we assume that the reader has access to these for reference purposes.

1.1 Project Background

PROFIT, or "Promoting Financial Investments and Transfers," is a new project of the Family Planning Services Division (FPSD) of A.I.D.'s Office of Population (R&D/POP). PROFIT is designed to increase the private sector's involvement in, and support for, family planning service delivery in developing countries. The PROFIT project is the most recent effort of R&D/POP/FPSD to mobilize the private sector in family planning activities, building upon the achievements and lessons learned from the TIPPS and Enterprise projects. As part of FPSD's group of cooperating agencies (CAs), PROFIT supports FPSD's mandates. However, PROFIT also fills a new and unique role. This five-year project is to use financial leveraging techniques in support of private sector family planning. Thus, PROFIT represents a new way of thinking about how donor groups can contribute to family planning.

The PROFIT project is a consortium of five firms, led by the international financial services and accounting firm of Deloitte & Touche (D&T). Subcontractors include Multinational Strategies, Inc. (consultants in international finance), Development Associates, Inc. (a family planning training contractor), Boston University Center for International Health (consultants in public health finance), and Family Health International (family planning research specialists). These firms have brought together a broad range of financial and family planning skills and experience.

The core PROFIT team includes fourteen full-time staff members based in Arlington, Virginia. Seven staff members form the core team's technical unit and seven the administrative unit. In addition, PROFIT has a budget to recruit Country Directors and staff in six countries; it also has a short-term consultant budget that exceeds 250 person-

months over its five-year tenure. Deloitte & Touche's local offices in all the PROFIT countries will provide local business knowledge and advice to the project. PROFIT can also draw upon the assistance of its four-person Expert Advisory Panel.

PROFIT will conduct financial transfers and develop projects that stress sustainable private sector initiatives. A.I.D. established an investment fund of \$17.4 million for such transfers, which may include conversions of developing country debt or of corporate blocked funds. The PROFIT team expects to be able to show, at the end of PROFIT's five years, that A.I.D.'s investment fund has resulted in considerably more in family planning resources. Another innovative feature of PROFIT is a nonprofit foundation established to hold PROFIT investments during the project's term. The foundation will form the basis of a perpetual endowment to fund A.I.D.'s family planning initiatives after PROFIT's term has expired.

1.2 PROFIT Mission

The mission of the PROFIT project is two-fold:

- To promote private sector involvement in sustainable family planning projects in targeted developing countries
- To create and use innovative financial leveraging techniques and models for those projects.

This statement of PROFIT's mission identifies both the end and the means. PROFIT seeks to use the private sector to close the "resource gap" for family planning endeavors and programs. At contract start-up, the use of leveraging techniques was seen as propitious because:

- There were large amounts of developing country debt available at a discount.
- There were new financial techniques to use "frozen assets".
- Opportunities for using debt were likely to diminish, making it imperative to act upon these opportunities.

However, the attractiveness of debt swaps has decreased dramatically in the last year (i.e., discounts for debt instruments have shrunk due to improved external debt positions of many countries). The "resource gap" faced by donor agencies and public sector has not diminished. Thus PROFIT's challenge to involve the private sector in what is traditionally a public sector activity --family planning-- is still a primary mission of the project.

1.3 PROFIT Goals

PROFIT originally established five strategic goals for the project:

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

1.3.1 Goal One: Act as a Catalyst

PROFIT offers an opportunity to create model projects showing that family planning in the private sector can be profitable and sustainable. PROFIT expects that a successful model will motivate entrepreneurs and investors to create additional initiatives. The project offers three important factors as a catalyst:

- *Money.* PROFIT's investment fund will provide crucial start-up funds or risk capital, and will induce investors to team up with A.I.D.
- *Private sector skills.* The PROFIT team comes primarily from private sector financial institutions. Team members know how to attract outside investors and manage investments for long-term success and profitability.
- *Contacts.* The PROFIT team has worked around the world, and has extensive background and contacts in the business, financial and family planning communities. We can tap these resources to identify promising investments and to find partners.

1.3.2 Goal Two: Establish Twenty Projects

PROFIT's mandate is to establish twenty significant projects in ten countries, emphasizing project sustainability. The PROFIT team initially defined a "significant" project as one 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. We defined a "sustainable" project as one which could generate sufficient funds to continue after PROFIT is over, or

which had access to continued local funding from other sources and to continued technical assistance.

PROFIT plans to have all twenty projects identified, and most underway, by the midpoint of its term (month 30). This investment schedule means that the \$17.4 million investment fund should be disbursed by the middle of year three. The team has planned the project development schedule to allow sufficient time for each investment to produce measurable returns by the end of PROFIT's five years.

1.3.3 Goal Three: Leverage A.I.D. Funds by 4:1

For PROFIT, A.I.D. has established an investment fund of \$17.4 million. PROFIT expects to achieve a "multiplier," or leverage, of about four-to-one on those funds, resulting in \$60 to \$70 million for private sector family planning projects. PROFIT will leverage the funds in several ways:

- *Debt conversion.* Developing country debt often sells at a discount when traded in the secondary market. That is, debt purchases can generate more than its market value when the amount is converted to local currency. For example, Brazilian debt recently traded at approximately twenty-seven cents on the dollar. PROFIT could purchase \$250,000 worth of Brazilian debt and receive \$1 million worth of cruzeiros, if redeemed at the "face value" of the debt (less transaction costs), for use in Brazil.
- *Blocked funds conversion.* Blocked funds are corporate earnings, in local currency and held in local banks, which cannot be transferred out of the country. Multinational corporations may sell these funds at a discount to obtain hard currency. This is another way for PROFIT to gain local currency for local projects.
- *Investment partners.* PROFIT will structure its projects so that they are attractive to private sector investors, who may be local entrepreneurs or multinational corporations or nongovernmental organizations involved in private sector efforts. This will spread investment risk, and help to ensure that PROFIT projects are backed by entities with an interest in their success.
- *Borrowing.* PROFIT will identify funding sources in local or international capital markets for projects that should generate enough income both to pay back the funds during the life of PROFIT and to generate additional income.
- *Leasing.* PROFIT will consider leasing, rather than buying, equipment or facilities. Leasing reduces risk and spreads capital costs over several

years. Ideally, leases will include a purchase option, so that the enterprise can own the facilities or equipment at the end of PROFIT.

- *Guarantees.* PROFIT may offer guarantees to private sector investors and creditors, where PROFIT does not invest any initial capital but limits the risk to investors.

1.3.4 Goal Four: Achieve a Measurable Impact

The group of countries in which PROFIT intends to operate presents widely varying economic, political and social conditions. PROFIT will carefully select projects that can succeed under local conditions and constraints. Because of the range of countries and types of projects, evaluation will be a challenging task. It may not be feasible or realistic to look for nationwide demographic impact, for instance.

Conventional, widely used family planning evaluation criteria, such as Couple-Years Protection (CYP) apply in a limited manner to PROFIT's scope of operations. PROFIT defines its success criteria in both financial and family planning terms, specific to each project and tailored to what the project can achieve. For example, an employer-based project may focus on increasing the number of users in an employee population, thus reducing absenteeism and realizing cost savings to the employer. A manufacturing project may focus on increasing availability of condoms or contraceptive drugs in a region or the country as a whole. Improving the access to contraceptive products and services, either through improved distribution channels, more affordable prices, or added choices for consumers may all be measures of family planning impact. Moreover, PROFIT is addressing improved quality of care and expanded awareness of contraceptive options as possible measures of impact for target populations.

PROFIT will measure its financial leverage impact, and whether projects generated enough revenue to be sustainable. It will also need to quantify the family planning impact it has achieved through its intervention. Evaluation requires careful and thoughtful consideration, project by project, of results expected and how they can be quantified.

1.3.5 Goal Five: Provide a Central Resource

The PROFIT project expects to serve as a resource for other R&D/POP or A.I.D. offices, other cooperating agencies, and USAID Missions. The resources available include financial and managerial skills, which may be used in joint efforts with other cooperating agencies. Other central resources include a project library with background on PROFIT countries, and information about financial techniques and investment management. PROFIT includes a buy-in component, so even Missions in countries where PROFIT does not operate can request technical assistance in areas where the PROFIT team has particular skills.

1.4 Types of PROFIT Projects

PROFIT is to design family planning projects that will fall into three major sectors:

- *Private, market-based providers.* PROFIT is designing projects that involve private providers, such as health maintenance organizations, group practices, pharmacists, or professional associations. Hospitals and insurance companies are also included in this sector. The types of projects may include establishing new facilities, adding family planning services to an existing practice, supplying training, or supplying commodities or informational material on a market basis.
- *Employer-based providers.* PROFIT is approaching employers of large numbers of workers, such as manufacturing plants, industrial estates and employee associations to offer family planning as a benefit. To help ensure that these projects are sustainable, PROFIT is offering managerial and technical support. Types of employer-based projects include adding family planning as a benefit, establishing work place clinics, and establishing joint clinics for use by employers in an area.
- *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 may apply to any of the sectors mentioned above:

- *Privatization* of service delivery, production, or insurance currently in the public sector will always be an option considered. Indirect methods of privatization, such as contracting-out for services, may sometimes be appropriate. PROFIT will look at the regulatory climate in the country as it affects the process of privatization.
- *Reduction of trade barriers* may affect family planning efforts at many levels. Such barriers may inhibit the import of raw materials or finished goods, thus limiting availability of modern methods; barriers may also affect national or regional distribution or restrict foreign investment. Indirect barriers such as price controls may inhibit the entry of the private sector into service or commodity provision. PROFIT will explore trade barriers as they affect projects. We may recommend ways to operate

despite these barriers, while making policy recommendations to improve the situation.

In terms of its emphasis, PROFIT established goals for the \$17.4 million investment fund against the categories discussed above. The graphic on the following page depicts these goals.

1.5 Overview of Document

This First Year Annual Report is organized in the following manner:

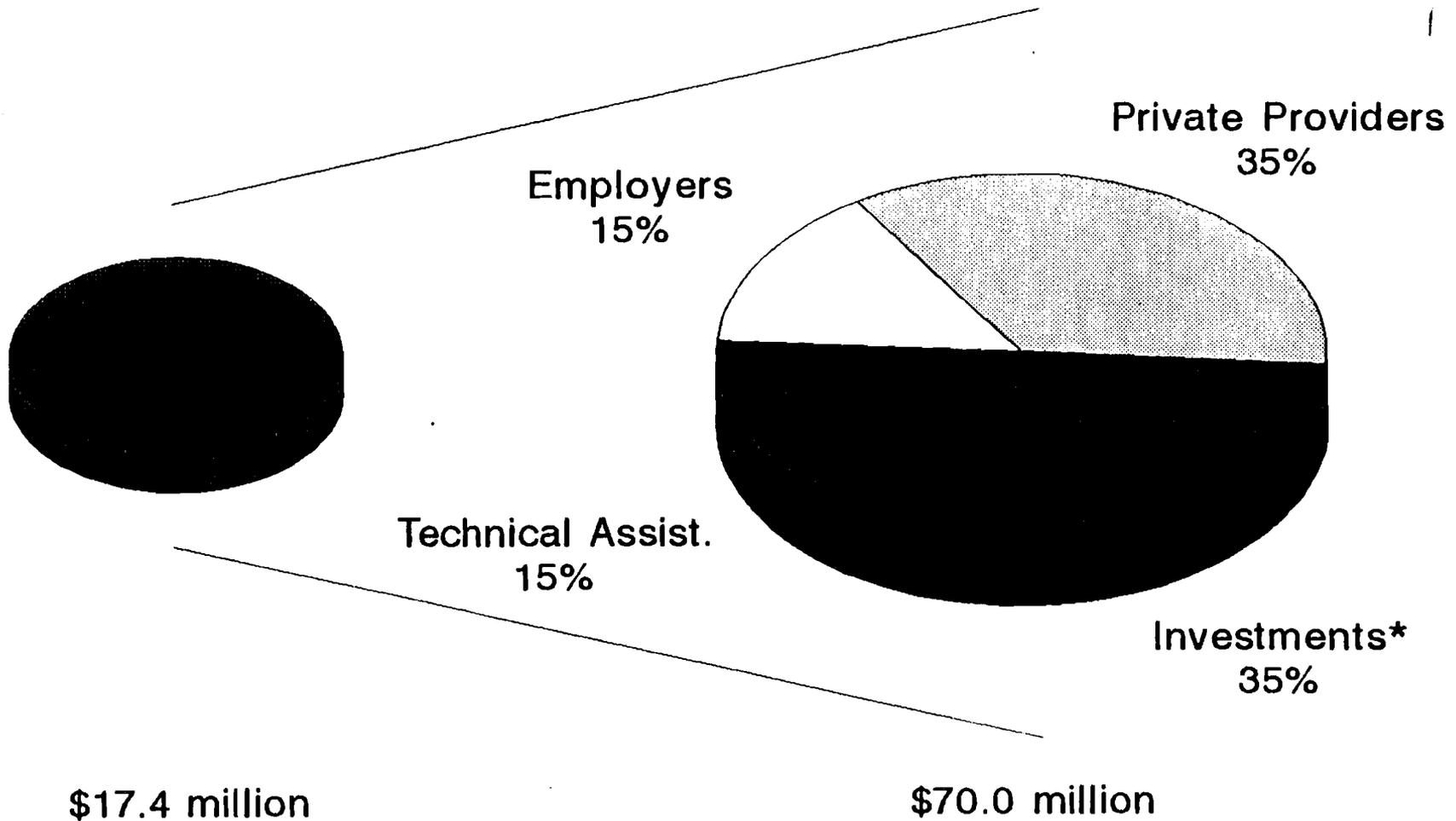
- An executive summary;
- A project overview, to include background, strategy and goals;
- First year activities and accomplishments, focussing on the project's country assessment activities, project investment opportunities, dissemination and networking activities, and administrative and management tasks;
- Implementation issues and challenges faced by the project during its first year;
- Outlook and strategic priorities for the Second Year, including country and sectoral strategies, project development approaches, investment management and monitoring issues, financial, infrastructure and human resource requirements, and contractual issues that require resolution.

These topics are presented in the four sections of this document.

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Chart 1-1

Distribution of PROFIT Projects



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SECTION 2
FIRST YEAR ACTIVITIES AND ACCOMPLISHMENTS

2.1 Summary of First Year Work Plan

In its First Year Work Plan, PROFIT proposed a comprehensive program of technical and administrative tasks to achieve its strategic goals. The principal objectives of PROFIT's First Year Work Plan were to:

- 1) Conduct country assessments for six of the ten target countries;
- 2) Implement two project investments or debt swaps/financial transactions, and to develop a project development pipeline to implement all twenty projects by Month 30;
- 3) Recruit two Country Directors responsible for coordinating project implementation and monitoring activities in target countries;
- 4) Develop a comprehensive Evaluation Plan for the project; and
- 5) Conduct an extensive range of administrative, outreach, and management support tasks to facilitate the efficient operation of the project.

Table 2-1 itemizes these technical and administrative "deliverables", and gives a summary description of their status as of the end of PROFIT's first year.

The following chapters of this section include a complete discussion of the activities undertaken to accomplish these objectives.

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Table 2-1
PROFIT First Year Work Plan Deliverables

Deliverable	Goal	Status
Country Assessment	Complete six assessments	Four full assessments, three limited assessments completed
Project investment/ Debt swaps	Implement 2 investments or debt swap transactions	Two projects under review, including one debt swap
Country Directors	Recruit 2 Directors	One Director identified
Evaluation Plan	Develop, submit plan to A.I.D.	Plan submitted to A.I.D.
Admin./Mgmt. Tasks:		
● Office Space/Equipt.	Acquire Project space/equipt.	Accomplished
● Expert Advisory Panel	Convene 2 meetings	Accomplished
● Oversight Board	Convene 2 meetings	Accomplished
● Project Data Bases	Establish Consultants Roster and Project Information data bases	Accomplished
● Dissemination	Develop contacts mailing lists	Accomplished
	Speaking opportunities	Accomplished
	Develop brochure	Accomplished
	Publish 1st edition newsletter	Accomplished
	Participate in conferences	Accomplished
	Join associations	Accomplished
	Develop project stationery, etc.	Accomplished
● Project Files	Establish project files	Accomplished
● Project Library	Establish library	Accomplished
● Reporting Procedures	Establish procedures	Accomplished
● Project Procedures	Establish internal procedures	Accomplished
● Project Approvals	Establish A.I.D. approvals	Accomplished
● Non-profit foundation	Establish foundation	Accomplished

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2.2 Country Assessments

Proposed Country Assessments

PROFIT's First Year Work Plan included completing six country assessments for Brazil, Mexico, Nigeria, India, Indonesia, and the Philippines. The goal of the assessments was to conduct focussed analyses of each target country. These analyses would enable PROFIT to select potential sectors for investment, identify specific opportunities and establish first investments, that is, "make the deals." The assessments were also to be used for identifying and recruiting Country Directors.

Based on visits to each country by members of the core staff, the team would prepare a country assessment document, describing sectors for PROFIT intervention and identifying potential projects for follow-up.

Country Assessments Activities

PROFIT completed four full country assessments and three "limited" assessments during its first year, as follows:

Full Assessments: Brazil, Mexico, Nigeria, Indonesia

Limited Assessments: Colombia, Bangladesh, Jamaica

PROFIT performed limited assessments in countries that did not require a comprehensive review of all potential opportunities in PROFIT's strategic sectors, (e.g., providers). PROFIT also conducted limited assessments when R&D/POP requested targeted PROFIT intervention, or when initial country visits found limited project potential.

During the year, certain modifications and changes occurred in PROFIT's proposed country assessment targets. PROFIT postponed visits to two target countries, India and the Philippines, to the first quarter of FY 1993. The project added Colombia, Bangladesh and Jamaica to its potential targets of opportunity and conducted limited assessments of these countries. Appendix A provides a detailed listing of PROFIT's country assessment visits and analyses performed during its first year.

The following are summaries of our country assessment activities and findings during the first year:

Brazil - PROFIT expended a considerable amount of time and effort in Brazil and, consequently, developed several important project opportunities. Brazil is an important country target for PROFIT due to its large population (150 million people) and the relatively active private sector in the country's health system. Although the country's

contraceptive prevalence rate is quite high (70%), there is a need for intervention in the Northeast region of the country due to lower contraceptive prevalence rates (44%), uneven service delivery and a narrow mix of methods (sterilizations and oral contraceptives). In addition, Brazil will face added family planning needs due to A.I.D.'s planned withdrawal from population activities in Brazil by the year 2000.

PROFIT has therefore targeted its potential efforts in marketing and distribution of contraceptives, such as IUDs, through the establishment of a distribution organization to serve both commercial and PVO markets; and investing in two Maternal & Child Health/Family Planning (MCH/FP) clinics in the northeast with UNIMED, a private cooperative providing health care insurance to seven million Brazilians. Both of these project opportunities are currently being developed and analyzed.

Nigeria - PROFIT's assessment of Nigeria underscores the extensive need for family planning assistance at all levels given a markedly low contraceptive prevalence rate (between 3 and 6 percent for all methods), high population growth (3% per year), and low levels of family planning demand among married women due to favorable attitudes towards large families. An added factor is the extensive role of the Nigerian public sector and important A.I.D. bilateral family planning activities.

Given the overall low contraceptive prevalence rates, PROFIT's role in Nigeria is probably limited. Fundamental changes in education and attitudes towards family planning must occur before PROFIT's private sector intervention can be meaningful and effective (i.e., an extensive public sector role must first change prevailing attitudes). There may be limited opportunities in distribution of contraceptives through ventures with local firms that can improve the availability of quality and affordable contraceptives. Likewise, service delivery through large employer groups will be investigated for potential involvement.

Mexico - Family planning programs in Mexico since 1974 have been provided free of charge to all citizens by the Government of Mexico. Consequently, Mexico has achieved important strides in reducing its population growth rate, expanding the use of contraceptives to well over 50% of married women, and improving knowledge of family planning among its population. Where need is apparent is in rural and poorer areas, and in the expansion of new contraceptive methods, such as injectibles. Overall, local manufacturers meet Mexico's contraceptive production needs, but limited opportunities may exist in distribution of certain commodities (i.e., condoms) particularly to rural or peri-urban areas.

Indonesia - PROFIT's assessment of Indonesia confirmed the extensive and quite effective role of the Indonesian Government in family planning through BKKBN (National Family Planning Coordinating Committee), which has over 48,000 paid employees and 220,000 volunteers. The private sector is also active in local contraceptive manufacturing and service provision. There is some unmet demand in the areas of employer-provided

service delivery, particularly among large industrial estates. As a result, PROFIT has opted to take a measured approach in Indonesia, concentrating on developing employer-provided services through one or more industrial estates in collaboration with private sector groups.

Colombia - At the request of R&D/POP, PROFIT added Colombia to its first year's target countries. R&D/POP designated Colombia a "priority" country, and requested PROFIT to assist with the design and implementation of a financial endowment mechanism for PROFAMILIA, the IPPF-western Hemisphere affiliate. PROFIT considered this project opportunity to be within its mandate, as it involved the use of innovative financial mechanisms to promote family planning endeavors, and because potential leveraging opportunities exist for the investment of PROFIT funds. With R&D/POP's concurrence, PROFIT added Colombia as a target country and conducted a limited assessment as part of its technical assistance efforts to design the endowment.

Bangladesh - USAID/Dhaka invited PROFIT to conduct an initial assessment of Bangladesh to determine whether adequate market conditions and environmental factors existed to justify a full country assessment. PROFIT agreed to visit Bangladesh in May 1992, because it was designated a "priority" country by R&D/POP. Our assessment, with which R&D/POP/FPSD concurred, was that Bangladesh offered limited tangible opportunities for PROFIT given the small size of Bangladesh's private sector. PROFIT envisions no further activities for Bangladesh at present.

Jamaica - At the request of USAID/Kingston, PROFIT was invited to perform a limited assessment of Jamaica, in view of A.I.D.'s planned exit from family planning activities there. PROFIT identified a specific project opportunity to work with Blue Cross of Jamaica (BCJ) in adding family planning services to its covered benefits. The project was abandoned in August 1992 due to the inability of BCJ's parent company to provide funding for the proposed project. This potential project is still under consideration under a different format, that of establishing a reinsurance fund for insurers, including BCJ, willing to cover family planning services.

Target Countries Not Visited:

Philippines - PROFIT postponed its planned visit to the Philippines from June 1992 to October 1992, due to events occasioned by the Philippines' presidential elections in May 1992. Because other country assessment efforts and project preparations were fully underway, PROFIT chose to concentrate on completion of its current assessments rather than initiate a new assessment. PROFIT intends to meet its revised visit schedule for the Philippines.

India - PROFIT delayed its projected March 1992 visit to India at the request of A.I.D./New Delhi, due to the Mission's negotiations with the Indian Government over the Uttar Pradesh family planning project. Although A.I.D./New Delhi consented to a

PROFIT visit for August 1992, PROFIT postponed its visit to India until November 1992, in view of the need to complete current assessments.

2.3 Projects and Investments

Through its country assessment activities, PROFIT identified several potential projects for funding. These projects are either in the development stage or are being analyzed for technical, financial, and family planning impact worthiness prior to submission to R&D/POP/FPSD for review and approval.

We briefly describe the projects that are under consideration as of October 15, 1992.

1. Brazil: UNIMED Maternal Child Health/Family Planning (MCH/FP) Clinics

PROFIT is assessing the joint purchase and operation of two clinics in Northeast Brazil (Maceio and Aracaju) with UNIMED, a Brazilian health insurance cooperative with 50,000 participating doctors and 7 million insured clients. The investment would include the provision of family planning services to UNIMED clients in those two cities, and the inclusion of maternal and child health diagnostics services at each clinic. The clinics will serve an existing client base of 10,000 women between the ages of 15 and 49 in Maceio, and about 7,000 women of this age range in Aracaju. This program would provide a full range of family planning services, including counselling, examinations, products, and surgical procedures. Preliminary investment participation for PROFIT is estimated at \$1.5 million for both facilities.

2. Mexico: FEMAP Community Doctors Program Expansion

FEMAP, or the Mexican Federation of Private Health and Community Development Associations, is a private, non-profit institution active in the provision, education and promotion of family planning to Mexico's indigent population. FEMAP established a Community Medical Units (CMU) program in 1990 to recruit, train and house doctors servicing clients in rural and peri-urban areas. Under the CMU program, doctors were granted loans to cover start-up costs and were trained to offer a range of health care, child survival and family planning services on a fee-for-service basis. The CMU program established 50 such clinics in the Ciudad Juarez area.

FEMAP plans to expand the financial and technical assistance for income-generating services for at least 21 clinics. Expansion will be accomplished through improved facilities, equipment purchases, provision of laboratory testing, pharmaceutical provision, and maternity and emergency care. This expanded program could be funded through a revolving loan mechanism administered jointly by PROFIT and FEMAP. The fund would be generated through a debt swap underwritten by PROFIT, through an initial investment of about \$250,000.

3. Colombia: PROFAMILIA Financial Endowment

PROFIT was requested by R&D/POP to provide technical assistance to 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 financial endowment. Such a vehicle was deemed necessary in light of A.I.D.'s planned withdrawal from population programs in Colombia over the next five years. PROFIT participated in discussions with PROFAMILIA and developed a draft design for a dollar-based endowment that would be established with A.I.D. funds. In addition, PROFIT would be prepared to provide \$1.0 million to the fund if PROFAMILIA was able to identify and secure matching contributions from other private sources.

PROFIT's proposal was still under review at the writing of this document.

4. Mexico: Grupo PROFAM Distribution

PROFIT assessed the feasibility of investing in the expansion of the condom distribution network of Grupo PROFAM, the leading Mexican distributor of condoms. The investment consisted of expanding the retail distribution to include medium and small-sized food stores throughout Mexico. The potential investment would amount to about \$250,000 and would finance a dedicated sales force, marketing costs, and some added processing and material costs. The expansion would have contributed to facilitating access to contraceptive products through some 10,000 to 15,000 new outlets, and was projected to increase purchases of condoms by 10% throughout Mexico.

The investment assessment process was almost completed, but was curtailed due to negotiations with a third party interested in purchasing Grupo PROFAM. PROFIT suspended consideration of this investment pending the outcome of the other discussions.

5. Other Potential Projects

PROFIT has developed a pipeline of other potential projects in the countries it has assessed, namely Brazil, Mexico, Nigeria, Indonesia, and Jamaica. These projects offer viable investment options for PROFIT, but are not yet sufficiently developed technically to be considered for approval.

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2.4 Project Staffing

PROFIT had mixed success in recruiting personnel for its core and consulting needs in the first year.

Core Staff

As a project, PROFIT lagged in staffing some full-time core positions. In particular, the Marketing Director position was not filled until July 1, 1992. The Evaluation Director position also underwent changes due to personal health reasons of the original incumbent.

A significant factor was the difficulty in attracting personnel with private sector expertise to a limited duration project (with salary ceiling constraints), who have knowledge of family planning activities or public sector health projects in developing countries. These experience and skills criteria proved difficult to satisfy in spite of heavy recruitment activities and candidate interviews. For these reasons, recruiting will require greater than average expenditures of time to identify, screen and approve potential candidates for any positions that are vacated.

Consultants

The difficulty in recruiting core staff was offset through the use of short-term personnel from the consortium members' staff and independent consultants. The use of independent consultants was particularly important in Brazil, Nigeria, and Jamaica, where specific project and marketing analyses were conducted. In addition, staff from the consortium members participated in:

- Development of Five-Year Strategy and First Year Work Plan
- Country Assessments (both country visits and document preparations)
- Development of the project's Evaluation Plan.

The value of using consortium staff and independent consultants cannot be underestimated and should be emphasized in the next year as development activities pick up pace.

Country Directors

PROFIT has identified a Country Director for Brazil, and is recruiting Country Director candidates in Indonesia. PROFIT will likely extend an offer to the Brazilian candidate as soon as the UNIMED projects are approved by A.I.D.; currently, the candidate is working on a short-term consulting capacity assisting in the assessment of the two proposed UNIMED facilities. Decisions on the Indonesia Country Director will be made subject to appropriate candidates being identified and progress on potential projects in Indonesia.

While the project has not met its goal of placing two Directors by the end of its first year, we have made progress toward recruiting Country Directors with sufficient time to oversee the implementation of approved and pending projects. For example, PROFIT initially recruited the Brazil Country Director to conduct the UNIMED project analyses and country assessment in Brazil. Similarly, PROFIT intends to recruit individuals for Country Directors in Mexico and Indonesia who first work on the development and elaboration of our projects. This will ensure the continuity of PROFIT's representation in the country and the Director's familiarity with PROFIT projects.

2.5 Project Evaluation

As envisioned in our First Year Work Plan, PROFIT developed and submitted its proposed Evaluation Plan for review and approval by R&D/POP/FPSD. The proposed Evaluation Plan details the scope of the project's evaluation activities and the evaluation indicators that should be utilized to measure the project's success.

A principal aspect of the Plan is its premise that traditional measures used to evaluate family planning projects, such as Couple-Years Protection (CYP) or demographic impact, cannot and should not be used to evaluate PROFIT. Instead, PROFIT has proposed performance indicators that focus on its primary mission, that of mobilizing private sector resources in family planning activities. Specific evaluation targets will also be developed for the individual investment PROFIT makes, to include financial, commercial and technical objectives. Family planning impact, to the extent it can be measured, will be confined to expanding the availability of contraceptives, added service provision, and improved quality of care.

2.6 Administrative and Managerial Accomplishments

PROFIT's first year encompassed a wide range of administrative and managerial efforts to mobilize the project and develop an efficient infrastructure which could support personnel and activities. The administrative and managerial tasks accomplished in the first year are summarized below.

2.6.1 Acquisition of PROFIT Space and Equipment

- Office space for the PROFIT project was located in Arlington, Virginia, effective February 1992. The space accommodates seven technical specialists and seven administrative personnel, a project library, project data base, project files, meeting and visitor areas. The office has established phone, fax, photocopier, and ancillary services.

- The project has acquired laptop computers for travel assignments, a database PC and document scanner with software, fax machine, and PCs for the central project office. PROFIT plans to provide all Country Directors with a PC. We assume that only two Country Directors will need their own fax equipment, since they will generally share space with local Deloitte & Touche affiliates.

2.6.2 Expert Advisory Panel and Project Oversight Board

- PROFIT's Expert Advisory Panel members convened twice during the first year (in December 1991 and July 1992) with PROFIT's management to review our Five-Year Strategy and First Year Work Plan, and to review the progress and status of our technical work plan. Both meetings were extremely effective in obtaining outside counsel regarding our target countries, potential projects and overall approaches.
- PROFIT's Oversight Board, consisting of the management of the PROFIT consortium members, met twice (in February 1992 and June 1992) to review progress to date and discuss internal project issues: staffing, contacts in target countries, new contraceptive technologies or family planning endeavors being conducted by consortium members, etc.

2.6.3 Establishment of Project Data Bases

PROFIT has established a data base system with a document scanner. The equipment will scan resumes and convert them into electronic format for efficient retrieval. This system will serve the project in several ways.

Short-Term Consultants Data Base

The first data base contains resumes of consultants. This data base gives the PROFIT team quick access to persons with various specializations who are available for short-term work under either the core or buy-in contracts. The team will give preference to current employees of the five firms in the PROFIT consortium, where possible, but will also maintain information on a number of independent or outside consultants.

The Consultants Data Base will contain resumes of approximately 300 specialists who have expressed an interest in working on PROFIT-related tasks. The project has an established procedure for collecting, reviewing and categorizing resumes, and for updating resumes and bio-data sheets of qualified consultants.

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Project-Related Information

The PROFIT team also built up a collection of project-related information during the year. The collection includes information about past projects and lessons learned, selected countries and private sector entities, current USAID family planning programs, and debt swaps, trade and tariff data. In our second year, we will decide which information needs to be automated and what could more usefully be maintained in the project library, discussed below. We may also consider an on-line file of trip reports and other project documents.

2.6.4 Dissemination Activities

PROFIT has undertaken a wide range of formal and informal dissemination activities to publicize the aims and efforts of the project. We have built useful networks of contacts within the family planning community, including USAID health and population officers, colleagues in cooperating agencies, and decision-makers in the banking community and private sector entities of targeted countries. Appendix B provides a list of significant contacts made during our first year.

Our first year's formal dissemination activities include:

- Building mailing lists for distribution of PROFIT marketing materials: the list includes individuals associated with A.I.D., Cooperating Agencies (CAs), USAID Missions, and private sector organizations. The mailing lists number approximately 1,000 potential recipients.
- Participated in speaking opportunities and presentations to relevant audiences, including:
 - International Council of the American Management Association
 - Latin American and Caribbean Bureau (LAC) of A.I.D.
 - The Jamaica Family Planning Conference
 - The FEMAP Donors Conference
- Developed a PROFIT brochure and published the first issue of the PROFIT newsletter. These were mailed to contacts identified above.
- Participated in the National Council for International Health (NCIH) in June 1992: PROFIT had a conference booth featuring a computerized graphics presentation describing the project.

- PROFIT has joined the following associations as a project:
 - National Council for International Health (NCIH)
 - Population Association of America (PAA)
 - American Public Health Association (APHA)
- PROFIT established its project "identity", including common business cards, letterhead, report covers, folder, fax cover sheet, etc.

2.6.5 Project Files and Library

PROFIT established files for its proposal, contracts and subcontracts, strategic plan and first year work plan, working papers; minutes of meetings; etc.

A Project library was established in a dedicated room to include: articles about family planning, debt conversion, material from previous projects, newsletters and periodicals, PROFIT-produced documents, subscriptions to relevant periodicals. The project is automating its library holdings for easy retrieval with a library cataloging software (MICRODIS) obtained from the Center for Development Information and Evaluation (CDIE).

2.6.6 Reporting Procedures

- The project has established reporting procedures to collect information and produce monthly status reports to R&D/POP/FPSD quickly, accurately and efficiently.
- PROFIT created an automated system to track time charged against tasks, technical areas, countries, etc., to facilitate financial reporting according to R&D/POP requirements.
- PROFIT finalized subcontracts with all four subcontractor firms, and established the means of obtaining accurate time and expense data from subcontractors.

2.6.7 Project Procedures

All project-related procedures were established, as identified in our First Year Plan:

- Travel clearance procedures

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- Resume handling procedures
- Information dissemination policies and procedures
- Performance evaluation procedures
- Handbook for overseas assignments: report format requirements, assignment letter format, trip report requirements, invoice and time reporting formats, etc.
- Procedures for reviewing and responding to buy-in requests, for project approval, for financial transfer approval, etc.

2.6.8 Project Approval Processes

A key issue identified in PROFIT's First Year Work Plan was the establishment of an A.I.D. project approval process to facilitate debt swaps/conversion opportunities. Discussions with the PROFIT Cognizant Technical Officer (CTO), the A.I.D. Contracts Officer, and representatives of the A.I.D. Financial Management Office, reaffirmed A.I.D.'s commitment to an expeditious review cycle. It was agreed that disbursement of funds through the Letter of Credit mechanism would generally be accomplished in under three work days.

2.6.9 Establishment of Non-profit Foundation

After deliberations with the A.I.D. General Counsel's Office, PROFIT obtained approval to establish a nonprofit foundation that would act as the holding mechanism for investments made through PROFIT. This entity, established as the Summa Foundation in the Commonwealth of Virginia, will be the recipient of all equity investments, debt instruments, and other assets funded through the debt conversion funds made available under the Letter of Credit mechanism. The Directors and officers of the foundation will be approved by A.I.D. and be composed of PROFIT personnel.

By establishing this entity, PROFIT is ensuring that investments are made not for the direct benefit of either A.I.D., Deloitte & Touche or PROFIT (which is illegal), but for the foundation, which will serve A.I.D.'s interest in sustainable family planning after PROFIT's term expires. By approving the makeup of the Directors and officers of the foundation, A.I.D. can direct the use of any income returned to the foundation from investments toward new family planning activities.

This accomplishment enables PROFIT to undertake investment activities in a legal and fiscally responsible manner. It represents the removal of legal impediments to the

investment of A.I.D. funds as intended under the design of the project. Also, it serves to create a model for the "recycling" of A.I.D. funds from productive investments.

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SECTION 3

FIRST YEAR IMPLEMENTATION ISSUES

As is common with new and innovative projects, PROFIT has experienced implementation issues during its first year of operation. We consider many of these issues to be part of the "learning process" in carrying out a program of activities with little precedent in A.I.D.'s project experience. The issues also reflect normal tensions inherent in the project's dual mandate of achieving private sector results (i.e., profits) and pursuing social aims (family planning impact). We present these issues as a means of proposing new approaches in strategy and technical priorities during our second year, and in order to attain the challenging objectives of the project in a more efficient manner.

3.1 Country Assessment Approach

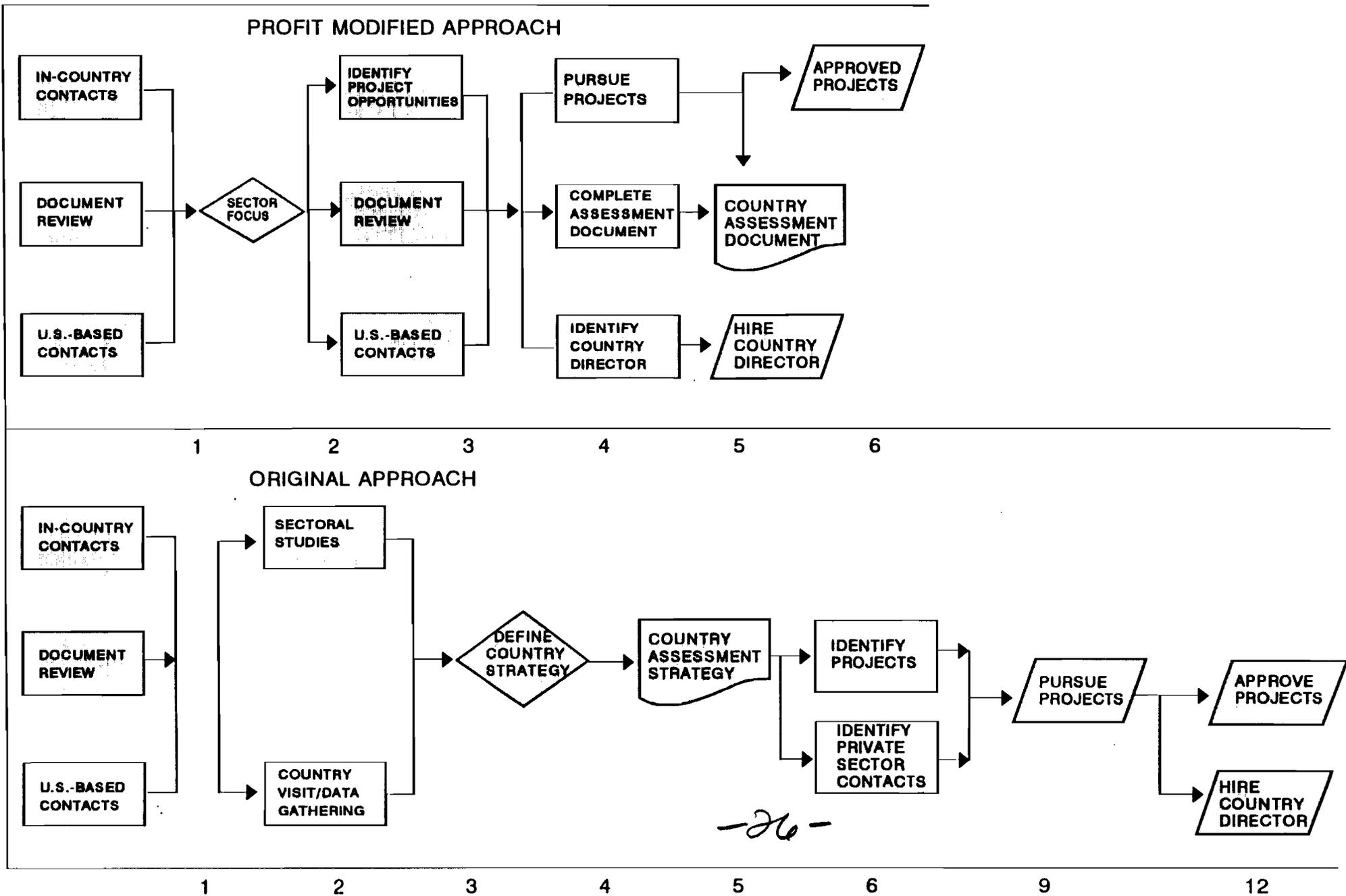
The project design for PROFIT envisioned a country assessment approach that stressed conducting comprehensive and detailed analyses of all three major sectors (innovative investments, market-based providers, employers) in each target country before identifying or pursuing project opportunities. This approach intended to arrive at a systematic country strategy in pursuing private sector interventions in family planning activities. PROFIT also intended that its assessments might be replicated or used by other projects seeking to work with the private sector in other types of development activities.

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 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 more practical approach in conducting country assessments. Chart 3-1 graphically depicts this approach, along with the intended approach elaborated in the design document.

CHART 3-1
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. First, PROFIT's staff performs 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 also highlights those sectors that have more promise than others. For example, studies have shown that manufacturing of contraceptives in Nigeria is not yet viable for quality assurance reasons; on the other hand, good prospects for manufacturing opportunities have been identified in recent surveys of Indonesia; service delivery to the maquiladora industry in Mexico may have already reached over-saturation; and so forth. It makes little sense for these existing assessments to be replicated for the purposes of our own country assessments.

Armed with this information, PROFIT core staff with private sector experience have visited target countries to 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. For example, the assessment of the private market-based provider sector can be accomplished, in great part, through a market survey to analyze the feasibility of working with private clinics interested in providing family planning services. Thus, both the country assessment analytical process and the project development and review process are advanced in parallel, rather than through a longer, phased, cascade model.

3.2 Target Country Selection

PROFIT's process for selection of target countries has undergone a certain amount of refinement since contract initiation. At present, PROFIT is utilizing a country ranking scheme that considers a variety of factors in assessing the environment of potential countries. PROFIT considers such criterion as:

- The level of contraceptive prevalence
- Population size and growth rate
- Per capita GNP
- Labor force make-up in certain key sectors (industry, services)
- Existence of large companies (i.e., with over 250 employees)
- Current population and family planning policies of the government
- Current A.I.D. policies and programs.

Some of these quantitative factors are used to produce a numerical ranking of countries (detailed in Appendix B). This approach is fairly new, and has not produced radically different results in the ranking of our current targets. It does offer, however, an objective means to validate country targets indicated in the contract and project design.

The use of these criteria is only a tool, however, and PROFIT would prefer to retain some operational flexibility in designating its target countries and the schedule for its visits. PROFIT believes that such an approach, when properly balanced with the wishes and objectives of R&D/POP and those of the USAID Missions, can best advance the goals of the project. PROFIT must always be in a position to alter its plan, with adequate reason, and undertake its program in new countries or at a different pace or schedule.

3.3 Investment Criteria and Profitability

PROFIT identified dozens of potential project investment opportunities (as documented in its trip reports). A considerable number 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.

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, 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, either 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 shareholder.

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 its 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.

Project Profitability

The issue of the project's criteria for its internal profitability is not as clear cut as investment size. PROFIT is set up to act as a private sector vehicle to attract other private sector entities in family planning ventures. Potential partners will generally be motivated by the prospects of profits; to ignore this factor would be to lose sight of the project's design. There has been no guidance, however, given to PROFIT regarding its own profitability criteria in structuring projects. Such ambiguity is not conducive to proper investment decision-making, and may send incorrect signals to potential partners.

If PROFIT provides funds, it must seek the return of the capital at some point in time or it is essentially acting as another donor agency, which PROFIT does not consider itself. Beyond trying to preserve its capital (adjusted for inflation), PROFIT has no specific guidance on the returns it should strive to achieve as a result of its investments, either individually or as portfolio. This raises the following questions:

- Is "as much as possible" profit a legitimate aim?
- What about "less than commercial terms" to attract entrepreneurs who have no access to traditional sources of capital?
- When should commercial terms be requested?
- Should PROFIT discriminate among its partners for the returns it requires for either loans or equity investments? On what basis?
- Does A.I.D. care whether PROFIT makes a profit, or does it just want its funds invested "wisely"?

These questions are not merely philosophical; the policies that PROFIT sets for its expected returns will influence and guide whether certain projects are abandoned,

rejected, or approved, and will determine the financial structure of a given project, and therefore the risk factor for recovering capital invested in a project. For example, if PROFIT adopts a "preservation" of capital stance, then it will gravitate towards equity positions or subordinated debt or debt at soft terms. Such a structure may well increase PROFIT's chances of recouping its capital, but will also lessen the chance of building in expectations of sustainability and long-term profitability in the project. Conversely, adopting a commercial lending/venture capital funding approach may leave out smaller firms with risky projects, or those with long break-even points. These trade-offs are illustrated in the table below.

**PROFIT vs. Subproject Profitability
Trade-Off Matrix**

PROFIT Terms	Example	Subproject Returns	PROFIT Returns	Consequences on project
Grant	No principal repayment; no interest charges	Highest	None; Decapitalization	No private sector "rigor" Minimal prospects for sustainability
"Preservation of capital"	Low interest; no principal payment in early years; or equity only structure	Above average	Capital preserved; no returns over time	Minimal private sector "rigor"; some amount of sustainability
"Less than commercial"	Below market rates; longer maturities; some dividends on equities	Average or better	Marginal returns; below market	Some "rigor"; better chance of project sustainability
Commercial terms	Market-driven rates, maturities and dividend policies	Lowest	Highest or market comparable	Best private sector measure of subproject sustainability
Mixed terms; to be determined by each case	Some projects charged commercial terms; others "less", etc.	Depends on terms	Average; depends on portfolio	No set policy; difficult to discriminate among clients; results may be skewed, hard to measure

PROFIT believes the most appropriate approach is a flexible, case-by-case criterion that could permit PROFIT to structure the most attractive investment for potential investors and PROFIT's objectives. At a minimum, PROFIT's capital should be preserved, and returns above that point generated in every investment. PROFIT must also insure equal treatment of investors in the same country and avoid discriminatory practices. Beyond these two

objectives, PROFIT's returns should be negotiated to fit each potential investment. Such a flexible policy may not lead to straight-forward "profitability" results, but will facilitate the structuring of projects.

3.4 Project Staffing

As originally designed, PROFIT staff positions are well-suited to respond to analytical requirements and investment evaluation needs. PROFIT's team consists of a technical specialist in each field pertinent to PROFIT's activities (investments, finance, marketing, family planning, evaluation, MIS, contracts). As such, the team is balanced and can rapidly identify, analyze and evaluate project opportunities in target countries.

The range of the positions is not ample enough, however, to address the task of pursuing and closing deals, especially across numerous countries. This is due to the relatively limited number of core technical staff available for "deal-making" and the need to evaluate countries carefully for appropriate interventions. PROFIT has attempted to address this weakness by assigning country responsibilities to each member of the technical staff, except for the Project Director, the Evaluation Director and MIS Director. This scheme has only partially succeeded for the following reasons:

- Technical specialists are not always the best "deal-finders" or "deal-closers".
- Technical specialists cannot often handle coordination responsibilities for their countries and undertake analysis in their areas of expertise in other countries due to travel needs.
- Individual country responsibilities do not easily permit a "team wide" review of investments, when decisions need to be made, particularly when some team members are overseas.

The obvious lessons from one year of operations are that:

- PROFIT requires its core staff to be involved, across the board, on the evaluation of potential projects, both in the field and at the home office where decisions are made.
- PROFIT requires more "deal-making" skills in each country it is investigating.
- Project assessment (e.g., financial analyses) needs will require additional core staff resources.

The proposed approach to these needs are within the framework of PROFIT's contract, but require approval and some modification to certain budget line items to be implemented.

First, *more in-country support to identify and close deals can be obtained by using "Country Directors" during the "deal flow" 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 potential opportunities, the number of projects being evaluated, the location of the country, the working conditions, etc.

To facilitate this approach, A.I.D. will need to provide PROFIT with added budget line item flexibility to retain, for short-term periods, personnel under the "Country Director" positions. No increase in funding from this approach is required; but A.I.D. will need to recognize that in-country support of a short-term nature cannot be fully supplied under the existing "Consultants" budget. PROFIT requests that 12 person-months be shifted to "Consultants" from "Country Directors" budget lines to facilitate this solution. The proposed approach poses challenges, particularly in managing a larger number of short-term personnel in the field. Communications with these individuals will need to be regular; and short, periodic trips (rather than longer ones) by technical team members responsible for given countries will be required.

Second, *the core staff will need an Investments Director solely devoted to analyzing investments, structuring and closing deals,* who is not also responsible for overall direction of the technical team (i.e., a Deputy Director). This function will be shifted to the current Contracts Officer to permit a more regular, U.S.-based, tracking of all project activities. While this does not involve a contractual change in positions, it is a departure from our proposed structure, and therefore requires the CTO's concurrence.

Third, *project analysis, monitoring and management needs will have to be enhanced by adding one or two persons to the core staff on a part-time basis.* PROFIT's experience with first year analytical and "backstop" needs is that our Project Assistant staff is hard-pressed to address all dissemination, administrative and "backstop" functions, and that this need will grow as projects are implemented over 6 to 10 countries. PROFIT recommends that two mid-level financial analysts be added to the "core team" 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 would 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.

3.5 Contract Finances

Several contract finance issues have arisen in the first year, none of them serious in nature but requiring some discussion.

3.5.1 Project Expenditures

PROFIT's expenditures were about 39% under budget across all cost categories. This underspending reflects many related factors:

- 1) Some core staff positions were not filled until July 1992, and no Country Director positions were filled.
- 2) Travel-related expenses were below budget, as the anticipated number of trips for country assessments did not materialize for reasons already described.
- 3) Use of short-term staff, particularly among subcontractors, was minimal.
- 4) There was no recourse to use the Project Equipment budget.
- 5) No funds have been disbursed from the "Debt Conversion" budget.

The only exceptions to the above were expenditures for "Consultants", particularly in the case of Brazil, where our candidate Country Director was initially retained to provide project development and country assessment assistance, and for "Non-expendable Equipment", reflecting the fact that our project office is established and fully operational.

PROFIT believes this trend of underspending reflects the fact that a project of PROFIT's magnitude generally takes a longer time to start-up. Entering its second year, PROFIT's expenditures will more closely approximate budgeted levels. Core staff positions are filled, with the exception of the Investment Director who resigned in late August; country assessment visits will resume as previously planned; there will be greater resources allocated to short-term staff and country director positions to assist with country assessments and "deal-making" opportunities; and recourse to the Debt Conversion/Investment budget for funding projects will be initiated soon.

3.5.2 Investment Funds for FY 1993 and 1994

It appears to PROFIT that Congressional budget impasses might have an impact on PROFIT's ability to obtain more funds for investment purposes in Fiscal Years 1993 and 1994. As we have indicated, our hope is to commit the \$17.4 million investment budget by our thirtieth month. PROFIT's present obligated budget for investments is only \$5.4 million. PROFIT's ability to commit funds for investments cannot be delayed without having an impact on implementing projects which can be evaluated in Years Four and Five. PROFIT hopes R&D/POP understands this situation, and that PROFIT's funding is made available for approved investments.

3.5.3 Buy-in Funding

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.

3.5.4 Additional Expenditures

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.)
- Office expenditures.

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. PROFIT requests these issues be taken up with the Contracts Officer and the Project CTO during the first quarter of FY 1993.

SECTION 4 OUTLOOK AND PRIORITIES FOR YEAR TWO

Part of PROFIT's objective in producing this document is to "look forward" to Year Two's activities in view of the experience it has acquired in its first year of operations. This section addresses, in brief fashion, some of the principal aspects of PROFIT's Year Two priorities. We will provide more detailed discussions of these proposed efforts in the Second Year Work Plan, which we are preparing concurrently and submitting under separate cover.

4.1 Countries and Sectors

4.1.1 Country Assessment Targets

PROFIT will continue to work in most of the Year One target countries it visited to complete project development efforts already identified. These countries are:

- * Brazil
- Mexico
- Nigeria
- Indonesia
- Colombia
- Jamaica

In addition, PROFIT plans to visit four more countries in Year Two, as originally identified in its Five-Year Strategy document. The target countries and scheduled visits are presented below.

**Table 4-1
Country Assessment Targets and Visits
Fiscal Year 1993**

Country	Planned Activities
PHILIPPINES	Initial visit October 1992 Follow-up trip December 1992 1 to 2 subsequent trips for project development
INDIA	Initial visit December 1992 Follow-up trip January 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 3rd quarter

Although PROFIT intends to adhere to this schedule, there may be a need to modify this schedule during the year to add other potential countries such as Kenya, Zimbabwe, Turkey, the Commonwealth of Independent States or Eastern European countries.

4.1.2 Sectors

PROFIT has followed its mandate with regard to the sectoral focus of its activities, namely: Innovative Investments (including manufacturing and distribution projects), Market-based Providers, Employer-based Providers, Privatization, and Reduction of Trade Barriers. This focus had produced many tangible project opportunities and has served the project well in terms of limiting the realm of all potential endeavors PROFIT might explore. Nonetheless, PROFIT has identified related areas of involvement that should be considered during the project selection process. Examples of these activities are:

- Exploring alternatives for the manufacturing of implant contraceptives, to achieve lower production and end-user costs
- Funding of media-related activities, such as soap operas, movies, and other forms of mass entertainment products, with heavy family planning contents or messages
- Technical assistance for the design and development of 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 affect PVO sustainability and family planning services
- 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 studies or research that focus on new contraceptive technologies with promise for market "roll-out" in the near future, as a means of expanding contraceptive choices to consumers in target countries.

In many of these cases, PROFIT's mandate and contract do not specifically provide the needed leeway to pursue these opportunities. In some cases, there is a longer-term development cycle to bring the project to fruition (e.g., new contraceptive products); in

others, PROFIT's role of working strictly with the private, commercial, sector makes it difficult to venture with traditional PVOs or NGOs; and the funding of "soft" products (i.e., soaps or movies) may not fall within the traditional realm of expanding contraceptive goods and services. These examples, however, all share a common denominator, which is the involvement of private sector mechanisms, forces or organizations in PROFIT's target countries to expand either the awareness, use, availability or provision of contraceptive goods and services.

PROFIT believes that such opportunities should be explored. Rather than requesting a "blanket" approval to pursue any or all of these potential projects, PROFIT proposes that it be given the flexibility to examine each possibility on a case-by-case basis with the PROFIT CTO to determine their suitability and commitment of effort necessary for PROFIT to develop any of them. On the basis of these factors and other stated PROFIT priorities, a decision would be made to pursue them further as appropriate.

4.2 Project Development Activities

PROFIT will continue to pursue a "proactive" project development method based on performing rapid country assessments, as detailed in Section 3.1, and identifying and nurturing potential deals with private sector partners. PROFIT will enhance this process in the following manner:

- Expeditious use and review of prior studies and analyses of PROFIT's target sectors to take the place of new studies or analytical activities in country
- Use of core team resources to identify in-country partners in the private sector and attractive project opportunities in selected sectors
- Continued reliance on contacts with other CAs, PVOs, and NGOs in target countries for potential leads of project opportunities
- Assigning the investment structuring and processing responsibilities to the Investment and Finance Directors, and relieving the Investment Director of the Deputy Director role
- Recruitment of short-term personnel in-country, along with staff of Deloitte & Touche local offices, to continue project development activities 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., in conjunction with project development efforts

- Use of core staff to provide oversight and continuity for specific country project development activities; and to provide specific technical inputs (e.g., marketing) across the board on all target countries as required.

This "proactive" approach is still the most useful vehicle for achieving our goal of committing our funds towards twenty projects by the project's thirtieth month.

4.3 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 over 500 "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 appropriate audiences
- 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
- Continued linkages to the CA community, the pharmaceutical industry, and other specialized private sector groupings (LDC debt traders of money center banks, etc.) for the purpose of obtaining information on trends and events.

4.4 Investment Management and Monitoring

As projects receive approval and are implemented during the second year and beyond, the functions of investment management and monitoring will become increasingly important to PROFIT. Investment management will encompass all in-country activities to oversee implementation of funded projects within the context of project approvals and MOUs reached with joint venture partners. This function may involve oversight of acquisition and installation of plant and equipment, expansion and training of new personnel, development of

reporting procedures, development of new services, and regular meeting with joint venture partners to review the performance of the new ventures.

Investment monitoring will involve the core team's regular review of the projects. This function will generally be performed in the U.S., with occasional (yearly) visits to the target countries for on-site inspection or meetings with top management of the ventures. The monitoring process will depend on receiving regular reports from the field (via fax or telephone) of projects' "vital signs" (sales, revenues, market share, clients, etc.), as well as regular financial statements and other business documents (monthly reports, semi-annual reports, annual business plans, etc.) from the ventures.

These two functions are obviously related but will involve different staff resources: project monitoring will be the responsibility of "Country Directors"; project monitoring will fall to members of the core staff, as defined by their country responsibilities. The monitoring function will also flow upward in PROFIT's organization, involving not only the Project Director but the Oversight Board and the Expert Advisory Panel.

To support these two functions, PROFIT will need:

- To recruit and hire Country Directors and staff in each country where projects are approved, unless it is determined the projects do not require more than a minimum of management to be implemented
- To provide Country Directors and staff with office space, equipment and operational guidelines to carry out their functions
- To develop management information systems or information flows to collect and receive data from the field regarding the projects
- To develop a Country "backstop" function among its core staff
- To develop a regular project monitoring review process within the technical core team to assess the performance of all projects individually and as a portfolio of projects with potential returns to PROFIT and its non-profit foundation.

All these activities will be planned and detailed further in the elaboration of our Second Year Work Plan.

4.5 Infrastructure and Personnel Requirements

The successful implementation of the activities and tasks elaborated in this section will require substantial effort by core and non-core personnel, and infrastructure not presently in place. These have already been discussed in other contexts, but are worth re-examining to understand the challenges facing PROFIT in the second year.

4.5.1 Infrastructure

New infrastructure (offices, equipment, systems, training, procedures) will need to be created or procured for all Country Directors and support staff in the countries where they are hired. In most cases, we plan to utilize the facilities available from the local Deloitte & Touche offices to house the in-country staff; where these are not the most expedient, due to location or other constraints, we will need to rent space and furniture.

Specialized information systems will need to be designed for the sending and receiving of reports, summarized data ("vital signs"), and other information from the field. Collection systems will need to be set up, and methods for processing information in our home office for purposes of analysis and review. Procedures for personnel orientation, staff evaluation and training will be needed, as well as other administrative needs (payroll, supplies, office expenses, legal and accounting costs, etc.).

Responsibility for obtaining and implementing these infrastructure support mechanisms will be that of PROFIT's Contracts Officer, assisted by the Finance Officer and other members of PROFIT's administrative unit.

4.5.2 Personnel

Recruitment of in-country personnel will become a top priority for PROFIT in Year Two. Country directors and their staff will be needed for project identification, development, and management of implementation, as needed. Recourse to Deloitte & Touche personnel is an option, as is retaining local, qualified consultants referred to us by our local offices or other reliable sources. Identification of these individuals will be a primary responsibility of the country assessment teams during their initial or follow-up visits.

Use of short-term personnel for purposes of market studies, feasibility studies, or specialized tasks (writing cases, editing, etc.) will increase to enable the core staff to carry out its function of project identification, country assessments, and oversight of project development in the U.S. Requirements for short-term personnel will be defined early in Year Two, particularly after the initial visits to new target countries, and to conduct other tasks related to dissemination. A detailed plan of short-term personnel needs will be developed by the

PROFIT team and circulated to members of the consortium to establish potential availability of in-house staff and scheduling for participation on PROFIT activities.

Technical core staff will need to refocus their endeavors from discharging primarily country-specific roles (project development, "deal-making", etc.) to a broader technical staff function related to each member's technical expertise (e.g., marketing) across all target countries. This does not imply that country oversight functions will disappear; only that technical core staff will be supported in-country by Country Directors and their staff, thereby allowing greater time to be devoted to providing specialized expertise to all countries on a functional rather than geographic basis. Thus, the Marketing Director will focus on marketing issues for all target countries, and so forth.

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APPENDIX A

Country Assessment Visits and Analyses

**PROFIT Country Assessment Visits
First Year**

COUNTRY Dates of Visit(s)	Assessment Activity
BRAZIL	
a) November 17-21, 1991	Initial visit; began country assessment, including contact with private sector firms, CAs and A.I.D./Brasilia
b) February 8-28, 1992	Advanced country assessment, identified major project opportunities with leading HMOs (Golden Cross, UNIMED, PROMEDICA)
c) April 22-May 6, 1992	Conducted discussions with PROMEDICA, UNIMED, and Golden Cross
d) May 18-June 1, 1992	Assisted R&D/POP in assessing self-sustaining commodities program in Brazil
e) July 1-21, 1992	Assessed nine UNIMED sites for possible joint ventures
f) August 15-25, 1992	Negotiations with UNIMED; selection of Maceio and Aracaju as project sites
g) September 9-20, 1992	Development of MCH programs in Maceio and Aracaju; development of cost projections
NIGERIA	
a) January 17-February 9, 1992	Initial visit; assisted in preparation of PID for Family Health Services II project
b) June 15-July 2, 1992	Identified three possible projects and one potential leveraging strategy; conducted market study for Nigerian Bankers' Association HMO

**PROFIT Country Assessment Visits
First Year**

COUNTRY Dates of Visit(s)	Assessment Activity
<p>MEXICO</p> <p>a) March 8-17, 1992</p> <p>b) April 19-May 6, 1992</p> <p>c) July 6-16, 1992</p> <p>d) August 6-7, 1992</p>	<p>Initial visit; began country assessment, identified project opportunities</p> <p>Advanced assessment; meetings with MEXFAM and FEMAP regarding employer projects</p> <p>Toured plant and met with Grupo PROFAM; discussion with FEMAP on possible project; investigated and rejected PROFIT involvement in Tijuana area</p> <p>Attended conference called by FEMAP for donor agencies</p>
<p>COLOMBIA</p> <p>a) May 18-29, 1992</p>	<p>Assisted in the creation of a permanent endowment fund for Profamilia, an IPPF affiliate</p>
<p>BANGLADESH</p> <p>a) May 17-22, 1992</p>	<p>Initial visit; country assessment started, project opportunities identified</p>

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**PROFIT Country Assessment Visits
First Year**

COUNTRY Dates of Visit(s)	Assessment Activity
JAMAICA	
a) April 25-May 2, 1992	Initial visit; identified project opportunity with Blue Cross of Jamaica (BCJ)
b) May 18-22, 1992	Attended Family Planning Initiatives Conference (OPTIONS II); furthered discussions with BCJ
c) July 19-31, 1992	Performed management audit of BCJ
INDONESIA	
a) April 26-May 16, 1992	Initial visit; country assessment started; project opportunities identified; discussion of PROFIT's participation in USAID/Jakarta's family planning strategy
b) August 19- September 5, 1992	Follow-up visit; discussions with YKB and JIEP regarding potential industrial estates project; initial recruitment for Country Director; presentation to USAID/Jakarta

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APPENDIX B

Country Selection Criteria and Rankings

COUNTRY SELECTION CRITERIA

Purpose

In order to rationalize and standardize procedures for selecting countries, 10 variables have been selected for ranking by country. Each country is ranked along an ordinal continuum from 1 "high" to n "low" based on their absolute value. The sums of the ordinal variables are then obtained and re-ranked (high = 1 to low = n). The variables included in the rankings are drawn from the literature regarding countries with the greatest potential of adopting or improving on modern contraceptive prevalence rates.

The variables included in the analysis are:

Total Population

Annual Growth Rate

GNP per capita

Percent of Female Labor Force

Female Life Expectancy

Number of Companies with 250 - plus employees

Percent of work force employed in Industry

Percent of work force employed in Services

Percent Urban Population

Modern Contraceptive Prevalence

Method

To test the relevance of these variables to family planning practice, Discriminant Function Analysis was performed using the USAID R&D/POP' classification scheme "Categorized by Modern Method Prevalence" (MMP). This scheme divides countries receiving USAID Population Assistance into the following categories:

Emergent	0-7% MMP
Launch	8-15% MMP
Growth	16-34% MMP

Consolidation **35-49% MMP**

Mature **50 + % MMP**

Results

Discriminant analysis was performed on the first nine variables (holding the ranking of contraceptive prevalence out of the analysis) against the nominal categories above. Multidimensional scaling suggested that this could be improved by eliminating both total population and growth rate from the analysis. Discriminant analysis performed on the remaining seven variables improved prediction to MMP categories to 92.2%. (When MMP percent is included and ranked prediction is virtually 100%.)

Conclusion

The above referenced variables can predict with 92.2% accuracy the categorical position of a country with respect to the USAID MMP system.

The PROFIT Project should consider using this method (rank and re-rank) as an additional piece of information when determining country selection early on in the process. Table I shows the criteria ranks, overall rank scores and the re-ranked scores.

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PROFIT PROJECT COUNTRY SELECTION CRITERIA RANKED

COUNTRY	VARIABLES										RANK	RE-RAN
	TOT. POP.	GROWTH RATE (%)	GNP (pc)	% URBA	LIFE EXP. FEMALE	% FEMAL LABOR F	COM +250	% INDU	% SERV	CONT PREVA		
BRAZIL	3	12.5	1	1	6	9	2	2.5	3.5	2	42.5	1
MEXICO	6.5	9	2	2	3	9	1	1	5	6	44.5	2
JAMAICA	16	12.5	4	5	1	1	13	2.5	1.5	4	60.5	3
COLOMBIA	12	12.5	6	3	2	11	4	5	3.5	3	62	4
TURKEY	9	10	3	4	5	5	6	9	8	10	69	5
PHILIPPINES	8	6.5	8	8	7	7	7	8.5	6	13	79	6
INDONESIA	2	15	11	9	9.5	9	5	8.5	8	5	82	7
THAILAND	10.5	16	5	14	4	2	12	11.5	11	1	87	8
MOROCCO	14	6.5	7	6	8	13	8	4	10	11	87.5	9
EGYPT	10.5	6.5	10	7	11.5	15	11	6	1.5	9	88	10
PAKISTAN	4	2.5	12	10	14	14	9	7	8	15	95.5	11
INDIA	1	12.5	15	11	13	12	3	11.5	14.5	7	100.5	12
ZIMBABWE	15	2.5	9	12	11.5	6	16	14	14.5	8	108.5	13
NIGERIA	6.5	4	13.5	15	16	4	10	13	12	16	110	14
KENYA	13	1	13.5	13	9.5	3	14.5	15	16	14	112.5	15
BANGLADESH	5	6.5	16	16	15	16	14.5	16	13	12	130	16