

PD-ABI-557

# PROFIT

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

Promoting Financial Investments and Transfers

**SECOND YEAR  
ANNUAL REPORT**

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

**Deloitte &  
Touche**



Deloitte Touche Tohmatsu International

In association with:

Boston University Center for International Health

Multinational Strategies, Inc.

Development Associates, Inc.

Family Health International

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# PROFIT

Promoting Financial Investments and Transfers

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**SECOND YEAR  
ANNUAL REPORT**

by

Deloitte & Touche

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## **EXECUTIVE SUMMARY**

The PROFIT (Promoting Financial Investments and Transfers) Project had a productive second year, as the majority of its primary objectives for the year were attained. Highlights of PROFIT's second year include:

- Completion of country assessments for the Philippines, Russia and Kenya.
- Development and approval by A.I.D. of three investment projects (two in Brazil, one in Indonesia) totalling over \$2.1 million in commitments.
- Development of three additional investment projects, submitted to A.I.D. and approved during the first quarter of PROFIT's third year.
- Identification of a "pipeline" of a dozen active projects.
- Hiring of Country Representatives in Brazil and Indonesia.
- Providing technical assistance to enhance private sector family planning initiatives in Colombia, Peru, Ecuador, Zimbabwe and Bangladesh.
- Continuing dissemination efforts to publicize the activities of the project.

PROFIT's project development efforts, while not fully achieving the ambitious goals set at the beginning of the year, yielded important results. PROFIT formulated two joint ventures with UNIMED, Brazil's largest health maintenance organization, to establish family planning and maternal child health facilities in Maceio and Aracaju, located in the northeast of Brazil which remains USAID/Brazil's priority region for the country. The two UNIMED projects totalled \$1.4 million in project commitments. In addition, PROFIT received approval to provide a \$650,000 loan to PT Bonnys, a private chain of vaccination clinics in Jakarta, Indonesia, to launch a commercial family planning service delivery program, with particular emphasis on large employer groups. The project will support USAID/Jakarta's aim of attracting family planning recipients away from public sector delivery sites to the private sector.

In the second year, PROFIT also identified and developed other key projects, two of which were approved by A.I.D. in the first quarter of FY 1994. The first is the establishment of a commercially-based Commodity Procurement Organization in Brazil, in collaboration with the SOMARC Project, to meet the needs of family planning organizations for reliable, affordable and quality contraceptive supplies. PROFIT will provide \$400,000 to the venture, which will market and/or distribute condoms, oral contraceptives, IUDs and, potentially, injectables to both commercial and nonprofit family planning organizations. PROFIT also structured and received approval for the funding of a low-cost health insurance program in the Philippines through PhilamCare, a private Philippine insurance company. The plan will make basic health and

family planning services available to the informal sector in Manila and, Cebu working with three large hospitals in those cities. PROFIT's commitment of \$165,000 will serve to offset any potential losses, thereby inducing PhilamCare to participate in the test marketing of the program. Both of these projects will be implemented in early 1994.

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

These efforts reflected several initiatives within PROFIT to improve and expedite the development of projects. First, PROFIT made important strides towards building a more effective and focused team. In April 1993, PROFIT restructured its core team along country and geographic lines, and assigned project identification and development responsibilities to the key "business" technical staff members. In addition, it defined in clear terms its investment selection and approval criteria to emphasize commercially sustainable family planning activities, specific family planning outcomes, and working within A.I.D. missions' strategies and program objectives. Third, the team enhanced its capabilities by adding a Family Planning Advisor and a Financial Analyst to its core team, while effecting a smooth transition in recruiting a new Investment Director and a new Finance Director. In its in-country operations, PROFIT also made progress by recruiting Country Representatives in Brazil and Indonesia, thus adding to its ability to identify, develop and implement projects in those countries.

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

Other aspects of PROFIT's activities, including its project identification and development record, and "lessons learned" regarding its attempt to work in the sectors mandated by its contract, were analyzed and are documented in this report. The key findings of this analysis are that PROFIT's successful development of investments is subject to a number of factors, among these project sustainability factors, USAID policy constraints, and the possibility that potential partners do not

proceed with a project. These factors have been appropriately internalized by the PROFIT team, which has markedly improved its prior record of projects not being funded.

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

With these "lessons learned" in hand, PROFIT is beginning its third year of operations by focusing on finalizing pending projects and advancing projects identified through its pipeline, particularly those in Brazil, Indonesia, the Philippines, Mexico and Russia. PROFIT has also targeted Ghana, Egypt, Peru and Turkey as its next countries to be visited and assessed, subject to USAID concurrences. PROFIT will make a more concerted effort to communicate its benefits to potential target USAID missions, and will concentrated on its dissemination activities as a way to share many of its experiences with other CA organizations and A.I.D. PROFIT's Work Plan for FY 1994 estimates potential commitments of some \$3.5 million through approximately a dozen new projects in established countries. PROFIT plans to open Representative offices in the Philippines, Russia, and potentially Mexico as projects are developed and approved in those countries. Finally, PROFIT will maintain its provision of technical assistance to USAID missions and family planning organizations in the areas of financial endowments, debt swaps, and financial sustainability, on an as needed basis.

## **SECTION 1 PROJECT OVERVIEW**

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This document presents the second 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 is the second of five annual reports, and describes the project's second year activities and accomplishments, covering the period from October 1, 1992, to September 30, 1993. The document also looks forward to tasks and activities to be undertaken in the third year, and highlights project implementation issues that require attention.

This Second Annual Report provides the reader with an assessment of the project's activities and accomplishments against its Second Year Work Plan. Although certain material is repeated here from predecessor documents related to the PROFIT Project, it is assumed that the reader has access to these for reference purposes.

### **1.1 Project Description**

The PROFIT Project was designed to increase the for-profit private sector's contribution to family planning service delivery in developing countries. PROFIT fills a new and unique role among the projects of A.I.D.'s Office of Population through the use of financial investments and leveraging techniques to support private sector family planning ventures. As such, PROFIT represents a new way of thinking about how donor institutions can contribute to family planning. The fundamental goal of the project is to motivate the private sector to meet the demand for family planning services and programs in developing countries, thus freeing up scarce public resources.

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

### **1.2 Project Design**

PROFIT seeks to demonstrate that family planning in the private sector can be commercially sustainable. By helping to create or expand private sector family planning ventures, PROFIT

expects that corporations and entrepreneurs will be motivated to create additional initiatives, based on the PROFIT model. PROFIT offers three important factors as a catalyst:

- *Financial Resources.* PROFIT's investment fund of \$17.4 million can provide crucial start-up funds or risk capital, inducing investors to team up with PROFIT on a risk-sharing basis.
- *Private sector skills.* The PROFIT team is primarily drawn from the private sector, including the investments, marketing and finance fields, who are supported by family planning and health care professionals. The team has experience to attract and deal with entrepreneurs and investors. The team also knows how to manage investments for longer-term success and profitability. These skills are brought to bear to identify, create and implement sustainable projects.
- *Contacts.* The PROFIT team has worked around the world, and has extensive background and contacts in the business and financial communities. These contacts are being tapped to identify promising investments and to find suitable partners.

PROFIT's goal is to create twenty projects in some ten countries -- a limited number of significant projects in a limited number of countries. Commercial sustainability and family planning outcomes are key criteria for selecting projects, as well as potential replicability in other countries and involvement of the private sector in family planning. PROFIT's project activities fall into three major sectors:

- *Private, market-based providers.* PROFIT finances projects for the delivery of family planning services through market-based providers. Such projects can involve: private clinics and hospitals, health maintenance organizations and insurance companies, groups of health care personnel, group practices, physicians' cooperatives, or professional associations.. The types of projects may include establishing new facilities, adding family planning services to an existing practice, or adding family planning to insurance coverage on a commercial basis.
- *Innovative Investments in manufacturing, marketing and distribution.* PROFIT can invest in contraceptive production or processing facilities, marketing and distribution ventures, and assist in bringing new technologies to market. Types of projects may include establishing new production facilities, upgrading old plants, expanding a distribution network, expanding an export market, or introducing a broader mix of contraceptives to certain countries.
- *Employer-based providers.* PROFIT works with employers of large numbers of workers, such as manufacturing plants, industrial estates, and employer associations, to offer family planning as a benefit. Types of employer-based

projects may include adding family planning as a benefit, establishing work place clinics, and providing technical assistance to employers for the purpose of demonstrating the benefits of family planning to their employees.

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

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

### **1.3 Overview of Document**

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

- Section 2 contains a detailed discussion of second year activities and accomplishments, focussing on the project's country assessment activities, project development and investment achievements, dissemination and networking activities.
- Section 3 addresses the project's administrative and management structures, and decision-making processes that have been implemented to facilitate and expedite project tasks.
- Section 4 describes the implementation issues and challenges faced by the project during its first two years of operations, and "lessons learned" for succeeding years; and
- Section 5 describes the outlook and strategic priorities for the Third Year, including investment and project development goals, country strategies, dissemination activities, and program budgeting requirements.

**SECTION 2**  
**SECOND YEAR ACTIVITIES AND ACCOMPLISHMENTS**

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**2.1 Summary of Second Year Work Plan**

In its Second Year Work Plan, PROFIT proposed an integrated set of country assessments and project/investments goals. These were:

- 1) To develop and commit funding for ten projects totalling \$7 million, based on its project development "pipeline" at the start of its second year.
- 2) To conduct country assessments for the Philippines, India, Egypt and Morocco.
- 3) To provide technical assistance of \$200,000 in specialized services to develop projects and to support family planning programs and USAID missions.
- 4) To arrange at least two debt swaps to leverage A.I.D. funds for potential projects or other family planning programs.
- 5) To recruit four Country Representatives (in Brazil, Indonesia, the Philippines and India) during the second year.
- 6) To undertake dissemination activities, including publishing a PROFIT newsletter, developing one case study on PROFIT projects, and organizing and hosting one business conference.

Table 2-1, on the following page provides a summary of second year goals and objectives and their status as of the end of PROFIT's second year.

The following chapters of this section discusses the activities undertaken to achieve these goals in more detail.

Table 2-1  
PROFIT Second Year Work Plan Goals

| Activity                | Goal   | Status   |
|-------------------------|--|--|
| Projects/investments    | Commit 10 investments for \$7 million  | 3 investments approved for \$2 million   |
| Country Assessments     | Complete four assessments (Philippines, India, Egypt, Morocco)                   | Three assessments completed (Philippines, Kenya, Russia)                                 |
| Technical Assistance    | Provide \$200,000 in specialized services  | \$ 270,000 spent over seven tasks  |
| Debt Swaps              | Complete two debt swaps  | Three debt swap projects investigated; none concluded                                    |
| Country Representatives | Recruit four Country Representatives (Brazil, Indonesia, Philippines, and India) | Two representatives hired (Brazil, Indonesia)<br>Recruitment in the Philippines on-going |
| Dissemination           | Publish a newsletter   | Published  |
|                         | Participate in Conference/seminars   | Accomplished   |
|                         | Conduct speaking engagements   | Accomplished   |
|                         | Develop one case study   | Not accomplished   |
|                         | Organize business conference   | One business seminar conducted (endowments)  |
|                         | Increase linkages to CA community  | Accomplished   |
|                         | Coordinate with R&D/POP to inform USAID Missions of PROFIT activities/objectives | Partially accomplished   |

## **2.2 Projects and Investments**

Through its first year country assessment activities, PROFIT identified several potential projects for funding. Three of those projects were approved during PROFIT's second year, and an additional dozen projects are in active development, two of which have been approved during the first quarter of PROFIT's third year.

### **2.2.1 Projects Approved**

Described in the following pages are the projects that were approved during PROFIT's second year.

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

PROFIT formed a joint venture with UNIMED, a Brazilian health insurance cooperative with 50,000 participating doctors and 7 million insured clients, to purchase and operate a clinic in Maceio, a city of 628,000 inhabitants in the northeast region of Brazil. The venture calls for the provision of family planning services to UNIMED clients in Maceio (numbering about 35,000), and the inclusion of maternal and child health diagnostics services, in addition to the provision of in-patient and out-patient medical services. The Maceio clinic will serve an existing UNIMED client base of 10,000 women between the ages of 15 and 49. This program would provide a full range of family planning services, including counselling, examinations, provision of contraceptive products, and surgical procedures.

PROFIT's investment participation in this venture was approved at a \$1,078,000 commitment, or 49% of the total capitalization of \$2.2 million for the project. The investment was made in the form of equity in the venture, with rights to 49% of the venture's annual profits.

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

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

At the writing of this report, this approved venture had been unilaterally abandoned by UNIMED/Aracaju due to its reluctance to share in the commercial benefits of the diagnostic clinic. In addition, the UNIMED chapter in Aracaju appropriated approximately \$90,000 of

PROFIT's funds to cover its "project development expenses." These actions forced PROFIT to pursue legal actions against UNIMED of Aracaju, which are still under adjudication.

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

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

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

**2.2.2 Pending Project Pipeline**

In addition to the approved projects detailed above, PROFIT spent considerable resources developing a number of high priority projects that were not approved by the end of Fiscal Year 1993, but which are its "pipeline" of active projects. These projects are briefly summarized below.

*Brazil: Commodity Procurement Organization*

PROFIT is concluding its development effort to establish a contraceptive commodity procurement organization in Brazil to serve the needs of commercial and NGO sector family planning organizations to access reliable and affordable supplies of high-quality contraceptive products. The organization will be established in collaboration with the SOMARC III Project, and will undertake a number of activities including: distribution of IUDs; social marketing and promotion of oral contraceptives distributed through private pharmacies; provision of marketing agent services for distribution of condoms and other latex-based products; and, potentially, distribution of injectables.

At the writing of this document, the project has been approved by R&D/POP and USAID/Brazil, in the amount of a \$400,000 commitment to be funded as equity for the venture, along with SOMARC's funds of about \$600,000 over the next three years. PROFIT expects to use these funds to cover operational expenses and potential losses by the organization during its first two or three years of operations.

### *Philippines: Providers Loan Fund*

PROFIT began development of a loan fund to assist private providers in the Philippines with financing for expansion or start-up of family planning service delivery, particularly in underserved areas of the country. PROFIT completed a two-month market study to ascertain the interest among certain provider groups, including doctors, nurses and midwives, operating both in urban and rural locations. The findings of the research indicated a high interest among doctors and midwives for such a fund. As such, PROFIT will structure a loan fund mechanism to service these groups, to be administered by a local bank or development finance institution. PROFIT anticipates that the fund will make available low-interest loans to these providers, that will be repaid over 2-3 years. A fund of between \$150,000 and \$200,000 is expected to be established, subject to R&D/POP's and USAID/Manila's concurrences.

### *Philippines: Low Cost Health Care Plan*

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

As a result of this study, PROFIT developed and received approval from R&D/POP for the project, which will commit \$160,000 in PROFIT's funds in risk sharing capital to the joint project with Philamcare. Additional funding will be requested to cover technical assistance, training and on-going evaluation activities.

### *Russia: Commodity Marketing Venture*

As previously described, PROFIT identified and is developing a project that would import and distribute high-quality, U.S.-sourced, contraceptive products in Russia. The venture will likely involve a U.S. pharmaceutical distribution firm already operating in Russia, and several U.S. contraceptive manufacturers, including Finishing Enterprises (IUDs). PROFIT also intends to formulate a comprehensive training program to facilitate the provision of such products in an environment that stresses quality and continuity of care for Russian contraceptive users.

### *Indonesia: Industrial Estate Clinic*

PROFIT funded a survey with YKB (Yayasan Kusuma Buana), a family planning organization, to determine the interest among employers at the JIEP Industrial Estate outside Jakarta to establish a clinic that would provide family planning services to their employees. The survey's implementation was delayed, but a partial completion of the survey indicated a high degree of

interest among employers for such a clinic. As such, a trial marketing of such services will be funded in PROFIT's third year, through technical assistance of \$35,000.

### 2.2.3 Potential Projects Not Funded

In its Second Year Work Plan, PROFIT identified a number of potential projects for development, that subsequently were not funded during the course of the year. These reasons for these projects' not being funded are summarized below.

*Mexico: FEMAP Family Planning Clinics* - PROFIT developed a potential project with FEMAP, a Mexican family planning organization operating in Ciudad Juarez. The project would have involved establishment of a loan fund to provide laboratory equipment for clinics of FEMAP's affiliates. The project did not go forward due to FEMAP's reluctance to assume the loan and foreign exchange risks associated with the transactions.

*Colombia: PROFAMILIA Endowment* - PROFIT assisted in the establishment of an endowment for PROFAMILIA in Colombia. Originally, PROFIT had offered to fund the endowment with up to \$1 million, subject to PROFAMILIA being able to raise matching funds. Due to PROFAMILIA's reluctance to engage in fund raising activities in the U.S., the offer was not accepted.

*Nigeria: Depo-Provera Marketing* - PROFIT worked with the local Upjohn affiliate in Nigeria to structure a joint venture for the marketing of Depo-Provera in Nigeria on a commercial basis. The project was abandoned due to USAID's preference to have Depo-Provera marketed through a social marketing effort.

*Jamaica: Private Insurance Fund* - PROFIT attempted to structure a fund to permit Jamaican insurers to provide family planning services to their clients. The program was analyzed and shown not to be sustainable.

## 2.3 Technical Assistance

PROFIT contributed approximately \$270,000 in technical assistance efforts to support private sector family planning initiatives in a number of countries. These efforts are summarized below, as is the value of the technical assistance endeavors.

### Bangladesh: Endowment Assessment

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

specific measures to USAID/Dhaka to enhance the SMC's financial stability and operational soundness. (Value: \$14,753)

#### Colombia: PROFAMILIA Endowment Assistance

PROFIT provided technical assistance to R&D/POP and PROFAMILIA, the International Planned Parenthood Federation-Western Hemisphere affiliate in Colombia, and the largest family planning provider in the country, in the design of a financial endowment to benefit PROFAMILIA. The endowment was to provide a pool of funds to PROFAMILIA to offset A.I.D.'s planned withdrawal from population programs in Colombia over the next five years.

PROFIT participated in assessing the \$6 million, U.S.-based endowment for R&D/POP and provided input regarding its legal, organizational and financial structure. The endowment was approved in July 1993, and PROFIT currently serves on the endowment's Board of Directors as R&D/POP's representative. (Value: \$4,642)

#### Peru: PRISMA Project Evaluation

PROFIT fielded an evaluation team in Peru to assist USAID/Lima to evaluate the progress of the PRISMA Project, under which six Peruvian family planning organizations were receiving USAID assistance. PROFIT focussed on the organizations' efforts to improve their operations and management capabilities, and activities aimed at enhancing their financial sustainability. (Value: \$90,397)

#### Zimbabwe: Condom Manufacturing Cost Study

At the request of USAID/Harare, PROFIT conducted a study of the economic feasibility of setting up a condom repackaging plant in Zimbabwe to service local contraceptive needs. PROFIT's team investigated the economic costs of establishing a repackaging facility, and analyzed cost structures of imported/repackaged condoms versus fully finished imported condoms from other countries such as Malaysia. PROFIT determined that these imports had a considerable cost advantage, and that the potential scheme would not be economically feasible. (Value: \$32,280)

#### Endowment Seminar and Manual

In order to familiarize the family planning community and A.I.D. offices and bureaus with financial endowments, PROFIT organized and conducted a seminar in April 1993 which focussed on issues related to the establishing endowments. In addition, PROFIT began development of a formal endowment manual for the benefit of non-governmental organizations interested in assessing endowments for their own use. (Value: \$99,249)

## Debt Swap Assessments

PROFIT undertook three separate investigations of debt swap opportunities in its second year. Debt swaps are considered by PROFIT under several forms:

- 1) To augment or leverage PROFIT's funding for one of its projects.
- 2) To leverage funds for a USAID project or family planning program, where PROFIT would contribute some of its fund to the transaction.
- 3) As a technical assistance activity to benefit a USAID project or family planning program; in this case PROFIT would not provide funds to the transaction.

Because two of the three opportunities involved technical assistance endeavors, they are listed in this section.

### *Ecuador*

PROFIT provided technical assistance to USAID/Ecuador's efforts to conclude a debt swap for the benefit of two Ecuadorian family planning organizations, APROFE and CEMOPLAF. PROFIT evaluated the funding needs of the two organizations. PROFIT also researched Ecuador's debt swap program and determined that important restrictions existed to enable the transactions to take place. However, PROFIT was asked to provide further assistance to APROFE and CEMOPLAF in the establishment of endowment funds. (Value: \$27,393)

### *Mexico*

PROFIT looked into debt swap opportunities, particularly to benefit FEMAP, a family planning NGO headquartered in Ciudad Juarez with affiliates throughout Mexico. As part of its effort to leverage funding for potential projects with FEMAP, PROFIT developed preliminary plans to process a debt swap for FEMAP utilizing funds to be contributed by A.I.D. and other FEMAP donors. Collaborating with the Debt-for-Development Coalition, PROFIT arranged for the debt swap research to be conducted into a \$250,000 swap. Due to delays with development of project opportunities, however, the transaction was not consummated. (Value: \$ 1,100)

### *Philippines*

In July 1992, the Philippine Department of Finance announced that due to rising premiums, the government's debt conversion program would probably be halted. PROFIT met with an official of the Philippine Central Bank regarding potential participation through the "social impact" program. However, it was determined that because PROFIT projects were still in development, the relevant information needed to participate in the debt conversion program would not be available at that time. PROFIT will continue to monitor the Philippine debt swap program for potential opportunities to leverage its funding of approved projects, particularly those with a "social impact." (Value: \$ 500)

## 2.4 Country Assessments

### 2.4.1 Proposed Country Assessments

PROFIT's Second Year Work Plan envisioned completing four country assessments: the Philippines, India, Egypt and Morocco. These targets were selected to complement PROFIT's First Year assessments conducted in Brazil, Mexico, Nigeria and Indonesia, and limited visits to Colombia, Bangladesh and Jamaica. Target countries were selected on the basis of the Office of Population's "priority country" list, and PROFIT's initial research that the target countries offered a developed private sector and favorable investment and political climates, and a promising environment for private sector family planning endeavors.

The goal of PROFIT's country assessments is to conduct focussed analyses of each target country to enable PROFIT to select the most promising sectors for investment, identify specific project opportunities and begin development of projects. Based on visits by members of its core staff, PROFIT prepares a Country Assessment Document, describing sectors for PROFIT intervention and identifying potential projects for development and follow-up.

### 2.4.2 Country Assessments Activities

PROFIT completed three country assessments as follows:

- The Philippines (October 1992 - May 1993)
- Russia (July - September 1993)
- Kenya (August - September 1993)

During the year, certain modifications and changes occurred in PROFIT's proposed country assessment targets. PROFIT was obliged to postpone visits to three target countries: India, Egypt and Morocco, in deference to the wishes of USAID missions in those countries. As a result, the project requested and obtained approvals to conduct assessments for Russia and Kenya. Appendix A provides a detailed listing of PROFIT's country assessment visits, project development activities, and technical assistance tasks performed during its second year.

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

#### *Philippines*

PROFIT conducted its first assessment visit to the Philippines in October 1992, and completed the assessment process in May 1993.

The Philippines, with a population of 62 million that is growing at 2.3% per year, has a 45% contraceptive prevalence rate, with only 22% attributable to modern methods. Further, an estimated 38% of the Married Women of Reproductive Age (MWRA) have an unmet need for family planning services. Though government family planning programs have lagged behind in the past decade, the new administration is providing much needed support in efforts to revitalize the program. The business sector has also managed to retain its resiliency despite recent economic downturns. These conditions provide opportunities for increased private sector intervention in the provision of family planning services in the Philippines.

PROFIT proposed the following interventions in the Philippines:

- Test marketing a Low Cost Health Care Plan that includes family planning benefits.
- Establish a Loan Fund for Family Planning Providers.
- Provide financial assistance to Upjohn in re-launching Depo-Provera.
- Explore opportunities in employer-based services.

These interventions were described in separate concept papers that were approved by USAID/Manila, the Department of Health (DOH) and the Health Finance Development Project (HFDP) in the Philippines. As described earlier, PROFIT recently submitted and received approval for the Low-Cost Health Care Plan from R&D/POP and USAID/Manila, and development of the Providers Loan Fund is proceeding. Potential collaboration with Upjohn did not materialize due to it having access to other financial resources. Opportunities in the area of employer-based services have been put on hold pending USAID/Manila's completion of a study of these types of projects.

Due to PROFIT having one approved project, and another in active development, PROFIT recruited a Philippines Country Representative, who assumed that position on January 3, 1994.

### *Russia*

PROFIT conducted an assessment of Russia in July and September 1993. Although Russia is not an Office of Population "priority country", PROFIT considered the country had considerable potential due to reproductive health needs and its recent reforms to a market-based economy.

PROFIT's assessment of Russia confirmed that the country faces a grave need for improved access to quality reproductive health care. With the absence of local manufacturing in recent years, Russia has no dependable source of affordable, quality contraceptives. The lack of family planning services is reflected in the large number of abortions (65% - 75% of women have three or more) and the many women using traditional and/or unreliable birth control methods. In addition, years of misinformation about family planning related activities has prompted apprehension of many contraceptives. Training of physicians and other providers is greatly

needed to alleviate these fears and to allow women to choose the most appropriate and safe method for their reproductive health care needs.

PROFIT identified an opportunity to form a joint venture to import and distribute a complete range of quality family planning and reproductive health products, including IUDs, condoms, and pills, that are safe, reliable, and affordable. The products will be marketed and distributed through an established pharmaceutical distribution network, and will be introduced into the marketplace and through service provision sites with a comprehensive training program. PROFIT's aim will be to assist all existing service delivery tiers operating in Russia, including public health institutions, non-governmental organizations, semi-private provider groups, and for-profit entities involved in family planning. This project was approved for further development by USAID/Moscow and the NIS Task Force, and is currently under active development.

### *Kenya*

PROFIT conducted an assessment of Kenya in August-September 1993. Kenya was selected due to it being an Office of Population "priority country", and because it has an active private sector. In addition, many prior A.I.D. family planning initiatives in Kenya have emphasized private sector collaboration.

PROFIT's assessment of Kenya indicates a widespread knowledge and acceptance for family planning relative to other countries in Sub-Saharan Africa. Kenya's contraceptive prevalence rate for modern methods, which has reached over 18 percent, reflects a strong tradition of financial and political support for family planning by the Government of Kenya (GOK). Currently, approximately 70 percent of women using modern contraceptive methods obtain services and products from public sources. Within the last decade, the GOK has officially recognized the need to expand private sector involvement in both health care and family planning service delivery.

Currently USAID/Nairobi is collaborating with the Ministry of Health and other relevant GOK entities on a project to institute cost recovery mechanisms in the public sector and shift some of the burden for health care financing and provision to the private sector. The USAID-funded Health Care Financing Project (HCFP) is also mandated to foster the development of private health insurance, prepaid plans and health maintenance organizations. USAID/Nairobi also funds an ongoing project called Family Planning Private Sector Program which provides financial and technical assistance to private health care providers, large employers, and the NGO sector to increase their provision of family planning.

PROFIT's proposed interventions focused on specific project opportunities it had identified and others suggested by USAID/Nairobi. Primarily, PROFIT investigated the feasibility of providing financial assistance to several family planning provider organizations, including Marie Stopes International; undertaking a study to assess the feasibility of establishing a private health care providers' credit fund; and providing technical assistance to HCFP for the purpose of

assessing Kenya's private health services and insurance system, and recommending private sector initiatives that would include family planning coverage.

Of these potential interventions, USAID/Nairobi concurred only with PROFIT's offer to provide technical assistance in the health care financing area, which is currently being organized for implementation. Other proposed interventions were not accepted by USAID/Nairobi because of its preference in working with its "traditional family" of CAs. While PROFIT understands USAID/Nairobi's position in this matter, it should be noted that it poses severe difficulties for PROFIT's mandate of working with the commercial, for-profit sector.

#### 2.4.3 Target Countries Not Visited

##### *India*

PROFIT delayed its projected visit to India at the request of USAID/New Delhi, due to the Mission's ongoing project development activities with the Uttar Pradesh family planning project. Although USAID/New Delhi had consented to a PROFIT visit in November 1992, it was agreed with USAID/New Delhi to further postpone a visit until the Uttar Pradesh project could define an appropriate role for PROFIT's involvement in that region.

##### *Egypt*

PROFIT communicated its interest to the USAID/Cairo Mission in undertaking an assessment of project opportunities in Egypt. In particular, PROFIT had been contacted by a local firm interested in forming a venture to import, distribute and eventually manufacture U.S. brand IUDs, in collaboration with Finishing Enterprises, Inc. Due to issues related to a restructuring of the USAID-funded social marketing project in Egypt, however, USAID/Cairo elected to delay a PROFIT visit until such time as the restructured project was firmly underway. PROFIT will continue to monitor this situation and request concurrence for a visit at an appropriate juncture during its third year.

##### *Morocco*

PROFIT had tentatively received approval to visit Morocco, as part of an R&D/POP effort to design a new private sector family planning project in Morocco. Due to shifts in funding priorities, however, the new project was put on hold, and PROFIT's visit was postponed. PROFIT will monitor developments in Morocco and coordinate with R&D/POP regarding any new overtures to conduct a country assessment in that country.

## 2.5 Dissemination Activities

PROFIT conducted a wide range of formal and informal dissemination activities to publicize the aims and efforts of the project. PROFIT continued to build useful networks of contacts within

the family planning community, including USAID health and population officers, colleagues in cooperating agencies (CAs), and decision-makers in the banking community and private sector entities of targeted countries.

Our second year's formal dissemination activities include:

- Publishing a second issue of PROFIT's Newsletter, which was distributed to over 1,000 recipients, both in the U.S. and overseas.
- Conducting a seminar in April 1993 entitled: "Endowments as a Tool for Financial Sustainability". The seminar attracted over 60 representatives of A.I.D./Washington offices and members of the family planning CA community. The seminar dealt with specific issues related to non-governmental organizations establishing and managing endowments.
- As a follow-up to the endowments seminar, PROFIT began development of an Endowments Manual to assist NGOs determine whether an endowment would be appropriate or beneficial, and describe activities necessary to establish one.
- Participated in speaking opportunities and presentations to relevant audiences, including:
  - The International Council of the American Management Association
  - World Trade Institute's training on "Investment Vehicles and Sources of Capital"
  - CONRAD-sponsored Conference on Barrier Contraceptives in Santo Domingo
- Participated in the following conferences:
  - National Council for International Health (NCIH) in Washington, D.C. (June 1992)
  - Evaluation Conference in Seattle, Washington (November 1992)
  - Conference of Brazilian Gynecologists in Sao Paulo, Brazil (June 1993)
  - The National Conference of UNIMED Cooperatives, Sao Paulo, Brazil (November 1992)

## SECTION 3 PROJECT ORGANIZATION AND FINANCES

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Many of the accomplishments attained by PROFIT during its second year were the direct result of organizational and staffing changes. From an organizational perspective, PROFIT made a concerted decision to structure its project development efforts along country and geographical responsibilities. In addition, the team was able to articulate and define a more focussed set of criteria to use in developing and assessing projects. These changes were solidified through the expansion and strengthening of its core team, and the recruitment of Country Representatives in Brazil and Indonesia.

### 3.1 Organizational Structure

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

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

### 3.2 Project Investments Criteria

Coupled with its reorganization, PROFIT developed a consistent and realistic set of investment criteria which still provide sufficient flexibility to be functional in the dynamic environments within which PROFIT operates. PROFIT formulated and what it believes to be a detailed set of investment criteria and submitted them to A.I.D. for review and approval. PROFIT considers such clear investment criteria to be an important functional tool for the core team in clearly communicating PROFIT's approach and facilitating a more efficient project development process. Set out below is an outlined summary of PROFIT's subproject criteria:

- Commercial sector family planning outputs
  - increased availability of family planning products
  - increased availability of family planning services
  - improved quality of services/care
  - information, education and communication

- Commercial sustainability
  - profitability or positive cash generation
  - institutional strength/management quality
  - market factors, competition, pricing
  - opportunities for cross subsidization
- USAID country programming complementarity
  - fit with local USAID mission strategy
  - AID policy constraints
- Investment structure/terms
  - ownership control/leverage issues
  - capital structure issues: debt vs. equity
  - target financial returns
  - minimum transaction size
  - financial information disclosure

In each of the above categories, PROFIT developed detailed criteria in judging the merits of each subproject. These criteria are further detailed in Appendix C.

### **3.3 Project Staffing**

PROFIT was able to expand and strengthen its core staff, while recruiting Country Representatives in Brazil and Indonesia. This added considerable capabilities to the project development and implementation tasks of the project, and is contributing to a more productive and efficient team.

#### **3.3.1 Core Staff**

PROFIT experienced some turnover of its core staff during its second year, but was able to recruit highly qualified replacements for its positions of Investment Director and Finance Director. In addition, PROFIT received approval to expand its core staff by adding a Family Planning Advisor in order to provide technical support over a growing number of countries and potential projects, and a Financial Analyst to assist with development of financial evaluations of potential investments and project monitoring activities.

#### **3.3.2 Country Representatives**

PROFIT was successful in recruiting Country Representatives in Brazil and Indonesia. While this fell short of PROFIT's goal of recruiting four Representatives by the end of the year,

substantial progress was made in recruiting a Representative in the Philippines (which was completed in early January), and recruitment has begun in earnest for the Country Representative in Russia.

These additions to PROFIT's field staff have been invaluable in terms of project development and implementation support in two of PROFIT's highest priority countries: Brazil and Indonesia. Additional projects are being identified through the activities of the Representatives, and PROFIT is able to oversee the implementation of approved projects in a more efficient manner.

### **3.4 Project Finances**

PROFIT's finances improved slightly during the second year, particularly in terms of achieving a more realistic level of expenditures and use of funds for project activities. PROFIT did not benefit from any Mission buy-ins, although USAID/Ecuador made efforts to process a buy-in for PROFIT for purposes of technical assistance activities. PROFIT requested a contract amendment regarding additional project expenditures not originally budgeted, but this has not been acted on by the Office of Procurement.

#### **3.4.1 Project Expenditures**

PROFIT project expenditures are summarized in Table 3-1, shown on the following page. As of the end of September 1993, PROFIT's project-related expenditures were about 40% below budgeted cost categories for the first two years. Overall, project expenditures increased by some 37% over first year levels, though still below the second-year budgeted amounts. The clear trend, however, is that PROFIT's expenditures will accelerate and "catch up" to budgeted as a function of increased country activities and as new projects are approved.

The persistence of this "underspending" reflects many related factors:

- 1) Salaries: core staff positions were temporarily vacant during the second year, and Country Representative positions for Brazil and Indonesia were filled only in the latter part of the year. The gap in the first year, also, was not overcome during the second year. As the project has expanded its core staff, the overall levels of expenditures will be significantly higher during the third year.

Use of short-term staff, particularly among subcontractors, although improved from last year, was below budgeted levels. These resources will be employed to a greater extent during the third and subsequent years.

- 2) Travel-related expenses were on budget, as the number of trips for project development purposes exceeded original projections.

- 3) Other direct costs were also below projected levels, reflecting the fact that not all field offices have been opened, and lower operating costs resulting from personnel-related expenditures.
- 4) Equipment costs are far below budgeted levels, reflecting the lack of recourse to the contract's line item for factory equipment related to manufacturing investments. Office equipment expenditures, however, are on budget.

**Table 3-1**  
**PROFIT Project Expenditures**  
**(thousand US\$)**

| <u>Expenses</u>       | <u>Year 1</u><br><u>Actual</u> | <u>Year 2</u><br><u>Actual</u> | <u>Total (2 yr.)</u><br><u>Actual</u> | <u>Total (2 yr.)</u><br><u>Budget (% var.)</u> |
|-----------------------|--------------------------------|--------------------------------|---------------------------------------|--|
| Salaries              | 1,451.3                        | 1,903.6                        | 3,354.9                               | 5,598.2 (40.1%)                                |
| Travel &<br>Per Diem  | 104.1                          | 242.1                          | 346.2                                 | 348.0 ( 0.5%)                                  |
| Other Direct<br>Costs | 51.7                           | 128.2                          | 179.9                                 | 249.3 (27.8%)                                  |
| Equipment             | 58.0                           | 3.0                            | 61.0                                  | 384.3 (85.1%)                                  |
| <b>Total</b>          | <b>1,665.0</b>                 | <b>2,277.0</b>                 | <b>3,942.0</b>                        | <b>6,579.8 (40.1%)</b>                         |

### **Buy-Ins**

Mission buy-ins have still not materialized as anticipated in PROFIT's core funding projections (13% of the core staff is to be funded through buy-ins). Because of lower expenditure levels, there is still a financial cushion to cover the bulk of the contractual funding shortfall. However, this may not last beyond the third year. As such, PROFIT will need to make more concerted efforts to obtain buy-in funds for use of its core staff, particularly when performing work on behalf of other USAID Missions.

### **Additional Expenditures**

As detailed in last year's annual report, 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 project's non-profit foundation and to facilitate project investment documentation;
- Dissemination expenses (newsletter, brochure, conferences, seminars, etc.); and
- Office rent expenditures.

With the concurrence of the Project Officer, and prior CTO, PROFIT submitted a contract amendment to the Office of Procurement to shift funds within the contract to cover these unbudgeted items. To date, no formal response has been obtained from the Office of Procurement.

### 3.4.2 Investment Expenditures

With its first three subprojects having been approved, PROFIT began disbursements during the second year against the commitments. Overall, PROFIT obtained commitments of \$2,133,000 for its three projects, as follows:

|                |             |
|----------------|-------------|
| UNIMED/Maceio: | \$1,115,000 |
| UNIMED/Aracaju | 363,000     |
| PT Bonnys      | 655,000     |

As of the end of second year, only the UNIMED projects had been funded, with disbursements totalling \$1,328,000. Lower disbursement levels were experienced in the UNIMED projects due to the rapidly depreciating Brazilian cruzeiro against the US dollar. The level of actual investments is far below that which was originally budgeted (approximately \$7 million for the first two years), but the increased pace of PROFIT's project development should begin to make up the difference in the third year.

## SECTION 4 SECOND YEAR IMPLEMENTATION ISSUES

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PROFIT's second year of operations underscored ongoing implementation challenges, particularly as it relates to developing and finalizing projects. PROFIT's project development activities, and the results they have yielded to date, are influenced by a number of different factors which we will examine in detail. These factors include:

- Country assessments and selection process
- Success in identifying and developing projects
- Types of projects identified by sectors
- Technical assistance tasks

An overriding key factor to consider in reviewing PROFIT's efforts to date is that the project has a difficult and novel mandate: *to further a social objective (family planning) through a private sector, investment-oriented framework*. The mandate is relatively new to the Office of Population, to the USAID missions who must approve of PROFIT's proposed projects, and to PROFIT's potential private sector partners whose motives are often more entrepreneurial than socially-minded. PROFIT has therefore had to identify and develop projects that satisfy A.I.D. (broadly defined) objectives while trying to pursue investment opportunities through a profit-driven commercial sector.

### 4.1 Country Assessment Process

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

These developments are forcing PROFIT to adopt a strategy that differs from its contract design, by working in some countries with less than optimal conditions for commercial sector undertakings in family planning. In addition, PROFIT is being forced to pursue multiple projects in its original target countries, in order to develop the 20 subprojects as called for in its contract. The impediments and restrictions placed on PROFIT by certain USAID missions' preferences, while legitimate, should be understood as posing constraints on PROFIT's ability to fulfill its mandate. To overcome these constraints, PROFIT has worked with the R&D/POP Project Manager to establish a more positive dialogue with USAID missions and Regional Bureaus regarding the benefits and complementarity of PROFIT's objectives to their country

strategies. This process must continue and be expanded, particularly for the original set of target countries where PROFIT has been denied the opportunity to conduct assessments.

PROFIT's country selection process is guided, in part, by the Office of Population's priority country list and A.I.D. Mission requests. One of the clear lessons learned from PROFIT's experience is that PROFIT must minimize investing time in countries where the likelihood of success is limited, due to economic or social conditions, many of which can be anticipated through advanced information gathering and analysis. Visits to Nigeria and Bangladesh represent such cases, but PROFIT has improved its ability to assess a country's viability through experience obtained in these prior trips.

To build on this experience, much research effort was devoted in the second year towards selecting countries that were more promising for PROFIT to work in. This set of countries was discussed with the Office of Population and approved in April 1993. PROFIT will continue to use the research and selection criteria to avoid assessing countries where the environment is not conducive to PROFIT's mission, and to maintain its country focus and priorities relatively intact.

## **4.2 Project Development Process**

PROFIT began developing projects in November 1991 with its first trip to Brazil. As of the end of September 1993, PROFIT had visited 12 countries, resulting in 57 potential projects or technical assistance activities having been identified. To analyze these activities, PROFIT has chosen a methodology of measurement which quantifies the trips taken, resulting identification of projects, and project flow. Further, the methodology provides timing, geographic and sectoral criteria for more detailed analysis. A summary chart of this analysis is provided on Table 4-1, on the following page. The full details of the analysis are provided in Appendix D.

### **4.2.1 Project Identification**

PROFIT identified 57 projects or technical assistance tasks for potential development. Over a third of these (22/57 or 39%) were rejected immediately after the initial country assessment. This points to the fact that country visits can generate many potential projects, but that PROFIT made an attempt to develop only more viable opportunities. It is also important to note that two-thirds (15/22 or 68%) of those opportunities immediately rejected occurred in PROFIT's first year of operations. This points to PROFIT's "learning curve" over time, and to its ability to be more rigorous and systematic about the projects it identifies, and the projects it rejects after an initial assessment.

To make use of this knowledge, it is important that PROFIT continue to utilize its core team members for all initial country visits to new target countries. The ability to discern appropriate or viable projects is a knowledge not easily imparted to outside consultants or non-core staff. Such resources should be utilized to evaluate specific technical areas related to a project, such as market, operational or technical feasibility.

**Table 4-1  
Projects Identified and Developed**

|  | <u>Year 1</u> | <u>Year 2</u> | <u>Total</u> |
|--|---------------|---------------|--------------|
| Projects Identified  | 35            | 22            | 57           |
| Less: Rejected Immediately                                 | 15            | 7             | 22           |
| Projects On Hold   | 2             | 3             | 5            |
| Projects Developed   | 18            | 12            | 30           |
| Less: Rejected After Development<br>(details in Table 4-2) | 11            | 3             | 14           |
| Technical Assistance*                                      | 1             | 2             | 3            |
| Approved by A.I.D.   | 2             | 1             | 3            |
| Under Active Development                                   | 4             | 7             | 11           |

\* Technical assistance projects are those which did not result in a PROFIT investment but for which PROFIT provided substantial technical assistance.

#### 4.2.2 Project Assessments

Nearly half of projects developed or assessed (14/30 or 47%) by PROFIT in its first two years were rejected. PROFIT devoted a great deal of time and effort developing projects, but many of its efforts did not result in closed "deals". In analyzing the reasons for this rejection rate, certain factors were responsible, as detailed below in Table 4-2.

**Table 4-2  
Project Rejection Factors**

| <b>Reasons/Factors</b>   | <b>Number of Projects</b> | <b>Percent</b> |
|--------------------------|---------------------------|----------------|
| Project not feasible     | 5                         | 36%            |
| A.I.D. policy constraint | 4                         | 28%            |
| Partner dropped project  | 5                         | 36%            |
| <b>Total</b>             | <b>14</b>                 | <b>100%</b>    |

Of the 14 rejected projects, 5 were due to "technical" or "economic" factors, such as lack of financial sustainability or lack of family planning impact. These projects included: the Brazilian Franchise Clinics project, the Nigerian Merchant Bankers Association HMO scheme, the Nigerian Juli Pharmaceuticals marketing/distribution project, the FEMAP Community Doctors Loan program in Mexico, and the Jamaican family planning insurance scheme.

Most of the projects rejected were for reasons beyond PROFIT's ability to control or anticipate with any degree of certainty. There were 4 cases of A.I.D. policy constraints, which effectively terminated projects already underway. PROFIT recognizes that certain projects may not proceed if new regulations or policy restrictions affect projects under development, an example of the latter being the prohibition on working with Cyclofem, a non-FDA approved injectable, and new legislation in 1993 against providing any support to foreign export processing zones. Similarly, 5 projects were abandoned due to PROFIT's potential partners not going forward with the projects, which is always a possibility that cannot be discounted until a deal is closed. This eventuality should be recognized as a reality of working with the private sector and in structuring innovative investments.

Thus, the reasons behind project rejections indicates that, while PROFIT had some setbacks due to projects not proving to be feasible or sustainable, a large majority of "non-starts" were due to external factors. Nonetheless, PROFIT recognized it should be mindful of all potential project constraints, particularly technical and economic reasons, and partners' propensity to back out of potential projects at the "eleventh hour." In terms of "lessons learned", we should note that the bulk of the project rejections (11/14 or 78%) occurred in PROFIT's first year, and underscore an improvement in not losing deals in more recent efforts, regardless of the reason.

#### 4.2.3 Projects Under Development

Almost one third of all projects identified are still in the "pipeline" (16/57 or 28%) as of the end of September 1993. Five of these projects are "on hold", indicating that either potential partners are not ready to move forward, or that the projects may require substantial development effort on PROFIT's behalf. However, this category also constitutes a "backlog" of projects that can be moved up in the development process as conditions warrant.

The remaining 11 projects are in active development, most in PROFIT's high priority countries (Brazil, Indonesia, the Philippines, and Russia). This constitutes a solid current base of potential projects that have strong chances of being fully developed. Likewise, PROFIT's Country Representatives in Brazil, Indonesia and the Philippines are well positioned to begin identifying new projects in those countries from a solid operational base.

To successfully implement these projects, the PROFIT Team should continue to rely on permanent in-country support resources. Such support has been most effective in the form of a Country Representative, but can also be met through consultants retained by PROFIT to

develop specific projects. PROFIT is therefore moving expeditiously to establish itself in new countries, particularly the Philippines and Russia, as sound project opportunities are moving through the pipeline.

Likewise, PROFIT learned to make more use of external resources to develop or assess projects, particularly in technical areas such as health finance, health insurance, clinic operations and management, etc.. The PROFIT Team has used consultants in Brazil, Nigeria, Indonesia, Mexico, Jamaica, Peru, Ecuador, and the Philippines to analyze and develop projects. This is the best way to leverage limited core staff resources, although attention must be paid to quality control and management of such resources given the existence of A.I.D. sensitivities and project subtleties.

### **4.3 Sectoral Analysis**

Our project development analysis, detailed in Appendix D, revealed important sectoral trends that should be considered for future activities.

- Nearly half of projects identified (28/57 or 49%), and all three of the implemented projects, were in market-based service providers, which includes clinics, health maintenance organizations, health insurance schemes, provider organizations, etc. This is above PROFIT's target distribution of 35% for this sector, but reflects a relatively larger preponderance of project opportunities in this sector.
- Only 4 projects were identified with private employers, a low result considering this is one of three core sectors for PROFIT. Although this sector was projected to have the smallest percentage of funds (15%), the result is lower than expected. We shall examine the reasons for this in more detail.
- A large number of projects (25/57 or 44%) were identified in "innovative investments": manufacturers (8); marketing or distribution schemes (10); and 7 other innovative endeavors (e.g., debt swaps). This is slightly higher than the 35% planned distribution, but reflects PROFIT's mandate to develop projects in this area.

In addition to examining the raw statistics, PROFIT's staff has analyzed the constraints and developed potential strategies for overcoming them for each sector.

#### **4.3.1 Innovative Investments: Manufacturing**

This sector offers the best potential for large, capital intensive investments, but far fewer opportunities for tangible projects. Our experience has shown that the constraints to identifying opportunities in this sector include: existing activities by established pharmaceutical companies; A.I.D. requirements that PROFIT work only with FDA-approved and U.S.-sourced commodities; competition from cheap imports; and competition from public sector efforts or

even A.I.D.-sponsored projects (e.g. social marketing). In addition, manufacturing projects have taken a longer time to negotiate and structure, given operational and technical considerations.

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

#### 4.3.2 Innovative Investments ; Marketing/Distribution

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

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

#### 4.3.3 Market-Based Service Providers

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

Indeed, PROFIT has learned that the most pressing project development constraints faced in this sector are: that family planning services are not commercially sustainable unless cross-

subsidized; or that the commitment to family planning by potential PROFIT partners may be new or difficult to guarantee over the long run.

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

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

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

#### 4.3.4 Employer-Based Projects

PROFIT has not identified many employer-based projects for development. The reasons for this are: 1) Lack of support by local A.I.D. missions for PROFIT to pursue such opportunities (e.g., the Philippines); 2) Skepticism among many A.I.D. missions and PROFIT project staff as to whether the Tipps/Enterprise cost benefit analysis model is successful in creating sustainable employer-based programs; and 3) the substantial on-the-ground effort that is required to implement such activities. However, PROFIT has invested a fair amount of time to research employer-based projects, and has made a reasonable effort to approach employers in some of its target countries, particularly in the Philippines and in Indonesia.

This sector continues to be an Office of Population priority and one of PROFIT's three principal sectors. As a result, PROFIT will need to develop a larger in-country effort, particularly where it has appointed Country Representatives who will be able to identify and cultivate potential employers for PROFIT's assistance.

#### 4.3.5 Other (Innovative) Investments

This sector includes debt conversions, endowments, loan funds, media-related projects, and other innovative mechanisms to promote or finance family planning related activities. This area represents new, fertile ground for a project like PROFIT, where it can apply its private sector orientation and expertise to the fullest, while creating opportunities and benefits on the family planning dimension.

The PROFIT Team has pursued many of these prospects and should continue to do so. In many cases, particularly with debt conversions or using blocked currencies, country programs have been suspended or are curtailed for family planning uses, as in the case of Brazil and Mexico. Other opportunities, such as endowments, need careful study and specific organizational assessments. In all cases, PROFIT must continue to ensure that it is playing a useful role in terms of innovation and family planning impact, particularly if such efforts do not yield an investment, and are only for technical assistance purposes to an organization.

#### 4.4 Technical Assistance Efforts

In addition to PROFIT's efforts to develop projects in the form of investments, considerable PROFIT resources and time have been devoted to providing A.I.D. with technical assistance in a number of areas. During its first two years, PROFIT has assisted A.I.D. in:

- Establishing a \$6 million endowment for Profamilia (Colombia), for which PROFIT sits on the endowment Board of Directors.
- Assessing the viability of establishing an endowment for the Social Marketing Company in Bangladesh.
- Assessing the viability of conducting debt swaps or establishing endowments for two family planning organizations in Ecuador (still on-going).
- Conducting an evaluation of an A.I.D. family planning project in Peru.
- Participating on a Project Implementation Document (PID) preparation for a family planning project in Nigeria.
- Evaluating the economic feasibility of local production of condoms in Zimbabwe.

These technical assistance efforts reflect the mandate that PROFIT has in being a "resource" to A.I.D. in a number of key areas that include financial sustainability, financial endowments, debt swaps, and other innovative financial tools. This mandate will continue to make demands on PROFIT resources and will also constitute an important criteria that A.I.D. will utilize to evaluate PROFIT. These efforts should be continued, and be disseminated as part of PROFIT's accomplishments.

**SECTION 5  
OUTLOOK AND PRIORITIES FOR YEAR THREE**

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Part of PROFIT's objective in producing this document is to "look forward" to Year Three's activities. This section addresses, in brief fashion, some of the principal aspects of PROFIT's Year Three priorities. We will provide more detailed discussions of these proposed efforts in the Third Year Work Plan, which will be submitted under separate cover.

**5.1 Countries**

**5.1.1 Country Priorities**

PROFIT will continue to work in its "priority" countries to complete project development efforts or technical assistance tasks already identified or underway. These countries are:

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

In addition, PROFIT plans to visit four more countries in Year Three. These visits are listed below in Table 5-1.

**Table 4-1  
Country Assessment Targets and Visits  
Fiscal Year 1994**

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

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

## 5.2 Project and Investment Goals

As discussed in earlier sections, PROFIT has a fairly active and robust project development "pipeline" at present, which should result in project commitments in the early part of the third year. There are also several identified projects that will become ready for full development once initial assessments and evaluations take place. In view of these factors, PROFIT has developed a project and investment projections schedule for Year Three, shown in Table 5-2.

**Table 5-2**  
**Estimated Project Commitments (Year Three)**

| Country/Project                            | Commitment          |
|--|---------------------|
| Brazil: Commodity Procurement Organization | \$ 400,000          |
| Brazil: Employers Project                  | 350,000             |
| Philippines: Low-Cost Health Insurance     | 265,000             |
| Philippines: Providers Loan Fund           | 350,000             |
| Russia: Commodity Marketing Organization   | 650,000             |
| Indonesia: JIEP/YKB Employers              | 35,000              |
| Indonesia: PKMI Manufacturing              | 250,000             |
| Indonesia: Marie Stopes                    | 150,000             |
| Mexico: Regional Injectables Marketing     | 400,000             |
| Mexico: Private Clinics                    | 200,000             |
| Mexico: Employer-based Project             | 200,000             |
| Ecuador: Endowments Technical Assistance   | 50,000              |
| Ghana: Midwives/Providers clinics          | 200,000             |
| <b>Subtotal</b>                            | <b>\$ 3,500,000</b> |

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

In terms of sectoral emphasis, PROFIT will continue to focus on private sector-based service delivery and collaboration with private provider organizations, in addition to contraceptive marketing and distribution ventures. More importantly, PROFIT will develop and implement a targeted program to develop and implement employer-based programs in its key countries. As discussed in previous sections, the prospects for developing large-scale manufacturing

As discussed in previous sections, the prospects for developing large-scale manufacturing projects are marginal given competitive factors. However, some initial project concepts have been discussed for countries such as Egypt and Russia; these concepts will need to be tested more fully through assessment visits and discussions with potential collaborators.

### **5.3 Dissemination and Linkages**

PROFIT's third year will continue to build on prior years' efforts for disseminating the activities and achievements of the project. Among the activities projected for the year are:

- Organizing and hosting a regional conference on private sector family planning issues; the conference may be located in Brazil or Indonesia.
- Production and dissemination of two more issues of the PROFIT newsletter to over 1,000 "contacts" in the banking, private sector, A.I.D., and CA community; the newsletter's focus will continue to be on private sector initiatives or approaches in family planning activities, as well as highlighting PROFIT's current activities.
- Completion and publication of PROFIT's Endowment Manual, to be made available to non-governmental organizations interested in endowment related issues.
- Development of a minimum of two "case studies" focussing on PROFIT projects, special industry studies (e.g., the Brazil Commodity Procurement Organization; the Philippines Low Cost Health Care Plan), and on other topics studied by PROFIT in its project development efforts.
- Continued linkages to the CA community, the pharmaceutical industry, and other specialized private sector groupings (i.e., contraceptive distributors) for the purpose of obtaining information on trends and activities.
- Expansion of conference and seminar participation by core staff to promote PROFIT's activities to appropriate audiences. Specifically, PROFIT plans to participate at the U.N. International Conference on Population and Development in Cairo, Egypt next year, as well as the upcoming conferences of the American Public Health Association (APHA) and the National Council on International Health (NCIH).
- Expansion of speaking engagements and presentations to relevant private sector groups in target countries, taking advantage of promotional opportunities through television and other media.

#### **5.4 Personnel Requirements**

To implement the activities and tasks elaborated in its third year, PROFIT will require substantial effort by core and non-core personnel. As has been noted, PROFIT core team was expanded last year and is now fully staffed to carry out all project development tasks and support functions. The core team is also now organized on a country responsibility basis, which greatly facilitates the process of developing projects. PROFIT's access to consultants, both from its own consortium members and independents, is quite effective, and will accelerate the provision of technical assistance and specialized studies.

Nonetheless, recruitment of in-country personnel will continue to be a top priority for PROFIT in Year Three. Country Representatives and their staff will be recruited for the Philippines, Russia, and one other priority country (most likely Mexico) for project development and implementation efforts. 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.

In addition, the core staff may be expanded by the recruitment of a dissemination specialist to oversee the design, coordination and implementation of dissemination-specific tasks, such as publication of case studies, organization of seminars, etc.

APPENDIX A  
DESCRIPTION OF COUNTRY VISITS

## COUNTRY

Dates of Visit(s)

Assessment Activity

### **BRAZIL**

a) November 1-18, 1992

A formal agreement signed between PROFIT & UNIMED to establish joint venture MCH/FP projects

b) March 28-April 6, 1993

Legal arrangements were concluded, which allows PROFIT to proceed on joint venture projects with UNIMED.

c) June 9-26, 1993

Transactions were finalized with UNIMED/Maceio

d) August 8-20, 1993

Determined the current availability of information which could be used to evaluate family planning activities.

### **RUSSIA**

a) July 11-19, 1993

Information collected for country assessment

### **INDONESIA**

a) January 27-February 8, 1993

Initiated JIEP study; Interviewed candidates for Country Director; Attended the A.I.D. CA's meeting

b) April 19-28, 1993

Hired Country Representative; Developed a proposed joint venture project with Bonnys Clinics.

c) July 12-23, 1993

Finalized agreement with P.T. Bonnys; Orientation provided to newly-hired Country Representative

## **BANGLADESH**

- a) January 23-29, 1993
- Considered local prospects for establishing an endowment fund. Reviewed SMC's efforts in acquiring greater financial self-sufficiency.

## **ECUADOR**

- a) November 19-21, 1992
- Explored the possibility of conducting a debt conversion
- b) January 12-20, 1993
- Obtained the status of the new debt swap program; Evaluated funding needs and operations of APROFE and CEMOPLAF.

## **KENYA**

- a) August 5-14, 1993
- Exploratory visit to Kenya; Briefed USAID/Nairobi on proposed activities; Collected data for country assessment

## **ZIMBABWE**

- a) August 14-21, 1993
- Assessed the circumstances for local processing of imported condoms.

## **JAMAICA**

- a) November 15-17, 1992
- Met with representatives of Jamaican insurance companies; meetings held with The Bank of Jamaica and Citibank
- b) December 14-15, 1992  
January 10-21, 1993  
February 15-18, 1993
- Trip report covers last three months. Evaluated the interest in and viability of a project to add family planning coverage.

## **MEXICO**

- a) November 15-24, 1992                      Expanded and upgraded FEMAP's clinical laboratory and diagnostic equipment.
- b) December 17-18, 1992                      Reviewed FEMAP's preliminary proposal to enhance their family planning program.
- c) March 1-3, 1993                              Conducted financial analyses to evaluate a loan to FEMAP, for on-lending to FEMAP affiliates

## **PHILIPPINES**

- a) October 12-24, 1992                      Initial visit; began country assessment; identified project opportunities
- b) December 10-20, 1992                      Potential joint venture partners identified; follow-up done with contacts made during first visit
- c) February 28-March 12, 1993                      Focused on further advancement of opportunities to joint venture with PhilamCare
- d) June 28-July 30, 1993                      Examined new project opportunities; Further explored concepts presented to USAID/HFDP and DOH
- e) June 25-August 31, 1993                      Initiated a clear working relationship with the mission; Facilitated continued project development

## **NIGERIA**

- a) November 1-13, 1992                      Ensued potential projects identified on prior visits; met with PSI to evaluate chances of collaborating on the Nigeria social marketing program

## **PERU**

a) April 18-May 8, 1993

Evaluation of USAID/Peru Project.  
Reviewed progress towards the goals and  
objectives of the PVFP

**APPENDIX B**

**PROFIT'S CORE STAFF AND COUNTRY ASSIGNMENTS**

# **PROFIT**

## **PROFIT Project Staff**

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

**BEST AVAILABLE DOCUMENT**

**PROFIT Project**  
**Staff Country Assignments**

**BRAZIL**

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

**INDONESIA**

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

**PHILIPPINES**

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

**MEXICO**

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

**RUSSIA**

Coordinator: Gale Thompson  
Support Staff: Sandra Kowalchek

**GHANA**

Coordinator: Gale Thompson  
Support Staff: Lisa Elam

**APPENDIX C**  
**SUBPROJECT INVESTMENT PARAMETERS**

The PROFIT Project was designed to facilitate an increase in developing country resources for family planning by encouraging greater private sector involvement. AID's overall strategy in family planning shifted during the 1980's from an exclusively public sector orientation to one which recognized the potential of the private sector. It had become apparent to AID that the private sector needed to provide greater family planning support in an environment characterized by increasing family planning service demand and a decrease in public allocations for health and family planning. The PROFIT Project, a five-year effort initiated in October of 1992, focuses on commercially sustainable family planning activities in partnership with for-profit entities. Set out in this document is a summary of PROFIT's subproject criteria, both general and transactional, utilized in identifying and developing investment opportunities consistent with its mandate.

## **I. General Parameters**

### **A. Commercial Sustainability**

Commercial sustainability of each subproject is a critical factor in assessing its long term family planning sustainability, and central to PROFIT's overall objective of achieving increased for-profit sector contribution in family planning activities via the establishment of model projects. Therefore, analytic discipline will be exercised on each subproject to reasonably determine its commercial sustainability.

Specific criteria will focus primarily on projected profitability and cash generation capability (as representative of commercial viability), but will more broadly cover other criteria such as institutional sustainability, management quality, market competition, pricing, access to alternative funding and opportunities for cross-subsidizing. Subprojects involving product/service introductions, or otherwise having a start-up nature, may require a two to three year period before sustainable profitability is achieved. It must be recognized that commercial sustainability may be difficult to demonstrate in certain subprojects which fall within PROFIT's target scope.

In those potential subprojects where the family planning component is not, in itself, determined to be commercially sustainable, additional steps will be required to ensure long term family planning sustainability. In other words, in the absence of reasonable expectations concerning the profitability of the family planning activities themselves (normally sufficient to indicate "sustainability"), consideration must be given to additional measures for encouraging a long term commitment to family planning.

## B. Family Planning Outcomes

In PROFIT's view, family planning sustainability refers to the duration of a given set of family planning outcomes. PROFIT must be mindful of what constitutes the target family planning outcomes of a given subproject as separate from the concept of sustainability. Each subproject must have a reasonable likelihood of achieving both commercial sustainability and the target family planning outcomes. As agreed to in our evaluation plan, each subproject should achieve family planning outcomes which fall into at least one of the following categories:

- Increased availability of family planning products
  - Through improved distribution/marketing
  - By broadening the method mix
  - Reducing cost of products
- Increased availability of family planning services
  - Through improved marketing
  - Through the creation of new clinics
  - Through the expansion of clinic services
  - By adding family planning to insurance
  - By reducing cost of services
- Improved quality of services/care
  - Improving already existing products
  - Introducing new improved products
  - Improving service provider training
  - Increasing service provider access to necessary equipment
- Information/Education and Communication
  - Expanding media activities
  - Improving/increasing marketing efforts
  - Savings to public sector
  - Shifting costs of products/services from public sector to private sector

## C. A.I.D Priorities

Consideration of subproject investments should always be set in the context of A.I.D. strategy in target countries. PROFIT should be mindful that its objectives may not always be fully appreciated or supported by USAIDs and that these preferences will dictate the range of project opportunities available to PROFIT.

In addition, PROFIT's project parameters should be sufficiently flexible to accommodate AID's occasional requests to work on certain subprojects, some of which do not adequately meet established criteria. PROFIT's mandate should be viewed as being a resource to AID in

facilitating its objectives in certain countries. As such, PROFIT will need to expect that some of its resources from time to time will be deployed in response to A.I.D. initiatives or requests and that this is entirely within the scope of our contract as an A.I.D. resource.

## II. Investment Parameters

### A. Investment Structure.

In discussing investment structure issues with potential investment partners, PROFIT's creativity, flexibility and long term orientation should be emphasized. Notwithstanding, PROFIT should have a preference towards being higher in the capital structure. That is to say PROFIT should have a preference for debt financing over equity financing, all else being equal, given several likely factors relating to equity ownership in subprojects:

- Difficulty in valuation of equity securities; it is often very difficult to reach agreement on the valuation of an enterprise, which would define the value of PROFIT's equity ownership percentage. This is not true with debt securities.

- Lack of liquidity; equity in the types of projects which PROFIT customarily invests is generally not transferable, therefore the only market for such equity shares are PROFIT's joint venture partners in such investments.

- Low probability of upside returns normally associated with equity ownership.

- Increased liability factors; equity ownership often carries with it the liability associated with being an owner, whereas creditors do not have such risk.

Also, debt financing offers such potential advantages as asset securitization (particularly if transaction proceeds are used for equipment) and defined payback periods. Further, if a given subproject has compelling family planning and commercial sustainability elements, debt can be structured in a more palatable manner to potential investment partners as "equity-like" securities through subordination, interest rate grace periods, convertibility and favorable repayment terms.

Given the aversion to debt financing in certain countries, the use of equity will likely be necessary, and could be a way to capture the upside potential of a particularly attractive opportunity. More likely, however, the use of equity as a financing vehicle can be viewed as a way to provide low or no return capital to subprojects which fully satisfy other criteria (commercial sustainability and family planning), but do not appear capable of generating sufficient investment returns in the short/medium term. **This is not to suggest a donor approach, but does imply that expected investment returns should be relaxed (or structured out) where compelling commercial sustainability and family planning elements exist.**

While consideration will be given to creative ideas relating to capital structure, attempts should be made to simplify matters wherever possible. Investment exit strategy in each subproject

should include a fixed time horizon wherever possible and some mechanism for valuation in both a poor performance and strong performance scenario. Clear communication early in the process concerning the difference between a donor approach and PROFIT's investment approach will make capital structure discussions easier.

#### B. Target Financial Returns.

Implicit in PROFIT's stated goal of establishing model subprojects which are commercially viable, is the premise that expected returns on its investments in such subprojects should reflect market (i.e. commercial) return rates as defined by the local economic environment. In practice, however, commercial rates of returns may be inappropriate for PROFIT's subprojects due to the expense of private sector monies (in most developing country environments), the risk inherent in family planning endeavors from an investor viewpoint, the challenge of working with a "donor mentality" and, as mentioned above, the need in certain cases to "assist" qualified subprojects in early stages of development with a low/no return profile. Additionally, PROFIT's contract does not stipulate that a financial return (i.e. ROI) is a required criterion in formulating successful subprojects.

The suggested approach to the issue of target financial returns can be defined as "preservation of capital in *local currency terms*," utilizing local inflation rates as a benchmark. This **capital preservation** approach seeks to impose fiscal discipline on potential subprojects and, at the same time, afford a necessary level of flexibility in the context of a subproject's family planning impact and commercial sustainability. Further, local currency measures eliminate problems associated with exchange rate risk and are consistent with a "permanent" investment mentality (that of utilizing returns for further investment in-country). PROFIT would, therefore, subsidize the subproject only to the extent real returns are foregone and currency risk assumed. Current returns to PROFIT, either interest or dividends, could be capitalized (and not paid out) to reduce the financing burden and allow for a growth period.

In short, PROFIT would seek to preserve the value of its investments, in local currency terms and adjusted for inflation, in subprojects which are commercially sustainable and have significant family planning impact. In certain cases, PROFIT will relax its investment return expectations/requirements, through creative and flexible financing structuring, for subprojects which have other compensating factors.

#### C. Transaction Size.

While the target minimum transaction size is \$250 thousand, exceptions should be allowed where other factors compensate such as family planning impact, importance of joint venture partner or replicability. PROFIT should keep in mind, however, that time/effort/risk required to complete a transaction is often very large, no matter what the size of the subproject. Therefore, subprojects with maximum impact should be sought out.

#### D. Partnership Selection/Ownership Control Issues.

A critical issue for PROFIT in formulating potential subprojects is establishing relationships with reputable institutions as potential investment partners. Quality partners can lend credibility and visibility to PROFIT's efforts as well as financial and managerial resources to the subproject. Target partners include host-country private employers, private health care providers, international companies and, on a limited basis, qualified NGO's operating in the host country. PROFIT seeks to avoid subprojects where it would be required to assume a majority (over 50%) or controlling (largest holding) shareholder interest wherever possible (assuming equity investment). In fact, the objective should be to minimize the magnitude of PROFIT's investment relative to its partner(s) in order to enhance partner(s)' stakeholder mentality, encourage active management of subproject by local partners and leverage PROFIT's resources to a greater degree.

APPENDIX D  
PROJECT DEVELOPMENT ANALYSIS

PROFIT PROJECT  
PROJECT DEVELOPMENT ANALYSIS

|                         | BRAZIL |    |     | NIGERIA |    |     | RUSSIA |    |     | INDONESIA |    |     | PHILIPPINE |    |     | KENYA |    |     | ZIMBABWE |    |     | MEXICO |    |     | ECUADOR |    |     | BANGLAD |    |     | JAMAICA |    |     | COLOMBIA |    |     | TOTAL # |    |    | %   |
|-------------------------|--------|----|-----|---------|----|-----|--------|----|-----|-----------|----|-----|------------|----|-----|-------|----|-----|----------|----|-----|--------|----|-----|---------|----|-----|---------|----|-----|---------|----|-----|----------|----|-----|---------|----|----|-----|
|                         | Y1     | Y2 | TOT | Y1      | Y2 | TOT | Y1     | Y2 | TOT | Y1        | Y2 | TOT | Y1         | Y2 | TOT | Y1    | Y2 | TOT | Y1       | Y2 | TOT | Y1     | Y2 | TOT | Y1      | Y2 | TOT | Y1      | Y2 | TOT | Y1      | Y2 | TOT | Y1       | Y2 | TOT |         |    |    |     |
| TOTAL NUMBER OF TRIPS   | 6      | 4  | 10  | 2       | 1  | 3   | 0      | 1  | 1   | 2         | 4  | 6   | 0          | 5  | 5   | 0     | 1  | 1   | 0        | 1  | 1   | 5      | 2  | 7   | 0       | 2  | 2   | 1       | 1  | 2   | 2       | 3  | 5   | 1        | 0  | 1   | 19      | 25 | 44 |     |
| PROJECTS IDENTIFIED:    |        |    |     |         |    |     |        |    |     |           |    |     |            |    |     |       |    |     |          |    |     |        |    |     |         |    |     |         |    |     |         |    |     |          |    |     |         |    |    |     |
| MANUFACTURING           | 1      |    | 1   |         |    | 0   |        |    | 0   | 2         | 1  | 3   | 0          | 0  | 0   | 0     | 0  | 0   | 1        | 1  | 2   |        |    | 2   | 0       | 1  | 1   |         |    | 0   | 0       | 0  | 0   | 6        | 2  | 8   | 14%     |    |    |     |
| SERVICE DELIVERY        | 3      | 1  | 4   | 2       |    | 2   | 1      | 1  | 2   | 6         |    | 6   | 4          | 4  | 8   | 2     | 2  | 4   | 0        | 0  | 0   | 1      | 1  | 2   | 0       | 5  | 5   | 1       | 1  | 2   | 0       | 0  | 0   | 18       | 10 | 28  | 49%     |    |    |     |
| MRKTNG/DISTRIB.         | 2      | 0  | 2   | 1       | 1  | 2   | 1      | 1  | 2   | 2         |    | 2   | 2          | 2  | 4   | 0     | 0  | 0   | 0        | 0  | 0   | 0      | 1  | 1   | 0       | 0  | 0   | 0       | 0  | 0   | 0       | 0  | 0   | 5        | 5  | 10  | 18%     |    |    |     |
| PRIVATE EMPLOYERS       |        |    | 0   |         | 1  | 1   |        |    | 0   |           |    | 0   | 1          | 1  | 2   | 0     | 0  | 0   | 0        | 0  | 0   | 2      |    | 2   | 0       | 0  | 0   | 0       | 0  | 0   | 0       | 0  | 0   | 2        | 2  | 4   | 7%      |    |    |     |
| OTHER                   |        |    | 0   | 1       | 0  | 1   |        |    | 0   |           |    | 0   | 0          | 0  | 0   | 1     | 1  | 2   | 0        | 0  | 0   | 1      |    | 1   | 1       | 1  | 2   | 0       | 1  | 1   | 4       | 3  | 7   | 12%      |    |     |         |    |    |     |
| TOTAL IDENTIFIED (a)    | 6      | 1  | 7   | 4       | 2  | 6   | 2      | 2  | 4   | 10        | 1  | 11  | 7          | 7  | 14  | 3     | 3  | 6   | 1        | 1  | 2   | 6      | 2  | 8   | 1       | 1  | 2   | 7       | 1  | 8   | 1       | 1  | 2   | 35       | 22 | 57  | 100%    |    |    |     |
| PROJECT FLOW            |        |    |     |         |    |     |        |    |     |           |    |     |            |    |     |       |    |     |          |    |     |        |    |     |         |    |     |         |    |     |         |    |     |          |    |     |         |    |    |     |
| OF THOSE IDENTIFIED:    |        |    |     |         |    |     |        |    |     |           |    |     |            |    |     |       |    |     |          |    |     |        |    |     |         |    |     |         |    |     |         |    |     |          |    |     |         |    |    |     |
| 1) REJECTED IMMEDIATELY | 0      |    | 0   | 1       | 2  | 3   | 0      | 0  | 0   | 5         | 1  | 6   | 2          | 2  | 4   | 1     | 1  | 2   | 1        | 1  | 2   | 2      | 0  | 2   | 0       | 0  | 0   | 7       |    | 7   | 0       |    | 0   | 15       | 7  | 22  | 39%     |    |    |     |
| 2) ON HOLD (b)          | 0      | 1  | 1   |         |    | 0   | 0      | 0  | 0   | 2         |    | 2   | 1          | 1  | 2   | 1     | 1  | 2   | 0        | 0  | 0   |        |    | 0   | 0       | 0  | 0   |         |    | 0   | 0       | 2  | 2   | 3        | 5  | 5   | 9%      |    |    |     |
| 3) DEVELOPED (c)        | 6      |    | 6   | 3       |    | 3   | 2      | 2  | 4   | 3         |    | 3   | 4          | 4  | 8   | 1     | 1  | 2   | 0        | 0  | 0   | 4      | 2  | 6   | 1       | 1  | 2   | 1       | 1  | 2   | 1       | 1  | 2   | 18       | 12 | 30  | 53%     |    |    |     |
| OF THOSE DEVELOPED:     |        |    |     |         |    |     |        |    |     |           |    |     |            |    |     |       |    |     |          |    |     |        |    |     |         |    |     |         |    |     |         |    |     |          |    |     |         |    |    |     |
| 4) REJECTED LATER       | 3      |    | 3   | 3       | 0  | 3   | 0      | 0  | 0   | 0         |    | 0   | 1          | 1  | 2   | 0     | 0  | 0   | 0        | 0  | 0   | 4      | 1  | 5   | 0       | 0  | 0   | 0       | 0  | 0   | 1       | 1  | 2   | 0        |    | 0   | 11      | 3  | 14 | 25% |
| 5) TECH. ASSISTANCE (d) |        |    | 0   |         |    | 0   | 0      | 0  | 0   | 0         |    | 0   |            |    | 0   | 1     | 1  | 2   |          |    | 0   |        |    | 0   | 0       | 1  | 1   |         | 1  | 1   | 1       | 1  | 2   | 3        | 3  | 5   | 5%      |    |    |     |
| 6) IMPLEMENTED          | 2      |    | 2   |         |    | 0   | 0      | 0  | 0   | 0         |    | 0   | 0          | 0  | 0   | 0     | 0  | 0   | 0        | 0  | 0   |        |    | 0   | 0       | 0  | 0   | 0       |    | 0   | 0       | 2  | 2   | 0        | 2  | 2   | 4%      |    |    |     |
| 7) ACTIVE DEVELOPMENT   | 1      |    | 1   |         |    | 0   | 2      | 2  | 4   | 3         |    | 3   | 3          | 3  | 6   | 0     | 0  | 0   | 0        | 0  | 0   | 1      | 1  | 2   | 1       | 1  | 2   | 0       |    | 0   | 4       | 7  | 11  | 19%      |    |     |         |    |    |     |

- (a) Identified projects are those projects which appear in a PROFIT trip report as a potential project.  
 (b) Those projects that have been identified, but not currently under active development.  
 (c) Those projects on which staff time/effort was spent in development.  
 (d) Projects that did not result in a PROFIT investment, but for which PROFIT provided substantial assistance to AID.

**BEST AVAILABLE DOCUMENT**