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October 14, 1992

David Olson
Country Representative
Population Services International
P.O. Box 50770
Lusaka, Zambia

Subject: Cooperative Agreement No. COAG 611-0221-A-00-3001

Dear Mr. Olson:

Pursuant to the authority contained in the Foreign Assistance Act of 1961, as amended, the Agency for International Development (hereinafter referred to as "A.I.D." or "Grantor") hereby enters into a Cooperative Agreement with Population Services International (hereby referred to as "Recipient"), for the sum of one million five hundred thousand dollars (\$1,500,000) ("the Agreement") which is hereby subobligated and made available to provide support for a program in condom social marketing in collaboration with the Pharmaceutical Society of Zambia, as described in the Schedule of this Cooperative Agreement and Attachment 2, entitled "Program Description."

This Cooperative Agreement is effective and subobligation is made as of the date of this letter and shall apply to commitments made by the Recipient in furtherance of program objectives during the period beginning with the effective date and ending September 30, 1997.

This Cooperative Agreement is made to the Recipient on the condition that the funds will be administered in accordance with the terms and conditions as set forth in Attachment 1, entitled the "Schedule," Attachment 2, entitled "Program Description," and Attachment 3, entitled "Standard Provisions," which have been agreed to by your organization.

During the anticipated five year life of the Cooperative Agreement it is anticipated that total AID funding for PSI activities, identified in paragraph one above, will be \$7,484,000.

This Cooperative Agreement is made under, and funds are provided from, the Agreement between the Government of the Republic of Zambia ("GRZ") and the United States of America dated September 28, 1992, for the HIV/AIDS Prevention Project (Project No. 611-0221).

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SCHEDULE

I. Purpose and Program Description of Cooperative Agreement

The purpose of this Cooperative Agreement is to reduce the incidence of HIV transmission in target populations by making condoms widely available and affordable in Zambia, which is more specifically described in Attachment 2 to this Cooperative Agreement entitled "Program Description." This Cooperative Agreement is made under the Agreement between the Government of the Republic of Zambia ("GRZ") and the United States of America, dated September 28, 1992, for the HIV/AIDS Prevention Project (Project No. 611-0221).

II. Funds Obligated and Payment

A.I.D. hereby subobligates the amount of one million five hundred thousand US dollars for purposes of this Cooperative Agreement.

Payment shall be made to the Recipient in accordance with procedures set forth in Annex III - Standard Provision 14.2, entitled "Periodic Advance."

The total estimated amount of this Agreement for the period shown below in VII. is \$7,484,000. Additional funds up to the total amount of the Agreement may be subobligated by A.I.D. subject to the availability of funds, and to the requirements of the Mandatory Standard Provision of the Agreement entitled, "Revision of Grant Budget."

All costs incurred under this Agreement in excess of those budgeted for and set forth in the Financial Plan shall be considered as cost sharing/matching by the Recipient.

III. Substantial Involvement Understandings

It is anticipated that the performance set forth in the Project Description will require substantial involvement by USAID/Zambia. Elements of anticipated substantial involvement are as follows:

A. USAID/Zambia will review and approve the contract between PSI and the Pharmaceutical Society of Zambia ("PSZ").

B. Unless otherwise requested by USAID/Zambia, prior to the initiation of each advertising campaign for condoms, PSI/PSZ will present the content and strategy of these campaigns to USAID/Zambia for review and approval.

C. As appropriate, A.I.D. will assist PSI/PSZ in securing concessional prices for condoms from U.S. pharmaceutical

companies which have been historically active in supplying condoms to A.I.D.-financed projects.

D. USAID/Zambia will review and approve the annual marketing plans which PSI will submit in January of each year over the life of the Project. These marketing plans will include the entire marketing presentation for condoms including price structure and rationale for price structure; promotional activities to be undertaken; type, sequence and locale of advertising campaigns in all media; sales targets; distribution plans; market research activities; and administrative objectives (PSI/PSZ) required to achieve the project's purpose.

E. USAID/Zambia will monitor the implementation performance of the Condom Social Marketing project through quarterly progress and financial reports submitted by PSI/PSZ.

F. USAID/Zambia will participate with PSI/PSZ in annual assessments of PSI/PSZ's performance in achieving project objectives. This assessment will also include annual review of PSI/PSZ's overall financial position and of its performance in upgrading internal accounting and control systems in accordance with "Generally Accepted Accounting Principles." The review will be conducted with a view to assessing the potential of PSZ to eventually takeover from PSI in the social marketing of a wider array of public health and family planning products. In particular, the review will consider PSI/PSZ's financial performance (operational expenses, sales results, cost control measures, pricing, financial management) and cash flow projections and fiscal requirements over the coming year. The objective of this exercise is to assess whether the project is on a commercially-viable footing.

IV. Period of Cooperative Agreement

The effective date of this Cooperative Agreement is October 14, 1992. The expiration date of this Cooperative Agreement is September 30, 1997.

V. Reports and Evaluation

The Cooperative Agreement, when executed, will impose certain reporting requirements on the Recipient.

A. Technical Reporting

Quarterly Progress Reports - during the Life Of Project ("LOP"), PSI/PSZ will submit to USAID/Zambia quarterly progress reports. These reports will summarize all technical assistance, training, and operational activities which have been accomplished during the reporting period. The progress reports will also summarize the status of social marketing products including

VII. Financial Plan

The following is the Agreement budget. Revisions to this budget shall be made in accordance with the Standard Provision of the Agreement, entitled "Revision of Agreement Budget."

Element	First Sub-Obligation	Anticipated Future Year Sub-Obligations	Total Sub-Obligations
Salaries & Fringes	168,000	745,000	913,000
Overhead	142,000	569,000	711,000
Allowances	72,000	309,000	381,000
Consultants	4,000	16,000	20,000
Travel & Trans	115,000	582,000	697,000
Equip & Supplies	248,000	530,000	778,000
Advertising	137,000	681,000	818,000
Training	17,000	90,000	107,000
Other Direct Costs	71,000	368,000	439,000
Commodities	526,000	2,094,000	2,620,000
TOTAL	1,500,000	5,984,000	7,484,000

The itemized budget above sets forth the estimates for reimbursement of dollar costs for individual line items of cost. Without the prior approval of the Agreement Officer, the Recipient may not exceed the total estimated cost set forth in the budget hereunder or the obligated amount, whichever is less. Without the prior written approval of the Agreement Officer, the Recipient may not exceed the estimated dollar cost for any individual line item of cost by more than fifteen (15) percent of such line item, except for indirect costs (i.e. overhead) which is governed by Article VI. Negotiated Overhead Rates.

VIII. Special Provision

A. Title to Property: In accordance with Standard Provision 20, entitled, "Title to and Use of Property (Grantee Title)," title to all property acquired under this Agreement shall be vested in the Recipient. After the PACD, disposition of all non-expendable materials, including vehicles and computer equipment will be determined by USAID/Zambia.

PROJECT DESCRIPTION

I. PURPOSE

The purpose of the project is to reduce the incidence of HIV transmission in target groups by making condoms widely available and affordable in Zambia. This project will increase the availability and affordability of condoms in private commercial outlets throughout Zambia over a five-year period.

III. DESCRIPTION OF ACTIVITIES

Population Services International (PSI), a registered U.S. PVO, in cooperation with the Pharmaceutical Society of Zambia (PSZ), a private Zambian organization, will perform the activities under this project as described herein.

A. Specific Objectives and Performance Indicators

The specific objectives and performance indicators for the five-year project are:

1. To increase use of condoms among the sexually active population. Minimum sales objectives are 30.6 million (4 million in Year 1, 5 million in Year 2, 6 million in Year 3, 7.2 million in Year 4 and 8.4 million in Year 5);
2. To increase condom distribution to achieve coverage in all of Zambia's urban and periurban areas. This coverage will include 95% of pharmacies and private health clinics, 90% of wholesalers, 80% of state stores, 75% of hotels, major bars/clubs and private stores, and as many non-traditional outlets as possible;
3. To achieve a high level of brand awareness for the social marketed condom brand and strong consumer recall of the specific benefits associated with the brand. Consumer studies will demonstrate an 80% level of brand awareness for the project-sponsored condom by the end of the project;
4. To increase the awareness and practice of HIV prevention measures among the general population and high-risk target groups. Levels of awareness of appropriate HIV prevention behavior will reach 50% by project mid-term and 80% by the end of the project among

certain target populations. Similarly, levels of prevention awareness will reach 30% by mid-term and 50% by project end among the general population;

5. To strengthen the capacity of PSZ to operate a sustainable private sector-based social marketing infrastructure that can be utilized to distribute additional health care and family planning products. This will be accomplished through on-the-job training of a marketing and management staff as well as formal training workshops. In addition, a Management Information System using a computerized database will be established by the end of Year 1.

B. Distribution

Distribution to pharmacies, private health clinics, and general retail outlets will be handled by PSZ with strong technical support and supervision by PSI. PSZ has experience in contraceptive selling for family planning and is equipped with the necessary logistical resources (distribution network, sales staff, delivery, warehousing and accounting) to achieve national distribution. Assessments by PSI field personnel have revealed areas where PSZ's capabilities need to be strengthened and the project envisions that these will be addressed and treated over the course of the five years.

Anticipated national coverage targets for urban areas and major commercial centers are as follows:

	<u>YR 1</u>	<u>YR 2</u>	<u>YR 3</u>	<u>YR 4</u>	<u>YR 5</u>
Wholesalers	75%	85%	90%	90%	90%
Pharmacies	90%	90%	95%	95%	95%
Private Health Clinics	50%	95%	95%	95%	95%
State Stores	50%	75%	80%	80%	80%
Private Stores	15%	30%	60%	70%	75%
Hotels	30%	50%	60%	70%	75%
Major bars/clubs	25%	50%	60%	70%	75%

It is important to note that 100% distribution is not likely to be achieved. This is due to the probability that there will always be some cases of credit/payment problems with certain clients, establishments that will object to carrying the product on religious or moral grounds, and outlets that are too small to be economically viable as a direct client. It is expected, however, that more outlets will be covered beyond this initial five-year period.

C. Condom Brand

A series of 16 focus groups were conducted in Lusaka, the Copperbelt and Livingstone in April in order to determine a culturally acceptable brand name, marketing concept and package design. The results show that the name "MAXIMUM" is the most universally acceptable and that the concept of the dual benefit of maximum protection and maximum pleasure is credible and attractive. The package design most favored is that of a black silhouette of a couple with a bright yellow background.

Condoms will be packaged in attractive boxes (4 condoms to a box) to increase consumer appeal. Counter dispensers (12 boxes to a dispenser) will also be produced to provide an instant display vehicle for retail outlets.

The preferred condom, if sourced in the U.S., is the "Blue and Gold" presentation manufactured by Ansell Corporation, the AID contractor for condom supplies.

D. Pricing

Setting prices for social marketed products is a critical aspect of the planning process. It is imperative that the consumer price be affordable to even the lowest income segment of the population. There are several considerations that go into deciding the best price for a social marketed condom including the retail prices of other mass marketed goods (soft drinks, cigarettes, beer), costs of local public transportation, minimum wages, the lowest and most common monetary unit, government pricing laws, and traditional wholesale and retail margins. The suggested pricing structure for Zambia is:

	Price/4 Condom Pack	% Margin
To Wholesaler:	K13.50	10
To Retailer:	K15.00	25
To Consumer:	K20.00	-

Margins for wholesalers and retailers have to be kept high enough to motivate them to buy, merchandise and promote the condom despite the low consumer price relative to other pharmaceutical products. This financial incentive is also necessary because wholesalers and retailers will realize substantial volume and profit only after a period of intensive promotional and educational campaigns to generate consumer demand, a phenomenon which has been universally experienced in other social marketing projects worldwide.

Because the 20 kwacha note is very common in Zambia, the consumer price of K20 will facilitate quick purchases. This is critical to the marketing of a product of a private and personal

nature such as condoms which can be a source of embarrassment to the purchaser. Given the highly inflationary nature of the Zambian economy, and further devaluation of the Kwacha, the consumer price will be reviewed at least once a year, in order to maintain a constant real product price.

E. Summary Sales Targets

PSI has set very optimistic sales objectives for this project: 4 million in year 1, 5 million in Year 2, 6 million in Year 3, 7.2 million in Year 4 and 8.4 million in Year 5, for a total of 30.6 million. These sales objectives, if achieved, would make Zambia the most successful condom social marketing project ever in Africa, with per capita sales of .86 units at the end of five years. The most successful CSM project in Africa to date was Zaire which reached .48 per capita sales in 1991, its fourth year of operation.

F. Marketing

1. Target Consumers

As it is virtually impossible to determine how many individuals in the sexually active population are at risk of HIV infection by sexual transmission, all sexually active adults should be considered as target consumers.

Certain high-risk target populations can be identified such as prostitutes, truck drivers, mobile traders, migrant labor, soldiers and students. There is reason to believe that multiple partner relationships as well as polygamous activity among presumed monogamous couples is widespread and therefore subject to the same considerations as the target populations mentioned. Moreover, large clusters of workers can also be reached at their workplaces, thus providing a good venue for concentrated educational, promotional, and sales activities.

Promotional efforts will therefore be directed primarily to the above-mentioned groups and secondarily to the general public.

2. Education and Promotion

A wide variety of targeted educational and promotional activities will be implemented. These will include popular theater, songs, condom education conferences, condom evenings and point-of-sale (POS) promotions and product sampling.

Popular theater and songs will be developed in conjunction with local arts groups to disseminate AIDS prevention messages and promote condom usage. These materials will be used both for local promotion in nightclubs, bars, workplaces and community groups and also recorded for radio or TV broadcast.

the monitoring and evaluation of the project are in place. The resident advisor represents PSI on all matters and will maintain close and frequent communication with USAID/Zambia on all aspects of the project as well as any other matters that affect the project, including financial and administrative matters.

The project will need to expand significantly the PSZ staff to handle the increased workload. The newly-enlarged staff will include the following positions of which six are already filled:

- 1 marketing manager
- 1 finance/administration manager
- 1 accounting clerk
- 1 sales/promotion manager
- 3 sales/promotion agents
- 1 warehouse manager
- 1 warehouse clerk
- 2 secretaries
- 4 drivers
- 6 packers
- 3 guards
- 1 messenger

PSI will be in charge of ordering condoms and packaging to be delivered to the project's warehouse where they will be repackaged. PSI will take charge of ensuring delivery of these products to clients and for their proper storage.

The project will purchase four vehicles for use by the project team. Vehicle procurement will be in concert with USAID regulations and approved by USAID/Zambia prior to finalization. These vehicles will be used for sales deliveries, administrative functions and for general field work.

PSI will rent office and warehouse facilities for its resident advisor and other project staff.

2. Commodities

PSI will procure the condoms directly for the project. The preferred condom is the "Blue and Gold" manufactured by Ansell Corporation, the AID contractor for condom supplies. PSI will follow all AID regulations regarding the source and origin of the commodities as well as shipment regulations on the utilization of U.S. flag carriers. PSI has extensive experience purchasing commodities and purchases U.S.-sourced condoms for its USAID-funded social marketing project in Burundi.

Condom shipments for the first two years will be delivered by air to Lusaka because of the expected bottlenecks at Tanzania and South African ports overwhelmed by food relief. PSI will monitor the port situation closely and ascertain if ship or air

will be used after the first two years. USAID/Zambia approval will be secured prior to every air shipment. PSI will try to route every sea shipment via Durban to minimize risk of shipment loss because PSI has a resident manager in Durban who will facilitate transshipment to Lusaka. PSI will submit budget amendments as necessary to reflect cost differences between air and sea shipment.

3. Use of Sales Revenue

All revenues generated from condom sales will be deposited in a separate bank account. Initially the revenues will be applied as follows:

- (1) 5% will support PSZ;
- (2) The next 10% will be used to support operations/administrative expenses; and
- (3) The remaining 85% will be reinvested for activities addressing sustainability issues.

4. Technical Assistance and Administration

Technical assistance, project monitoring and administrative support will be provided through the PSI Washington office. Executive oversight and technical assistance to the project will be provided by PSI's President, Director of Research and Communications, Southern Africa Program Manager, Director of Marketing Projects, Program Officer for Logistics, Controller and others as needed.

PSI will provide technical assistance to PSZ and operational direction to the project in the following major areas:

- Training support for PSZ sales and accounting staff (including the development of a training manual and training materials).
- Expansion planning and product development.
- Commodity logistics management.
- Management Information System development.
- Monitoring (including financial controls, audit and project impact).
- Development, testing and finalization of sales training project (on process and products).
- Supervision of market research.

The Finance/Administration Manager within PSZ, as well as PSI's financial staff, will provide PSZ with assistance in establishing or upgrading any financial, accounting and/or administrative procedures that may be necessary for the project, and through the quarterly financial reports PSI will assess that these procedures are in effect and provide corrective actions, if necessary.

The technical assistance team to be fielded by PSI represents expertise in marketing management, consumer and pharmaceutical marketing, market research, advertising and communications, accounting, social marketing, project management and development.

5. Management Considerations

PSI's management approach in the CSM project will be directed at anticipating technical issues in the field to assure that resources are available in critical disciplines to support and encourage appropriate social marketing strategies that are flexible and responsive to consumer needs.

The PSI staff will assist PSZ with cost control, including costs incurred, billing and reporting. The PSI administrative staff will assist in logistics planning and will provide needed support to the CSM project to handle communications and reporting.

J. Implementation Plan

Year 1 implementation of the Condom social Marketing Project will involve the following key steps to be undertaken by PSI in collaboration with PSZ:

- Establish office and warehouse
- Hire staff
- Order equipment and vehicles
- Promotion messages and materials development and pre-test
- Launch promotion campaign
- Product launch
- Media message development, production and pre-test
- Media campaign launch
- Sales/promotion training
- Financial/office operations training
- Sales and distribution monitoring
- Consumer intercept
- Establish MIS systems
- Assessment of degree of financial viability

Implementation activities for subsequent years of the CSM project will be similar to that of Year 1.