

**PEPFAR TO#3: ENGAGING VENTURE CAPITALISTS,
FOUNDATIONS AND OTHER INVESTMENT PARTNERS IN
PEPFAR PARTNERSHIPS**

USAID Contract #: REE-I-03-06-00040-00

Period of Performance: February 23, 2009-February 22, 2011

**Quarterly Report
March-May 2009***

Chapter 1: Summary of Project Objectives and Results

A. Project Objectives

DAI and its partner Origo were awarded contract no. REE-I-03-06-00040-00 to provide technical assistance to The President's Emergency Plan for AIDS Relief (PEPFAR) and its Interagency Public-Private Partnership Technical Working Group (TWG) in the development of a strategy to partner with and engage venture capitalists, foundations, and other investors in HIV/AIDS public-private partnerships (PPPs). Under this Task Order, DAI/Origo is tasked with 1) assessing the PEPFAR portfolio of partners in up to three PEPFAR-supported countries to identify opportunities within existing programs; 2) developing a strategy for optimal engagement of Venture Capitalists, Foundations, and other new private sector partners in PEPFAR public-private partnerships; 3) developing a network of private capital thought leaders who may advise PEPFAR's PPP TWG; and 4) brokering at least one new public-private partnership.

This contract was awarded under the USAID Global Development Alliance Indefinite Quantity Contract. Although officially a two-year contract, the Workplan projects an end date of June 30, 2010.

B. Overview at end of the First Quarter

This quarter focused on initial project ramp-up, meetings with key stakeholders and the development of the Workplan. Due to contract negotiations, this Task Order was not signed until April 16, 2009. Project manager, Rachel Lawley joined the project on May 5, 2009.

Jeff Hamaoui visited Washington DC in February 2009 for meetings with stakeholders on this Task Order. Rachel Lawley and Jeff Hamaoui visited Washington DC on May 27 – June 4, 2009 for internal meetings with the PEPFAR team, USAID, DAI, and meetings with a number of other key stakeholders. See meeting schedule in Annex I.

* NB: This Task Order was signed and executed on April 16, 2009

At a Glance (as of May 31, 2009):

	Not yet started
	In progress
	Completed

TASK	DUE	OUTPUTS	PROGRESS
A1 Assessment	Aug 7, 2009	Preliminary assessment of portfolio. Country Assessment: The Deal Landscape	
A2 Identify Deals	Dec 31, 2009	At least 5 blue chip procurement deals	
B1 Assessment	Aug 7, 2009	Preliminary assessment of potential investors	
B2 Engagement Strategy	Aug 7, 2009	Engagement strategy	
B3 Engagement	Dec 15, 2009	Engage potential investors on deals	
	Jun 30, 2010	Engage specific investors on specific deals	
B4 Assessment Tool	Jun 30, 2010	Develop PPP assessment tool	
C1 Advisory Network	Sep 30, 2009	Engage at least 10 thought leaders	
	Dec 15, 2009	Convene advisory group	
	Dec 15, 2009	Thought leaders' letters of commitment	
D1 Secure PPP	Jun 30, 2010	Broker 1 PPP	
D2 Future PPPs	Jun 30, 2010	List of future PPPs	

Workplan	April 30, 2009		<i>First draft</i>
2 TA Trip Reports	Sep 30, 2009 Mar 28, 2009	Report findings and recommendations	
Monthly Reports		Progress to date and expenditures*	
Quarterly Reports	Jun 30, Sep 30, Nov 31, Feb 28	For Mar-May 09, Jun-Aug 09 Sep-Nov 09, Dec 09-Feb 10	
Final Report			
DEC Submission		Index of all relevant reports and information/intellectual products.	

**In mid-June 2009, there was a request to begin submitting monthly reports for those months where a quarterly report is not due. The first monthly report will be submitted in July 2009.*

Chapter II: Progress to Date Based on Results Indicators

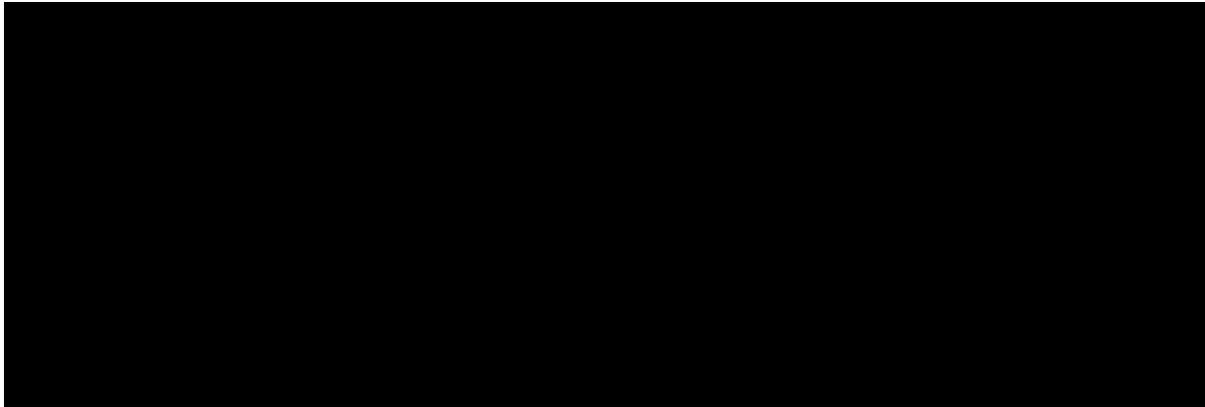
A. Development of Workplan

A first draft of the Workplan was delivered on April 30, 2009. Following calls with PEPFAR partners, a second draft of the Workplan was delivered on May 13, followed by a more detailed ‘approach’ document on May 22. Based on initial stakeholder outreach and intensive meetings with PEPFAR, USAID, and DAI a strategy document was developed and circulated to PEPFAR and USAID on June 1, 2009 (see Annex II). A revised version of this document informed the subsequent the version of the work plan that was approved.

B. Preliminary Assessment of PEPFAR Portfolio / Preliminary Assessment of Potential Investors. Initial partner outreach included:

Date	Organization	Notes/Outcomes
February 24 2009	HIV Free Generation	<ul style="list-style-type: none"> • Program overview • Info on networks created
March 5, 2009	San Jose BioCenter Event - Alternative Financing: Deals of the Down Economy	<ul style="list-style-type: none"> • Info on the availability of traditional and non-traditional finance for healthcare companies
May 12, 2009	IFC, Packard Foundation, Hewlett Foundation	<ul style="list-style-type: none"> • Briefing on IFC’s Health in Africa Initiative. • Secured follow up meeting and feedback that IFC/HIA is keen to engage with PEPFAR • Intros to foundations
May 13, 2009	New Leaf Venture Partners Ramesh Subramani, Vice President	<ul style="list-style-type: none"> • Physician and VC, ex-PPP specialist for McKinsey • Advice on approach to TO
May 28, 2009	Development Credit Authority, USAID Allison Eskesen	<ul style="list-style-type: none"> • Credit guarantee agency (debt only) • Looking at equity funds for African SMEs, would consider debt to equity • Also have gift authority • Currently partners with African Development Bank for loan guarantees • Eager to work with PEPFAR • Has not worked with VCs; keen to explore

May 28, 2009	State Department Global Partnership Center Jim Thompson, Kevin Saba	<ul style="list-style-type: none"> • Overview of GPC • Plans to have a VC liaison within GPC
May 29, 2009	IFC Dan Runde, Head of Partnership Development	<ul style="list-style-type: none"> • Info on IFC advisory services for the development of the private sector in Africa through Private Enterprise Partnership for Africa (PEP Africa)
May 29, 2009	IFC Health In Africa Initiative Khama Rogo, Connor Spreng	<ul style="list-style-type: none"> • Focus on investment, research and TA to governments • Debt: Loans to local banks • Equity: Investments (via Aureos) in companies • Opportunities for PEPFAR to engage in research alignment and exchange, policy alignment, and investment deal flow
May 29, 2009	OPIC Mitchell Strauss, Advisor	<ul style="list-style-type: none"> • Intro to OPIC • OPIC seen as lender of last resort – not actively looking for deals • Has a number of funds in Africa



Chapter IV: Contract Deliverables

A first draft of the Workplan was delivered by the April 30 deadline. No other deliverables were due or delivered during this quarter.

ANNEX I

PEPFAR TO#3 VISIT PROGRAM FOR RACHEL LAWLEY MAY 26 - JUNE 4, 2009

TUESDAY MAY 26, 2009

11:45AM DEPART SAN FRANCISCO (SFO)

8:00PM ARRIVE WASHINGTON DC (IAD)

WEDNESDAY MAY 27, 2009

8:00AM PEPFAR BREAKFAST
British Robinson, Steve Napleton (PEPFAR)
Rachel Lawley, Jeff Hamaoui (Origo)

12NOON DAI LUNCH
Samira Salem (DAI)
Rachel Lawley (Origo)

1:30PM PEPFAR
Mike Gehron, Steve Napleton (PEPFAR)
Michelle Wu (USAID)
Samira Salem (DAI)
Rachel Lawley, Jeff Hamaoui (Origo)

THURSDAY MAY 28, 2009

8:00AM DAI BREAKFAST
Colleen Green (DAI)
Rachel Lawley, Jeff Hamaoui (Origo)

10:00AM DEVELOPMENT CREDIT AUTHORITY
Allison Eskesen, Anthony Vaganos, (DCA)
Rachel Lawley, Jeff Hamaoui (Origo)

12:30AM STATE DEPARTMENT GLOBAL PARTNERSHIP CENTER
Jim Thompson (GPC)
Rachel Lawley, Jeff Hamaoui (Origo)

3:30PM PEPFAR
Mike Gehron, Steve Napleton (PEPFAR)

Rachel Lawley, Jeff Hamaoui (Origo)

FRIDAY MAY 29, 2009

- 8AM INTERNATIONAL FINANCE CORPORATION
Dan Runde (IFC)
Rachel Lawley, Jeff Hamaoui (Origo)
- 10:15AM INTERNATIONAL FINANCE CORPORATION: HEALTH IN AFRICA
INITIATIVE
Khama Rogo, Connor Spreng (IFC)
Mike Gehron, Steve Napleton (PEPFAR)
Rachel Lawley, Jeff Hamaoui (Origo)
- 12NOON OVERSEAS PRIVATE INVESTMENT CORPORATION
Mitchell Strauss (OPIC)
Rachel Lawley, Jeff Hamaoui (Origo)

MONDAY JUNE 1, 2009

- 8AM DAI
Kristi Ragan, Samira Salem, Gary Kilmer, Rhiannan Gulick, Lief
Doerring (DAI)
Rachel Lawley, Jeff Hamaoui (Origo)

TUESDAY JUNE 2, 2009

- 10AM PEPFAR
Mike Gehron, Steve Napleton (PEPFAR)
Samira Salem (DAI)
Rachel Lawley, Jeff Hamaoui (Origo)
- 2PM USAID
Michelle Wu, Mary Jordan, Adam Slote (USAID)
Rachel Lawley (Origo)

WEDNESDAY JUNE 3, 2009

- 10:30AM ROCKEFELLER FOUNDATION
Antony Bugg-Levine (Rockefeller)
Steve Napleton, (PEPFAR)
Rachel Lawley, Jeff Hamaoui (Origo)
- 2:30PM TED@STATE EVENT

THURSDAY JUNE 4, 2009

10AM PAN AFRICA CAPITAL GROUP
 Stephen Murray, Eric Smucker (PACG)
 Steve Napleton (PEPFAR)
 Rachel Lawley (Origo)

12NOON PROJECT CONCERN INTERNATIONAL
 Jennifer Weiss (PCI)
 Samira Salem (DAI)
 Rachel Lawley (Origo)

6:35PM DEPART WASHINGTON DC (IAD)

9:25PM ARRIVE SAN FRANCISCO (SFO)

ANNEX II

Origo PEPFAR Strategy

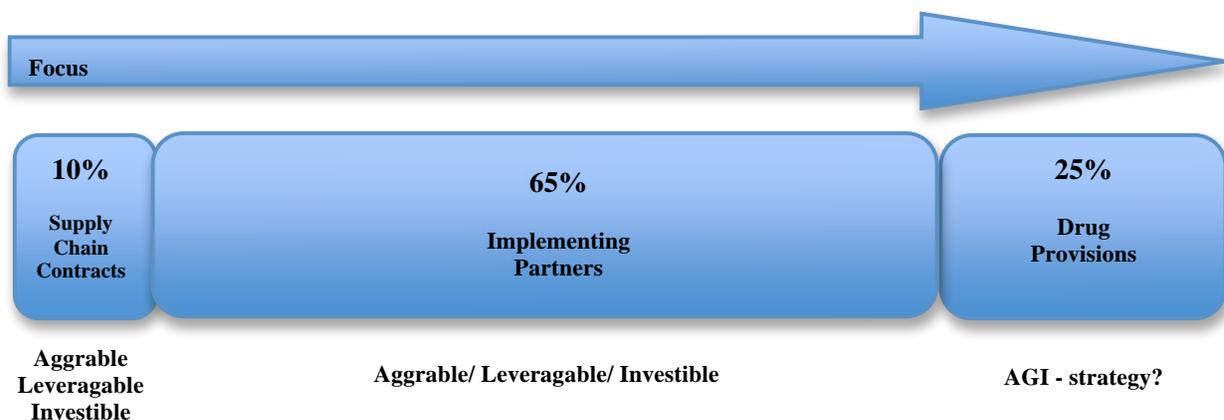
As of Monday June 1, 2009

External Analysis: Elements of the capital supply chain...



- PEPFAR’s CAPITAL is limited to funds already committed to Implementing Partners.
- Market development (CAPACITY & INFRASTRUCTURE) is the domain of USAID and other government departments.
- Current short term opportunities lie in **DEAL FLOW**. PEPFAR’s offering: prequalified deals, guaranteed market (risk mitigation), access/leverage with other government departments.

Internal Analysis



While the ‘supply chain’ component represents the smallest budget allocation, it may provide the closest opportunity for PEPFAR to engage in investible deal creation. We will also review the remaining 90% for leveragable, aggrable and investible assets.

Short term • Leverage existing projects: leveragable / aggrable asset base

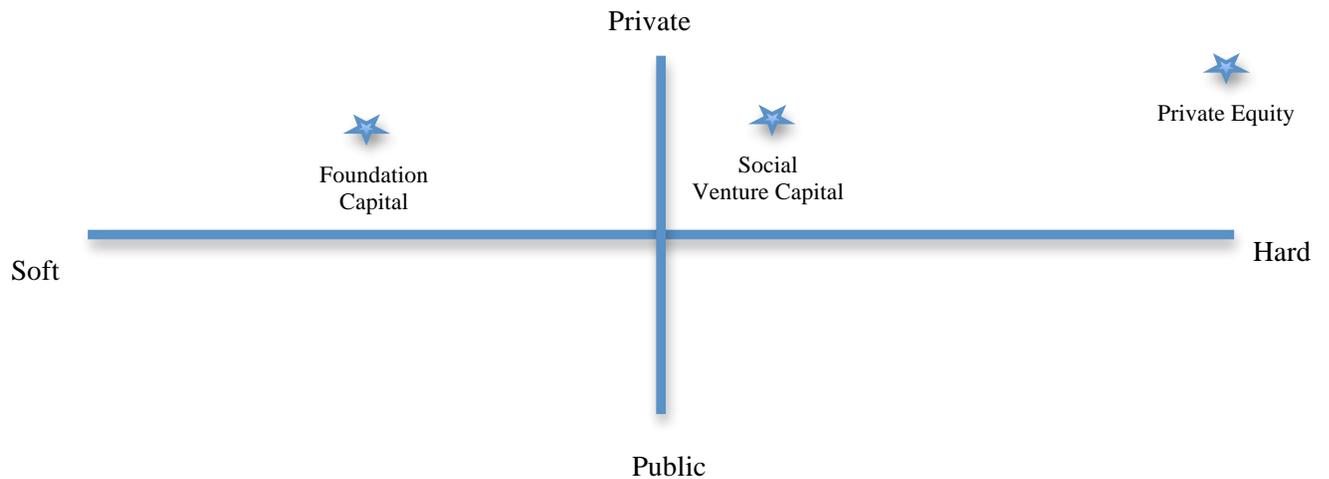
- Mid term
 - Free up PEPFAR capital: repurposed quarterly funding / DCA
 - This could address any identified gaps in program coverage
- Long term
 - Create PEPFAR capital: re-programming funds (e.g. for fund creation)

Next Steps

Focus on **DEAL FLOW** and leverage **CAPITAL and CAPACITY & INFRASTRUCTURE**.
 Focus on healthcare services already privately funded.



Capital Continuum



Approach

- A. Identifying Opportunities within PEPFAR's Existing Portfolio
 - B. Criteria for Private Partners
 - C. Intersections of Investment
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A. IDENTIFYING OPPORTUNITIES WITHIN PEPFAR'S EXISTING PORTFOLIO

Map PEPFAR's existing portfolio of partners in the three PEPFAR countries. Assess programmatic gaps and identify opportunities within existing programs; identify key priority areas for deals.

- a. Identify the most suitable PEPFAR projects for leverage – 'opportunity programs'. Focus on 10% of program budget assigned to Supply Chain / Contracts, however also review the remaining 90% for leveragable, aggregable and partnerable assets. Focus on projects receiving the most PEPFAR funding. Create a decision making matrix and rate projects on the following criteria:
 - Amount of PEPFAR funding
 - Business opportunity / investibility
 - Risk (capital / political / social)
 - 'Aggregability'
 - Leveragability
 - Sustainability
 - Potential scalability
- b. Create a map to illustrate program areas covered by the identified 'opportunity programs'. Using this map of PEPFAR's existing portfolio, work to identify any gaps in program coverage (although these programmatic gaps will not be addressed in the short term, unless program money becomes available).
- c. Seek options for leveraging and scaling PEPFAR's opportunity programs by engaging private funding partners (see B). Focus on PRIVATE EQUITY partners, but also assess NGOs, FOUNDATIONS, CORPORATIONS and OTHER VEHICLES, or financial service providers offering micro finance, micro insurance or mortgage products.

B. CRITERIA FOR PRIVATE PARTNERS

Map major existing PRIVATE EQUITY, FOUNDATION, CORPORATION and OTHER (e.g. OPIC / IFC) players active in three PEPFAR countries.

1. Review

- a. Work with PEPFAR, USAID, DAI and country teams to identify private funders actively investing or interested in the three PEPFAR countries.
- b. Categorize these funders into PRIVATE EQUITY, FOUNDATION, CORPORATION and OTHER VEHICLES (e.g. OPIC / IFC) and create a map to illustrate distribution of existing players.

2. Preliminary Partner Selection: Decision Gate I

- a. Create a decision making matrix and rate private funders on the following criteria:
 - Focus on healthcare
 - Active / experience in the region
 - Existing relationship / open to relationship with PEPFAR
 - Seeking innovative structures and strategies for investment
 - Stage of fund (private equity only)
 - Offering innovative financial products (such as micro insurance)
 - Fit to identified key priority areas / programmic gaps

3. Secondary Partner Selection: Decision Gate II

- a. Rate potential partners on the following suggested criteria:
 - Management team (or general partners for private equity)
 - Decision making capacity / ability to move quickly
 - Complementarity of terms of investment (expected return on investment)
 - Available capital resources (ability to participate in deals and scale)

C. INTERSECTIONS OF INVESTMENT

Identify intersections of existing investment and PEPFAR programming

Package identified PEPFAR ‘opportunity programs’ and target potential private investors. Seek opportunities to leverage and scale existing programs.