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PEPFAR TO #3

QUARTERLY REPORT

DECEMBER 2009 - FEBRUARY 2010

SUBMITTED ON MARCH 25, 2010 FOR APPROVAL

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DEC. 2009 – FEB. 2010

**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
December 2009, January & February 2010**

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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 Fourth Quarter

General

During this fourth quarter, the DAI/Origo team focused on advancing the PHD deal opportunity in South Africa, and preparing for the planned trip to Kenya in February/March 2010. Due to staff changes and previous commitments in Kenya, this trip has now been pushed back to early May 2010, however the Kenya team has been generally positive and responsive to communication about this task order.

PHD Opportunity

The DAI/Origo team and Mike Gehron have worked closely with PHD's CEO Iain Barton this quarter to develop the Pharmacy-in-a-Box micro-pharmacy franchise model. We have supported the development of an early business plan, and are facilitating connections to potential funders. This project is a priority for PHD, which is hiring a full-time special projects manager to drive it forward. Our challenge remains securing the buy-in of the PEPFAR country team, and we are working to carefully position the project before it is formally presented to PEPFAR.

Preparation for Kenya

Jeff Hamaoui met with British Robinson, Mike Gehron, Steve Napleton and Chantal Knight in Washington DC on February 25 to discuss strategy for the Kenya trip in May. We are proposing to convene a 'collaboratory'-style event for key stakeholders in Kenya in order to brainstorm opportunities in three opportunity areas (to be decided with the country team). This approach will require significant pre-trip and pre-event preparation in the form of conversations

with companies and investors operating in the key opportunity areas. The DAI/Origo team is drafting a revised Scope of Work document to share this vision with Hanna Dagnachew in Kenya.

Challenges and Lessons Learned

Lack of contact with the PEPFAR country team in South Africa has been an ongoing challenge, and has hindered our ability to assess the benefits of the Pharmacy-in-a-Box opportunity for PEPFAR programs. Our greatest challenge is now to present Pharmacy-in-a-Box as a potential solution to PEPFAR's rural distribution challenges, without the PEPFAR team feeling unduly pressured by Washington.

The access challenge in Kenya has been unforeseen and unavoidable, and has resulted in the postponement of our visit until May 2009 – only one month from the projected end of this task order.

Timeline and Next Steps

The delay of the Kenya trip raised questions this quarter over the possible extension of the TO#3 Workplan and budget, due to close in June 2010. Now that the trip has been scheduled for May 2010, the wider team has decided to stick to the original timeline, to focus on the PHD opportunity in South Africa, and on unearthing opportunities in Kenya. The DAI/Origo team will also use time prior to the Kenya trip to draft the TO# Final Report, in order to allow capacity for post-trip follow up after the scheduled Workplan end date in June.

At a Glance (as of February 28, 2010):

	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		
2 TA Trip Reports	Nov 25, 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 was submitted in July 2009.*

Chapter II: Progress to Date Based on Results Indicators

A2. Identify Deals

[South Africa]

PHD Deal Opportunity: Pharmacy-in-a-Box Micro-Pharmacy Franchise

The DAI/Origo team has been pursuing an opportunity with SCMS contractor, PHD, to create a for-profit rural micro-pharmacy network that will serve both private and public patients. This model presents a possible solution to PEPFAR's rural distribution challenges in South Africa. It fits within the parameters of TO#3 because PHD is an existing PEPFAR partner, and is proposing to meet the costs of building the pharmacy network in return for a PEPFAR contract to deliver ARVs to rural communities. PHD will seek business capital to fund its upfront costs.

Although PHD conceptualized the Pharmacy-in-a-Box model as a service growth strategy to access the bottom of the pyramid in clients' markets, the franchise will offer support to public treatment programs by partnering with public sector health delivery organizations. PHD's CEO, Iain Barton, maintains that public-private partnership will not only help the franchise succeed in a business capacity, but will also increase the potential impact in rural communities.

The DAI/Origo team and Mike Gehron have worked closely with Iain Barton this quarter to truth the underlying assumptions of the Pharmacy-in-a-Box business plan, to develop a strategy for presenting the opportunity to PEPFAR in South Africa, and to brainstorm private finance options. We were pleased to learn that there are no internal barriers to prevent PEPFAR's implementing partners from using private sector distribution solutions to reach populations where no government infrastructure currently exists.

PHD enjoys a close relationship with the PEPFAR team in South Africa due to its management of the logistics portion of the SCMS contract. However, Iain Barton has been reluctant to approach PEPFAR directly about the Pharmacy-in-a-Box opportunity, lest it present a conflict of interest, or otherwise compromise his position. The DAI/Origo team has given a good deal of thought to ways of socializing the concept with the South Africa team, given their lack of support for TO#3.

One approach has been to seek the advice of organizations close to PEPFAR in South Africa, such as the Clinton Foundation's HIV/AIDS Initiative (CHAI). Through Mike Gehron, we have sought the confidence of Tom McPartland, Executive Vice President of ELMA Philanthropy Services, the primary funder of CHAI in South Africa. Tom McPartland is enthused by the Pharmacy-in-a-Box concept and has taken the idea to CHAI Chairman, Ira Magaziner. In addition, Tom McPartland has facilitated introductions for Iain Barton to CHAI Country Director, Vishal Brijlal, and to contacts within the South Africa Department of Health. Our motivation in contacting CHAI was not to bypass PEPFAR, or to exert external pressure on the PEPFAR team to support the Pharmacy-in-a-Box

proposal. Rather it was simply a way to truth the assumption that such a model could be useful to public programs, before we present it to the PEPFAR country team.

On the funding side, Tom McPartland has offered to submit the Pharmacy-in-a-Box opportunity to Aureos (IFC Health in Africa Fund), into which ELMA Philanthropy Services has invested. Tom has shown some interest in investing in the pilot study, and has also offered to introduce Iain Barton to Aureos in South Africa. The DAI/Origo team and Mike Gehron are now working with Iain Barton to determine which other private funders to approach with the Pharmacy-in-a-Box opportunity.

[Kenya]

The DAI/Origo team has been investigating potential deal opportunity areas and potential corporate partners through telephone calls with local business and HIV associations in Kenya. We have not yet made contact with the Kenya country team, but hope to do so in early 2010.

B3. Engagement of Potential Investors: Engage specific investors on specific deals

(See PHD Deal Opportunity above). Mike Gehron and the DAI/Origo team have entered into discussions with ELMA Philanthropies on the PHD opportunity. We are now investigating which other funders will be appropriate for this opportunity.

B4. Assessment Tool: Develop PPP assessment tool

The DAI/Origo team is cataloguing best practices and lessons learned in order to build a PPP assessment tool to help PEPFAR partnership officers replicate the TO#3 model in the future.

C. Advisory Network

Under the Workplan, the DAI/Origo team had committed to securing letters of commitment from thought leaders, and convening an initial advisory group, by December 15, 2009. However, the wider TO#3 team (USAID, PEPFAR) were keen to re-evaluate the purpose and role of any potential advisory board before moving ahead.

The DAI/Origo team presented a proposal for the TO#3 advisory board (see Annex B) in January 2010, however upon consultation with the wider TO#3 team, it was decided to postpone the creation of the advisory board until we are better able to define its role and purpose. This decision will depend on:

- Whether the board will exist after TO#3
- Success of TO#3 and anticipated wider roll out
- Need for internal and external champions
- Need for internal training

- Relevance to wider PEPFAR strategy

We agreed to revisit the question of the advisory board upon our return from Kenya. The team widely agreed that any advisory board set up under TO#3 must be fit for purpose, and not simply created to meet the terms of the TO#3 Workplan.

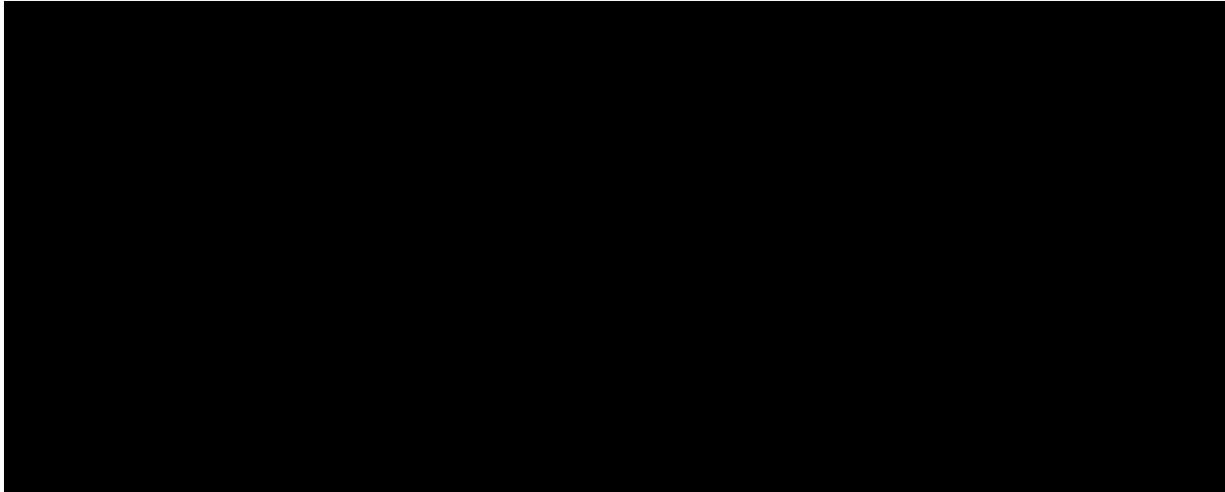
The DAI/Origo team has identified a selection of group of potential candidates for any future advisory board, and is ready to move quickly once the role of the board has been agreed.

Partner Outreach During this Quarter Included:

Date	Organization	Notes/Outcomes
Dec 2	Ashoka Al Hammond	<ul style="list-style-type: none"> • Has pioneered a fully commercial rural healthcare delivery system and is currently rolling out in India. So far both financial returns and populations served have exceed expectations. • Is keen to keep abreast of PEPFAR's plans and is willing to provide support. Al has access to Ashoka's network of health social entrepreneurs through Africa, and has offered introductions to Lisa Kimbo in Kenya and a Schwab Fellow in South Africa.
Dec 9	HealthStores Foundation Gunther Faber & Greg Starbird	<ul style="list-style-type: none"> • HealthStores has 82 franchisees in Kenya, managed by a non-profit franchisor (a HealthStores subsidiary) in Kenya. • HealthStores is shifting its model towards economic sustainability and is seeking social venture financing. • Happy to help us investigate numbers for our business model. • Gunther suggests speaking to Dion duPlessis (male) as a potential franchisor in South Africa and will make an intro.
Dec 9	Independent Consultant Roland Pearson	<ul style="list-style-type: none"> • Recommended by Golden Mahove at the Business Trust as a potential broker in South Africa. Roland was founding executive director of ECI Africa. • Believes the national government's attitude to private sector involvement in health is a question of practicality rather than ideology. • The franchise model has gained currency. Suggested we approach existing pharmacy chain owners as potential franchisors.
Dec 14	SABCOHA Brad Mears & Genieve Frick	<ul style="list-style-type: none"> • Managing health industry response to government's call for support. • Suggested that SABCOHA build a relationship with the policy side of PEPFAR in South Africa.
Dec 17	Elixir Health Reg Magennis	<ul style="list-style-type: none"> • Background information on the health industry in South Africa. • Offered an introduction to Clicks Pharmacy chain.
Dec 23	PHD Iain Barton & Christine Fullmer	<ul style="list-style-type: none"> • PHD has partnered with existing franchisor ZOK, and plans to launch Medi-ZOK micro-pharmacies alongside existing ZOK shops. • PHD will pursue this opportunity without PEPFAR support, but could be a useful tool for PEPFAR – especially in light of the new commitment to deliver \$120m worth of extra ARVs over the next two years.

Jan 6	UCSF Health Systems Initiative Dominic Montagu, Social Franchise Specialist	<ul style="list-style-type: none"> • Dominic is familiar with PHD's plans for Clinic/Warehouse/Pharmacy-in-a-Box. • He is convinced that a franchised pharmacy model makes sense in South Africa, but cautioned us to verify the pharmacy franchise model as a vehicle for ARV provision. • Shared a feasibility assessment he authored for a pharmacy franchise for ARV delivery in Mali.
Jan 7	Global Health Research Foundation Erica Weirich & Amy Muzaffar, Co-founders	<ul style="list-style-type: none"> • Provides tools and technologies for health delivery and monitoring.
Jan 18	Global Business Coalition on HIV/AIDS Francis Njang'iru, Technical Services Manager, East & Central Africa (and previously Executive Director of the Kenya HIV Private Sector Business Council)	<ul style="list-style-type: none"> • A corporate membership organization bringing members together to take action. Has an Impact Initiatives program that proactively convenes members with non-profit and other partners to build innovative PPPs. • First Impact Initiative in Kenya is in partnership with PEPFAR and AMPATH, providing home-based HIV/AIDS testing and counseling for 2 million people in western Kenya. • Seeking innovative ways to look at health funding in Kenya, and is interested in meeting us in March.
Jan 20	DAI Colleen Green, Technical Area Manager, HIV/AIDS & Livelihoods	<ul style="list-style-type: none"> • Updated Colleen and requested contacts for Kenya. • Discussed her livelihoods and economic strengthening work.
Jan 20	Academy for Educational Development Liza Kimbo	<ul style="list-style-type: none"> • Lisa ran the HealthStores Fdn in Kenya for 3 years and is now building a for-profit equivalent in collaboration with CareGo Intl (separate from her work at AED). • The model is for pre-fab full service clinics with lab facilities. Lisa is raising her first round of equity investment and plans to start with 2 or 3 company-owned units before scaling into a franchise. • Keen to be connected with Iain Barton. Also interested in discussing the PEPFAR angle for Kenya.
Jan 20	Monitor South Africa Jan Schwier, Partner	<ul style="list-style-type: none"> • Monitor is working with The Business Trust to research market-based solutions for the BOP, evaluating the types of business models that have succeeded in BOP communities. It will produce publicly available reports for India, South Africa, Ghana, Tanzania and Mozambique. • Happy to help us think through any deal opportunities that emerge through TO#3.
	Southern African Enterprise Development Fund (SAEDF) Emmanuel Qua Enoo	<ul style="list-style-type: none"> • Established with USAID funds to make equity investments of \$1-5m in SMEs (including health) across the southern African region. • Initially had social and financial targets, but has transitioned to seek sub-market returns at ~12-15%. SAEDF will reach its term this year, and USAID plans to privatize the fund, which will seek financing from traditional limited partners, and will be run by a private fund management company.

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Jan 20	Kenya HIV Private Sector Business Council Dr. Helen Magutu	<ul style="list-style-type: none"> A membership organization focused on workplace initiatives and companies' response to HIV/AIDS. Receives USAID funding through AED for SME programs. Intrigued by TO#3 and would like to convene the Private Sector Partners (PSP) on HIV/AIDS group to help us brainstorm in Kenya. PSP comprises 8 member organizations, some of which are existing PEPFAR implementing partners.
Jan 27	DAI Tim Sparkman, Livelihoods Advisor, ROADS II	<ul style="list-style-type: none"> ROADS II is focused on reducing HIV transmission along major transport corridors. Tim is working on an initiative called LifeWorks, which creates jobs for vulnerable populations as part of an HIV prevention and care strategy. He is interested in the relationship between 'vulnerability' and HIV prevalence. Open to meeting in Kenya.
Jan 27	HealthStores Foundation Greg Starbird	<ul style="list-style-type: none"> Discussed HealthStores' shift away from its reliance on grant funding. HealthStores is looking at private financing options for Kenya, and also for Rwanda. USAID has funded HealthStores in Kenya, so there may be potential to engage TO#3 around innovative private sector funding arrangements.
Jan 28	Whitehouse & Associates, South Africa Liz Whitehouse	<ul style="list-style-type: none"> Liz is a trade and economic development specialist. She immediately grasped TO#3 and we discussed opportunities around food fortification. Suggested we contact the Industrial Development Corporation, a self-financing, state-owned national development finance institution that provides equity financing to entrepreneurs in various sectors, including healthcare. She also suggested the Development Bank of Southern Africa.
Jan 28	Global Fund Mamissa Mboob, Private Sector Officer for Africa (based in Geneva)	<ul style="list-style-type: none"> Mamissa supports Global Fund portfolio managers with their private sector engagement. Part of her role is building proactive PPPs for GF-funded programs. Very interested in TO#3, and would like to share the concept with her manager. She has not had any contact with PEPFAR's PPP officers to date.
Feb 2	SISA Center for Corporate Partnership Paul Okumu, Partnerships	<ul style="list-style-type: none"> Remit to engage the private sector in development issues, beyond CSR. Creating a common platform for the corporate sector to



Chapter IV: Contract Deliverables

The December monthly report was delivered on January 8, 2010. The January monthly report was delivered on February 8, 2010.

No other deliverables were due during this quarter.

TO#3: The Role of the Advisory Network

Summary

The advisory network was originally envisioned as a “consultative body of experts within the venture capital, foundation, and private sectors who can guide innovative program and partnership designs”. The DAI/Origo team has engaged a wide network of thought leaders around TO#3, and is now seeking to formally engage an advisory network or board.

In the six months since the Workplan was drafted, we have learned that one of the greatest challenges to TO#3 is gaining the support and trust of the PEPFAR country teams. For this reason, the DAI/Origo team proposes including internal champions from PEPFAR and USAID at the advisory level, to enable the advisory group to support the development of internal as well as external strategies around engaging private investors.

This document proposes establishing a small advisory board that includes investors alongside representatives from PEPFAR and USAID. The board will access a wider advisory network of thought leaders, comprised of the personal and professional contacts of board members, and the contacts made through TO#3.

Proposal for the Advisory Board

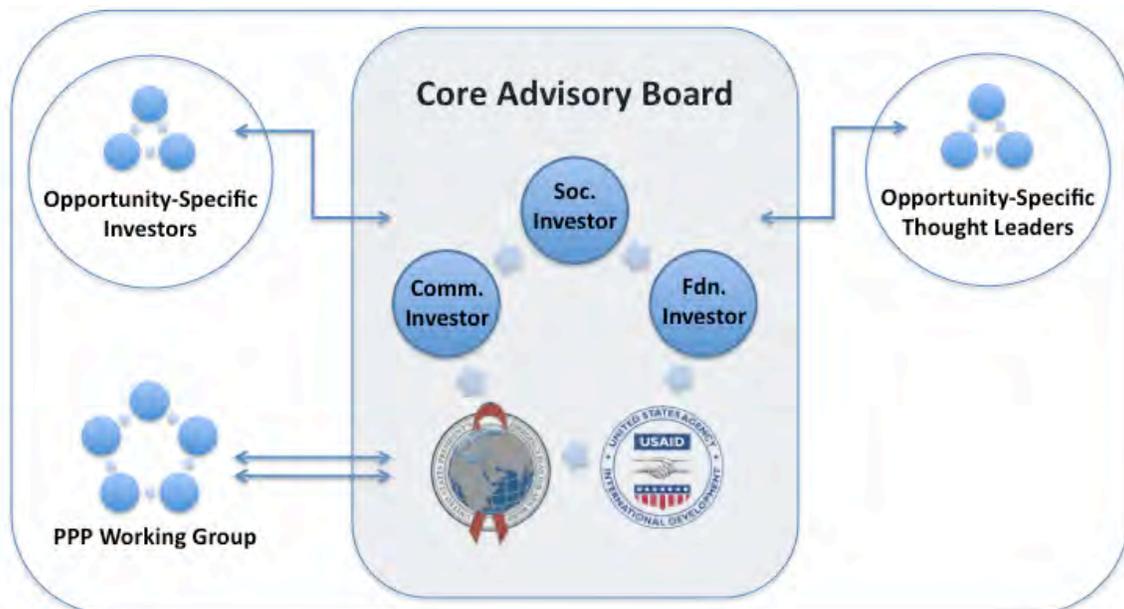
Original Brief (for reference only)	
<p>From Workplan:</p> <p>Goal</p> <ul style="list-style-type: none">• Build an advisory network of at least 5 thought leaders to help inform PEPFAR’s strategy for engaging private investors.• Receive letters of commitment from advisory group members <p>Criteria</p> <ul style="list-style-type: none">• Private investors• Experience investing in African enterprises• Focus on quality rather than quantity• Known and respected in the investment community <p>Process</p> <ul style="list-style-type: none">• Identify and engage at least 10 key thought leaders• Conduct interviews with these leaders to identify business drivers for investment, incentives or constraints, and best practice for developing markets.• Present and request feedback on potential deals identified from PEPFAR’s existing portfolio• Convene group to brainstorm engagement strategy for PEPFAR	<p>From Redacted Contract:</p> <p>The contractor must develop a network of thought-leaders who can provide guidance to PEPFAR’s Public-Private Partnership Technical Working Group (PPP TWG) on practical ways to engage with investors and private sector partners that will address the global HIV/AIDS pandemic in heavily AIDS-affected countries and emerging markets.</p> <p>The network is meant to serve as a consultative body of experts within the Venture Capital, Foundation, and private sectors who can guide innovative program and partnership designs. The contractor will be tasked with and responsible for all related logistics in identifying thought leaders, developing the network, and convening the group semiannually.</p>

Board

- Create a small, workable advisory board of five core members. Grow the board organically as and when new skills are required.
- Bring in opportunity-specific investors to advise on deals as required.
- Create a working group of progressive PPP officers from various missions to feed into PEPFAR and USAID board members and ensure the board stays relevant. This will also be a way to educate PPP officers and help shape the direction of their PPP activities.

Network

- Maintain a larger, informal, network of thought leaders, including those engaged as part of TO#3, and the contacts of individual board members.



Representation on the Board

The initial core board will consist of five board members, two internal (PEPFAR and USAID), and three from the private investment community (one commercial investor, one social investor and one foundation). We will seek board members with the following qualities:

- **PEPFAR:** Senior enough to champion private investor engagement within PEPFAR, with an operational remit that ensures sensitivity to day-to-day PEPFAR activity and goals. Intimate understanding of PEPFAR policies and remit. Experience working with the private sector, and a general understanding of private investment. Interest or experience with innovative public-private partnerships, and if possible, a personal network of implementing partners. Interest or experience working in Africa. Unclear whether this representative needs to be based in DC.

- **USAID:** Senior USAID practitioner with deep field / mission and health experience. Experience with the private sector, or open to working with the private sector. Experience with procurement/supply chain management would be useful, as well as being able to communicate the complex needs of USAID.
- **Commercial Investor:** Senior for-profit debt or equity investor seeking commercial return deals in Africa. Focus on healthcare, infrastructure, construction, or health-related retail. Intimate understanding and wide network of other investors in the space, and of challenges to investing in African markets.
- **Social Investor:** Senior social investor seeking sub-market returns on investment. Experience working in Africa, and a willingness to promote innovative public-private partnerships.
- **Foundation:** Senior foundation executive with experience making MRI and PRI¹ investments as well as grants in health, health systems and economic development, and experience working in Africa. Open to public/private investment approach to strengthening health systems for sustainability.

The advisory board will operate in the context of a wider network of thought leaders – those engaged through TO#3, and the contacts of individual board members – who can be called upon informally for guidance on specific issues.

Commitments and Responsibilities of Advisory Board

Board members will commit to meeting (either by telephone or in person) up to four times per year. They will be asked to offer support and guidance on PEPFAR's ongoing strategy for engaging private capital, and may be asked to participate in educational sessions or briefings to promote the concept within PEPFAR/USAID. This will include providing guidance to PEPFAR's PPP TWG on practical ways to engage with investors and private sector partners around the global HIV/AIDS pandemic in heavily AIDS-affected countries and emerging markets. Board members will be asked to advise on specific deal opportunities, identify focus areas, and leverage their personal and professional networks in support of PEPFAR's initiative to engage private capital.

¹ MRI: Mission Related Investment, PRI: Program Related Investment – both categories allow foundations to invest directly out of corpus / endowment funding into debt or equity deals. While this arrangement is well understood, not all foundations are open to or willing to use these tools.

Strategy and Timeline

TASK C: NETWORK			
Task	Deadline	Outputs	Responsibility
C1 Advisory Network	Sep 30, 2009 <i>(Completed)</i>	Engage at least ten private capital thought leaders.	Rachel Lawley Jeff Hamaoui
	<i>Feb 28, 2010</i>	<i>Identify potential external candidates for core board</i>	<i>Rachel Lawley Jeff Hamaoui</i>
	<i>Feb 28, 2010</i>	<i>Identify potential PEPFAR candidates for core board</i>	<i>Steve Napleton Mike Gehron</i>
	<i>Feb 28, 2010</i>	<i>Identify potential USAID candidates for core board</i>	<i>Rob Schneider Michelle Wu</i>
	Mar 31, 2010	Letters of commitment from at least 5 key thought leaders.	Rachel Lawley
	June 30, 2010	Convene advisory group (at least once) to brainstorm PEPFAR's private investor engagement strategy.	Rachel Lawley Jeff Hamaoui

Additions/amendments to Workplan in italics.