ENGAGING VENTURE CAPITALISTS, FOUNDATIONS AND OTHER INVESTMENT PARTNERS IN PEPFAR PARTNERSHIPS

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Author: Rachel Lawley

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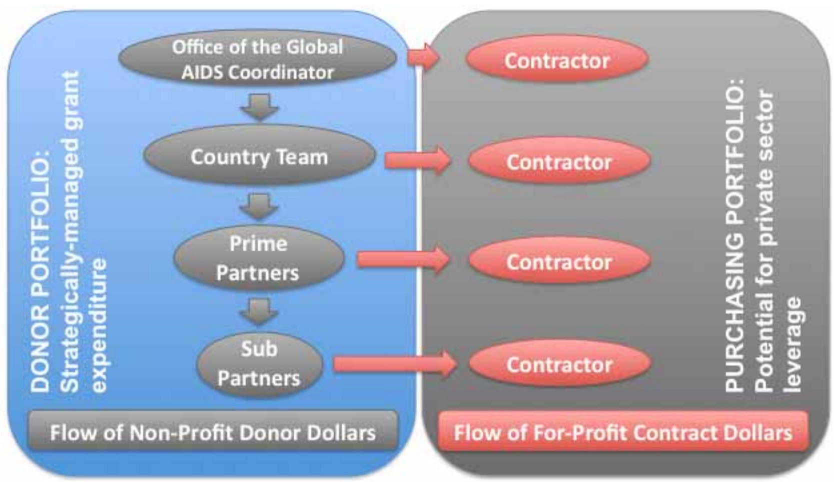
PREFACE

Launched in 2003, the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) represents the largest effort by any nation to combat a single disease. PEPFAR was established as an 'emergency plan' and has been managed for the most part as a traditional public health donor program. As the plan moves into its second phase, PEPFAR's priority is to shift from an emergency response to promoting sustainable country programs. In response to this call, PEPFAR's initiative to engage private capital was created to take an objective look at the way PEPFAR interacts with the private sector, and its potential for partnering with private investors in support of sustainable country initiatives.

Like other donors, PEPFAR carefully tracks the distribution of its donor dollars, and the impact this money has on target populations. Although PEPFAR employs a robust purchasing process, less information is kept about the 'other half' – that is, where PEPFAR dollars impact the commercial sector in the form of contracts rather than grants. This is especially relevant in the purchasing of local commodities that are not administered centrally (through the Supply Chain Management System, SCMS), and makes it difficult to assess the impact that PEPFAR contract dollars have on local economies.

PEPFAR CAPITAL FLOW MAP



As an emergency plan, PEPFAR has been prepared to finance programmatic costs that might in other situations have been met by the private sector. For example, where public facilities do not exist, PEPFAR has sometimes paid for facility construction or renovation at private 'for fee' facilities. At the local level, PEPFAR's initiative to engage private capital set out to investigate whether companies with PEPFAR contracts can attract private investment capital to finance projects, based on projections of PEPFAR's demand for goods or services. At a more strategic level, the initiative was established to explore whether PEPFAR and other donors have the power to influence the growth of local infrastructure through targeted deployment of their purchasing dollars.

ACKNOWLEDGMENTS

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DAI

DAI works at the vanguard of international development, uniting technical excellence, consummate project management, and uncompromising customer service to solve our clients' most complex problems. Since 1970, DAI has worked in 150 developing and transition countries, providing comprehensive development solutions in areas including crisis mitigation and recovery, democratic governance and public sector management, agriculture and agribusiness, private sector development and financial services, economics and trade, HIV/AIDS, avian influenza control, and water and natural resources management. Clients include international development agencies, international lending institutions, private corporations and philanthropies, and host-country governments.

THE CAZNEAU GROUP

Cazneau is an impact investment solutions company working to surface and incubate sustainable business opportunities that deliver measureable impact. Cazneau Colabs™ are opportunity-specific vehicles built on the backbone of the Cazneau Accelerated Colab Platform™, a proven methodology for the identification, incubation, and implementation of innovative cross-sector solutions to sustainability challenges. Cazneau works with companies, governments, non-profits and investors to accelerate the development of complex partnerships for sustainability.

EXECUTIVE SUMMARY

As the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) transitions from emergency plan to promoting country ownership, the program is seeking novel mechanisms to catalyze the development of sustainable health infrastructure in the markets it serves. This paper describes a proof of concept initiative designed to explore options for engaging private investment partners (such as venture capitalists, foundations, or private equity investors) in PEPFAR's public-private partnerships, as one path to sustainability. The initiative focused on a leverage hypothesis that PEPFAR has the potential to influence the growth of local infrastructure through targeted deployment of its purchasing dollars. It was trialed in South Africa and Kenya over the course of eighteen months.

PEPFAR's significance as a donor makes it a major purchasing power in the countries in which it operates. This paper presents a new model of public-private partnership (PPP) - the Impact Investment Model - that leverages PEPFAR's spending to attract private investment into the local commercial infrastructure that serves PEPFAR programs. The model requires country teams to forecast demand for certain secondary goods and services, then partner with commercial suppliers to attract private investment on the back of their PEPFAR contracts. It particularly seeks opportunities in which local businesses may be willing to meet certain programmatic costs based on securing contracts with PEPFAR or its implementing partners.

The model encourages PEPFAR country teams to engage with new and non-traditional private partners such as small-to-medium sized enterprises (SMEs), commercial investors, and social investors. For this reason, a 'collaboratory methodology' was used to identify potential partners, and bring stakeholders together to explore opportunities.

This proof of concept initiative generated one successful Impact Investment Public-Private Partnership, which has catalyzed the development of a rural pharmacy/clinic franchise network in South Africa. The network will offer capacity to public programs and private clients in underserved areas, reducing infrastructure costs for public providers, and increasing patient access to treatment. The initiative also generated one promising Impact Investment PPP currently under development in Kenya, and a pipeline of eleven opportunity areas that show significant potential. Longer-term evaluation will be required to measure the ultimate impact of these PPPs on PEPFAR's budget and impact, as well as on the growth of local infrastructure.

The Impact Investment Model received a largely positive response from investor communities in South Africa, Kenya, the U.S. and Europe, and investors are open to reviewing opportunities with companies supplying PEPFAR programs. Companies are keen to bid for contracts to supply PEPFAR goods and services, and there is some evidence that companies are already seeking private capital on the back of their PEPFAR contracts. Responses from country teams have varied due to differing country priorities and staff experience in working with the private sector.

The implementation of this initiative faced two main challenges: alignment with existing country priorities, and ability to accurately forecast PEPFAR's aggregated demand for secondary goods and services across programs. With this in mind, this report presents four recommendations for wider rollout: the continued facilitated implementation of this initiative in new markets, internal integration of the model into PEPFAR's core business activities, continued external communication to investor

and business communities, and the development of tools to support the market for this type of innovative public-private partnership.

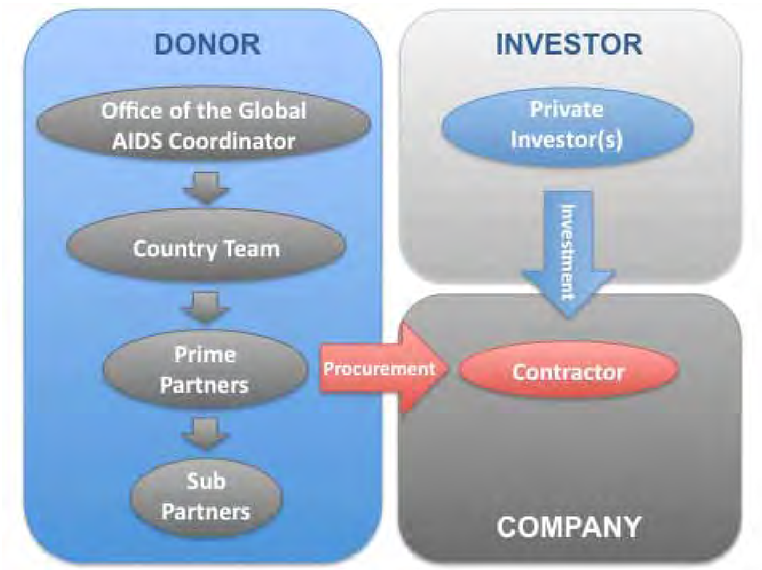
This paper contends that PEPFAR and other large-scale donors have the potential to influence the development of local commercial infrastructure through targeted deployment of their purchasing dollars. This infrastructure will become increasingly critical as donors shift programs towards sustainable country ownership. The Impact Investment Model offers a PEPFAR-driven vehicle to leverage PEPFAR's purchasing dollars and attract private investment into areas in which private sector capacity is lacking. It also offers the potential for PEPFAR to shift certain program costs into the private sector, saving money and increasing long-term impact for PEPFAR.

THE IMPACT INVESTMENT MODEL OF PUBLIC-PRIVATE PARTNERSHIP

Public-private partnerships (PPPs) have been central to PEPFAR's work since its creation in 2003, but have generally taken the form of donation matches with corporate social responsibility groups for one-off programs. PEPFAR's initiative to engage private capital investigated a leverage theory that says PPPs can be built on the back of PEPFAR's purchasing, rather than grant dollars. We have called this model the Impact Investment Model of Public-Private Partnership.

Under the Impact Investment Model of Public-Private Partnership, companies contracted to provide goods and services to PEPFAR programs use their PEPFAR contracts as collateral to attract private investment, rather than seeking grant funding from PEPFAR. On the PEPFAR side, this requires a more targeted, opportunity-driven approach to PPPs. PEPFAR must assess and communicate its programmatic demand for certain goods and services, identify potential corporate service/supply partners, and facilitate private financing for those partners where appropriate.

THE IMPACT INVESTMENT MODEL OF PUBLIC-PRIVATE PARTNERSHIP



The new model requires PEPFAR to widen its net of private partners to include investors and SMEs, as well as engaging a range of internal stakeholders. The investment can come from any private (non-government) source, as long as investors demand a financial return, with the rationale that a profitable business is a sustainable business. Participating in an Impact Investment PPP is not a corporate social responsibility strategy for companies, but a real opportunity to develop viable, investable businesses on the back of

DEFINING THE IMPACT INVESTMENT PPP

Traditional PPP	Impact Investment PPP
Maintains PEPFAR ownership	Shifts ownership to country level
Based on donor dollars	Based on purchasing dollars
Based on CSR	Based on core business
Donor provides matched funding	Private investor provides funding
Partners tend to be multinationals	Partners can be local SMEs and investors
Single program impact	Sustainable program impact

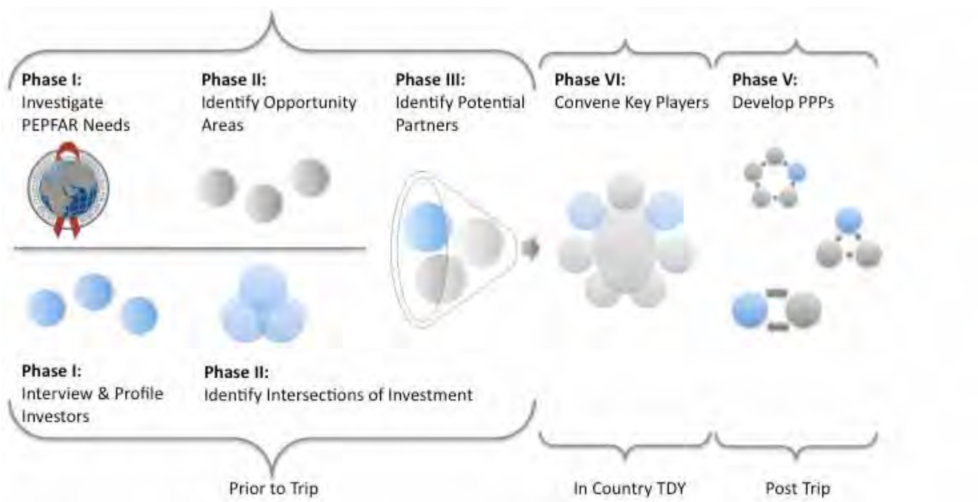
PEPFAR's demand for goods and services. The savings to PEPFAR achieved by shifting certain programmatic costs into the private sector can be redistributed to other priority programs in country.

While a number of ad hoc examples of this type of PPP already exist, the Impact Investment Model of PPP presupposes that PEPFAR's purchasing power can be actively harnessed to facilitate private investment into businesses that advance PEPFAR programs. To ensure that any resulting PPPs address real and current PEPFAR issues, the Impact Investment Model is PEPFAR-driven, and based on real programmatic demand for private sector products or services.

METHODOLOGY

The Impact Investment Model presents a novel approach to public-private partnership that requires PEPFAR to engage new and non-traditional partners in an unconventional PPP structure. Because no reliable marketplace for this type of collaboration currently exists, a collaboratory methodology was selected to drive the identification of opportunities and potential partners for this proof of concept initiative. This methodology was adapted to meet conditions in country, as appropriate.

COLLABORATORY METHODOLOGY



Coordinating an Impact Investment PPP requires desk-based research, stakeholder interviews, and in-person multi-stakeholder meetings. Facilitation is required to expose stakeholders to opportunities, help them understand ways to work effectively together, create innovative structures and win-win scenarios, and to position deals in a way that is sensitive to multiple different institutional drivers. The PPPs then require ongoing brokerage to ensure they reach full potential. A checklist tool has been developed to guide the identification and development of opportunities under the Impact Investment Model of PPP (see Annex I).

Two target markets were selected for this initiative: South Africa and Kenya. The countries were chosen due to the ambitious scale of their PEPFAR programs, and their ability to make substantial purchasing commitments, as well as their ranking in the World Bank's Ease of Doing Business index. Opportunity areas investigated in South Africa included a rural micro-pharmacy franchise. Opportunity areas identified by the Kenya country team included funding for anti-retroviral therapy (ART), medical waste management, and reagent production and supply. A total of twenty-six potential opportunities for the Impact Investment PPP were identified through multi-stakeholder dialogue in Kenya, of which one was selected for immediate follow-up. The country team was actively involved in every step of the process, ensuring that discussions remained relevant to the country team.

INVESTABLE RESULTS

This proof of concept initiative resulted in an Impact Investment Public-Private Partnership to catalyze the development of a rural clinic/pharmacy franchise network in South Africa. It also generated a near-term PPP opportunity for the local production of reagents for rapid diagnostic testing in Kenya.

Characteristics of a Successful Impact Investment PPP:

- Addresses a real PEPFAR challenge.
- Shows a clear PEPFAR purchasing pathway.
- Reduces long-term cost to PEPFAR.
- Presents a tangible and investable business opportunity.
- Amplifies PEPFAR program impact.
- Facilitates growth of service/supply infrastructure in country.

In South Africa, quality care at the community level is inadequately matched by public sector capacity. PEPFAR and other public programs face the challenge of providing care and treatment in rural areas – a challenge that will continue to grow as national guidelines extend treatment to a wider population, further stressing an over-burdened public health system. Under this Impact Investment PPP, South African company Pharmaceutical Healthcare Distributors (PHD) was able to anticipate public and private sector demand for rural clinical services and pharmacy infrastructure in underserved communities, and plans to offer fee-based contract services to public- and privately-funded clients through its 'Clinic-in-a-Box' product. PHD will bid for government tenders to offer local outlets for anti-retroviral therapy (ART) provision that will function in conjunction with public programs. Patients on a stabilized ART regimen might then be offered the opportunity to visit Clinic-in-a-Box facilities for monthly prescription pick-up, reducing the frequency of travel to regional medical clinics.

Pipeline of Potential Opportunities

Potential opportunities areas identified for future development under the Impact Investment Model of Public-Private Partnership include:

- Digital education centers for health training in rural areas (Kenya).
- Development of generic drug supply chain capacity in Africa (South Africa).
- Mobile telephone-based HIV/AIDS pre-test information services (South Africa).
- Local manufacture of plastic sample collection cups (Kenya).
- Off-warranty laboratory equipment for use in PEPFAR-funded facilities (Kenya).
- Health insurance models for the population segment able to afford coverage (Kenya).
- Local manufacture of anti-retroviral drugs (Kenya).
- Waste collection, disposal, transportation, or commodities for PEPFAR facilities (Kenya).

This model moves rural clinic and pharmacy services into the private sector, creating sustainable local businesses and outlets for public and private health delivery. PHD is funding a three-location pilot, and will seek commercial finance for wider rollout of the Clinic-in-a-Box product. In this way public sector dollars are used to catalyze the development of rural clinic and pharmacy infrastructure by directing the dollars used to purchase treatment services to for-fee pharmacy facilities.

In Kenya, there is an opportunity for the Impact Investment PPP to catalyze the local production of reagents for rapid diagnostic tests. PEPFAR currently imports reagents and controls from the USA and other countries, which is relatively expensive and eats into the already short shelf life of the products. The case for local production in Kenya is strengthened by the existence of a fully equipped reagent manufacturing facility built recently by the Kenya Medical Research Institute (KEMRI) in collaboration with the Japanese International Cooperation Agency (JICA). Although this facility has been rated 'State-of-the

Art’ by the Centers for Disease Control and Prevention (CDC), it is not currently operating at full capacity. The opportunity for an Impact Investment PPP is to attract private investment to update (if necessary) and expand the facility in partnership with KEMRI, based on PEPFAR’s demand for reagents.

An analysis of the types of opportunities identified under this initiative indicates that companies with PEPFAR contracts for the provision of commodities, construction services, and fee-for-service programs are natural candidates for the Impact Investment Model of Public-Private Partnership. These companies tend to provide program-essential products or services, for which PEPFAR has a clear purchasing pathway. They are also likely to require capital to scale operations to meet PEPFAR demand.

Measuring Success. The two Impact Investment PPP opportunities generated through this proof of concept initiative meet early success criteria, presenting tangible business opportunities to address real PEPFAR challenges, and engaging committed partners to drive the PPPs forward. The initiative has generated interest from investors in companies within PEPFAR’s purchasing portfolio, however neither opportunity has yet secured external private investment to finance business expansion. Similarly, it is too early to evaluate longer-term success criteria, such as dollars leveraged, impact on service/supply infrastructure in country, impact on PEPFAR programs, and reduced PEPFAR cost expenditure. Success can be measured by criteria detailed below:

IMPACT INVESTMENT PUBLIC-PRIVATE PARTNERSHIPS

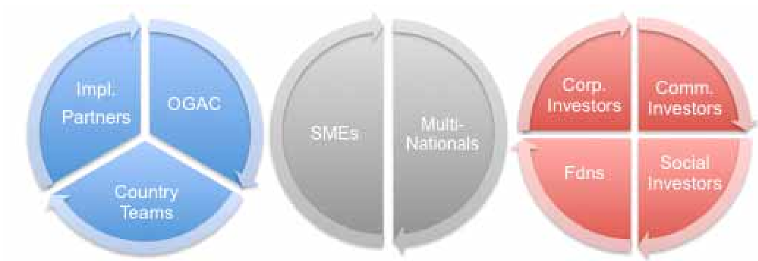
Criteria	Clinic-in-a-Box Micro-Pharmacy Franchise (South Africa)	Local Production of Reagents (Kenya)
PEPFAR challenge	• To deliver care and treatment in rural areas, especially as national guidelines extend treatment to a wider population.	• Reagents and controls for rapid diagnostic tests are currently imported from overseas, eating into the already short shelf life of the products. This presents a logistical challenge for PEPFAR which must transport reagents to labs across the country.
PEPFAR purchasing pathway	• PEPFAR purchases anti-retrovirals and funds their distribution. The Clinton Health Access Initiative, a close PEPFAR ally, is working with the Government of South Africa on solutions for the increased rollout of ART, which may include private sector solutions. PEPFAR will support the programs of the national Government, so Clinic-in-a-Box will present a potential solution for PEPFAR programs.	• PEPFAR purchases reagents through the Supply Chain Management System. Any new production facility will need to be USAID-certified before it is eligible to service PEPFAR programs.
Long-term cost savings for PEPFAR	• Reduces overall cost of ART administration by shifting overhead costs into the private sector. • Increases treatment compliance and reduces dropout rates by providing local access to treatment.	• Local production may not reduce direct product costs for PEPFAR, • However, it may save money in terms of time and waste efficiency.
Presents a tangible and investable business opportunity	• Business plan projects positive pre-tax earnings by month 22, and positive pre-tax profit by month 29 of rollout plan. • Company will self-fund pilot and is seeking private investment to support wider rollout.	• Feasibility study has been commissioned.
Program impact	• Expands service capacity in rural areas.	• Reduced wastage due to product expiration. • Local economic development.
Impact on service/supply infrastructure in country	• Builds rural infrastructure, which will remain in the local community.	• Will ensure that capacity, technical expertise and infrastructure remains in the local community.

STAKEHOLDER RESPONSES

Country Teams and Implementing Partners. Responses to the Impact Investment Model have varied from country to country, due to differing country priorities, national government strategies, and field staff experience with the private sector. The results were most promising in Kenya, where inter-agency engagement allowed for more accurate forecasting of demand, and links to relevant implementing partners.

There was some concern from country teams that it is outside PEPFAR's remit to strengthen private health infrastructure, a perceived misalignment that made it difficult for some teams to engage around this initiative. In fact, the Impact Investment Model does not actively encourage private sector health provision over public, but does seek to facilitate the strengthening of the commercial infrastructure that serves both public and private providers.

IMPACT INVESTMENT PPP STAKEHOLDERS



Corporations. Local companies proved open to exploring participation in the Impact Investment PPP, but some expressed concern over the chicken and egg problem – that is, companies may require capital to scale up in order to bid for PEPFAR contracts, without any guarantee that they will be the successful contract recipients. Investors on the other hand may be unwilling to commit to an investment until they see evidence of a solid revenue forecast. This issue could potentially be lessened by more visible demand forecasting by PEPFAR and its implementing partners. Companies will always have to submit to the government tender process, but would at least be better able to plan for upcoming requests for proposals.

Conversations with multi-national corporations raised the possibility that PEPFAR could further strengthen its purchasing power by forming 'purchasing coalitions' with other donors or large companies that purchase similar commodities. This would present a whole new model of public-private partnership, and would allow for greater bulk purchase discounts, as well as shared supply chain infrastructure. It would also increase PEPFAR's ability to influence economic development of certain supply and service infrastructure in the markets it serves. This model requires further investigation, especially in relation to its potential impact on local SMEs, which may not be able to support such large contracts, even with additional investment.

Selecting Suitable Markets for the Impact Investment Public-Private Partnership

The Impact Investment Model of Public-Private Partnership is likely to be successful in countries with:

- Substantial PEPFAR resources (and therefore purchasing power).
- Relatively high Ease of Doing Business rankings.
- Relatively high availability of private capital, both commercial and social.
- A political/policy environment in country that supports the development of local private health and related infrastructure.
- A receptive PEPFAR country team seeking innovative solutions to support PEPFAR's shift towards country ownership.

Investors. There are a wide variety of funds investing in healthcare and related industries in South Africa and Kenya, however the investment community in general is not well informed about the economic power of PEPFAR and other donor programs. Once investors understand the scope and scale of the PEPFAR program, they begin to view PEPFAR as a potential business development opportunity for their portfolio companies, and strive to understand PEPFAR's fragmented purchasing process.

Investor responses to the Impact Investment Model were largely positive. Investors reported that sourcing African deal flow in healthcare and related industries is a challenge, especially at the SME level. They are keen to review deals originating from within PEPFAR's purchasing portfolio – that is, companies with contracts to supply goods or services to PEPFAR programs – but caution that short term revenue is not the only criteria investors assess during the due diligence process. Investors expressed some concern that the types of local companies serving PEPFAR programs may not offer sufficient financial returns for commercial funds, however they were broadly open to exploring blended capital models, in which commercial and social investors co-invest to allow both to meet their target returns.

Networks. Business networks such as the African Venture Capital Association, the Global Business Coalition for on HIV/AIDS, Tuberculosis and Malaria, the Global Impact Investing Network, and the American Chamber of Commerce have been supportive of this initiative, and are powerful vehicles for PEPFAR's outreach to the investment community.

CHALLENGES AND LESSONS LEARNED

Country Teams. A perceived misalignment of priorities prevented some country teams from engaging with the Impact Investment Model. This speaks to the importance of training teams around PEPFAR's capacity to leverage the private sector in support of its programs. It also highlights the importance of packaging the Impact Investment PPP so it is received as a useful tool at the country level.

Information Visibility. The Impact Investment Model of Public-Private Partnership relies on PEPFAR's projections of its future demand for goods and services, based on programmatic need. This information is not readily available for planning purposes inside PEPFAR, nor is it accessible to companies hoping to supply PEPFAR programs outside the Supply Chain Management System (SCMS). Under these circumstances, it is necessary to rely on the knowledge of the PEPFAR country team and implementing partners for information on planned purchasing.

Part of the complexity is that PEPFAR's purchasing is fragmented, with purchasing decisions made at the headquarters, regional, national, and implementing partner levels for various commodities and services. This makes it difficult to analyze PEPFAR demand for non-SCMS goods and services, and also for PEPFAR to take advantage of bulk purchasing discounts. If a level of purchasing visibility can be achieved for non-SCMS goods and services, it will open up a simple avenue for private investors to strategically engage with the companies in PEPFAR's purchasing portfolio as they make their investment decisions.

Lessons Learned:

- Seek multiple internal champions to help socialize the concept within country teams.
- Frame the Impact Investment PPP within the context of existing PEPFAR strategy and tools.
- Frame the Impact Investment Model as a tool for moving programs towards country ownership.
- Establish a sound understanding of the political and policy environment in country to prevent misalignment with country priorities.
- Convene current, new and non-traditional stakeholders to increase cross-sector understanding and allow for the development of relationships and solutions.
- Ensure resources are in place for follow up on Impact Investment PPP opportunities. Failure to do so will result in loss of credibility for this model.

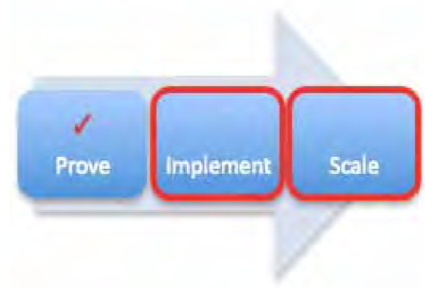
FOUR RECOMMENDATIONS FOR WIDER ROLLOUT

1. **Implement the Impact Investment Model of PPP.** Continue to create successful examples of the Impact Investment PPP using the collaboratory methodology and checklist tool described in this paper. This will allow the continued development of the model and will build its credibility as a valuable solution for the sustainable development of programs in country.

2. **Implement Internal Integration.** Wider rollout will require institutionalization of the concept that the private sector can be part of the solution, and of the Impact Investment Model as a tool.

   a. **Mandate.** The private sector can play an active role in helping shift PEPFAR programs to country ownership, via the Impact Investment PPP and other models of collaboration. The first step for any wider rollout of this initiative will be to communicate this policy message internally**.**

WIDER ROLLOUT OF THE IMPACT INVESTMENT MODEL OF PUBLIC-PRIVATE PARTNERSHIP



   b. **Training and Recruitment.** It will be necessary to provide training to PPP officers and other key personnel to broaden their understanding of the range of available 'private' partners, and models of public-private partnership. The addition of new materials to existing PPP training mechanisms can be used to socialize the model, and identify markets with receptive PPP officers.

   Once new markets have been selected, country teams' expertise will grow through participation in the collaboratory process undertaken by the Kenya team during the proof of concept phase of this initiative. This type of on-the-job training is appealing because it integrates implementing partners, local companies and investors to explore opportunities at the same time as building relationships. It also promotes local ownership of resulting opportunities, which will ultimately require local staff, local market knowledge and local relationships to execute.

   Training efforts can be supported by online resources such as webinar or podcast-style presentations, which could include interviews with investors, SMEs or PPP specialists already experiencing success with these types of partnerships.

   As PEPFAR moves towards a model of country ownership it might also consider a shift in recruitment strategy to reflect new program priorities. Field personnel with a good understanding of the commercial sector may be more open to innovative models of public-private collaboration.

   c. **Presentation.** The Impact Investment Model will be best presented to country teams in the context of existing frameworks and performance metrics, and by highlighting success stories.

The checklist tool detailed in this paper (see Annex I) will provide practical guidance, and will help establish the model as a tool for country teams.

d. Information Visibility. Access to information on aggregated demand for goods and services across PEPFAR and its implementing partners would greatly increase the efficiency and impact of this model. For immediate rollout, short-term mechanisms for communicating PEPFAR demand, both internally (across programs) and to local vendors could consist of cell-phone, or Internet-based Twitter-style tools to announce RFP opportunities. Providing easier access to this type of information would also allow investors to initiate their own Impact Investment PPPs, on the back of PEPFAR's purchasing activity. Any reporting requirements for implementing partners would need to be light-touch and simple to implement.

A longer-term solution would be the creation of a marketplace for secondary/non-SCMS goods and services. Rather like SCMS, this system would aggregate PEPFAR purchasing requirements for secondary commodities (e.g. nutritional supplements) across programs and implementing partners, accredit 'approved' suppliers, and announce RFP opportunities. This would allow for bulk purchasing, and would also make it easier to analyze PEPFAR's overall demand or spend on particular goods and services.

3. Facilitate External Communications. Any strategy for wider rollout must promote mechanisms for continued dialogue with stakeholders across all sectors, to ensure that the resulting PPPs meet programmatic as well as business and investment goals.

a. External communication of this initiative would be well supported by the creation of a small and strategic advisory board comprising representatives from PEPFAR, the private investment community, and some of PEPFAR's implementing partners. This board would advise on external communication strategies, as well as on specific PPP opportunities.

b. Modification of the PPP language currently used in PEPFAR's requests for applications could encourage implementing partners to engage new and non-traditional private partners in PPPs that facilitate the development of sustainable systems.

4. Develop the Market

a. In concretizing its offering to companies and investors, PEPFAR might also explore packaging existing tools to support co-investment such as USAID's debt leverage instruments, or Overseas Private Investment Corporation's (OPIC's) currency and political risk wrappers. Collaboration with banking institutions such as the International Finance Corporation may provide flexible entry points for PEPFAR to effectively partner with investors.

b. Investors and companies have raised the question of PEPFAR developing its own investment vehicles to actively invest in the private sector infrastructure that supports it programs. This question was not investigated under this initiative, and will require further consideration to determine whether it is desirable or legally possible.

c. PEPFAR might also explore the idea of local 'purchasing coalitions' – partnering with other organizations to combine and increase purchasing power to influence local markets.

CONCLUSIONS

- ☑ Opportunities exist for the Impact Investment Model within PEPFAR programs.
- ☑ Companies with PEPFAR contracts are in the market to attract private investment to finance projects, based on projections of PEPFAR's demand for goods or services.
- ☑ Investors are interested in evaluating opportunities from PEPFAR's purchasing pipeline.
- ☑ The Impact Investment Model can be successful where there is country support.
- ☑ The Impact Investment Model offers the potential to shift costs and ownership of the systems that supply PEPFAR programs into the private sector, saving money and increasing long-term impact for PEPFAR.
- ☑ PEPFAR and other donors have the power to influence the growth of local infrastructure through targeted deployment of their purchasing dollars.

This proof of concept initiative has shown that the Impact Investment Model of Public-Private Partnership can be an effective tool for strengthening the commercial infrastructure that supports PEPFAR's programs in the field. Moreover, it has shown that PEPFAR has the ability to influence the growth of local infrastructure through targeted deployment of its purchasing dollars. Seeking impact through the proactive management of its contract, rather than donor funds, is a new concept for PEPFAR and will require careful integration into core operations for maximum impact.

In theory, the Impact Investment Model has broad application for any public or private donor program making significant purchasing commitments in the field – even those, like PEPFAR, that have devolved much of the purchasing decision making to implementing partners. Organizations that specialize in technical assistance might use the existing expenditure leverage theory behind this model to bring private partners to bear in the building of local capacity, however this hypothesis will require further investigation.

Wider rollout of the Impact Investment Model will require a strategy that addresses internal integration, external communications, and development of the marketplace to support the creation of this type of public-private partnership.

ANNEX I: CHECKLIST TOOL FOR THE IMPACT INVESTMENT MODEL OF PUBLIC-PRIVATE PARTNERSHIP

The following checklist tool lays out a process for identifying and evaluating opportunities for the Impact Investment PPP. It follows a collaboratory methodology, and advocates bringing together a whole system of stakeholders around key challenges to create donor-driven Impact Investment Public-Private Partnerships.

SELECT MARKET

The Impact Investment Model of Public-Private Partnership is likely to be successful in countries with:

- ☑ Substantial PEPFAR resources (and therefore purchasing power).
- ☑ Relatively high Ease of Doing Business rankings.
- ☑ Relatively high availability of private capital, both commercial and social.
- ☑ A political/policy environment in country that supports the development of local private health and related infrastructure.
- ☑ A receptive PEPFAR country team seeking innovative solutions to support PEPFAR's shift towards sustainable country ownership.

PRESENT THE MODEL

Many country teams will not be familiar with the Impact Investment PPP as a tool for engaging the private sector.

- ☑ Present the Impact Investment Model as part of wider PPP training, or as part of a PPP Portfolio Review, to highlight its relevance to core programs.
- ☑ Engage with a variety of contacts across agencies at the country team. Seek internal champions.
- ☑ Emphasize that the Impact Investment Model is PEPFAR-driven, and is designed to save money by shifting costs into the private sector, at the same time as increasing program impact.

INVESTIGATE THE OPPORTUNITY LANDSCAPE

The Impact Investment PPP seeks to support existing and future PEPFAR programs by strengthening the commercial infrastructure that supports these programs. PEPFAR's technical leads and implementing partners in country are best placed to advise on challenge areas in existing programs, which may be influenced by local government priorities or restrictions, and must be set in the local context.

- ☑ Engage country teams and implementing partners early to identify challenge areas within existing programs (perhaps use a questionnaire to survey country teams).
- ☑ Focus investigations on opportunities in the areas of construction, logistics, fee-for-service models, or the purchasing of secondary (non-SCMS) commodities.
- ☑ Engage potential private investment partners early, to understand their investment priorities.
- ☑ Engage local business associations to take advantage of their corporate networks and local knowledge.

IDENTIFY OPPORTUNITIES

There may be a thousand potential solutions to PEPFAR's challenge areas, so it is important to cast the partner net widely. Early input from relevant implementing partners, NGOs, companies, investors, and local business and government organizations will allow preliminary assessment of their interest and ability in joining a PEPFAR public-private partnership.

- ☑ Map planned PEPFAR purchasing within selected programs.
- ☑ Seek opportunities in which existing PEPFAR programs have created business opportunities for local private enterprises through their demand for goods or services.
- ☑ Work with implementing partners to identify companies supplying or offering relevant goods and services.
- ☑ Bring PEPFAR, national government, implementing partner, corporate and investor stakeholders together to brainstorm opportunities.

VALIDATE OPPORTUNITIES

- ☑ Clarify the business case: Ensure that sufficient market opportunity data are compiled; this work should be done by the companies and partners seeking investment, in partnership with the PEPFAR team.
- ☑ Clarify the PEPFAR case: Understand leverage / cost saving ratios for PEPFAR – define potential impact metrics and the case for long-term sustainability.
- ☑ Check internal hurdles: Ensure policy / strategic hurdles are in principle cleared.
- ☑ Complete the Internal Investment Matrix for each opportunity.

INTERNAL INVESTMENT MATRIX

Opportunity	Addresses a Real PEPFAR Challenge	Shows a Clear PEPFAR Purchasing Pathway	Reduces Long-term Cost to PEPFAR	Amplifies Program Impact	Presents a Tangible and Investable Business Opportunity	Facilitates the Growth of Service / Supply Infrastructure in Country
1	☑	☑	☑	☑	☑	☑
2						
3						

☑ Make a Go / No Go decision on each opportunity, and if necessary, prioritize the selected opportunities.

DEVELOP OPPORTUNITIES

Selected opportunities will require careful shepherding to bring to conclusion.

☑ Identify an in-country PEPFAR champion for each opportunity.

☑ Identify and convene key stakeholders around each opportunity.

☑ Facilitate introductions to potential investors.

☑ Support partner companies to build business plans around each opportunity.

☑ Ensure sufficient resources are available for opportunity development and execution.

ANNEX II: CASE STUDIES

The following case studies describe examples of the Impact Investment Model of Public-Private Partnership.

SUPPLY CHAIN: LOGISTICS AND DISTRIBUTION

A major African medical distribution company successfully bid for the freight and logistics portion of PEPFAR's Supply Chain Management System contract in South Africa and other countries. When the 5-year contract was awarded, the company approached a major private equity investor for financing to expand its distribution network to meet PEPFAR demand. The investor purchased a majority equity stake in the company, allowing it expand its infrastructure. PEPFAR meets the costs of the supply contract, but reaps the benefit of an expanded distribution network without having to fund capital costs.

COMMODITIES: NUTRITIONAL SUPPLEMENTS

A PEPFAR country committed to providing a specific nutritional supplement to malnourished ART patients. Manufactured in Europe, this supplement was expensive to produce and expensive to import, but provided unique nutritional benefits. A local organization proposed a local production strategy, initially requesting direct PEPFAR funding to build the manufacturing facility. Instead, PEPFAR provided the local organization with estimates of the program's nutritional supplement demand forecast, some business planning assistance, and links to international investors. Based upon the business plan and demand forecast, the private investors were persuaded the proposal would generate a reasonable return on investment and they funded the local manufacturing plant. The plant, which used largely local ingredients, increased income for farmers, generated factory employment, and provided cost saving to PEPFAR without impacting quality.

SUPPLY CHAIN: PHARMACEUTICAL DISTRIBUTION

PEPFAR's demand for cold storage warehouse services was greater than available capacity in the local area. PEPFAR committed funds to support the construction of one new facility, however demand still out-stripped local capacity. Rather than funding the construction of additional warehouse facilities, PEPFAR worked with a local pharmaceutical distribution company to attract private investors, based in large part on the recognition of the unaddressed PEPFAR service demand. The investors bought a stake in the company, which used the capital infusion to construct the three additional facilities. PEPFAR was able to facilitate the construction of three new cold storage warehouses at no up front cost to the program, while simultaneously supporting local business and resolving the distribution bottleneck that had threatened ART programs in the region.

INFRASTRUCTURE: TREATMENT FACILITY CONSTRUCTION

PEPFAR committed funds to build or renovate multiple local treatment facilities, however local construction firms could not access bank funding to allow them to scale up quickly and meet the demand. PEPFAR facilitated a meeting between interested international investors and the local construction companies, which resulted in one of the local companies securing a loan that allowed it to expand capacity to meet PEPFAR demand. Offering no more than an introduction to venture capital firms and some business planning assistance, PEPFAR was able to support the expansion of local construction capacity to meet its demand, and support local economic development in the process.

HEALTHCARE SERVICE DELIVERY: HEALTH FACILITIES

A PEPFAR country committed to expanding the availability of key primary health services in the region, but recognized that private providers lacked the access to capital required to build, upgrade and expand health facilities. PEPFAR created a public-private partnership with a local association of private health facilities to co-invest in facility construction with their members, and to assist in finding mortgage-type debt funding for the remaining project costs. The member facilities received loans to build new privately owned facilities for the provision of health services including HIV diagnostics and treatment. This increased local capacity and allowed the expansion of PEPFAR programs in the area.