Innovative Financing

DKT approach leads to greater financial sustainability

Supriyati may not know it, but her use of contraceptives in Indonesia is also helping women in Ghana gain access to family planning.

Supriyati works at a large footwear manufacturer in Indonesia that employs 3,000 women. Married and in her mid-30s, she was one of the first employees to take advantage of DKT Indonesia's family planning program for factory workers. Supriyati and her husband already had three children and felt they could not afford the cost of another mouth to feed. "Living costs are difficult and continue to increase every year," she said. "That's why I decided to get an IUD (intrauterine device)."

Supriyati gained the means to plan her family through DKT Indonesia's program for factory workers.

In an initiative introduced in 2010, DKT entered into agreements with factories to offer a full range of contraceptives — ranging from pills and injectables to implants and IUDs — to their workers as part of factories' corporate social responsibility programs. The companies absorb all of the costs.

DKT helps serve women like Supriyati throughout Indonesia and, on some products like condoms and oral contraceptives, generates profits that keep the organization financially self-sufficient. In a unique twist to the concept of donor funding, DKT Indonesia provided some of these profits to help start up a social marketing program in Ghana in 2011.

DKT is increasingly using such innovative financing to increase its health impact and financial sustainability. Though the precise formula varies from country to country, it generally plays out in three stages — cost-recovery, cross-subsidization, and profitability, which leads to innovative financing of other programs.

Cost-Recovery: The First Step to Financial Sustainability

In Indonesia, as in many other countries, DKT's program started with traditional donor funding in 1996. This funding was, and continues to be, vital to DKT's mission of employing social marketing to bring new products and services to new markets. But DKT programs rarely rely on traditional

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donors indefinitely; they normally find creative ways of recovering the costs of contraceptive commodities, often the most significant cost in contraceptive social marketing.

As noted, DKT Indonesia is partly funded by corporate partners who cover the costs of DKT's family planning services for their employees.

But the most common method of cost-recovery is by carefully calibrating a price structure that maximizes revenues without sacrificing the ability of low-income consumers to pay for contraceptives. Most DKT programs do this to a greater or lesser extent, even in low-income countries. As a result, programs are able to ensure that consumer prices at least cover the basic cost of goods. This is possible due to a confluence of positive trends:

- Income levels in developing countries are rising. Around 60 million Africans already have an income of $3,000 a year, according to *The Economist*, and 100 million will by 2015. Similarly in East Asia and the Pacific, Gross National Income per capita (adjusted for Purchasing Power Parity) increased from $3,702 in 2000 to $7,093 in 2010, according to the World Bank.
- The costs of contraceptive commodities have remained very low.
- In many countries, contraceptive use is increasing, providing greater revenue flows.
- Strong, well-marketed brands are attracting loyal customers willing to pay for them.

The Second Step: Cross-Subsidization

DKT has expanded the boundaries of social marketing by introducing differently priced brands within the same product category to maximize both health impact and cost-recovery — a concept called "cross-subsidization." For example, it often has a subsidized condom brand that is affordable to low-income consumers, a mid-priced condom that breaks even and a premium brand that makes money. DKT also employs cross-subsidization with pills, injectables, IUDs and other products.

This is happening even in poor countries like the Democratic Republic of the Congo, India, Mozambique, Sudan and Ethiopia (where DKT recovered over $3 million in sales revenue in 2010, enough to fund a significant part of that program).

In Ethiopia, DKT has one subsidized brand *Hiwot Trust*, one cost-recovery brand *Sensation* and one profitable brand *Members Only*. In the Philippines, DKT markets several kinds of oral contraceptive pills with different price points and benefits; higher priced brands bring in significant revenues.

The result is an increasing measure of cost-recovery for commodities as profits are used to offset subsidies. This helps sustain the programs and offers donors an effective way to leverage their resources.

The Third Step: Profitability

An increasing number of DKT programs have implemented cross-subsidization successfully and have gone to the next level — achieving profitability and creating opportunities to support other existing or new programs.

For example, Brazil, Indonesia, Malaysia and the Philippines have already achieved 100% financial sustainability, and China, Egypt, Mexico, Morocco and Turkey have achieved partial sustainability. DKT India, operating in both downscale and middle-income markets, will be financially self-sufficient by 2013.

As a result, some DKT middle income countries are increasingly able to provide funds for new programs in lower income countries.

In Mexico, DKT is focusing on sustainability through a no-nonsense approach that has more in common with profit-driven business than charity. DKT Mexico Country Director Karina de la Vega says there is no silver bullet to achieving financial sustainability, but requires such things as improved strategic planning, business administration and teamwork. Her first order of business when she took over in 2011 was increasing revenues and strengthening business practices to make the organization more efficient.

As profits are generated, new programs can be financed. Indonesia helped fund the program in Ghana, a country with very low contraceptive use and high maternal mortality. DKT Philippines was able to provide seed money for a start-up operation in Pakistan in 2012. DKT Brazil has been contributing funds to support DKT operations in Africa for many years.

DKT anticipates that India, Mexico and Turkey will begin making similar contributions before 2015.

The chart shown on the next page presents the realities and possibilities for financial sustainability in DKT countries. It references Gross National Income adjusted for Purchasing Power Parity to determine how much money would be needed to purchase the same goods and services in different countries.

Conclusion

Thus, DKT's approach involves a three-step process: 1) using traditional donor funds to establish a program that achieves increasing levels of cost-recovery; 2) using cross-subsidization — in which higher-priced, profitable brands subsidize lower-priced brands — to build up revenues; and 3) achieving profitability by producing more revenues than are needed to sustain operations, thus creating dividends that can be used to help other programs.

The benefits to DKT programs are obvious, allowing them to have greater health impact with less reliance on donors. As resources are freed up, donors benefit as well. These funds can be used for other purposes — such as helping more women like Supriyati get the contraceptives they need to manage their families.

Realities and Possibilities of Sustainability of DKT Programs

DKT Country	GNI/PPP (IMF, 2011) (1)	Permissible Annual Consumer Cost/CYP (2)	Commodity Cost per CYP (3)	Commodity Cost Recoverable	Operating Cost Recoverable	Marketing Cost Recoverable	Start-up and/or Special Activities (4)
Malaysia	$15,578	$38.95	3.75	✔	✔	✔	Donor
Mexico	$15,121	$37.80	3.75	✔	✔	✔	Donor
Turkey	$14,615	$36.54	3.75	✔	✔	✔	Donor
Brazil	$11,845	$29.61	3.75	✔	✔	✔	Donor
Thailand	$9,693	$24.23	3.75	✔	✔	✔	Donor
China	$8,394	$20.99	3.75	✔	✔	✔	Donor
Egypt	$6,504	$16.26	3.75	✔	✔	✔	Donor
Morocco	$5,069	$12.67	3.75	✔	✔	✔	Donor
Indonesia	$4,668	$11.67	3.75	✔	✔	✔	Donor
Philippines	$4,111	$10.28	3.75	✔	✔	✔	Donor
India – General	$3,703	$9.26	3.75	✔	✔	Donor	Donor
Vietnam	$3,354	$8.39	3.75	✔	Donor	Donor	Donor
Ghana	$3,081	$7.70	3.75	✔	Donor	Donor	Donor
Sudan	$2,981	$7.45	3.75	✔	Donor	Donor	Donor
Pakistan	$2,721	$6.80	3.75	✔	Donor	Donor	Donor
Ethiopia	$1,092	$2.73	3.75	Donor	Donor	Donor	Donor
Mozambique	$1,085	$2.71	3.75	Donor	Donor	Donor	Donor
India – Bihar	$402	$1.01	3.75	Donor	Donor	Donor	Donor
DR Congo	$347	$0.87	3.75	Donor	Donor	Donor	Donor

(1) Gross National Income per capita at Purchasing Power Parity
(2) Estimate based on .25% of per capital GNI/PPP
(3) Conservatively based on 2012 prices on the open international market: 100 condoms, 13 pills, 4 injectables
(4) Activities for which a donor is needed (outreach to high risk and vulnerable groups, behavior change campaigns, etc.)
For more on Purchasing Power Parity see: *http://bit.ly/LA2tbK*
Cost-recovery in social marketing programs depends heavily on the wealth of a country where the program operates.

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