

from John Beale
to Holden Karnofsky; Elie Hassenfeld
date Fri, Jul 2, 2010 at 11:57 AM
subject Follow up to yesterday's call ...

Holden and Elie:

Thanks for the call yesterday. Apologies for the delay - it took me a little extra time to reconsider the funding gap for next year.

Key updates for the budget are:

Health Services Group (HSG) – contracted work, other countries:

- we have a number of new contracts, details of which are included in the edits I sent for the contract engagements section of your draft review. These projects are all profitable, so they contribute to supporting our overall expenses. And while there is certainly a cost to developing new program opportunities, our goal is to have all development costs eventually captured in the margins of these contracts. You'll note the total calculated expenses for the contracts is higher than we anticipated when we last reported on this, but so too is the associated revenue. The increase in these numbers is a result of us having actuals for the work conducted vs. preliminary estimates of what we expected. We have grown the team to take on the additional opportunities: Emily Bancroft, MPH, was hired earlier this year to work on program development and execution. Emily is a peer to Leah and has extensive experience working in Africa. Her bio is on the website.

Information Services Group (ISG)/IT Development:

- in the past year we have invested significantly in developing what is the third release of our MIS, integrating a number of new features to provide greater utility for our health programs. The majority of this increased cost concerns contracted-out software development, but also includes costs for our CTO to conduct a detailed requirements assessment in Mozambique. Note on April 20th we announced the completion of vrMIS, and also launched an opensource initiative, openLMIS, to attract additional organizations involved in global health logistics to share their work and collaborate. This team has also grown to reflect the additional workload for ISG with the Mozambique expansion, and in anticipation of new contract opportunities. Earlier this year we hired Ryan Hartford as our information services manager, with responsibility for leading the ISG portion of the Mozambique expansion and developing new opportunities.

Program Development:

- this has increased because of the many new opportunities we see for health system strengthening work, given our particular expertise in logistics. I'd be happy to provide details/evidence of our contracts. I want to highlight that a year ago we had no opportunities outside of Mozambique and Malawi. We're on a mission to improve health

systems globally, leveraging the skills we have developed largely as a result of the many years invested in Mozambique. The results from Mozambique have provided important public recognition of what improvements can be achieved, but it's the specific work we have done to standardize our methodologies and tools that is attracting other organizations and health systems to VillageReach.

Operations & Marketing Group:

- growth in these costs essentially tracks the increase in scale of VillageReach as a whole. The most significant add to the group is the hire of Tom Martin earlier this year as director of operations and CFO. We identified a need for someone of Tom's caliber to ensure we have the appropriate operational and financial experience to help manage a larger, more diverse organization, with the goal of achieving greater financial stability and results. Marketing has increased modestly: we are speaking at more conferences, and devoting more time to review our work with academia.

You mentioned you're considering conducting a direct appeal for VillageReach - which we would of course welcome - and asked for some additional thinking on what we could absorb in 2011 in addition to the \$800k gap we have already identified. Per the program schedule sent last week, we expect to launch three new provinces in mid to late 2011. That schedule presumes a certain funding scenario, but it also reflects what we think the various provincial governments can support, as we're dependent on them allocating resources on a timely basis for their operations for the program. As such there is really no capacity constraint for us - frankly, we could launch next year in all of the remaining provinces. Considering what we believe are the limitations of the provinces, we think it's reasonable that we could accelerate the start of three new provinces by 3 - 6 months, which would require approximately \$6-700k in additional funds, for a total of \$1.5M for next year. It's reasonable to think the remaining two provinces might react to seeing the accelerated deployments and requesting to start earlier also, which would translate into additional need for funds.

I would like to discuss this with you, because the appeal we'd naturally prefer to make is for the whole program gap currently estimated at \$4.4M. We'd welcome your help in raising funds for use beyond 2011 that would enable us to make more confident early commitments to Mozambique for the next several years, but certainly also shorten the program period as well.

Hope this helps clarify our current situation and plans. I'll try to reach you by phone in a couple of hours to discuss.

Cheers,

jb

John Beale
Director, Strategic Development