

The Pledge Guarantee for Health (PGH):

A New Platform to Improve Efficiency and Impact of Donor Financing for Health Commodities



BILL & MELINDA
GATES foundation



Dalberg

Global Development Advisors



The Need: Quickly, consistently and cost-effectively delivery health commodities

The Opportunity: The Pledge Guarantee for Health – what it is, and how it works

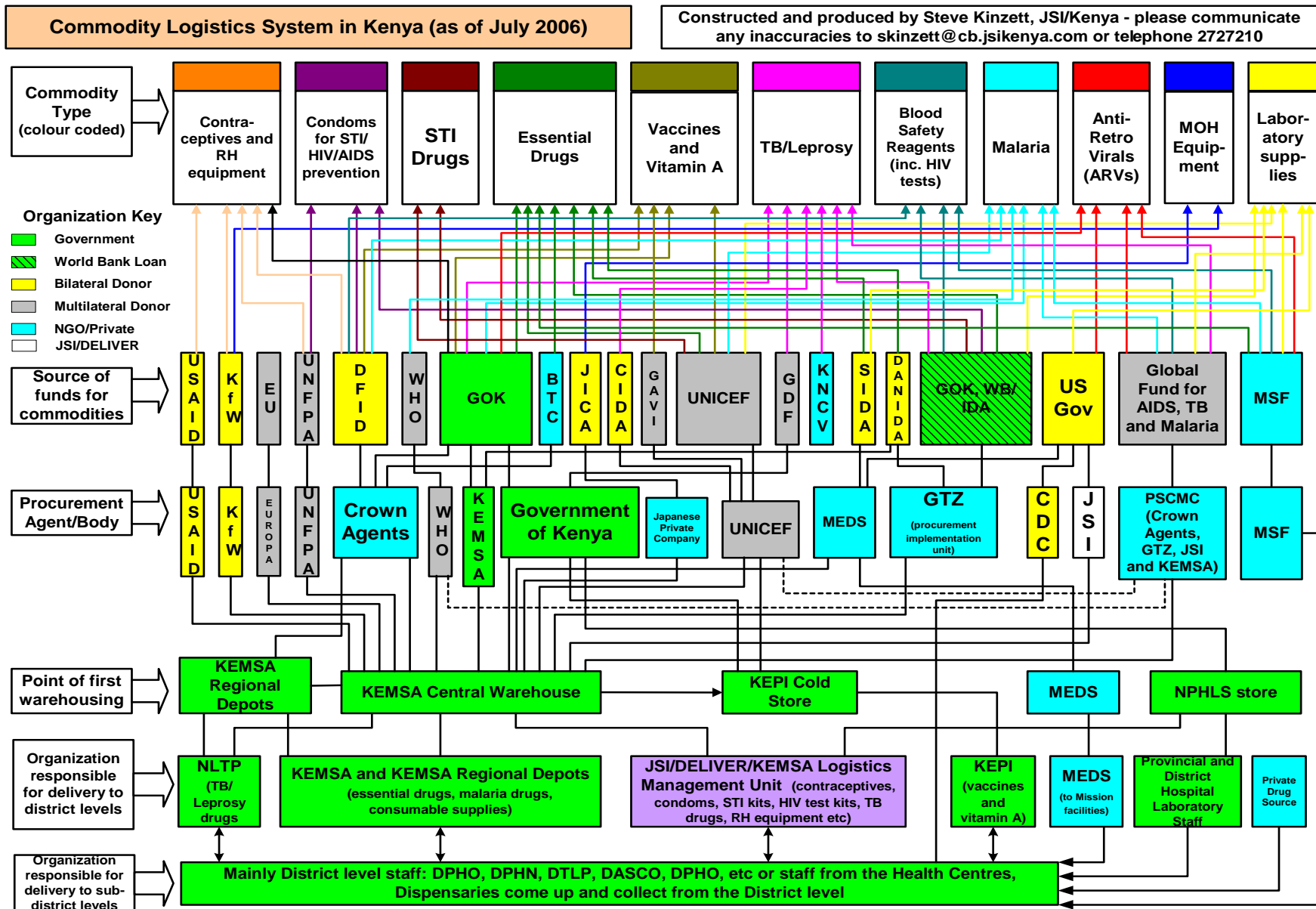
Example PGH deals

Q&A

The Pledge Guarantee for Health (PGH)

- **The PGH is a financial product that enables grant recipients to access short-term credit for health commodity procurement**
- **PGH enables health commodities to reach recipients more quickly, consistently and cost-effectively**
- **Several principles guide the design and use of the PGH:**
 - Increase efficiency of existing resources for health commodities
 - Leverage existing financing mechanisms and institutions
 - Enhance country ownership of procurement and local capacity building
 - Promote aid transparency
- **Opportunity for leaders to demonstrate innovation, action and impact --**
PGH creates win-win for country grant recipients, funders, and an opportunity for bank partners to catalyze a market

Complex systems for commodity financing, procurement and distribution



Country owned procurement approaches are recognized as critical to long term sustainability

As a result [of weak systems], externally funded programmes often institute their own purchasing and distributions systems;

while these provide an immediate solution specific to the programme, they cause major difficulties in standardisation and management for the system as a whole, as well as ignoring the long-term issue of reform.

In many cases they do not address the underlying capacities constraints on ministries' and private sector's ability to forecast, plan, manage and distribute within the context of a national system for drugs and supplies.

Taskforce on Innovative International Financing for Health Systems,
Working Group 1 Report

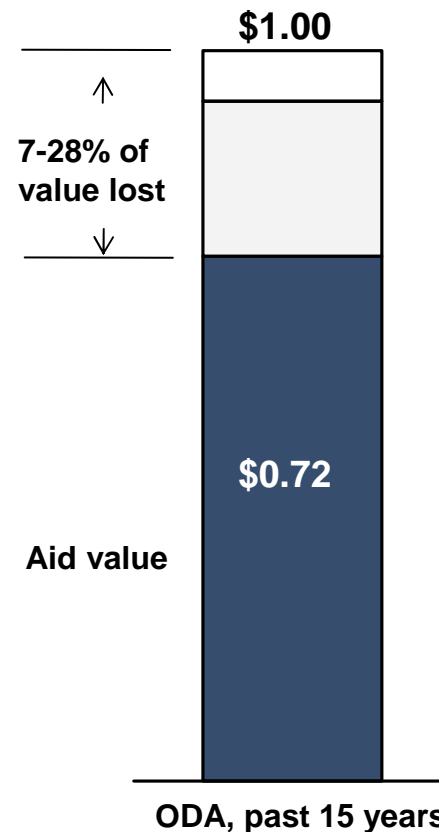
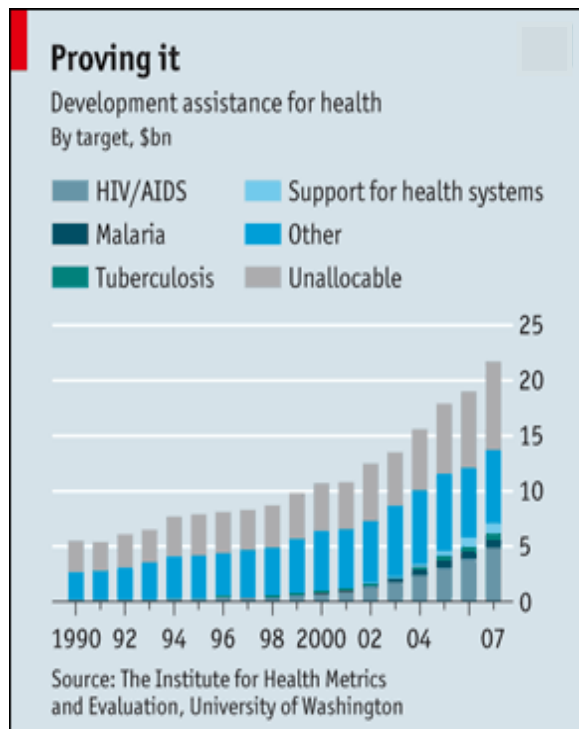


Funding volatility creates adverse impacts on systems and users

Funding for health has increased, however...

...Value destruction due to aid volatility¹

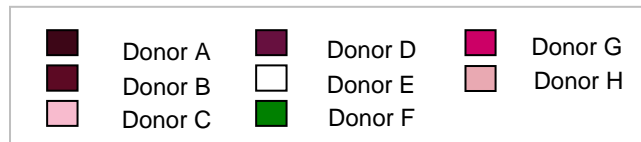
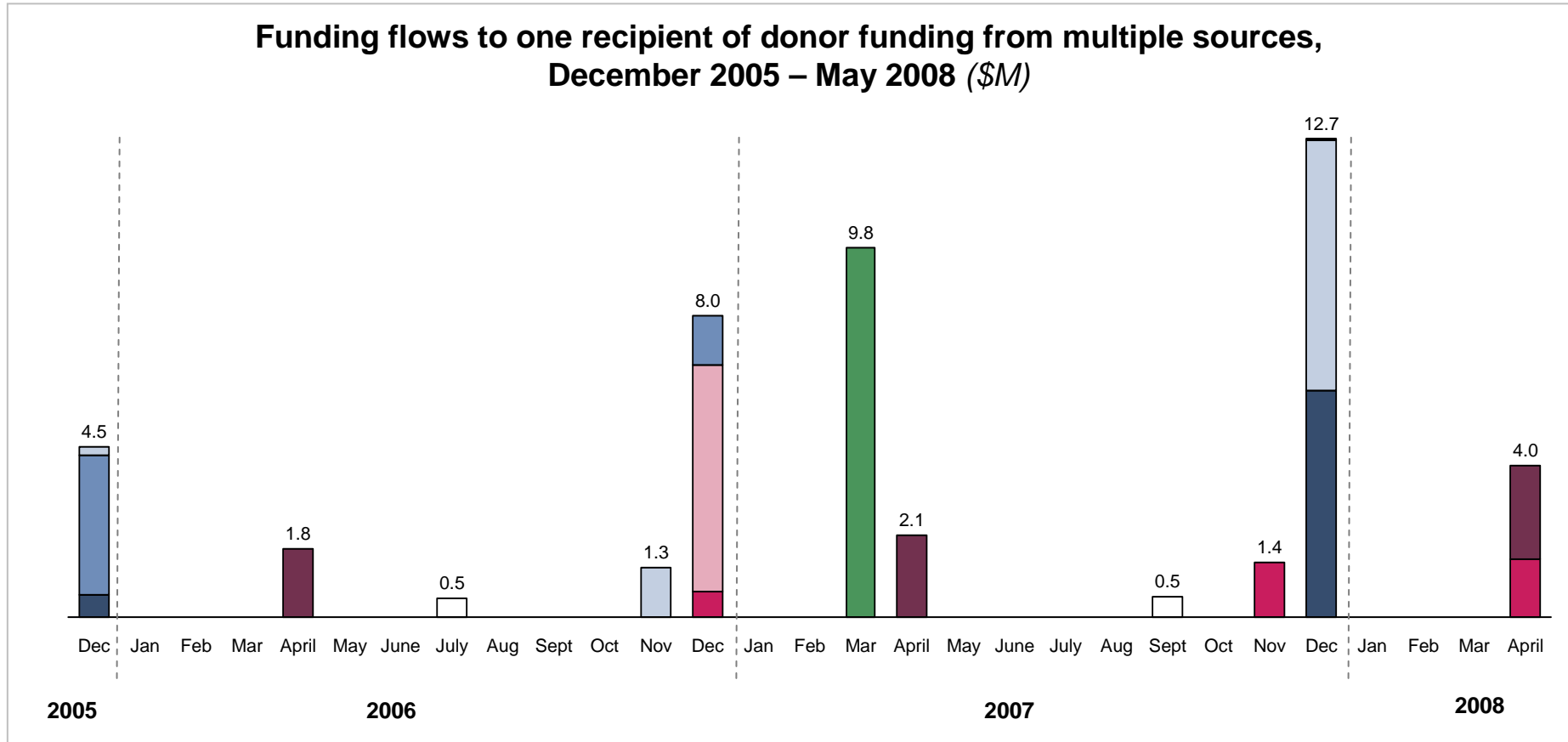
Adverse impact on systems and users



- Lack of access
- Loss of patient confidence
- Extra commodity cost
- Impaired supply chain management

(1) Source: P. 4, Brookings Institution. August 2008. "Smooth and Predictable Aid for Health – A Role for Innovative Financing?"; Dalberg analysis.

Donor volatility within annual funding cycle makes it difficult to effectively plan commodity purchases



Source: Dalberg analysis with sanitized data from recipient of donor funding (per recipient's request)

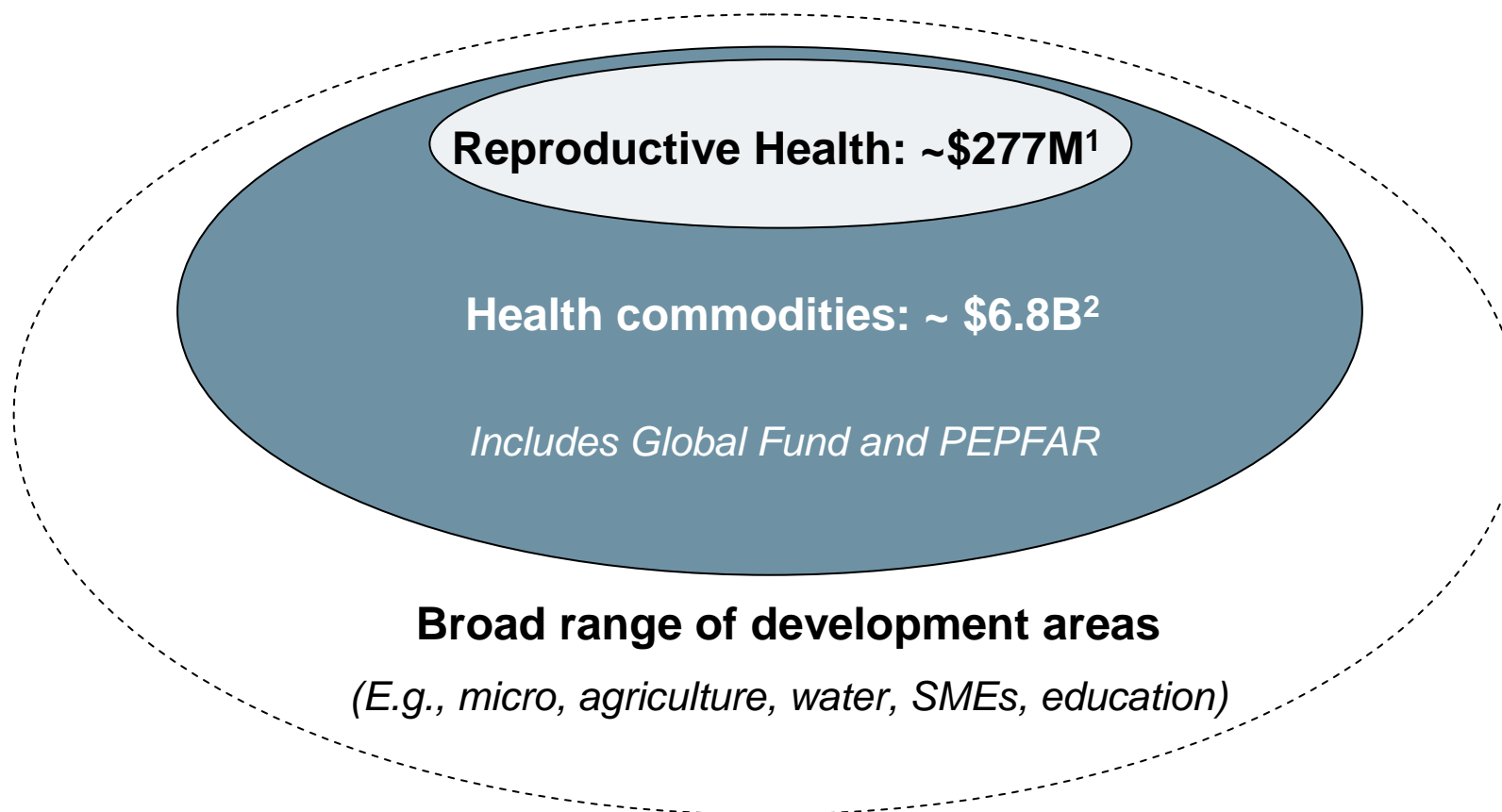
Illustrative donor grant process

Unpredictability of timing of first disbursement is more a reality than a problem



Source: The Global Fund database available on its website. Dalberg analysis of >250 grant applications.

Demand for financial products to manage procurement and finances across \$6.8B in health commodities purchases – and potentially beyond



(1) RHI 2007 data and UNFPA 2007 3rd party procurement data; does not include USAID or IPPF funded procurement as both organizations have indicated they would not be a part of PGH; Government funding from McKinsey's 2006 analysis; donor-funded procurement is defined as funding that has been transferred from donors to entities that procure RH commodities i.e. NGOs or MoHs; government-funded procurement is government revenue-funded or SWAp/non-RH budget line funded procurement

(2) The health commodity market is estimated based on Global Fund and PEPFAR disbursements in 2007, with 47% of funding being used for procurement
Sources: RHInterchange, www.globalfund.org, www.pepfar.gov; UNFPA interviews; Dalberg team analysis

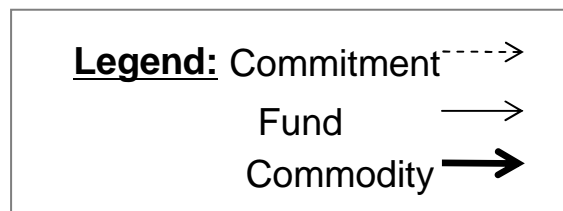
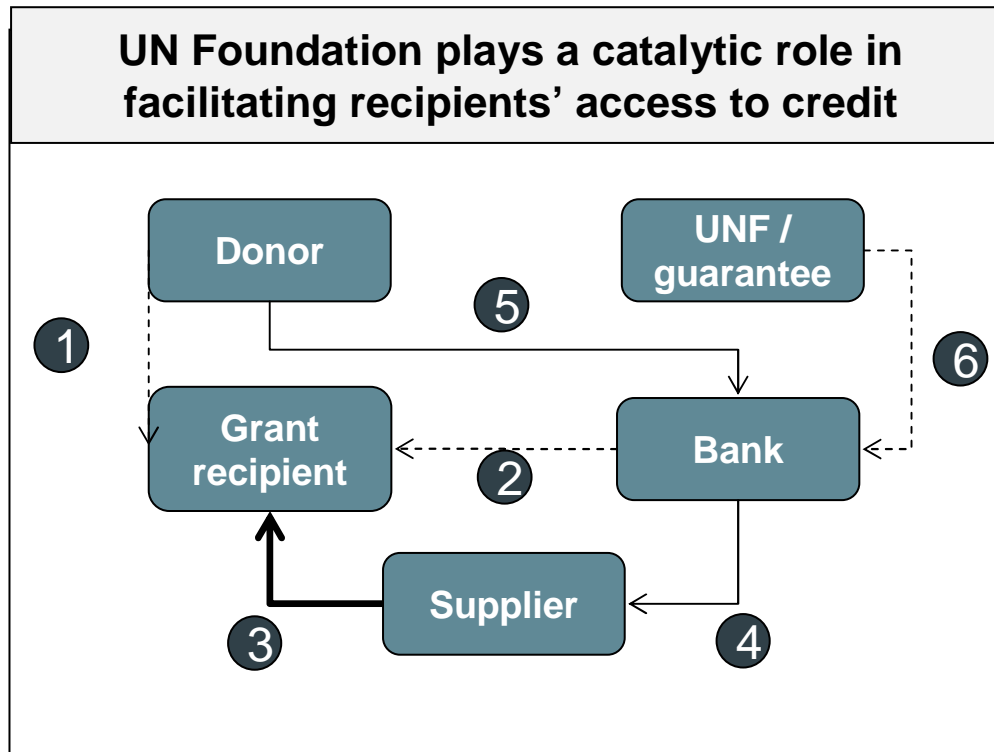
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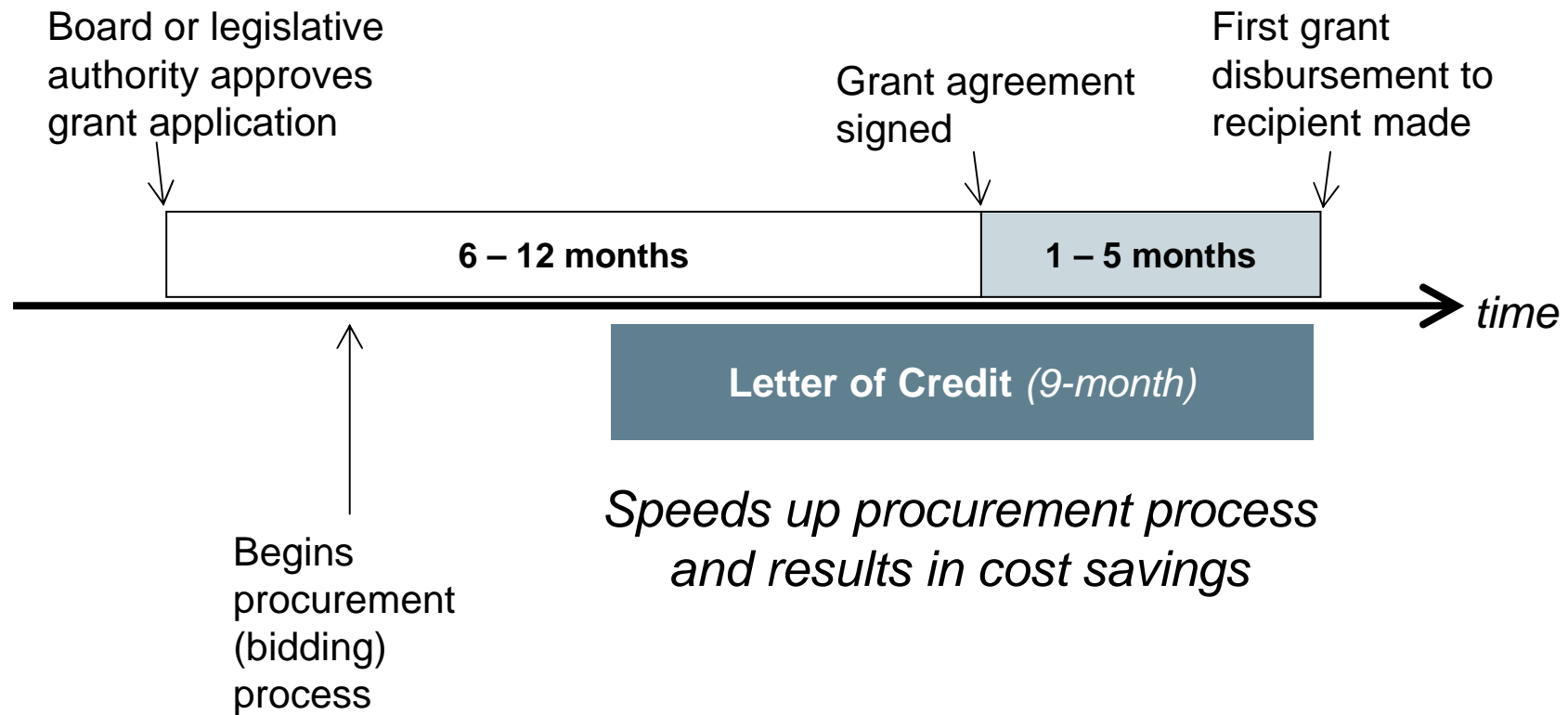
Q&A

How it works



- 1 Donor has existing commitment to recipient for health commodities
- 2 Bank extends credit line for commodity purchase and issues L/C to supplier
- 3 Supplier ships health commodities after PGH customer procures through existing channels
- 4 Bank pays for commodity based on invoice
- 5 Donor disburses funding to bank to pay back principal
- 6 UNF provides backing through full / partial guarantee

Access to a Letter of Credit through PGH helps advance procurement ahead of grant disbursement

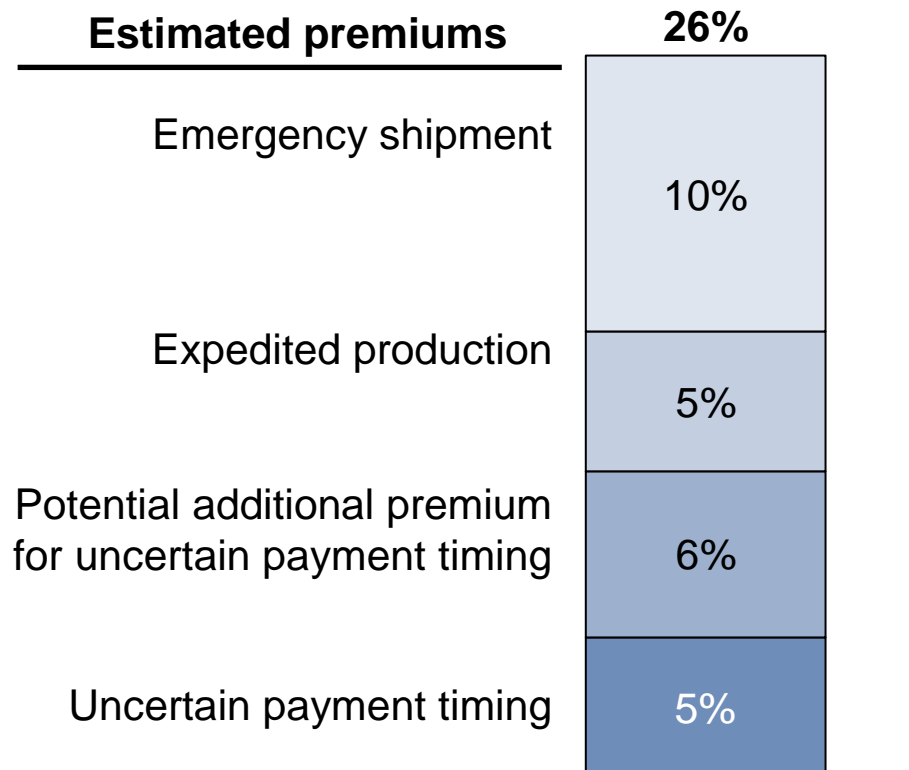


Source: Global Fund database available on its website. Dalberg analysis of >250 grant applications.

Benefits of PGH

Cost savings by addressing premiums on commodity purchase

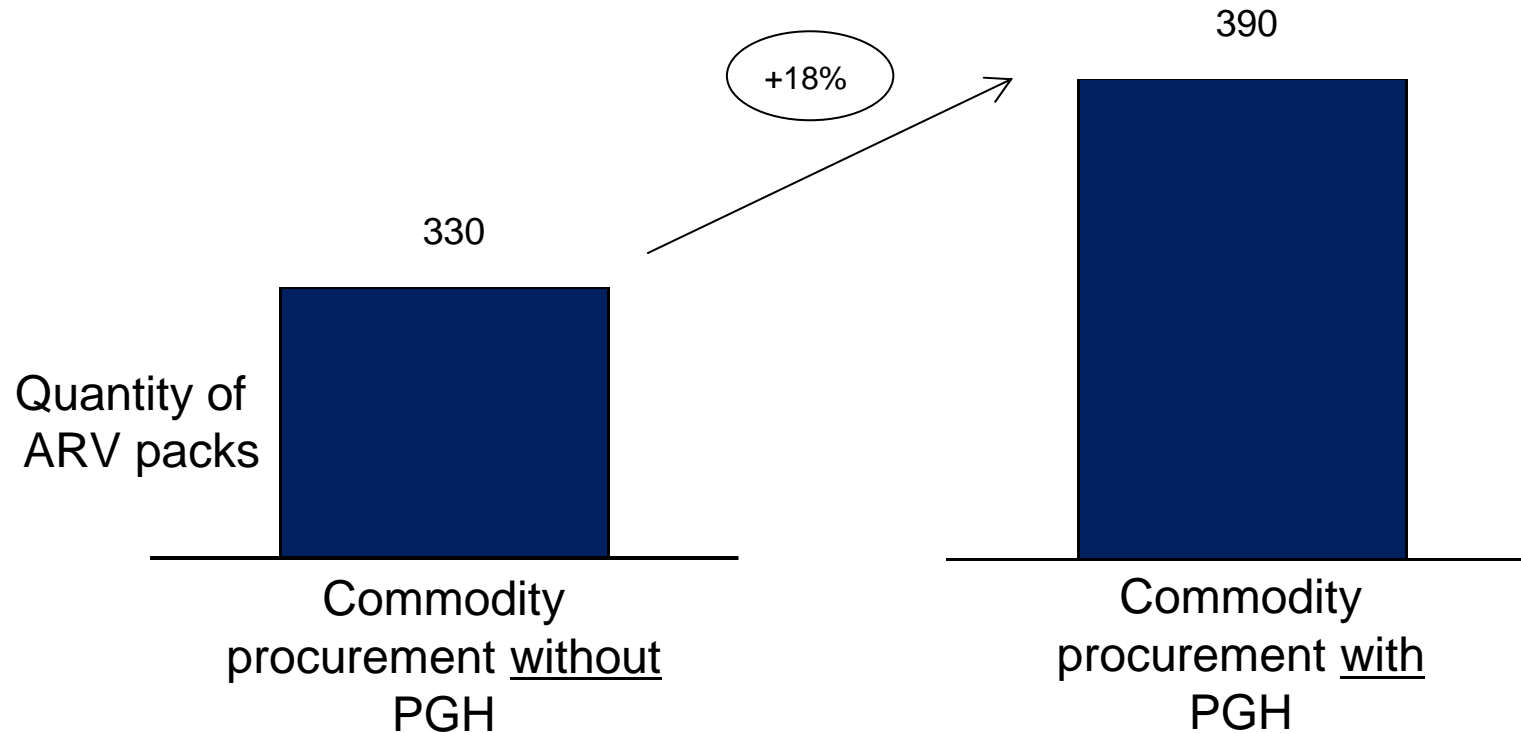
Optimize supply chain and procurement



- Avoid stockout and effect on distribution and inventory downstream
- Avoid overstocking and its cost implications on storage
- Reduce wastage/leakage and expiry of essential health products
- Optimize drugs' shelf life

Illustrative example: 18% savings potential in ARVs could enable large volumes for the same price

Illustrative example for ARV procurement for \$5M transaction



1. Pricing per ARV (Lamivudine - 3TC), Zidovudine – ZDV or AZT) pack based on Global Fund Price Reporting Mechanism Full Purchase Price Report. 2. Based on 15% commodity price reduction based on studies commissioned by Gates (July 2006) and Dalberg analysis. Excludes premium on sub-scale order. Note: Benefits captured here do not include time value of money and measure of additional lives saved or stock-out avoided. Source: Global Fund PRM, Gates Foundation analysis, Dalberg analysis.

PGH benefits players throughout value chain

Grant recipients

- **Customer-driven tool that supports country ownership** of procurement and supply chains management in line with Paris Declaration
- **Deliver essential health commodities** when they are needed, bolstering confidence in the health system
- **Reduce premiums** (expedited production, emergency shipment, and payment risk) on commodity costs by 10-30%
- **Avoid stock-out** and its cascading effect on distribution, planning and inventory downstream
- **Avoid overstocking** that includes storage cost and waste/leakage

PGH benefits players throughout value chain

Donors

- Enables and **rewards countries/NGOs** with a good track record to further manage and optimize health procurement and supply chains
- **Improves overall efficiency**, effectiveness and transparency of aid utilization

PGH benefits players throughout value chain

Financial institution

- Opportunity for **new business opportunities** in emerging markets for credit within the philanthropic and international development sectors
- **Lowered credit risk** by partial guarantee on the collateral

PGH benefits players throughout value chain



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Senegal: With low expected default risk of donor funding and the backing of a guarantee, Senegal is able to utilize a Letter of Credit

Basic terms and parties

- **Product type (maturity):** Term L/C (9-month)
- **PGH user:** Pharmacie Nationale D'approvisionnement (PNA), Ministry of Health, Senegal
- **Donor:** Global Fund (GF)
- **Bank:** Ecobank Senegal (Its parent company: 600 branches in 31 African countries, \$6,550M in assets in 2007, \$100M convertible loan invested by the IFC in 2009)

Expected risks

- **Global Fund rating of Senegal¹:** A
- **Risks:**
 - Default
 - Length of delay
 - Grant disbursement reduction

(1) Alliance Nationale Contre le SIDA: Rated A, A, A1 and then A1 in last four disbursement periods from 12/1/2007 – 5/31/2009; The National AIDS Council of Senegal: Rated A, A2, A1 and then B1 in last four disbursement periods from 3/1/2008 – 5/31/2009.