

The Pledge Guarantee for Health (PGH): Achieving Commodity Security in Reproductive Health and Beyond

Introduction

Access to contraceptives and other reproductive health supplies is recognized by the International Conference on Population and Development (ICPD) and through the U.N. Millennium Development Goals (MDGs) as an essential contributor to health and economic development.

Ensuring reproductive health requires access to essential commodities (e.g. condoms, orals, IUDs) that protect health and improve livelihoods. Current efforts and programs by donors, multilateral agencies, and NGOs to help developing countries increase access to reproductive health supplies for those in need have been successful, but fundamental gaps in access persist.

Volatility and unpredictability of funding flows between donors and recipients is a particularly significant problem in procuring reproductive health commodities. This volatility is driven by budget and financing cycles, often outside the control of donor agencies and recipients.

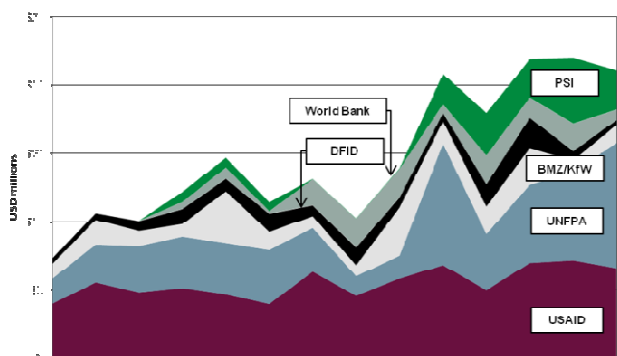


Figure 1: Major donor funding 1992 - 2005

Highly variable donor funding leads to several problems including drug stockouts, unaffordable drug prices, decreased confidence in community health networks, higher capital costs, inefficient small order sizes, increased freight costs due to emergency shipments, and inhibited long-term planning and forecasting.

Innovative Financing

Major financial and global institutions have been developing creative approaches to address similar financing issues. For example, Goldman Sachs and the Global Alliance for Vaccines and Immunization (GAVI) were acclaimed for the creation of the International Finance Facility for Immunization (IFFIm). To address long term financing issues, IFFIm successfully launched a \$1 billion bond offering where private investors purchased bonds backed by donor funding commitments.

IFFIm helped ensure future financial sustainability of immunization programs by providing stable, long term commitments and accelerated access to vaccines and vaccine development.

The Pledge Guarantee for Health

While IFFIm is an example solution to longer term capital access, the Pledge Guarantee for Health (PGH) was developed to address shorter term credit needs. The PGH is designed to reduce the volatility between donors and recipients by extending short term credit to recipients based on verified donor commitments.

The initial focus of the PGH will be on donor to recipient flows. Donor money can be delayed up to six months and recipients often need money in hand to begin procurement. The PGH presents an opportunity to implement a unique tool with potentially global prominence.

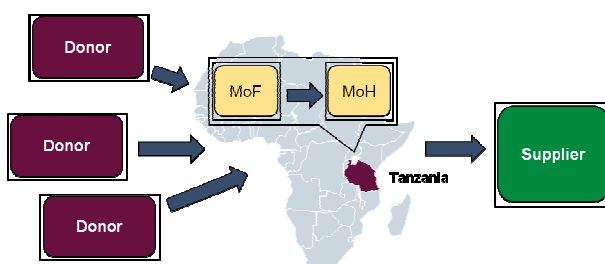


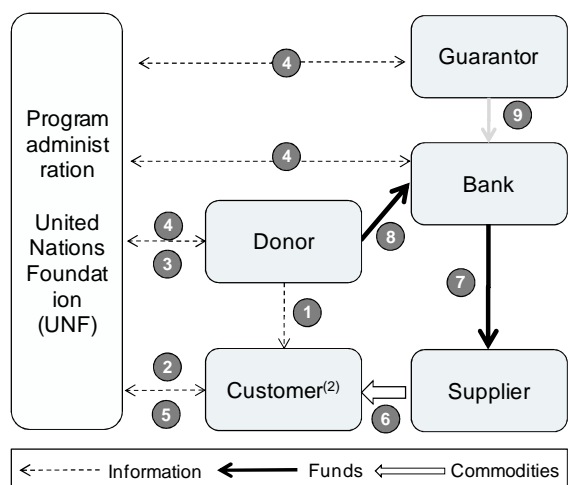
Figure 2: Illustrative view of potential financing bottlenecks

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How the PGH works

The PGH allows recipients of donor funding to access credit for commodity purchases and works as follows:

- (1) Donor pledges to finance commodity purchase (direct pledge) or budget support (SWAp) for customer
- (2) Customer requests UNF to arrange short-term credit⁽¹⁾ (Pledge Guarantee)
- (3) UNF verifies financing information with donor
- (4) UNF structures terms with bank, donor and guarantor (initially on transaction-specific basis, later standardized)
- (5) UNF notifies customer of approval and bank issues credit certification⁽¹⁾
- (6) Country procures through existing process and receives health supplies
- (7) Bank pays supplier based on invoice
- (8) Donor pays bank
- (9) If donor defaults, guarantor pays bank if donor defaults on payment



Note: Structure may vary according to transaction and customer characteristics

Figure 3: Illustrative high-level process map

Leadership opportunities

The PGH presents an opportunity for participating organizations to address critical country level health financing needs, support reproductive health effectiveness, and demonstrate innovative leadership in the global health community.

Potential market size

The PGH could be accessed for all reproductive health purchases by recipients of donor funded procurement and could expand quickly to other types of health commodities (e.g., malaria, HIV/AIDS, and TB supplies) to provide greater scale and impact.

The reproductive health market for the PGH is estimated to be \$277 million with deal sizes ranging from \$0.5 to 5 million. The broader health commodity market could be as large as \$7 billion with deal sizes ranging from \$30 to 100 million.

Bank opportunities

The PGH presents an opportunity for banks to leverage private sector trade finance expertise and is meant to be a commercially viable business line. In exchange for providing credit to recipients of donor funding, banks would establish an appropriate interest rate on the extended credit potentially could implement an additional user fee.

Additionally, the PGH's global goals present an exceptional opportunity for banks to increase their global reputation and prominence.

Acknowledgements

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(1) Information between customer and UNF may go through UNF's country-level partner

(2) Such as UNFPA, NGOs and country ministries