

Pledge Guarantee for Health (PGH)

SSWG Update – October 2013



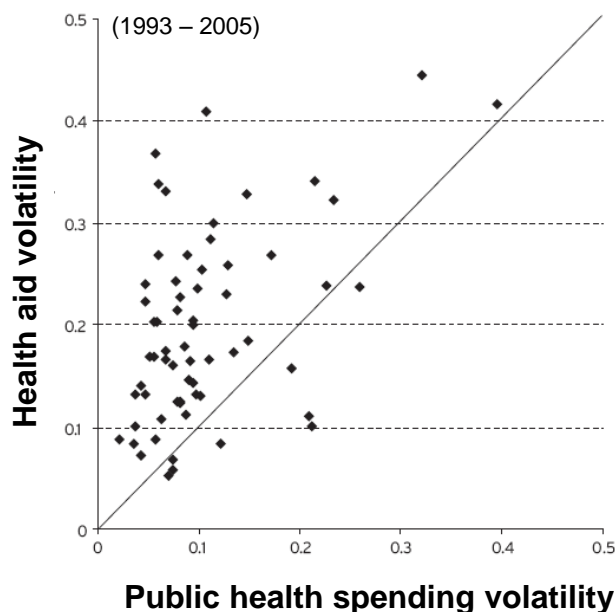
Health financing volatility in developing countries destroys value and has adverse impacts on the procurement system and end users

High volatility
in health aid

Adverse impact on patients
and systems

Value destruction
due to aid volatility

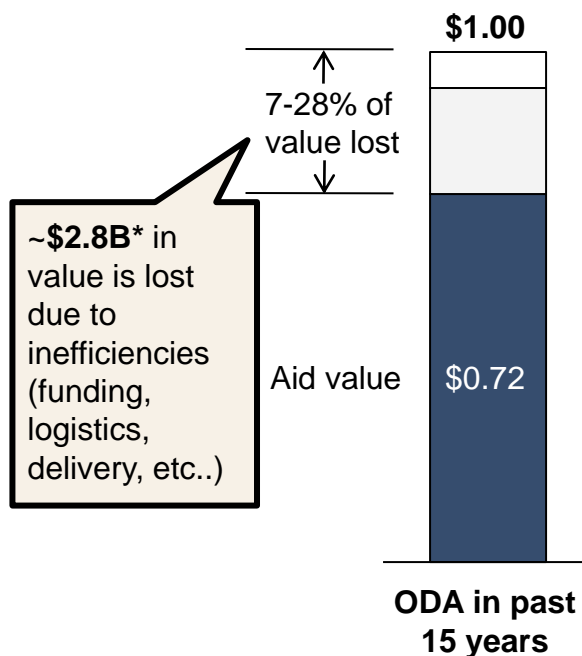
Volatility of health aid is higher than
government health spending¹



Examples of
negative impacts

- **Stock-outs:** Recipients run out of key health commodities or face dangerously low stocks while waiting for donor funding
- **Higher per item costs:** Delayed funding leads to acute shortages which reduces recipient bargaining power and often leads to supplier charging risk premiums due to payment and production uncertainties
- **Additional emergency costs:** emergency production and shipping fees to compensate for the time lost waiting for disbursement

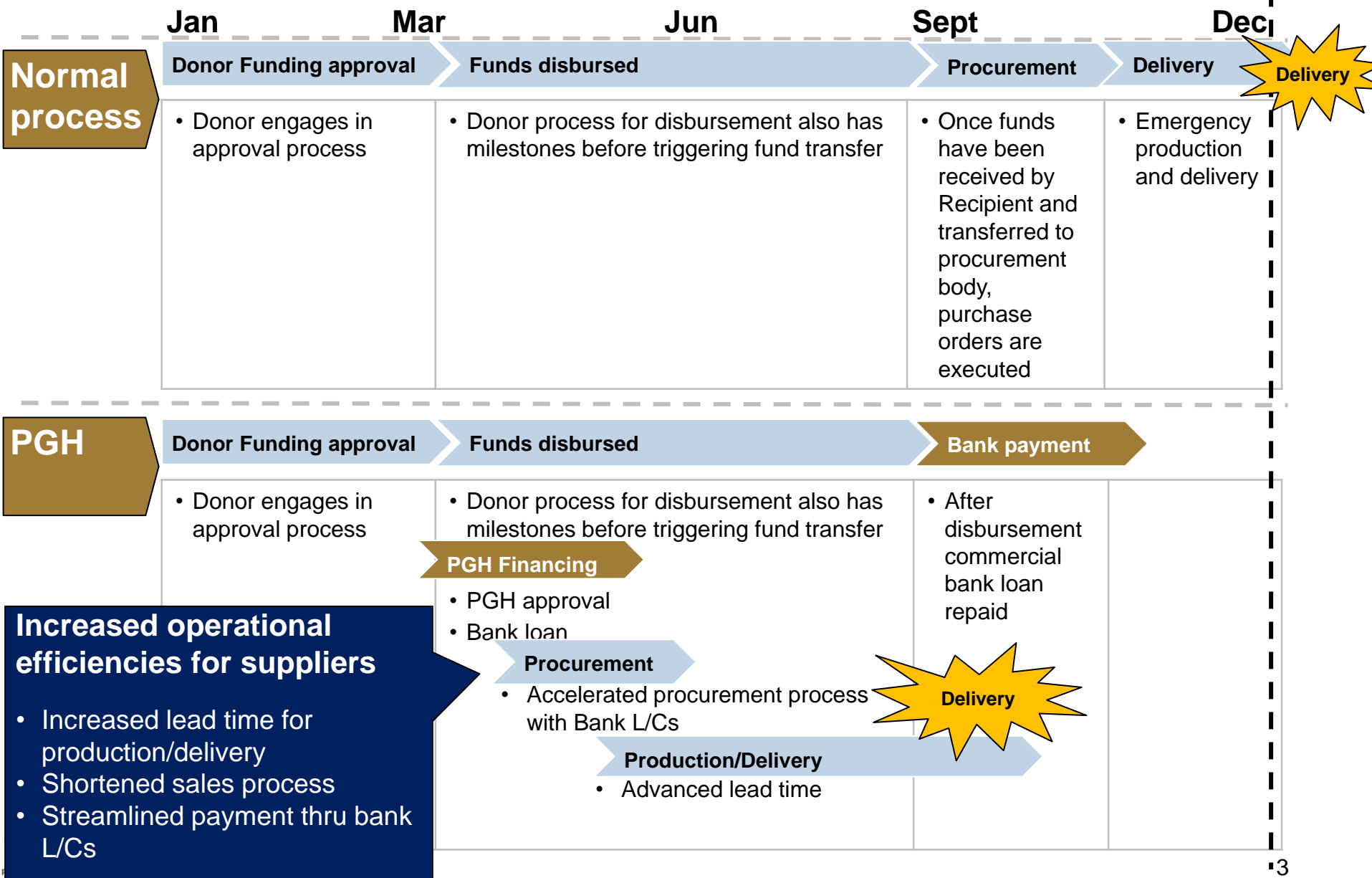
Lost \$0.07-0.28 for every \$1 of
aid due to the unpredictability¹



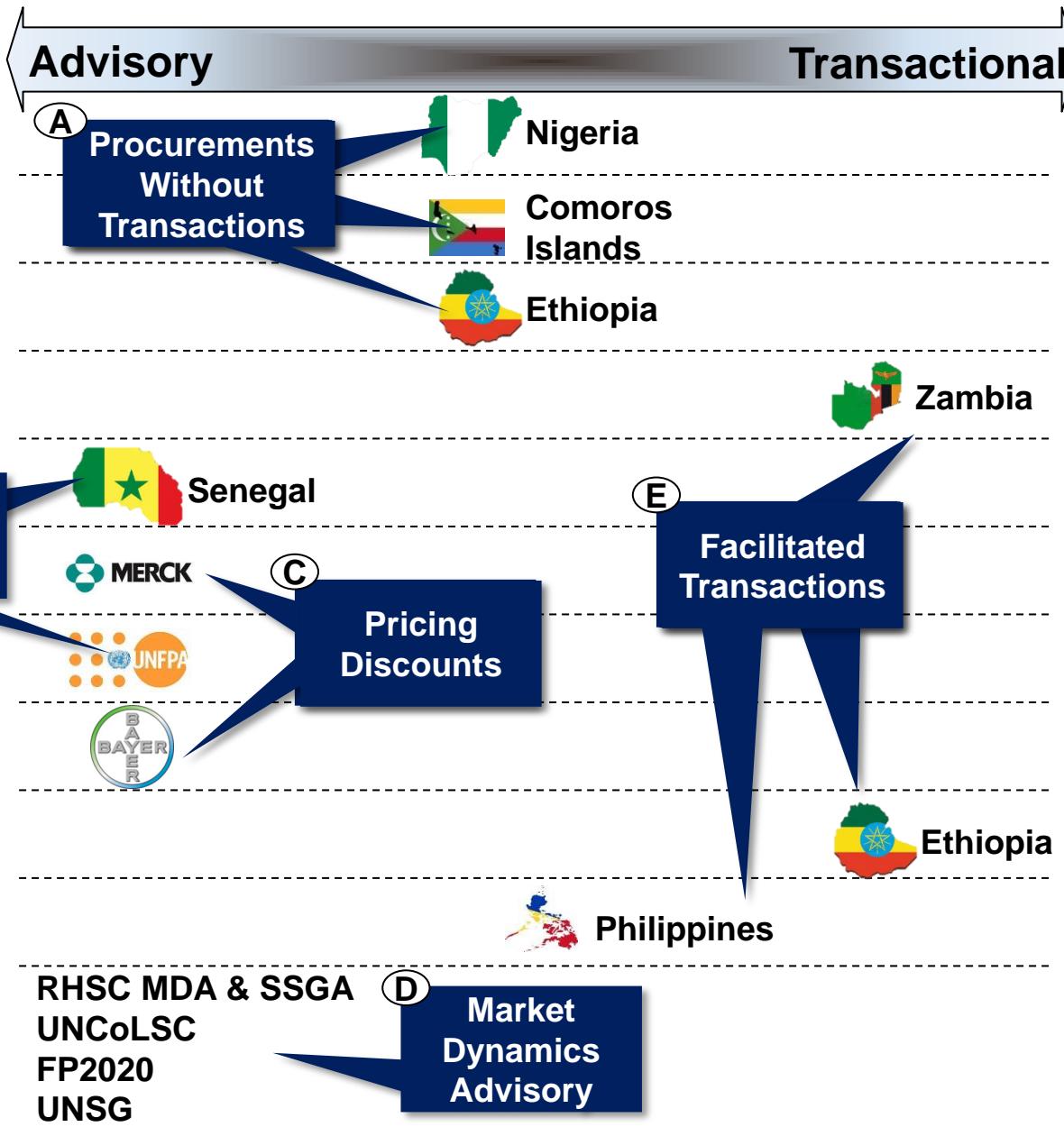
Lack of access to financial tools for recipients of donor financing to effectively manage volatility

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

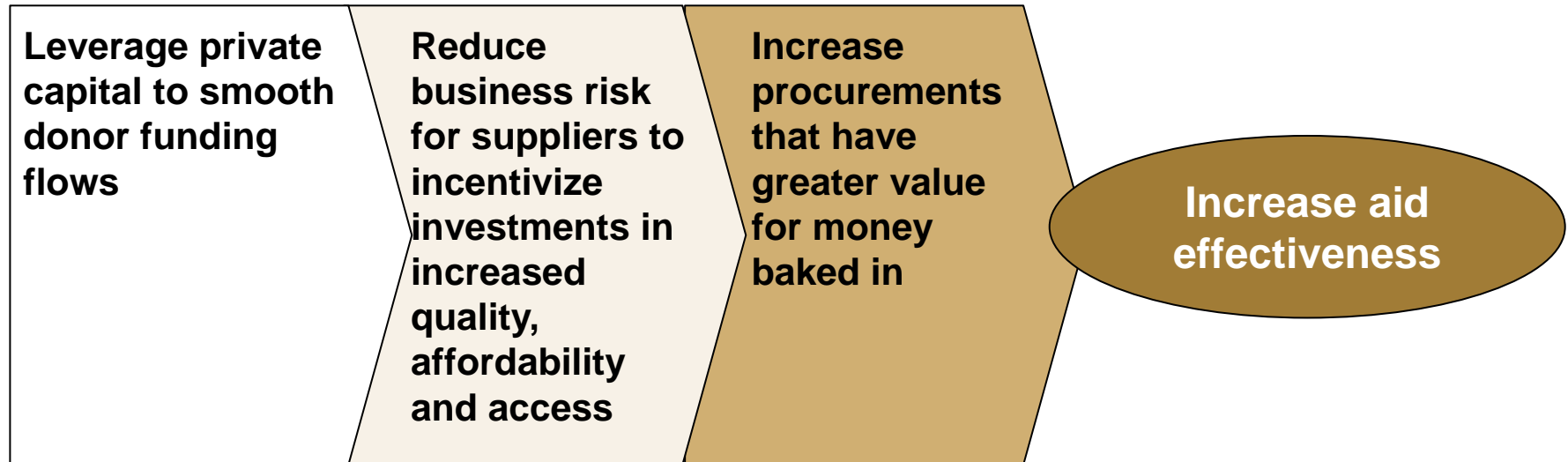
The PGH process offers benefits for stakeholders



PGH has had notable accomplishments during the proof of concept phase



The PGH value proposition leverages guarantees to stabilize aid flows and incentivizes supplier investments (increased quality and access while lowering price) to ultimately enhance value for donor dollars



Accelerated

Ability to rapidly issue bridge funding while waiting for donor disbursement to avoid **stock-outs** which can have dangerous impacts on both patients and the community

Empowered

Allow buyers to leverage **negotiating power** by removing risks in the procurement process that cause suppliers to price in premiums (e.g. better payment certainty, pooled procurement, etc)

Efficient

With better control of the procurement timing recipients will be able to **avoid emergency production and delivery** which are costly and come at the expense of additional beneficiaries

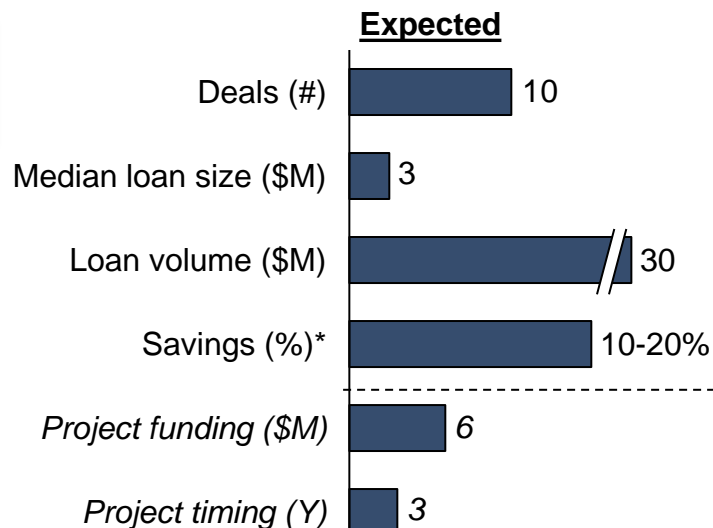
PGH – BMGF Project snapshot

Original Expectations

Objective

To create the Pledge Guarantee for Health (PGH), an innovative financing mechanism which provides short term working capital to recipients of donor funds to smooth and increase the predictability of financing for health commodities. This project will aim to provide a proof of concept that short term working capital financing will improve access to health supplies. As part of the proof of concept, the PGH will be funded for 3 years by BMGF to focus on reproductive health supplies as a key target market, thereby addressing the reproductive health burden, particularly in regions where contraceptive prevalence rate is low. The PGH will also serve other key health commodities, based on customer demand and potential for health impact.

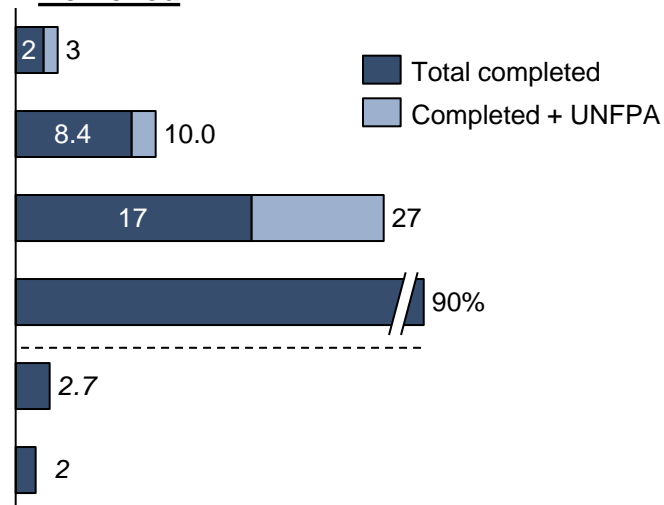
Goals by Year 2



Year 2 Results

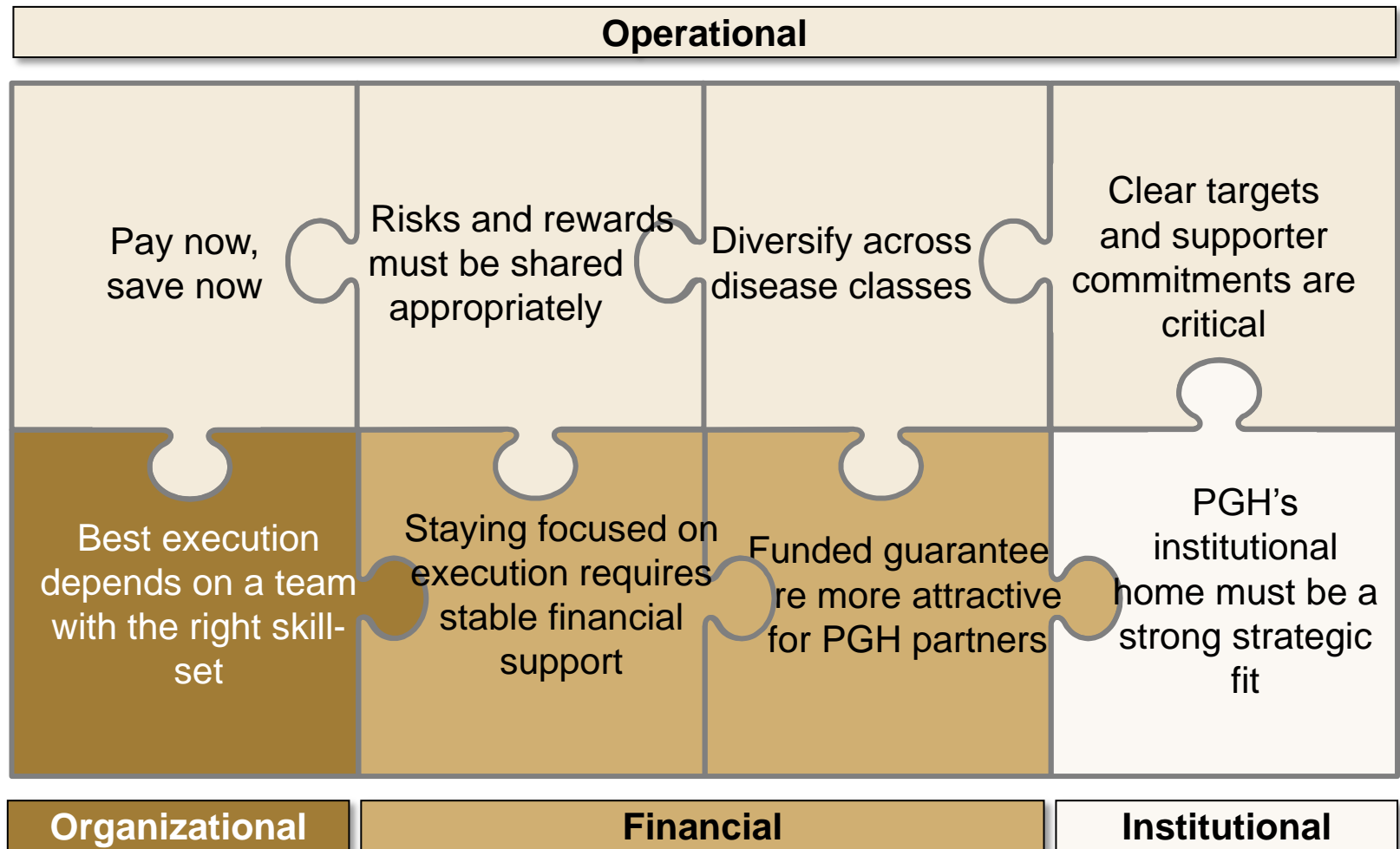
Using Pledge Guarantee for Health (PGH), successfully brought different stakeholders together to provide working capital of multiple sources (commercial and trade finance) to recipients of donor funds to smooth and increase access to health commodities. Although a 3 year time horizon was expected, due to both a limited funding and early termination, activities were only for 1 year.

Achieved

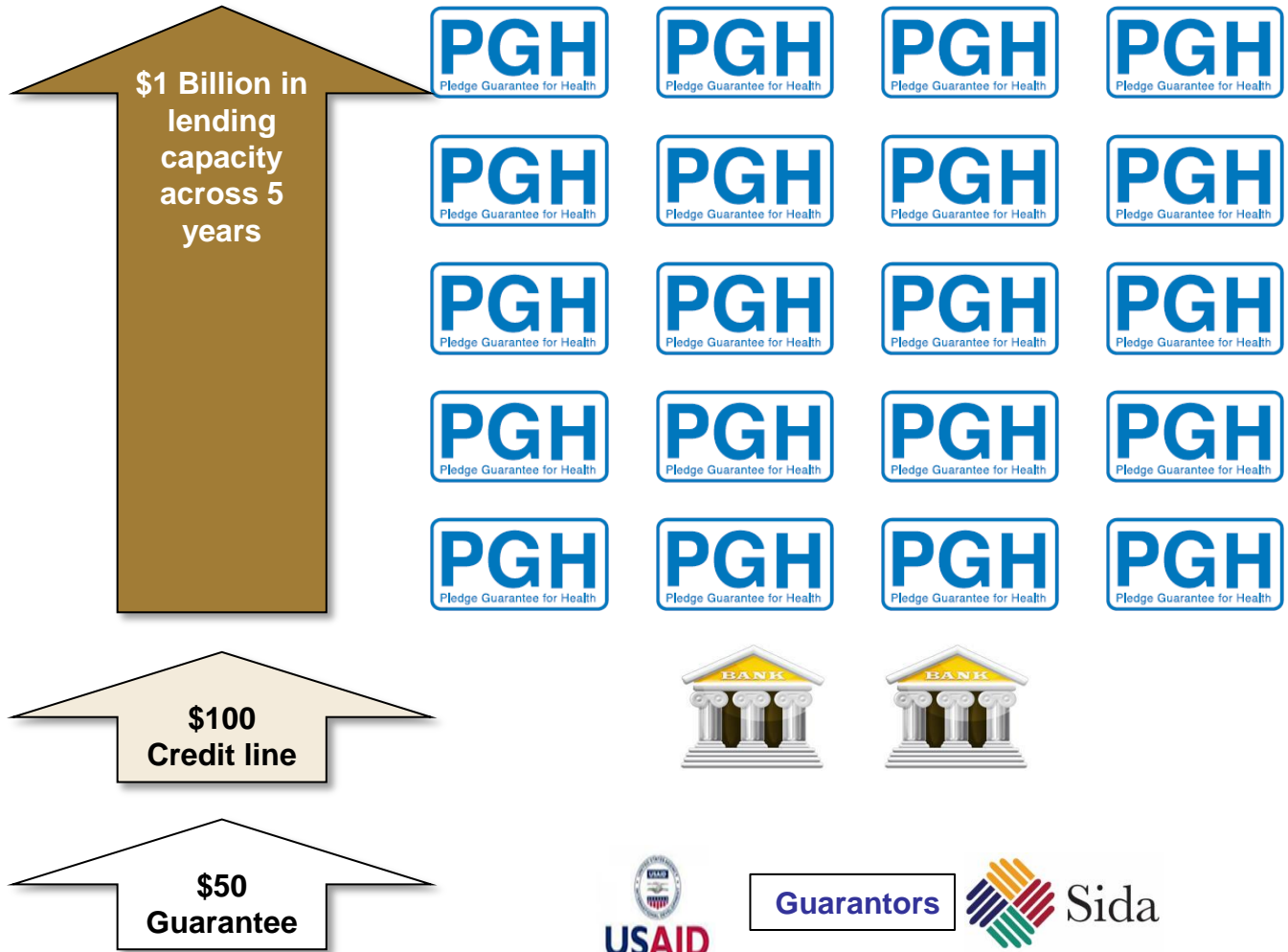


*Savings calculated as \$ saved as a share of deal \$ executed

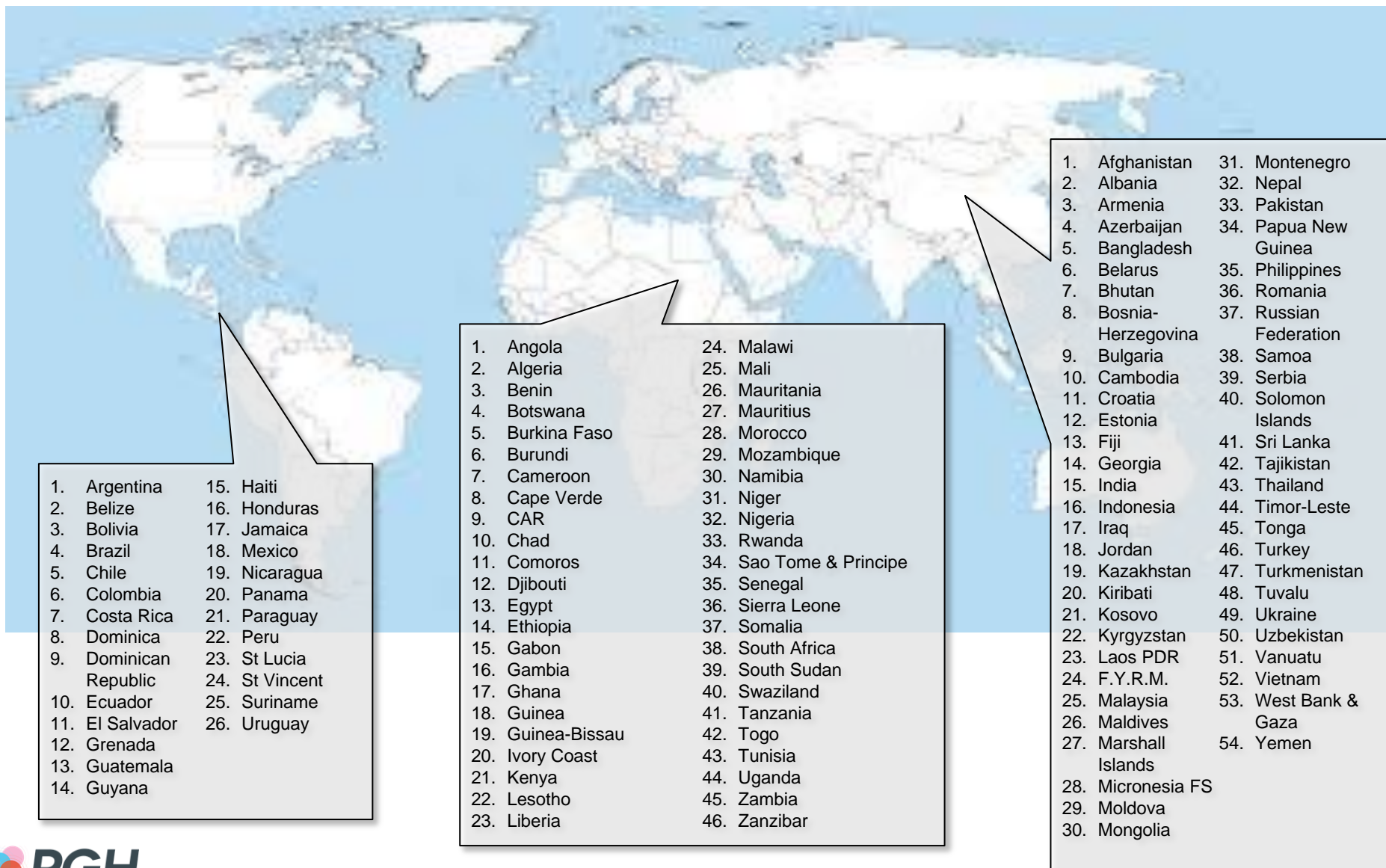
During its proof of concept, PGH identified 8 key learnings that need to be incorporated in its model going forward



PGH intends to create a 5 year guarantee fund that has the potential to mobilize \$1B in financing to accelerate health commodity procurement



PGH will be able to engage in 126 countries around the world



PGH will prioritize deals that leverage pledges from key bilateral, multilateral and foundation donors, but will consider additional donors with prior USAID approval

Bilateral

1. Australian Aid Agency
2. Canadian International Development Agency (CIDA)
3. Department for International Development (DFID)
4. French Development Aid Agency (AFD)
5. KfW Development Bank (KfW)
6. Norwegian Agency for Development Cooperation (NORAD)
7. Swedish International Development Cooperation Agency (SIDA)
8. Sovereign Funding (countries that supply receivables that are backed by their own national funds)

Multilateral

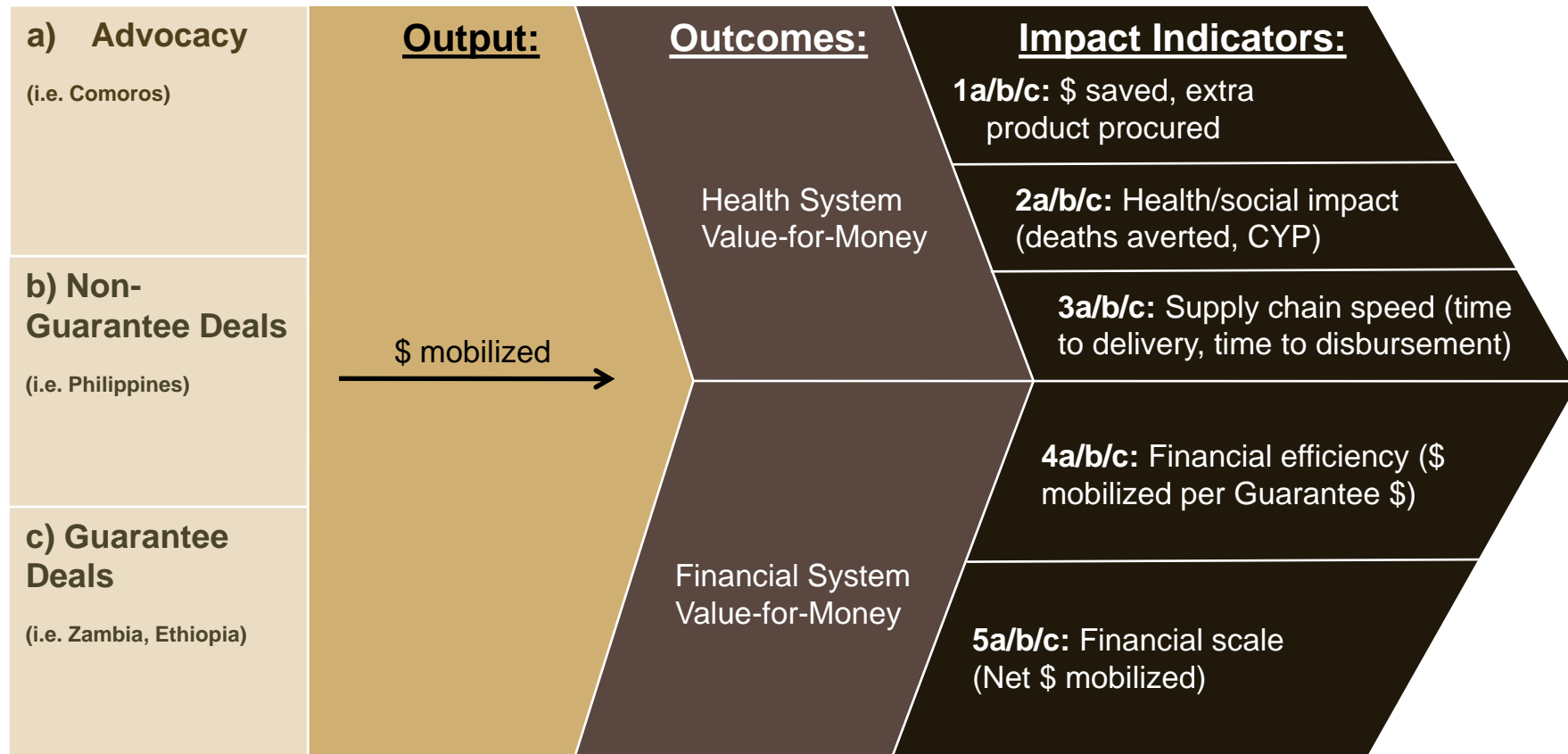
1. African Development Fund (AFD)
2. Global Fund for AIDS, TB, Malaria (Global Fund)
3. Inter-American Development Bank (IDB)
4. UNITAID
5. United Nations Populations Fund (UNFPA)
6. United Nations Children's Fund (UNICEF)
7. United Nations Development Programme (UNDP)
8. World Bank (WB)

Foundation/NGO

1. Bill and Melinda Gates Foundation (BMGF)
2. Buffet Foundation
3. Calvert Foundation
4. Hewlett Foundation
5. International Planned Parenthood Federation (IPPF)
6. Marie Stopes International
7. Packard Foundation
8. Pharmaccess
9. Soros Foundation

Some corporate may make pledges directly (not leveraging their Foundation groups) and such pledges will be considered eligible pledges but require DCA prior approval

PGH's M&E methodology is routed in a theory of change driven on delivering value for money in both Health and Financial systems irrespective of deals...



...and we are already starting to see some quick wins

Leverage private capital to smooth donor funding flows

Reduce business risk for suppliers to



Increase procurements that are great for market bakers



Increase aid effectiveness



Accelerated

Ability to rapidly issue bridge funding while waiting for donor disbursement to avoid **stock-outs** which can have dangerous impacts on both patients and the community



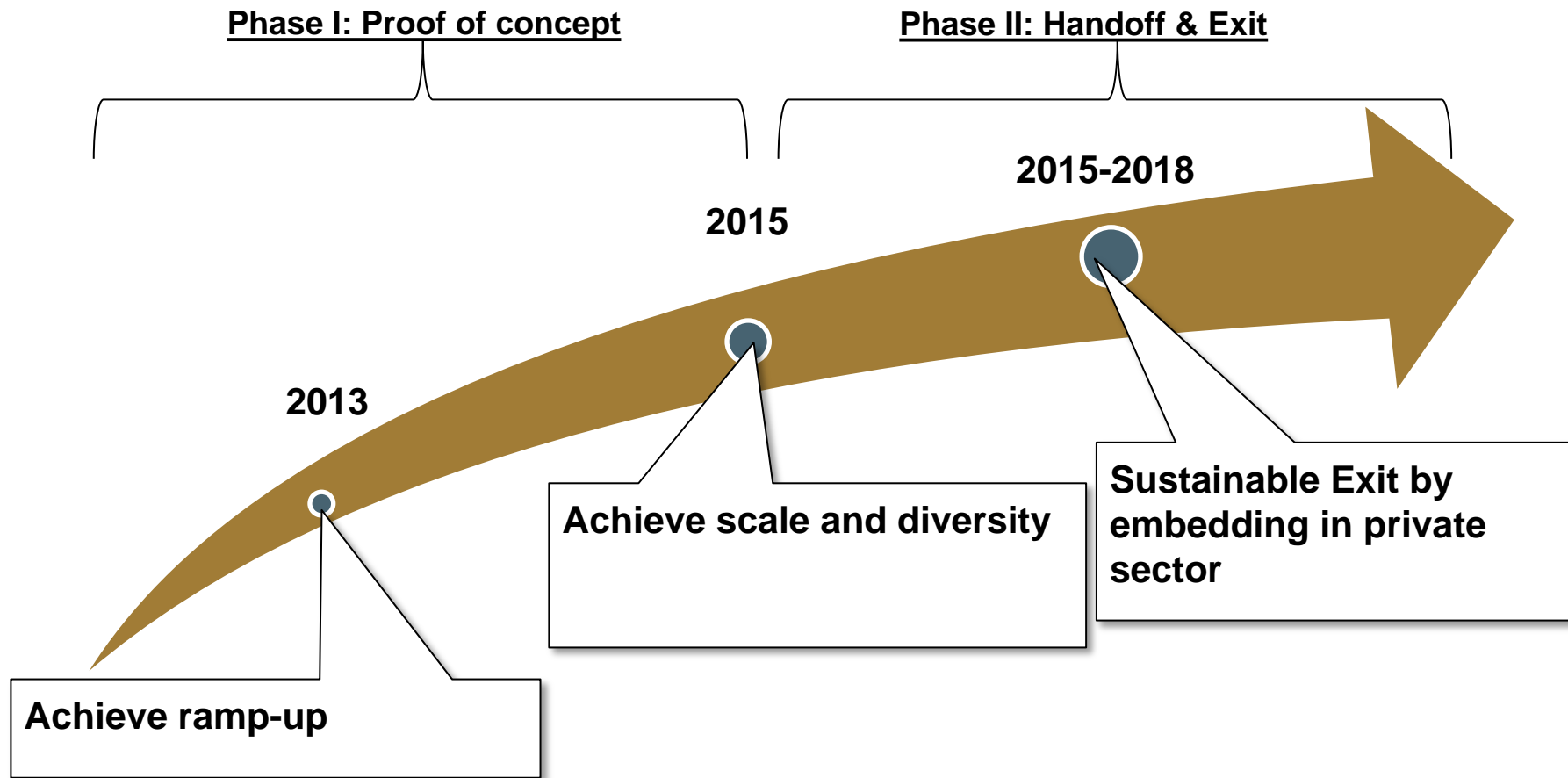
CORPORATE CHANNELS

that cause suppliers to price in premiums (e.g. better payment certainty, pooled procurement, etc)

Efficient

With better control of the procurement timing will be able to **avoid emergency production and delivery** which are costly and come at the expense of additional beneficiaries

The five year trajectory for PGH will involve ramp-up, transaction scale and diversity, and eventual hand-off to suppliers and private banks



...and with the help of our partners we are well on our way

