

→ **The Pledge Guarantee (PG) and Minimum Volume Guarantee (MVG): A Path Forward for Action and Impact**

Presentation to the Reproductive Health Supplies Coalition

May 23, 2008

A group of implementing organizations, donors and foundations have led the PG and MVG efforts

BILL & MELINDA
GATES foundation



**Netherlands Foreign
Ministry**



The design of the Minimum Volume and Pledge Guarantee (MVG/PG) mechanisms builds on previous studies and initiatives funded by the Bill and Melinda Gates Foundation, the U.K. Department for International Development (DFiD) the U.S. Agency for International Development (USAID), under the guidance of the RHSC.

The current assignment of detailing the technical design, organizational structure and level of investment is contracted to Dalberg Global Development Advisors by the World Bank on behalf of its funders, DFID, KfW, and The Netherlands Foreign Ministry.

Active guidance continues to be provided by the members of the RHSC and the final product will be publicly available on the RHSC website.

Objectives

Introduce project context and objectives

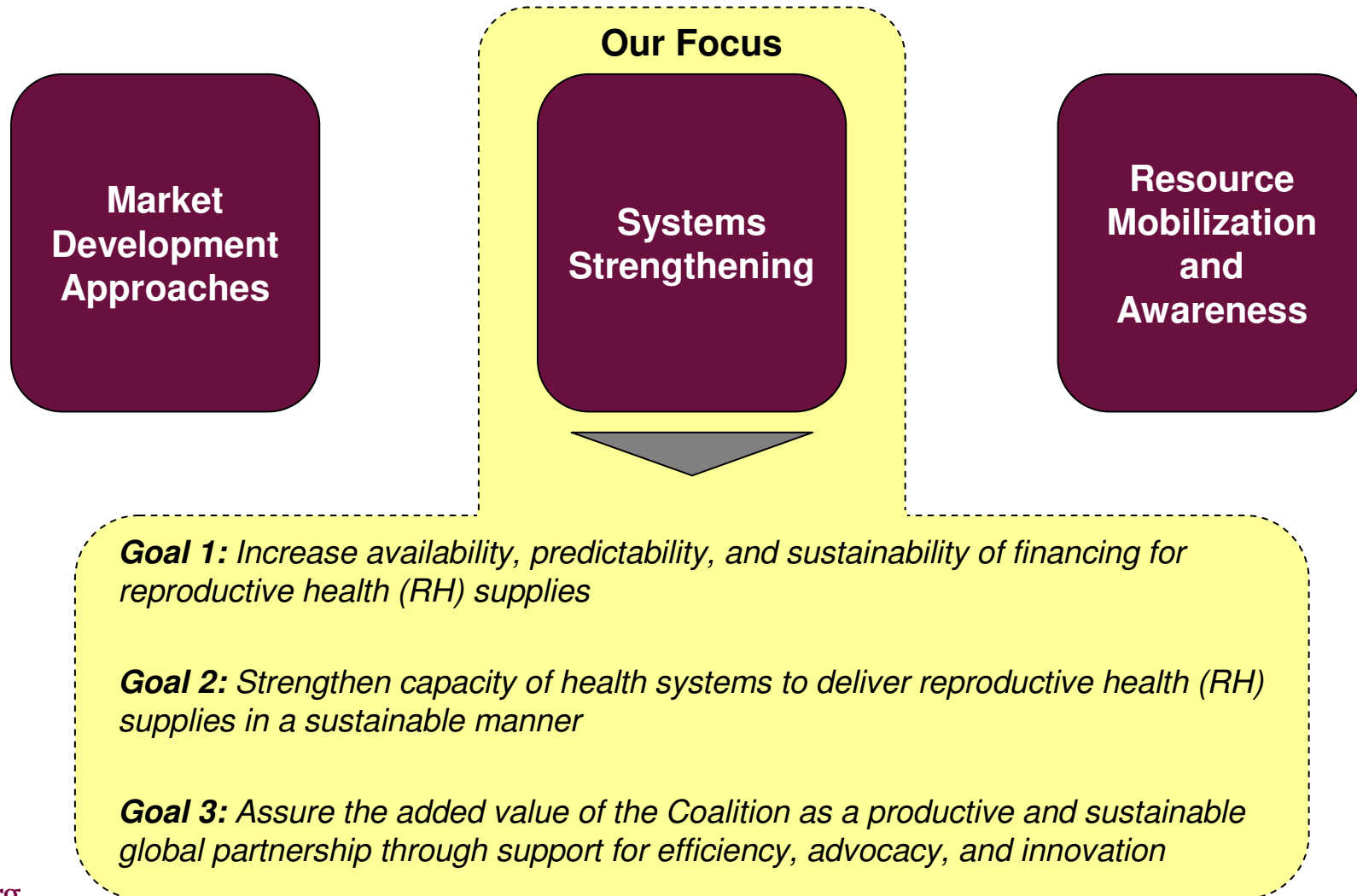
Provide overview of Minimum Volume Guarantee

Provide overview of Pledge Guarantee mechanism

Discuss next steps

Efforts focused on supporting goals of the Systems Strengthening Working Group

Reproductive Health Supplies Coalition Working Groups



MVG and PG focus on procurement inefficiencies -- one of many challenges that contribute to poor RH outcomes

THE PROBLEM



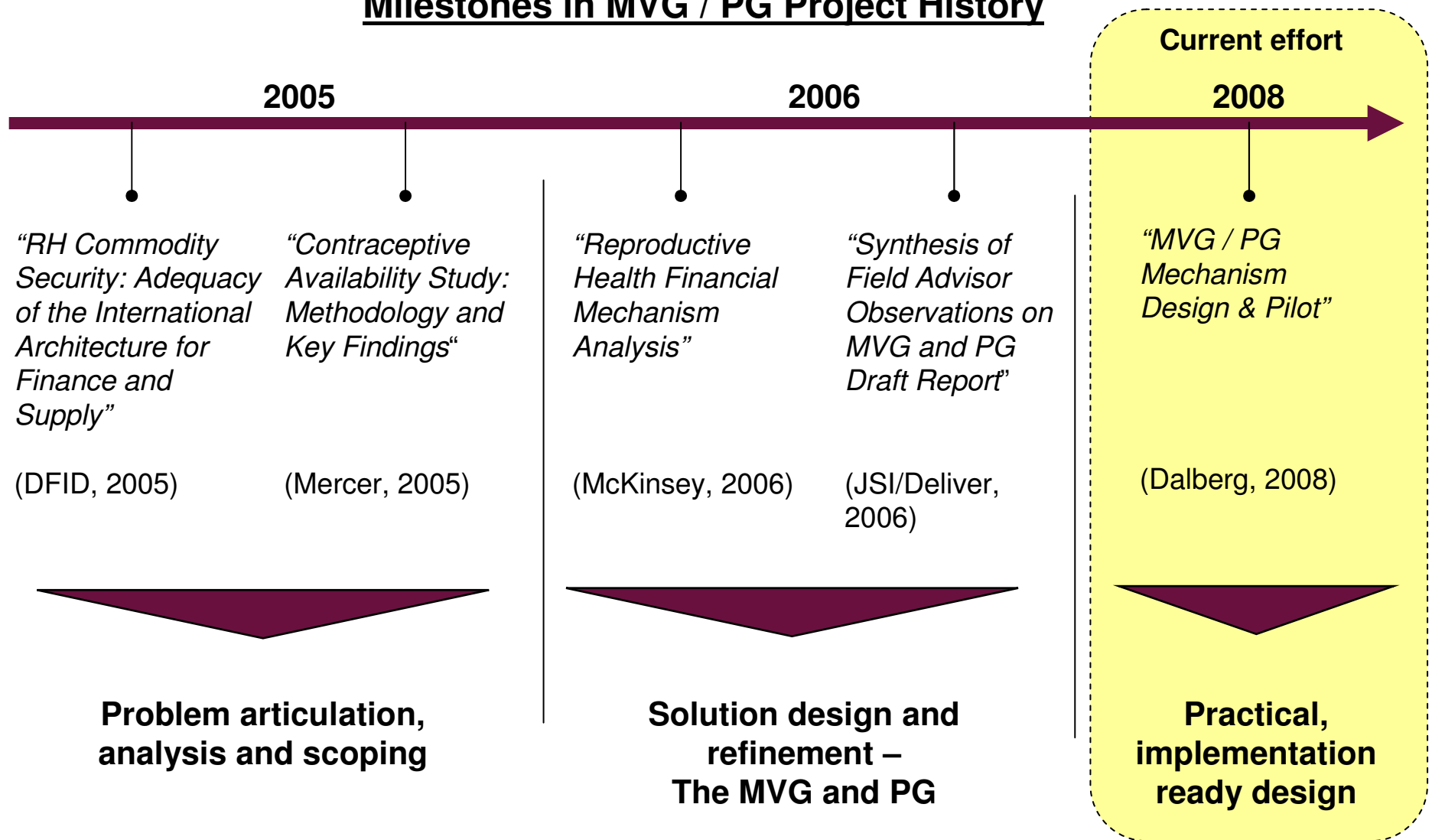
- Funding variability
- Misaligned funding and procurement cycles
- Insufficient demand aggregation

- Higher costs due to sub-scale contracts and emergency shipments
- Stock-outs and wastage of products due of longer lead times

- Unintended pregnancies and other negative consequences, including maternal mortality

Previous studies framed the problem and proposed an MVG and PG

Milestones in MVG / PG Project History



MVG and PG objectives and design support SSWG objectives

Minimum Volume Guarantee (MVG)

Objectives:

- Increase access to favorable pricing and delivery terms
- Improve product quality consistency
- Minimize supply chain complexity



Description

A **procurement mechanism** which provides a **quantity guarantee to manufacturers** in exchange for improved pricing and delivery terms

Pledge Guarantee (PG)

Objectives:

- Improve access to RH supplies by smoothing financing volatility
- Increase ability for long term planning and supply chain management



Description

A **financing mechanism** which will allow recipients of donor funds to **access credit for commodity purchases**

PG and MVG design governed by a set of guiding principles

The design and implementation plan...





...SHOULD...

- Respond to *user needs*
- Support *country ownership* and *health systems*
- Support *quality products*
- Contribute to / complement *existing global health mechanisms*
- Support *market development*
- Create *incentives for suppliers* to participate in developing countries' RH market

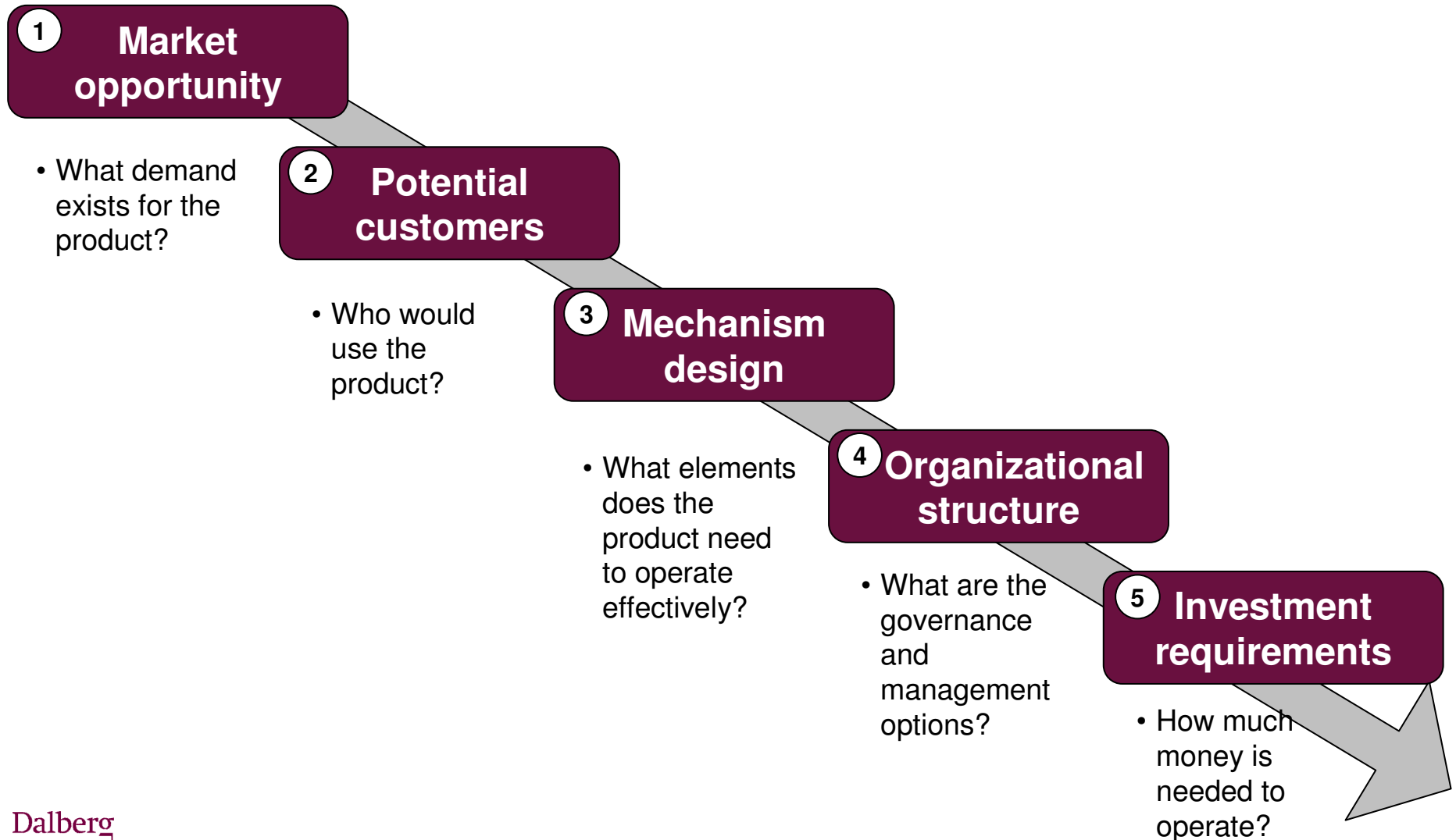
...and should NOT...

- *Duplicate* existing efforts / initiatives
- Create a *burden* to recipient countries
- Impede entry of *new products*
- Create a *new organization*
- Create another health *vertical*

This study focused on moving from concept to action through a practical approach

Focus area	Original design (previous studies)		New approach
Mechanism	<ul style="list-style-type: none"> Hybrid (MVG/PG) housed in one organization 		Two distinct offerings and implementing organizations
Financial structure	<ul style="list-style-type: none"> MVG: capital reserve PG: permanent fund 		No capital reserve or fund required
Financial requirements	<ul style="list-style-type: none"> MVG: Over \$9M in startup costs PG: Over \$27M in startup costs 		Significantly reduced funding requirements
Organization	<ul style="list-style-type: none"> New organization 		No new organization, but new relationships / arrangements required

Design and organizational requirements of MVG and PG driven by analysis of market and customers



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MVG and PG mechanisms fulfill SSWG objectives

MVG and PG mechanism objectives and description

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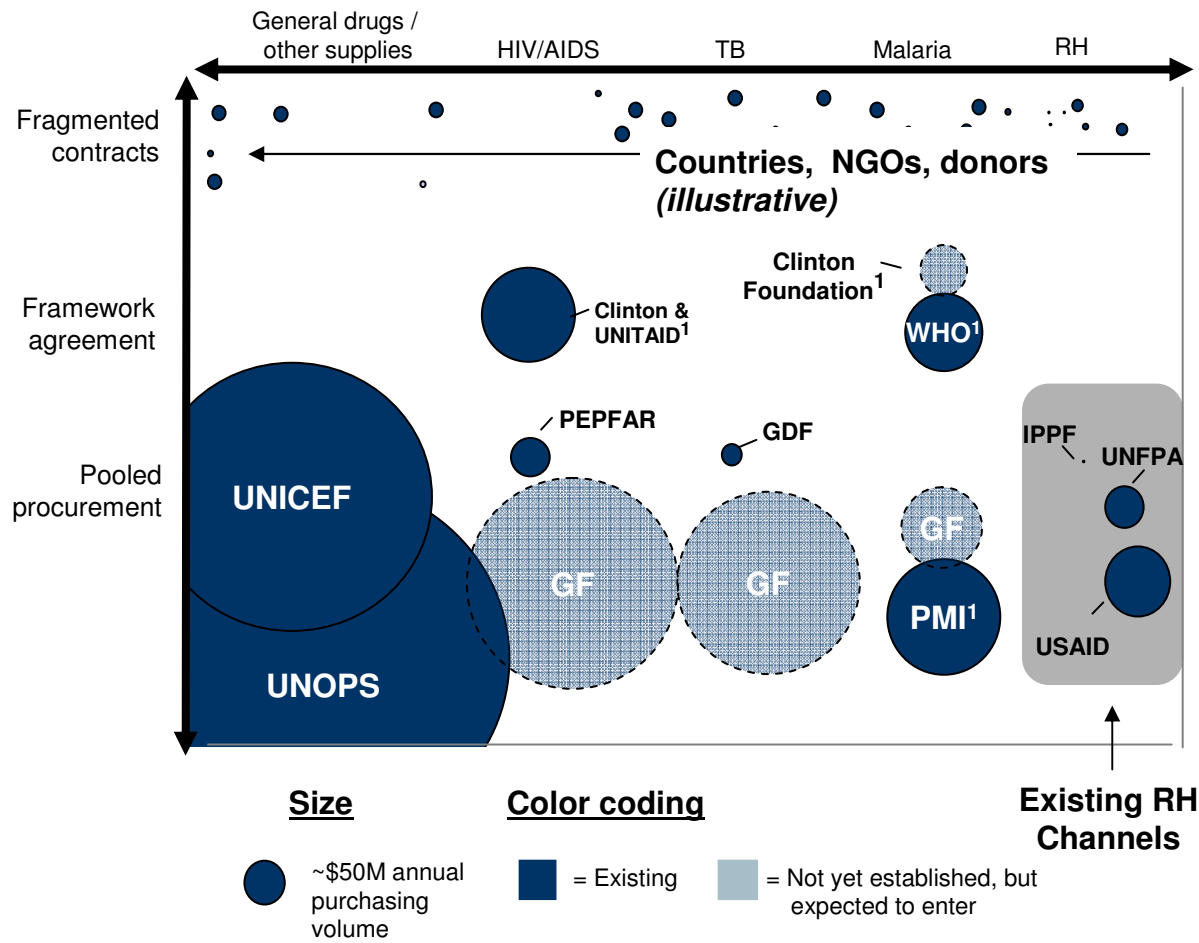
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Need for RH MVG arises from gap in global health landscape

ILLUSTRATIVE

Global Health Procurement Participation, 2008

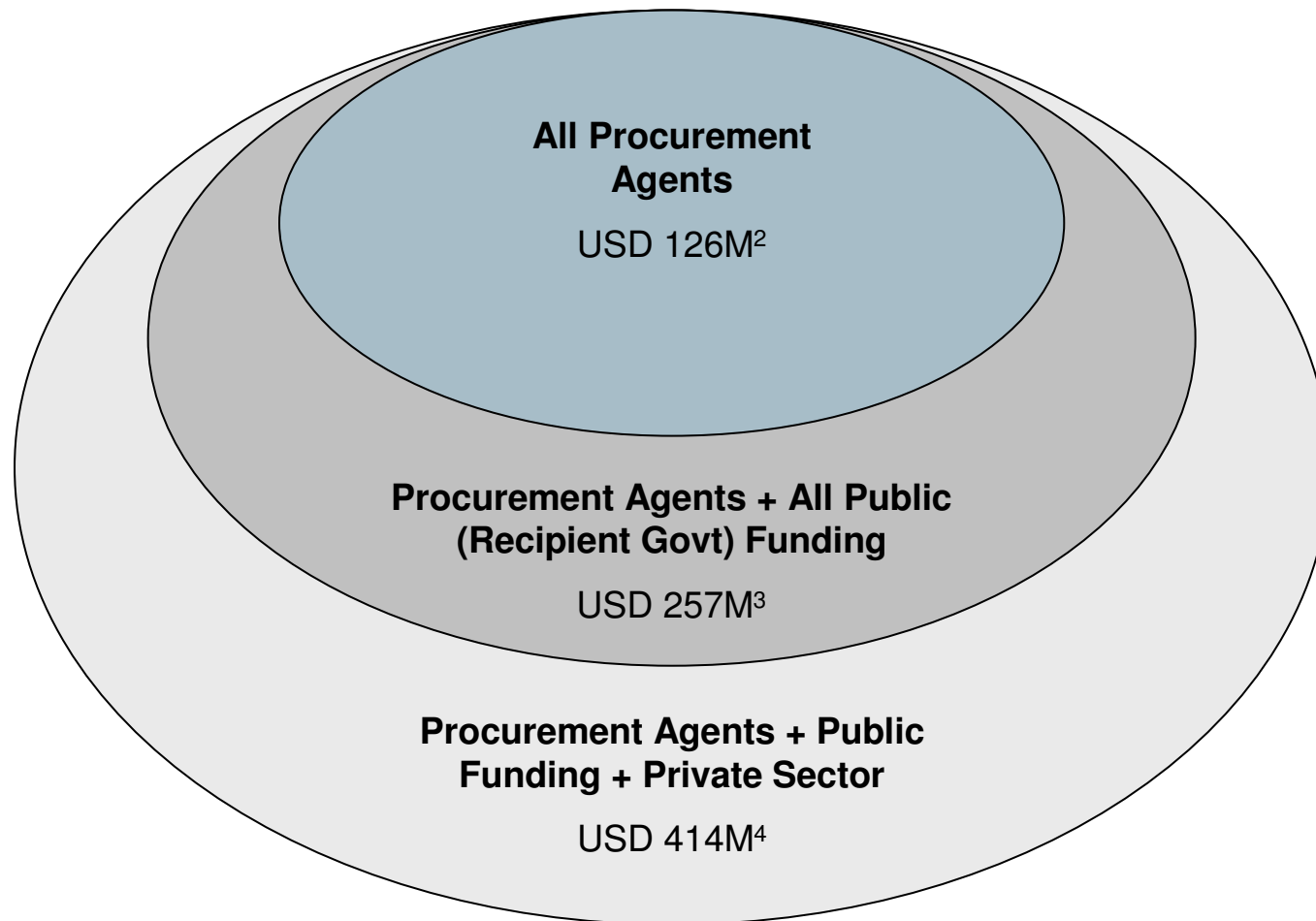


- Many players in global health expanding procurement operations and tools
- No organization offering framework agreements for RH
- Opportunity for RH community to act now and lead

(1) Volumes illustrative only
 Sources: Clinton Foundation: "CHAI RFP for OI Drugs" www.clintonfoundation.org and "UNITAID Factsheet" www.unitaid.eu; GDF through (GTZ): "GDF Facts and Figures"; http://www.stoptb.org/gdf/whatis/facts_and_figures.asp; Global Fund: "Distribution of Funding after 6 Rounds," www.theglobalfund.org/en/funds_raised/distribution/.
 IPPF, UNFPA., USAID: "Global Summary of Shipments Report" <http://rhi.rhsupplies.org/rhi/shipmentssummary.do>.; PEPFAR: "Testimony before the House Committee on Foreign Affairs, 24 April 2007," <http://www.pepfar.gov/press/83436.htm>.; PMI: USAID Contract with JSI, <http://www.fightingmalaria.gov/funding/deliver2-iqc.pdf>.; UNICEF: "Procuring supplies for children," www.unicef.org/supply/index_procurement_services.html.; UNOPS: "What UNOPS Procures," www.unops.org/UNOPS/Procurement/WhatUNOPSProcures/.; WHO: Estimate.

An MVG open to all procurement agents and country level public and private buyers would have up to a \$414m market

Annual Addressable Market by User Segments, 2007



Note: excludes USAID and IPPF spend

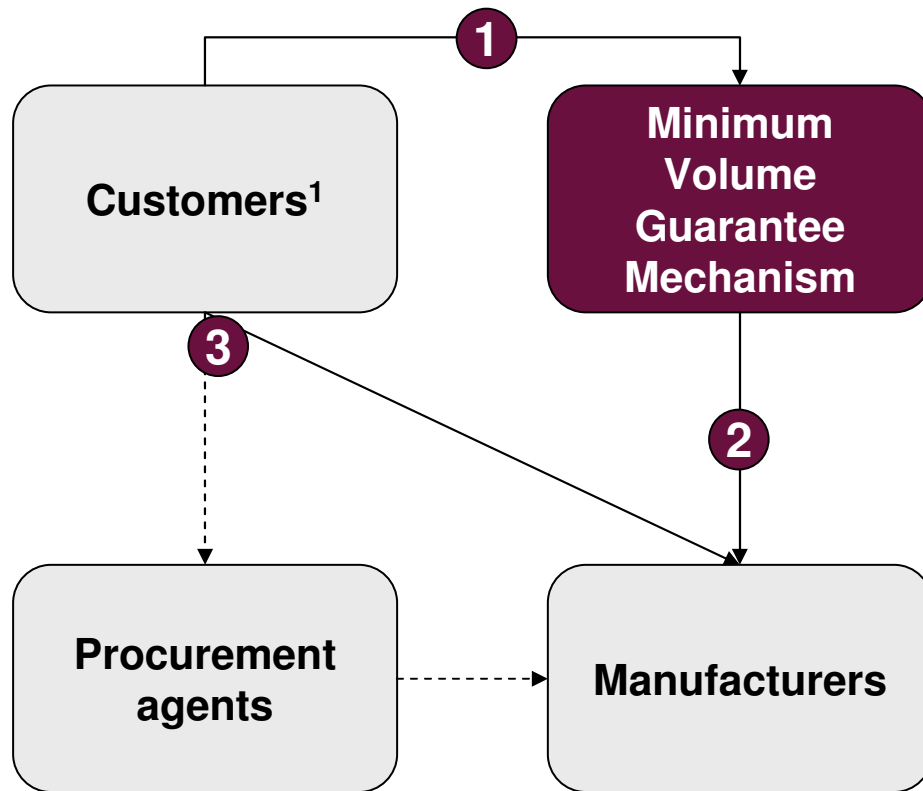
(1) Source: RHI 2007 data (2) Source: Donor funding from McKinsey's 2006 analytical model (3) Source: Government funding from McKinsey's 2006 analytical model (4) Source: Private sector market from McKinsey's 2006 analytical model

Notes: Only likely MVG products are included- female condoms, orals, IUD, injectibles and sermidicides; Does not include Sterilization or China; Most donor funded products are purchased through PSAs

MVG locks in delivery terms and prices, which can be shared with a broad base of customers

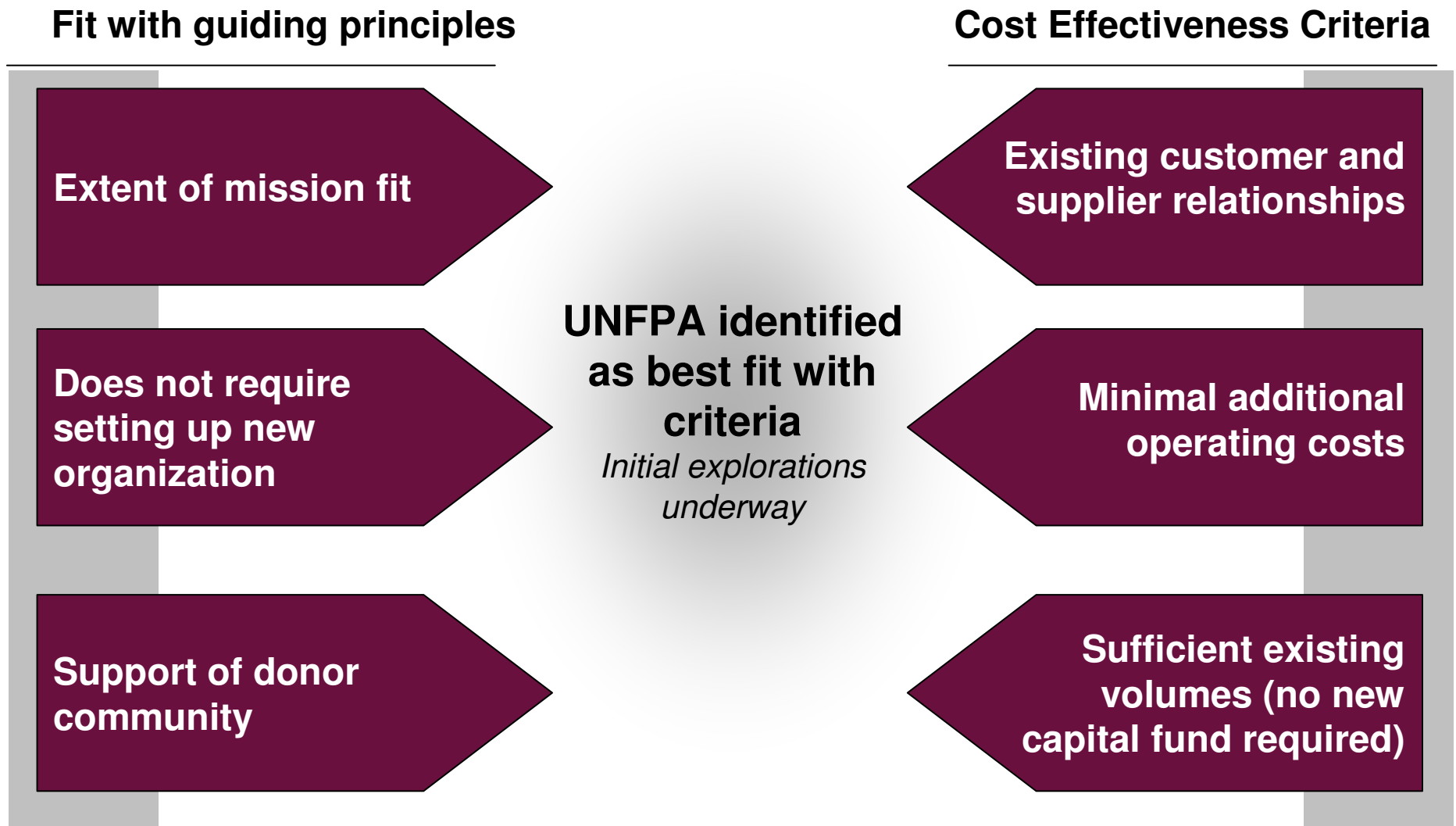
High level transaction flow

Description



- 1** Generate demand forecasts and pass to MVG mechanism
- 2** Establish master contracts based on subset of demand
 - Framework agreements negotiated by centralized mechanism
 - Low initial guarantees that increase based on appetite for risk
- 3** Procure through existing channels using terms of MVG master contracts

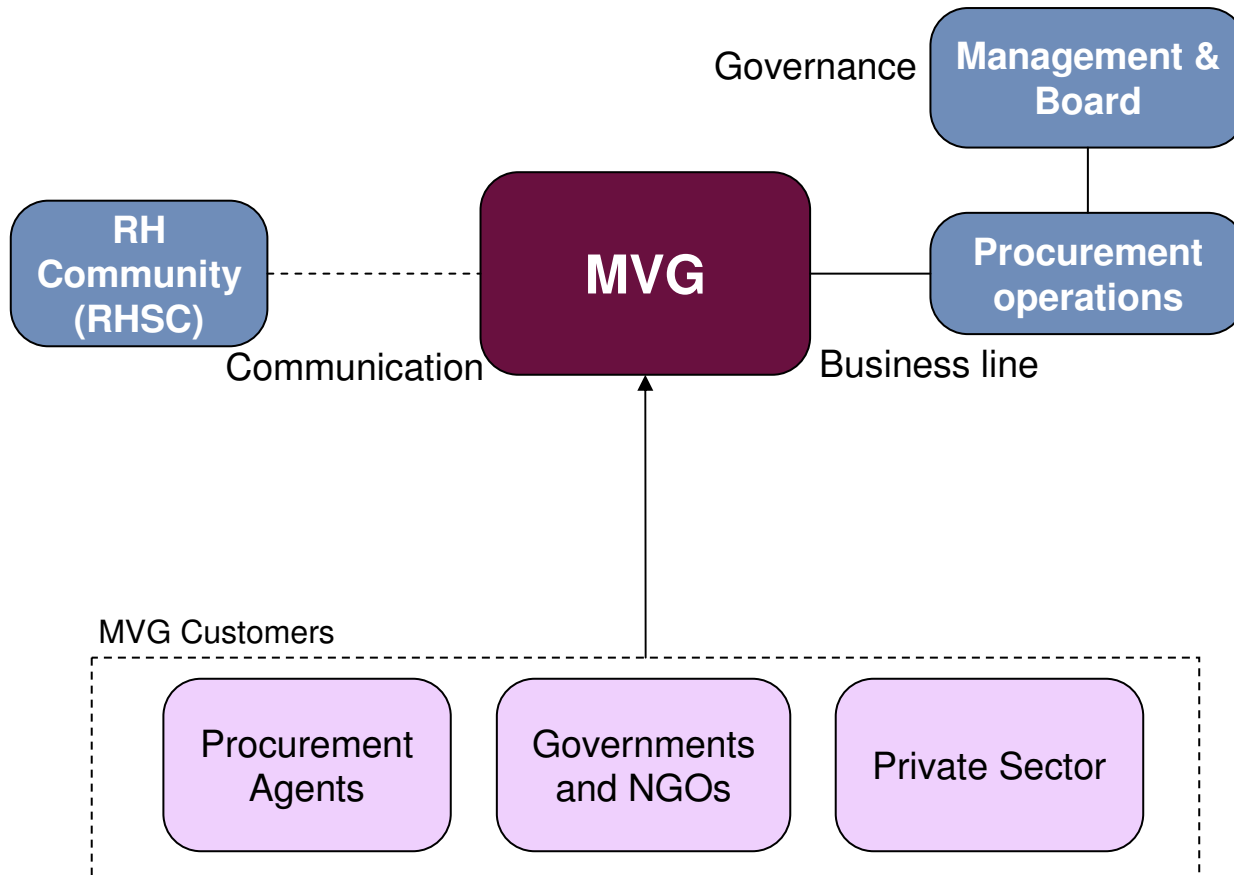
Potential managing organization identified based on fit with guiding principles and implementation costs



MVG could be operated as a new business line within managing organization

PRELIMINARY

Illustrative organization and relationships to support MVG



- **Does not require initial capital reserve**
- Initial guarantee based on existing volume
- Small fee for users not committing volume
- Potentially web-enabled

MVG will enhance procurement effectiveness, and achieve efficiency benefits which outweigh its modest costs

PRELIMINARY

Costs

3 Year Estimates

Estimated usage:	\$305 M
Startup and org costs:	\$3 - 6 M
User fee revenue ¹ :	(\$0 - 1 M)

Benefits

3 Year Estimates

Estimated usage:	\$200 M
Subscale orders:	\$4 - 7 M
Suboptimal orders:	\$0 - 6 M

Net costs: \$3 - 5 M

Benefits: \$4 - 13 M

Previous models proposed \$6-\$12M in operational costs and \$3-\$5 in initial capital outlay for similar timeframe

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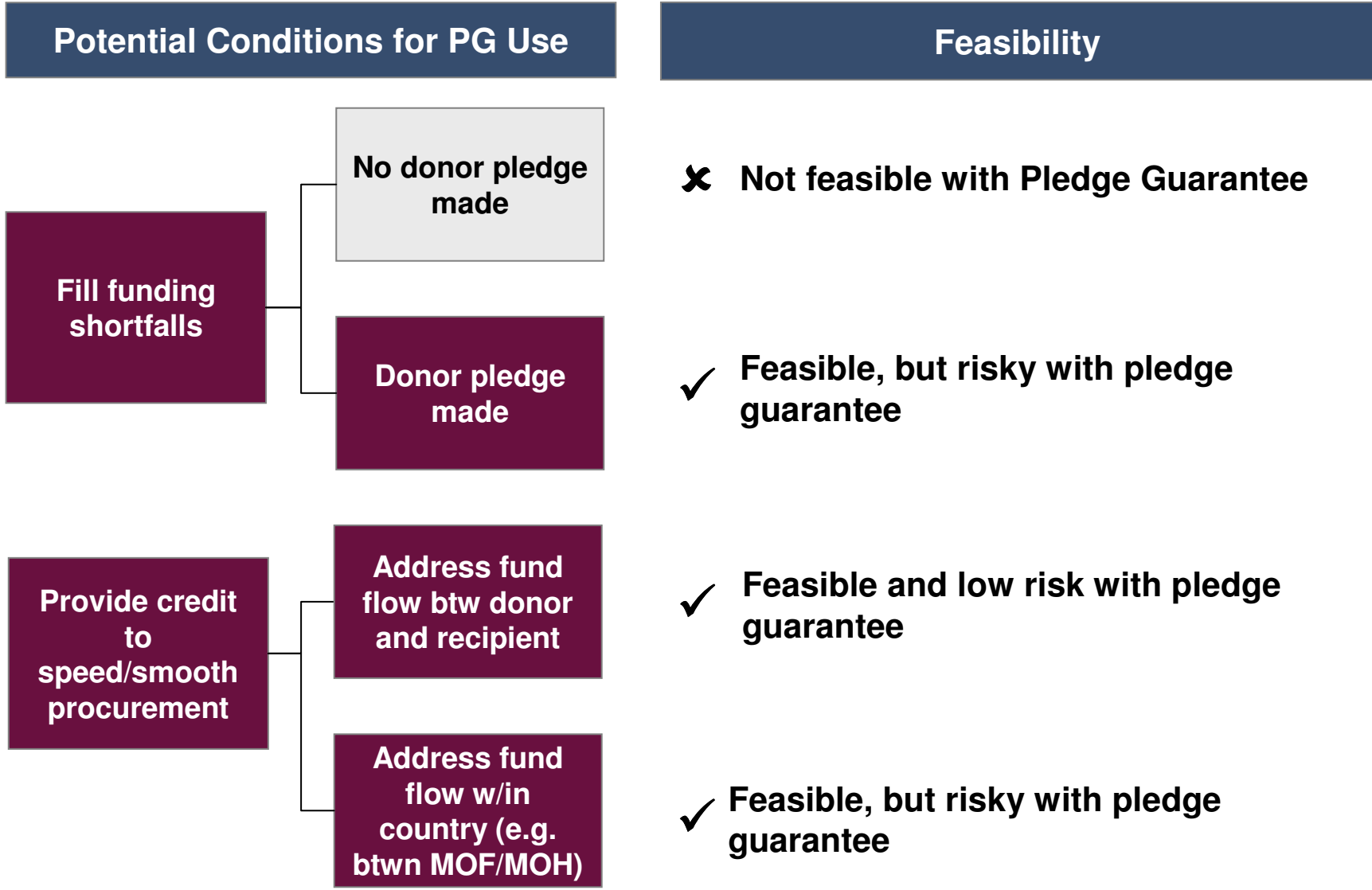
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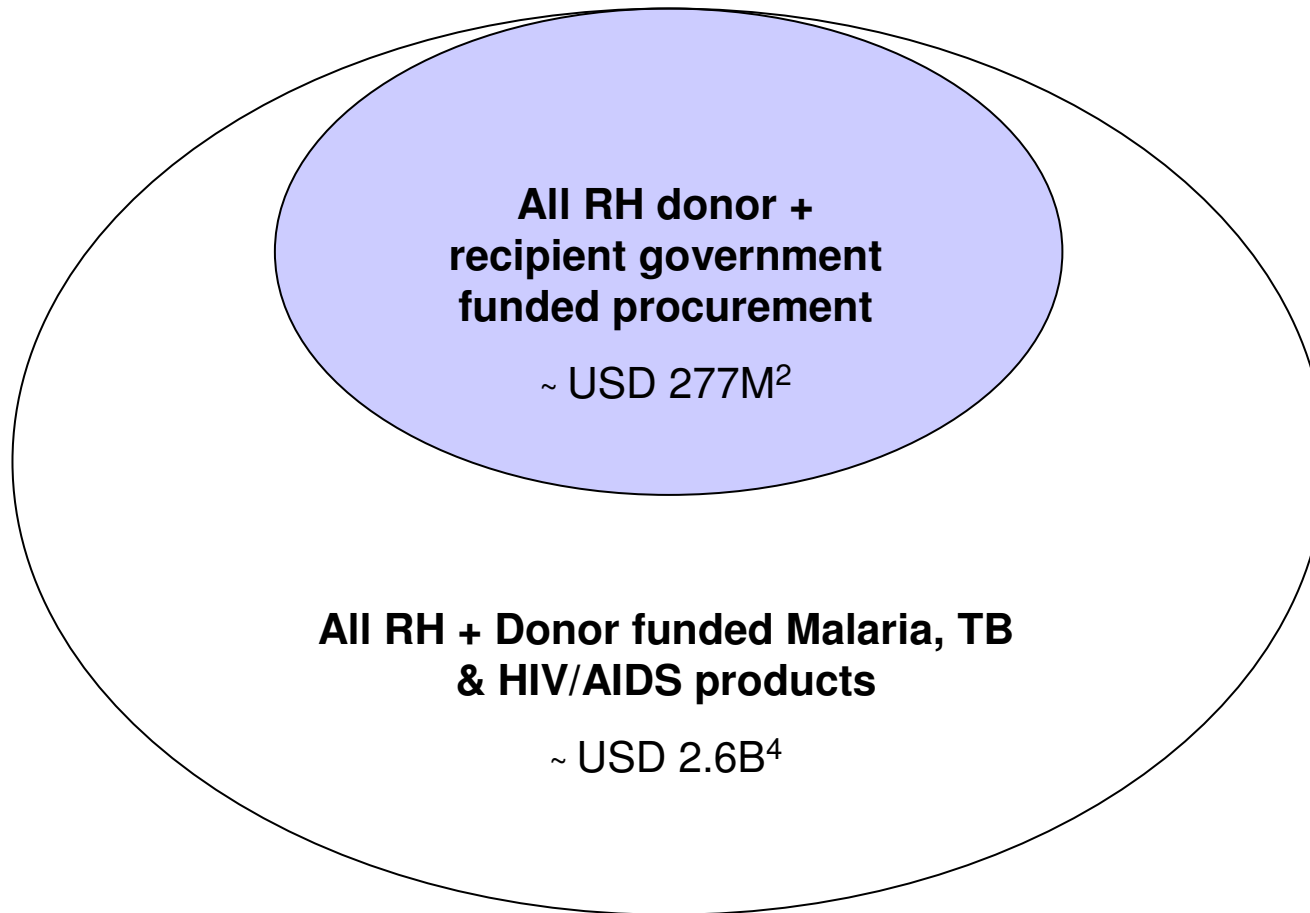
Pledge Guarantee can address a range of circumstances when funds are not available in a timely manner



Potential PG customers extend beyond RH products, with a market of up to \$2.6B a year in health commodity purchases

Annual Addressable Market by Segments, 2007

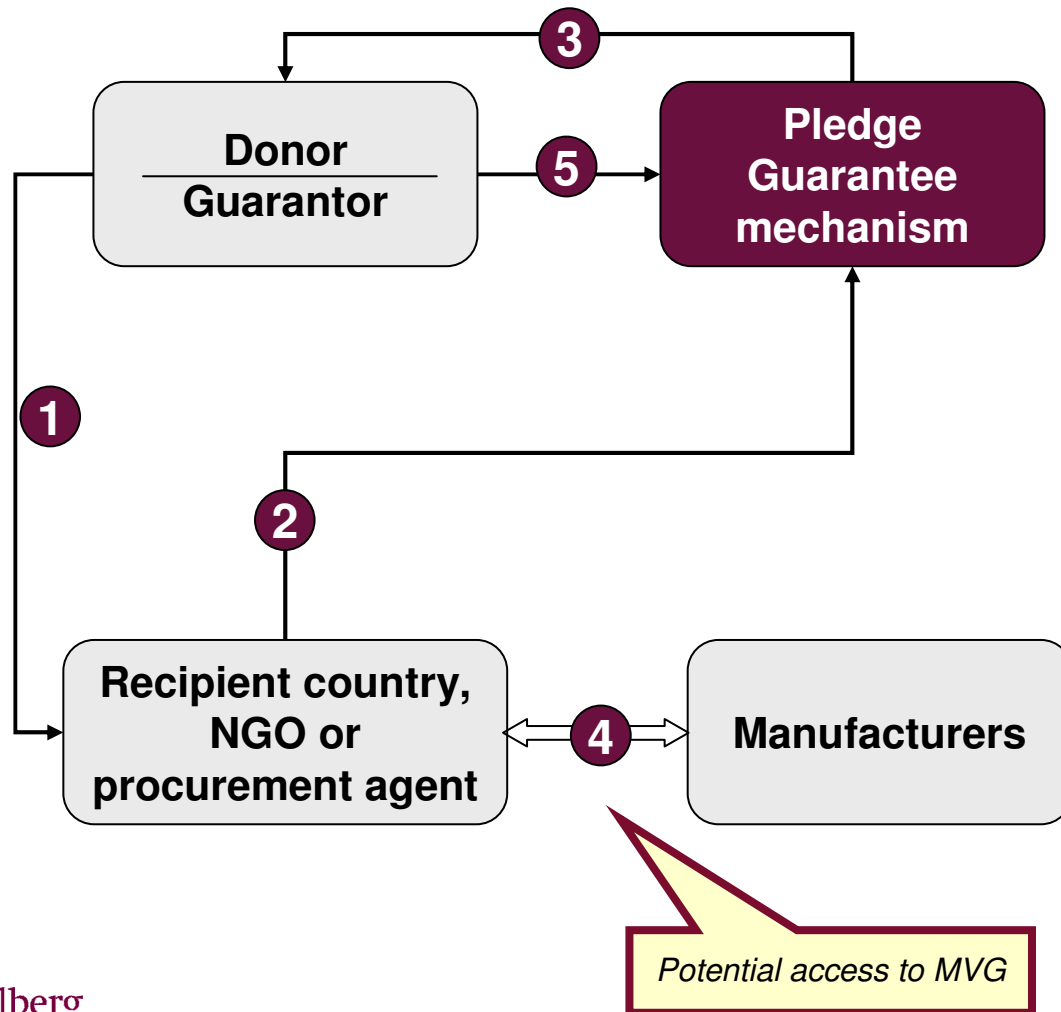
PRELIMINARY



Note: (1) Source: RHI 2007 data and UNFPA 2007 3rd party procurement data; Note: Does not include USAID or IPPF funded procurement as both organizations have indicated they would not be a part of PG (2) Source: Government funding from McKinsey's 2006 analytical model (3) Source: David Smith Interview April 2007 (4) Source: www.globalfund.org Note: The Global Fund's procurement of product is used as a proxy Source: RH Interactive

Pledge Guarantee allows customers to access credit for commodity purchases

High level transaction flow

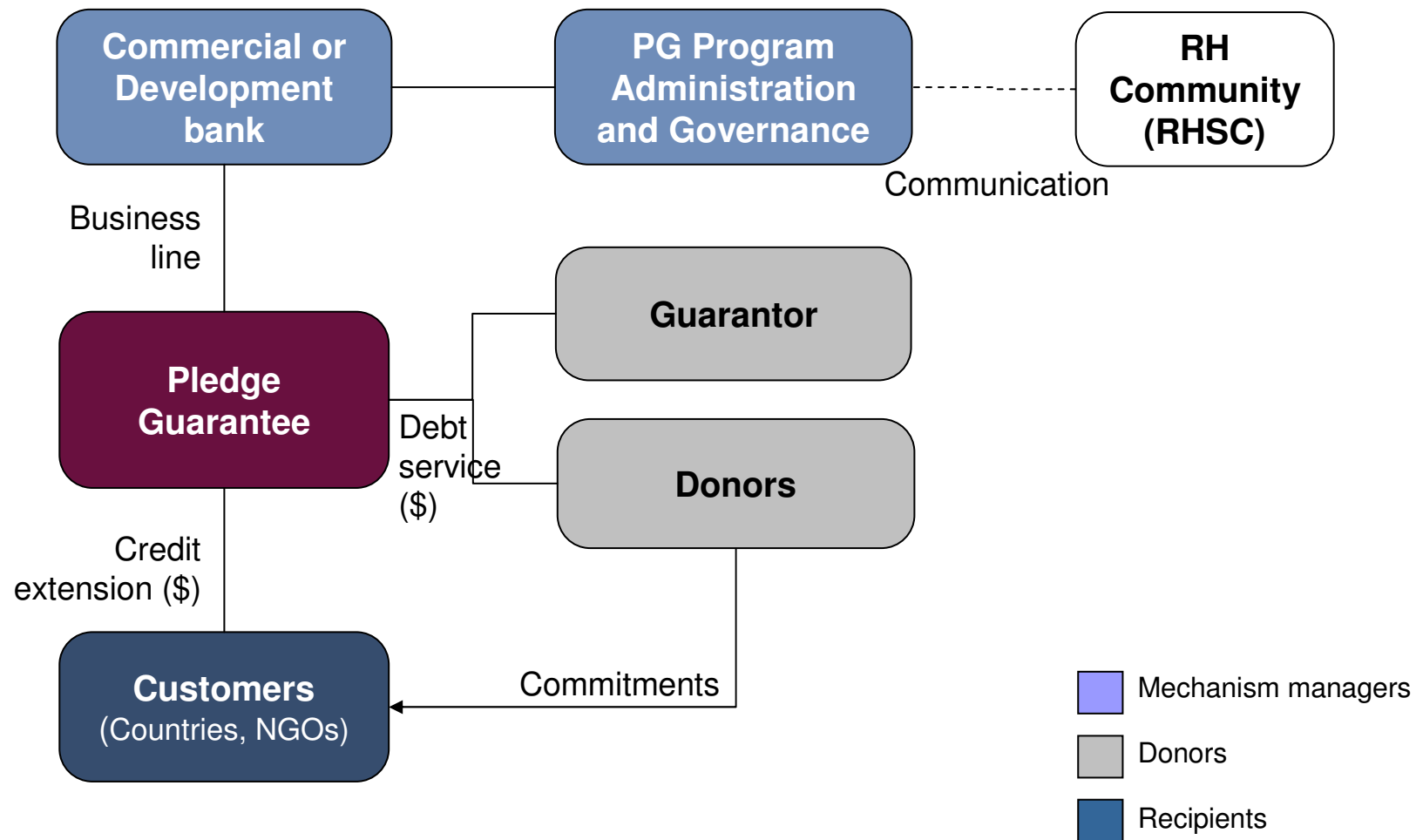


Description

- 1 Donor makes pledge
- 2 Country/organization request mechanism to cover product cost
- 3
 - Mechanism verifies pledge with donor; establishes repayment agreement
 - Notifies country/ organization of approval and issues PG Credit certification
- 4 Country procures through existing process (i.e., may involve procurement agent), receives shipment and pays manufacturer
- 5 Mechanism payment (by donor or guarantor)



PG could be operated by a bank, with program management and governance conducted by another organization PRELIMINARY

Illustrative organization and relationships to support PG



PG has low fixed costs; incremental costs occur only with usage

PRELIMINARY

Costs 3 Year Estimates		Benefits 3 Year Estimates	
		Fixed costs	
Estimated usage:	\$128 M	Estimated usage:	\$128 M
Fixed: Startup and org:	\$3 – 5 M	Fewer emer. shipments:	\$1 – 2 M
Operating: Debt service:	\$1 – 2 M	Reduced cost of capital:	\$4 – 8 M
Operating: User fee:	\$0 – 1 M		
			
Net costs:	\$4 – 8 M	Benefits:	\$4 – 10 M

Preliminary cost estimates only; actual costs to be determined through exploration with commercial and development banks

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Successful implementation will require focus on customer needs and preparing managing organizations to launch

- Validate country level customer needs and support, and refine mechanisms' design as necessary
- Work with implementing organizations to build organizational capacity and create new business lines
- Implementation planning, including supplier and financing provider selection strategy
- Prepare for launch of MVG and PG

What unique opportunities does the MVG and PG present for the RH community?

- Demonstrate leadership in innovative financing and procurement
- Create new linkages to major players in global health (e.g. Global Fund, UNITAID)
- Increase visibility of RH in broader global health community

What does it require of all of you to succeed?

- **Keep the customer first** -- Sustain focus on the PG and MVG “customers” who make RH purchasing and financing decisions at a country level
- **Be entrepreneurs** -- Take risk and test out new approaches
- **Collaborate** -- Work with each other in new ways
- **Advocate** -- Keep the pressure on all partners to act – donors, implementing organizations, other partners