

Funding for global health has more than doubled over the last decade. More than ever, health systems need ways to manage these aid flows.

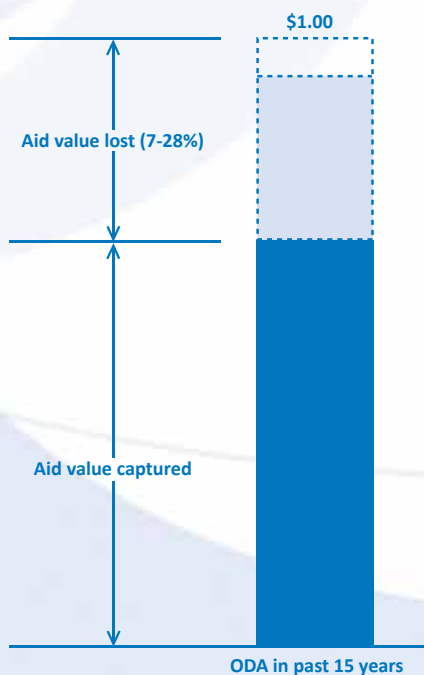
The Situation

The last decade has seen dramatic increases in donor funding for global health: from approximately \$10 billion to over \$22 billion per year.¹ This growth holds enormous potential for aid beneficiaries, but it also increases the pressure to better manage the fragmented and often intermittent flows of funding.

Bottlenecks in grant disbursement are common, with funding varying in both timing and magnitude from year to year. Unfortunately, grant recipients lack access to tools that could help them ensure they have access to the money they need when they need it.

The Challenge

Figure 1: Aid value lost to funding inefficiencies



This unpredictability in funding complicates supply chain management. While grant recipients wait for donor funds to be disbursed, they lack the means to restock depleted inventory of essential commodities. When funding does materialize, recipients may be tempted to overstock, leading to waste and leakage.

Aid volatility also impacts the prices that grant recipients must pay for health commodities. Uncertainty in payment timing compels suppliers to assess risk premiums and procurement officers can lose negotiating power when the need for supplies is critical.

The financial consequences of these inefficiencies are very real. Analysis conducted by the Brookings Institution suggests that for every \$1.00 of aid disbursed, between \$0.07 and \$0.28 of value is lost (see Figure 1).²

1. The Lancet. June 2009. "Financing of global health: tracking development assistance for health from 1990 to 2007."
2. Brookings Institution, August 2008. "Smooth and Predictable Aid for Health – A Role for Innovative Financing?"

The Solution



The Pledge Guarantee for Health (PGH) is a financial tool that enables grant recipients to obtain short-term, low-cost commercial credit on the basis of pending aid commitments.

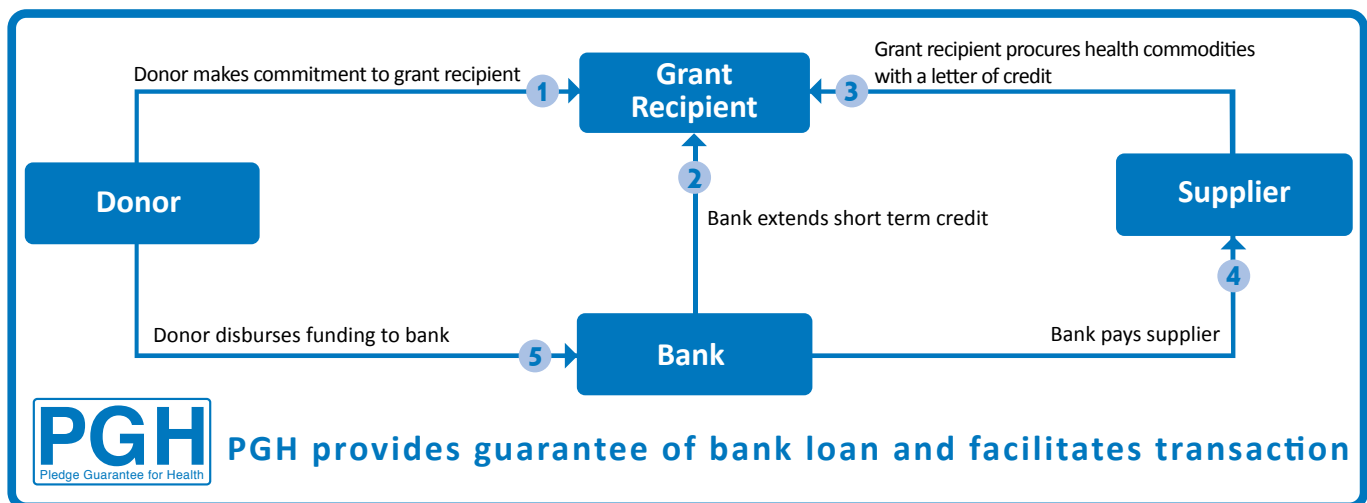
With PGH, donor resources go further and achieve better outcomes, allowing you to:

- Help your beneficiaries avoid stock-outs that can arise whenever they must wait for funding to replenish supplies of critical medicines
- Increase your impact by helping to reduce commodity prices, which typically include premiums for uncertain payment, expedited production and rush shipping
- Catalyze bank participation in the global aid market

How does PGH work?

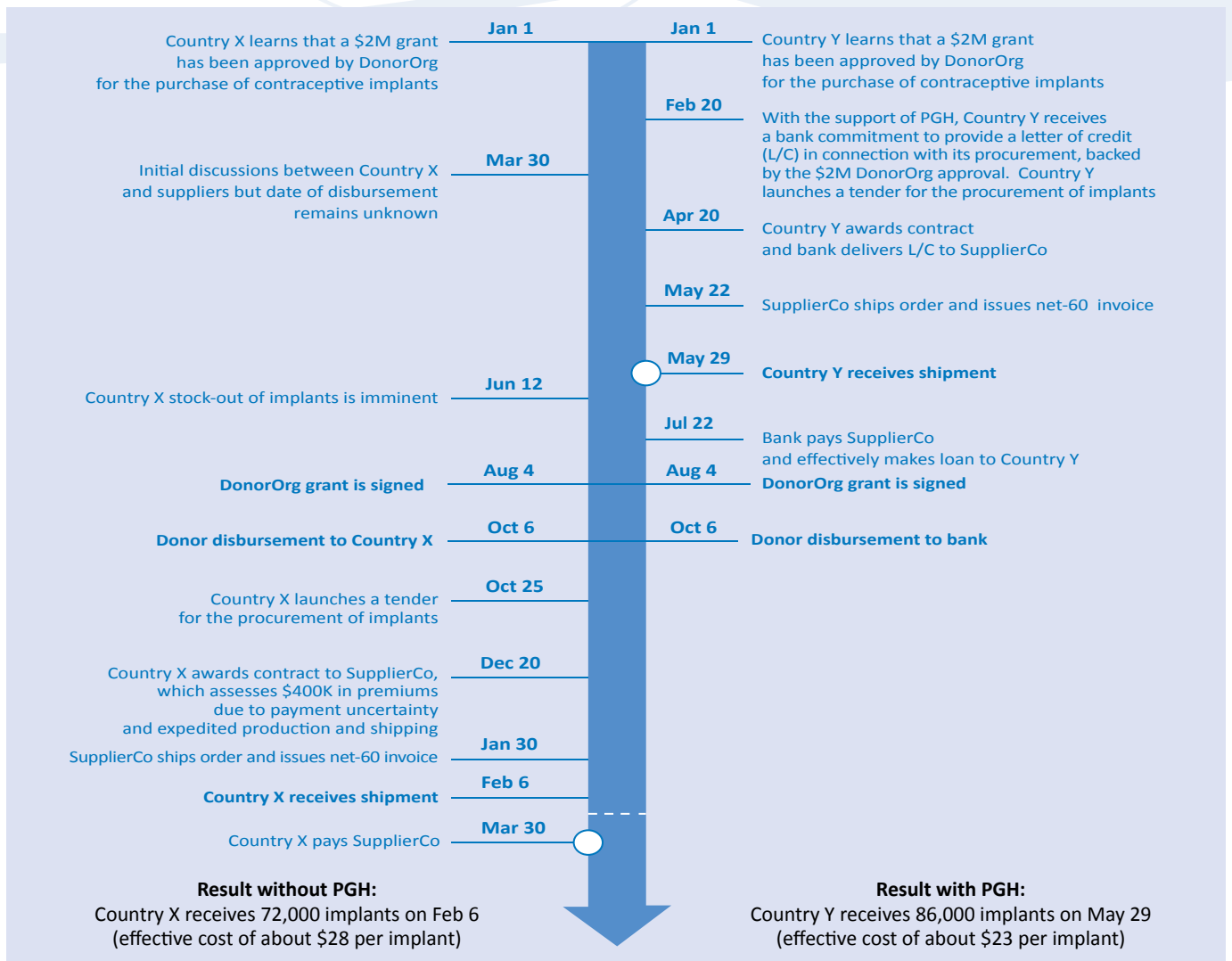
With the support of PGH, a participating bank issues a letter of credit to a supplier on behalf of a grant recipient. The supplier receives payment from the bank when its receivable is due and the bank recoups its capital when the donor disburses its funding. PGH plays an instrumental role in both facilitating the transaction and providing a guarantee of the bank loan.

Figure 2: Transaction Overview



PGH makes aid faster...

Illustrative example: The Ministries of Health of Country X and Country Y recently submitted grant applications to Donor.org. Country X follows the traditional path from grant approval to procurement, while Country Y makes use of the Pledge Guarantee for Health (PGH). With the support of PGH, Country Y is able to receive its shipment 8 months before Country X and purchase 14,000 additional contraceptive implants.

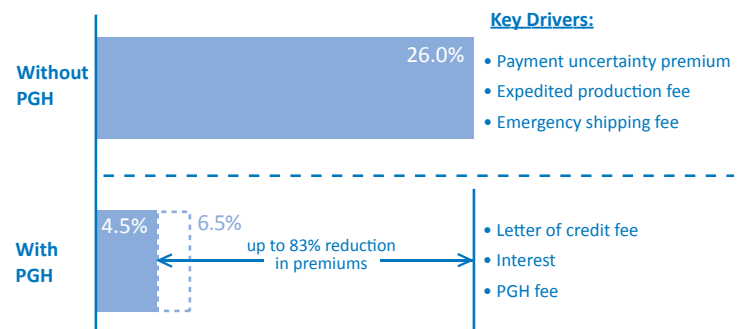


... and makes aid go further

Without PGH, aid recipients face premiums on health commodity purchases of up to 26% relative to competitive prices. Premiums arise due to uncertainty in payment timing (manufacturers add surcharges to account or risk) as well as due to expedited production and emergency shipping charges when the need for commodities is urgent.

With PGH, health commodity premiums are reduced by up to 83%. Costs associated with issuing a letter of credit, making debt payments and covering PGH operational costs are considerably offset by the ability for aid recipients to secure market prices (see Figure 4).

Figure 4: Premium over competitive commodity purchase price



PGH lets you do more

For every \$1.00 of aid disbursed, between \$0.07 and \$0.28 of value is lost due to premiums for expedited production, emergency shipping and uncertainty of payment timing.² The net savings realized through the use of PGH on a \$3M grant could be as much as \$600,000. These savings could be used to procure an additional:³

- 140,000 malaria bed nets
- 3.8 million antiretroviral (ARV) doses
- 20 million condoms
- 11 million anti-TB doses

Also, by facilitating procurement when commodities are needed - and not when funding is disbursed - PGH helps reduce stock-outs and wastage, improves health outcomes and increases end-user faith in local health systems.

PGH benefits stakeholders across the value chain

Grant Recipients

- Reduces premiums due to expedited production, emergency shipment, and payment risk
- Helps avoid stock-outs and resulting impacts on distribution, planning and inventory
- Prevents overstocking and associated waste/storage costs
- Delivers essential health commodities when they are needed, bolstering confidence in local health systems
- Supports country ownership of procurement and supply chain management in line with Paris Declaration

Donors

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

Banks

- Provides new business opportunities with the philanthropic and international development sectors
- Lowers credit risk through partial guarantee on the donor commitment

Suppliers

- Improves payment certainty and/or terms
- Enables advance planning for manufacturing, resulting in substantial cost savings

2. Brookings Institution, August 2008. "Smooth and Predictable Aid for Health – A Role for Innovative Financing?"

3. Based on average commodity prices as reported in WHO Global Price Reporting Mechanism for sub-Saharan Africa and South Asia, 2007-2009, ARV estimate based on ZDV + 3TC; Anti-TB based on Isoniazid + Rifampicin + Ethambutol. Assumes L/C fee of 2.42% and 2 months interest at 6.00% per annum.

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