

- Volume Guarantee Example

The demand for efficient contraceptives is high in developing countries. The price to the consumer is however also relatively high and suppliers have been cautious in their forecasts about future sales volumes. In a joint collaboration between several actors, Sida co-created a guarantee that would ensure sufficient volumes of a contraceptive implant at an affordable price to consumers.

Several donors have been prepared to finance implant contraceptives, since they provide women long term protection against unwanted pregnancies, but market share for these products are only 1-2%, compared to other kinds of contraceptives. If donor efforts had not been coordinated the cost would have been very high, so instead some of the donors decided to jointly change the situation.

As a first step, Sida, Norad, the Gates Foundation and the Children's Investment Fund Foundation (CIFF) decided to create a joint guarantee in order to procure larger orders from the medical suppliers during a six-year period. They estimated the market demand in developing countries to USD 200 – 300 million. There were only two suppliers who could provide the implant and who were approved by the WHO. In the end a consortium of seven donors signed a joint agreement in order to leverage the collective financial and administrative strength of the group in order to provide increased access to products and services for family planning.

Synergies of private and public funding

After this agreement was signed, the Gates Foundation and Norad took the lead and signed a commitment with Bayer to purchase their implant contraceptive to a value of USD 225.3 million. CIFF and Sida agreed late 2012 to provide a guarantee of USD 25 million each for this advance commitment to reduce the exposure of the Gates

Foundation by 57%. Sida is closely collaborating with this foundation, since they act as an implementing partner for Sida. Only a month later, the guarantee agreement was signed with Bayer AG, who started increasing production. Bayer promised to supply 27 million units over the period of the agreement at the agreed price of USD 8.50, down from USD 18.

The same type of agreement was soon after agreed with a second supplier, Merck, which received a promise of 13 million units.

The risk in this project has been split between the four participating organisation as follows:

Guarantee Provider	Share
Sida	11%
Norad	49%
CIFF	11%
Gates Foundation	29%

Since none of the other parties charge a fee for the guarantee, Sida also decided to waive the premium, which has a value of SEK 21 million.

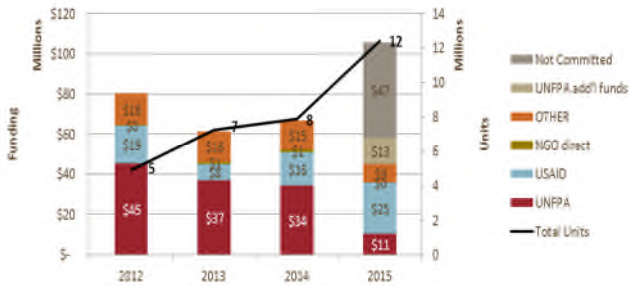


A woman at the Savannakhet Province Hospital in Laos gets a contraceptive implant by a nurse. Photo: UNFPA Lao PDR. 3024 implants have been delivered to Laos during 2014.

Guarantee Example

First outcomes over target

Both suppliers delivered more than the agreed volumes in 2013; Merck's plan was to deliver 2.2 million products but delivered 4.2 million, which meant that already in the first year the decrease of price dramatically increased demand. The numbers are over targets also in 2014 for one of the suppliers.



Volume forecast as of end 2014 of the contraceptives in the project, based on the contracts agreed with major institutional buyers.

How Sida's key principles and conditions apply

Additionality: Sida is collaborating with a consortium of strong actors that jointly provide an additional initiative.

Market Distortion: There is a risk of unfair competition if only two providers are covered by the guarantee, but initially no other had been approved by the WHO. In order not to have a future distorting effect, there was a list of countries agreed in order to limit the number of markets that the guarantee would cover.

Risk-Sharing Partnership: Sida is sharing a relatively small portion of the total risk together with three other partners.

Sustainability: Different scenarios have been used to calculate the financial risk if the sales volumes are lower than what is promised to the suppliers. The maximum potential loss has been assessed as very small in relation to the value of the total volumes.

Eligibility: The project has a clear fit with Sweden's agenda to promote human rights and strengthen women and girls' decision power.

Summary

Area:	Global
Purpose:	Supporting women's and girls' right to decide over their bodies
Implementing Partner:	The Gates Foundation
Guarantee recipient:	Merck and Bayer AG
Direct Beneficiaries:	Women and girls in the agreed countries of distribution
Indirect Beneficiaries:	Governments, multi-laterals that previously may have subsidized the products
Value of guarantee:	Total of USD 409 million, of which Sida's part is USD 45 million
Duration:	2013 – 2019 with an optional extension of 2 years