Developing and producing drugs and vaccines is a risky business. First, the success rate in developing new drugs and vaccines is low, and the R&D costs are high. Second, investments in research and development, production-capacity and production are very large, and are irreversible. If the demand for drugs or vaccines turns to be high investors enjoy high profits. But, if the demand does not materialize investors lose hundreds of million of dollars. These risks are universal and widespread all over the world: in high income countries as well as medium and low income countries. The difference between the low income and high income countries is that in the low income countries neither the population nor the government can afford and pay the full price of drugs and vaccines. Thus, pharmaceutical companies don’t have an incentive to develop and produce new drugs and vaccines. The objective of this study is to design mechanisms to encourage the development of new vaccines and drugs, and motivate manufacturers to build capacity and produce the appropriate quantities of drugs and vaccines. We develop a payment mechanism that encourages pharmaceuticals to develop and produce drugs and at the same time encourages states and donors to reveal their true demand and not to inflate it.