



Technical Brief Series - Brief No 11

INNOVATIVE INTERNATIONAL FINANCING FOR HEALTH

WHAT DO WE MEAN BY INNOVATIVE INTERNATIONAL FINANCING FOR HEALTH?

Innovative international financing refers to new instruments or non-traditional sources for raising additional funds for health. It also refers to improving the efficiency and effectiveness in the channelling and use of available resources. Innovative financing is commonly pursued for three objectives:

- To raise additional funds to supplement domestic resources and traditional development assistance
- To modify the design of existing financing instruments to improve efficiency and effectiveness
- To mobilize private sector contributions and voluntary or philanthropic contributions

The concept of innovative international financing for health responds to challenges posed by the global financial crisis, competing funding priorities, and concerns over the financing gap needed to meet the Millennium Development Goals (MDGs). A high-level Taskforce¹ recently calculated the gap to reach the MDGs in 49 low-income countries. If there is no change in present spending, the financing gap is estimated to be \$28-37 billion in 2015². A range of innovative instruments could bring in additional money to help close this gap.

WHAT ARE THE EXAMPLES?

Experience with innovative financing instruments for health is growing. Below is a brief summary of some of the main options demonstrating potential to raise funds for health.

Solidarity levies and taxes can be applied to different types of services or products. A compulsory "tax" on airline tickets exists in seven of the 29 member countries of UNITAID, a drug purchase facility focused on HIV/AIDS, malaria and tuberculosis. Since 2006, approximately \$930 million has been raised from this contribution, including a portion by developing countries such as Niger and Madagascar, Côte d'Ivoire, Mauritius and Chile.

Voluntary solidarity contributions (VSC) refer to donations by individuals given at time of purchase. A VSC on airline tickets and other travel services is being implemented by the non-profit Millennium Foundation with support from UNITAID. The instrument, known under the label of MassiveGood, was launched in 2010 and functioning via select online platforms in the United States (US) and Spain with plans to expand to

¹ <http://www.internationalhealthpartnership.net/en/taskforce>

² Please see referenced Taskforce Report for details.

Austria, Germany, Switzerland and the United Kingdom (UK). Through micro-contributions, the initiative raised \$200,000 in its first three months of operation. While projections suggest such an initiative could raise up to \$3.2 billion by 2015, the amount of additional funds raised depends heavily on the participation of major travel reservation systems as well as effective public marketing campaigns.

Product(RED) blends consumption with charitable contributions. In this initiative, the Product(RED) brand is licensed to commercial products of partnering companies who commit 50% of related profits to support the Global Fund HIV/AIDS programmes in Africa. To date, Product(RED) is estimated to have raised US\$ 150 million to support programmes in Ghana, Lesotho, Rwanda, South Africa, Swaziland and Zambia since its launch in 2006. The ability and sustainability of this instrument to mobilize funds from new sources (i.e. the public and private companies) similarly depends on the continued participation of large corporations and effective marketing campaigns.

The *International Finance Facility for Immunisation* (IFFIm) is an innovative financing instrument that increases the availability and predictability of funds for immunization by issuing bonds in the capital markets and thus converting government pledges into cash. IFFIm was launched in 2006 by the UK with support from France, Italy, Spain, Sweden, The Netherlands, Norway, and South Africa. It has raised more than \$2 billion and distributed \$1.25 billion to support vaccine purchase and delivery in 70 developing countries. Well-established in capital markets, IFFIm quickly issues bonds allowing for health impacts to be realized sooner. It could raise more money with additional donor support or be modified to frontload resources needed for infrastructure, information systems, or training.

Leveraging lending instruments can also bring about additional funds for health. Loans for a specific health MDG can be turned into grants when performance targets are met, as in the World Bank's *buy downs*. Similarly, existing debt is "swapped" for grants earmarked for health under the Global Fund facilitated *Debt2Health*. In a partnership between the Global Fund, creditors and recipient countries, creditors forgo repayment on a portion of their loan to a country on the condition that an agreed amount is invested in health. Since 2008, a total of €72 million has been disbursed to health systems in Indonesia and Pakistan. Actual revenue raised will depend on adoption of the instrument by creditors and the amount of debt to be cancelled.

The *non-state sector* can also be engaged to raise or channel resources for health. Advance Market Commitments (AMCs) address private sector concerns over the market conditions to develop products needed in low-income countries. A commitment is made in advance by donors to subsidise a specific product within a certain market after which the manufacturer is required to continue to provide the product at an established retail price for a specified period. As such, AMCs uses funds that are raised to enhance market conditions. While achieving initial results will likely take longer, the impact is considered to be more sustainable. A pilot AMC against pneumococcal disease was launched in 2009, supported by a total commitment of \$1.5 billion. Further work is needed to identify specific market failures that might be successfully addressed by an AMC.

PROSPECTS FOR THE FUTURE

Alongside the currently active mechanisms, several other innovative financing instruments for health or development in general are being put in implementation, in a planning phase or still at the level of concepts and principles.

A group of innovative financing mechanisms that often receives the most headlines refer to financial transaction taxes. One concrete example is a levy applied on currency transactions. Given the volume of daily currency transactions (\$3,210 billion in 2007), this instrument is thought to have significant potential. It is estimated that a rate of 0.5 basis points applied to transactions between the US, Eurozone, Japanese and British currencies could raise \$33 billion annually. The feasibility and sustainability of such an innovative instrument, however, depends on international coordination and requires further consideration of secondary impacts on currency trading markets. A more general financial transaction tax, often referred to as the "Robin Hood" tax, has also been more recently discussed. While advocates project it to raise around US\$300 billion, its feasibility and design have also been questioned.

Another form of contribution that has been discussed in the development community is the De-Tax concept proposed by the Italian government. It is estimated that if 5% of businesses in 26 countries agree to forgo some profit and Value-Added Tax (VAT) towards health, \$2 billion could be raised annually. While representing a predictable source if widely adopted, De-Tax is dependent on support from both governments and businesses, and implementation may be complex depending on the taxation structures of countries.

The above is a snapshot of current experiences and potential instruments in innovative international financing for health and development. At this time, it is difficult to assess which instrument works best, particularly given variations in their design and purpose (e.g. some focus on a specific problem/disease vs. health or development in general, some address drug availability but not service delivery, some are new vs. others are well-established). In considering their potential, it is important to also consider dependencies in their ability to raise and use additional funds. For example, several instruments require international coordination and/or high-levels of private and/or public engagement. In addition, transaction and administrative costs as well as those costs related to marketing can be quite high and must also be evaluated. Factors contributing to success would thus include political will, accountability, transparency, international coordination, and inclusive national approaches. Equally important is efficiency in the channelling of resources such that funds are linked to national health plans and budgets and country financing mechanisms are supported. Recognising the complexity of the existing global aid architecture, many of these new and existing resources are proposed to flow through a streamlined platform composed of the GAVI Alliance, Global Fund and the World Bank and facilitated by WHO. As experience and interest in innovative financing grows, preliminary lessons and further independent monitoring of positive impacts and secondary effects need to be drawn out to better inform decisions about the raising and using of funds in different contexts.

FURTHER READING:

- Fryatt R & Mills A (2009). "Taskforce on Innovative International Financing for Health Systems: showing the way forward," WHO Bulletin 88:476-477.
- Fryatt R, Mills A, Nordstrom A (2009). "Financing of health systems to achieve the health Millennium Development Goals in low-income countries," Lancet 375:419-26.
- Taskforce on Innovative International Financing for Health Systems (2009). More money for health, and more health for the money. Geneva: International Health Partnership.