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# **The role of innovative financing mechanisms for health**

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## **1 Definition of innovative financing**

Because "innovative finance can mean different things to different people", it is worth starting out with a clear definition of what "innovative financing" is. To begin with it is important to acknowledge that innovative financing is a mechanism (and not an organization). Second, it is necessary to identify the extent to which innovative financing is different from other funding mechanisms. In this regard, the Taskforce<sup>2</sup> Working Group 2<sup>3</sup> agreed on a broad definition of innovative financing, including not only mechanisms designed to raise funds in addition to conventional Official Development Assistance (ODA), but also mechanisms that improve the use of those funds. As defined by the Taskforce, innovative financing mechanisms are: "non-traditional applications of ODA, joint public-private mechanisms, and flows that either support fundraising by tapping new resources or deliver financial solutions to development problems on the ground" (Taskforce Working Group 2, 2009).

Innovative financing mechanisms are key components in resource mobilization for global health and are of particular importance with regard to the attainment of the objectives set by major donors and stakeholders, notably as these pertain to the Millennium Development Goals (MDGs) for 2015. Therefore, their main role is to fill the existing financial gap in order to reach the MDGs. Estimations of the funding gap from the Taskforce range between US\$36-45 billion.

## **2 Successful innovative financing mechanism models**

At the beginning of 2010 the majority of innovative financing mechanisms being implemented were directed at meeting the needs of the health sector in developing countries. Various mechanisms have raised significant amounts for global health and have proven successful not only in the way they have developed but also in the way they function and disburse funds once they are implemented. A number of organizations, notably the Global Fund, the GAVI Alliance and UNITAID, have deemed innovative financing mechanisms to be a vital and increasingly important element of their resource mobilization and diversification strategies, and as a result have experienced a significant expansion of their activities.

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<sup>2</sup> The high-level Taskforce on Innovative International Financing for health systems, co-chaired by Gordon Brown and Robert Zoellick, was created in 2008 in order to fill a financial gap found in 49 low-income countries in order to reach the Millennium Development Goals.

<sup>3</sup> Two technical working groups were set up and the purpose of the second Group 'report was to recommend innovative international financing mechanisms to raise additional resources for strengthening health systems in 49 low-income countries in order to achieve the health MDG's, especially MDG' 4 and 5; and to recommend the best way to achieve results, and to channel and use international resources for health. (Nordström, 2009)

Among the key innovative financing mechanisms implemented is the International Finance Facility for Immunization (IffIm) created in 2006 to support the Global Alliance for Vaccine and Immunization (GAVI). IffIm is a frontloading mechanism for long term ODA commitments from 8 donor<sup>4</sup> countries that are drawn on in the form of bond issues on the international capital markets. By converting pledges into directly available cash resources, this innovative financing mechanism has been a key factor in the resource mobilization (Sandor et al, 2009) and success of the GAVI Alliance. Since the launch of IffIm, the mechanism has raised US\$ 2.3 billion on the capital markets, US\$ 1.6 billion of which being disbursed for vaccine purchase and delivery (World Bank, 2009). GAVI also receives support from a second innovative financing mechanism, known as the Advanced Market Commitment (AMC), which is designed to fund the purchase of new vaccine research, manufacturing and distribution. The added value of this mechanism is to increase effectiveness by creating incentives for the development of non-profitable vaccines. A pneumococcal vaccine pilot mechanism was officially launched in June 2009 with a US\$ 1.5 billion subsidy<sup>5</sup>. These two mechanisms have increased the predictability of funds as well as the duration of financial commitments (Nordström, 2009).

The Global Fund has also developed two innovative financing mechanisms in its funding structure to harness additional resources for its programmes and activities. The first is the Debt2Health initiative, in which donor countries agree to forgo part of the repayment of the money due to them against the debtor's commitment to invest half of the amount of the debt forgiven on Global Fund-approved programs. There were two agreements signed and one pending signature as of the end of 2009 which will eventually raise US\$ 80 million (for debts with a face value of US\$ 146 million) and another three agreements are in negotiation (Global Fund, 2009). The Global Fund also benefits from the ProductRED initiative, in which companies commit a share of their profits on goods branded with the ProductRed trademark to support the Global Fund. As of year-end 2009 the ProductRED mechanism, based on a strong marketing and communications campaign, is estimated to have raised US\$ 140 million to support programmes in Ghana, Lesotho, Rwanda and Swaziland (Global Fund, 2009).

Another significant innovative financing mechanism is the air-ticket levy used to fund UNITAID, a global drug purchase facility for HIV/AIDS, Tuberculosis and Malaria. UNITAID seeks to redress market failures by guaranteeing a minimum volume of drugs, thus impacting prices. The main added value of the mechanism through UNITAID's action is to increase drug availability (Fryatt et al. 2010). UNITAID has raised, through traditional ODA and the air-ticket levy, US\$ 1.5 billion to date and has

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<sup>4</sup> France, Italy, the Netherlands, Norway, South Africa, Spain, Sweden and the United Kingdom.

<sup>5</sup> From five governments donors: Canada, Italy, Norway, the Russian Federation, the United Kingdom, and the Bill & Melinda gates Foundation

financed projects addressing MDG 6 in 93 countries. Innovative financing constitutes the bulk of UNITAID's funding with 60% of funds raised coming from the air-ticket levy (Douste-Blazy, 2010).

### **3 Framework to assess the role and added value of innovative financing mechanisms**

The assessment of innovative financing mechanisms can be split into two phases: upstream, to benchmark and assess the relevance and opportunities that arise by favouring a given mechanism and downstream to assess the mechanism's real impact and added value.

In order to assess whether mechanisms are worth implementing, it is necessary to evaluate their impact and added value using a set of criteria. As part of the work it undertook, Taskforce Working Group 2 reviewed various innovative financing mechanisms to raise and channel new funds, evaluating them on the basis of technical feasibility, sponsor support, fundraising potential and cost. In total, around 100 mechanisms were analysed. In order to assess the aid effectiveness of each mechanism, ownership, predictability, the degree to which they were result-based and pro-poor was taken into consideration.

It is also of critical importance to assess the added value of the mechanisms once they are implemented in order to enable fine-tuning and to enhance and sustain their impact. The first criterion for judgement is the *raison d'être* of innovative financing, that is to say **additionality**. Because they were created to fill the financial gap that threatens to compromise the attainment of the MDGs, innovative financing mechanisms are to complement and not substitute pre-existing funding sources for global health. Once up and running, innovative financing mechanisms should not have a "crowding-out effect" on other current commitments from donors or from developing countries' budget commitments for the health sector. The second criterion serving to assess current innovative financing mechanisms' added value is **effectiveness** – in other words how the mechanism can ensure a better use of funds. Effectiveness can be improved by managing delivery risks, creating incentives and by redressing market failures. For example, the funds raised by the air-ticket levy and collected by UNITAID seek to redress the problem of lack of competition in drug markets in developing countries. The same is true for the AMC that fixes future market failures through future commitments and by providing an output-based model for the development of vaccines. According to World Bank estimates, the pneumococcal vaccine is currently sold at US \$60 whereas its long term price could be US\$ 3.50 owing to the AMC (World Bank, 2009). A third key criterion to be considered is **efficiency**. In this regard IffIm, by ensuring the frontloading of funds can be said to improve the timeliness of financing.

#### **4 Upcoming challenges and future of innovative financing mechanisms**

The first challenge is to expand resource mobilization by reinforcing, when feasible, the successful existing innovative financing mechanisms to ensure the sustainability of their impact. This is what the GAVI Alliance is doing by pushing to expand the IFFIm and by testing the Pneumococcal AMC model for potential future applications. The Global Fund, meanwhile, is trying to expand the number of goods under the ProductRED license and is in negotiations for debt swaps within the Debt2Health framework. Finally, UNITAID is inviting more countries to adopt an air-ticket levy.

A second challenge faced by existing mechanisms is their inherent development limits, which drives the creation of new innovative financing mechanisms to expand global resource mobilization. The mechanism most recently launched is the Voluntary Solidarity Contribution under the brand name MASSIVEGOOD, which was developed by the Millennium Foundation for Innovative Finance for Health. Conceived as a complementary mechanism of the UNITAID air-ticket levy, the mechanism, based on Voluntary micro-contributions from individuals can be expanded to various countries and also to other industries. The mechanism was launched on March 4<sup>th</sup> 2010 in the United States for travel and tourism products and will therefore tap into unexplored funding sources for Global Health.

Another key challenge that needs to be considered in relation to the roll-out of innovative financing mechanisms is the importance of reinforcing the mobilization of domestic resources. A focus on innovative financing mechanisms should not take place at the expense of the domestic mobilization of resources, which remains crucial if innovative financing mechanisms are to be additional and help bridge the financial gap (Fryatt et al. 2010).

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