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Innovative Financing Mechanisms To Advance Global Health

Past, Present and Future Investments

In the past decade, remarkable progress has been made in improving the health of vulnerable populations in low- and middle-income countries. The GAVI Alliance (GAVI) and the Global Fund to Fight AIDS, TB and Malaria (the Global Fund), which address access and delivery issues for existing treatments in low- and middle-income countries, have saved more than 7 million lives and protected 200 million more from preventable diseases such as diarrhea and malaria.

Investments in health research and development (R&D) increased from US\$ 42 billion in 1986 to US\$ 143 billion in 2005. In the field of AIDS vaccine R&D, funding grew from US\$ 327 million in 2000 to US\$ 961 million in 2007 (HIV Vaccines and Microbicides Resource Tracking Working Group, 2008). Additionally, product development partnerships (PDPs)—currently representing 23% of all R&D spending for neglected diseases—have been critical in accelerating activities by collaborating with both public and private sectors on R&D (Moran et al., 2009).

Despite such advances, significant financing gaps deter efforts to improve health in resource-limited countries. The Taskforce on Innovative International Financing for Health Systems,

co-chaired by UK Prime Minister Gordon Brown and World Bank President Robert Zoellick, estimates that up to US\$ 10 billion in additional annual funding is needed to achieve the Millennium Development Goals (MDGs) by 2015 (Taskforce, 2009). And although the product pipeline to address neglected diseases has grown, in part due to PDPs, US\$ 1 billion per year is needed to supplement current funding to advance R&D activities (DFID, 2006).

“More than ever, we need to be imaginative about finding the resources to invest in the health and welfare of the world’s people.”

—Ban Ki-Moon, United Nations Secretary-General

As a PDP working to ensure the development of a safe and effective preventive AIDS vaccine, the International AIDS Vaccine Initiative (IAVI) analyzes and advocates for improving mechanisms that provide adequate financing for R&D in global health technologies. This policy brief reviews recent innovations in health financing and new options under consideration by groups such as the High-Level Taskforce and the WHO Expert Working Group on R&D Financing to address current funding gaps.

Innovative Mechanisms to Support Global Health and R&D

	MECHANISM	PURPOSE	FUNDING SOURCE	EXAMPLES
Recent health financing innovations	International health funds	Facilitate access to available treatments for neglected diseases in low- and middle-income countries	Donor governments, foundations, private donations, IFFIm	GAVI Alliance; Global Fund to Fight AIDS, Tuberculosis and Malaria
	Product-development partnerships	Develop products for diseases that disproportionately affect low- and middle-income countries through partnerships with academia and industry	Donor governments, foundations, private donations	Aeras; IAVI; PATH; Malaria Vaccine Initiative
	International finance facility	Generate revenue for immunization programs and improved health systems in resource-limited countries	Bondholders with government and philanthropic backing	IFFIm
	Advance market commitment	Incentivize industry investment in vaccines for neglected diseases	Donor governments, foundations	Pneumococcal AMC
	UNITAID	Increase access to treatments for HIV and AIDS, TB and malaria in low- and middle-income countries	Consumers (through an airline tax), donor governments	Chile, Côte d'Ivoire, France, Republic of Korea, Madagascar, Mauritius, Niger
Proposed financing mechanism options	R&D funds for neglected diseases	Support PDP partnerships with industry for product development	Donor governments, foundations	IRFF, FRIND
	Taxes/levies	To alter market behavior or generate revenue for development	Taxpayers, consumers of goods and services, private sector	CTT, De Tax, VSC

Recent Health Financing Innovations

International Health Funds

GAVI and the Global Fund facilitate access to existing treatments by raising funds or pooling money for health programs in low- and middle-income countries. Revenues come primarily from governments and philanthropies but also from innovative financing mechanisms. Since 2001, the Global Fund has received US\$ 20 billion in donor commitments, US\$ 39 million of which is from UNITAID (see next page) and US\$ 132 million from (PRODUCT) RED, a two-year-old business partnership that licenses the (PRODUCT) RED brand to companies and donates partial proceeds to the Global Fund. GAVI has received nearly US\$ 4 billion since 2001, US\$ 1.2 billion of which is from the International Finance Facility for Immunisation, described below.

GAVI and the Global Fund plan to

combine funding streams to strengthen health systems in low- and middle-income countries. Later this year, the Global Fund will try to capture private-sector funding to supplement its government support and to fill a US\$ 4 billion budget gap (Anderson, 2009). It expects to issue a new financial product, Exchange Traded Funds, which pool securities and assets (similar to mutual funds) and trade on international stock exchanges. It hopes to encourage hedge fund managers to share their fees with the Global Fund as a means of attracting investors oriented toward social responsibility.

International Finance Facility for Immunisation (IFFIm)

IFFIm issues government-backed bonds in international capital markets to fund GAVI-sponsored programs and to support health system improvements

in 70 low- and middle-income countries. By borrowing on capital markets and disbursing funds to GAVI, IFFIm generates immediate revenue to accelerate access to vaccinations in low-income countries, and donors make payments over a longer period of time.

Front-loading resources for immunization may minimize future assistance dedicated to disease prevention and treatment. In 2007, GAVI disbursed more than US\$ 630 million of IFFIm funds to combat measles, yellow fever, tetanus and polio; improve health systems and immunization services; and support new and underused vaccines (IFFIm, 2009). However, questions around long-term sustainability remain. IFFIm has high administrative costs compared to multilateral banks that borrow on a larger scale, and it has had difficulty securing legally binding commitments

from donors, in part due to concerns about creating debt for future generations.

Advance Market Commitments (AMCs)

Under an AMC, donors commit to paying for a vaccine at a fixed price for a given period to defray development costs and to subsidize procurement by low-income countries. These commitments can create a viable future market and incentivize private industry to invest in developing new vaccines for neglected diseases. An AMC also enables donors to pay only when a product is brought successfully to market.

In 2007, the first AMC was created for vaccines against the most common

strains of *Streptococcus pneumoniae*. It has secured US\$ 1.5 billion in donor commitments and is expected to save 5.8 million lives by 2030 (GAVI, World Bank, 2009). It remains unclear to what extent an AMC could accelerate early stage research. Since pneumococcal vaccines were in late-stage development when the AMC was created, it essentially served as a procurement mechanism rather than an incentive. Additional AMCs for vaccines in early development stages may require greater industry risk-taking and significantly higher donor commitments.

UNITAID

Established in 2006, UNITAID is an international drug purchase facility

using price negotiations and pooled procurement to increase access to treatments for AIDS, TB and malaria in developing countries. More than 70% of UNITAID's funding comes from a levy on airline tickets imposed by seven of its 35 member countries, with the remainder coming through direct donor funds.

UNITAID has the potential to raise significant revenue, having generated US\$ 389 million in 2008. However, future revenues may be affected by the current economic crisis. Moreover, imposing a mandatory levy can be time-consuming and politically difficult, as seen in part by the small number of member countries that have joined this effort to date.

Proposed Financing Mechanism Options

R&D Funds for Neglected Diseases

Two mechanisms have been proposed to bolster neglected disease R&D by PDPs. The Industry R&D Facilitation Fund (IRFF) aims to increase industry involvement in R&D by financing PDPs' payments to industrial partners (Moran et. al, 2005). Retroactive reimbursement to PDPs would focus on encouraging greater private-sector engagement. The Fund for R&D in Neglected Diseases (FRIND) would pool funding from donor governments and then allocate funds to PDPs for product development, seeking to ensure that promising concepts are not stalled in the pipeline due to lack of funding (Herrling, 2008). Both the IRFF and FRIND would build upon current mechanisms to fund PDPs, and could help to optimize the allocation of resources to PDPs.

Voluntary Solidarity Contribution (VSC)

The Millennium Foundation for Innovative Finance for Health plans to implement a Voluntary Solidarity Contribution Scheme in 2010. It

would enable air travelers to make a US\$ 2 donation to fund UNITAID activities (Douste-Blazy, 2009). The VSC could generate an additional US\$ 1 billion annually by 2011, and may further expand to other travel services (rental cars, hotels and train tickets).

Currency Transaction Tax (CTT)

Proposals to implement a CTT have surfaced in recent months, aiming to tax foreign exchange transactions, with revenues used to finance economic development objectives. A global CTT might yield significant, steady, long-term revenue: a tax rate as low as 0.005% on all major currencies could raise US\$ 33 billion annually (Hillman, Kapoor, Spratt, 2007). A levy on one currency may be more feasible yet still generate significant revenue: for example, taxing US currency transactions could yield US\$ 28 billion annually (Schmidt, 2007). The greatest barrier to implementation is the need for widespread political support, collaboration and agreement among major countries. Such political support may be difficult to achieve given concerns about the potential for such a

tax to distort market behavior, as well as the impact of additional taxes in the current economic environment.

De-Tax/Anti-tax Proposal

The De-Tax proposal would allow individual businesses to offer consumers a discount (e.g. 1% or 2%) on goods and services, which would be used to support projects in low and middle-income countries. These contributions from businesses would be complemented by governments waiving a portion of the Value Added Tax on the good or service sold. The funds would be designated for a specific project or cause and managed by a committee comprising vendors, consumers and civil society.

The De-Tax is potentially a new revenue source and would place decision-making on which projects to fund in the hands of businesses and individuals rather than the government sector. Some of the limitations of this approach, however, include the unpredictability of funding streams for recipients, the need to educate vendors and consumers about their cause, and the administrative costs for reporting and management.

Financing Mechanisms for R&D

IAVI supports establishing new financial approaches to help achieve the MDGs and to strengthen health systems. Our focus is on financing mechanisms that can help support R&D activities for the development of new health tools such as vaccines and microbicides. To that end, IAVI evaluates potential financing mechanisms (see insert "Evaluating Innovative Mechanisms for Global Health") that could contribute to such R&D efforts. Many of the current mechanisms, including GAVI, the Global Fund, and UNITAID, explicitly do not allow for their resources to be applied to R&D activities. IAVI and other PDPs will continue to explore with those funds the possibility of broadening their mandates to include investments today to create new tools for tomorrow, but also will

Evaluating Innovative Mechanisms for Global Health

- Can the mechanism be easily implemented? What are the obstacles to implementation?
- What problem is it addressing (lack of funding, unpredictable revenue, fragmentation of activities)?
- What impact will it have on the problem (e.g. ability to raise significant funds, provides predictable or long-term revenue)?
- Who will benefit or be adversely affected (e.g. health-care consumers, developing country governments, taxpayers, industry, PDPs)?
- Is it likely to generate additional (incremental) funding or simply replace current support?

explore other approaches. One idea under development is using government-backed bonds to fund PDP research activities. This would be a version of the IFFIm model, with an added twist of repaying the bonds in part with revenues from future product sales. IAVI and partners are analyzing this idea and look

forward to discussing it with public- and private-sector stakeholders, and will consider other financing mechanisms that can contribute to R&D programs that are designed to prevent diseases such as HIV, TB and malaria and improve health systems now and in the future.

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Insights

IAVI's policy brief series outlines key public policy issues in the research, development and eventual distribution of AIDS vaccines.

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