

INNOVATIVE FINANCING MECHANISMS FOR HEALTH – UPDATE FEBRUARY 2011

Introduction

In October 2010, the Millennium Development Goals (MDG) Summit was held in New York City. The aim of the Summit was to review and accelerate progress towards the 2015 deadline for the achievement of the eight MDGs that were agreed to by the world's countries and development institutions in 2000. The aim of the MDGs is to eradicate extreme poverty and hunger, achieve universal primary education, promote gender equality, improve health and reduce disease burden, protect the environment and strengthen global partnerships.

In his February 2010 report "Keeping the Promise: A forward looking review to promote an agreed action agenda to achieve the Millennium Development Goals by 2015", United Nations Secretary General, Ban Ki-Moon, outlined progress made so far as well as some emerging challenges such as climate change and the global financial crisis. He also highlighted the lack of adequate and predictable international financing as being a major barrier to achievement of the MDGs. He called for the need to look beyond traditional ODA (Overseas Development Assistance) towards more innovative financing mechanisms to increase the flow and predictability of finances.

There are still large gaps in meeting funding targets. The 2005 Gleneagles G8 target for ODA by 2010 was approximately \$35 billion short. G8 leaders have not kept their past commitments to health, food security and education. At the 2010 G8 Summit in Muskoka, additional pledges were made for maternal and child health.

AIDS funding is in crisis. In the United States, financing for the global AIDS epidemic has been flatlined. The Global Fund to Fight AIDS, TB and Malaria (GFATM) at its October 2010 replenishment, fell \$10 billion short of the amount it needs in 2011-

2013 to continue the massive success and scale up of interventions that we have seen recently.

In its 2010 annual status report, UNAIDS demonstrated that although there has been progress towards reaching MDG 6 as well as achieving the goal of universal access to HIV prevention, treatment, care and support, we have fallen far short overall of achieving the MDG 6 target of halting and beginning to reverse the spread of HIV by 2010.

It is difficult to accurately assess the financial resources needed to achieve these goals. Professor Brook Baker undertook this task in 2010 (contracted by Action for Global Health and International Civil Society Support) and produced a paper entitled "CTL-for-health/FTT-with-Health: Resource-Needs Estimates and an Assessment of Funding Models". In this study he used as a base the results of the costing study undertaken in 2009 by the Taskforce on Innovative and International Financing for Health Systems, and supplemented this somewhat underestimation of the needs to calculate a more global resource needs estimate for 2009 – 2016. His final estimate of resource needs to cover malaria, TB, HIV and AIDS, maternal, newborn and child health, chronic and neglected diseases and human resources for health, comes to approximately \$456 billion for the period 2009-2016. Taking into account an increase in health spending on the part of developing countries and the continued assistance of donor countries, there are still significant gaps to be filled.

(The paper by Prof Brook Baker cited above can be viewed at:

http://www.actionforglobalhealth.eu/index.php?id=180&tx_ttnews%5Btt_news%5D=308&cHash=0d1d2bea48c3d9725863a7b0def521fe)

This fact sheet explores some of the proposals for

innovative financing mechanisms that have come to the fore in the past 4-5 years and is an update of the fact sheet of the same title developed by ICAD in 2007. Some of the innovative financing mechanisms discussed here will contribute directly to combating HIV and AIDS through the funding of treatment and vaccine initiatives. Others have the potential to impact HIV and AIDS indirectly by contributing to development initiatives and fighting global poverty.

Innovative Financing Mechanisms

1. Currency Transaction Levy and the Financial Transactions Tax (CTL and FTT)

The idea of a small tax on wholesale currency transactions (CTL) to leverage resources for funding health needs has been explored for over a decade. More recently, a broader tax on stocks, bonds, commodities and derivatives and other financial instruments (FTT) has gained growing political support in some areas.

Initially the idea of a CTL for Health was to institute a levy of 0.005%, sufficient to mobilize significant funds but not high enough to have any impact on the markets, which was in fact its primary selling point – to raise money for development that could not be raised in any other way. However, since the global financial crisis it has become clear that a CTL or FTT at a higher level (e.g. 0.05%) would both raise significant resources and contribute to a cooling affect on speculative trading. It is widely accepted that a broadly supported FTT at 0.05% could raise approximately \$650 billion a year for poverty alleviation (both domestic and global) as well as climate change mitigation and adaptation strategies.

In the UK and other European countries, FTT advocates have recognized that public anger at the banks' contribution to the global economic crisis helps gather support for the idea of an FTT at a very broad public level. Political support for a broader FTT began with former UK Prime Minister, Gordon

Brown's support of the idea, quickly followed by France's Sarkozy and Germany's Merkel. Japan, Australia, Austria, Belgium, the EU Parliament and European Commission, India and South Africa have all stated their support for an FTT. Over 350 academics and economists signed a letter calling for an FTT. Canada does not support the introduction of an FTT or a CTL.

At the G20 meeting in Pittsburgh in 2009, Germany proposed an FTT but it was not universally endorsed. The IMF was asked to write a report on the different kinds of options being discussed and their feasibility. The report did not go so far as to endorse an FTT but it did confirm that an FTT would be feasible to implement. Around the time of the 2010 G8 and G20 Summits in Toronto, the discussion about the options for bank levies (including an FTT) led to confusion in the media and the general public. At the G20 in Toronto, the idea of an FTT was not advanced. With France assuming the G8 and G20 Presidency in 2011, many believe that the FTT is an idea whose time has now come and that this issue will be energetically pursued by President Sarkozy.

For more in-depth information on the FTT, please see the Kairos briefing paper "An Idea Whose Time has Come: Adopt a Financial Transactions Tax" <http://www.kairoscanada.org/fileadmin/fe/files/PDF/Publications/PBP24-FTT.pdf>

Other online resources:
www.robinhoodtax.ca

2. Aviation Solidarity Levy (UNITAID)

UNITAID was founded in 2006 on the initiative of Brazil, France, Chile, Norway and the UK and there are now 29 member countries. The mission of UNITAID, the International Drug Purchase Facility, is to provide people in the developing world with long-term access to quality drug treatment for diseases such as malaria, TB and HIV and AIDS, at the lowest price possible. In order to fulfill this mission, a source of long-term predictable funding is required.

Two thirds of UNITAID's total funds raised come through an innovative "air tax" levied by member countries. The UK, Spain, Luxembourg, Cyprus and the Gates Foundation provide multi-year contributions instead. Canada is not a member of UNITAID.

www.unitaid.eu

3. MASSIVEGOOD

MASSIVEGOOD uses the power of social media to help stop the millions of preventable deaths from HIV/AIDS, malaria and TB and increase maternal and child health in the developing world. The initiative allows you to make a \$2 micro-donation every time you make a flight reservation, book a hotel room or rental car, on select websites. It became operational in March 2010. MASSIVEGOOD supports the Clinton Foundation, The Global Fund to Fight AIDS, TB and Malaria, the World Health Organisation, UNITAID and UNICEF.

www.massivegood.org

4. IFFIm (GAVI)

The International Finance Facility for Immunization (IFFIm) has been designed to provide immediate and predictable funds for health and immunization through the GAVI Alliance (Global Alliance for Vaccines and Immunizations). The program works by providing most of the resources upfront, based on the assumption that accelerating funding now will lead to a decrease on resource needs in the future. The IFFIm sells bonds on the international capital market to investors such as central banks, fund managers and individuals. The investments are then disbursed to the GAVI Alliance. IFFIm repays bondholders using funds from participating donor countries who are legally bound to scheduled grant payments to the IFFIm over the next 20 years. So far, IFFIm has raised more than US\$3 billion and as of 30 September 2010, IFFIm had approved programs of

US\$2.4 billion, more than US\$1.6 billion of which has been disbursed to support vaccine service and delivery to 70 developing countries.

www.iff-immunisation.org

5. Advance Market Commitments

An Advance Market Commitment (AMC) is a binding contract, typically between a donor country and a pharmaceutical company, in which the donor government agrees to pay a predetermined price for a particular vaccine if it is developed. The recipient developing country is also bound to making a fixed financial contribution per dose of the vaccine. By guaranteeing a market for a vaccine if it is successfully developed, AMCs aim to overcome market failures that inhibit the development of vaccines for diseases that are concentrated in developing countries. Once the vaccine is developed, the developer is to be paid the pre-agreed price per dose if the vaccine meets certain pre-determined criteria and if it is demanded by developing countries. When the AMC funding is depleted, the manufacturer is obligated to continue to provide an established amount at a pre-determined long-term price.

In February 2007, five countries (Canada, Italy, Norway, Russia and the UK) and the Bill & Melinda Gates Foundation committed \$1.5 billion to support a pilot AMC for the development of an anti-pneumococcus vaccine from 2007 – 2020. The AMC pilot operates through the GAVI Alliance, the World Bank and an Independent Assessment Committee. Canada committed a contribution of \$230 million from its ODA budget.

A number of critiques of AMCs have been put forward, the predominant being that AMCs are essentially subsidies for large pharmaceutical companies. In addition, the Drugs for Neglected Diseases *initiative* (DNDi) argues that neglected disease research and development is better conducted through collaborative and more cost-

effective public and private ventures than by industry approaches alone, and that AMCs encourage secrecy rather than collaboration. Further, as recipient countries are bound to a fixed financial contribution per dose of vaccine, the quantity they purchase will be based on what they can afford rather than what they need. Finally there exists concern over the quality of the products that will be developed. The race to register a new medical tool may provide a disincentive to meet the highest standards of safety and efficiency.

www.vaccineamc.org

6. Debt2Health (Global Fund to Fight AIDS, TB and Malaria)

Foreign debt is a serious obstacle to development in many poor countries. Debt-relief initiatives such as the Highly Indebted Poor Country (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI) have provided some relief to low-income countries. However, there are many low to middle income countries that have crippling high levels of foreign debt but do not qualify for these forms of debt relief (e.g. Indonesia).

Debt2Health involves Global Fund-facilitated agreements under which creditors forego repayment of a portion of their sovereign debts (i.e. development aid credits) on the condition that the beneficiary countries invest an agreed upon counterpart amount in health through the Global Fund.

For the first time, debt swaps are carried out through trilateral arrangements involving a multilateral organization, thus enhancing aid harmonization and implementing the “Paris Declaration on Aid Harmonization and Effectiveness”. Through the counterpart payments the beneficiary country becomes a donor to the Global Fund.

This project has undergone a pilot phase from 2007

to 2009 involving Indonesia, Cote d'Ivoire and Pakistan as beneficiary countries.

Current agreements are:

- Australia and Indonesia have an agreement realizing US\$37.2million between 2010 and 2016.
- Germany and Cote d'Ivoire have an agreement realizing US\$12.95million between 2011-2018.
- Germany and Indonesia have an agreement realizing US\$35.14 between 2008-2012.
- Germany and Pakistan have an agreement realizing US\$26.67million between 2009-2012.

The total contributions realized by Debt2Health to date are US\$37,116,481.

<http://www.theglobalfund.org/en/innovativefinancing/debt2health/>

Conclusion

Significant new resources are needed for the fight against poverty and diseases such as HIV and AIDS, TB and malaria, as well as addressing the MDGs that are lagging furthest behind (maternal and child health) and the effects of climate change. An overwhelming percentage of developed countries have not met their commitment to allocate 0.7% of their GNI to ODA, nor have they established timelines to do so. The effect of the financial crisis has been severe in many countries (particularly in Europe). Innovative financing is a creative and essential way of generating new funds for development. However, it is important to note that innovative financing is meant to complement ordinary budgetary allocations and not replace them. Canada's support for innovative financing mechanisms thus far has been limited to support for the Advance Market Commitment initiative. Through increased participation in innovative financing mechanisms, Canada has the opportunity to contribute its fair share to the funding of the resource gap and to the achievement of the Millennium Development Goals by 2015.