



## Innovative Finance for Health: Expanding Resources for Greater Impact

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*This brief builds on two seminar series organized by Aga Khan Foundation Canada (AKFC) in 2013-14:*

- *Innovative Financing for Development (in partnership with Carleton University's School of Public Policy and Administration)*

*Nurturing Maternal and Child Health*

### Introduction

The recent outbreak of the deadly Ebola disease in West Africa underscores the importance of timely and sufficient resources to combat epidemics wherever and whenever they occur – as well as to strengthen the overall capacities of health systems in developing countries. While impressive gains have improved the health of citizens of developing countries, traditional sources of funding—primarily from foreign aid and government grants—are clearly insufficient to fully address health challenges worldwide. That is why interest has been growing in innovative ways of mobilizing financial resources to support improved global health outcomes.

### Global Health Challenges

Over the past 15 years, the United Nations Millennium Development Goals (MDGs) have focused on three specific health challenges: reducing child mortality (MDG4), improving maternal health (MDG5) and combating HIV/AIDS, malaria and other diseases (MDG6). Significant progress has been made toward meeting these goals, but – especially in sub-Saharan Africa – serious, ongoing challenges remain:

- While child and maternal mortality rates in developing countries have fallen significantly over the past two decades, in sub-Saharan Africa an alarming one in nine children still dies before turning five, and one in 38 women remain at risk of dying from complications in pregnancy and childbirth.<sup>1</sup>
- New HIV infections dropped nearly 20 percent between 2001 and 2011 worldwide, but sub-Saharan Africa accounted for two-thirds of the newly infected.
- The mortality rate for malaria decreased by more than 42 per cent between 2000 and 2012, averting more than three million deaths,<sup>2</sup> and yet more than three billion people worldwide remain at risk.
- The world is on track to meet its MDG target on tuberculosis -- the mortality rate for the disease has fallen by more than one third since 1990 – but still claimed 1.3 million lives in 2012.

<sup>1</sup> See Levels & Trends in Child Mortality. UNICEF, UN Inter-agency Group for Child Mortality Estimation: [www.unicef.org/media/files/Levels\\_and\\_Trends\\_in\\_Child\\_Mortality\\_2014.pdf](http://www.unicef.org/media/files/Levels_and_Trends_in_Child_Mortality_2014.pdf);

See World Health Organization's update on MDG5: [www.who.int/topics/millennium\\_development\\_goals/maternal\\_health/en/](http://www.who.int/topics/millennium_development_goals/maternal_health/en/).

<sup>2</sup> See World Malaria Report 2013. World Health Organization: [www.who.int/malaria/publications/world\\_malaria\\_report\\_2013/report/en/](http://www.who.int/malaria/publications/world_malaria_report_2013/report/en/).

Looking ahead, the United Nations' process to define the post-2015 development agenda includes a number of sustainable development goals (SDGs) that focus on ensuring healthy lives and promoting well-being for all by the year 2030.<sup>3</sup> Achieving these goals will require particular attention to sub-Saharan Africa, and the ability to mobilize substantial financial resources.

#### What Resources Are Needed?

A broad partnership of governments, agencies, foundations and corporations is working on a detailed costing for the SDGs to determine how much is needed to meet global health challenges over the next 15 years. Official development assistance (ODA) for health grew steadily between 2000 and 2010, reaching more than US \$26 billion in 2010.<sup>4</sup> Estimates, however, suggest \$50 -100 billion per year is required to fully meet global health challenges.<sup>5</sup>

With many donor-country governments in Europe and North America instituting austerity measures to cope with economic challenges, commitments are not likely to exceed the \$26 billion mobilized in 2010. *How can the \$25 -75 billion shortfall for health be addressed?*

Two potential sources to meet this resource challenge show significant promise:

1. Governments of newly middle-income countries (including in Africa) can raise funds from a growing number of middle-income and wealthy households and businesses, through taxes and fees, to boost their health system budgets.
2. Leaders of the global health sector can tap new pools of private financing by creating investment opportunities that achieve financial returns and positive health impacts. Notably, the 2013 Report of the High-Level Panel of Eminent Persons on the Post-2015 Agenda underscores the need for more and better long-term finance, with the most important new source being private capital.<sup>6</sup>

#### Innovative Finance for Development

The search for financing sources beyond ODA has been steadily gaining momentum since the United Nations International Conference on Financing for Development in Monterrey, Mexico in 2002.<sup>1</sup> Innovative finance for development (IFD), a concept introduced at the Monterrey conference, refers to the mobilization of supplemental sources of funding, as opposed to "crowding-out" traditional aid, to bridge the development financing gap.<sup>1</sup> It calls for new strategies and non-traditional investors.

As defined in Monterrey and subsequent global fora, IFD should be predictable and stable and aimed at correcting the negative effects of globalization.<sup>1</sup> And IFD should enhance the efficiency of financial flows, especially for emergencies and crises, and make financial flows more results-oriented by linking them to measurable performance on the ground.<sup>1</sup> The United Nations Development Programme (UNDP) classifies IFD mechanisms into four typologies:

1. Taxes, dues or other charges on globalized activities (such as taxes on airline tickets and carbon use);
2. Voluntary solidarity contributions (small consumer donations to international development at the time of purchasing goods or services);
3. Frontloading and debt-based instruments (such as issuing bonds on international capital markets, or debt conversions that reallocate resources to development);
4. State guarantees, public-private incentives, insurance and other market-based mechanisms (for example, incentives for companies to pursue vaccine research to fight disease in the developing world).<sup>1</sup>

<sup>3</sup> See Open Working Group proposal for Sustainable Development Goals. United Nations, Division for Sustainable Development (UN-DESA): <http://sustainabledevelopment.un.org/content/documents/1579SDGs%20Proposal.pdf>.

<sup>4</sup> Atun, R, M.F. Knaul, Y. Akachi, and J. Frenk. "Innovative financing for health: what is truly innovative?" The Lancet, Vol. 380, No. 9858. December 2012. P.2044: [www.thelancet.com/journals/lancet/article/PIIS0140-6736\(12\)61460-3/fulltext](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(12)61460-3/fulltext).

<sup>5</sup> See World Health Statistics 2014. WHO's Global Health Observatory: [www.who.int/gho/publications/world\\_health\\_statistics/2014/en/](http://www.who.int/gho/publications/world_health_statistics/2014/en/). Also see Baker, B. "CTL-for-Health/FTT-with-Health: Resource-Needs Estimates and an Assessment of Funding Modalities." 2010: [ec.europa.eu/health/eu\\_world/docs/ev\\_20101013\\_rd05\\_en.pdf](http://ec.europa.eu/health/eu_world/docs/ev_20101013_rd05_en.pdf).

<sup>6</sup> See United Nations News Centre report: [www.un.org/sg/management/pdf/HLP\\_P2015\\_Report.pdf](http://www.un.org/sg/management/pdf/HLP_P2015_Report.pdf).

These new sources are not mutually exclusive and could help reduce infant and under-five deaths, increase vaccinations, decrease maternal mortality, improve universal reproductive health, and reduce the prevalence of diseases such as HIV/AIDS, malaria and tuberculosis.<sup>7</sup> This brief focuses on the second opportunity: innovative finance for global health.

## **Innovative Finance for Global Health**

Efforts to create new funding mechanisms have been extensive and dynamic in the global health field. A wide range of actors are involved, including donor-country governments, international non-governmental organizations, multilateral organizations, the private sector and the academic community. Such efforts as Gavi (known as the Vaccine Alliance) and the Micronutrient Initiative<sup>8</sup> have engaged with the private sector to deliver health interventions. In spite of some distrust, the increasing number of development-business partnerships in health has diminished these obstacles.<sup>9</sup> In fact, much of the innovative finance in the health sector is cited as exemplifying exactly the kinds of new partnerships for development the Millennium Development Goal campaign has pursued.<sup>10</sup>

Other areas of IFD activity include tax policies and systems spurring domestic revenue generation, especially in middle-income countries. Development agencies have experimented with “diaspora bonds” to channel the large pool of overseas remittances into development interventions.<sup>11</sup> In addition, development impact bonds (DIBs) are attempting to improve development programs (for such health issues as malaria, for example) by offering returns to private investors based on the achievement of pre-agreed outcomes.<sup>12</sup>

A broader initiative, the High Level Taskforce for Innovative International Financing of Health Systems, was established in 2008 to support revenue generation and diversification for health systems in the world’s poorest 49 countries.<sup>13</sup>

## **Examples of Innovative Finance Mechanisms for Health**

Table 1 classifies six operational mechanisms for innovative finance in global health according to the four UNDP typologies. Most of these mechanisms have built a track record over several years.

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<sup>7</sup> See United Nations News Centre media report: [www.un.org/apps/news/story.asp?NewsID=46654&Cr=HIV&Cr1=AIDS](http://www.un.org/apps/news/story.asp?NewsID=46654&Cr=HIV&Cr1=AIDS).

<sup>8</sup> See AKFC’s Global Health & the World of Business: [www.akfc.ca/en/events/item/75-global-health](http://www.akfc.ca/en/events/item/75-global-health).

<sup>9</sup> This issue was raised in the AKFC seminar, “Greater Than the Sum of its Parts: a discussion with Apoorva Oza.” February 2012. Another challenge identified at the seminar is that of operational barriers to meeting excess demand for health services, such as building and licensing appropriate infrastructure: [www.akfc.ca/en/component/k2/item/13-greater-than-the-sum-of-its-parts-a-discussion-with-apoorva-oza](http://www.akfc.ca/en/component/k2/item/13-greater-than-the-sum-of-its-parts-a-discussion-with-apoorva-oza).

<sup>10</sup> MDG8 has specifically focused on expanding and deepening new global partnership for development.

<sup>11</sup> See AfDB on Diaspora Bonds: [www.afdb.org/en/search?tx\\_solr%5Bg%5D=diaspora\\_funds](http://www.afdb.org/en/search?tx_solr%5Bg%5D=diaspora_funds); and AfDB’s Africa Economic Brief, December 2012: [www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic\\_Brief\\_-\\_Diaspora\\_Bonds\\_Some\\_Lessons\\_for\\_African\\_Countries.pdf](http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf).

<sup>12</sup> See Social Finance Global: [www.socialfinance.org.uk/about-us/social-finance-global/](http://www.socialfinance.org.uk/about-us/social-finance-global/).

<sup>13</sup> See High Level Taskforce for Innovative International Financing of Health Systems. IHP+: [www.internationalhealthpartnership.net/en/about-ihp/past-events/high-level-taskforce-for-innovative-international-financing-of-health-systems/](http://www.internationalhealthpartnership.net/en/about-ihp/past-events/high-level-taskforce-for-innovative-international-financing-of-health-systems/).

**Table 1: Innovative Financing Mechanisms for Health**

Type of Mechanism	Mechanism
<b>Taxation</b>	<p><b>UNITAID, Aviation Solidarity Levy</b></p> <p>Funds pooled from an air-ticket tax levied by member countries (which contributes 60% of its funding) and ODA facilitate access to essential medicines for malaria, tuberculosis, and HIV/AIDS via the International Drug Purchase Facility.</p>
<b>Individual or Corporate Donations</b>	<p><b>ProjectRed</b></p> <p>Private companies commit a share of their profits to goods branded with the ProjectRed trademark to support programs through the Global Fund.</p> <p><b>MASSIVEGOOD</b></p> <p>Micro-voluntary personal and corporate contributions complement UNITAID's Aviation Solidarity Levy. Established by the Millennium Foundation for Innovative Finance for Health.</p>
<b>Frontloading</b>	<p><b>Debt2Health</b></p> <p>Creditors and donor countries relinquish loans on the condition that the indebted country invests the freed-up resources in programs approved by the Global Fund.</p> <p><b>International Finance Facility for Immunization (IFFIm)</b></p> <p>Acts as long-term predictable funding as recipients receive direct access to funds. Triple A "vaccine bonds" issued and raised in capital markets based on donor pledges are converted into cash resources, which are then channelled through Gavi to support the purchase and delivery of vaccinations.</p>
<b>Public-Private Incentives</b>	<p><b>Advanced Market Commitment (AMC)</b></p> <p>A fund supported by donor countries (Italy, United Kingdom, Canada, Russia and Norway) and the Bill &amp; Melinda Gates Foundation aims to incentivize research and development, production and distribution of vaccines for pneumococcal disease at an affordable cost to developing countries.</p>

Source: Interagency Coalition on AIDS and Development

### Assessing the Value of Innovative Mechanisms

As identified in a 2010 World Health Organization background paper, assessing the role and value of these innovative mechanisms requires evaluating their technical feasibility, sponsor support, fundraising potential and cost.<sup>14</sup> More broadly, three criteria that help determine the added value of innovative finance mechanisms are *additionality*, *effectiveness* and *efficacy*: Does the mechanism complement – and not “crowd out” – other commitments? Does the mechanism help ensure a better use of funds? And does the mechanism strengthen the impact or outcomes?

While the relative newness of these mechanisms prevents a fulsome evaluation against these criteria, it is possible to track the general performance of some of these mechanisms.

<sup>14</sup> Le Gargasson, J.B. and B. Salomé. “The Role of innovative finance mechanisms for health.” 2010: [www.who.int/healthsystems/topics/financing/healthreport/InnovativeBP12FINAL.pdf](http://www.who.int/healthsystems/topics/financing/healthreport/InnovativeBP12FINAL.pdf).

- Through 2010, the Gavi Alliance's International Finance Facility for Immunisation raised \$2.3 billion through bond issues on the capital markets, of which \$1.6 billion was channelled to purchase and distribute vaccines to some 70 developing countries.<sup>15</sup>
- The Advanced Market Commitment (AMC) raised \$1.5 billion, an effort that is expected to prevent more than seven million childhood deaths by 2030.<sup>16</sup> Nevertheless, there are concerns that AMC's incentives constitute subsidies to large pharmaceutical companies that may not collaborate in vaccine research and development.<sup>17</sup> Moreover, there is concern that countries receiving the vaccines can only purchase what they can afford, since they are bound to a fixed price per dose of vaccine.<sup>18</sup>
- The UNITAID mechanism raised \$1.3 billion through 2010, which substantially reduced the price of second-line AIDS treatment and paediatric antiretroviral medicines.<sup>19</sup> One advantage of an airline tax levy is its low implementation cost.<sup>20</sup> National governments have the flexibility to apply different levies to various categories of passengers based on their destination and ticket class, creating good revenue opportunities.<sup>21</sup>

The ultimate test of the value of innovative finance mechanisms for health are tangible outcomes for health care consumers; such outcomes must be monitored and evaluated on a continuous basis. In the meantime, the ability of large organizations like the GAVI Alliance to mobilize, pool and channel a wide range of financing is clearly advancing health interventions and the global health agenda. Smaller organizations and mechanisms like UNITAID can also yield substantial results in attracting additional financing for the sector. Nevertheless, these new funds remain insufficient to meet the full scope of worldwide demand for health services and products. There is still much to be done to scale up innovative finance strategies and tools to allow the global health movement to fully meet the needs of low- and middle-income countries.

## Conclusion

The ambitious goal of health for all by 2030 will occupy an important place as the international community builds its post-2015 development agenda. Innovative finance is an essential strategy to address funding gaps in meeting the full demand for health services and products around the world. The innovative finance mechanisms in operation today are promising, even impressive, in their ability to mobilize new sources and types of capital for health interventions. But the global health field must take innovative finance to the next level. At stake are tens of millions of lives.

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<sup>15</sup> Ibid.

<sup>16</sup> See The World Bank website: [www.worldbank.org/](http://www.worldbank.org/).

<sup>17</sup> See The Interagency Coalition on AIDS and Development website: [www.icad-cisd.com/](http://www.icad-cisd.com/).

<sup>18</sup> Ibid.

<sup>19</sup> Atun, R, M.F. Knaul, Y. Akachi, and J. Frenk. "Innovative financing for health: what is truly innovative?" The Lancet, Vol. 380, No. 9858. December 2012. P.2047: [www.thelancet.com/journals/lancet/article/PIIS0140-6736\(12\)61460-3/fulltext](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(12)61460-3/fulltext).

<sup>20</sup> de Ferranti, D., C. Griffin, M.L. Escobar, A. Glassman, and G. Lagomarsino. "Innovative Financing for Global Health: Tools for Analyzing the Options." 2008. p.93: [www.brookings.edu/~media/research/files/papers/2008/8/global%20health%20de%20ferranti/08\\_global\\_health\\_de\\_ferranti.pdf](http://www.brookings.edu/~media/research/files/papers/2008/8/global%20health%20de%20ferranti/08_global_health_de_ferranti.pdf).

<sup>21</sup> See Unitaid website: [www.unitaid.eu/en/](http://www.unitaid.eu/en/).

## Acronyms

<b>AIDS</b>	Acquired Immunodeficiency Syndrome
<b>AKFC</b>	Aga Khan Foundation of Canada
<b>AMC</b>	Advanced Market Commitment
<b>DAC</b>	Development Associate Committee (OECD)
<b>HIV</b>	Human immunodeficiency virus
<b>IFFIm</b>	International Finance Facility for Immunization
<b>INGO</b>	International Non-Governmental Organization
<b>MDG</b>	Millennium Development Goal
<b>NMCH</b>	Nurturing Maternal and Child Health
<b>NGO</b>	Non-Governmental Organization
<b>ODA</b>	Official Development Assistance
<b>OECD</b>	Organization for Economic Cooperation and Development
<b>SDG</b>	Sustainable Development Goal
<b>WHO</b>	World Health Organization

## Aga Khan Foundation Canada

Aga Khan Foundation Canada (AKFC) is a non-profit international development agency, working in Asia and Africa to find sustainable solutions to the complex problems causing global poverty. Established in 1980, AKFC is a registered Canadian charity and an agency of the worldwide Aga Khan Development Network.

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