BROOKINGS
Global Health Financing Initiative
SNAPSHOT SERIES

Innovative Health Financing:
Donor Views on Progress, Problems, Opportunities & Strategy

Background

IESE Business School of Barcelona, Spain, which is Brookings' European collaborator for the Global Health Initiative, conducted interviews with European donors leading up to a workshop held in Barcelona February 24 and 25, 2008, to discuss the challenges and opportunities of innovative health financing from a donor perspective. Recent innovations include the International Finance Facility for Immunizations (IFFIm), the Airline Solidarity Contribution, Debt2Health, and the Advance Market Commitment (AMC) for vaccines (see other snapshots in this series explaining those mechanisms). This snapshot highlights some of the donors' perspectives on innovative health financing based on the interviews and the workshop discussion.

Goals and Initial Results

While the dialogue with donors and representatives of global institutions, such as the Global Fund and UNITAID, demonstrated a mixed view on the definition of 'innovative financing,' the focus of the discussions was the collection and pooling of funds globally, leaving aside the purchasing and provision of services. Donor agencies identified three fundamental aims of innovative financing: i) generating new revenue for global health problems through global taxes, ii) changing characteristics of aid flows through financial engineering like IFFIm or Debt2Health, and iii) increasing private sector contributions to health through programs like (PRODUCT)RED.

It was generally agreed that all of the mechanisms used thus far have yielded positive initial results. The question is whether the initial success will be followed by commitments required to produce a sustained impact and global agreement. The IFFIm, for example, is a pilot for which the revenue stream ends around 2015, depending on disbursement trends. Debt2Health is in a pilot phase with only one donor country, Germany, participating at this time and applicable to a limited number of debtor countries. The first AMC was launched in late 2007 with Italy as the prime sponsor. The need for repeated effort and attention over the long term to sustain these many different instruments will be a challenge.

The application of a predefined set of criteria to evaluate the different instruments--such as additionality, effectiveness, fungibility, governance and feasibility--is a difficult exercise because the instruments are so different. However all participants agreed that evidence of need and impact will be essential for the longer term sustainability of these innovations, as will leadership of elected national leaders and multinational organizations.

What are the issues and obstacles?

Among a whole set of issues, donors identified four as the most important for success:

- *Governance* is a core concern to be addressed when creating new funds or initiatives. It was widely accepted that governance mechanisms should be inclusive and expand beyond traditional structures, as the Global Fund, GAVI, and the newly created UNITAID have done. The participation of all stakeholders—civil society, industry representatives, pharmaceutical companies, etc.—has been a vital element for success. In addition, they cited the importance in their own countries of a close working relationship required to negotiate innovative financing mechanisms between their own Ministries of Finance and Development as a positive internal side effect of this new approach.
- Second, and often neglected in traditional funding, innovative financing mechanisms need to integrate *Monitoring & Evaluation* from the onset in several ways. M&E is essential for measuring results and progress of a given program and its distinctive approach. Both GAVI and the Global Fund, for example, book "results" from their grants when the money is committed, based on expected impacts of vaccinations and bed net use, for example. Similarly, both organizations claim improvements in delivering aid associated with their competitive grant processes. Donors eventually will demand to know how results on the ground correlate with these *ex ante* assumptions. Whether making use of established systems of results monitoring or creating new approaches, this aspect of program development should be highlighted.
- Third, donors are concerned about the *Costs and Risks* involved with innovative financing mechanisms, which requires evaluation as well. Particularly, they noted some unfavorable side effects of newer mechanisms. For example, Debt2Health may be opposed by the debtor Ministry of Health but pursued anyway by the Ministry of Finance because of the financial incentives. The IFFIm creates additional interest expenses but ensures a long-term bankable commitment of funds. On the whole, do the benefits outweigh the costs? Could other options dominate when all costs are taken into account?
- Fourth, each of the innovative finance mechanisms thus far has been "owned" by an OECD sponsor country and the revenue has been earmarked to one of the new global health partnerships. Will they stay like this, or could they be scaled up to truly global activities? The original IFF, for example, envisioned competition among aid agencies for the funds, not the tying of the funds to a single organization. Determining who contributes to what initiative up to this point has been influenced by political log-rolling and coalitions developed by the champion country. Does this doom the initiatives over the long run? When bilateral donors succeed in contributing 0.7% of GDP through traditional development assistance, will they be willing to continue participating? Moreover, different tax codes and budget structures affect feasibility of specific innovations country by country. As is often a concern with aid, low country capacity to absorb funds from the various sources may in the end cause donors to think they are contributing too much through these various pipelines relative to countries' ability to use the funds effectively. Finally, the new mechanisms create new transactions costs for donors: board meetings, a larger volume of daily business inquiries connected to the initiatives, an additional obligation to deal with affiliated civil society and business interests, and advocates for even more initiatives.

Next Steps

The participants in this process benefited from the strategic view of the global picture and are interested in regular opportunities to discuss different strategies in the future. They feel their own initiatives could gain through an early knowledge of what other countries are 'up to', and that some regularization of this area of work was considered desirable. Success in innovative financing will happen when additional players are convinced of the value and that all of the various initiatives fit together in a coherent picture that makes a difference on the ground.