Innovative financing for NCDs

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Resource requirements

- ‘Best buy’ population-based health promotion interventions: US$0.20-0.50 per capita in LMICs
- ‘Best buy’ individual-based preventive interventions: US$1 - 2.50 per capita in LMICs
- US$11.4 billion needed per year to provide these interventions in all developing countries
- Equivalent to between 1%-4% of current health expenditure in LMICs
History of Innovative Finance and Development

Where did it all start

• In 2002, the Monterrey Consensus recognized “the value of exploring innovative sources of finance”, stimulating a wide range of efforts to build and implement a variety of new mechanisms, mobilizing countries on a number of levels, with the aim to meet the agreed upon MDGs

• In 2004, Landau report identified the feasibility of new financial sources such as solidarity levies and market-based mechanisms for international and national level implementation

• In 2005 the Declaration on Innovative Sources of Financing for Development was endorsed by 79 Heads of State at the United Nations; renamed in May 2009 as the Leading Group on Innovative Financing for Development
History of Innovative Finance and Development, cont’d

• The Global Fund to Fight Aids, Malaria and Tuberculosis (Global Fund), Global Alliance for Vaccines and Immunisations Alliance (GAVI) and UNITAID remain the “success stories” many more have been developed and are being planned including a wide range of different structures (taxes/levies, voluntary contributions and financial instruments)

• Innovative financing receives international attention through Innovative International Financing for Health Systems, as well as the Leading Group

• Innovative finance extends to many diverse forms of funds, guarantees, insurance mechanisms and loans. Collectively, since 2000, these mechanisms have generated US$ 94 billion
### Policies and conferences

- **Creation of the MDGs**
- **International Conference on Financing for Development, Monterrey**
- **Geneva & New York Declaration**: Initiative to fight hunger and poverty; First global intergovernmental dialogue on innovative means for financing development (Landau report)
- **Millennium Summit; Declaration on Innovative Sources of Financing for Development**
- **Paris Conference on Innovative Development Financing Mechanisms**: Leading Group on Innovative Finance for Development created
- **International Conference for Financing for Development, Doha**: Doha Declaration on Innovative Financing for Development
- **I-8 Group created**
- **General Assembly resolution devoted to innovative sources of financing for development**
- **Busan Declaration to further develop innovative finance mechanisms to mobilize private finance for share development goals; Rio Declaration to scale up innovative financing**
- **UN General Assembly to develop post-2015 goals**
- **UN Meeting on Sustainable Development Goals Finance, Ethiopia**

### Prominent initiatives

<table>
<thead>
<tr>
<th>Year</th>
<th>Initiative</th>
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<tbody>
<tr>
<td>2000</td>
<td>- Sri Lanka Development Bonds</td>
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<tr>
<td>2001</td>
<td>- EU ETS</td>
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<tr>
<td>2002</td>
<td>- Solidarity Levy on Airline Tickets</td>
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<tr>
<td>2003</td>
<td>- IFFIm</td>
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<tr>
<td>2004</td>
<td>- Product (RED)</td>
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<tr>
<td>2005</td>
<td>- Debt2Health</td>
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<tr>
<td>2006</td>
<td>- Green Bonds</td>
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<td>2007</td>
<td>- AMC for Pneumococcal</td>
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<td>2008</td>
<td>- Results-based financing</td>
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<td>2009</td>
<td>- Financial Transaction Tax</td>
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<td>2010</td>
<td>- Development Impact Bonds</td>
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<td>2015</td>
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Numerous innovative finance precedents to learn from

**Voluntary Contributions**
- Product Red Initiative, GAVI Matching Fund

**Taxes/Levies**
- UNITAID, Financial Transactions Tax

**HOW (RED) WORKS**

<table>
<thead>
<tr>
<th>Added value to purchase decision</th>
<th>Funds direct to Global Fund</th>
<th>100% for HIV programs</th>
<th>Further (red) support</th>
<th>Direct private sector support</th>
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<tbody>
<tr>
<td>Smart shopper notes that (product)RED items from top brands cost the same as non-(product)RED items. But choosing the (red) items means that up to 50% of profits made from those sales will go to help eliminate AIDS in Africa</td>
<td>When shopper chooses to purchase the (product) RED items, the makers send a contribution of up to 50% of profits directly to the Global Fund – not to (red)</td>
<td>The Global Fund uses 100% of this money to finance HIV health and community support programs in Africa, with a focus on women and children</td>
<td>The contribution helps people affected by HIV in Ghana, Swaziland, Rwanda, Lesotho and other countries to be granted (red) money in the future</td>
<td>The Result? Shopper has new (product)RED items from favorite brands at the same time helping to eliminate AIDS in Africa. They can continue to help when they choose other (red) products or donate directly to the Global Fund</td>
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Source: The Global Fund press release, analysis

**UNITAID - funding through airline ticket tax**

- Solidarity contribution or ‘tax’ on airline tickets is 70% of UNITAID’s financial base
- Tax is applied to all flights departing from countries imposing it and is paid by passengers
- For passengers, the cost of the air tax is very low compared to the total cost of a ticket
- Different rates can be set according to a country’s level of development and there is an extra option to vary the charge according to the distance traveled
- As of September 2011, nine of UNITAID’s 29 member countries were implementing the airline tax: Cameroon, Chile, Congo, France, Madagascar, Mali, Mauritius, Niger, and the Republic of Korea
Financial Instrument precedents have achieved success

International Finance Facility for Immunization (IFFIm)

Generate New Resources

Donors
- UK: $3bn (23 yrs)
- France: $1.7bn (20 yrs)
- Italy: $600M (20 yrs)
- Norway: $264M (15 yrs)
- Spain: $240M (20 yrs)
- Netherlands: $114M (8 yrs)
- Sweden: $38M (15 yrs)
- South Africa: $20M (20 yrs)

Structure

World Bank Treasury

Management Services

Funding

IFFIm

Manages bond proceeds as liquid investments until they are needed for programs in recipient countries

Notes proceeds

IFFIm issues AAA/Aaa/AAA-rated bonds in the international capital markets

Notes issues

Disbursements

Noteholders

Impact

- Front-loaded support for strategic immunization programs:
  - Measles Initiative
  - Yellow Fever Initiative
  - Global Poliomyelitis Eradication Campaign
  - Maternal and Neonatal Tetanus Elimination Campaign
  - Supporting pentavalent vaccine introduction and other new vaccines
  - GAVI health systems, immunization services, and injection safety support

- Raised more than $4.5 billion for the GAVI Alliance’s immunization programs
Advance Market Commitments (AMC) for Pneumococcal vaccines

Financial Instrument precedents have achieved success, cont’d

Impact

- 4 suppliers submitted the offer, and GSK and Pfizer agreed to supply pneumococcal vaccines through the AMC in March 2010

- GSK introduced its first vaccine (Synflorix™) to Kenya in Feb 2011 at 90% discounted price

- The long-term price of pneumo vaccine for developing countries will be $3.50/dose (vs. >$70/dose in industrialized countries currently)

- Anticipated to help 60 countries to introduce pneumo vaccine by 2015 and prevent more 7 million childhood deaths by 2030
Financial Instrument precedents have achieved success

Global Premix Procurement Facility (GPPF)

- Premix quality varies from project to project:
  - Raw material quality (vitamin and nutrients)
  - Quality of blending (cross-contamination)

Absence of global procurement strategy results in:
- Price variations from project to project
- Average price higher than best in class

Final product price (wheat flour, oil...) increment due to fortification is marginal (from 0.5% to 2%), however:
- Micronutrients costs represents 70-90% of fortification process recurring costs
- Some projects struggle to pay for premix (at least upfront)

GLOBAL PREMIX PROCUREMENT FACILITY

Certification Facility (Certification Agent)
- Pre-qualification of suppliers
- Regular audits

Procurement Facility (Procurement Agent)
- Pooled demand
- Long term agreements

Revolving Fund
- 6 months credit facility

Grant Facility
- For emergency situations, to ensure continuity of supply for GAINs projects
Global innovative finance

Official sector flows

• Innovative fundraising for development generated an estimated USD94.0 billion between 2000 and 2013
• Potential for raising significant new resources is considerable
• Structures include Voluntary Contributions, Taxes/Levies and Financial Mechanisms

Private sector flows

• Investment capital represents a large pool of financing with global financial stock standing at USD212 trn and growing
• Investment managers consider Environmental, Social, and Governance (ESG) factors - market will reach USD25 trn by 2015
• Impact investments emerging as an alternative investment asset - create positive impact beyond financial return
• Forecasting over the next 10 years for invested capital of USD400 bn - USD1 trn
Innovative finance mechanism sector overview 2000 through 2013

Innovative financing mechanism by sector

- **Access to Finance**: 155 mechanisms (E.g. microfinance, SMEs, investment funds)
- **Energy and Environment**: 44 mechanisms
- **Agriculture**: 27 mechanisms
- **Health**: 24 mechanisms
- **Disaster Response**: 4 mechanisms
- **Education**: 4 mechanisms
- **Housing**: 2 mechanisms
- **Technology**: 5 mechanisms
- **Multiple**: 83 mechanisms (E.g. guarantee facilities, funds, currency swaps with multi-sector mandates)

**Note**: Sector information was available for 348 mechanisms. Average initiative size was based on data for 278 mechanisms. Other smaller sectors not shown include Technology, Housing and Urban Development, Water and Sanitation, ICT and Media.
Innovative finance mechanism sector overview 2000 through 2013, cont’d.

Landscape of innovative financing mechanisms

- Proven models: Bonds and Notes, Consumer Donations, Loans, Guarantees
- Newer Ideas: AMCs, Other Derivative Products, Carbon Auctions, Development Impact Bonds
- Scaling Opportunities: Other Investment Funds, Debt-swaps/buy-downs, Awards and Prizes, Performance-based Contracts
- Simpler structures: Taxes

Note: No known Development Impact Bonds have been successfully issued to date although many are under development.
Source: Innovative Financing Initiative Database; Dalberg analysis.
Financial innovation opportunity for NCDs appears promising

Opportunity for NCDs

• Innovative finance for health has generated USD7 billion since 2000 with an additional USD18 billion forthcoming

• Assessment of NCDs shows Voluntary Contribution programs around cancer and cardiovascular disease; National taxes/levies - basis for a global solidarity levy

• Review of Investment industry reveals limited specific NCD-themed investments. To date aimed at raising funding for specific diseases (e.g. Battle Against Cancer, Livestrong); a few targeted at addressing specific burdens (e.g. Clean Cookstoves – respiratory)
Financial innovation opportunity for NCDs appears promising

Opportunity for NCDs

• Out of 2,200 impact investments worth over USD46 bn, only USD2.6 bn invested in the health sector. Nevertheless, research indicates a growing appetite for health sector investments - could be as large as USD18bn – USD123bn

• WHO’s mandate to improve NCDs could become a theme for such innovative financial vehicles and thereby attract more capital and close the current gap in funding; not offsetting any current funding but be additional towards NCDs
Precedents of innovative finance in NCDs are limited

• Within NCDs:
  • ‘Pink Ribbon’ campaign to raise awareness for breast cancer and raise funds for the Susan G Komen Foundation
  • ‘Go Red for Women Group’ aims to reduce heart disease in women through raising awareness campaigns supported by individuals and corporations
• Increases the visibility of NCD issues on the global agenda and draws additional financing from traditional sources
• Presumptuous to expect a voluntary contribution scheme to draw significant additional capital as a stand-alone initiative
Precedents of innovative finance in NCD are limited

- Taxes and levies under serious consideration both at the national level as set out in Policy Brief on Domestic Financing
- Proposed Solidarity Tobacco Contribution “micro levy” skims very small percentages off the top of tobacco product purchases and redirect these monies towards international efforts, namely health related. Strong support exists but key challenge remains on ability to ensure adequate collection and effective redistribution
- Lotteries tend to be a regressive instrument for raising revenues. Moreover, the potential may be offset by the possibility of declines in discretionary allocations
Precedents of innovative finance in NCD are limited

• Many successful innovative financing mechanisms, are from the health sector (e.g. namely Global Fund and GAVI); non specific to NCDs
• Few focused specifically on NCDs with vast majority designed to identify additional financing:
  • Battle Against Cancer Investment Trust
  • Livestrong Foundation
• Small number of funds encourage a sophisticated role for innovative financing via which the private sector share risks/rewards or via results-based financing (e.g. Global Alliace for Clean Cookstoves Spark Fund – alleviate respiratory diseases)
• NCDs often included in funds that seek to invest in healthcare, hospitals or childcare themes, and/or that have a focus on primary health or services
Innovative finance modalities for NCDs

Important to determine strategy to adopt for innovative finance

i) Getting existing innovative finance mechanisms to embrace NCDs (i.e. get the leading group on innovative financing for development to focus also on NCDs, how do we collaborate with the existing organisations in this field (GAVI, UNITAID, GFATM) to include NCDs linked to the post 2015 agenda)

ii) Developing new innovative finance mechanisms for NCDs

Important that innovative finance models promote integration of the overall health system, particularly interventions delivered at the primary health care level and provision of a comprehensive package of care which includes NCD related interventions
Opportunity – Innovative finance modalities for NCDs

• Building upon existing innovative finance models a few model ideas exist for NCDs
• Models are a starting point for GCM/NCD consideration and are based on the voluntary contribution, taxes/levies and financial mechanisms precedents
• Many models to explore, just three set out to test different parameters of how to build and what architecture to test which will best fit the demand from donors/investors, the need for different types of capital (investment, public and philanthropic), industry players and how Member States could be active in this space
Opportunity – Innovative finance modalities for NCDs

- Raising taxes/levies
- Stimulating non-tax flows
- Expanding solidarity levies
- Encouraging Voluntary Contributions
- Catalyzing Private Financial Investment

Generate Resources

Raising new taxes (e.g. tobacco, alcohol, fats)

Reduce risk/Address constraints

Results based financing
International Finance Facilities
Financial risk mitigation modalities

Results focused
More predictable
Flexible structures
Mitigate risks

NCD Funding Platform
- Mechanism financed by a government/foundation, administered by a group of Member States and a multi-lateral agency (e.g. World Bank)
- Select financial partners of the WHO issue debt instruments with sovereign entities in burden countries, and institutions (i.e. NCD sector experts/implementing agencies) integrated to accept resources
- Developed in collaboration with range of stakeholders, including WHO, Member States, World Bank Group, civil society; bilateral/multilateral partners; foundations; private sector
- Resources provided to countries in conjunction with low-interest loans and grants from the International Development Association (IDA). Align relevant IFI/DFI to create private sector financing to be available in select countries
- Precedents exist in other sectors (e.g. Global Financing Facility for Reproductive, Maternal, Neonatal, Child and Adolescent Health, Catalytic Nutrition Fund, Value Water/Sanitation Fund)
WHO/Member States/World Bank

Manage the fund
Maintain ownership
Safeguard the interests

Trust Fund

Provision of loans

Lender/Donor
(Bi-laterals, foundations)

Recipients
(implementation agencies)

Recipients
(national governments)

Disbursement of funds (grants and loans)

Repayment of loans and interest

Repayment of principal and interest rate
• Small micro levy with proceeds earmarked for NCDs is administratively similar to any other indirect tax. Used to raise funds on a global or regional basis to redistribute funds from middle income to lower income countries
• Solidarity Tobacco Contribution (STC) is additional to existing national taxes on tobacco, alcohol and fats products and WHO recommendations for countries to raise taxes for public health
• Does not replace existing national excise taxes or need to increase them to recommended levels. Represents a voluntary contribution by participating Member States based on a solidarity principle
• STC benefits from lessons learned from other innovative financing for health mechanisms (i.e. UNITAID)
• STC would thus achieve three simultaneous benefits:
  1. Strong public health benefits and impact by reducing tobacco, alcohol and fats consumption and saving lives
  2. Raising national revenue to support health (NCDs)
  3. Support for international health efforts
Global Solidarity Tax/Levy (e.g. tobacco, alcohol, fats)

- National purposes
  - General budgetary purposes
  - Earmarked for NCD programs
- International purposes
  - General health expenditure
  - Targeted for tobacco, alcohol and fats controls
  - Targeted for other specific SDG health spending
    - Existing mechanism/channels
    - New mechanism/channels
• Bond financing is predictable, purchased by individuals and institutions and government could use monies raised for NCD interventions
• NCD-specific government bond could be issued at a lower rate of interest than other government bonds. NCD service delivery frameworks, and borrowing costs, vary by country, hence borrowing to finance an investment approach should be examined on a country-by-country basis
• Countries must also be aware of the wider consequences of government borrowing
• NCD bond backed by the government with supplementary last-resort backing from international institutions, designed and issued by a specialized financial institution, to finance time-limited cost-effective activities, seems a potentially successful financing option already successful in other sectors (i.e. education, health)
Investors (Bi-laterals, private foundations, institutions, individuals)

Lender (International Finance Institution)

National NCD Bond

Provision of Guarantee

Repayment of principal and interest rate

Invest in bond

Repayment of loans and interest

Disbursement of funds (loans to specified countries)

Repayment of loans and interest

Recipients (National governments)

Recipients (National governments)
Future for Innovative Financing

1995–2005
- Aid-based pilots mobilize resources

2005–2015
- Experimentation with market-based instruments grow the market
- Targeted investment opportunities within agriculture, energy and infrastructure

2015–2030
- Outcomes-based finance attracts private capital
- Engagement of customers, investors, corporations and governments in emerging markets

Mechanisms:
- Taxes, levies and voluntary private contributions
- Foreign-based investment funds, public-partnerships, and solutions to address political constraints
- Risk sharing and incentives to mobilize private enterprises and local investors