

The banner features a blue background with a white grid pattern. Overlaid on the grid are a medical syringe, a pair of glasses, and a globe. The text 'BROOKINGS' is in white, all-caps, sans-serif font. Below it, 'Global Health Financing Initiative' is in a larger, white, sans-serif font. At the bottom of the banner, 'SNAPSHOT SERIES' is written in white, all-caps, sans-serif font.

BROOKINGS

Global Health Financing Initiative

SNAPSHOT SERIES

OVERVIEW OF INNOVATIVE FINANCING FOR GLOBAL HEALTH: TOOLS FOR ANALYZING THE OPTIONS¹

This Snapshot was prepared for a Workshop on
Lessons for Development Finance from Innovative Financing in Health

Paris, 7 October 2008

Part of the OECD Global Forum on Development
in collaboration with the Brookings Institution and IESE Business School.

In all aspects of public expenditure, limited funds chase many possible uses. The methods of prioritization range from careful cost-benefit analysis to a completely political process in which the more powerful are able to divert resources to their preferred uses. In economic development, there seem to be unlimited needs and great difficulty to prioritize, so the apparent success of using innovative financing tools in health has given hope that the same tools could be used in other sectors to generate more funds. Hence there is a scramble to use new financing techniques without an extraordinary amount of prior thinking about why. Different financing tools are suitable for different purposes, so it is essential that the problem to be solved is understood, options for financing solutions assembled, and those options ranked according to their benefits and costs.

Structure and Prioritize the Problems

One good way to get to a thorough understanding of problems is to “map” them, to see where they fit into categorization schemes that bring out their essential attributes more clearly. In health, we have found that the following five distinctions help in organizing the financing questions:

1. **Domestic or Global?** Does the problem stem primarily from things that happen within recipient countries’ borders (e.g., how health services are delivered) or problems about things that happen globally? The two types of problems lead in different directions,

¹ De Ferranti, David; Charles Griffin; Maria-Luisa Escobar; Amanda Glassman; and Gina Lagomarsino (2008) “Innovative Financing For Global Health: Tools For Analyzing The Options,” Brookings Health Financing Initiative Working Paper 2, August. This paper is available at the workshop.

obviously, since within-country issues focus on how things work on the ground and the broader level issues deal with donors, aid, and global advocacy. The communities that work on these two areas bring distinct perspectives, knowledge, experience, and concerns to the table.

2. **Services or Products?** Is the problem about services (patient care, public health, etc.) or products (i.e., vaccines, medicines, etc.)? When services are the focus, the main actors of interest are domestic health providers, but when products are the center of attention, a different set of institutions – pharmaceutical and biotech houses and their investors – become paramount.
3. **How Far Upstream?** A third useful distinction is whether the problem focuses on (i) delivery (of services or products), (ii) production (of products, supplies, or health workers), which is one stage further upstream from delivery), or (iii) discovery and development (aimed at finding new products or new forms of other inputs), which in turn upstream from production). Delivery is atomistic: many entities do things that should interconnect well (even if sometimes they don't). Production, on the other hand, is concentrated in fewer locations and is oriented more around factory processes. Discovery and development, which is even further upstream, is more about science and research.
4. **Public or Private Sector?** Are the key players – the providers of services or suppliers of products – from the public sector (government agencies or facilities) or the private sector (defined broadly to include not only for-profit companies, but also not-for-profits and informal providers)? Problems centered on the public sector revolve around very different institutions than do problems involving the private sector.
5. **Source of Funds?** If the problem concerns mainly government money (recipient countries' own funds, grants from aid institutions, bilateral donor assistance, and loans or grants from multilateral banks), the issues are very different than if donation money (e.g., philanthropic support) or investment money (e.g., from capital market investments) is a factor. More specifically, "government money" as used here includes funds that governments deploy from their budgets and off-budget-sources, through, for example, donor governments' aid programs or recipient governments' domestic spending. "Donation money" includes funds provided on a grant basis from philanthropic, NGO, and other private charitable sources. "Investment money" includes funds that investors provide on a market basis, expecting a competitive return. The latter includes "double bottom line" investors who might give up some potential private return to support investments that generate an additional direct social return.

Table 1 organizes these issues. Sources of funds appear across the top. As we move progressively down the rows, the issues move upstream in the production process and become more global in character. Services are the first row, which is divided between public and private providers.

The entries in the cells of the matrix provide examples of how some familiar phenomena in health fit into this framework. For example, since the overwhelming majority of government spending, Official Development Assistance (ODA), and International Development Association

(IDA) funds in health go through the government for public provision of health services, those flows have been referenced in the upper left cell (although smaller fractions of those outlays would crop up in other cells too). Likewise, since a large share of the funds that philanthropic organizations, big international non-governmental organizations (BINGOs), and local nongovernmental organizations (LNGOs) go to service provision too – through both public and private channels – this group is mentioned in the top box under “Donation Money.”

Table 1: To Identify Which Problems To Focus Most On, Think About...

		Using funds that are mainly ...			
		Government Money	Donation Money	Investment Money	Combinations
Service delivery within countries	Public providers	Government spending, ODA, IDA	Philanthropic, BINGO, & LNGO support for service delivery programs	E.g., Private Finance Initiative in the UK	Co-financing partnerships
	Private providers	Contracting		Large healthcare firms, small practitioners, venture investors, etc.	
“Product” delivery to countries		E.g., global health partnerships (GAVI, UNITAID, Global Fund)		Supplier firms, drug sellers, etc.	Co-financing partnerships
Product discovery and development		Pull (AMC) and Push (e.g., NIH)	Donations to pull and push initiatives	The pharmaceutical and biotech industries	Product Development Partnerships

The new global partnerships like GAVI, UNITAID, and the Global Fund are slotted into the cells corresponding to product delivery using government money and donation money, since that is what they do, essentially. They receive funding from governments and donations from foundations. Without going through every cell explicitly, the table merits a few moments of review and reflection about what falls in each of the cells and to what degree this same approach would make sense in other sectors.

Table 2 highlights some financing issues that arise in the cells of Table 1. One of them – the problem of making aid more predictable and smoother – fits naturally into the top left cell, since it mainly concerns the public provision of services using mostly government money (foreign assistance plus recipient government spending)². The question of how to create incentives for better performance by all participants in the production process permeates many of the cells, and setting up the right incentives is an increasingly important element both of

² Lane, Chris and Amanda Glassman (2008), “Smooth and Predictable Aid for Health,” Brookings Health Financing Initiative Working Paper 1, August. This paper explores the issue of in the context of health and proposes some possible financial solutions. It is available at the workshop.

standard aid flows and innovative financing flows³. Again, each cell is not covered in the text, but the table is worth reviewing carefully.

		Using funds that are mainly ...		
		Government money	Donation money	Investment money
Service delivery within countries	Public providers	Make aid more predictable and smooth; pay for performance.	Pay for performance.	Scope of and improvements in the PFI approach.
	Private providers	Improve contracting; pay for performance	Mobilize more resources, more effectively, by combining donation and investment money.	
Product delivery to countries		Financing; procurement; logistics; performance		
Product discovery and development		Matching the appropriate tool to the problem – pure research, versus financing trials, versus bringing to market.		

Options for Making Aid Smoother and More Predictable

As an example, we propose an extremely simplified approach to assessing options for remedies to reduce the volatility and uncertainty of aid flows, although equally interesting and important questions arise in the other cells of Table 2. Numerous attempts to do this have been advocated over the years, including various aid effectiveness and donor harmonization initiatives. The most ambitious effort is perhaps the Paris Declaration, endorsed on 2 March 2005 with over 100 ministers, heads of agencies and other senior officials committing their countries and organizations to support major reforms in how aid is structured and delivered. So far, progress toward achieving the goals of the Declaration has been limited. Skeptics say that it will be just another in the long line of grand plans that never get much traction. Supporters, though, point to some movement forward and remain optimistic that more will follow soon.

Table 4 on page 6 is the basis for this section. Eight options are arrayed in the columns: three that require better management of aid and five that involve financing tools. The eight rows are characteristics we might be looking for in a sensible solution. They are the result of rolling up 80 characteristics we actually considered. In commercial transactions, a wide range of criteria would be carefully considered and compared in choosing instruments. In this short note, none of these options or criteria is explained in detail, but the labels in the table give a good idea of what they mean. The full treatment is available in de Ferranti et al. (2008) (see footnote 1).

³ Eichler, Rena and Amanda Glassman (2008) "Health Systems Strengthening Via Performance-Based Aid: Creating Incentives to Perform and to Measure Results," Brookings Health Financing Initiative Working Paper 3, September. This paper is available at the workshop.

The options under “Managing Aid Better” have low cost, few side effects, and could go a long way toward solving the problems. However, they all depend on fundamental, voluntary changes in behavior by many donors and recipients that have low likelihood of happening in the short or medium term. They of course can and should be pursued but are unlikely to solve the problems in the foreseeable future. In just such a case, the question arises whether agreement to an innovative financing tool that would change incentives for all parties would be easier to achieve in the short run and obviate the need for broader, multiple agreements among the many parties or the types of behavior change that are so hard to achieve no matter how good the intentions.

As for the financial options, in Lane and Glassman (2008), four options are suggested: A Health Endowment Fund, Securitized Donor Commitments, an IDA Replenishment Swing Donor Facility, and a Health Debit Card. The mapping of Table 4 options to the Lane and Glassman paper is shown in Table 3. There is a one-to-one correspondence except for the IDA Replenishment Swing Donor Facility, which corresponds to two options in Table 4⁴.

Lane and Glassman Options	Table 4 Options
A Health Endowment Fund	➤ Endowment Fund to Sustain Essential Inputs or Services Locally
Securitized Donor Commitments	➤ Ifflm-Type Securitization of Future Aid Flows to Smooth Them And Make Them Predictable
IDA Replenishment Swing Donor Facility	➤ International Stabilization Facility – a Central Global Facility to Smooth Aid ➤ Insurance or Guarantee Facility
Health Debit Card	➤ Drawing Rights for Countries That Keep to Agreed Standards (A “Debit Card” to Fill Shortfalls)

The ratings in Table 4 are subjective and reflect the judgment of people who were asked, in small groups, to assess the instruments against the criteria. Normally, this is how the assessment would be done; with enough time, some of the criteria could be quantified or some instruments piloted to understand better the implications.

The entries in the cells show how well the indicated option or instrument (e.g., “Donors & Recipients Fix the Root Causes”) scores against the corresponding criterion (e.g., “Hard to make happen?”), with dark red (with horizontal lines) being “worst”, dark green (with vertical lines) being “best”, and lighter shades showing intermediate scores. This is no exact science, though. Nor should it be. Reducing this table to a single score for each option, for example, would probably be no more accurate than any single cell and would lose the granularity and judgment required to weigh the different pluses and minuses.

⁴ In the Lane and Glassman paper, the IDA Replenishment Swing Donor Facility is a specific implementation of a stabilization or guarantee facility that is connected to the IDA Replenishment. In Table 3, we are looking at two more general alternatives that might require additional financial innovations, but it is the same idea – a central pool of funds that makes up for shortfalls from recalcitrant donors but exacts a future financial penalty on them to discourage the misbehavior.

Reading across the first row, all the options examined here are “hard to make happen,” although some more than others, according to the opinions of those who contributed to these results. Getting donors to fix the root causes is seen, in this case, as more difficult to bring about than many of the other options. Setting limits on aid reductions year-to-year is also seen as very hard to bring about. This stands to reason considering that if donors find it challenging to fix the root causes, they are unlikely to be able to keep to promises to restrict aid fluctuations notably from one year to the next.

Table 4: Evaluating Options for Making Aid Smoother and More Predictable

	Managing Aid Better			Using Financing Tools				
	Donors & Recipients Fix the Root Causes	Recipients Improve Their “Cash Management”	Limits on Donor Reductions in Aid Year-to-Year	Endowment Fund to Sustain Essential Inputs or Services Locally	International Stabilization Facility – a Central Global Facility to Smooth Aid	Drawing Rights for Countries That Keep to Agreed Standards (A “Debit Card” to Fill Shortfalls)	Insurance or Guarantee Facility	Ifflm-Type Securitization of Future Aid Flows to Smooth Them And Make Them Predictable
Hard to make happen?								
Sufficient to Solve the Problem?								
Reliable Solution?								
High Transactions Costs?								
Risk of “Splash and Fade”?								
Straightforward to Continue Once Started								
Ties up Scarce Capital?								
Side Effects?								

Note: The dark red entries here signify the “worst” options in the given row, pertaining to the criterion for that row. Dark green represents the “best”, and the lighter shades are in-between cases. The green cells also have horizontal lines, and the red cells have vertical lines so they can be distinguished in black and white. In black and white, dark cells with vertical lines would be “best” and dark cells with horizontal lines would be “worst,” with the other variations falling in between.

Turning next to the second row, the strong green entry for the “fixing the root causes” option reflects that fact that although that option is, as just said, unlikely to happen, it undeniably would be sufficient to solve the underlying problem, if by some miracle it did happen at enough of a scale to radically change current patterns. The entries in that row for the other options are

all close to neutral, with some slightly more positive than others. Most of these options could be deployed at different scales – with either strong or weak impacts in terms of compensating for the erratic behavior of aid flows. It would thus not take much to push them over the line from green to red or vice versa.

The third row – on reliability – has results that differentiate the “managing aid better” options unambiguously from the “using financial tools” options. The former are seen as much less “reliable” than the latter. Here the main point is that the “managing aid better” options all require donors to sign up to and implement major reforms in how they do business, and then to adhere to those commitments unfailingly year after year despite changes in their leadership and pressures (from their parliaments, for instance) to shift to other priorities instead. On the other hand, the “using financial tools” options all are based on setting up a vehicle or institution which, once approved, can proceed on its own, without going back for new authorization.

The fourth and fifth rows – “transactions costs?” and “risk of splash and fade?” – are red for all options, possibly showing the biases of people consulted or realism about the political nature of these decisions. Possibly more notable is the fact that the “managing aid better” options once again come out worst, reflecting the inherent problems in gaining voluntary agreement by all participants. IFFIm-type securitizations, from a splash and fade perspective, could also suffer from the need for repeated decision-making and new deals. The other financing options, in contrast, score slightly better because they tend to require one-off decisions to establish the mechanism.

The sixth row – “straightforward to continue once started?” – reveals additional differences across the options. Three of the “using financial tools” options involve financial vehicles that are intrinsically automatic once they have been approved and operationalized, and thus are favorably scored. All the other options, burdened by the need to obtain fresh approvals and support periodically, are scored less positively.

The seventh row – “ties up scarce capital?” – highlights the fact that the “managing aid better” options do not require substantial capital, but the “using financial tools” options do.

The eighth row – “side effects?” – shows that most of the options would have positive side effects, in the opinion of those consulted. Many of these side benefits would be a consequence, as noted above, of the expectation that if donors could bring themselves to adhere to the commitments that these options would entail, there would be favorable spillovers for other aspects of donor-recipient interactions as well, beyond health. For example, fixing the root causes of lumpy aid, or improving recipients’ cash management capabilities, would help other sectors too. The strong green score for “drawing rights for countries that keep to agreed standards” comes, in part, from the prospect that if donors succeed in getting some of their priority concerns embedded in the agreed standards, they would welcome the faster progress on broader fiscal issues that would follow. In other words, for a country that achieves a reasonable level of good cash management and fiscal rectitude, which donors seek, donors in turn would guarantee the right to draw down funds that have

been committed (covering the draw-down through insurance, a small stabilization fund, or other financial means). Such arrangements could penalize the donor that caused the problem while guaranteeing funds to the recipient, when the recipient needs them – hence the comparison to a debit card, with cash in the bank when needed. There would be a quid pro quo on both sides coupled with incentives for both parties to improve their behavior – exactly the new incentive structure we seek to achieve with an innovative financing tool.

Summing up Table 4 from a different perspective – looking down the columns instead of across the rows – the “managing aid better” options have significant pluses but also notable minuses. Some of the minuses could be fatal: for instance, if an option cannot get past the test of whether it can be made to happen or not, then all its other characteristics – however good it might be once in place – are irrelevant. The “using financial tools” options have less extreme scores, and some of them pass enough of this initial screening to warrant a closer look.

The bottom line from this completely subjective exercise can be stated as follows:

- The “improve cash management” option was found to have more promise than it is generally given credit for. Newer, better assistance to countries to upgrade their cash management competencies seems well worth exploring. The possibility that such assistance could become a major function of one or more global institutions could be examined too, particularly in regard to the International Monetary Fund, as it ponders what its role should be now that its traditional financial support role is dwindling. However, this option is not an innovative financing option and its impact would be limited to the particular countries taking it on, over a longer period of time.
- Options involving an endowment fund, a stabilization facility, or an insurance/guarantee facility also survive to be worthy of further investigation. A key question for the next round of inquiry would be whether any existing mechanisms or institutions already fill one or more of these roles adequately, or could be adapted to do so. A next stage review would look closely at the details.
- The “drawing rights for recipient countries that keep to agreed standards” option stands out as especially deserving of additional examination. Basically combining qualities of the previous two bullet points, it would create incentives to improve budgeting and cash management for recipients and incentives for donors to improve their practices, while addressing aid shortfalls directly. These incentive changes are attractive and intriguing. As with other innovative financing facilities, all donors and recipients would not need to cooperate to get started, but the incentives are such that over time more of both would be likely to join. It thus could address the core problems at the country level through incentives set up at the global level.

We do not claim to have found an answer through this exercise. However, we do think that any discussion of Innovative Financing tools for development, in health or other areas, would benefit from a structured approach that first tries to identify the nature of the problem, then systematically scans for instruments that could address the problem, and finally assesses the instruments against reasonable criteria that would help to prioritize them.