

**OECD Global Forum on Development**  
**Financing Development Effectively**  
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**REPORT**

By Elisabeth Sandor, OECD Development Cooperation Directorate

**“Lessons for Development Finance from Innovative Financing in Health”**

**Informal Experts’ Workshop**  
**Part of the OECD Global Forum on Development**  
[www.oecd.org/development/globalforum](http://www.oecd.org/development/globalforum)

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*Co-organised with the Brookings Institution and IESE Business School*

**A workshop on Innovative Financing for development building on the lessons from health:  
Why and why now?**

Since 2000, a number of phenomena - among which the emergence of new global health partnerships and the collective commitments to scale up on the health MDGs - have sparked the emergence in the health sector of what are referred to as innovative financing mechanisms. Today, health offers a range of innovative financing mechanisms such as the International Finance Facility for Immunisation (IFFIm), UNITAID, the Advanced Market Commitments for vaccines, ProductRed, and DebtToHealth.

There is no clear and agreed definition of innovative finance for development. The workshop offered a pragmatic approach to the subject. It built on current developments, reporting and studies regarding innovative financing mechanisms. Its objective was to deepen the understanding of the rationale, objectives, achievements and challenges of innovative financing for development. Participants shared their perspectives and experiences about putting innovative finance into practice, mainly in health but also in environment, and they discussed the impact, challenges and potential developments of innovative finance.

Halfway between the Third High Level Forum on aid effectiveness in Accra and the forthcoming Financing for Development Conference in Doha, the workshop provided a timely opportunity to discuss successful contributions to the Monterrey commitments.

The workshop brought together 27 experts representing a range of perspectives (partner and donor countries, academia/research, public and private sectors and CSOs) and was attended by 100 persons. The sessions were guided by a background note (OECD/Brookings/IESE), an overview of innovative financing for global health and presentations of innovative mechanisms (Brookings Institution), one case study on the IFFIm prepared by IESE, one brief on aid for health (OECD/DCD/STAT) and presentations by participants. All documents are accessible on the GFD website ([www.oecd.org/development/globalforum](http://www.oecd.org/development/globalforum)). As illustrated in the agenda, participants discussed a set of complementary aspects of innovative finance for development, including an analytical framework for assessing problems and solutions, an in-depth review of the IFFIm, prospects for other ongoing initiatives, the incentives and solutions for leveraging private sector engagement, and the potential of innovative finance outside the health sector as well as the questions and opportunities associated with further development of innovative finance.

This report is designed to give readers an overview of the discussions and focuses on the **five key messages and outcomes of the workshop**.

- **Understanding the incentives is key, so we can achieve more.**

Innovative financing mechanisms bring together partners that respond to different incentives. Success in innovative finance for development can be measured by the effective combination of these actors and appropriate incentives to achieve a common objective.

For donor countries, the incentives for putting together, developing and funding innovative financing mechanisms were mostly political and practical, as illustrated through the donor survey. Some were pushed by a sense of urgency and wanted to scale-up towards the health MDGs. Others wanted to address global public goods that are not solved by traditional means as well as improve aid allocations and focus on the poorest through additional and sustainable sources of funding. Addressing the issue of predictability of aid was key for donors who wanted to increase funding for long-term treatments or invest in insufficiently supported areas (medicines for children). Some innovative financing mechanisms are pilots to demonstrate new approaches to development funding: through front-loading of aid (IFF) or boosting international solidarity through UNITAID before moving to a Voluntary Solidarity Contribution.

Innovative financing mechanisms are being supported by a significant group of partner countries through the Leading Group on Solidarity Levies. As suggested by one participant, innovative financing mechanisms ought to ensure more predictable, stable and increased levels of aid.

Most innovative financing mechanisms have been developed through Public Private Partnerships and seek to engage private players in financing, product development, and distribution. Understanding the incentives of private sector actors is important. In the area of research and development, bottlenecks and incentives for innovative approaches vary between drugs and vaccines and across the different players. Product Development Partnerships (PDPs) work best when they can minimise R&D costs and risks and build on the various partners' (industry, academia, public sector) comparative advantages. Multinational pharmaceutical companies say they do not require maximum commercial gain, but want to minimise costs, risks and have sustainable partners. Corporate social responsibility is their main incentive, but they also cannot ignore that their future clients are located in developing countries with heavy disease burdens. The workshop discussed an incentives framework for ensuring properly designed and funded mechanisms to stimulate R&D. It included the recommendations of not using big pull incentives if the science is not there, making R&D costs match the market and not the other way around. For private capital, innovative financing such as the IFFIm is an investment with minimal risks and there is strong appetite for investing in AAA philanthropic bonds. The next step to attract more private capital would be to minimise legal risks for investing in the developing world.

Developing options to improve the financing of health services and increasing access to health can also be achieved through innovative financing mechanisms such as the donor supported Health Insurance Fund program implemented in Lagos and rural areas of Nigeria. The fact that revenues are guaranteed contributed to higher investments, higher quality of service and higher demand. This is an excellent example of demand-side financing that created a reliable flow of revenues for Hygeia, which in turn allowed it to borrow money to invest in its facilities.

The workshop also illustrated that the Bill and Melinda Gates Foundation has played a major role in the development of innovative financing mechanisms, building on its catalytic role, interest for cutting-edge approaches and motivation for evidence-based and focused interventions.

- **Starting from analysing the problem before getting to a new solution and learning from the experience before moving to the next one**

Health is characterised by large unmet needs and a significant financing gap. The workshop started with the presentation of an analytical framework that offers tools for structuring and prioritising problems in health financing before deciding on new types of interventions. For making aid smoother and more predictable for instance, managing aid better - which requires that donor and recipient countries improve cash management, that donors improve in-year predictability - would be sufficient to solve the problem. But using innovative financing tools may offer more practicality (and attraction). The IFFIm, in particular, was perceived as successful in achieving better predictability and stability of funds for GAVI and developing countries, generating unheard of stability for ten years.

But lessons from those who have been extensively engaged in the setting up and development of the IFFIm also stressed significant intermediation and transaction costs and some mentioned that predictability of aid can also be achieved through existing financing tools such as IDA. The recently endorsed Accra Action Agenda also includes commitments for donors to improve in year and medium-term predictability of aid.

In the case of the IFFIm, the positive impact on predictability was balanced by recommendations to reduce complexities and to simplify its day-to day running including planning and reporting requirements. There was a vigorous discussion about the costs associated with the IFFIm. From an accounting cost standpoint, some participants stressed there are costs, such as interest and auditing, and administrative costs connected with the issuance of debt. However, from an opportunity cost standpoint, some participants indicated that the marginal additional costs relative to other forms of public debt and donor coordination are near zero or possibly negative, as the IFFIm required one multidonor agreement to gain 10 years of cooperation, and it was able to borrow at World Bank rates, the lowest cost internationally. Several participants felt that the IFFIm was replicable including in other sectors. But it would be important to draw on lessons learned, particularly an appropriate scale and simplified management of the fund.

Environment offers significant possibilities for innovative approaches. The Certified Tradable Offsets and Certified Emissions Reductions implemented in the late 1990s have corrected the wrong incentives and contributed to finance reforestation. These taxes contributed to create a domestic consensus on fighting climate change and next steps could be a 2% tax on water and taxes on electricity to produce clean energy.

- **“Please align!”**

The workshop provided contrasting examples from countries. The experience from Nigeria illustrated the capacity of some donors and international organisations to use innovative approaches to support country health priorities. In Rwanda, increased health aid including through new Global Health Partnerships and innovative financing contributed to impressive improvements in health outcomes due to coinciding reforms in its financing and delivery of health services (through its innovative health insurance scheme). But donor health aid is increasingly off budget (47% in 2003 and 62% in 2006), and PEPFAR accounts for 95% of the off-budget assistance. It is also provided with no more than a 12-month planning horizon, so it is neither smooth nor predictable. Significant shares of aid are earmarked and not aligned within the country health policy priorities.

Another participant felt that GAVI makes it possible to achieve additionality of funds through pooling resources but a major challenge is to integrate flows of funds from sources like GAVI and the Global Fund to complement ongoing efforts to strengthen health systems. Donor-supported initiatives such as the International Health Partnership aim at putting the Paris Declaration into practice, making sure all

initiatives are integrated into national plans. This requires improved harmonisation and coordination amongst all stakeholders within the country framework.

Looking at the options for increasing fiscal space in countries that need to spend more for health, the workshop also stressed the need for external aid to be sustainable, predictable and well coordinated.

- **Innovative Finance for development helps in enlarging the tent...**

As illustrated by participants at the workshop, the search for new funding and innovative finance encourages innovative partnerships to address complex issues. Whilst a set of these financing tools were initially designed and set up by donors, solidarity levies are bringing together a larger group of both donor and partner countries that are committed to expand innovative financing across all sectors as a predictable and significant complement to Official Development Assistance.

In addition, most innovative financing mechanisms are implemented through Global Health Partnerships whose membership goes beyond governments to include representatives from the private sector - which plays a key role in product development - and CSOs, which are involved in health service delivery and advocacy. Bringing all the players together contributes to ensure more efficiency in the use of new funding and development impact.

As noted by one speaker, the participation of the private sector is a characteristic of innovative financing mechanisms and it remains important to their success. In addition, collective action and solidarity levies could be further developed to address systemic global issues (e.g. climate change).

- **...but we need to keep the aid system manageable and accountable for results.**

The development of global health partnerships and innovative financing has contributed to increased complexity and fragmentation of health aid. One participant noted that increasingly earmarked aid reduces the flexibility of aid and can be particularly challenging for recipient countries when this aid is very large relative to the national budget.

High fragmentation of aid assumes existing local capacities for policy analysis which probably need to be strengthened. It's important that donors achieve the commitment they made at the Third High Level Forum on Aid effectiveness in Accra to think twice "before creating separate new channels" to address new global challenges. Innovative financing mechanisms can address financing or aid problems but should not be channelled through single purpose new institutions.

High fragmentation of aid is also a challenge for mutual accountability, which is a critical dimension of the aid effectiveness agenda. Some participants argued that it might be too early to monitor and evaluate existing innovative financing mechanisms, but others felt that innovative financing should go through some monitoring exercise.

- **Looking forward: more documentation and debate is needed**

OECD was commended for organising a discussion that fits well into its mandate to oversee opportunities and challenges in relation to globalisation. Several participants noted the need for further documentation, for a normative definition of innovative financing and further exchange in this area of innovative financing for development. OECD will extend its work on multilateral aid to examine innovative finance for development and keep innovative finance under review in further Global Forum on Development events.