

Innovative Financing Options in Healthcare

Background Paper

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This paper explores the use of innovative financing mechanisms with specific focus on private sector contributions to increase the available fiscal space for health expenditures. The key argument of this paper is that some innovative financing mechanisms centred on the private sector have a potential to leverage additional resources for health, and are highly rated on a range of qualitative criteria (e.g. sustainability, stability, administrative efficiency). They can be particularly useful in contexts where a small tax base limits the effectiveness of traditional taxation for health financing. Such mechanisms cannot, however, constitute the core of the domestic revenue mobilisation efforts or efficiency improvements to achieve UHC. Instead, they are temporary measures until wider tax-reforms are put in place.

What are private-sector focused innovative financing mechanisms?

Private-sector focused innovative financing mechanisms are an attempt to partially circumvent the problems posed by traditional taxation approaches to increase fiscal space,¹ by engaging the private sector. These mechanisms can take a variety of forms²:

- Private sector mainstreaming: workplace health programs to complement public sector investments in health. These can be promoted by helping businesses understand the productivity and marketing benefits associated with investing in the health of their employees and wider communities. More explicit incentives can come in the form of tax incentives and corporate social responsibility awards.
- New revenue streams (e.g. a charge, fee, bond raising, sale proceed or voluntary contribution scheme) earmarked to developmental activities on a multi-year basis. For example, airline companies might introduce voluntary additional charge added to the purchase price of passenger airline tickets, which is donated to support health projects. Such new revenue streams can also be created through mandatory taxes on the sale of airline tickets, mobile phone use, or tobacco sales. Such mandatory contributions might even raise more revenue than voluntary contributions. However, because taxes and levies are more similar to public interventions, they are not the focus of this section.
- New approaches for pooling private and public revenue streams (public-private partnerships) to scale up or develop health interventions for the benefit of partner countries. These are typically mechanisms that seek to lower barriers to private investment in developing countries' health sectors by using public financing to share investment risks, or to fully or partially guarantee loans (credit guarantees).

This section hones in on the first two types of mechanisms. This is because effective public private partnerships require strong public governance and regulatory capacity, and countries with a small tax base and high administrative inefficiency do not typically meet these criteria. It is also a recognition of the fact that the UHC agenda requires an altogether separate approach for engaging with the private sector in countries where user fees or private health insurance are already an important part of healthcare provision.

Choosing among private sector focused innovative financing mechanisms

The potential of innovative financing mechanisms needs to be assessed in light of both the size of the revenue they can bring in and a host of qualitative considerations. These include: sustainability, stability, progressivity, administrative efficiency, and side effects.³ *Private sector mainstreaming programmes* are one of the more promising such mechanism, on both counts. These workplace programmes aimed at improving health, such as, for example, the provision of anti-retroviral treatment to HIV/AIDS-affected employees. OPM's research suggests that it fares well compared to tax-based innovative mechanisms at raising additional revenue, whilst also scoring highly on the other criteria.⁴ The evidence for seven African countries⁵ suggests that in the order of an additional 0.15% of GDP per annum can be raised from mandatory private sector mainstreaming, whilst avoiding the deadweight losses imposed by a tax.

Although many businesses argue against further financing of health related initiatives based on the premise that they are already contributing adequately through the taxes they pay, a great number are voluntarily initiating workplace programmes. This is done not only because of a corporate sense of responsibility but also because of the gains they make from reduced costs due to lower staff turnover and higher productivity. As the business case for internal mainstreaming shows that the returns quickly outweigh the costs, businesses will generally be found willing to embrace it, especially when accompanied by tax incentives (for example by allowing them to deduct the costs from taxable income).

In the *new revenue streams* category, airline ticket voluntary solidarity contributions, for example, have been estimated to have the potential of raising \$980m/year globally.⁶ The fact that air travel is a luxury product makes this type of contribution highly progressive. It is also administratively efficient insofar as the contribution can be added on top of the normal taxes collected by the airline. The potential for side effects is also minimal, given the low elasticity of demand for flights. However, whilst an airline ticket tax is highly sustainable and stable, airline ticket

1 Examples include large informal sectors, inefficient tax administration, corruption and tax evasion

2 OPM (2012) Assessment of the potential of innovative financing mechanisms for HIV, Health and Development. A Focus on Africa

3 OPM (2012) op. cit.

4 OPM (2012) op. cit.

5 Burkina Faso, Cameroun, Vietnam, Malawi, Namibia, Kenya, Botswana, in OPM (2012) op. cit.

6 OPM (2012) op. cit.

BOX 1: CRITERIA FOR CHOOSING AMONG INNOVATIVE FINANCING MECHANISMS

- **Sustainability.** This refers to the extent a financial mechanism has longevity – i.e. does not decline over time or have a definite or potential end date. Clearly one financing mechanism is preferable to another if it lasts for a longer period. Sustainability may depend on the nature of the mechanism (for example, the sustainability of a mechanism that involves tax increases will require a stable tax base), and/or on political factors (such as the likely impact of changing priorities in the event of a financial crisis).
- **Stability.** Additionally, to what extent does the financing mechanism provide a stable source of revenue from one year to the next? For planning and budgeting reasons, a financing mechanism that can be predicted with a reasonable degree of certainty is preferable to one that is not.
- **Progressivity.** To what extent does the financing mechanism place the burden on those most able to pay for it (vertical equity)? In other words, stakeholders who are relatively better off (in terms of income or wealth) should pay a higher proportion of their income in tax than poorer stakeholders. Additionally, does the financing mechanism provide horizontal equity? This is the principle that a financing mechanism is preferable if stakeholders in similar circumstances (e.g. with the same levels of income or wealth) pay broadly the same amounts.
- **Administrative Efficiency.** This refers to the costs associated with the financing mechanism. They may be financial or administrative. They may apply to the initial establishment of the financing mechanism or the on-going implementation/collection of the mechanism. Cost are put in the context of resulting value added – for example, for a mechanism that generates additional funds, the cost of raising one dollar is estimated and for a mechanism that frontloads aid, the cost of providing one dollar X years earlier is estimated.
- **Side Effects.** To what extent does the financing mechanism create positive or negative side effects? This may include an assessment of economic efficiency – e.g. every tax will invariably cause some changes of behaviour that are adverse for productive activity (a "deadweight loss"). This may also include a wider non-economic assessment of changes in behaviour – e.g. improved health from alcohol taxes. Side effects may result from changes at individual, organisational or governmental level and have consequences for economic, political, or social development. The synergies and externalities taken into account could potentially appear in developing countries, in the country or countries where funds are raised, or globally.

voluntary contributions are less so and may depend highly on the branding and marketing efforts that accompany them. Similar mechanisms with high potential include mobile phone solidarity contributions, and consumer based donations (detailed in Table 2).

How much should a country rely on private-sector focused innovative financing mechanisms?

As discussed, the mechanisms above can raise important revenues in an efficient, stable, and progressive way. However, they cannot substitute efforts to widen the tax base. First, this is because the revenue raised through such mechanisms is less stable, due to their voluntary nature. Second, the extent to which they can be applied will differ substantially

from country to country. Finally, whilst the revenue they can generate is not negligible, it will rarely be sufficient for closing the health-funding gap to achieve UHC in developing countries.

Collaboration between MoH, MoF and Ministries of Economy, as well private sector associations is key for the successful implementation of private sector mainstreaming and revenue stream private-sector focused innovative financing mechanisms. The ministries would need to work together to establish the size of the funding gap for health as well as preliminary projections for which mechanisms are likely to be most desirable, both quantitatively and qualitatively, in the specific country context. Joint plans for engaging with the private sector to explain the business case and put in place appropriate incentives are necessary.

Table 1: Examples of Private Sector Mainstreaming and “Revenue-Stream” Mechanisms

Mechanism	Example	Type of Mechanism
Airline ticket voluntary solidarity contribution	Voluntary additional charge added to purchase price of passenger airline tickets, which is donated to support health projects. The MASSIVEGOOD organization is primary supporter and advocate. Ticket buyers in multiple countries (Spain was initial market) now have option to donate to UNITAID when purchasing through participating airline ticket wholesalers ⁷	Revenue stream
Mobile phone solidarity contribution	One-time or recurring donations made by private individuals or companies through mobile phone bills. ⁸	Revenue stream
Consumer product- based donations	Most prominent example is Product (RED), which partners with companies to direct a portion of proceeds from branded products to be directed to the Global Fund. ⁹	Revenue stream
Exchange traded funds (ETFs)	Private investment instruments traded on market exchanges linked to a cause, with part of collected fees transferred to Global Fund-linked index funds developed with Deutsche Bank debuted in 2010. ¹⁰	Revenue stream
Providing medical treatment for employees	Volkswagen Brazil has provided treatment and support services for HIV-infected employees since 1996. Treatment includes access to medical specialists, access to antiretroviral drug treatment, clinical monitoring of the drug treatment, home care and help returning to the workplace. ¹¹	Private sector mainstreaming
Community-wide investment in health	In 2013, Newmont's support to health at the Akyem mine was reviewed. The review found that the strengths of the support to health included strong and consistent community engagement, wide stakeholder consultation in the design of services, strong bi and multilateral partnerships including with government at the district level and a broad approach taken to address health, integrating HIV/ AIDS, water and sanitation and other medical services. ¹²	Private sector mainstreaming
Donations for the creation of health facilities	In 2011, ExxonMobil Foundation announced a donation of \$500 000 to establish a malaria diagnostic laboratory for the HopeXchange Medical Center at its health facility in Kumasi. ExxonMobil said that the 'center will also serve as a site for clinical trials of antimalarial drugs using internationally recognized best clinical practices'. ¹³	Private sector mainstreaming

7 OPM (2012) op. cit.

8 OPM (2012) op. cit.

9 OPM (2012) op. cit.

10 OPM (2012) op. cit.

11 OPM (2012) op. cit.

12 Witter et al (2014) "Delivering on the Promise: Leveraging Natural Resources to Accelerate Human Development in Africa", Bill and Melinda Gates Flagship Report on Natural Resources

13 Menka, E. ExxonMobil Foundation provides \$500,000 for malaria diagnosis in Ghana. Wednesday, July 20, 2011. Ghana Business News, <http://www.ghanabusinessnews.com/2011/07/20/exxonmobil-foundation-provides-500000-formalaria-diagnosis-in-ghana/>



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