REPRODUCTIVE HEALTH COMMODITY SUPPLIES

FINANCING MECHANISMS

WORK STREAM A: «Mobilizing Additional Dollars »

PHASE I: Solutions Options Identification

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For

KfW Entwicklungsbank
In the broader framework of the
Reproductive Health Supplies Coalition (RHSC)

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TABLE OF CONTENT

I. EXECUTIVE SUMMARY

1. Background to the Study:

Over the last two years the Systems Strengthening Group (SSG) has amongst others been focusing on how to make the use of existing resources and supply channels more efficient and on how to raise additional funding for RH commodities.

This double focus originated in the Den Haag and Seattle RHSC meetings, notably at the initiative of the Gates Foundation which commissioned the Mercer study[1] in 2005. The study identified a number of obstacles and shortcomings in the procurement of RH supply commodities. At the same time a series of studies commissioned by DFID raised further interest for the broader issue of adequacy of the architecture of finance and supply[2].

Other members then agreed to support further work towards addressing these issues. The Gates Foundation proposed to structure the follow-on work in two workstreams, with Workstream A addressing the issue of "More $" and Workstream B the issue of "better use of existing $". While the Gates Foundation retained McKinsey to carry out work under Workstream B, KfW with the support of BMZ[3] agreed to commission a Phase I study under Workstream A.

This Phase I study reviews a number of innovative approaches of possible relevance for RH commodities supply, based on extensive literature review and on interviews. An early draft of this study was shared with some of the Working Group members who are thanked for their kind support. Where possible their feedback has been taken into account. The effective development of a concrete financing option (or of a set of options) would be addressed in a Phase II.

2. Findings of the Study:

The adequacy of RH commodities supply is a complex issue. There is more at stake than financial resources in order to succeed in making RH commodities available where they are most needed. A number of other issues arise, notably "in country", which threaten the absorption of additional funding and of the products that funding will procure. Additional financing cannot realistically be raised, nor commodities procurement carried out, in isolation of these issues. RH commodities supply in development situations also carries limitations as a "business proposal" which will influence the financial options ultimately at the disposal of the RHSC.

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[1] « Contraceptive Availability Study », Mercer Management Consulting (Gates Foundation), Sept 2005

[2] "RH Commodity Security: *Adequacy of the International Architecture for Finance and Supply",* Ditlev Schwanenflügel (DFID Health Resource Centre), Spring 2005 – Accompanied by a comprehensive series of individual country studies

[3] German Development Cooperation

Changes on the development scene are reviewed as well as possible sources of additional funding. The growing role of philanthropic organisations is discussed, as well as the role of international finance institutions, socially-minded investors and of the public, all potential partners for donor organisations and Western governments. At the local end, the role of governments and the potential in harnessing the purchasing power of end-users is considered. Global health partnerships and the recent donor trend towards budget and program contributions (deemed to foster local ownership and responsibility) also need to be taken into account on a fast-changing development scene.

A representative sample of innovative financial approaches recently used in development situations includes:

- *Global solidarity approaches* (International solidarity taxes, voluntary contributions, international lotteries): the *short-term opportunity* afforded by the recently launched international tax on air tickets (Unitaid/IDPF) is emphasised.

- *Capital market approaches*: Due to the requirements of the financial markets, these approaches are not a prime route for RH commodities supply purposes but they could be usefully applied in smaller-scale focused situations which generate a return potential. The cushioning and guarantee role of donors is reviewed, with a series of recent examples in investment finance situations or with advanced market commitments. The options put forward by the McKinsey team under Worstream B are reviewed as well. Solutions which involve ways to front-load future financial flows are discussed, including the IFFIm pilot (launch ongoing /October-November 2006) based on the securitisation of future donor contributions.

- *Health PPPs and revolving funds* also provide interesting examples of cooperation between donors, philanthropy and industry. The Gavi fund, a global health partnership, has been able to build a strong track-record, notably based on a performance-based approach[4]. The PAHO and OECS revolving funds for the procurement of vaccines and drugs are very useful examples of what a well-focused and managed regional approach can deliver. This attractive model is however reserved for relatively sophisticated groups of countries and is unlikely to work for the less developed countries.

- *Ways to put country debt to work* have been considered as well. The potential to use these routes has however been much reduced due to the success of the HIPC program which has led to considerable debt forgiveness in poor countries. The IDA buy-down pilot and the ongoing efforts of the "Global Fund' to leverage country debt to its benefit remain useful references.

- *Finally performance-based approaches*, whether at government level or in the field, based on microfinance and cash transfer solutions, provide useful inspiration for all or part of a comprehensive supply project.

[4] Based on its achievement and on the relevance of its mission, Gavi has been designated as prime beneficiary for the new funding which will be raised through the IFFIm pilot

Each financial route has its own logic, specific requirements and limitations. Before all, the solution needs to fit the objectives pursued and the real parameters of the situation which one wants to address.

3. Recommendations and next Steps:

Before being able to make the choice of a financial route or of a set of financial options, before being able to tailor and structure it and before being able to convince others to join, *the RHSC needs to make a number of fundamental choices:*

- The objectives pursued need to be narrowed down: What is the additional money for? What is the exact development agenda/strategy pursued?

- The RHSC needs to determine the destination of the additional funding. Is it for:

  - The Coalition itself (i.e. is the Coalition going to fully embrace the RH supply cause and become its pivotal incarnation?)
  - Or for one or several Coalition members engaged in concrete RH supply work?
  - Or for organisations outside the Coalition?
  - For a country or a group of countries? The poorest, most under-served or the “fittest”?

The successful pursuit of a solution will require a champion, a persistent and representative actor to spearhead the effort and carry it through: Can the RHSC be this champion or will it pass on the task to someone else?

The Way Forward:

- Further RHSC and SSG work to confirm the fundamental strategic choices above

- Formation of a small ad hoc working sub-group (financial profile) to interact with the consultant towards the development of a concrete project concept and the tailoring of a suitable financial route

- In the meantime, pursuit of short-term opportunities (Ex: Unitaid)

II. BACKGROUND TO THE STUDY

Over the last two years the Systems Strengthening Group (SSG) has amongst others been focusing on how to make the use of existing resources and supply channels more efficient and on how to raise additional funding for RH commodities.

This double focus originated in the Den Haag and Seattle RHSC meetings, notably at the initiative of the Gates Foundation which commissioned the Mercer study[5] in 2005. The study identified a number of obstacles and shortcomings in the procurement of RH supply commodities. At the same time a series of studies commissioned by DFID raised further interest for the broader issue of adequacy of the architecture of finance and supply[6].

Other members then agreed to support further work towards addressing these issues. The Gates Foundation proposed to structure the follow-on work in two workstreams, with Workstream A addressing the issue of "More $" and Workstream B the issue of "better use of existing $". While the Gates Foundation retained McKinsey to carry out work under Workstream B, KfW with the support of BMZ[7] agreed to commission a Phase I study under Workstream A.

At present:

- This study, commissioned by Kreditanstalt für Wiederaufbau ("KfW") on behalf of the German Government /BMZ, explores the issue of raising additional funding (Workstream A).

- The McKinsey team retained by the Gates Foundation is investigating the efficient use of existing resources (Workstream B). A report and business plan have been submitted by McKinsey in April 2006, with recommendations to explore two mechanisms susceptible to address some of the shortcomings in the financing/procurement of RH commodities: i) A Pledge Guarantee, to remedy donor funding volatility ii) A Minimum Volume Guarantee, to secure lower commodity prices from producers and to lessen shipment prices. The SSG is exploring the feasibility and impact of the two mechanisms put forward by the McKinsey team.

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[5] « Contraceptive Availability Study », Mercer Management Consulting (Gates Foundation), Sept 2005

[6] "RH Commodity Security: *Adequacy of the International Architecture for Finance and Supply",* Ditlev Schwanenflügel (DFID Health Resource Centre), Spring 2005 – Accompanied by a comprehensive series of individual country studies

[7] German Development Cooperation

- A separate study also funded by BMZ is looking at RH resources requirements to 2015. A "Literature analysis and demand estimates" was submitted by DSW (German Foundation for World Population) in June 2006.

As prescribed by the TORs (Annex I), this study draws on a review of recent literature on relevant finance and health/development issues and on interviews with stakeholders, supplemented by the consultant's experience in development finance. The material reviewed is listed in Annex II and contacts are listed in Annex III.

The study reviews a number of innovative approaches of possible relevance for RH commodities supply. An early draft of this study was shared with some of the Working Group members who are thanked for their kind support. Where possible their feedback has been taken into account. Some of their comments however go beyond the scope of this work and would need to be addressed in a further phase.

The effective development of a concrete option (or of a set of options) would be addressed in a Phase II.

III. POSITIONING THE ISSUE

1. The status of RH commodities supply

A. ***The RH commodities supply issue is difficult to quantify:***

On the one hand, a significant increase in contraceptive requirements is foreseen:

- A number of studies point to steeply growing demand, including unsatisfied demand, and to an expanding financing gap. This is due to i) sheer population growth in developing countries, with large numbers entering sexual/reproductive age[8] ii) a greater interest in reproductive health commodities in younger segments of the world population (Generational change).

On the other hand:

- Demand estimates are not comprehensive and/or are based on fragmentary information and variable sets of assumptions. Amongst others, the effective size and reality of *unmet demand* is the object of considerable debate. The WB estimates that today 120 million women worldwide wish to access to contraception and family planning and actually do not. Other sources seem to lean towards higher figures for unmet demand.

- Current RH commodity market in developing countries is around 4 billion $/year, of which contraception commodities account for 840-900 M$. Of these around 200 M$ come from Donors and perhaps 300 M$ from governments (DFID study & UNFPA estimates), the rest apparently being funded by "others", including end-users and social marketing. Figures and substantial information on the important "others" segment is fragmentary. Contraceptive costs are estimated to reach between 1 and 1.6 billion $ in 2015. These figures do not include unmet needs.

- There is considerable variation and debate on the size of the current *financing gap*, and even more so where the size and consistency of future gaps are concerned: As low as 90M$/year to around 230M$ in 2015, depending on the sources.

[8] According to Elizabeth Lule, WB ("Strengthening the Linkage between Reproductive Health and HIV/Aids Programs"), 3 billion people will have entered reproductive years between 1994 and 2015. UNFPA puts the increase in contraceptive users between 2000 and 2015 at 28%.

B. There is more at stake than funding of RH supplies:

Enhanced availability of RH commodities through increased and better funding evidently is a key success factor in improving RH (Mercer Study) and in mitigating the negative impact of unsustainable population growth.

However a number of other issues determine whether or not effective progress is being made. The McKinsey study has underlined and has worked at addressing issues related to the quality of donor funding and to other issues occurring mostly prior to the shipment of commodities. A number of other issues arise, notably in country, and are powerful determinants of *whether or not additional funding – and RH commodities - can be absorbed where they are really needed..*

Opportunities to "cross-address" these issues should not be overlooked by the RHSC as *they will impact the performance of RH commodities supply and therefore also the ability of the RHSC and of its partners to successfully raise funding (credibility issue)*.

- *Low priority given to RH Issues:* Particularly in the poorest countries, those also most at risk from the HIV/Aids pandemic, reproductive health is not sufficiently prioritised in government budgets and policies. This has started to be taken on board by donors and by other stakeholders who are putting health and RH mainstreaming and prioritising on top of their agenda.

- *The issue is compounded by the severity of the HIV/Aids crisis:* HIV/Aids mobilises significant resources from Donors, governments and public opinions, away from reproductive health. The issue of a growing financing gap arises for the HIV/Aids field as well, leading to competition for resources, despite the evident links between the two issues. *Synergy with HIV/Aids* issues and financing tools undoubtedly is not without difficulties but holds promises for RH.

- *Cultural/political obstacles:* What is the use of mobilising significantly more funding if RH commodities do not reach those who should use them because of cultural reticence, from the end-user or in the local environment (community, politicians, clerics)? This problem is acute in the poorest countries and/or in specific regions. This raises questions as to what the effective reality of demand in those countries/regions is. Another difficult question is whether/how one supports advocacy and/or fosters demand for what can be a very sensitive issue locally.

- *Lack of appropriate health infrastructure:* A growing number of developing countries, and not just the poorest anymore, suffer from severe health systems and infrastructure inadequacies, including insufficient numbers of health practitioners (Doctors and nurses) able to support the end-user part of the chain. Rural areas in the poorest countries are the hardest hit. For RH commodities supply this is a serious obstacle which needs to be addressed.

- *Poor management of RH issues and procurement by local stakeholders.* This for instance encompasses lack of expertise and manpower, poor planning and management systems. In certain cases it also includes straightforward funding abuse or corruption, with recent examples in the Philippines where RH supplies were withheld for months to be eventually used as election props or, in recent cases where Global Fund operations have been suspended because of unaccountability of HIV/Aids funding.

- *The poor and poorest remain under-served.* Although it is often thought that their needs are addressed by national and local governments, this is in fact not so: the public share of health spending in the poorest countries is 29% whereas it rises to 56% in the richer countries (World Bank, "Health financing revisited" 2006[9]). National health services, where they exist, tend to serve the middle/high income urban dwellers. Donor and even social marketing programs also tend to leave aside the very poor, incapable to pay even heavily-subsidised user fees and/or the other costs associated with accessing the RH product (such as transport to the point of delivery).

Sub-Saharan Africa: The continent is a case in point as it regroups many of the countries with the most problems, the lowest RH commodities prevalence, the least efficient infrastructure and health systems and for which the financing issue is and will remain most acute. These are the countries under Group 1 in the country segmentation of the Mercer study (The study identified two other country groups: Group 2, with more moderate issues and Group 3, regrouping countries with stronger managerial and financial capacity). In these countries, donors are and probably will remain the foremost source of funding for RH commodities, *making these in-country issues inescapable.*

C. Other considerations relevant for raising RH commodities finance:

RH commodities supply in the developing world is not as such a business proposal:

In the least advanced, poorest, developing countries at least, RH commodities rarely give rise to steady and significant generation of income or financial returns. This rather straightforward fact does shape the range of available financial options, as discussed later on.

RH commodities supply takes place in a "less than perfect" market:

Due to a variety of factors, amongst which donor dependence, lack of empowerment of end-users, shortcomings at government level, the market for RH commodities in many parts of the developing world is haphazard. Amongst various perverse effects lower income segments of the population may have to pay in excess of their purchasing power, resulting in demand contraction while other segments with the ability to pay benefit from free and/or heavily subsidized products.

[9] A study released in May 2006

Solutions which would enhance RH markets, perhaps in the spirit of the total market approach advocated by DFID and others, would be worth privileging.

2. The main RH contributors/instruments today

Prominent stakeholders in RH advocacy, funding, coordination and in the furtherance of RH causes include:

- *UNFPA*, the lead institution in the field of RH, with global reach, numerous field offices, its own procurement organization (acting for its own account and on behalf of others) and a strong advocacy and fund-raising track-record. As part of its global RH initiative, UNFPA has put in place the Global Contraceptive Commodity Program (GCCP) to finance emergency buffer stocks. The GCCP operates as a trust fund replenished by UNFPA and donor contributions. UNFPA is also putting in place a new fund to pool donor funding management.

- *The Donor community* accounts for 25% of current RH expenditures globally but much higher percentages in poorer countries: ODA amounts to 55% of all external health flows to Africa against 9% in other developing regions[10], with Usaid, BMZ, DFID in the lead.

  Many donors are planning an overall ODA delivery shift from project funding to *government budget and/or sector approaches*, where country conditions are right. This is seen as a way to make local stakeholders responsible for development, including for health and for RH which frequently is a donor-dependent area.

- *The World Bank,* has been active in RH over the past three decades, through policy development and financing operations (cumulated 3 billion $ in RH/population financing).

- *Significant philanthropic organizations and wealthy individuals* (such as the Gates Foundation, the Clinton Foundation, the H-P Foundation, the Wallace Global Foundation, etc.). The past few years have seen a remarkable increase in the involvement of these organizations and individuals. They have become prominent development actors and tend to be very proactive partners, applying business approaches to furthering the causes they support.

- *Governments,* with variable involvement (Greater and more efficient involvement in medium- and higher-income developing countries). Donor dependence can lead to perverse effects with governments neglecting areas addressed by others.

[10] “Health Financing Revisited” WB

- *The RHSC is the global partnership dedicated to RH issues.* The partnership regroups some of the key RH stakeholders since 2004, ideally ought to see its strategic and coordination role further assert itself in the future and has the potential to be one of the truly leading actors in the field, including perhaps a funding role.

- *NGOs, some of them very prominent:* involved in education, fund-raising and field programs such as social marketing, in some cases supported by micro-finance institutions ("MFIs").

Absence of dedicated global RH instrument:

At this stage there is no global RH-dedicated instrument on the scale of the Malaria, Aids, TB Global Fund.

The major part of donor support is delivered on a bilateral basis or through support to UNFPA or WHO programs.

IV. ATTRACTING ADDITIONAL FINANCE - ESSENTIAL STEPS FOR THE RHSC

1. The need for a compelling set of objectives and concept

The RHSC should develop a *compelling RH commodities supply concept*. This is needed in order to be able to develop a concrete and feasible approach and ultimately to raise interest from potential contributors and stakeholders.

A solution or set of options can only be tailored once the proper focus has been achieved.

Thus,

- The RHSC needs to narrow down what it wants to achieve, i.e. the concrete scope and objectives of the RH commodities supply "project". Given the scale and complexity of the RH commodities supply issue, one solution/approach will not fit all.

- For what is additional money needed?

- What is the destination of the money raised: Will it go to the Coalition itself? Or to Coalition members? Or else to a country or group of countries? And if so, which ones?

2. A few of the issues and choices to be considered:

The prime objective of the RHSC is to provide funding for the supply of RH commodities in adequate quantity and quality*:*

i) *Quantity:* Increase the volume of financial resources available for RH commodities supply, to
   - Address some of the financing gap and to
   - Increase leverage and much needed influence over the supply process.

ii) *Quality:* Achieve more timely, predictable and stable provision of funding and of supply, eschewing unnecessary administrative complexity.

iii) RH Commodities understood as being contraceptives, including condoms

In order to be realistic and effective this overall objective needs to take into account some of the following questions:

Consider a dedicated global RH vehicle or look for synergies with other initiatives?

As already stressed RH does not really have a dedicated global initiative “to its name”. Global instruments dedicated to a specific development objective and/or activity, often described as “vertical”, have multiplied in the last decade. At first widely accepted they now encounter growing reticence.

The advantages and disadvantages of a global (RH) tool are summed up in the following table:

RH Global Instrument	
Pluses	**Minuses**
Economies of scale	Risk of “self-perpetuation”
Strong visibility & good focus for contributions	Dependence on replenishment rounds
	Ambiguous reception by target countries[11]
Results achieved	Possible weakening of country capacity
Ability to support the costs associated with plural issue/project approaches	Perpetuation of country dependence on donors
Better advocacy basis	Some countries actually are able to afford and deal with RH supplies/issues
Leverage vis-à-vis industry, governments	Might duplicate existing instruments (UNFPA?)
Diversification of RH actors (“healthy competition”)	ODA architecture issues
Steadfast purpose & delivery	Might take a while to launch

There certainly would be a case for a dedicated global RH initiative. Indeed without a dedicated initiative, it is likely that:

- RH commodities supply would need to be pursued in a more iterative manner and on a smaller scale.

- One would also be looking to use existing structure and other initiatives, even if they are not involved in reproductive health. Opportunities for “piggy-backing” on other ongoing development instruments certainly exist as does the option to work more closely with some of the existing RH stakeholders. One obvious synergy is with HIV/Aids initiatives, at least from a fund-raising viewpoint: *A RH niche with the Global Fund, for instance*. Or convincing the Clinton Foundation to highlight HR as part of its “poverty alleviation” or of its “global public health” focuses. Or having RH included amongst the eligible financing targets of the global solidarity tax on air tickets.

[11] Perhaps as a way to address this issue while generating additional funding, the Global Fund is investigating the feasibility of debt conversion. This would, a.o., have the advantage of making the countries concerned direct stakeholders of the Global Fund.

A major obstacle is that vertical, special-purposes mechanisms, although they are effective at delivering results, are widely seen as crowding out local stakeholders and preventing countries from taking responsibility for the issues concerned. They also run contrary to the prevailing donor trend towards national budget/programs contributions.

Several coalition members have expressed their firm opposition to the idea of a global RH instrument, including DFID and the World Bank.

Go for one global supply project or focus on one/several smaller focus areas?

Should one perhaps consider a *global purchasing facility placed under the aegis of the RHSC*? Could the RHSC play the necessary anchoring role?

Does a global approach actually make sense, for instance because of economies of scale or because the ambition is to address the RH supply issue on a major scale? According to the DFID study, RH commodity production capacity and the market structure for RH supplies are not overriding constraints.

Short of a vertical approach and/or of a strong anchor, one single solution will not fit all and choices need to be made: For instance some technical options will be feasible in countries/region with a certain level of sophistication, and not in others. Whether pooled procurement would make a significant difference in price, except for very specific products, is also disputed… Should one focus on specific RH commodities rather than work on a broad range of contraceptive commodities?

Work at regional or at national level?

The benefits of a regional approach would be to provide visibility, critical mass, leverage and a better costs/effort-benefits ratio. But this can only be achieved where there is strong coherence and political will in the country group: This is a key lessons learned, for instance, from pooled procurement projects: They have only worked where these two elements of regional coherence and strong political backing were present. This would imply that the Coalition identifies one or two suitable and strategic groups of countries as its focus.

On the other end, in the world's poorest areas, regional initiatives have a very mixed record. This is the case in Africa, a continent most in need. Implementation furthermore takes place at country level and although issues are often the same on different sides of borders, cultural approaches and physical and human resources differ greatly. Are countries ready/in a position to consider true solidarity options (i.e. for instance to accept that part of their transfers to a common financial tool be accessible to other countries)?

Are there elements of RH commodities supply which require a regional approach (For instance, local production?)

Work exclusively on countries most in need and/or with the poor and poorest?

These broadly under-served countries and/or segments of population are also those associated with the most obstacles. It is also the countries/segments for which the use of sophisticated financial tools is least evident (Issues range from inadequate institutional environment, lack of market appetite to the detrimental impact of corruption and a history of misappropriation of funding).

At the same time, they are in desperate need of assistance and constitute a significant population burden. Should the Coalition take a greater interest, directly or through partner governments and organisations?

Should the RHSC focus on one/several key inefficiencies in the RH supply chain, pre- and post-shipment?

This would involve the identification of critical inefficiencies and the prioritisation of those where a worthwhile difference can be made. The pre-shipment exercise is being made with the McKinsey team under Workstream B. Post-shipment inefficiencies equally need to be addressed.

Depending on its country/population segment target, is the RHSC after: pricing gains (for instance through regional procurement or advanced market commitment mechanisms), rapidly addressing crisis situations, creating a reserve pool of supplies, fostering greater demand or working on a comprehensive and functioning RH commodities supply and use pilot?

Focus on RH commodities supply only or also address related in-country issues?

The Coalition could for instance focus on a country/group of countries, working in parallel on RH commodities supply and on some of the in-country obstacles. Or partner with another organisation, donor or government who would handle the in-country issues in an agreed sequence. Is it realistic to pursue RH commodities supply in isolation of serious obstacles to the absorption of the funding and/or supplies provided? Should the Coalition get involved with RH advocacy as part of its supply project?

Go for one solution, or rather for a combination of approaches, applied at different levels?

For instance, work both through a fairly large revolving fund to procure and deliver RH commodities and with the field, bottom-up, to foster a “total market approach”.

Considerations of scale:

Some of the financial approaches reviewed in this report may be able to raise large amounts of financial resources while others will only be feasible or effective on a more limited scale.

As illustrated in the table below:

- Approaches more likely to deliver large pools of resources are government-debt mechanisms, international solidarity taxes, global funds and other vertical vehicles.

- Capital market-type approaches, where feasible, would realistically generate more limited funding.

- At the very end of the spectrum, a combination of microfinance and performance-based approaches would generate focused local resources (For instance, to bring a larger number of users to pay for RH commodities, thereby improving the focus and reach of existing allocations of funding, and effectively raising “more dollars”)

Larger $ volumes
International solidarity taxes, lotteries
Vertical instruments & “linking” with them (Global Fund, Gavi…)
Revolving funds (Paho fund)
Front loading ODA (IFFIm)
Debt-based tools
More focused $ volumes
Guarantees/Risk cushioning
Capital markets/Financial engineering
Voluntary contributions
PPPs
$ generated from the field
Micro-finance, social marketing, performance-based approaches

3. The need for a Champion:

To achieve its objectives to raise finance for its RH commodities supply “agenda”, the RHSC will need a *champion*, i.e. someone or a member organization which will steadfastly focus on selling the project to possible partners and will spearhead its early implementation:

- RH needs to be given a strong identity in order to receive the attention and care it deserves.

- Building a credible agenda, setting up new financing approaches and/or raising new finance implies consistent dedication over a substantial duration.

- In addition to the development of a comprehensive project, the RHSC should not neglect to *pursue more ad hoc opportunities as they arise* (One example, relevant today, is to try to include RH on the international solidarity tax on air tickets agenda / Discussed later on).

In the absence of a champion or strong leader, the risk of dispersion, weak issue visibility and/or loss of opportunities is high:

Is the RHSC in a position to be this champion and stay the course?

4. Main criteria for suitable financing option:

1) Dependability and stability

The funding and systems eventually generated through the Coalition's efforts need to provide RH commodities support in a predictable, reliable and sustained manner, in order to work optimally with commercial partners and to be able to build ownership and responsibility locally.

2) Additionality / Non-displacement of ODA & of existing mechanisms:

Ideally, the attraction of new funding should not be at the expense of existing ODA/other flows, if the idea is not only to improve delivery and efficiency of RH assistance but also to increase the volume of available financial resources.

Existing mechanisms, provided that they deliver value, should not be displaced.

Partnerships with other compatible actors and initiatives should be explored.

3) Urgency versus feasibility considerations:

Options which involve complex technical processes or which require extensive political endorsements[12] take time and will delay resources coming on stream, sometimes for years. In that sense they may not be feasible.

The right balance should be found between timing and other considerations. Of course, a major undertaking to put in place sizable resources and/or a permanent structure could well be worth the time needed to develop it.

4) Transaction costs & sustainability:

Transaction costs:

Again the right value for money must be sought. If the costs associated with setting up and operating a financing approach are excessive, the solution will not attract interest and/or will fail to deliver value.

Sustainability:

Sustainability is important in several respects: The fact that an instrument is available over the longer-term helps to build trust amongst stakeholders and can elicit greater local commitments towards the agenda supported. It also makes the initiative independent from periodic replenishments and enables it to attract the right blend of talents and contributors. Plainly speaking however sustainability implies either the generation of significant income from operations, or a very large endowment, or else costs kept at a strict minimum. Although highly desirable, full sustainability may not be achievable in all RH scenarios. A well planned exit (i.e. the transfer of the instrument to others in due course) can be a valid alternative.

5) Efficiency, visibility & demonstration effect:

A convincing brief, being efficient and building a track-record are essential to increase funding volumes and to ensure the continuing commitment of contributors. Developing a strong identity and visibility would also be strong assets from a fund-raising viewpoint and would help reinforce the priority of the RH agenda.

Similarly efficient management of RH supply throughout the funding and supply chain makes funding go further. The recommendations made by McKinsey under Workstream A are obviously also valid where new money is concerned.

This implies, amongst others, a clear concept of what one seeks to achieve, professional management and a strong governance/oversight structure.

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[12] For instance, the use of Special Drawing Rights ("SDRs") to generate more resources for poor countries has been attempted. It requires political consensus at many levels and is proving an elusive target.

6) Local ownership:

RH, including RH commodities supply, is donor-dependent in a number of poor countries. This has counter-productive effects and often leads local authorities to disinterest themselves from RH issues, relying on ODA and on other external contributions instead. This also means that RH policies are not progressed as they should. Finally a number of development initiatives and instruments are perceived as donor- or foreign-led and are therefore distrusted and/or underused.

Solutions which involve local stakeholders, which foster local "buy-in" and transfer responsibility for RH matters to local governments and/or which reward performance ought to be privileged (provided that governance and control mechanisms are not compromised).

V. POSSIBLE SOURCES OF ADDITIONAL RH FINANCE

1. Changes on the development scene

In the past 5 to 10 years, there have been remarkable changes on the development scene. Amongst those:

- ODA architecture has been adapting to change at a sustained pace and cooperation between ODA players has intensified.

- New actors have entered the field and are introducing new approaches or embracing new roles, amongst them global partnerships, philanthropists, NGOs, microfinance players and to a lesser extent socially-responsible investors.

- In some cases the combination of ODA and of other sources of finance has led to the launch of novel public-private partnerships ("PPPs") or has permitted a greater recourse to the capital markets in development situations.

- Forgiveness of country debt has been introduced and ways to leverage debts are being explored.

- Innovation has gained wide legitimacy, whether to increase development resources and/or to improve the delivery of assistance. The term of "new public finance" has recently been coined to describe the phenomenon.

- Change in the global economy is at the root of many of these evolutions. In addition, the role of national states/governments is changing as well, with outside actors taking over some of their former remit[13]. The concept of international solidarity taxes is making progress notably due to these changes.

On the other hand:

- The past decade has also seen the multiplication of initiatives and instruments which can be confusing and counter-productive. A 2005 inventory of financing tools by the Office of Development Studies of the UNDP lists some 203 mechanisms.

- For the poorest countries, notably those in Sub-Saharan Africa, there also is a pervading feeling that "nothing has worked", so far.

- Global change is also changing the goal posts and principles which underlie ODA. ODA is undergoing fundamental changes, not least with the ongoing switch to budget/program contributions (an ambitious and risky approach), and with new

[13] Confer "The new intermediary State", briefing note 2, "The New Public Finance", 2006

partnerships and alliances. The future holds a lot of promises, challenges and uncertainties for the new ODA.

2. The Players

"FOREIGN" PLAYERS

1) Donors & development/RH agencies

Donors are the development aid arm of their respective national/regional constituencies. In order to address financing gaps for development, notably in the framework of the Millenium Development Goals ("the MDGs")[14], Western Governments have committed to increasing and in many cases to doubling ODA amounts vis-à-vis beneficiary countries, multilateral agencies, development vehicles and end-beneficiaries in the field.

Increasingly ODA also play a critical role in facilitating funding flows from other stakeholders, including private contributors, through guarantees and other risk enhancement interventions.

With regard to RH,

- Improving and/or increasing donor funding remains an important lever in spite of the overall relatively modest position of ODA compared to other sources: i) Donor initiatives have high visibility and can therefore foster contributions from other sources ii) Donor funding is well documented and provides opportunities for measurable improvement with significant benefits[15] iii) Donor funding provides leverage to steer issues and policies; And perhaps the most significant factor: iv) *In the poorest countries, i.e. in most of Sub-Saharan Africa donor funding generally leads* over other RH funding sources.

- However donor governments and development/RH agencies will probably not be able to live up to their MDG commitments to increase ODA. Sources of finance will need to be diversified through the (greater) involvement of other stakeholders and through innovative approaches.

Donors and agencies are also engaged in a reflection process on the reform of the architecture of ODA based on the lessons of the past. The last 50 years have shown the limits of project grants. As already stressed, alternative options under consideration are

[14] Notably at the G8 Summit, Gleneagles 2005
[15] Increase of resources, efficiency gains, enhanced planning ability, impact on local governments and the public through trust and longer-term presence, etc.

contributions to government budgets, sectoral approaches and, at the other end of the scale spectrum, performance-based approaches.

> *Government budget contributions*
> *"Threat and Opportunity for RH"*
>
> - What are the appropriate instruments and safeguards?
> - How to ensure that RH, commonly dwarfed by other health issues, will gain sufficient visibility?
>
> Make RH a strong conditionality of other health/non-health contributions
>
> Mainstream RH

2) Philanthropy

Wealthy individuals[16], private and corporate foundations, charities, have become remarkably prominent in the last decade and have started to take a very active role in the field of development:

- Most bring to the aid field the same approaches, tests and disciplines used in business life. This may of course have some downsides, particularly where those criteria and approaches cannot be fully replicated.

- But in general, these new actors help to further professionalize the field, to introduce and support innovation, and to usefully leverage the efforts deployed by donors, free of the constraints applied to donors.

- In addition to providing financial resources, they help shape public policy. They also find that it is difficult to apply their resources efficiently.

Some examples:

- *The Bill & Melinda Gates foundation*, well-known to the readers of this paper, is a notable example of a philanthropic organisation which steadfastly pursues development objectives in the health sphere, from HIV treatment to the development of vaccines, through its own delivery channels (ex: ACHAP in Botswana) or through contributions to existing instruments. The 31 billion $ foundation recently has received a fresh influx of 37 billion $ from Mr. Buffett, making it an engaged charitable player on an unprecedented scale. Annual givings could now reach 3 billion $ a year.

[16] Whose numbers and wealth have soared, particularly, but not only, in the US.

- *The Clinton foundation* (notably through the Clinton Global Initiative) uses the charismatic qualities and engagement of the former US President to foster the development of new ideas and to federate contributions from other personalities and charitable organisations. CGI focuses on a limited number of causes and issues, amongst which poverty alleviation and, since 2006, “Global public health”.

- *The Deutsche Bank Micro-credit Development Fund*, an example of focused charity, on a more modest scale.

The share of public resources in development has been decreasing since the mid-nineties and has been in part replaced by the new “charity actors”.

> It is estimated that some 800 foundations in the US and Europe are engaged in international giving.[17]
>
> Only a small portion are potential stable partners for donors but the 11 largest foundations in the US/Europe account for a total of some 160 billion $

These organisations ought to become prime partners for the RHSC. Understandably, competition for the interest and contribution of philanthropic organisations is high. Pre-requisites for success include:

- A strong message

- A clear and well developed concept for the application and oversight of the funding

- Selection of the partner(s) with the best fit

3) Private Sector (Enterprises)

Mobilising financial support for development from the private sector is a highly circumscribed exercise. Indeed most company laws and regulatory authorities prescribe that enterprises stay strictly focused on their corporate purposes.

Private enterprises can therefore only take a financial interest in development causes to the extent that:

[17] UNDP/ODS background paper “Estimating the Number of Foundations & Investment Funds supporting the Financing of Global Public Policy Concerns” / Pedro Conceiçào & Sylvain Merlen, June 2005

- *The enterprise stands to benefit* from this "investment" (Ex: Direct relevance for their activity, PR and/or commercial visibility, measurable benefit to workforce or to the community, potential market development, etc.) or that

- *The contribution is limited*. It is however worth noting that very large corporations and financial institutions are able to donate sizable amounts (1 M$, 10 M$ or more) to a variety of selected causes. Quite of few also have established foundations or trusts through which they channel development, civic or scientific funding and actions (See Philanthropy)[18]

Where there is a potential for contributions, the vehicle/channelling of the funding needs to be private-sector friendly:

- Issues of location and taxation.

- Type of structure and governance.

- Efficiency and sustainability.

- Image and goodwill potential. The impact/visibility criterion was systematically mentioned in contacts with enterprises.

> The difficulty is attracting private sector contributions to development vehicle whether in cash, gifts of products and equipment or in pro bono work is clearly illustrated with the Global Fund:
>
> To date 922 M$ of the fund's financial resources originate in private sector contributions versus close to 5 billion $ from public sources

Given the maturity of the RH commodities business, the potential for industry synergies seems at first sight limited. However possible synergies, leading to a greater involvement of industry in financial and/or PPP approaches, might be found in:

- The R/D field.

- Collaboration in product distribution (Cross-advertisement with other products, etc.).

- Local production.

- Other types of operational partnerships

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[18] State Street Corporation, for instance, created a State Street Foundation in the early eighties. Through this foundation, some 6,000 grants totalling 92M$ have been disbursed.

A striking example of industry involvement was recently reported in the NY Times (June 29, 2006): In an (initial) effort to preserve its own workforce, *Billiton*, one of the world's largest aluminium producers, joined forces with the governments of Mozambique (as early as 2000), South Africa and Swaziland to fight malaria in a large region around its Mozambique plant. In the process the further of South African businesses in the region was also enlisted. The whole "enterprise" has been tremendously successful and has spread beyond the initial workforce target.

4) Socially-responsible Investors (SRIs) – Ethical Funds

The socially responsible investment field is "investment with a conscience" but does not cross the border into the aid field of gifts, grants and subsidised conditions.

- There is growing interest in the SRI segment on the part of institutional and individual investors (mostly in the US and in Europe) desirous to invest while respecting public goods and ethical principles.

- The market is paying attention as well, through the launch of SRI funds and market instruments with big financial nametags.

- Some of this trend may have also been fuelled by the remarkable growth of the microfinance financial and services sector. Microfinance has produced, and still is producing, significantly higher than usual returns, allowing investors to secure strong investment return with good risk diversification while supporting access to finance and development for the under-privileged and the poor.

- Islam-compliant financial institutions are growing in unprecedented ways. Thanks to their religious/ethical platform, they are managing to attract money from an increasingly diversified contributor mix.

At their most development oriented SRIs and ethical funds are willing to lower their return expectations and/or to take higher risks versus their level of remunerations. Before all however they remain investors who expect a suitable remuneration for their investment and, eventually, the full return of the funds invested.

Although a few SRI investors are more development inclined, most of them would find it impossible to simply donate or put money into a proposal or a vehicle which would not be generating a return and would not be sustainable. In fact, most SRIs operate under the philosophy that greater compliance with ethics, governance and sector screening will lead to higher returns over the longer-term.

Some illustrations of what SRI encompasses:

- Positive and negative screening of investment portfolios (for instance to eliminate alcohol or cigarette production, etc.).
- Constitution of investment portfolios based on quoted quality investment targets but with an agreed SRI focus (For instance, investment in renewable energy companies)

or based on enterprises which abide by certain standards (Ex: Pharmaceutical companies doing no animal testing).

- Active advocacy: Active advocacy may have originated in faith-based US investors decades ago but is increasingly present elsewhere. In this case SRI investing is based on a proactive attitude on the part of the SRI shareholders trying to bring change to the investment target. In certain cases this may actually involve investing in an otherwise unsuitable target in order to force change in that organisation.

> SRI is thus no ready- made option for supporting RH commodities supply
>
> But
>
> Could play a role where a sustainable instrument can be structured, perhaps through incentives and/or risk cushioning provided by donors

5) International Finance Institutions (IFIs)

The involvement of development finance institutions is obviously shaped by the profit-making nature of their activity.

- However some IFIs are increasingly instrumental in developing new financial and technical approaches which in certain cases allow them to make financial contributions to “borderline” vehicles.

- They act as market enablers, investing in conditions where the private sector would not invest or would not invest alone.

- In addition, it seems that under certain conditions some IFIs might be willing to share part of a profit margin or of a return as a grant towards a specific development goal (Ex: Microfinance, Health, environmental preservation, animal preservation, etc.) as socially responsible investors (SRIs). This is a slowly emerging trend, probably encouraged by the development of the microfinance field and the generous returns it has yielded so far. Capital market techniques which in some cases make it possible to anticipate income streams also support this trend.

Besides their traditional development financing role, leading IFIs are increasingly active in innovative financial engineering. They can play a pivotal role as developers and players in market-based approaches, or in mechanisms cushioned by donor risk-taking, for instance.

6) The public

The Western public should not be overlooked as a source of contributions. The tradition of giving for a cause as always been strong in the US even for a long time it has focused on local community issues and values. Apart from the UK which in part reflects the US trend, other West-European countries have been slower on the uptake. The Landau report puts private giving in the US at 220 billion $, of which only 3% has been going to international aid. Actual private giving for development in Europe varies greatly per country with Germany[19], the Netherlands and Switzerland leading. In all countries priority tends to go towards domestic social issues ahead of overseas concerns.

The case of Germany is particularly interesting: According to the Landau report, some 92% of the German population is ready to give, and to give for development causes overseas (against 78% in the UK and 74% in France). EU countries now confronted with the reality and impact of unwanted immigration, notably from Africa, and with the global spread of diseases are realising that development support is in their own direct interest. Politicians are beginning to build on this platform as well (Public opinions also favour an increase of ODA: 96% in France, 83% in Germany and 81% in the US[20]).

This partially counters currents of opinion which argue that money given either by the public or by Western governments does not reach those in need and instead enriches corrupt elites. Future threats on the planet borne of poverty and exploding populations also are a powerful magnet for a growing part of the Western public.

The phenomenon is of course difficult to quantify as it is largely based on local sensitivities which vary from country to country, and over-time. Besides cultural and political specificity, policy elements intervene as well, notably the relevant tax environment. The ability to demonstrate results obviously is a key success driver in mobilising public generosity.

LOCAL PLAYERS

1) Governments in developing countries

Fostering local ownership:

There is a growing consensus towards making developing countries more responsible for development issues and "weaning" them from ODA dependence, where feasible. ODA contributions to government budgets, already discussed, go in this direction.

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[19] The Cristoffel Blinden Mission, a German foundation for serious eye diseases in the developing world, receives around 100 MEUR per year from the German public

[20] From the Landau report

Developing countries have committed to increase their investment in the health sector and many, mostly median-income countries, have started to act on this agenda. RH matters, with their low priority compared to other more pressing (or perceived as such) health issues raise their own set of issues, particularly where low income countries are concerned.

- Is it realistic for poor countries to fully pay for/reimburse all of part of the RH commodities supplied, albeit with cushioning and facilitation mechanisms?

- Should those who can contribute their share to a joint funding pool if such a mechanism were put in place?

- How does one reconcile the different levels of strength and maturity amongst the various countries and/or regions? Is there room for solidarity mechanisms?

- Should they be encouraged to borrow for development purposes, notably for health and RH?

- Can poor countries absorb RH supplies if they do not or cannot address local bottlenecks?

Involving countries in the financing/delivery process has strong advantages in terms of i) increasing the financial pool ii) fostering country ownership iii) increasing the sense of responsibility at country and local administration levels, hopefully all the way to end-users. Last but not least involvement should also lead the country concerned to adequately prioritise RH issues.

South-South ODA:

As the strongest developing countries (India, China) grow and acquire more ambitious (and often complex) political agenda, they gradually become providers of assistance to other, poorer, developing countries. This is a newly emerging, and still modest, development.

But the trend is there to stay. *Interesting examples can be found in the participation of some of these countries in the IFFIm pilot and in the Air ticket tax, both in the process of being launched (Discussed in following sections).*

Options which would effectively by-pass government institutions:

Instead of delivering funding or commodities through the normal government apparatus (for instance health ministries) one can by-pass the official apparatus to directly address private health actors and/or end-users. In most cases this route offers greater certainty of results but by disregarding official actors runs the risk of compromising RH response sustainability. Official consent or some other form of involvement would need to be secured.

2) End-Users:

Some end-users are able to pay but do not:

In many parts of the developing world, there are end-users who can afford to pay (or at least to pay something) for RH commodities and services but who benefit from free coverage, either as a result of policy choices or as a result of lax management of policies and/or resources.

Where the numbers are significant it would be interesting to harness this purchasing power in order to free available resources and re-direct them towards poorer segments of the population, effectively enlarging the pool of finance available for RH supply.

It is however not clear, as stressed by the RHSC Market Development group, whether there is room for this sort of corrective exercise in the poorest countries.

The poor:

There is ongoing debate on whether poor and very poor people should be made to pay "something" for RH commodities, in countries where universal access to healthcare remains a distant fantasy. User-fee waivers and free distributions by the public sector remain limited and/or often miss their alleged target.

Conditional cash transfers and voucher systems provide a good compromise in i) empowering poor people as healthcare economic agents ii) giving them access (in some instances) to private care iii) encouraging them to prioritize healthcare (demand-creating impact). But these options probably work only where the cost of accessing the product (as opposed to the cost of the product itself) is not excessive.

In some parts of the world, the development of microfinance has also fostered the development of an interesting array of micro social services, including very simple forms of mutual insurance. Where they exist, these micro services can also be harnessed to foster RH commodity use amongst the poor.

***Financing approaches of potential interest for development funding are reviewed in the following sections*.**

VI. GLOBAL SOLIDARITY APPROACHES

Making use of global solidarity has been on the agenda for a long time, not least because it can lead to the mobilization of large pools of funds, for instance when it takes the form of taxation.

Most *compulsory solidarity initiatives* have however failed to materialize, often due to the absence of sufficient political consensus.

1. International Solidarity Taxation

1) Overview

Underlying philosophy:

The initial idea was to make a “common bad” contribute to a “common good”. Unsuccessful proposals to tax arms production and international trade stem from this approach. Lately, the concept has evolved towards ensuring that those who benefit from globalization contribute towards causes or populations under threat. The Tobin proposal of a tax on certain types of financial operations, or the tax on air traffic (hereunder) belong in this category.

Such taxes would be levied in parallel by member countries, earmarked for an agreed international cause (or set of causes) but raised/decided at national level.

Opposition:

Unsurprisingly in the past such proposals have met with determined opposition on the part of stakeholders at risk (Ex: Arms industry) and/or of governments as taxation can also disrupt the operation of the sector on which it is applied, leading for instance to activity migrations facilitated by globalization. Taxation and compulsory contributions are also viewed with suspicion by public opinions, particularly in Western Europe where the tax burden of individuals already is extremely high. Finally, they tread on delicate issues of governmental sovereignty and, in the West, violate the basic principle of “No tax without representation”.

Times may be changing:

The concept has been reinvigorated in the last couple of years as donors/countries are trying to find ways to address the growing funding gap for development, and to address it today rather than in years to come. As Western public opinions become increasingly faced at home with the consequences of poverty through legal and un-controlled immigration, politicians feel that the idea may be becoming more acceptable. The changing position of nations/States on the global scene also contribute to make the prospect of international solidarity tax less remote.

- ***Pros and Cons:***

PROs	CONs
Predictable and stable	May be disruptive to the target sector concerned if not properly structured
Potential to raise large amounts, starting promptly	Requires critical mass (significant country participation)
Relatively simple to implement / Does not necessarily require a new structure	Politically sensitive & thus slower to get agreed and launched
No burden on future generations	Flows required exceed present tax "capacity"
Transaction costs?	In-country absorption capacity?

The French administration has been instrumental in pushing the cause of the air ticket tax. *They have three other solidarity taxes on their medium-term agenda*: A small tax on international financial transactions, a tax on financial flows to/from countries with full banking secrecy and a tax on oil used in maritime and air transport…

2) The Air Ticket Tax & the IDPF:

This international tax initiative has been championed by France, ultimately with a view to creating and funding an international facility for the purchase of drugs needed to fight HIV, TB and Malaria (FIAM/Unitaid – "Facilité Internationale d' Achat du Médicament"/ In English IDPF). The IDPF is supposed to complement the action of other actors such as the Global Fund, to help push prices down and to foster the development of specific drugs, including pediatric formulations. The funding generated would be available promptly and with regularity and would thus compensate for the shortcomings in ODA flows.

The fact that France is actually starting to levy the tax (Hereafter) is seen as a decisive breakthrough for international solidarity taxation.

Mechanism for raising the tax:

- A tax will be raised on air tickets in participating countries. The underlying idea is that the airline industry is resilient to, and even profits from, globalization. As do its passengers.

- The tax can be modulated to focus on certain types of passengers (Ex: business class only), or destinations, etc. It should help regulate aid flows as, unlike ODA, it escapes classic budgetary cycles.

- The UK has been applying such a tax for years to the benefit of HM Treasury and has demonstrated that it is simple to administer, at least in a domestic context. It seems that the UK will allocate a small portion of its existing tax to the Unitaid initiative.

Concept development:

France, Brazil, Chile and Norway have been leading the effort to get the idea endorsed by a maximum number of countries. The principle of an international solidarity "contribution" was endorsed by 79 countries as early as September 2005. An international conference on the air ticket tax attended by 93 countries and organizations took place in Paris last March. There was guarded interest from many participants, clear opposition by airlines/airports[21] and there may be obstacles at broad EC level (Restrictions to the free circulation of persons in the EU). Nevertheless:

- France officially launched the initiative on September 19, 2006 during the 61st General Assembly of the UN.

- France established the tax in French airports on July 1, 2006. Chile seems to be introducing a tax on international flights. Norway has agreed to support the initiative as well, provided a critical mass of participants is gathered, as have Luxembourg and Cyprus. In total some 18 countries, from North and South, would have confirmed their intention to introduce the tax, at some point in time.

- A "pilot working group"[22] has been launched to refine the proposal, to determine the best use for the funds collected and to define the structure of the Facility. Norway is chairing the group for the next 6 months. Interestingly it seems that the WG's mandate is being expanded to cover the development of innovative development support in a broader sense. This may lead to revived support for other types of solidarity taxes.

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[21] Existing levies on air tickets have literally exploded in the last decade, partly because of security costs at major airports.

[22] Chaired on a rotating basis by Norway, Brazil… Some 43 countries seem to be, in one way or another, participants in the WG

From contacts with the French government, it appears that the development status is as follows:

- France, at least, will focus on allocating the funding to the IDPF. The IPDF seems to take inspiration from the GDF (Global Drug Facility of the Stop TB Partnership).

- The IDPF would serve to mobilize resources for drug purchases and would also aim to help structure the relevant drug market.

  The Facility will:

  i) Bring drug prices down through large international tenders, the creation of an e-market, etc.

  ii) Fund drugs and deliver them to existing institutions and mechanisms such as the Global Fund, WHO, Unicef and the Clinton HIV/Aids initiative. Orders would be pooled and tenders then launched. Assistance in negotiations would also be made available.

  The idea also is that, in this way, the Global Fund and/or the WB would be freed of the drug procurement burden and that they could then focus on other issues around the pandemics.

Structure and governance:

- The philosophy is to keep the structure light and to resort to outsourcing as much as possible. The WHO has been chosen to host the secretariat of the Facility as well as the trust fund into which the monies will flow

- In the case of France, AFD ("Agence Française de Développement") would be the counterpart of the trustee.

- A board will oversee the process. Voting members would be the countries contributing. Observers from the Global Fund, UN agencies, the WB, NGOs, etc. would also attend meetings.

Opportunity to add new beneficiary causes:

The French Ministry has informally confirmed that even if France is set on the IDPF the Working Group is open to new ideas on the best destination for the funds collected, and that once the project is effectively operational, *new contributors could always introduce another development objective to be supported with all or part of their levy.*

It is not clear how many countries will follow in the steps of France, particularly with the rising cost associated with terrorist threats on airports and airlines, and at which speed.

But if a sufficient number does the air ticket tax can deliver substantial amounts. For instance, France expects to raise 200 M EUR/year[23] and it is anticipated that in an optimistic scenario the overall facility could raise close to 500 MEUR in its first year.

The real mark of success of the air ticket initiative will be if and when a sufficient number of rich countries join. At this point, the question remains open. The same goes for the cost/benefit ratio (It is felt in some quarters that the transaction costs may prove higher than anticipated).

But this uncertainty should not prevent the RHSC to actively pursue the opportunity, from now on. This would consist in keeping in touch with the initiative itself and, perhaps more importantly, with significant countries which are likely to join the scheme and which remain free to choose the dedication of the funding they will raise.

> **It seems timely for the Coalition to liaise with the Working Group, and/or with the WHO**
> **and/or with countries interested in the process**
>
> Some contacts, notably via DFID and UNFPA, have taken place but ought to be pursued. *The RH "opportunity" needs to be put forward,* perhaps with a view to a RH compartment, via the theme of HIV prevention[24]

2. Voluntary Contributions:

1) Voluntary Contributions / SRI Linkages:

- Solidarity "investors" are the general public mobilised for a good cause, via their bank or savings accounts, their credit cards, when they shop through certain channels or when they attend performances from their favourite artists.

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[23] based on a tax of i) one EUR/ eco ticket for travel in the EU and 4 EUR for longer trips ii) 10 EUR/ business or first ticket for EU travel and 40 EUR for longer trips.

[24] *The times seem right for this message*. For instance, one of the conclusions of the UNAIDS' 2d meeting of the Global Steering Committee on "Scaling-up to universal access" (Feb 2006) is that HIV prevention needs to integrate with broader health issues, notably RH.

- Typically the individual accepts to see a % applied to his/her purchase or deducted from the remuneration of his/her account, to be donated to an agreed social or development cause.

Financial institutions, merchandisers and public sector operators have started to develop products to address this market segment. A few illustrations of this trend and how it can be made more coherent[25] follow:

- The *Red initiative* launched in the UK this March by singer-activist Bono. This is a commercial label (a licensed mark basically) shared by a series of well-known fashion/clothing houses (Armani, Converse, Gap) for certain of their products. A portion of the profits made on these sales goes to the Global Fund for affected women and children. The website of the initiative is found under www.joinred.com. As part of the same Red initiative, *Amex is introducing a Red card*. At least 1% of the amounts paid with the card would go to the Bono initiative. Thus under the Red approach both the resources of the giving public and private enterprises are involved.

- Some (rare) financial institutions are totally predicated on the development approach and values and propose SRI products and approaches

- *Matching:* Some enterprises commit to *matching* the "effort" made by customers who purchase their products, i.e. to donate part of their profit margin to the advertised cause. Public institutions, such as utilities, sometimes do so as well but the feedback, unsurprisingly, seems to be mixed.

- *Affinity cards* matched with a development goal are increasingly available in the US where they represent almost half of all credit cards in circulation.

- In some countries, *taxpayers filling their annual return* can opt for a purely voluntary and deductible payment toward a charity (Ex: the German or Swiss church tax which would have produced 9 billion EUR in Germany in 2002[26])

Obviously some of these initiatives pray on the guilt feeling of Western consumers and the enterprises which play along find their interest in marketing returns. However, faced with the huge size of the markets involved, one cannot afford to be overly cynical.

To access this source of funds can be done, provided that:

- The objective pursued is given a high profile and benefits form skilled marketing campaigns and from

- Charismatic endorsement.

[25] The difficulty to quantify and discipline the phenomenon of voluntary individual contributions has been discussed earlier in this report
[26] Landau report

- Public perceptions about contraception can be reframed: indeed RH has lacked the compelling quality of more immediately dramatic causes such as fighting hunger or addressing HIV. Contraception particularly is often perceived as a matter of personal management within the reach and responsibility of most individuals.

- The funding is used to support focused projects and initiatives, through a clear structure/delivery mode

- Concrete and credible results can be demonstrated

> Voluntary contributions can also be used as an element of a more complex “montage” involving other, more stable, sources of funds.

Migrant remittances:

Although of a different nature, these transfers to the countries of origin are important, growing and deserve attention. According to Mr. Reisen (OECD Development Centre) migrant remittances have totalled 126 billion $ in 2004. The WB in its Global Development Finance report 2006 published on May 30 places 2005 remittances at 166.8 billion $[27]. For some countries these flows are one of the few sources of hard currency finance.

There are some reflections on how remittances can be both facilitated and partly put to use towards development in the countries of origin. Recently Spain has launched a pilot scheme to foster the remittances of immigrants to their countries of origin.

2) International Lottery:

- Lotteries are a way to discipline voluntary contributions and thus to make them predictable.

- Indeed most of those who buy lottery tickets in Europe contribute to good causes, although for the most part unknowingly: indeed lotteries contribute some of their earnings to charitable causes (In some countries, like Belgium, this includes the

[27] Total recorded amounts are higher still (by another 50 billion $?). Part of the remittances is also unrecorded and cannot be fully traced (50% of recorded amounts?) / Source WB GDF 2006 report.

partial funding of development aid; In the US 30% of the lottery stakes goes to charitable causes).

- There can of course be opposition on ethical grounds: Lotteries are a form of gambling and the least well-off buy lottery tickets ahead of the more affluent segments of society.

- But there is in any event strong interest for lotteries on the part of the public and this holds true across developed countries.[28] In fact the bigger the lottery and potential gains, the more interest it attracts. This has been demonstrated very successfully with the "Euro Millions" concept which is an international lottery in which several EU countries take part.

- Is using lottery really much worse from an ethical viewpoint than leaning on the public spending habits?

The idea of creating an international lottery to fund development objectives has been put forward in the past few years.[29] Figures as high as 6 billion $/year made available for development funding have been advanced. Finland particularly championed the idea to provide more resources to the UN.

It seems that the idea of launching a global lottery, or of using existing lottery schemes, recently has been revived in order to raise funding for the UN World Food Program (400 MEUR/Year anticipated).

The fundraising potential of a lottery definitely is very good & should not be dismissed.

3) An interesting variant: the UK premium bond lottery

The UK introduced this special lottery in the late fifties to steer the British public towards saving and to generate funds for the country. It has remained successful since even though the odds have worsened with the growing participation of the public.

- The system is run through the Post Office and the NSI, and guaranteed by the UK Treasury.

[28] World-wide lottery stakes are thought to be in the range of 120-130 billion $ /year
[29] UNU-Wider study/ Finnish CMI proposal

- People invest in Premium Bonds and only run a risk on the bonds return, i.e. the capital invested is guaranteed

- *What is at risk is the bonds yield*: A lottery determines each month which of the Premium Bonds will earn a return and what that return is. Gains, if any, are tax free. Gains can range from a 1M£ jackpot to 50£.

VII. CAPITAL MARKET - FINANCIAL ENGINEERING

1. Context

Market prerequisites:

As already pointed out, the provision of RH commodities to the poor in the developing world does not produce significant income or return flows, notably due to the fragmentation and lack of structure of the RH commodities market. This is a defining factor when looking for additional funding sources:

Unless a predictable and significant return producing function can somehow be built in, the prospect of accessing capital markets and/or for using capital market tools is limited. Indeed the capital markets essentially serve the requirements of investors, i.e. the return of capital invested and the provision of earnings commensurate with the risk taken.

Some of the tools:

Market instruments used in securitization and in structured finance are essentially based on the anticipation of future cash-flows from operation or from investment, on leveraging assets or security interest, or on transferring risk in order to access market funding at optimal conditions. In *securitization* future cash-flows are embodied in tradable securities sold to investors. The technique a.o. enables the issuer to collect cash resources immediately, or to displace risks and achieve better ratings, or an enhanced access to markets. *Structured finance* is based on collaterized security interests and can include the use of asset backed securities. *Financial swaps* consist of the exchange of two cash-flow streams to change the character of an asset without having to liquidate the asset.

Appetite for emerging markets:

Market specialists confirm that there is once more a growing appetite for emerging market paper/instruments, on the part of socially-minded investors and of more traditional investors, as portfolio diversification ("pulled" by the growth promises of PRC and India) and in seek of greater rewards (Low interest rates in the industrial world). This trend is broadly confirmed in the WB report on Global Development Finance: Net private capital flows to the developing world have reached 491 billion $ in 2005, of which 238 billion $ in FDI and in portfolio investment (Europe & Central Asia, Asia Pacific and to a lesser extent Latin America account for most of the growth). Financial products on emerging markets are also becoming more complex with local currency bonds, external debt refinancing and various forms of derivatives accounting for a notable portion of financial operations.

Only a handful of countries effectively are of interest to the markets and, for obvious reasons, Sub-Saharan Africa does not really participate in these market developments.

Obviously even in those countries operation always occurs in a strict business context even if, in recent years, more atypical risk taking has taken place, for instance with innovative market operations in microfinance.[30]

These techniques are not, as such, available in a pure development context. ***But they perhaps can encourage the use of engineered approaches in specific cases, notably by:***

- Using the leverage provided by donor contributions and/or by another subsidized component to attract SRI-type market participants or to access funding.

- Or through focused pilots which satisfy market requirements and which have a demonstration or a scaling-up value, in due course.

Some examples are discussed in the following sections.

2. Income Generation Models

1) The Housing for HIV/Aids foundation

There have been cases where a development scheme has resorted to the capital markets *in order to generate a stream of revenues needed for the initiative but which they would not have been able to generate on their own strength*. The HLGC program is an interesting example:

- HLGC is a South African company which re-insures the risks of local banks involved in mortgage lending to the poor. The fact that insured a significant portion of the borrower population is infected by HIV increases the risks taken by HLGC (which no other institution would take).

- HLGC has developed a unique approach to address cases of Aids in its borrower population through a proactive blend of credit risk management, medical treatment and interim financial support. The cost of this unusual set of measures cannot be financed from insurance premiums alone.

[30] For instance the Blue Orchard Microfinance securities issues in 2004, backed by OPIC guarantee to enhance the risk; Guatemala mortgage Corporation issue of CDOs (collaterized debt obligations) on the US market, again with the backing of OPIC

- In an operation structured by JP Morgan, HLGC and a US partner have created a not for profit special purpose vehicle ("SPV") in the US: Housing for HIV foundation. The SPV took a 250 M$ loan from OPIC, the US development bank and credit insurer (possibly at a concessionary interest rate), matched the OPIC loan with a 50 M$ subordinated loan and with this money invested in securities (Asset Backed Securities, Collaterized Debt Obligations) on the US stock market.

  These securities have been producing a yield (3 M$) sufficient to i) *service the OPIC loan and to ii) build a cash reserve to fund the special HIV/Aids action program*. A variant which may have been applied elsewhere since would have included the issuance of DOCs by the SPV.

2) IFI "shared return" approach & Endowment funds

IFI shared return approach:

- The idea is that, where an investment project can be enhanced in terms of return through capital market techniques, part of the profit can be shared, i.e. contributed to a chosen development cause. First applications of this concept are ongoing (early stages) with some IFIs.

- An alternative scenario could consist of a reputable IFI which directly invests a certain sum in good quality paper producing a return. The IFI provides its good name and its investment know-how. The return then is totally or in part used to fund a development goal. If the initial funding is provided by a donor partner instead of the IFI using their own funding capacity, the risk/return ratio of course is significantly enhanced (if for example the donor organization accepts to either take a higher level of risk, or to dedicate 100% of the return to the objectives pursued).

The first major issue is one of principle, i.e. the "leap of faith" decision for a profit-making institution to share a profit, as a socially responsible investor.

The second issue is about finding the right balance between risk taken and financial reward. If the IFI leans towards security, they will make a conservative risk selection and will end up with more limited returns. Informal discussions with IFIs and arrangers indicated spreads of 30-35 bps p.a. for triple A paper, of which 10-15 bps might be available for the gift element, i.e. 100 MEUR invested would produce 100-150,000 in grants on a yearly basis.

Endowment funds:

Endowment funds are funds (under various legal forms: trust, foundations, etc.) established to produce income which is then available to be expensed towards the purpose chosen or the beneficiary institution. The capital remains untouched, providing sustainability to the fund.

Many academic institutions in the US are funded this way and have amassed considerable endowment principal over the years, through contributions and savvy investment. Often, favorable tax treatment further enhances the scheme. The Harvard foundation for instance is endowed in excess of 70 billion $.

Success factors:

- Favorable legal/tax environment, for the institution itself and for those who contribute to the endowment

- Endowment size matters enormously since the idea is to only use the income produced and not to deplete the capital (as would normally occur in, say, a "spending" instrument like the Global Fund). Strong cause advocacy is required.

- And again if a donor provides all or part of the endowment, the exercise is significantly enhanced.

- Risk appetite (In principle conservative since the capital needs to be preserved in perpetuity)

A successful example of endowment:

- ***The ERP Special Fund:*** The fund finds its origin in the post-war contribution donated by the US to Germany under the European Recovery Plan/Marshall. The US endowment of 1.39 billion $ was ambiguous in its terms and was thus treated by Germany as a debt. It was thus structured as a loan revolving fund managed by a bank. In the end only part of the initial funding had to be reimbursed to the US and the rest has grown and finances reconstruction and investment to this day, mostly under KfW management.

There may be interesting **combinations** - worth exploring -
of endowment and of other sources of funding
possibly cushioned by donors.

3. Risk Cushioning/Enhancement Approaches

Other techniques are used in development finance to enhance risks and thus attract investors to a project. Indeed investors/stakeholders have different requirements with reference to risk and return levels and it is notoriously difficult to attract private investors to riskier projects in the developing world. *These techniques can, for instance, help to attract players who would otherwise never have come in, under the circumstances prevailing at that moment.*

1) The European Fund for Southeast Europe

The EFSE[31] promoted by KfW and launched in Dec 2005 has used "tranching" to cushion and attract investor funding to the Western Balkans region:

- A 1st loss tranche constituted of donor organizations is first in line for risk absorption, cushioning the next two investor tranches.

- The next risk level is the mezzanine tranche (IFI investors, including KfW, IFC and FMO) which further cushions the next investor level open to SRIs and other private sector institutional investors. The IFI also provide their development finance know-how to the structuring and oversight of the fund.

- Local governments are supposed over time to take over the 1st loss position in the Fund.

> Although a real investment fund rather than a straight development vehicle the EFSE is an interesting example of
>
> *the interaction between public and private players made possible through IFIs & Donors*

2) The EC Trust Fund to finance infrastructure in Africa:

This is a new instrument which the EC intends to launch in 2006-07, with the support of EIB. It illustrates how various enhancement/cushioning techniques can be combined in

[31] A SICAV under Luxembourg law / Operates as a refinancing fund for SMEs, rural enterprises and households, through partner banks and Microfinance institutions in the Balkans

order to make a weak situation better. Africa requires enormous infrastructure financing (8 billion EUR/year?). The trust fund is supposed to help prepare and take part in infrastructure investments:

- The EC will put some 60MEUR in the Fund as grant money, initially.

- EIB will “match” the EC effort with an initial 260 MEUR in loans

- Other EU Member States, financial institutions and donors agencies have been invited to join.

- EC and Donor funds will be used to facilitate the attraction of now lenders through interest rates subsidies and ii) partial loan guarantees.

It is hoped that the EC/Other donors/EIB input can be leveraged by a factor of 5.

3) The Deutsche Bank Micro-credit Development Fund:

The MDF is a not for profit, tax-exempt, vehicle established in 1997 in the US by Deutsche Bank/NY to help microfinance institutions (“MFIs”) scale-up and/or evolve into regulated MFIs.

- The MDF provides *quasi-equity in the form of subordinated, low cost, medium-term loans to the MFIs.* This enables the MFIs to access the financing (2:1 leverage) they need to grow and/or transform.

- MDF resources originate in tax-deductible donations from wealthy individuals and foundations and from the DB foundation. Loan reimbursements stay with the MDF ensuring a degree of sustainability (largely dictated by the quality of the loan portfolio).

- Cumulated amounts at end 2002 were 2.3 M$, of which 0.8 M$ from the DB foundation, a modest size but probably suitable for the objectives pursued.

- Credit opportunities are evaluated and managed on a pro bono basis by the Community Development Group inside DB.

The MDF illustrates how charitable contributions can be structured into a sustainable instrument, thanks to the engineering, reputation and continued commitment of a major financial actor interested in the strengthening of financial intermediation.

4. Guarantees:

Guarantees are another form of risk enhancement. In development situations guarantees from reputable IFIs and from donors and other public stakeholders have been used in a variety of ways, for instance to:

- Facilitate private funding flows and/or attract additional development finance
- Enable a bank in a weak country to access funding internationally
- Enable an enterprise in a developing country to credibly attract investment on the capital market
- Put a microfinance player in a position to access funding
- Strengthen a loan portfolio, and thus make its use in a structured finance transaction possible
- *Provide future market certainty in order to secure advantageous price and terms (Ex: Advance market commitments)*

Guarantees have one overriding financial advantage: Until they are called (and that only happens in a limited number of cases), they do not give rise to actual disbursement, i.e. *"guarantee money goes a longer way".*

With public sector guarantees issues of moral hazard and abuse need to be taken into account.

5. Front-loading future "Cash-flows"

Based on the fact that if development trends are to be reversed some critical development issues *need to be addressed now* and not in the future, formulas to anticipate future flows of funding are being sought and tested. The most striking example perhaps is the IFFIm, which is now being launched:

The IFFIm (International Finance Facility for Immunization)

1) The IFF:

The IFFIm is in fact a pilot for the full-scale International Finance Facility (IFF). The idea of an IFF was first put forward by the UK as a means to attain the UN Millenium Development Goals for ODA increase.

The idea behind the IFF is to fast-forward future ODA flows through the bond markets:

Donors would make legally-binding pledges covering a number of years. The IFF, based on the strength of the pledges, would issue bonds, hopefully be highly rated in order to raise real interest in the market.

The money raised could then be used without delay to address urgent development agendas, most probably in the shape of grants. In due course, donor flows would serve to reimburse the bonds.

Duration envisioned: 30 years, of which the first 15 years would see the deployment of financial resources in the field while the next 15 would correspond to the bond reimbursement period

2) IFF Issues:

The IFF concept has met with opposition, amongst others on the following grounds:

- Can the fast-forwarded ODA be absorbed? What parts of the development agenda are really worth it?

- Can/should a credit instrument be used to finance ODA?

- Does the mechanism produce more ODA or does it simply move future ODA flows forward with a drying-up effect in the future (What will happen in the last 15 years of the exercise: Will development stall? No sustainability short of donor replenishment, etc.)

- The scheme puts an onus on future generations in the contributing countries by earmarking their future resources and right to decide how to use these resources.

It is also felt by some that the same result could be achieved, for instance, by using IFI loans to donor organizations, with government guarantees or, where applicable, by IFI loans to the development beneficiary backed by donor guarantees. The idea of funding trust funds (to foster absorption) instead has also been advanced.

PROs	CONs
Makes money available today	Needs to be applied to really worthwhile current targets
Mobilizes potentially large pool of funds	Need for more country participation
Eliminates delays due to donor processes	Complexity of securing donor binding commitments/ What does it take to coordinate the donors?
Ensure predictability and stability over the course of several years	"Stalling" in reimbursement period

Some of the IFF issues have been solved[32] but a number of aspects still needed testing before a full-fledge IFF could be envisioned:

- How the market would react to the introduction of the bonds (rate distortion, appetite)

- Who the bond holders might be (One way to quick-start the market would be for IFIs to acquire the first bonds)

- How long it would take to secure legally binding commitments from donors

- How to deal with conditionality

- How large the risk cushion ought to be (in case a donor commitment fails to materialize): a 25-30% figure has been advanced, a very expensive feature if it is confirmed

- How high the transaction costs would really be (interest rate on bonds, management costs, costs of setting-up and running intermediary structures, etc.). Front-loading is likely to be expensive.

In the face of these unsolved issues and opposition, it was decided to test the full-scale concept with the IFFIm, a smaller-scale pilot focused on one priority issue with a clear immediacy: Vaccination in/for the poorest countries.

3) The IFFIm:

The idea of an IFFIm pilot was officially launched in the fall 2005 to support the vaccination work of GAVI (Global Alliance for Vaccines and Immunization). The visibility and reputation of GAVI has undoubtedly served the IFFIm cause. GAVI has indicated that the IFFIm funding would be devoted to supporting new and underused vaccines and to strengthen immunization services. The aim is to provide 4 billion $ over 10 years, mobilized as needed.

Status today:

- The legal structure is in place in the form of a IFFIm company, described as a "new multilateral development institution", established as a UK charity. The World Bank will act as Treasurer for the facility and the Gavi secretariat will handle day-to-day matters. Goldmann Sachs serves as advisor for the setting-up and launch, and Deutsche Bank also acts as advisor/arranger

[32] For instance, how donor commitments would be registered in country accounts. A Eurostat clarification has been obtained for the EU member states.

- Legally binding commitments to provide donor funding over a number of years have been secured on September 28, 2006 from participating sovereign donors. To date:

UK	1.4 billion £ over 20 years
France	373 MEUR over 20 years committed (Further pledge to reach an overall 2 billion EUR, if approved in early 2007)
Italy	473 MEUR over 20 years
Spain	189 MEUR over 20 years
Sweden	276 M SK over 15 years
Norway	27 M$ over 5 years

  Brazil and South Africa are planning commitments of 20 M$ each over 20 years. The Gates Foundation will provide another 750 M$ over 10 years.

- These binding donor commitments should enable the IFFIm company to borrow on the international capital market (by issuing bonds) at a favourable interest rate over the next 10 years. A total of 4 billion $ is planned. Incoming donor flows would in due course serve to reimburse the bonds and pay interest.

- On the strength of the donor backing the IFFIm has received a triple A rating[33] from rating agencies

The IFFIm is entering the final phase of preparation of its first bond issue:

- A road-show to introduce the IFFIm in key financial centers has been taking place since early October: in the US and Asia, and more recently in Zürich, London, Frankfurt and Paris.

- The bonds will be medium-term notes denominated un $.

- It is too early to tell how the market will judge the attractiveness of the bonds and where the final pricing will set. Large institutional investors in Asia and IFIs are expected to be the first to show interest.

- This first issue is expected to be completed in October/November and to raise between 500 to 750 M$ (perhaps 1 billion $)

Extension to other health purposes:

The IFFIm is anchored to the immunization and to GAVI. But, depending on the success of the pilot, an extension to other health issues has been mentioned (notably TB and malaria).

[33] AAA/Aaa/AAA

Donor Pledge/Volume Guarantees

The McKinsey report under Workstream B (April 2006) suggests to establish a mechanism providing two services apt to improve the efficiency of existing RH commodities supply resources. These two services are:

1/ Pledge Guarantee:

- The service is meant to address donor variability.

- The mechanism finances countries (or NGOs, or UNFPA) who want to procure RH commodities by paying the supplier against a pledge of the donor commitment vis-à-vis the country in question. There is no recourse to the financial market.

- The donor (or the country) reimburses the mechanism in due course

- The estimated capital needed to start the service is estimated by McKinsey at 26 M$ in initial outlay by RHSC or other contributors.

2/ Minimum volume Guarantee

- Provided to manufacturers in order to secure best terms, optimize distribution and avoid stock-outs

- Estimated up front cost for this services estimated at 2.5 to 5 M$

The concept is at this stage of course not yet fully developed nor tested. Obvious areas of focus for further investigation are:

- Cost/benefit ratio
- Efficiency/feasibility of the donor commitment component under the Pledge Guarantee, especially where RH is a sub-component of a larger donor package
- Structure to house the mechanism
- Transaction costs.

- Synergy / integration with possible Workstream A approach

VIII. HEALTH SECTOR PPP

As already discussed, there may be ways to enlist valuable private sector participation if a sufficient economic focus can be built into the process, for instance around local production, R&D, and perhaps distribution. Other health fields lend themselves to interesting developments, particularly in the R&D field. This is the case for vaccines and for medications for orphan diseases (prevalent in the developing world).

Two inspiring examples follow:

1. The IAVI (International Aids Vaccine Initiative) PPP

This public-private partnership was launched with the support of several Western countries[34], the EC, the WB and several private foundations and companies.

- The IAVI PPP pursues the development of an Aids vaccine through advocacy, policy development and through R&D investment.

- Obviously the significance of finding a vaccine for AIDS and the prospect of substantial economic rewards in case of success provide a compelling agenda for this PPP

- Basically the PPP acts as a co-developer and thus shares the development risks of the product, facilitates trials in test countries and other development steps.

- In addition, the PPP has negotiated production and supply deals with participating enterprises, to ensure access to the vaccine under good terms and conditions for the more needy.

2. FIND - Foundation for Innovative New Diagnostics

In rather similar ways, Find was launched in 2003 as a foundation (not-for-profit) under Swiss law, with an initial 30 M$ grant from the Gates Foundation and with a strong operational connection to the WHO.

- FIND aims to foster the development of affordable diagnostic tools for poorly addressed infectious diseases in the developing world, where industry is “reluctant to invest”

- Through proactive identification and development of opportunities, co-investment in trials, validation, seeking WHO approval, bridging the gap between academia and industry, etc. and

[34] UK, US, Netherlands, Norway, Canada and Denmark

- Through contractual arrangements to make affordable diagnostic available to those most in need.

- FIND collaborates with the TDR (Special Programme for Research and Training in Tropical Diseases) and with the diagnostic industry (public and private). Strategic partnerships are planned with the industry, Stop TB, research institutions, etc.

- The field offers real economic opportunity in case of success, once again making this PPP possible.

IX. REVOLVING FUNDS: Sustainable versus Profitable

Investment funds secure their sustainability through i) the returns produced by their operations and ii) through the additional investment/funding which their performance and objectives attract.

Revolving funds tend to reach a degree of sustainability or make funding go farther through other routes, including i) periodic replenishments of contributions ii) Recourse to income-generating instruments (Endowment funds, financial engineering) iii) Matching contributions. Some however manage to receive reimbursements/payments from beneficiaries, blurring the distinction.

Here are a few examples of revolving fund arrangements.

<u>Global Health Partnerships (GHPs): GAVI</u>

As discussed earlier in this report the past decade has seen a fairly high number of GHPs being deployed, mostly to fight infectious diseases: GAVI (Immunizations), Global Fund (GFTAM: Aids, TB & malaria), Roll-back malaria, Stop TB, to name a few.

- GHPs basically regroup donors, sometimes supported by private foundations, in the pursuit of a shared development/health agenda. They have proven attractive to donors as they concentrate the disbursement of ODA over a few large target instruments

- Most GHPs have not been able to attract substantial private sector contributions although they channel huge amounts of donor funding, often to the poorest parts of the developing world

- The GHPs is a very heterogeneous group in terms of organization, structure, involvement (policy, coordination, availability of financial tool). Their pros and cons as vertical funding instrument, have been reviewed under Section IV, 2 above.

GAVI – The Global Alliance for Vaccines & Immunization

GAVI is an alliance between the private and public sector, including UNICEF, the WHO, the Gates Foundation, the World Bank, vaccine manufacturers, nongovernmental organizations (NGOs), and research institutes. It was launched in 2000 to foster access to vaccination and the development of new vaccines for low-income countries.

GAVI is an interesting model in a number of respects:

GAVI receives its funding from donors and from philanthropic contributions, like most GHPs. Some 3.3 billion $ have been raised to date and GAVI now stands to benefit from the 4 billion $ foreseen under the IFFIm. So far 70 countries have been assisted through GAVI (1.6 billion $ committed, of which 0.7 billion $ disbursed). Millions of children have been immunized.

- *GAVI' s support is comprehensive and goes beyond vaccines supply*: Vaccines supply (0.4 billion $) represent GAVI's largest expense but, for instance, the strengthening of healthcare delivery systems absorbs 0.12 billion $, and immunization safety 83 M $. When the IFFIm funding comes on stream GAVI plans to expand the health system reinforcement component.

- *GAVI has a built-in financial structure*, the Vaccine Fund or GAVI Fund, with a board for management decisions on the use of funds..

- *Some beneficiary countries are co-financing* the vaccine supply (new vaccines)

- GAVI operates based on *plans submitted by countries but also based on a performance/accountability system*: countries become eligible on the basis of an audit of their administrative reporting system and then operate on a partial performance/reward basis. Local committees of national experts intervene in the evaluations of *country applications* and performance.

1. Based on the GAVI features and track-record the ***"comprehensive purchase facility under the aegis of a global partnership (such as the RHSC)"*** model seems worth exploring in its own right

2. Is there a synergy potential between GAVI and RHSC objectives?

The PAHO Revolving Fund: Enlisting country participation in pooled procurement of vaccines

The PAHO experience is an interesting one as well, particularly because the fund is predicated on the financial participation of the beneficiary countries. Not surprisingly though, the instrument was developed in Latin America, which regroups more Group 3 than Group 1 countries.

- The mechanism is based on a central contracting model (Agency agreement): In 1979 participating countries jointly delegated the management of supplies (Vaccines in this case) to PAHO, the local WHO agency, in order to build stronger leverage vis-à-vis manufacturers.

- At the same time the countries created a common fund endowed with an initial 1 M$ (Donor funding)

- The Fund has been used by PAHO to pay manufacturers, often in hard currencies, on agreed terms. The countries act jointly through the permanent secretariat and the fund. This unified voice and persona has enabled them to secure smooth procurement at lower prices and at better conditions

- Upon delivery, the countries reimburse the Fund, in local currency if they want, together with a 3% service fee

- Thanks to good management, to the commitment of the countries to honour their debt vis-à-vis the Fund and to the service fee (which accumulates into an emergency reserve and into capital contributions), the Fund has remained sustainable and has grown over the years to reach a capital of some 29 M$ in 2004. This performance has been boosted by the entry of a large and solvent country (Brazil) into the system.

Clearly, the POHA fund is not an investment proposal in financial market terms but it has a strong track-record and has managed to acquire sustainability.

What does it take?

An evaluation of arrangements for the pooled procurement of drugs[35] *ascribed the success of the Paho fund, a.o. to* the coherence, cohesion and discipline of the target region (which shares a common reference currency), to the existence of strong political commitments and to excellent management by the permanent secretariat. Great care is taken to ensure that only able, committed and truly interested countries join, based on a pre-entry screening against a set of eligibility criteria.

A variant on the theme is the ***OECS (Organisation of Eastern Caribbean States)*** and its **PPS (Pharmaceutical procurement service).**

Under this model these small island countries work through special procurement accounts opened with the Eastern Caribbean Central Bank. The Central Bank acts as the financial pivot for the whole scheme. Other "winning features" are similar to those of the Paho fund. The PPS has made wonders for procurement safety and prices for these small countries.

[35] "Regional pooled procurement of drugs: Evaluation of programs", Center for Pharmaceutical Management, Dec 2002

Applicability of the model to a poorer region?

- Introduction of a lending component funded by donors, to allow poorer countries to borrow and pay price of RH supplies to the fund? Or to introduce a solidarity mechanism?
- Should poor countries borrow for RH supplies?
- Conditionality and avoidance of moral hazard?

Can a sufficiently coherent and able group of countries be formed?

The answer most probably is that this attractive model is better suited for a more sophisticated group of countries

X. PUTTING DEBT TO WORK

The treatment of developing country debt is an area which has undergone dramatic change in recent years.

- Poor countries have seen their debt forgiven, notably under the HIPC[36] program
- Remaining debt has been used in performance-based approaches, or in debt swaps
- And is being tested as a basis for capital market operations

1. Debt Forgiveness

The HIPC initiative was launched in the late nineties to alleviate the development burden of the poorer countries unable to service their debt, by reducing this debt to sustainable levels. A relatively complex system of country eligibility has been put in place under the aegis of the World Bank and of the IMF.

Since then, the debt of a number of the poorest countries has been significantly reduced. Some studies report that the net present value of the debt of the 27 (so far) eligible countries has been reduced by an overall 53%.

A debt-RH swap

Could be an agreement whereby country x undertakes to invest towards agreed RH objectives in exchange with a commensurate reduction in debt

Or where country x creates an endowment towards these agreed RH objectives against the debt reduction

Which RH relevant countries still offer room for debt swaps?

RH is a sensitive issue: Is it correct to link RH to Debt reduction?

The issue of whether debt forgiveness effectively displaces ODA flows (treated as an ODA equivalent) and discriminates against poor but less indebted countries, remains widely debated.

Most sources point to the fact that as a result of debt forgiveness efforts, debt in poorer countries does not offer much room anymore for capital market exercises or for debt swaps. This was confirmed in recent contacts with the World Bank and with KfW.

[36] Heavily Indebted Poor Country

2. IDA Buy-Downs: Debt relief and polio eradication performance

This is a performance-based mechanism where IDA debt plays the role of the "carrot" (i.e. incentive) for the partner country to progress an agreed development agenda. The mechanism has been used as a pilot in several countries with Polio as the focal point.

This is how it works:

- Country x agrees a polio agenda with a group of donors

- The donors constitute a trust fund with some grant money (the pilots received 50M$ in financial support from the Gates Foundation, Rotary International and the UN Foundation)

- Performance is monitored and appraised at agreed intervals.

- If performance of country x is satisfactory, an agreed part of the IDA credit is effectively transformed into a grant: indeed the trust fund reimburses the WB in the place of the country and thus frees a corresponding part of country x budget.

- Each 1$ of donor money spent towards an IDA reimbursement results in roughly 2.5 $ of reimbursement.

This is another example of *performance reward*, this time linked to debt relief. It seems to have lost relevance as the debt relief exercise has gained momentum but the model remains interesting.

3. Leveraging debt in the financial markets

In the same way that a bank loan portfolio can be used in a structured financial transaction, country debt can in principle be used in similar ways.

For instance:

- A creditor country could issue bonds on the basis of its sovereign loan portfolio, in anticipation of debt repayment.

- The bond proceed is then available for further development pursuit, i.e. blocked donor country resources are freed to be used immediately.

- Conversely, a country accesses the market to refinance/repay portions of its debt. This trend has emerged in 2004 and even more in 2005 amongst median-income countries.

GFDC - The Global Fund debt conversion project:

The Global Fund is considering debt conversion as a way to raise additional funding and (perhaps) to involve developing countries as stakeholders in the fund.

An initial feasibility study was carried out by the Global Aids Alliance and Advocacy International in July 2005[37]. Several technical scenarios were explored[38] but at present the concept retained seems to be the "coordinated multi-creditor approach", as follows:

- Creditors accept to forgive debt which they know will not be fully paid.

- The debtor country undertakes to use the amount s freed by the debt-forgiveness towards the financing or co-financing of Global Fund programs.

- The ongoing challenge revolve around: i) Finding a champion to secure the deal with creditors ii) Securing the right blend of debt components (ODA plus ECA (export credit debt)

Substantial technical and diplomatic advocacy is required to put this sort of deal together. The Global Fund however expects that in case of success "hundreds of millions of dollars" would be made available.

The Global Fund has embarked on a further validation of the approach.

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[37] www.theglobalfind.org/en/files/GDFC Report.pdf & www/globalaidsalliance.org/global Fund Debt Conversion.cfm

[38] Including some where the Global Fund actually acquires the debt

XI. PERFORMANCE/OUTPUT ISSUES & OPPORTUNITIES

1. The Pros and Cons of the Approach

As the previous sections have shown, performance and/or output based approaches to ODA have been applied at different levels in recent years, and with some remarkable success.

- *For instance, at the global level,* GAVI grants are performance-based, as were the IDA Buy-downs.

- *Similar approaches have also been applied at the level of local or regional governments and institutions*. On the whole the track-record of central administrations in this respect is more uneven than that achieved by global projects.

- *At the other hand of the spectrum*, very effective work is being done in the field by professional NGOs, notably by social marketers.

When they are successful these approaches reinforces credibility, provide goodwill and overall are effective in attracting additional funding. They also foster local buy-in, the dissemination of best practices and greater participation in programs deployed in the field.

They may become increasingly relevant to complement and balance the budget contributions which the donor community seems to be favouring at present.

At the same time, these techniques have draw-backs, including potential deviations, issues of scale and management capability, and complex monitoring and evaluations.

2. MCA - Millenium Challenge Account:

In 2004, the US launched the *Millenium Challenge Account* which is now managed by a public corporation close to the Administration, the Millenium Challenge Corporation.

The MCA is a performance-based approach to aid:

- US assistance is increased through a partnership with selected low income countries.

- The recipient countries need to meet some criteria of achievement in key focus sectors (Health is one of the relevant themes) before selection

- And then commit to further achievements.

- Depending on performance, increased assistance is awarded.
- The assistance is tailored / focused to foster growth and thus involves private sector and NGOs as well as the public sector.

In a way, this is a ***"matching funds"*** exercise, i.e. the country's effort and performance is effectively matched by the development partner.

3. Harnessing the Potential of End-users Payments

As discussed earlier in this paper, there are developing countries where a portion of the population which is granted free access to supply or services can actually afford to pay for the supply or service; Or where poor people need to be empowered as legitimate (health) market participants.

Possible routes to address these situations essentially are field approaches such as:

- Voucher schemes for health supplies and/or services

- Using microfinance to strengthen local NGO and non-NGO distribution channels of RH supplies, and to upscale the reach of these networks

- Working with providers of micro-services, especially micro-insurance and other innovative solidarity structures

> This sort of approach is small-scale and labor intensive
>
> but can complement a more ambitious
> top-down instrument

XII. POSSIBLE WAY FORWARD

As the report hopefully demonstrates, the timing of the RHSC initiative (to act to generate more funding for RH commodities supply) is totally apposite:

- The overall need for further funding is there
- ODA rules and techniques are evolving with a rapidly changing world
- The choice of new partners and alliances is widening

Last but not least, innovation is available to the development field in an un-paralleled way. It is a time of opportunities and at the same time of great uncertainty.

Before being able to make the choice of a financial route or of a set of financial options, before being able to tailor and structure it and before being able to convince others to join, *the RHSC needs to make a number of fundamental choices:*

- The objectives pursued need to be narrowed down: What is the additional money for? What is the exact development agenda/strategy pursued?

- The RHSC needs to determine the destination of the additional funding. Is it for:

    - The Coalition itself (i.e. is the Coalition going to fully embrace the RH supply cause and become its pivotal incarnation?)
    - Or for one or several Coalition members engaged in concrete RH supply work?
    - Or for organisations outside the Coalition?
    - For a country or a group of countries? The poorest, most under-served or the "fittest"?

Finally the RHSC needs to decide how the financing opportunity will be pursued and whether the RHSC itself will fully champion the cause.

The Way Forward:

- Further RHSC and SSG reflection to confirm the fundamental strategic choices above

- Formation of a small ad hoc working sub-group (financial profile) to interact with the consultant towards the development of a concrete project concept and the tailoring of a suitable financial route

- In the meantime, pursuit of short-term opportunities as they arise (Ex: Unitaid)

ANNEX I

TERMS OF REFERENCE

(Separate attachment)

ANNEX II

LITTERATURE & MATERIAL REVIEWED

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ANNEX III

CONTACTS & INTERVIEWS

- RHSC members of the relevant working groups
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    - Mr. Rondal Powell, JP Morgan
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- Ms. Bouchez, French Foreign Ministry
- M. Aymeric Ducrocq, DGTPE (Direction Générale du Trésor)
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