Debt Financing for Immunization

Richard Bumgarner

The medium term picture for public financing of vaccines may have deteriorated in the last year. Global recession (or at least very slow growth) now looms likely for several years and threatens health budgets in both developed and developing countries. Greater claims on public money from the OECD countries for global security now exist and will undoubtedly receive priority in funding. As a result, foreign assistance funding may stagnate or further decline. There may also be confusion or ambivalence among official donors about the financial priorities of the Global Health Fund and those of the GAVI partnership. Private philanthropic gifts in general have already sharply declined from the levels of the last decade. The probability of philanthropy underwriting global immunization programs is less strong than it has been in the past few years.

In short, it is quite a different situation than only a year ago. It calls for reassessment and evaluation of all sources of potential financing to optimize growth in coverage and accelerated use of new vaccines.

Several things seem clear:

1. The markets of the middle income countries will have to be deeply involved as users of the new vaccines to make their production attractive to industry and thus achieve economies of scale and eventual lower prices for public health systems in less wealthy countries. Initially only the middle income countries offer much scope as new markets for the new vaccines. The FTF has not yet spelled out "how" that will happen. The FTF will have to articulate and build momentum around a politically attractive strategy to engage the non-GVF countries in GAVI.

2. Challenges for the future are often seem as resource gaps for which more investment, lower pricing or more funding for purchases is needed. While this is correct, there has been little attention paid by the FTF and GAVI to encouraging greater use of purely financial mechanisms to close the gaps. Until now, the situation has been seen primarily as requiring temporarily increased foreign aid to be supplanted in about five years (perhaps gradually) by much greater current budget financing from the GVF-eligible countries. Non-GVF eligible countries have been assumed to begin to spend more already on new vaccines, with little guidance or incentive from GAVI. Evidence that either group of countries will (be able to) do so for the medium term future has been thin, and has probably weakened in the changed circumstances of late 2001.

3. Private sector capital is unlikely to close all the gaps for research, development or production unless there is much more compelling evidence that at least some new vaccines will rapidly enter widespread, sustained global use. The private sector will certainly not focus, without subsidy, on new products for the limited markets of GVF-eligible countries first.

To deal with this situation, the FTF may consider commissioning work along new lines that give higher priority to external debt as a useful instrument of public finance to achieve health gains in the medium term. The case for this work is roughly outlined below.

All resources to pay for immunization must come from (simplistically) either public or private sources. Historically, funding in developing countries has come from domestic sources (e.g., the health budget) or from domestic or (more likely) foreign public and private grants (development assistance and philanthropy). In domestic terms, there are only three sources – public subsidies (from public savings or deficits), consumer fee payments (from private savings), and private subsidies (from third party payors or employer benefits). Foreign ***grants*** to the public sector augment or substitute for public savings.

When these sources are inadequate for the expenditure that is desired the use of debt, in the form of deficit financing or foreign loans, provides a potential solution. Yet, many immunization supporters react adversely to the concept of loans. Use of debt for "health", often has been viewed as consumption, rather than investment and is seen as unwise. Borrowing to pay for current costs of health programs, even when these entail multiyear, economy-wide benefits (and costs avoided) may be thought imprudent. For the poorest countries, grants for immunizations programs have been the norm for decades and expectations for them have been deeply engrained in both recipient and granting bureaucracies and their constituencies. The concept of debt as a public finance instrument has itself been badly tarnished by excessive, ill-considered borrowing in some countries for other purposes, public and private, which have nothing to do with the health sector.

As a public finance instrument, foreign ***loans*** are just mechanisms by which current public spending can be increased, with the savings to repay the debt recovered from the economy over many years. Ideally, this recovery of capital would be from taxes levied on a wealthier, or at least, healthier population of workers. Loans would allow immunization goals to be expanded beyond those that are otherwise financially feasible. Expressed another way, the antigen types and/or coverage achievable and thus ***immunity benefits, can be accelerated*** in time compared to foregoing loan use and depending on national savings or foreign gifts only. The benefits of the accelerated immunity can be seen (or not) by political or health leaders to be worth the interest charges to be paid for the loans.

The principle is the same for all economic sectors. The idea is used to justify borrowing for highways, education, electric power and so on. For many of these other sectors (but not all) getting the prices "right" for use of the asset/service is key to ensuring equity and efficiency. For immunizations the issue of price may be less or more relevant, respectively, depending on whether there are wide societal benefits of protection conferred from immunizing most people, or whether it is mainly the individual immunized who is protected. But the point is, for all of these other sectors the idea that it may be good to borrow to accelerate the realization of benefits is non-controversial. This has not been the case for the health sector in general and for immunization in particular. Somehow, the use of debt for immunization has been seen to be undesirable in many places. It is unclear whether this indicates underlying doubts about the real benefits of immunization, a higher discount rate applicable to the health sector and vaccines in particular, or attitudes prevalent for some other reasons.

The FTF can challenge itself -- where will the world find the funds for research, development and purchase/use of vaccines to meet GAVI objectives? They will have to come from public or private, domestic or foreign savings. There is nowhere else. This may seem excessively simple, but it may help in achieving a new perspective about use of debt as an acceptable instrument of public financing for GAVI objectives.

Looking at the next 5-10 years leads to the following four propositions:

A. Private domestic savings available to spend on new vaccines will not be large enough to create adequate or credible demand to satisfy either immunity goals or the producers' and investors' expectations of a good investment. Public funding will be needed to achieve economies of scale (and decent returns to investment) and for accelerating adoption to the point that public immunity and health benefits are achieved.

B. Private foreign (philanthropic) financing can be most useful to close selective gaps early in the value-added chain of new vaccine development (ref. Batson et al). Philanthropic financing, and equity-like stimulants (e.g., IAVI), will not be sufficient to ensure development and production nor can it be an answer to sustainability for either GVF or non-GVF countries.

C. Public foreign savings (official foreign assistance) to finance immunizations will be essential to and appreciated by GVF eligible countries. It will not generally be available for other countries. It will be inadequate in volume and coverage, unstable in flow and grossly insufficient for even minimal attainment of global immunization goals, or their maintenance. Vaccine producers will easily foresee this and be cautious in research, development and production decisions.

D. Therefore, in GVF and non-GVF countries, domestic public resources ***in some form***, and in vastly greater amounts, will **<u>absolutely</u>** be required both to succeed in scaling up vaccine use and in making it sustainable.

   - ✓ Increased ***public recurrent and development budget appropriations*** (in both GVF and non-GVF countries) to support immunization goals can be expected and will be useful, but will be inadequate. This will be widely observed by investors and firms engaged in development and production of new vaccines.

   - ✓ ***Debt*** is the only large, relatively-untapped financial mechanism by which to expand public resources to ***accelerate*** adoption and use of new vaccines and their sustainability.

This idea deserves discussion by FTF. The FTF could ask whether debt is a potentially important tool as proposed here. If so, how can it be advocated or required more vigorously by the GAVI partners, at least in some circumstances? What are those circumstances? Should debt rank high on the list of potential push and pull factors? If there is consensus, FTF could work to explain the conditions for wise use of debt for immunizations. Perhaps a global goal or target of increasing debt used for immunization could be considered in some circumstances.

There may be some who do not agree debt is wise or useful. They can help better define the issues by explaining their objections. This could include answering the following questions, for example. Why is it that the future illness care and treatment costs incurred by not accelerating the benefits of new vaccines, through use of debt, will be **less** than the costs imposed by debt service? Will the returns on debt incurred for other purposes by poor and middle income countries will be **higher** than that for vaccines?

It could take several years to achieve balanced understanding and positive advocacy for use of debt. It could be treated as a public finance topic, first for the FTF, but then disseminated with support of the other task forces. Discussion is invited.