



Independent observer  
of the Global Fund

## The Global Fund explores innovative finance instruments to help unlock financial flows from private and public sources

To many, the Global Fund is known primarily as a source of funding—a place governments can turn to for an injection of cash for programs aimed at ending the scourges of AIDS, tuberculosis and malaria. And the Global Fund's main use and focus of its innovative finance program has been on raising the funds needed to meet country demand for these otherwise unaffordable programs.

However, the financing environment for global health is undergoing a transformation with a focus on helping countries to more sustainably take care their citizens' health without depending on foreign aid. In recent years, with dramatic growth in domestic resources, the global south is becoming increasingly attractive to capital markets. This shift is opening new doors for countries and donors, international financing institutions like the Global Fund, and development partners, who are looking for ways to use these new opportunities to help countries grow, improve efficiencies and ensure that these new forms of aid are achieving impact in fighting against AIDS, tuberculosis and malaria.

As part of its consultation on innovative finance, the Global Fund is not only looking at new ways of investing its resources into new instruments, it is also examining ways that it can play an indirect role in new instruments that countries, donors and development partners are creating to unlock trillions of dollars in public and private financial flows both to and within developing countries.

### Challenge funds

One such instrument is the challenge fund, which is a competitive financing facility to disburse donor funding for international development projects that could add great value to global health and development programming. The projects are not the run-of-the-mill health projects, but are innovative in

and of themselves and not likely to be funded under existing protocols. In a challenge fund, applicants are provided with a one-off, limited-duration grant to overcome the uncertainties that inhibit innovation, research and development, or investment.

The most important feature of the challenge fund is the “challenge,” which must be widely promoted and have clear eligibility criteria if it is to elicit a wide array of applicants from the private sector. The assumption is that without challenge-fund support, these activities are either unlikely to happen, or may only happen at a later stage. The goal is to produce a large pool of intelligent and unconventional solutions to longstanding problems in development by tapping the ingenuity of private enterprise.

Challenge funds call for companies, organizations and institutions working in a specific field to submit project proposals that are evaluated against transparent and pre-determined criteria. Typically, a donor agency hires a development contractor to host the funding competition to solicit innovative proposals that otherwise may not be discovered through more traditional grant-making or funding mechanisms.

In 2003, the Bill & Melinda Gates Foundation applied challenge funds to global health in a big way with the launch of Grand Challenges in Global Health, which came to include multiple funding partners. This initiative focused on 14 major scientific challenges that, if solved, could lead to key advances in preventing, treating, and curing diseases of the developing world. Seeking to engage the world’s most creative minds, Grand Challenges in Global Health awarded 44 grants totaling over \$450 million for research projects involving scientists in 33 countries. Funding included an additional supporting project addressing ethical, social, and cultural issues across the initiative. The initiative continues under the name Grand Challenges and now includes challenge funds that address issues within the greater global development community.

For this type of instrument, the Global Fund probably would not be a direct investor, said John Fairhurst, the Global Fund’s Head of Private Sector. Instead, this is an area where the Global Fund could play a significant role in ensuring donor harmonization and coordination if there are separate challenge funds created aimed at the three diseases in countries where the Global Fund has a strong presence.

#### Advance market commitments

Another innovative finance instrument that the Global Fund may support indirectly is advance market commitments, which aim to spur product development. Used by Gavi in the development of pneumococcal vaccines since 2009, the mechanism requires a program sponsor or coalition of sponsors to sign a contract underwriting a guaranteed price for a vaccine supplier. Poor countries would decide whether to buy a given product at a low and affordable price, and sponsors would guarantee to top-up that purchase to a higher price so that the developer can still realize market returns comparable to other biopharmaceutical products it makes. Once the full number of treatments has been purchased at the guaranteed price, the supplier would, in return, be committed to either selling further treatments at an affordable price in the long term, or to licensing the technology to other manufacturers, including local ones who may be able to produce and sell the treatments at a lower price.

The Global Fund believes this type of innovative finance instrument could create incentives for the discovery, development and uptake of several commodities needed to fight the three diseases and is looking particularly at exploring how it could engage with others to develop new generations of bed nets as well as new treatments for multidrug-resistant tuberculosis (MDR-TB) and extensively drug-resistant tuberculosis (XDR-TB) where large, unfilled gaps in effective treatments exist.

#### Planting a seed

As low- and middle-income countries grow economically and can increase domestic spending on health,

many of them will be eligible to transition out of Global Fund support. The Global Fund works closely with countries to help them achieve long-term sustainability in their health programs, and innovative finance could provide another source of support to ensure that countries maintain the gains they have made in fighting the three diseases, and that creativity continues to be fostered to keep up with the changing nature of disease.

As countries transition from the Global Fund to other sources of financing, local civil society organizations that have often served as principal recipients and sub-recipients of Global Fund support can face a shortage of funding. The Global Fund is looking at how, in working with partners, innovative finance could provide seed capital to allow the pioneering of new resource mobilization methods by local implementers to replenish and grow the funding lost after the transition from Global Fund financing.

The Global Fund's consultation on innovative finance continues. Fairhurst said that he expects to present a structured approach to innovative finance to the Board at its next meeting in November. After that, he and his team will develop a toolkit to be used by its development partners so that they can better engage with the Global Fund on innovative finance initiatives.

"Innovative finance is an interesting term because it covers so many different things," Fairhurst said. "The real innovation in finance is in the application of finance to a problem. It's not in the instrument itself, often. The real innovation is in taking the problem and designing the financial solution to help you solve the problem. We're not looking for innovative finance to solve all of our problems. We're looking for the problems where we think it has some utility and a real sense of value-add, and then we're looking to design that financial innovation to help us solve that specific problem."

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