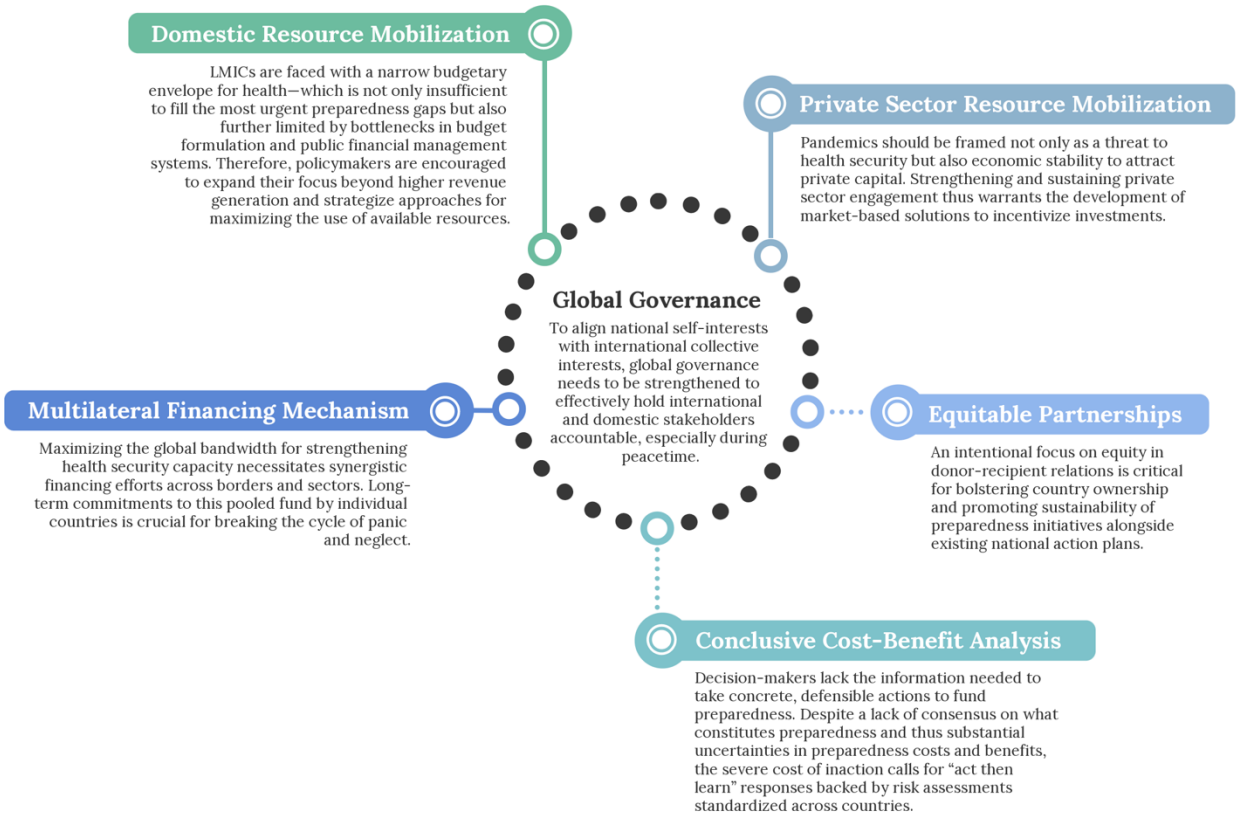
Shortfalls and Gaps Related to Preparedness Financing

The list below identifies examples of shortfalls and gaps related to preparedness financing that multiple recent reports and recommendations have identified and aim to address—as well as longstanding challenges to be addressed[1].

OVERVIEW



[1] Solid lines represent gaps commonly identified by recent reports. Dotted lines represent longstanding gaps to be addressed.

A DEEPER DIVE: GAPS IDENTIFIED BY RECENT REPORTS

Domestic Resource Mobilization

Expanding domestic resource mobilization (DRM) has taken on heightened urgency as COVID-19 has exacerbated long-standing fragilities in low- and middle-income countries (LMICs): limited fiscal space, negative economic growth, rising budget deficits, and decreasing external flows.[i,ii] The economic downturn has therefore underscored the need for prioritizing health financing reforms on the political agenda. Proposals for revenue growth include implementing excise taxes on goods with negative health externalities,[iii] limiting tax expenditures, increasing VAT productivity, and improving the progressivity of tax systems through the PIT and property tax.[iv,v] However, broadening revenue alone is insufficient to fill the most urgent preparedness gaps. Enhancing spending efficiencies and improving PFM system (e.g., resource allocation and budget execution practices) are needed to enlarge budgetary space for health and expand national bandwidth.[vi,vii] Rigidities in PFM systems have been a persistent constraint for developing countries to fully execute their existing budgetary space for health. Especially with the revenue constraints exacerbated by COVID-19, adaptable PFM frameworks can free up crucial resources in fiscally strapped countries.[viii,ix] Thus, a greater focus on DRM and PFM contextualized with COVID-19 can contribute critical recommendations about pandemic preparedness and health security in the ongoing dialogue about building a sustainable and resilient recovery.

Private Sector Resource Mobilization

The ripple effects of pandemics across society calls for "whole-of-society" collaboration for pandemic preparedness, especially effective leveraging of private sector assets and capabilities. Private sector companies have a vested interest in scaling up global health security capacity as the consequential economic losses are not unique to COVID-19. With an estimated global cost in the order of trillions of US dollars, pandemics and natural disasters can be framed as an economic threat and top non-financial risk to build a compelling investment case.[x] Although repeated evidence suggests the cost-effectiveness of preparedness over disaster relief, preparedness efforts remains subject to cycles of panic and neglect.[xi] Innovative forms of partnerships and financial instruments are therefore imperative for incentivizing private capital mobilization and integration of non-financial risks into existing risk management frameworks.

Catalytic Multilateral Financing Mechanism

Global financing of pandemic preparedness remains fragmented and concerningly low to build sufficient country capacity and fill preparedness gaps. Although "vertical" interventions have improved outcomes for specific diseases, this siloed approach is ineffective for systematically strengthening cross-cutting preparedness functions—including workforce development, surveillance, and laboratory system strengthening.[xii] For instance, the WHO's ability to execute its core functions is undermined by voluntary and highly earmarked contributions that comprise a majority of the WHO budget.[xiii] Yet multilateral financial support is needed to complement domestic efforts and fill an essential niche by focusing on one-off costs and interventions with large international externalities but minimal domestic demand.[xiv] Several commissions and panels have therefore recognized the importance of an innovative multilateral financing mechanism to avoid duplication of efforts and catalyze investments. Recommendations include the establishment of a Global Health Security Challenge fund,[xv] expansion of IDA allocations,[xvi] and implementation of a global tax.[xvii]

Global Governance

If left unregulated, pandemic preparedness is prone to market failure and thus underinvestment as large social externalities and free-riding drive a mismatch between the free market equilibrium and social optimum.[xviii] Mobilizing essential capital investments for preparedness gaps therefore entails government

intervention. Yet governments currently lack an adequate incentive structure to strengthen national preparedness systems and consider health security a high-priority expenditure—especially against competing national needs with more observable outcomes (e.g., education, housing, and transportation).[xix,xx] Monitoring health resource flows (e.g., institutionalizing National Health Accounts) would not only generate evidence for more efficient health financing decisions, but also promote greater country ownership and transparency.[xxi] Yet the effectiveness of these national efforts also hinges on strong global governance to motivate sufficient investment and align national self-interests with international benefits. A high-level advisory board would fill the crucial role in the global health arena by coordinating collective action across borders, overseeing progress towards key benchmarks, and ensuring accountability.

A DEEPER DIVE: LONGSTANDING GAPS TO BE ADDRESSED

Equitable Partnerships

Development partners can form more equitable donor-recipient relations by empowering domestic stakeholders to set their own priorities and take the lead in developing pandemic preparedness initiatives. While external funding is often geared towards capital costs, health systems development is largely comprised of recurring costs and thus requires long-term commitments from donors.[xxii] Therefore, establishing a framework for mutual accountability is particularly critical for development assistance for health as it would support best practices for promoting sustainable self-reliance. Not only would development programs be better integrated with existing health system structures, but also the transition to country ownership after external funding reductions would be facilitated.[xxiii]

High Uncertainty in Cost-Benefit Analysis

Pandemic preparedness chronically de-prioritized and underfunded as pandemics are fat-tailed phenomena—highly improbable events with potentially catastrophic consequences. A strong investment case is critical for preventing short-sightedness and underestimation of risk yet difficult to develop given the intrinsic uncertainty in the scale of impact and time to next global health threat.[xxiv] Sustainable financing is further hindered by the less visible return on investment compared to other national needs. Currently, there is no international consensus on what constitutes preparedness and the associated costs of risk reduction. Developing more effective measures to assess health security systems and more defined benchmarks for progress can therefore yield more concrete outcomes from optimal funding decisions.[xxv,xxvi]

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