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Returns to Investing in Health

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**Finance and Central Bank Deputies' Meeting
Hoi An, Viet Nam
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Returns to investing in health

**Presentation to APEC Finance and Central Bank Deputies
Hoi An, Vietnam, 20 October 2017**

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The 7th APEC High Level Meeting on Health and the Economy: Next Steps

We call on officials to continue the dialogue with a view to developing best practice models of:

- (1) public-private cooperation,
- (2) the measurement of the return on the investment in health,
and
- (3) the facilitation of innovative health financing mechanisms,
including addressing barriers to entry and deployment.

APEC developing economies face significant health expenditure challenges

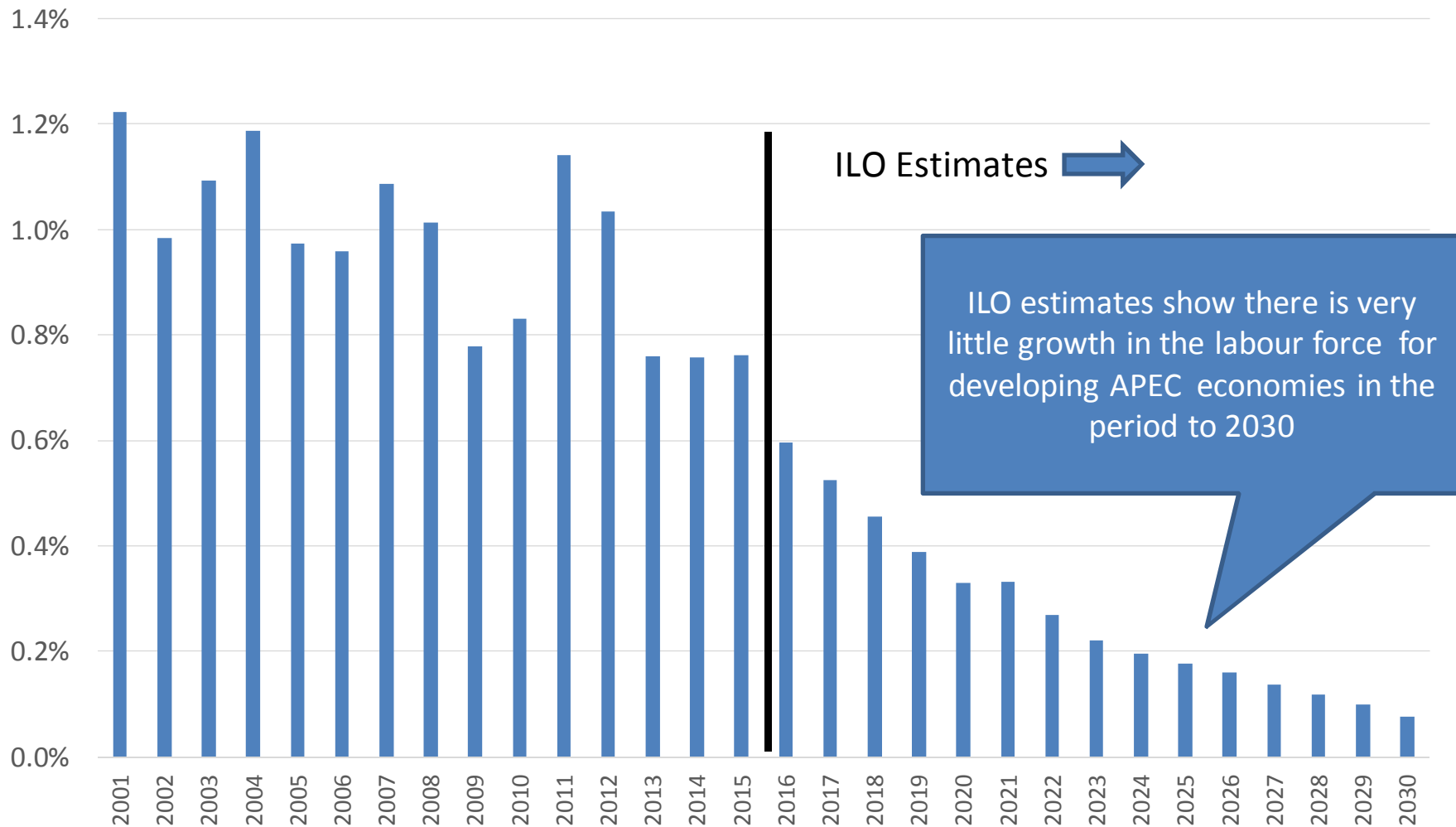
1. Labour force growth is stalling, reducing capacity to meet future health expenditures
2. Chronic disease burden is several times higher for older workers
3. As GDP increases, health expenditure rises even faster
4. Proportion of government expenditure on health rises rapidly with GNI per capita



Governments need new ways to finance health that involve partnerships with the private sector

Health as a market for investment

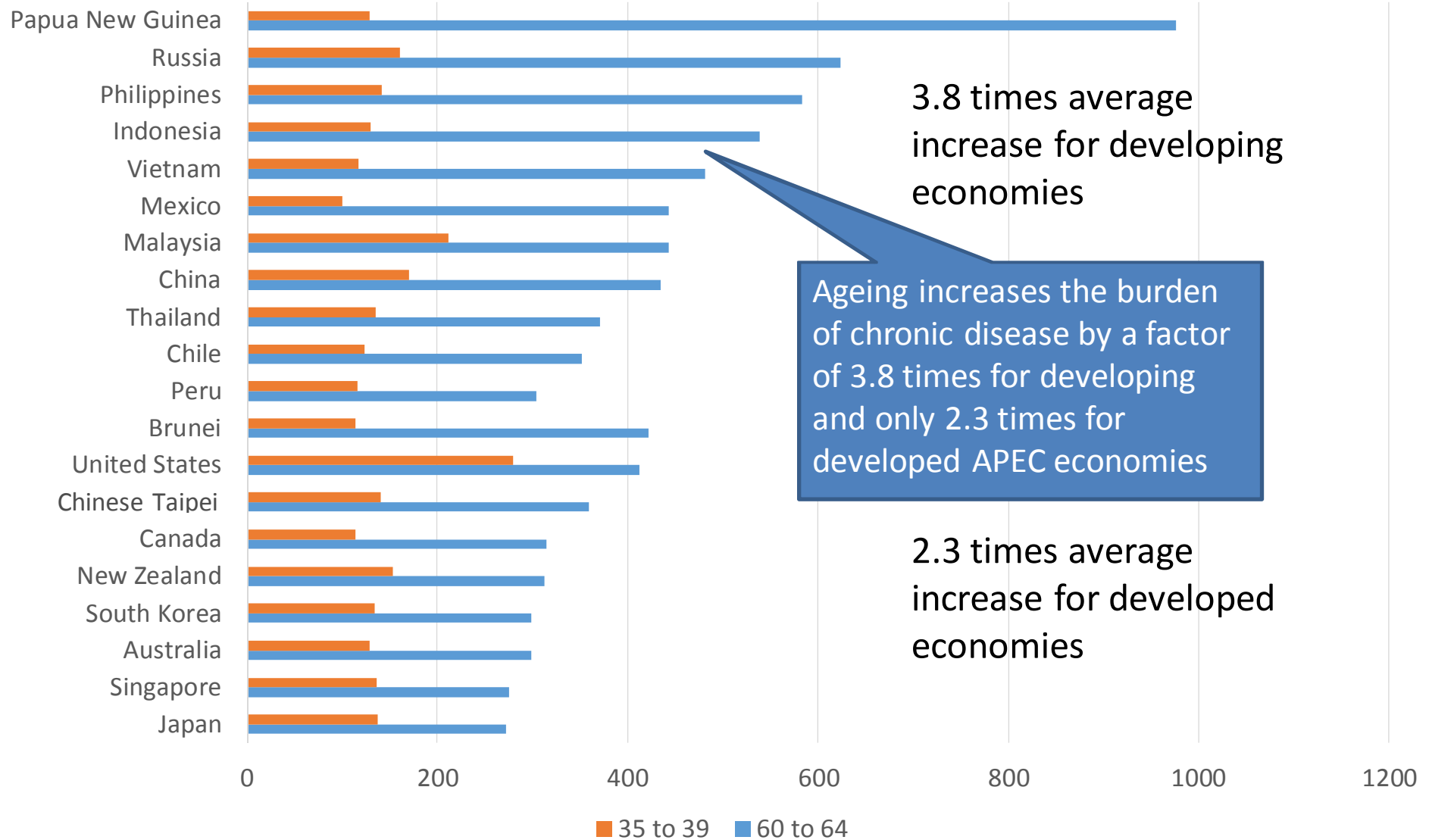
Labour force growth*: APEC developing economies 2000-2030



*Arithmetic average for APEC Economies

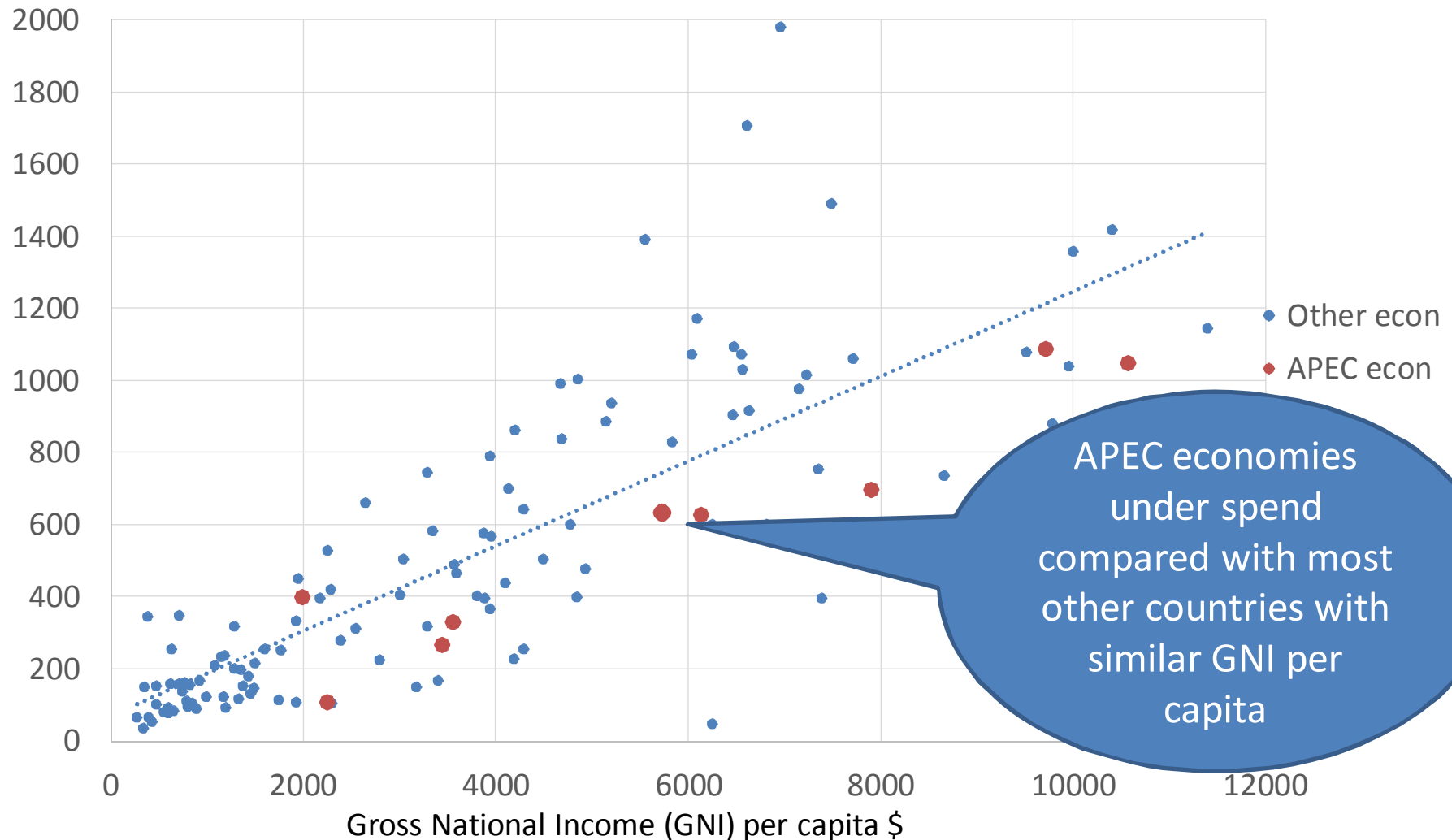
APEC Economies Burden of Chronic Disease 35 to 39 & 60 to 64, 2016 (DALYs per 1,000)

Chart Title



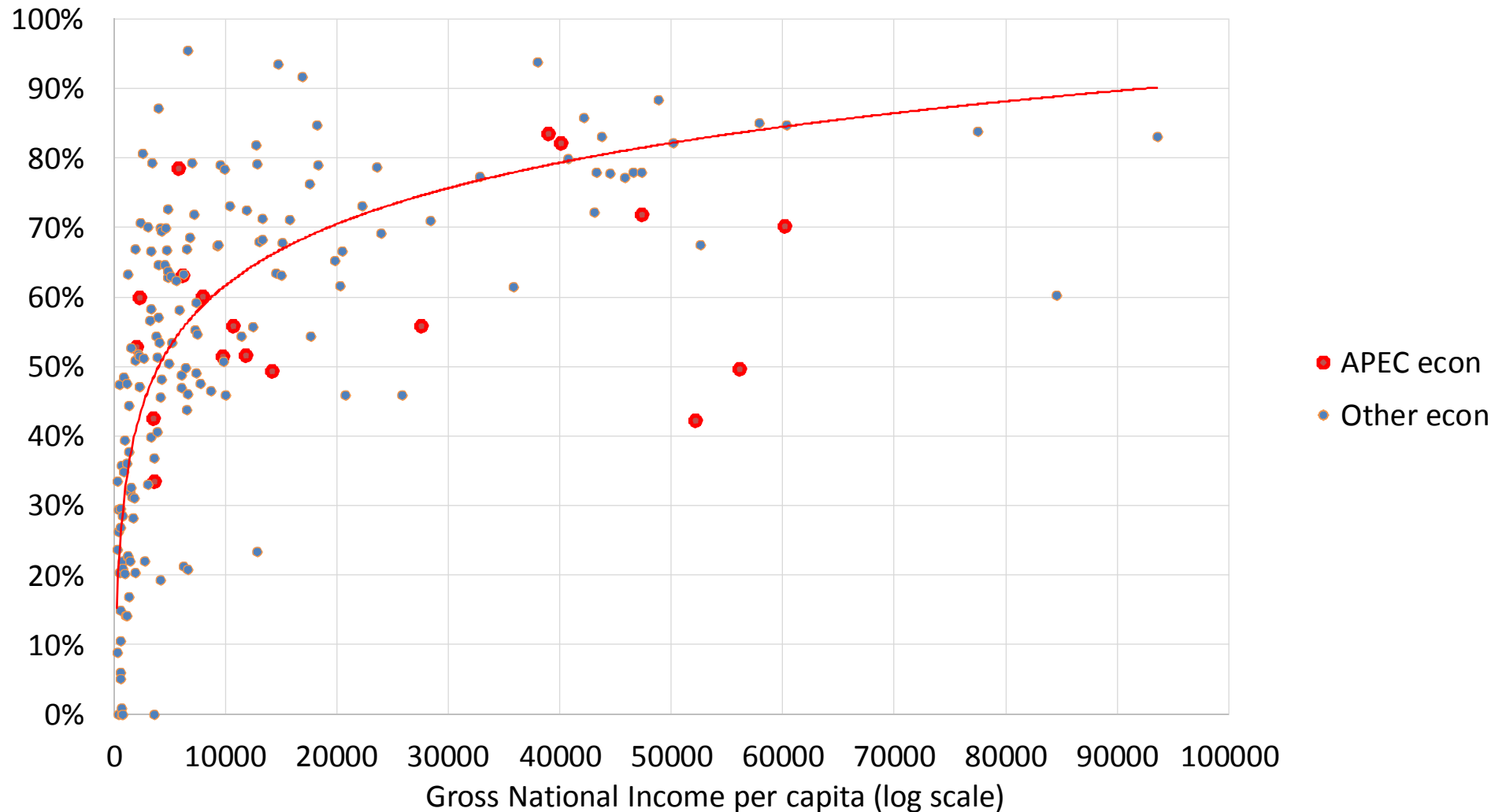
For developing countries, per capita health expenditure increases (about 20%) more rapidly than per capita income.

Total health spend per capita \$



With increasing national income, the proportion of health expenditure met by Government increases exponentially.

% share of total health expenditure



Data sources: For health expenditure Dieleman et al. 2017, 'Evolution and patterns of global health financing 1995-2014', *Lancet*, online 19 April 2017, DOI: [http://dx.doi.org/10.1016/S0140-6736\(17\)30874-7](http://dx.doi.org/10.1016/S0140-6736(17)30874-7). For GNI per capital World Bank. VISES analysis.

Returns to investing in health: Summary investment metrics for specific health treatments, WHO/UNFPA /VISES studies

	Benefit–cost ratio		
	To 2030	To 2035	To 2050
Child and maternal health ⁽¹⁾ (75 economies)		8.7	38.7
Mental health ⁽²⁾ (36 economies)			
Depression	5.3		
Anxiety disorders	4.0		
Adolescent health (41 economies, 70 interventions) ⁽³⁾	10.2		

Each benefit-cost ratio and rate of return well above usual ratios for infrastructure projects

Sources: (1) Stenberg, Axelson, Sheehan et al. 2014, 'Advancing social and economic development by investing in women's and children's health: a new Global Investment Framework', *Lancet*, 383: 1333–1354.
 (2) Chisholm, Sweeny, Sheehan, Rasmussen et al. 2016, 'Scaling-up treatment of depression and anxiety: A global return on investment analysis', *Lancet Psychiatry*, 3: 415–424.
 (3) Sheehan, Sweeny, Rasmussen et al. 2017, 'Building the foundations for sustainable development', *Lancet*, online 19 April 2017, DOI: [http://dx.doi.org/10.1016/S0140-6736\(17\)30872-3](http://dx.doi.org/10.1016/S0140-6736(17)30872-3)

High returns to investing in health make it attractive for private and non government investors: alternative financing arrangements

Financing	Risk sharing/pooling
Grants <ul style="list-style-type: none"> • Global financing facilities • Crowd funding 	Universal health insurance
Blended /hybrid capital <ul style="list-style-type: none"> • Health impact bonds • Development bonds • Buffer fund • Product development partnerships • Loan facilities 	Partial/limited coverage health insurance
Private capital market models	Micro insurance programs
	Long term care insurance
	Health savings accounts

Two developing country health impact bonds case studies

	India	Brazil
Name	Rajasthan Maternal and Newborn Health Impact Bond	Health and wellbeing of long term chronic patients in the State of Ceará, Brazil
Description	Aims to improve the quality of maternal and newborn health services provided through private facilities. The impact bond structure is used in order to drive efficiencies and harness the novel commercial perspective of investors to improve performance in service delivery.	Fund the prescription and delivery of cost effective community-based and multi-professional services to improve health and wellbeing of socially vulnerable long term chronic patients
Focus	Improve maternal and newborn health	Reduce hospital bed days due to long term chronic conditions
Size	\$8m	\$9.1m
Investors/ manager	Outcome funder: Merck for Mothers, USAID, Govt of Rajasthan Investors: UBS Optimus Foundation and other partners	TBD

Challenges to using alternative financing arrangements

- Regulatory barriers to investing in social impact bonds
 - Budget systems will need adjustment to accommodate impact bond payment arrangements
 - Constraints on certain investor classes investing in social impact bonds
 - Possible adverse tax treatment for donor organisations
 - Need for new legal structures for participants in social impact bonds (Australian Treasury 2017)
- Microinsurance schemes check list
 - Need for donor capital support or subsidies to cover losses from low income, high claim customers (Weilant 2015)
- Markets for alternative financing schemes underdeveloped at this stage
 - Level of understanding amongst potential investor base low
 - Small scale of schemes makes admin and set up costs relatively high
 - Novelty and complexity of the schemes
 - Transaction (e.g. legal costs) costs high
 - Schemes are highly customised, non standard terms and conditions

These issues need to be examined in detail and addressed.

It is not unusual for the growth in new financial markets to be slowed by complexity and high transaction costs.

Exploring Best Practice Models: Joint Task Force:

(1) Public-private cooperation

- Involve private investors and non government foundations in supporting development of alternative financing arrangements
- Consider mechanisms for increased support for private sponsored insurance schemes
- Identify potential opportunities for social impact bond PPPs

(2) the measurement of the return on the investment in health

- Consider pilot application of simplified rates of return modelling methodologies in individual economies

(3) the facilitation of innovative and sustainable health financing mechanisms, including addressing barriers to entry and deployment

- Adopting clear, non-discriminatory, consistent, yet flexible legal and regulatory frameworks
- Give detailed consideration to investor requirements, outcome metrics and outcome funders
- Examine the provision of incentives to attract insurance industry - ownership and control, policy holder reserve levels and limitations on investment
- Develop potential pilot health impact bond proposal