

**Global Infectious Disease Outbreaks and The Private Sector:
Can Investment Guarantees Lead to
Enhanced Public Health Capacity?**

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Abstract

The relationship between public health capacity to fight infectious diseases and foreign direct investment is circular. Foreign companies may be wary of investing in a location that lacks the capacity to mitigate the consequences of disease or exposes workers to dangerous pathogens. Yet, many nations lack the resources to build sufficient capacity to prevent, detect and respond to disease without sufficient investments and improve economic status. Here, we explore how to incentivize and offer some assurances to potential investors contemplating investment in a developing country considered a hotspot for future infectious disease outbreaks, as well as means to encourage development of national capacities to prevent, detect and respond to biological threats. We suggest that the Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, could guarantee private investment against infectious disease events, based on a formula that rewards countries for making improvements in public health capacity.

Global Infectious Disease Outbreaks and The Private Sector: Can Investment Guarantees Lead to Enhanced Public Health Capacity?

Background

Many developing nations need direct foreign investments to prosper. Yet many of those developing nations are prone to infectious disease outbreaks and endemic disease burdens, and private investors want some confidence that developing countries are taking responsible steps to reduce possible endemic and epidemic risks that could decimate their business plans.

Not only are large infectious disease outbreaks bad for population health, they also adversely impact security, stability and economic viability of a country. Aggregate cumulative losses in Guinea, Sierra Leone and Liberia due to the 2014-2015 Ebola outbreak stood at US\$2.2 billion in mid 2015¹; the SARS outbreak in 2003 cost the Canada and Southeast Asian nations approximately US\$50 billion²; MERS in South Korea led to over 17,000 people being quarantined and an estimated 40% drop in foreign visitors.³ Avian Flu outbreaks, which affect humans both in terms of health and economic loss, continue to pose significant risks in both developed and developing countries.⁴ ⁵ Despite the high costs incurred, most developing countries chronically underinvest in prevention, planning, risk monitoring, or establishing funding mechanisms to deal with health emergencies. ⁶ ⁷ The nature of their political economies tend to undermine strategic, long term priority setting and resource commitment, and this is compounded in that, for the most part, development assistance is targeted to specific diseases.

¹ World Bank. 2014. *Update on the economic impact of the 2014-2015 Ebola epidemic on Liberia, Sierra Leone, and Guinea*. Washington, DC : World Bank Group. Available from:

<http://documents.worldbank.org/curated/en/2014/04/24377008/update-economic-impact-2014-2015-ebola-epidemic-liberia-sierra-leone-guinea>

² Lee JW, McKibbin WJ. Estimating the Global Economic Costs of SARS. In: Institute of Medicine (US) Forum on Microbial Threats; Knobler S, Mahmoud A, Lemon S, et al., editors. *Learning from SARS: Preparing for the Next Disease Outbreak: Workshop Summary*. Washington (DC): National Academies Press (US); 2004. Available from: <http://www.ncbi.nlm.nih.gov/books/NBK92473/>

³ BBC News. South Korea declares 'de factor end' to the MERS virus. 28 July 2015. Available from: <http://www.bbc.com/news/world-asia-33684981>

⁴ Peiris JSM, de Jong MD, Guan Y. Avian Influenza Virus (H5N1): a Threat to Human Health. *Clinical Microbiology Reviews* 20(2) Apr 2007, 243-267

⁵ McKenna M. The Avian Flu Epidemic: massive impact, uncertain future. *National Geographic*. May 2015. Available from: <http://phenomena.nationalgeographic.com/2015/05/07/bird-flu-1/>

⁶ Gostin L, Katz R. The International Health Regulations: The Governing Framework for Global Health Security. *Milbank Quarterly* Vol 94, No 2. June 2016, 264-313

⁷ Klain R. Confronting the pandemic threat. *Democracy*. Spring 2016, no 40. Available from: <http://democracyjournal.org/magazine/40/confronting-the-pandemic-threat/>

A recent paper by Fan, Jamison and Summers found that the potential cost of a global pandemic would be approximately \$570 billion per year, or .7% of global income.⁸ Yet the ability to prevent such pandemics relies upon a struggling global system and nations that have not yet built effective core capacities. The May 2016 Ise-Shima Summit of the “Group of 7”(G7), reiterated this concept, recognizing that public health emergencies could have serious effects on virtually all economies and productivity, and committed the G7 countries to take a series of concrete actions to build global capacity.⁹ Global responses to identify and combat future public health crises hinges on effective global coordination, alert mechanisms, financial instruments that provide adequate and timely financing to communities, government, as well as to existing or future private investors.

Recent efforts by international organizations and countries have sought to address previous shortfalls through policies, regulations, information, core capacity building, and funding needs, albeit piecemeal.

The World Bank and Pandemic Preparedness

The World Bank Group (WBG) has been a major force in delving into and trying to find ways to address preparedness and response to infectious disease outbreaks. The WBG has long explored pandemic disease and other disease threats as they impact development, and has recently taken a leadership role in assisting lower income countries in finding innovative ways to strengthen health care systems, attain universal health care, respond to biological threats, and address core capacity requirements of the World Health Organization’s International Health Regulations (IHR).

It has used its existing International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) windows to assist West African countries in responding to the Ebola outbreak, and in developing relevant projects. The World Bank is currently considering proposals for IDA to include assessments of core public health functions and development of pandemic preparedness plans.¹⁰

In May, 2016, the World Bank finalized the “Pandemic Emergency Financing Facility” (PEF) with the objective to reduce or even eliminate the financial constraints to rapid

⁸ Fan, Jamison and Summers. The inclusive cost of pandemic influenza risk. NBER Working paper 22137. 2016

⁹ G7 Ise-Shima Vision for Global Health. May 2016. Available from:
<http://www.mofa.go.jp/files/000160273.pdf>

¹⁰ International Development Association. IDA18 Special Theme: Governance and Institutions. IDA Resource Mobilization Department (DFIRM). May 26, 2016

responses to an infectious disease outbreak, using pre-arranged public and private financing, including leveraging from insurance and capital markets.¹¹ The PEF is designed to complement the role of the WHO Contingency Fund for Emergencies (CFE).

These are worthy initiatives, containing elements which bring the competencies of the public sector, the resources and efficiencies of some aspects of the private sector, including the global insurance industry, to common cause, and mutual benefit. That said, private sector enterprises, whether existing or potential investors, have much broader interests but are not often considered or seen as a core participant/recipient of attention.

Indeed, it is a deeper understanding of the linkage of the public and private sector, and the multi-dimensions of private sector engagement, that has been usually missed and among the most challenging aspects in supporting measures to deal with infectious disease prevention, preparedness and the economic costs-or possible benefits. The dimension of this relationship, which has had insufficient attention, is essentially how to incentivize and offer some level of comfort to a potential investor contemplating a significant investment in a developing country, one considered a possible “hotspot” for future infectious diseases.

Virtually all developing countries will need or want increased direct investment, but the intricate connection between high risk infectious disease prevention, preparedness, and external investment financing has not been on the public sector radar, global or otherwise. Countries and the international financing community must identify a means to allay the concerns of external investor that may choose one developing country over another based on external disease threats.

The Multilateral Investment Guarantee Agency (MIGA)

The Multilateral Investment Guarantee Agency (MIGA), part of the World Bank Group, is designed to guarantee private investors concerned about risks which bear on a decision whether or not to go forward. Established in 1988, it provides political risk insurance to promote foreign direct investment in developing countries, MIGA currently guarantees against expropriation, transfer restrictions, breach of contract, war and civil disturbances and non-honoring of sovereign financial obligations. The assumption was that international political risk would be best assured by the public sector instead of relying on private insurance. MIGA is designed as an instrument to

¹¹ World Bank. Pandemic Emergency Financing Facility- Global Pandemic Response Through a Financial Intermediary Fund. May 3, 2016

connect the mutual interests of lower and lower/middle income countries' public sector with potential private investors by providing heightened confidence to the latter with regard to aspects of investment risk that lie outside normal course of business.

Much has changed, however, since the last century in terms of what can be considered priority public sector investment risk protection. MIGA Articles of Establishment provide flexibility in interpreting what these risks might be and in calculating the premiums required for coverage of such risks. The agency could be utilized to facilitate private investment in disease ridden environments, while at the same time providing a financial incentive for national governments to prioritize public health infrastructure development.

For example, a mining company may consider a new construction project requiring thousands of workers and in a country that has weak healthcare and public health infrastructure, limited to nonexistent capacity to detect or respond to an infectious disease outbreak, and has a high endemic disease burden. The company's business plan cannot afford an Ebola-like event, which would shut down its operation. The country, however, desperately needs the mining investment but is strapped for public funds to do what is needed to advance its infectious disease capacities and preparedness planning. If a MIGA guarantee premium formula over the life of the private investment could be based on rewarding a country making improvements, it would be a win-win situation.

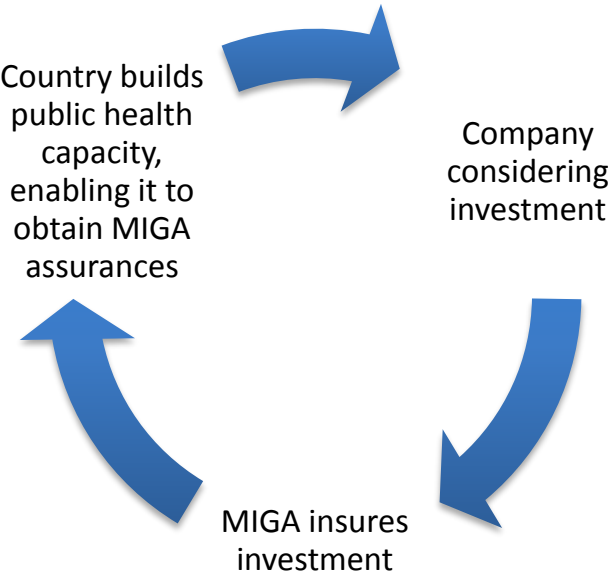


Figure 1: Circular process for Investment, Guarantee and Public Health Capacity Building

One of the political risks covered by MIGA is “Breach of Contract,” to protect against any losses from breach of a project agreement. Using its “Breach of Contract” cover, MIGA could include a limited governmental contractual agreement in the guarantee that the government would take reasonable steps in meeting the IHR core capacities. This contractual agreement would be breached if the Government failed to build (or make progress towards building) its public health infrastructure as dictated by the IHR. Alternatively, MIGA’s Board could extend coverage and identify a new specific covered risk of public health emergencies.

This would be a new area of international public/private financial engineering, and benefit from a step-by-step approach to determine if it is a viable mechanism. MIGA could do so by pursuing the following set of actions:

1. Conduct an initial assessment of existing insurance guarantees
2. Analyze the potential marketability to countries
3. Present to the MIGA Board alternative options for sequential engagement to pilot the approach
4. Allocate contingency resources for experimentation over a limited period of time
5. Conduct a 3-5 year pilot
6. Evaluate utility, demand and other concerns that arise during the pilot
7. Conduct monitoring and evaluation for mid-course corrections to allow for in depth understanding of the pros and cons of the concept.

Conclusion

There is much work to do to explore the possibility of expanding MIGA coverage to deal with public health emergencies, but it is worth exploring because public health emergencies are here to stay, the public sector cannot do it alone, and the external private sector has much to lose or gain, depending on what core capacities in health are in place.. MIGA is an existing organization with a solid track record, familiar to both governments and the private sector, and has the potential to incentivize national investment in public health infrastructure to prevent pandemics, at the same time encouraging more direct foreign investment in the countries that need it most.

Given the World Bank’s existing efforts to protect against pandemics, MIGA should be part of the Bank’s suite of activities to provide for a more comprehensive approach to prevent, prepare and react to public health emergencies. No viable private sector insurance options exist in this space, nor is there any private/public mechanism alternative on the horizon. Thus MIGA would fill a vacuum, one consistent with the World Bank Group mandate, boost the development of IHR core capacities, and enhance the ability of a developing country to attract private investors. To paraphrase John F. Kennedy’s famous quotation, “A rising tide of heightened infectious disease capacity will lift the wellbeing of everyone.”

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