

10. The Health Impact Fund: A Cost-effective, Feasible Plan for Improving Human Health Worldwide

THE NEED FOR CHANGE

At present, the development of new medicines is driven by the reward of temporary market exclusivity. When a new medicine is protected from generic competition, its profit-maximizing price inevitably prevents a large proportion of the world's population – including many in affluent countries – from purchasing it. As a result of this system of incentives, people suffer and die needlessly and R&D is focused on those medicines from which investors can make the most money, rather than on those that would lead to the greatest improvements in human health.

We can clearly do better – but there are also some very difficult problems to be resolved. How do we maintain incentives for innovation if prices are low? And how do we encourage innovators to work on projects that will improve health, rather than merely those that lead to profitable sales? Plausible solutions to these problems can take advantage of the international patent system, but must be more responsive to the health needs of the poor.

We propose the Health Impact Fund as the most sensible solution that comprehensively addresses the problems. Financed by governments, the HIF would offer patentees the option to forgo monopoly pricing in exchange for a reward based on the global health impact of their new medicine. By registering a patented medicine with the HIF, a company would agree to sell it globally at cost. In exchange, the company would receive, for a fixed time, payments based on

the product's assessed global health impact. The arrangement would be optional and it wouldn't diminish patent rights.

The HIF has the potential to be an institution that benefits everyone: patients, rich and poor alike, along with their caregivers; pharmaceutical companies and their shareholders; and taxpayers.

HOW THE HEALTH IMPACT FUND WORKS FOR PATIENTS

The HIF increases the incentives to invest in developing medicines that have high health impact. It directs research toward the medicines that can do the most good. It can also reward the development of new products, and the discovery of new uses for existing products, which the patent system alone can't stimulate because of inadequate protection from imitation. All patients, rich and poor, would benefit from refocusing the innovation and marketing priorities of pharmaceutical companies toward health impact.

Any new medicines and new uses of existing medicines registered for health impact rewards would be available everywhere at marginal cost from the start. Many patients – especially in poor countries, but increasingly in wealthy ones too – are unable to afford the best treatment because it is too expensive. Even if fully insured, patients often lack access to medicines because their insurer deems them too expensive to reimburse. The HIF simply and directly solves this problem for registered drugs by setting their prices at marginal cost.

HOW THE HEALTH IMPACT FUND WORKS FOR PHARMACEUTICAL COMPANIES

Most proposals for increasing access to medicines would reduce the profits of pharmaceutical companies and hence their ability to fund research. The HIF, however, leaves the existing options of pharmaceutical firms untouched. It merely gives them the opportunity to make additional profits by developing new high-impact medicines that would be unprofitable or less profitable under monopoly pricing. Selling such registered medicines at cost, firms won't be forced to defend a policy of charging high prices to poor people and they won't be pressured to make charitable donations. With HIF-registered medicines they can instead "do well by doing good": bring real benefit to patients in a profitable way. Research scientists of these firms will be encouraged to focus on addressing the most important diseases, not merely those that can support high prices.

We will spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected. We are committed to making the right to development a reality for everyone and to freeing the entire human race from want.

United Nations Millennium Declaration

HOW THE HEALTH IMPACT FUND WORKS FOR TAXPAYERS

The HIF will be supported mainly by governments, which are supported by the taxes they collect. Taxpayers want value for their money, and the HIF provides exactly that. Because the HIF is a more efficient way of incentivizing the pharmaceutical R&D we all want, total expenditures on medicines need not increase. However, if they do, the reason is that new medicines that would not have existed without the HIF are being developed. The HIF mechanism is designed to ensure that taxpayers always obtain value for money in the sense that any product regis-

tered with the HIF will have a lower cost for a given amount of health impact than products outside the HIF. Taxpayers may also benefit from a reduction in risks of pandemics and other health problems that easily cross national borders.

WHY FOR PHARMACEUTICALS? AND WHY NOW?

The patent system is a very general mechanism for stimulating innovation in many fields. Applied to pharmaceuticals, it works poorly. This is so because pharmaceuticals are a very special case in at least these three respects. First, medicines are exceptionally important products of great consequence for well-being and even survival. Second, users typically do not have the information and power to make a rational decision about which product, if any, to consume. Third, the widespread use of insurance in the more affluent countries distorts the prices of patented medicines worldwide. To address these three special challenges, we propose creating a complement to the patent system that takes advantage of a fourth respect in which pharmaceuticals are special: their value to human beings can be summarized in a single measure – health impact – that is morally far more plausible than readiness to pay. Tailor-made for the special case of pharmaceuticals, the Health Impact Fund complements the patent system to correct for its defects in this area of innovation.

Readers may be wondering why, if the Health Impact Fund would work so well, it hasn't been proposed before now. There are two answers. First, the problem of price barriers to access to new medicines is growing rapidly given the development of global health systems, the implementation of the TRIPS agreement, and the worldwide escalation in pharmaceutical prices. The HIV/AIDS pandemic further underlines the importance of pharmaceutical treatment, and the terrible consequence of high prices of essential medicines. Second, the technology for measuring health impact has been developing over the last twenty years or so, and is only now in widespread use. Thus, along with growing political interest in implementing a mechanism such as the Health Impact Fund, we now also have the technical capability to do so.

THE PATH FORWARD

For the HIF to become a reality, our proposal will need to be studied, challenged, refined, and considered from every angle. We have made a start on formulating the HIF – but we need help from a wide range of stakeholders – innovative companies, governments, insurance companies, epidemiologists, NGOs, lawyers, economists, doctors, and many others too – to push forward with the ideas presented here and to strengthen our proposal. We therefore encourage you to contact us at www.incentivesfor-globalhealth.org if you have comments or ideas on this proposal.

It is also necessary that governments – supported by their citizens and with the collaboration of pharmaceutical firms – begin making commitments to support the HIF, once they are satisfied of the merits of the proposal. We hope to convince governments, one by one, to commit to supporting the HIF financially if enough other countries do so as well.

The Health Impact Fund is a fair and cost-effective way of stimulating research and development of high-impact pharmaceuticals. It would make advanced medicines available to all at competitive prices, while at the same time offering ample rewards for innovators.

