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Lawmakers pitch a bill to create $30 billion in ‘biobonds’ to jumpstart drug development

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In a bid to jumpstart drug development, a bipartisan group of lawmakers introduced a bill for the U.S. government to back so-called “biobonds,” which would be used to fund small companies and universities that are researching treatments for unmet medical needs.

The LOANS Act, which would authorize a total of $30 billion over an upcoming three-year period, is designed to reduce what the lawmakers called a “perennial shortage of funds” and to help restart research stalled by the Covid-19 pandemic.

In explaining their rationale, the lawmakers argued that such financing is generally unavailable for translational research, which takes a project from the lab to early-stage clinical testing. Instead, funding is provided by venture capital or internal funds held by larger pharmaceutical companies, which can lead to higher-priced medicines for larger patient populations.

“More funding is needed for critical research, treatment and cures for deadly diseases,” said Brian Fitzpatrick (R-Pa.), the sole Republican who, along with 11 Democrats, introduced the legislation late last week. And he argued that a “unique funding mechanism” is required to compensate for the time lost by the coronavirus.

The lawmakers cited a survey showing clinical trial disruption was the primary concern among 26% of pharmaceutical industry participants who were queried last February by Global Data, a market research firm. Most of the impact occurred in mid-2020 as Covid-19 took hold worldwide. More recently, trial activity has started to resume, but the firm contended about 1,000 trials continue to be disrupted.

One industry expert suggested the legislation has value.

“I think this is a great idea. Money seems to be everywhere, so why not throw it at this?” said Ira Loss of Washington Analysis, a research firm that advises investors about the effects of legislation and regulation on the pharmaceutical industry. “It’s a constructive effort and it seems that it’s aimed at diseases that may not have a lot of options available.”

Another aspect that should be appealing, Loss explained, is that the bonds would not favor any one condition, but rather would focus on unmet medical needs, such as Alzheimer's, cancer, and sickle cell anemia. In addition, the bill says important criteria would be trials that are run researchers who are women, disabled, or members of racial or ethnic minority groups.

As envisioned, the Department of Health and Human Services would guarantee the principal – but not the interest – on bonds purchased by pension funds and insurers, for instance. Each loan would be capped at $25 million, and funds would be available in 2022, 2023, and 2024. Starting two years after bonds are first issued, the federal government would have to assess the risk involved with providing guarantees.

Of course, there are hurdles involved before any money could become available. For one, the legislation has to become a law, which can take time, especially with a bitterly divided Congress. Once that happens, the HHS has to issue rules for carrying out the program, which also requires patience. And there is always the concern about fraud.

As Loss noted, "There are a lot of opportunists out there."

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