Financing Instrument: National Trust Funds

Placing funds for immunization in trust funds.

What are national trust funds?
National trust funds are funds set aside to generate income for a particular purpose, with specific rules about how the proceeds can be used. They are flexible financial tools in which a relatively large sum is provided, under a specific legal arrangement, and the capital and/or interest is used over time. Depending on the capital base, a trust fund can provide a reliable income stream, grants, short-term credit, loan guarantees and/or foreign exchange. The original capital can come from domestic and/or external sources.

Trust funds can be organized as foundations, funds-in-trust, charities, cooperatives, social enterprise funds, credit unions or non-profit organizations.

A trust fund must be legally incorporated and have a capital base, statutes and articles of constitution that stipulate purpose and beneficiaries as well as governing, operating and controlling organs. It must have procedures for planning and outside supervision.

What are common international policies and practices in using national trust funds for immunization service financing?
Trust funds are emerging as promising financial instruments for funding immunization services because they have the potential to “protect” resources over a long period, but experience to date is limited.

When trust funds are held by the World Bank or a U.N agency as trustee, they are not subject to taxation. In many countries, contributions to charitable trust funds benefit from tax relief. Investment proceeds are generally tax exempt.

What are the main characteristics of using national trust funds to finance immunization services?
- Promoting equity (+). Whether national trust funds have equity-enhancing effects depends on programmatic decisions.
- Achieving efficiency (-). National trust funds require administrative resources. However, countries with initially low levels of management and operational capacities are suitable candidates for trust funds that pool multiple donor contributions and thus reduce the need for countries to conform to each separate donor’s rules and procedures. In this sense, trust funds are consistent with sector-wide approaches to health finance (SWAps), and with the reduction in administrative costs.
- Providing adequate, timely and reliable resources (+). If capitalized at a relatively high level, trust funds can make an important contribution to the financing of an immunization program over the long-term. A trust fund can ensure significant resources will be available on a steady basis. In addition, trust funds can be structured to have some degree of flexibility to respond to urgent resource requirements.
• Engendering accountability (+). As autonomous bodies, trust funds can operate in a businesslike fashion within the national legal and regulatory system.

• Encouraging self-sufficiency (+). The legal status and financial autonomy of trust funds can shield program funding from economic and political volatility, which is not the case with some forms of traditional project finance. Trust funds can expand and leverage additional funds as the capacity to absorb funds grows. In addition, trust funds can act to hold funds while absorption capacity is developed or to gather funds together from a variety of sources for a common goal. For example, they can be used to channel debt relief funds. Finally, offshore investment of the capital can lessen foreign exchange constraints.

The value of an extended cash flow must be weighed against the opportunity cost of not spending the funds immediately to satisfy urgent needs. Tying up capital makes the most sense when capital is available suddenly (due to debt relief or a gift) and absorption capacity is low. Investing capital to provide an income stream is appropriate only if some difficult conditions are met, including:

- The resource requirements can be reasonably well estimated over the medium term: the demographic demand for the services can be clearly forecast, and the services contemplated can be accurately costed.
- The needed revenue stream can be achieved through investment of capital within an acceptable range of risk.
- There is enough leeway to build up reserves to protect the fund’s operational purchasing power against the effects of inflation and currency fluctuations.

- Additional domestic sources of finance can be tapped to cover administrative costs.

What are some keys to success of national trust funds?
The mission of the trust fund, the available capital and donor preferences will determine investment and cost recovery strategies. A key document to be produced to create common ground among the potential partners to the trust fund is the Memorandum of Understanding (MoU). It spells out the responsibilities, rights and obligations of the founding partners and contributors, the goals to be attained, organs to be created, operations envisaged, reporting required, and when and how result are to be reviewed based on performance and achievement criteria.

Establishing the governing board and selecting its members are decisive steps for the trust fund’s future. The directors/trustees are charged with the responsibility of bringing the Statute or Charter and the MoU to life. Their role is to establish the fund’s strategy, adopt its business plan, select the management for operations, and as the case may be, the asset/investment managers.

Three tiers of competence are needed in the trust fund architecture:
- Technical operations are in the hands of those who are competent in that area.
- Policy and financial management is provided by the board of directors/trustees, including planning and evaluating activities, reporting, control, supervision and guidance.
- Asset management and investment are usually handled by professional investment managers, whose job it is to protect, place and increase the capital, with maximum return at desired levels of risk.

For additional information...  
Becher, Ernst. (2001). National Trust Funds to Finance Immunization in Developing Countries. This paper is posted on the Global Alliance for Vaccines and Immunization website: www.vaccinealliance.org.


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Financing Instrument: Revolving Funds

Using revolving funds for procurement of key inputs.

What is a revolving fund?
A revolving fund is a pool of capital—from domestic and/or external sources—that is used to provide short-term credit—and is then replenished in full by the countries or agencies that have used the funds. Such funds can be linked with a currency exchange mechanism, a procurement mechanism, technical assistance, and/or financial support to national budgets. Revolving funds also can provide loan guarantees, which can reduce the cost of borrowing. Revolving funds can charge interest or an administrative fee, or they can provide free credit.

What are common international policies and practices in using revolving funds for the procurement of vaccines and supplies?
Many international agencies, governments and non-governmental organizations have launched revolving funds for health supplies. These include the World Health Organization and its regional offices, UNICEF, Médecins Sans Frontières, the International Federation of the Red Cross, and the European Union.

Current revolving funds for immunization finance include the International Coordinating Group for Epidemic Meningitis Control Revolving Fund, the Pan American Health Organization (PAHO) Revolving Fund, and the country-specific lines of credit for vaccine purchase through UNICEF that form part of the Vaccine Independence Initiative (VII).

What are the main characteristics of using revolving funds for procurement of vaccines and supplies?
- Promoting equity (+). There are no clear equity-related effects of using revolving funds.
- Achieving efficiency (+). The use of revolving funds can be linked to United Nations bulk procurement mechanisms to facilitate access to vaccines of assured quality at the best available price.
- Providing adequate, timely and reliable Resources (+). The short-term credit for vaccine purchase provided under revolving funds can bridge the gaps among the vaccine procurement schedule, government budget disbursements and the release of donor funds.
- Engendering accountability (+). The standard procedures for procurement and disbursement used by many international revolving funds promote transparency in the use of funds for procurement of vaccines.
- Encouraging self-sufficiency (+). If revolving funds permit repayment of the funds' foreign exchange outlays in local currency, they can alleviate the difficulty that many governments have securing
sufficient amounts of convertible currency for imported vaccines, syringes and waste disposal boxes.

**What are some keys to success of revolving funds?**

A revolving fund should respond to a clearly defined need, which will determine the fund mission, structure and functions. Revolving funds can be simple lines of credit with few conditions, providing a purely financial service. However, they can also be elements of a more complex inter-connected system of technical assistance for procurement, immunization service improvement and expansion, and tiered pricing.

The mission of the fund will determine what the trade-off should be between simplicity on the one hand, and complexity on the other. A fund designed to provide incentives for improved immunization service performance at the lowest feasible cost will involve considerably more complexity than a fund intended simply to provide short-term credit for vaccine purchase.

**Example of revolving funds: PAHO and VII**

The **PAHO Revolving Fund** is part of a system for immunization expansion and improvement in the Americas. When countries can justify the integration of new vaccines into their programs on epidemiological and technical grounds, they become candidates to use the PAHO revolving fund for the purchase of these vaccines.

To be eligible for the **PAHO Revolving Fund**, countries must have:
- a national budget line for the purchase of vaccines and syringes
- a five-year plan for the immunization system that conforms to the general policies of Expanded Programme of Immunization in the Americas,
- a national program manager with sufficient authority to implement the program.

The Fund obtains low prices for vaccines through bulk purchasing and market intelligence. Payment for the vaccines by governments can be made in local currencies within 60 days of the invoice. PAHO charges a 3 percent administrative fee that covers fund expansion, losses due to fluctuations in currency exchanges, and overhead. Except in the case of a national disaster, a missed payment results in the suspension of purchasing privileges. PAHO also works with donors to find financial support for countries which cannot cover the whole cost of a new vaccine introduction.

The results have been the growth of the fund from US$1 million in 1979 to US$145 million in 1999, and substantially improved access to new and under-used vaccines at lower prices. The national plans have provided a means of forecasting vaccine demand. The fund also functions to re-route vaccine deliveries in the case of emergency outbreaks.

Success factors include a learning organization and institutional memory that has allowed the evolution of policies and implementation over a 20-year period; intense market surveillance and intelligence; ease of communication among partners, most of whom speak Spanish and Portuguese; an excellent technical advisory committee that is trusted and respected by the client countries and donors; transparency in determining country eligibility through a process that encourages good planning and management at country level; and long staffing continuity at PAHO.

The **Vaccine Independence Initiative (VII)**, launched by WHO and UNICEF in 1991 with financing from several bilateral agencies, provides countries with a limited line of credit for vaccine purchase using local or hard currency through the UNICEF procurement system. It is a special type of revolving fund, and since 1999 has been a guarantee fund.

Participating countries must establish a national budget line for vaccines and have a national immunization plan so that vaccine needs can be projected. They must commit to raising the proportion of vaccine purchase costs that are paid through the national budget.

VII’s purpose is to increase the self-reliance of countries in financing their immunization services and to ensure a sustainable supply of vaccines in those countries. The intent is to transfer the responsibility for vaccine finance from external donors to government budgets in the context of decreasing donor support.

WHO and UNICEF promote self-sufficiency in financing of vaccine purchases. The VII provides participating low- or middle-income countries with a ceiling line of credit for the purchase of vaccines and related materials through the UNICEF procurement system. Countries can pay for vaccines using hard or local currency. Lines of credit are financed by donors and are capitalized at over US$9.1 million. There are plans to increase the capitalization by another US$10 million. UNICEF charges a 6 percent administration fee for vaccines procured through its system and an 8 percent administration fee for
vaccine-related supplies. Low-income countries have been assisted in meeting VII criteria by the support of financial contributions to their national budgets by donors.

Local currency is exchanged using convertible currency derived from the UNICEF program budget. UNICEF country programs typically spend in-country in local currency, but they are financed in convertible currency, so they are a source of foreign exchange. Countries that do not have a UNICEF program must pay in convertible currency. In some cases, the UNDP or other UN country program budgets can be used for currency exchange.

Countries have 45 to 60 days to pay for vaccines (including freight) they have received. Lines of credit and spending limits are specific to each participating country, and dependent to some extent on the local country office’s capacity to absorb local currency. There are increasing possibilities to purchase new and additional vaccines through the VII.

To qualify for the VII, countries must establish a national budget line for vaccines and related consumables, and must have a national immunization plan to project vaccine needs. They must commit to raising the proportion of vaccine purchase costs that are paid through the national budget.

Since 1996, more than 30 countries have used the VII, although not all have ceilings in operation. Twelve of these countries pay for 100 percent of vaccine purchase through their national budget. The European Union program of budget support for Sahelian countries participating in the VII—known as Appui au Renforcement de l’Indépendence Vaccinale en Afrique Sahélienne (ARIVAS)—involved eight countries initially. All of these have set up budget lines for vaccines. Six have increased the vaccine budget over the first two years of the initiative.

For more information . . .

For information on the PAHO Revolving Fund, please contact PAHO Division of Vaccines and Immunization through their web site, www.paho.org, or through WHO representative offices in developing countries.

For information on the Vaccine Independence Initiative, please contact UNICEF through your country office or at UNICEF Headquarters in New York through their web site: www.unicef.org.

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