

International Financing Mechanisms to Support Health Systems Strengthening

International Financing Facility for Immunisation (IFFIm)

What is it?

IFFIm is an international development financing mechanism that raises funds on the international capital markets to promote expanded immunisation coverage and increase access to new vaccines. It is backed by legally binding commitments made by seven sovereign donors (France, Italy, Norway, South Africa, Spain, Sweden, and the United Kingdom). IFFIm's inaugural bonds were issued in November 2006, with a second issue in March 2008 with another expected in late 2008. Resources generated through IFFIm are channeled to countries for vaccines and health systems strengthening through the processes and procedures of the GAVI Alliance.

What does it add?

- **Greater predictability** IFFIm allows donor support to be raised in a more predictable manner than other approaches. Donor support is guaranteed until 2015 through legally binding commitments and, based on these assets, IFFIm can go to markets when it needs funds.
- **The potential to frontload support.** IFFIm also allows donor support to be frontloaded – meaning more resources are available up front than would otherwise be the case (though fewer resources are available later as bondholders are repaid). This is particularly important for immunisation as it allows the rapid increases in uptake necessary to reach the coverage levels needed to effectively control a range of childhood diseases (also known as achieving “herd immunity”). Although coverage rates still need to be maintained, the costs of treatment associated with vaccine treatable conditions are likely to decline rapidly. This frees up resources to be used toward meeting other health challenges. The ability of the GAVI Alliance, using IFFIm funds, to enter into long-term supply agreements with vaccine producers has also helped spur a sustainable supply of essential vaccines at lower cost than might have been the case in the absence of such support.
- **Support is being channeled to health systems strengthening** IFFIm provides funding for all of GAVI's Strategic Goals including measures to overcome the systems constraints preventing improvements in immunisation coverage. The current aim of IFFIm is to raise around \$4bn on international capital markets (the exact figure will depend upon the level of pledges) with repayments made through to 2026. A considerable share of the funds raised to date have been used to fund activities under the GAVI Health System Strengthening (HSS) window. Total approved IFFIm disbursements amounted to \$861m in 2006 and \$186 m in 2007 and are expected to be around \$400m in 2008. Of those funds, by March 2008, IFFIm had spent \$109m on health system strengthening support through GAVI's HSS window.
- **There is an “IFFIm premium”** IFFIm is able to borrow funds at a highly competitive rate given its AAA borrower status with the three major credit rating agencies. However, IFFIm does pay a small premium – in terms of slightly higher borrowing costs and additional transactions costs - to access funds compared to other ODA funds, whose cost may be measured against the cost of sovereign debt. However, evidence suggests that the benefits associated with the greater predictability and ability to frontload may exceed these costs.

What is frontloading?

‘Front-loading’ is defined as changing the phasing of a program so that it uses the same total inputs, but uses them more quickly so that outputs are realized sooner. Barder and Yeh

Issues and Options

Consideration is currently being given to expanding the IFFIm model to provide additional support to health systems strengthening. IFFIm is now an established borrower and could – with further donor support - raise substantially more than it does at present. In fact, it may actually be easier and quicker for IFFIm to do relatively larger bond issuances. ...

Further work is required to:

- **clarify the rationale for using an expanded IFFIm to support health systems strengthening:** Some, but not all, of the arguments in support of IFFIm's funding for immunization also apply to health systems strengthening. IFFIm is best suited to interventions which are highly cost effective in terms of health impact but also ones which have no long-term recurrent costs, significantly reduce long-term funding requirements or bring about large efficiency gains. It will be important, therefore, to consider possible areas for support against these criteria.
- **determine the health systems strengthening components which could most benefit:** Appropriate actions will need to be country developed and owned and fully reflected in health plans – a process which the IHP partnership is supporting. In some settings frontloading could allow countries to make necessary up front investments in institutions to increase the production of health workers and also in systems which allow sector progress and performance to be monitored. Strengthening governance including building strategic planning capacity in the sector, strengthening supply chains and logistic systems and establishing public private partnerships may also require large amounts of up front funding and could, if well designed and implemented, lead to major and sustained improvements in the efficiency.
- **understand how an expanded IFFIm would complement other funding mechanisms and what it is best suited for.** IFFIm is not well suited to meet long-term recurrent costs such as salary costs. Other mechanisms such as general budget support are likely to be far more effective. Coordinated approaches to funding need to be incorporated into countries' health plans
- **clarify other potential areas which could benefit:** There are a number of further possible uses for IFFIm funding which, although not specifically health systems strengthening actions, may be highly complementary. These might include sustained support in fragile states, countries undergoing major transitions requiring one-off restructuring costs, meeting the costs associated with emerging threats (for example any future SARs-type challenge), providing an insurance type mechanism (or aid guarantee fund) to reduce volatility in aid flows or even support for countries with good fiscal prospects where long term aid funding will not be required. These, and other possible uses, need to be fully evaluated
- **agreement on the best governance and management arrangements:** If the case for an expanded IFFIm can be made it is important that the current management and governance arrangements and processes are appropriate and cost-effective, and that the current strengths of IFFIm are retained. It will also be important to ensure that the model adopted does not add further complexity to the current health aid architecture. Options might include expanding IFFIm in its current form with as few as possible changes to its governance arrangements, using some of IFFIm's structures but allocating and channeling resources in different ways or, thirdly, adopting a completely new approach.
- **work through legal issues and logistics around expanding IFFIm:** expansion of IFFIm would require agreement among its donors to revise its constituent documents. Groundwork should be done to specify what changes would be needed, and to ensure that expanding or altering IFFIm will not jeopardize its ability to raise funds at low cost (given its AAA credit rating) and its affordability to donors (given that contributions are currently classed as off budget).