

Innovative financing mechanisms for South East Asia

POLICY BRIEF 3: ISSUING BONDS AGAINST PUBLIC FUNDS (e.g. IFFIm)

Description

The IFF is a mixed public/private funding mechanism designed to give immediate access to large-scale funding. Long-term, legally binding commitments of donor funds are used to underwrite bonds issued on international capital markets. The sale of the bonds provides cash that can be used immediately to fund health programmes or vaccine purchase, and the funds committed by donor governments are then used to repay the bonds as they mature some years later.

Status

The IFF has been successfully used to finance vaccine purchase and immunisation – with the International Finance Facility for Immunisation (IFFIm), launched in 2006. To date, the IFFIm is the only IFF that has been launched.

The IFFIm secured donor commitments from nine countries (the United Kingdom, France, Italy, Norway, Australia, Spain, The Netherlands, Sweden and South Africa) against their overseas development assistance budgets. Brazil has also since made a formal commitment to join IFFIm. The IFFIm used these funding commitments to issue bonds on international capital markets, and the cash raised by the bond sales is being used to fund the GAVI Alliance's immunisation and vaccine purchase programmes. The World Bank is financial adviser and treasury manager to the IFFIm.

Volume of potential revenue

The IFFIm has secured US\$6.3bn in donor contributions (spread over a 23 year period), and has used these commitments to raise US\$3.6bn via bond issues for use now. For example, the first of its six bond issues raised US\$1bn from institutional investors; and a second offering in Japan in 2008 raised US\$223m from private investors. IFFIm is expected to disburse US\$3.3bn of these funds between 2006 and 2015.¹

The instrument's credit rating has enabled it to access funds on international capital markets at exceptionally low interest rates – IFFIm is currently rated AAA/Aaa/AA+ by the three ratings agencies.

Expanding/replicating the IFF to provide financing for new vaccines in Asia would require access to more donor funds, either from existing or new donors. Large regional donors who do not provide funds to IFFIm include Japan, New Zealand, Republic of Korea and China.

Pros & Cons

Pros	Cons
<ul style="list-style-type: none"> Funds are frontloaded: the health impact of vaccination now is much higher than for vaccination delayed till later Low costs relative to revenue raised: IFFIm had start-up costs of US\$3.6m, and ongoing costs of US\$3-5m annually. Already successfully used to finance large-scale vaccine purchase Stable, highly predictable Frontloading of funds for immunisation increases their value by 11%ⁱⁱ 	<ul style="list-style-type: none"> Most SEA countries do not have large aid budgets to underwrite this: but could potentially use health budgets if they wished to participate (front load spending on health) Ability to raise funds at low rates is dependent on instrument's credit rating. This is partly dependent on features of the IFFIm itself (e.g. gearing ratio limit, liquidity requirements) but also on the credit ratings of backing countries (although many SEAs have high credit ratings) Complex governance structure Governments have to pay it back (no new funds) There's a limit to how much funding governments will want to shift up front Access to funds depends on interest from market in buying the bonds (although has not been an issue for IFFIm)

ⁱ Taskforce on Innovative International Financing for Health Systems, "More Money for Health, and More Health for the Money", 2009, 15, <http://www.internationalhealthpartnership.net/pdf/IHP%20Update%2013/Taskforce/Johansbourg/Final%20Taskforce%20Report.pdf>.

ⁱⁱ Taskforce on Innovative International Financing for Health Systems, "Raising and Channeling Funds" (International Health Partnership, 2009), http://www.internationalhealthpartnership.net/CMS_files/userfiles/090817%20WORKING_GROUP_2%281%29.pdf.