

Domestic Trust Funds

KEY POINTS

- * Domestic trust funds have attracted interest as a way to fund immunization programs, but few countries have implemented them.
- * In theory, trust funds can help protect or manage sources of immunization funding, generate additional revenue through interest earned on investments, and promote donor confidence.
- * The limited experience to date has shown that trust funds for immunization and for other health priorities can be costly and complicated to establish, fund, and manage.

DOMESTIC TRUST FUNDS have attracted interest as a way to fund immunization programs, but few countries have implemented them. A trust fund is one of several financial tools that governments can use to ring-fence, or protect, funding for specific purposes. However, there is often confusion about which of these tools policymakers are pursuing and what differentiates them. The figure on the next page shows these mechanisms (from left to right in order of increasing complexity).

An *account* is governed by regular accounting principles. A *fund* may be subject to other rules or regulations once it leaves the government general accounting system. An *endowment fund* is dedicated funding left in trust by a donor in the interest of the donor or an institution. A *trust fund* is established for a particular purpose but can have multiple revenue streams and purposes.

A trust fund may be structured to simply provide income, to cover shortfalls through short-term credit, or to provide guarantees against loans to support program implementation. Trust funds can be used to finance a mix of health activities (which might include immunization) or be restricted to a single type of activity (such as immunization).

HOW TRUST FUNDS WORK

Legal terms specify how the trust fund's initial capital or interest can be used over time. Trust funds also have the potential to accumulate reserves by tapping into only a portion of gains from interest.

Trust funds are usually legally incorporated according to policies and tax regulations that vary by country. A governing board generally oversees the strategy, business plan, management, and operations. Sometimes an immunization trust fund is established simultaneously with immunization legislation so the trust fund is legally embedded. In some circumstances, trustees or a board of directors manage reporting and financial controls and are liable for the fund's use, while asset managers seek to ensure the right rate of return and level of risk. Some countries institute a more limited administrative structure, perhaps with an individual fund manager sitting in an existing ministry or

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PROTECTED FUNDS FOR IMMUNIZATION

	ACCOUNT	FUND	ENDOWMENT FUND	TRUST FUND
PURPOSE	Maintain a separate funding stream for accountability against stated expenditure purpose	Can be used to fund "off-budget" activities such as social health insurance	Manage funds or gifts in the interest of a donor or an institution	Maintain dedicated revenue for a particular sector, population, program, or service
GOVERNANCE	Governed by regular accounting structures and rules	Can be governed by a board and/or an institution/NGO or MOF/MOH	Can be governed by a board and/or an institution/NGO; may spend down only income earned	Can have management structure similar to endowment or a leaner structure; can be governed by a board and/or an institution/NGO
DISBURSEMENTS	Separate bank account with limited access	Separate consolidated line from regular budget	Technical decisions managed by a board; principal managed by a fund/asset manager	Might have rules for drawing down capital; can exist in country or offshore, managed by an NGO or financial manager
REVENUE	Domestic public revenue, including general revenue	Domestic public revenue, including general revenue	Likely contains funds from a single donor or entity	Funded by domestic public revenue, donors, philanthropy, or other; requires seed capital (principal); may require matching funds
	LESS COMPLEX		MORE COMPLEX	

agency. In this case, other measures are needed to ensure transparent financial reporting and decision-making.

Trust funds can be *passive funds* (in which assets are regularly deposited and used at approximately the same rate at which they are deposited) or *working funds* (in which assets are invested and only the proceeds are spent). In a working fund, balanced

investments chosen to provide steady returns may enable the trust fund to act as a stable and reliable source of funding by primarily using gains from interest rather than drawing on the principal. If a trust fund is intended to fully fund a specific area where costs are expected to grow over time (such as an expanding immunization program), it might be necessary to add to the trust fund's capital.

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COUNTRY EXPERIENCES WITH IMMUNIZATION TRUST FUNDS

Trust funds are under discussion in many countries, but as of early 2016 only one fund with explicit immunization financing components was fully functioning: the Bhutan Health Trust Fund (BHTF). (See Brief 21.) According to analysis from Gavi, the BHTF is playing an increasingly important role in vaccine financing, although the government of Bhutan will remain the major funding source for immunization and will continue to cover non-vaccine immunization delivery costs. The BHTF has raised significant resources for vaccines and can serve as a model for other countries with similar national contexts. Factors contributing to the trust fund's successful establishment include a small population, political champions, a supportive monarchy, flexible funding to meet emerging priorities, and good governance and accountability structures that can adapt to meet changing needs.

Some countries have embarked on the lengthy legislative and operational processes required to establish a trust fund, including Cameroon, Nepal, Nigeria, Senegal, and Uganda. Others countries at even more preliminary stages of exploring trust funds include Cambodia, Kenya, Mali, the Republic of the Congo, and Sierra Leone. Given the time required for legislation to be passed, funds to be raised, and political commitment to be fostered, it is too early to draw any lessons from the experiences of these countries.

A number of countries are exploring trust funds for health programs other than immunization, such as HIV/AIDS, but little evidence is available from these experiences. Only Zimbabwe operates a functioning national HIV trust fund; HIV trust funds are still under discussion in Kenya, Tanzania, and Uganda. The Zimbabwe National AIDS Trust Fund was set up in 1999 and provides 50% of national spending for antiretroviral therapies, accounting for about 10% of Ministry of Health spending on HIV/AIDS. The fund

raised US\$2.6 billion between 2000 and 2006 and another US\$26 million in 2011. The funding source is a 3% AIDS levy charged on incomes and profits in the formal sector. Revenue depends significantly on the economic climate of the formal sector, and challenges have arisen related to accountability and financial flows, with reports of local governments diverting some funds. While the fund is integrated into the tax system, administrative costs are high. Although reported to be unpopular, the fund does have a broad and growing revenue base. One important lesson from the Zimbabwe experience is that high inflation from 2005 to 2007 wiped out attempts to maintain the fund's value, demonstrating that such a fund is not necessarily insulated against macroeconomic shifts.

IMPLICATIONS FOR IMMUNIZATION FINANCING

One of the main arguments in favor of trust funds is that they can be a source of investment income, providing a way to both ring-fence revenue streams and generate additional income in the process. They can also potentially introduce more flexibility into public financial management by enabling funding to be directed quickly toward important priorities. If a trust fund is dedicated to specific immunization-related priority populations, programs, and services, it could help improve tracking of immunization resources, strengthen donor confidence, and harmonize revenue sources from different initiatives into one controlled fund.

On the other hand, trust funds can be costly and challenging to manage, and much has yet to be learned about governance and managerial structures in relation to immunization funding. Trust funds could use up more political capital than is justified by the payout, while not necessarily meeting all of the funding needs for immunization. Also, ring-fencing funds for immunization could reduce funding to other parts of the health budget (see Brief 6) or

create funding allocation challenges. Additional challenges can include lack of accountability and transparency in the distribution of funds, depending on the management structures in place. Finally, trust funds require significant time and expense to set up. Several countries have already spent years trying to establish trust funds, with variable results.

SOURCES AND FURTHER READING

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