

Annex II

Developing Financial Sustainability (FS) Strategies

I. Identifying your strategy options

- Defining your strategy objectives

This section provides detailed guidance on how to formulate your financial sustainability (FS) strategy. The particular FS strategy you will choose for your country will be tailored to its situation and possibilities. However, it is likely to include efforts to: (1) mobilize additional resources from national and external sources; (2) improve program efficiency to minimize additional resources needed; and (3) increase the reliability of resource availability. In some cases, once you assess the strategy options available, you may decide to propose to revise the program's objectives to align what is to be done with available financing. Within these categories for the FS strategy there will be many variations that depend on local circumstances.

The work to be performed in strategy formulation is to choose the variations that are feasible and that will address the FS challenge in your context. Your strategy will: identify what is to be done, select indicators that you will use to monitor and evaluate progress, and set targets for the indicators. Once your strategy is defined, specific implementation action plans (with defined action steps, timelines, and assigned responsibilities) will be developed to guide implementation.

This supplementary guidance addresses how to develop your strategy. However, this guidance does not address how to produce the implementation action plans.

- Building on the FSP diagnosis

The first four sections or chapters of the FSP provide you with a diagnosis of the financial sustainability situation for your country. This is the basic information that you can use to formulate your strategy for financial sustainability.

Section 1 of your FSP describes the environment in which the immunization program and its financing are situated. Section 2 describes the immunization program's objectives and plans. Section 3 estimates the specific costs of your program before Vaccine Fund (VF) assistance (base year) and how those costs changed (increased) with the advent of the VF's assistance (VF year). Section 4 takes the program objectives and plans and cost estimates and makes cost projections to the end of VF support and a few years beyond. The result almost always is a "gap" between likely financing and projected costs and a bigger "gap" between assured financing and projected costs. All of this information, allows you to have a clear picture of the current and future financial sustainability situation. This is the foundation for the formulation of strategies to try to close the "gaps" and ensure a financially sustainable program.

The following sections guide you in how to dig into the information you have assembled in preparing Sections 1-4 of the FSP. The additional information you can pull out will help you to formulate your country's FS strategy.

- Understanding the drivers of your program costs

The projections in Section 4 show rising costs as the program improves and time passes, but do not necessarily tell you what are the specific reasons behind the increase. That information may be useful to you in terms of choosing targets for resource mobilization, since (1) some actual or potential sources are more likely to support certain cost categories and (2) efficiency efforts will have a bigger payoff if they target important cost items.

How do you break out the costs in the projections to determine what items are important factors or drivers of overall costs? The description of program objectives in Section 2 indicates the changes in the program that have additional cost implications. Usually, the program objectives include adding antigens, improving safety, increasing coverage, and keeping up or adding to the capital infrastructure of the program (cold chain, vehicles, incinerators, etc.).

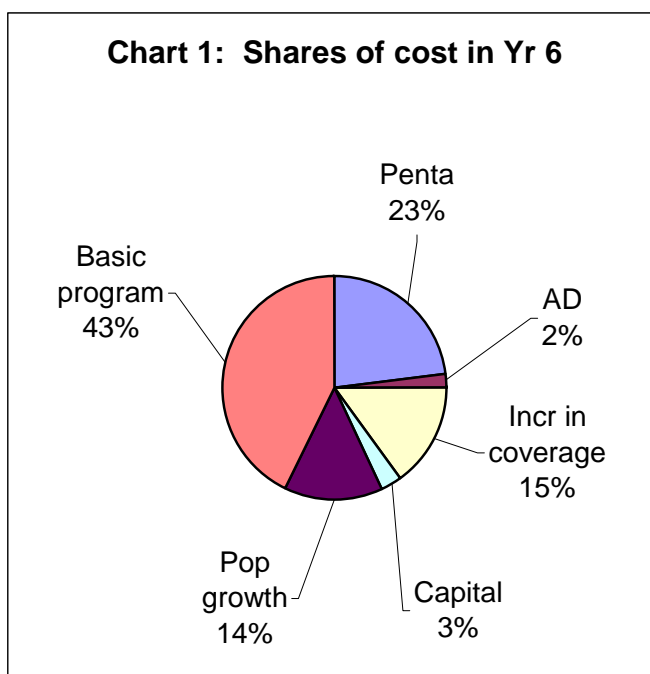
The spreadsheets developed in Section 4 can be broken out into these categories (also using the graphing functions of the spreadsheets) plus the basic program cost without improvements to see what percent of costs and absolute amounts each represents. One other factor or driver that often is important and that is not a category program improvement is growth in the size of the birth cohort. This makes the basic program cost grow even in the absence of the improvements planned—and, where population growth is rapid, this can be a relatively important driver of increased costs.

The result of this kind of analysis might look something like the table shown in Box 1 and the pie chart shown in Chart 1 (using data made up to resemble a VF country).

Box 1: Example^a of Break Down of Drivers of Program-Specific Costs		
Cost Driver	Share of Total Program-Specific Costs in Year 6 (%)	Absolute Cost in Year 6 (million USD)
Pentavalent vaccine	23	\$3.45
AD syringes	2	\$0.30
Increases in coverage (original antigens)	15	\$2.25
Capital replacement and upgrades	3	\$0.45
Population growth	14	\$2.14
Basic program	43	\$6.41

^aData for a fictional country similar to many VF countries.

- Understanding the drivers of your program funding



Next, it is important to examine the drivers or factors influencing program funding. Note that these drivers may be positive or negative, with the latter making FS more difficult. Sections 3 and 4 of the FSP tell you what the recent past, current, and projected future sources of financing are for the NIP. In these sections you also have broken out what cost categories different national and external sources have covered and project to cover in the future. Section 1 tells you

Box 2: Example^a summary of findings from analysis of drivers of program financing and program context

1. About 70 percent of NIP program-specific costs have been covered by four external donors in the past
2. One of the four big donors says it is likely to continue to support the purchase of basic antigens until 2005, but that an overall change in strategy means that its support in 2006 and beyond is unlikely.
3. Another of the big donors says it will be putting all of its support into the “common basket” of support, without an earmark for the NIP, beginning in 2004.
4. An Asian Development Bank (ADB) loan has paid for measles vaccine and will continue to do so through 2004. The Ministry of Health is starting negotiations with the ADB for a new health sector loan now.
5. The decentralization that was put in place two years ago means that local governments in Districts receive grants of funds that they then allocate to sectors and programs (including immunizations) according to their priorities.
6. A line-item allocation from the Ministry of Finance to the Ministry of Health has covered about 20 percent of program-specific costs of the NIP. The absolute amount of this allocation has been growing at 2.0 percent per year.
7. The MOH budget has been growing by 2.5 percent per year for the last three years
8. The PRSP updated earlier this year says that priority in national and external spending should be given to the health and education sectors. Within health spending the PRSP says that it should emphasize preventive health services that reach the poorest quintile (20-percent) of the population, especially children and women of reproductive age.
9. The country has qualified for HIPC debt relief and so some extra funds should be available for the social sectors beginning in 2004, with their allocation to follow the priorities set in the PRSP.
10. The world price of cotton (the country’s main export) has fallen each of the last three years, depressing export earnings, hence the government operating budget. However, the forecast is that the cotton price is likely to at least stabilize and maybe even increase at a modest rate over the next five years. With that, government spending should stabilize or increase.

^aInformation for a fictional country that is like VF countries.

about your country’s economic prospects and the likely trends in national and external funding for the social sectors and the health sector, in particular. Section 1 also tells you about institutional conditions that might favor (for example, PRSP emphasis on preventive health interventions) or disfavor (for example, long-term declining prices for the country’s main export products) increases in overall resource availability that could be tapped to cover the increasing total costs of the NIP. Your analysis of the drivers of program funding might result in the kind of findings shown in Box 2.

- Identifying your strategy options for moving toward financial sustainability

Once you have analyzed the drivers of costs and financing possibilities, you can use the results of the analyses to identify strategy options. A good way to do this is (but not the only way) is to go through a SWOT process with the results. SWOT stands for strengths, weaknesses, opportunities, and threats. (See the following websites for more on SWOT. Note that the creator of the SWOT method is not known, but it is a technique that began to become popular for business strategic planning in the 1960s, and then was adapted for broader use in many other

fields where strategic planning is needed. <http://erc.msh.org/quality/ittools/itswot.cfm>; <http://www.charityvillage.com/cv/research/rstrat19.html>; <http://www.mindtools.com/swot.html>.)

Begin by identifying strengths, focusing mainly on the analysis of sources of financing. Make lists of existing sources and what they have contributed in both value terms and categories of costs. In the analysis of weaknesses, list those sources that are unable to make longer-term commitments to continue funding or that have said that their support is time limited. Note the scale of the “gaps” to be filled. Note, too, issues of reliability of promised support (financial or

Box 3: Example strengths and weaknesses analysis

Strengths:

1. Four donors have supported 70 percent of NIP program-specific costs in the past. Another three donors have made smaller contributions.
2. A line item in the MOH budget for the NIP that has covered 20 percent of program-specific costs.
3. An effort to reduce vaccine wastage in the last two years has reduced it by 7 percentage points (but it remains relatively high—see Weakness 4, below).
4. Basic EPI coverage reached 83 percent in 1991, then it dipped to a low of 55 percent by 1999; in the last three years we have increased it to 68 percent.

Weaknesses:

1. One of the major donors is likely to end its support for the NIP in 2006.
2. The program-specific cost of the NIP rises to more than double its current level when VF support ends.
3. The ADB loan that has supported measles vaccine purchases ends in 2004.
4. Vaccine wastage is 42% according to a study done with the assistance of AUSAID—higher than the regional average of 29%.
5. One of the donors is often late in providing the funding for outreach activities, disrupting them and raising the cost of maintaining high coverage.
6. Local government allocations of funds (in the newly decentralized system) for supervision are irregular, causing schedules to be erratic.

in kind) versus support actually delivered or delivered on time. The identification of weaknesses also should consider any inefficiencies that exist in the program, particularly vaccine wastage rates that are higher than is considered feasible and reasonable in your country’s context. An example strengths and weaknesses analysis is shown in Box 3. Note that in the example, the NIP’s financing is vulnerable to the end of one of the donor’s support, the completion of the ADB loan, and erratic local government allocations.

The next step is to identify opportunities and threats. The opportunities are openings that you can identify where additional resources might be mobilized, efficiencies realized, or reliability increased. For example, an additional donor may have shown interest in supporting the NIP or a recently completed study may have identified easily attained improvements in efficiency.

The threats are actual or potential obstacles to maintaining or increasing support or current levels of efficiency and reliability. The threats could include the phasing out of a donor, changes in government priorities away from health, or countywide increases in government worker salaries, increasing NIP costs. An example of opportunities and threats is shown in Box 4.

Box 4: Example of identified opportunities and threats

Opportunities:

1. The “common basket” approach to financing the MOH by donors offers an opportunity to draw on the resources of donors that have not previously supported the NIP. It also means that decisions on resource allocation will be made locally, not in distant capital cities of donor countries—so our advocacy targets are likely to be nearer to us.
2. The MOH is beginning to negotiate with the ADB for a new loan, so support for immunizations could be built into it.
3. The allocation for the NIP has been growing more slowly than the MOH budget—an argument can be made that it should grow at least as fast.
4. Local governments could be convinced to allocate a bigger share of their grants to local costs, such as fuel for the cold chain and per diem and fuel for outreach.
5. The PRSP should mean a bigger share of government and donor spending coming to health and more of that money to come to preventive health services for children—especially those in the poorest quintile—our target for increasing coverage.
6. The HIPC debt relief should mean even more resources for the health sector, beginning in 2004.
7. The projected overall economic stability (related to stable cotton prices) should make government allocations more reliable.
8. The NIP has this FSP in its hands and it shows exactly what we need, what we need it for, and what benefits the NIP will produce—few if any other health programs have similar information so clearly laid out in a way that is appealing to decision makers—especially in the Ministry of Finance.
9. We know we can reduce vaccine wastage. We have been lax on this but we have already made some improvement. We can do as well as neighboring countries.

Threats:

1. Additional donors may put their funds into the “common basket” rather than making their support specific to the NIP. We may be ineffective in convincing the donor-MOH decision makers to allocate more resources from the common basket to the NIP.
2. The MOH may not include support for the NIP in the new ADB loan.
3. The “gap” is so large that it will just frighten decision makers rather than galvanize them into action.
4. The Director General made a remark in a recent general staff meeting to the effect of, “The donors will always come through with the needed resources for immunizations—we don’t need to worry about that.”
5. The decline in cotton prices may continue, making government, especially the Ministry of Finance, reluctant to make any commitments to increase funding for programs.
6. There is skepticism among some leaders in the MOH about the benefits of hepatitis B and Hib vaccines in our context.

- Formulating strategy options

The SWOT analysis then may be used to formulate some preliminary strategy options. Often the options “pop out” of the SWOT. You will wish to build on strengths, shore up weaknesses, take advantage of opportunities, and head off or at least account for threats in the options identified. Remember to try to have options for strategies in each of the three categories of national and external resource mobilization, efficiency, and reliability. Boxes 5 (more conservative) and 6 (more aggressive) show examples of two strategy options, given the SWOT results from the previous examples.

The next part of this supplementary guidance discusses how to assess the strategy options, refine them, and set priorities among them and within them.

Box 5: Example Strategy Option A

Resource Mobilization:

1. Ensure the continuing support of the three major and three other donors that are expected to continue to support the NIP and obtain agreements to expand support from at least two of them
2. Maintain the line-item for the NIP in the MOH budget and seek an increase in its value of at least the rate of increase in the MOH budget

Efficiency:

1. Reduce vaccine wastage to no more than 35 percent by 2007
2. Study the staffing of the central vaccine stores and five regional depots to assess whether any streamlining may be possible

Reliability:

1. Conduct an analysis of why local government allocations of supervision funds are irregular; organize workshops with local government officials to find solutions and reach agreement about implementation
2. Put reliability of support on the agenda of the Inter-agency Coordinating Committee (ICC) to provide a forum for raising the issue of timeliness of promised donor support

II. Assessing and prioritizing your strategy options

The first set of strategy options that you lay out using the SWOT are likely to give the overall shape to the final option or options that you will put into your FSP. However, some analysis of the options will help you to improve them and allow your decision makers to choose the best ones for your circumstances.

- Projected financial impact of each option

As mentioned above, better strategies (all other things equal) for addressing the financing “gaps” identified in section 4 of the FSP are ones that make larger contributions to closing the “gaps”. Thus, for the preliminary options you may wish to assess the expected short- and long-term impact of its elements on closing “gaps”. A strategy element

that produces an extra \$1 million per year of support for the program would be more valuable than one that saves \$100,000 of costs per year or another that produces a one-time-only supplement of \$1.5 million for the NIP. Similarly, an element that closes the “gap” for vaccine purchases for the next three years, then stops, has a short-term impact. Another that ensures that the costs of outreach are covered for the next 10-15 years has a longer-term impact.

- Projected programmatic impact of each option

Similar to your analysis the financial impact of elements of strategy options, you should consider conducting a programmatic impact assessment. An option that ensures that sufficient vaccines will be purchased to meet basic NIP needs might be preferred to one that would result in some savings in personnel costs. Where the cold chain is in moderately good condition, the addition of another regional cold store might have less programmatic value than the continued supply of autodestruct syringes and the construction of incinerators for the safe disposal of waste.

- Projected resources required to implement each option

The implementation of strategy elements always has some costs. The relative magnitude of the costs is another piece of the decision making puzzle for you to take into consideration. The costs may be financial or non-financial. The need for supplementary in-service training to reduce vaccine wastage is a financial cost. The time and effort of the NIP Director needed to conduct advocacy efforts with the Ministry of Health’s Finance and Administration Directorate, the Parliamentary Health Committee, and Ministry of Finance Social Sectors Department is a non-financial cost. The need to hire team of professors from the National University’s Schools of Public Health and Business to prepare an advocacy analysis of immunizations as a poverty reduction strategy is a financial cost.

- Projected feasibility (likelihood of success) of each option

An especially critical piece of analysis on the strategy options is their feasibility. A strategy element could close an important part of the “gap”, would have great programmatic impact, and would not cost a lot in financial or non-financial terms. However, if it is very unlikely to be successful, it may not be wise to plan to invest a lot of resources in pursuing it and thus to include it in the final strategy.

Box 6: Example Strategy Option B	
Resource Mobilization:	<ol style="list-style-type: none"> 1. Ensure the continuing support of the three major and three other donors that are expected to continue to support the NIP and obtain agreements to expand support from all of them; recruit at least one more major donor and one more other donor 2. Maintain the line-item for the NIP in the MOH budget and seek an increase in its value of at least 7 percent per year—to take advantage of the additional resources made available by HIPC debt relief 3. Develop materials for advocacy to the annual donor-MOH forum to make the case for “basketed” funds to be allocated to the NIP
Efficiency:	<ol style="list-style-type: none"> 1. Reduce vaccine wastage to 30 percent by 2005 and maintain this level or lower 2. Out-source to Transaid or Riders for Health the management of the NIP vehicle fleet to realize and estimated 25 percent cost saving
Reliability:	<ol style="list-style-type: none"> 1. Develop performance “contracts” with local governments to try to improve the reliability of their allocation of funds for supervision 2. Develop performance “contracts” with donors on the timely availability of their contributions, including financial and in-kind support

For example, in the past a health sector loan from a donor covered the cost of all of the basic EPI vaccines above the 25 percent paid for by your country’s line item for the NIP. The loan ends this year and a team representing both the Ministry of Health and the Ministry of Finance now is negotiating a follow on. The MOH team includes one of the key supporters of the NIP, so its

interests and needs are well appreciated. This looks like a clear case of a key element for the FS strategy (financial impact big, key program element covered, low cost to pursue).

The problem is, however, that the Prime Minister and Minister of Finance made a strong declaration, that your country would no longer borrow for recurrent needs, to avoid unnecessarily putting the country into greater debt (your country recently obtained HIPC debt relief). Further, the donor in question also has revised its priorities for lending to de-emphasize long-standing programs (like the NIP) and give greater priority to supporting the start up of new programs, such as anti-retroviral therapy for HIV. This combination of policies by your own and

Box 7: Example using suggested criteria to assess Strategy Option A				
Strategy element	Financial importance	Programmatic importance	Implementation cost	Feasibility
Donor support	High	High	Time of NIP Director to lobby with donors and to enlist the support of senior MOH management to help	High probability of success in retaining donors, moderate chance of obtaining expanded support
Rate of increase of MOH budgetary support	High	High	Time of NIP Director to lobby within MOH and MOF	Moderate probability of getting some addition to rate of increase, but antiretroviral treatment of HIV a strong competitor
Reduce wastage	Medium	High	Cost of retraining staff, closer supervision	High--other countries in our region are doing even better than our target
Streamline staffing of stores and depots	Low	Low	Could hurt morale to cut staff, cost to conduct study	Moderate—civil service trade union may oppose staffing cuts
Local government supervision allocations	Low	Medium	Cost of doing analyses, holding workshops, monitoring implementation	Uncertain—never tried working closely with local governments, decentralization is new
Timeliness of donor support	Low	Medium	Preparation for ICC meeting to make the case for reliability problems	Moderate—some of the problematic donors always blame delays on their headquarters back home and say that they have no control here

the donor's governments makes the feasibility of success in pursuing additional loan support for the NIP low. It is not necessarily excluded from the strategy, but should be given a lower ranking than other possible elements with better overall profiles of financial importance, programmatic importance, cost, and feasibility.

- Accessing or developing additional data to inform your strategy options and program priorities

Sometimes there are information gaps that remain about some of the elements of the strategies under consideration that need to be filled before final choices can be made. To assess the

programmatic importance of having sufficient financing for improved injection safety or the additional protection of the hib vaccine may require the compiling of additional data. These data would allow you to show to decision makers the morbidity and mortality consequences of not improving safety or adding the hib vaccine's protection against pneumonias and meningitis. In a different way, additional information may be required to assess the feasibility of obtaining longer-term donor financial or in-kind support. You may know that a donor that has supplied funding for community mobilization for the past five years now says that it will no longer do so after 2005. However, knowing the reason behind this end to support could be critical. It could be an overall change in the donor's priorities away from health or a shift toward financial, rather than in-kind, support for the NIP or a shift to providing support to the health sector as a whole through the SWAp mechanism. Each one of these possibilities has different implications for the FS strategy.

- Evaluating and refining your strategy options; using defined screening criteria to select priority strategies

You could use the four criteria suggested above--financial importance, programmatic importance, implementation cost, and feasibility--along with others that you may add that are important in your context, to screen, refine, and prioritize your strategy elements and options. The result of your screening, refinement, and prioritization is the final strategy that you put forward in your FSP. It is the one that gives you the best chance of attaining the objective of reliably obtaining sufficient national and external resources to meet program goals, while using those resources efficiently. Box 7 shows an example of how to use the suggested criteria, applying them to the Example Strategy Option A (Box 5).

Let's walk through an example. The third strategy element in Box 7 is reduction in wastage. The analysis of how much would be saved by reducing wastage shows that it would have a "medium" impact on the size of the gap. For programmatic reasons it is important to use valuable resources like vaccines (especially the newer, more-expensive ones) carefully, so reducing wastage gets "high" programmatic importance. To accomplish lower wastage the program would need to retrain vaccinators and supervise them more closely, both of which have costs. Finally, by looking at the performance of other countries in the region, you can see that your country should be able to reduce wastage from its current level, maybe even below the target rate. Overall, the combination of results from the application of the assessment criteria shows that reducing wastage likely should be a part of the final strategy, since the costs of doing it are low relative to the financial gain, it is highly feasible, and important programmatic.

Note that what goes into your FSP is your best estimate of how to achieve your FS objectives, given the information, conditions, and expected future situation for your country and your program at the time the FSP is prepared. However, we all know that situations change in ways that are not predictable, so the strategy selected when the FSP is delivered should be subject to periodic reassessment and revision to take account of the changing situation. It should be a living, not static, strategy.

- Assessing and revising programmatic objectives based on the expected outcomes and feasibility of your strategies

When the FS strategy is complete, it is likely that it will not be clear how all future “gaps” will be filled. This is normal and expected by all concerned, not cause for alarm. However, the FS strategy should show some hope and promise that the “gaps” eventually can be filled. In the extreme case, where the probability of filling major “gaps” looks particularly low, it may be necessary to revisit programmatic objectives. That is, reduce the size of the “gaps” by scaling back programmatic objectives, such as adding newer antigens, increasing coverage rapidly, introducing all safety improvements, or strengthening the infrastructure of the NIP by adding staff and replacing or upgrading cold chain equipment. This kind of step is regarded as a “last resort” and should be taken only in close consultation with ICC members, including the Vaccine Fund. The criteria to use in choosing which programmatic objectives to cut back could include, impact on morbidity and mortality, impact on the size of the financial gap, and impact on equity of access to the protection afforded by immunizations.

- Importance of including key stakeholders in assessment and selection of strategy options

The engagement of stakeholders in the process of strategy development can be an important means of gaining new ideas, support for the choices made, and support for eventual implementation of the strategy. The stakeholders in the FS strategy are all of those that you would identify for the FSP overall, namely Ministry of Health and Finance decision makers, the NIP Director and key staff, ICC members, and others involved with national or external resource allocation.

You may wish to involve a limited number of people (such as the core team involved in the FSP preparation) in doing the initial analyses and first cut at the SWOT. Then this group may present the results of the analyses and the SWOT to a broader group of stakeholders for comment and additional input (e.g., additional analyses to be performed or the identification of additional strengths, weaknesses, opportunities, and threats).

Once the input is incorporated, the core team can develop strategy options, then again present them to the broad stakeholder group for comment and input. This latter stakeholder “consultation” could include the assessment of the strategy options using the kinds of criteria described above. The stakeholders could be asked to assist in applying the criteria to the options interactively or the core team could present its application of the criteria to the stakeholders and ask for comment. The core team would take the comments from the “consultation” to revise the options that then would become those that go into the final FSP.

This kind of process should enrich the strategy options through the input and ideas received from the stakeholders. It also should build the stakeholders’ feelings of ownership of the options and lead them to be supporters of the implementation of the strategies.

- Choosing indicators and targets

Once the stakeholders have settled on a strategy, it is necessary to choose indicators of progress in implementing the strategy and to set targets for achievement. The indicators should capture

major, measurable items for each element of the strategy. The targets are specific values of the indicators that you aim to achieve at specific intervals of time.

Here is an example of choosing indicators and setting targets for two elements of the example strategy option A, shown in Box 5. The indicator chosen for efficiency element 1¹ is the wastage rate for the pentavalent vaccine (measured in percent). Pentavalent wastage is the choice, since this is a high-priced vaccine where reduction in wastage would have its biggest impact on FS. The targets set are to reduce wastage by 2 percentage points per year (from the 2003 rate of 42 percent), to reach the final target of 35 percent or less by 2007 and to maintain that level on into the future.

The indicators chosen for reliability element 1² are more qualitative, but measurable. They are the completion of the analysis of local government allocations for supervision and the conduct of the follow on workshop. The specific targets are to: (1) complete the analysis by June 30, 2004; (2) hold the workshop by September 30, 2004; (3) make final a document describing the agreements made to solve the problems by October 31, 2004; and (4) have a final implementation plan for the solutions ready by December 31, 2004.

Once you have the strategy elements agreed to and have associated to each element indicators and targets, your FS strategy is complete. However, there is much work to come in implementing it. The payoff to all of this is the increased level of protection for your country's children that will continue indefinitely into the future, long after the end of Vaccine Fund assistance.

- Linking the strategy to an action plan for implementation

Once the FS strategy is made final, the next step is to develop an action plan to implement it. This involves taking each strategy element; assigning responsibility to an individual or unit for accomplishing it; setting a timeframe for the work to be performed, including breaking it down into specific implementation steps; and associating with each element the indicators of attainment, targets, and means of measurement (described in the previous section).

¹ Reduce vaccine wastage to no more than 35 percent by 2007.

² Conduct an analysis of why local government allocations of supervision funds are irregular; organize workshops with local government officials to find solutions and reach agreement about implementation.