

Innovative financing mechanisms for South East Asia

POLICY BRIEF 5: LOW-INTEREST MULTILATERAL LOANS

Description

A multilateral organisation (such as the World Bank or the Asian Development Bank) provides a loan directly to a national government, at a low interest rate. Also known as concessional loans, these are typically for 10 to 40 year periods, and at interest rates of 1% to 7%. Lending terms (including grace periods, repayment terms and up-front fees) often depend on a country's policy and institutional performance, in terms of economic growth and poverty reduction.

Concessional loans are usually provided for large-scale programmes in a particular sector (health, infrastructure, education), rather than for a single project or expenditure (such as vaccine purchase). But in some cases, a small proportion of low-interest loans has been used to purchase health products as part of a broader disease-specific or health sector programme, while the majority of the loan is for equipment or infrastructure upgrades, health worker training, capacity building and policy (e.g. development of national health plans).

Status

Already widely used.

The World Bank and Asian Development Bank (ADB) currently provide over 20 loans for health programs in SEA countries. Loans are provided through different mechanisms, depending on a country's income level and creditworthiness (for example, the World Bank provides loans to low-income countries through the International Development Association (IDA) and to middle-income countries through the International Bank for Reconstruction and Development (IBRD)).ⁱ Interest rates are lower and repayment terms more generous for low-income countries.

Examples of loans including the procurement of health products:

- The World Bank's loan to India for its Immunisation Strengthening Project included US\$98.9m for the purchase of polio vaccines (the only World Bank loan solely for immunisation)
- The World Bank's loan to Lao PDR for its Health Services Improvement Project included funding for village drug kits
- The ADB's loan to Bangladesh for its Second Urban Primary Health Care Project included provision of drugs to treat sexually-transmitted infections

Volume of potential revenue

Up to US\$200m for a whole programme.ⁱⁱ

ⁱ See reverse for a list of SEA countries eligible for specific World Bank and ADB lending mechanisms.

ⁱⁱ This is based on existing low-interest loans by the World Bank and the ADB to South-East Asian countries for health programs. However, these are large-scale (and often sector-wide) programs – only a portion of this would be used for vaccine purchase.

Pros & Cons

Pros	Cons
<ul style="list-style-type: none"> Predictable and stable funding (a set amount is disbursed over a set number of years) Allows SEA countries to gradually assume financial responsibility, over a generous timeframe Low transaction costs (low interest rates and up-front fees) Established mechanism (no new infrastructure required) Quick implementation (~ six months to two years, depending on proposal and approval processes) 	<ul style="list-style-type: none"> Not specifically for vaccine purchase (may need to seek vaccine funding as part of a broader health program) Must compete with other funding priorities at a national and multilateral level (World Bank and ADB funding has tended to favour infrastructure, energy, and public sector/ governance programs, rather than health)

Country Eligibility by Lending Mechanism

World Bank			
Loan mechanism	International Development Association (IDA)	Mix of IDA and IBRD	International Bank of Reconstruction and Development (IBRD)
Interest rates	2 to 4%	3 to 7%	> 3%
Eligible countries	Cambodia Lao PDR Myanmar* Timor-Leste	Viet Nam	Indonesia Philippines Thailand Malaysia*
ADB			
Loan mechanism	Asian Development Fund (ADF)	Mix of ADF and OCR	Ordinary capital resources (OCR)
Interest rates	1.5%	1.5 to 4%	Approximately 4%
Eligible countries	Cambodia Lao PDR Myanmar	Viet Nam Timor-Leste	Indonesia Philippines Thailand Malaysia

* Currently inactive (no active loans)