

IFFIm’s impact on socially responsible investing reflected in new Social Bond Principles



GAVI/2017/Asad Zaidi

When IFFIm was established in 2006, it pioneered a unique form of investments. Its Vaccine Bonds bring donors and investors together to support efforts to save children’s lives through vaccine programmes.

Today, demand among investors for socially responsible products is higher than ever. Responding to this trend, the International Capital Market Association in 2017 issued guidelines for socially responsible investments. The result: ICMA’s Social Bond Principles (SBPs), which were recognized by GlobalCapital’s Sustainable and Responsible Capital Markets Awards this year as the Most Valuable Innovation for the Green/SRI Bond Market.

“ICMA’s decision to think through and define best practices in this area is an encouraging sign of the continued evolution and maturation of socially responsible investing,” says René Karsenti, IFFIm’s Board Chair and ICMA’s president. “This is a big and valuable step ahead for the field that IFFIm has been part of since 2006.”

Social bonds are any type of bond instrument where the proceeds will be exclusively applied to finance or refinance eligible social projects that are aligned with the four core components of the SBPs.

The SBPs are voluntary ICMA guidelines that promote transparency and integrity for any sort of social bond. Following in the footsteps of Green Bond Principles, SBPs offer guidance for issuers, investors and underwriters.

IFFIm’s Vaccine Bonds, one of the world’s most impactful social bonds, meet all four Social Bond Principles:

- 1. Use of proceeds** — The new SBPs specify that “all designated Social Projects should provide clear social benefits, which will be assessed and, where feasible, quantified by the issuer.”

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In IFFIm's case, all proceeds go to support Gavi's mission to improve access to life-saving vaccines for the world's most vulnerable children. In fact IFFIm was designed to be — and remains — completely dedicated to that mission.

2. Process for project evaluation and selection

— The SBPs also “encourage a high level of transparency and recommend that an issuer's process for project evaluation and selection be supplemented by an external review.”

This guidance has always been at the core of IFFIm's operations. Gavi's potential vaccine investments are evaluated by an expert Independent Review Committee (IRC), and IFFIm funds vaccine programmes selected through the IRC evaluation and approved by Gavi's Board.

3. Management of proceeds — “So long as the Social Bond is outstanding, the balance of the tracked proceeds should be periodically adjusted to match allocations to eligible Projects made during that period,” the SBPs prescribe.

“The issuer should make known to investors the intended types of temporary placement for the balance of unallocated proceeds. The SBPs encourage a high level of transparency and recommend that an issuer's management of proceeds be supplemented by the use of an auditor, or other third party, to verify the internal tracking method and the allocation of funds from the Social Bond proceeds.”

One hundred per cent of IFFIm proceeds are allocated to support Gavi's vaccine purchase and health system strengthening programmes.

Gavi manages the allocation, disbursement and tracking of IFFIm's proceeds in a transparent manner, in accordance with its programme funding policies.

4. Reporting — Finally, ICMA calls on social bond issuers to “make, and keep, readily available up to date information on the use of proceeds to be renewed annually until full allocation, and as necessary thereafter in the event of material developments.”

IFFIm and Gavi have been committed to the highest transparency standards since IFFIm's founding in 2006. IFFIm provides quarterly reports on how it allocates funds to programmes, and publishes audited financial statements annually. Gavi evaluates ongoing programmes in accordance with its evaluation policy, and monitors and reports on its impact annually, using criteria set by its Board.

By complying with the new Social Bond Principles, IFFIm gives investors the confidence that it will remain true to its mission: offering investors a unique opportunity to combine an attractive financial investment with an exceptional social purpose and generating a major positive impact on society.

“IFFIm bonds provide the perfect platform for the capital markets to support immunisation ... IFFIm issuance is perfectly attuned to the substantial rise we're seeing in investor interest in socially responsible investing.”

Philip Brown, MD
Head of Public Sector Origination, Citi

What is IFFIm?

The International Finance Facility for Immunisation (IFFIm) was initiated in 2006 to rapidly accelerate the availability and predictability of funds for immunisation. IFFIm uses government pledges to support the issuance of “Vaccine Bonds” sold to institutional and individual investors. The money supports vaccine programmes of Gavi, the Vaccine Alliance, a public-private partnership that works to save children's lives and protect people's health by increasing access to immunisation in developing countries. The World Bank is IFFIm's treasury manager. IFFIm's donors comprise Australia, France, Italy, the Netherlands, Norway, South Africa, Spain, Sweden, and the United Kingdom.



Gavi, the Vaccine Alliance is a public-private partnership committed to saving children's lives and protecting people's health by increasing equitable

use of vaccines in lower-income countries. The Vaccine Alliance brings together developing country and donor governments, the World Health Organization, UNICEF, the World Bank, the vaccine industry, technical agencies, civil society, the Bill & Melinda Gates Foundation and other private sector partners. Gavi, the Vaccine Alliance is supported by donor governments (Australia, Brazil, Canada, Denmark, France, Germany, India, Ireland, Italy, Japan, the Kingdom of Saudi Arabia, Luxembourg, the Netherlands, Norway, the People's Republic of China, Republic of Korea, Russia, South Africa, Spain, the State of Qatar, the Sultanate of Oman, Sweden, United Kingdom, and United States), the European Commission, Alwaleed Philanthropies, the OPEC Fund for International Development (OFID), the Bill & Melinda Gates Foundation, and His Highness Sheikh Mohamed bin Zayed Al Nahyan, as well as private and corporate partners (Absolute Return for Kids, Anglo American plc., The Children's Investment Fund Foundation, China Merchants Group, Comic Relief, Deutsche Post DHL, the ELMA Vaccines and Immunization Foundation, Girl Effect, The International Federation of Pharmaceutical Wholesalers (IFPW), the Gulf Youth Alliance, JP Morgan, “la Caixa” Foundation, LDS Charities, Lions Clubs International Foundation, Majid Al Futtaim, Philips, Unilever, UPS and Vodafone). www.gavi.org



The World Bank is like a cooperative, made up of 189 member countries. The World Bank's goals

are to (i) end extreme poverty at the global level within a generation and (ii) boost shared prosperity. The World Bank is also the treasury manager for IFFIm. In that capacity, the World Bank manages IFFIm's finances according to prudent policies and standards. This includes IFFIm's funding strategy and its implementation in the capital markets, rating agency and investor outreach, risk and investment management. The World Bank also coordinates with IFFIm's donors and manages their pledges and payments as well as IFFIm's disbursements for immunisation and health programmes through Gavi, the Vaccine Alliance. www.worldbank.org

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IFFIm returns to international U.S. dollar benchmark market with its 2016 issuance



Juliette Bastin

In October 2016, IFFIm raised US\$ 500 million through a three-year floating rate benchmark bond that will fund life-saving Gavi immunisation programs around the world.

The issuance marked IFFIm's first return to the international U.S. dollar benchmark market since 2013. It was the third time since IFFIm's founding in 2006 that it has gone to that market. Its most recent transaction had taken place in the Islamic finance market in September 2015, when IFFIm issued a Sukuk to raise US\$ 200 million.

Notably, the October 2016 issuance was oversubscribed and successfully placed with a diverse range of investors around the world. Sixty-five percent of the bonds were sold to investors based in Europe, 24% in the Middle East and Africa, 10% in the US, and 1% in Asia. Central banks and official institutions took 53%, banks and private banks 44%, and asset managers 3%, of the transaction.

The response reflected the growing demand for socially responsible bonds all over the world and

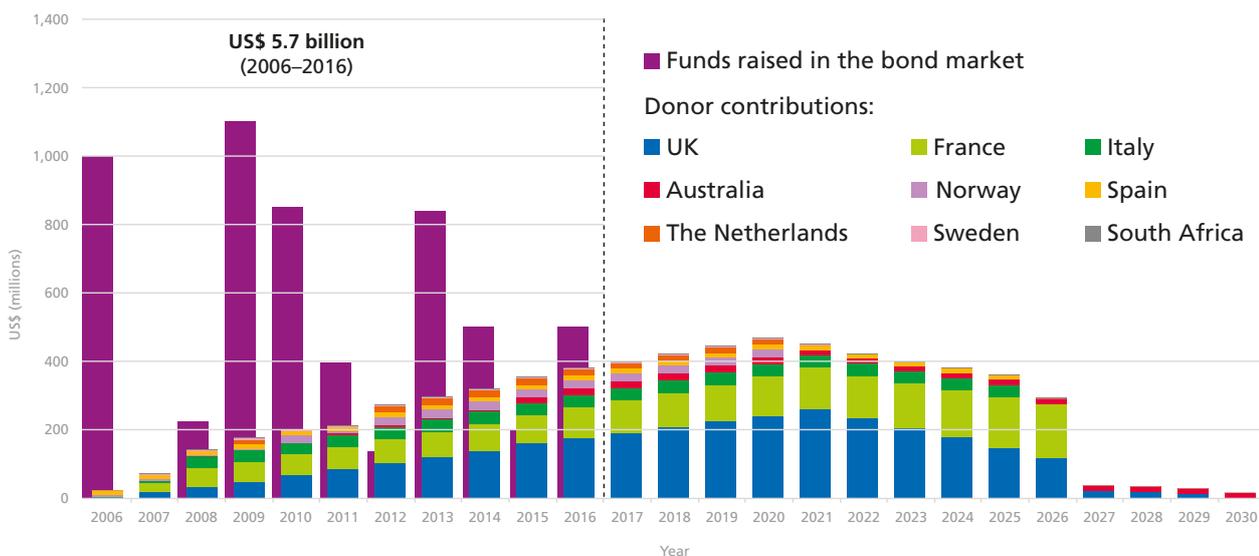
a strong interest in investments that deliver solid financial returns and meet essential social and health needs in low-income countries.

"Demand for socially responsible investments has grown remarkably in the last 10 years," said IFFIm Board Chair René Karsenti. "IFFIm is proud to have been one of the early instruments that proved that investors can do good and do well simultaneously. Vaccine Bonds deliver the results investors want."

The success of the issuance was due not just to growing demand for social bonds but also to the expert and painstaking work of the World Bank, IFFIm's treasury manager, and Citi, Deutsche Bank and J.P. Morgan, which led the issue.

Strong investor demand enabled IFFIm to achieve a lower cost than initial indications, with the three-year bond finally pricing at 3-month USD LIBOR +26 basis points.

IFFIm issues bonds based on long-term pledges



Note: Also includes new pledges made to IFFIm by France, the Netherlands, and Australia at the Berlin pledging conference in January 2015. The total amount of donor commitments to IFFIm including new pledges is ~US\$6.5 billion.

In Côte d'Ivoire, immunisation rebounds

Routine immunisation programmes supported by Gavi, with IFFIm funding, have an impact that's anything but ordinary.

Côte d'Ivoire, a nation known for ethnic diversity and a strong economy, has endured civil war off and on since 2002. But the most recent conflict in 2011, although brief, left the country reeling. Dr Raymonde Goudou Coffie, Minister for Health and Public Hygiene, told Gavi: "As you can imagine, after the crisis our country experienced, if there was one sector that was the most affected by degraded infrastructure it was the health system."

This had an immediate impact on routine immunisation. Coverage rates plummeted from 85% in 2010 to just 62% in 2011, leaving thousands of children vulnerable to deadly diseases.

Answering the crisis, Gavi waived some of its usual support requirements and introduced pneumococcal and rotavirus vaccines in 2014. These combat the two biggest childhood killers — pneumonia and diarrhoea. In addition, Gavi continued to scale up distribution of pentavalent vaccines that were first introduced in 2008.

In 2015, with Gavi funding, the country completed a demonstration project for human papillomavirus (HPV) vaccine, which prevents cervical cancer. The demo achieved 98% coverage rates, paving the way for a nationwide introduction of this life-saving vaccine in the coming years.

By focusing on routine immunisation, the country rapidly improved its coverage rates, which are back to their pre-war levels. Today, 83% of children are protected by pentavalent, and pneumococcal coverage is at 72%.

IFFIm donors and investors can join in celebrating Côte d'Ivoire's rebound. IFFIm's generous disbursements for pneumococcal vaccine (US\$ 8.1 million), pentavalent vaccine (US\$ 21.3 million) and health strengthening support (US\$ 4.4 million) helped Gavi make a strong impact here.



Gavi/2016/Mahmed Keita

Côte d'Ivoire still has work to do — ensuring vaccines reach even the hardest-to-reach communities, data quality issues, and another challenge: convincing parents to vaccinate their children. Health workers in communities are there to educate hesitant parents, and they're making progress.

Nina Seka gave birth to her baby Tania in 2016. "Word on the street was that needles made the children tired, it made the children sick. That is why I hesitated a little. But I became more aware — and now it's me who wants the vaccinations!"

A centerpiece of Côte d'Ivoire's strengthened health infrastructure is a new Cold Chain Facility opened in Abidjan in December 2016, with Gavi's CEO Dr Seth Berkley and Board Chair Dr Ngozi Okonjo-Iweala officiating. The centre holds 11 cold rooms in a new 800 square metre building, trebling the country's cold chain capacity. An emergency electricity generator ensures blackouts don't affect the effectiveness of the vaccines stored in the building.

IFFIm is exploring ways to support Gavi's Cold Chain Equipment Optimisation Platform (CCEOP), which brings facilities like the one in Côte d'Ivoire to more countries.

Côte d'Ivoire recognised Gavi's contribution to improving the health of the nation's children by presenting medals to both Gavi Board Chair Dr Ngozi Okonjo-Iweala and its CEO Dr Seth Berkley. The special ceremony took place in Abidjan, where Côte d'Ivoire hosted the Gavi Board meeting.



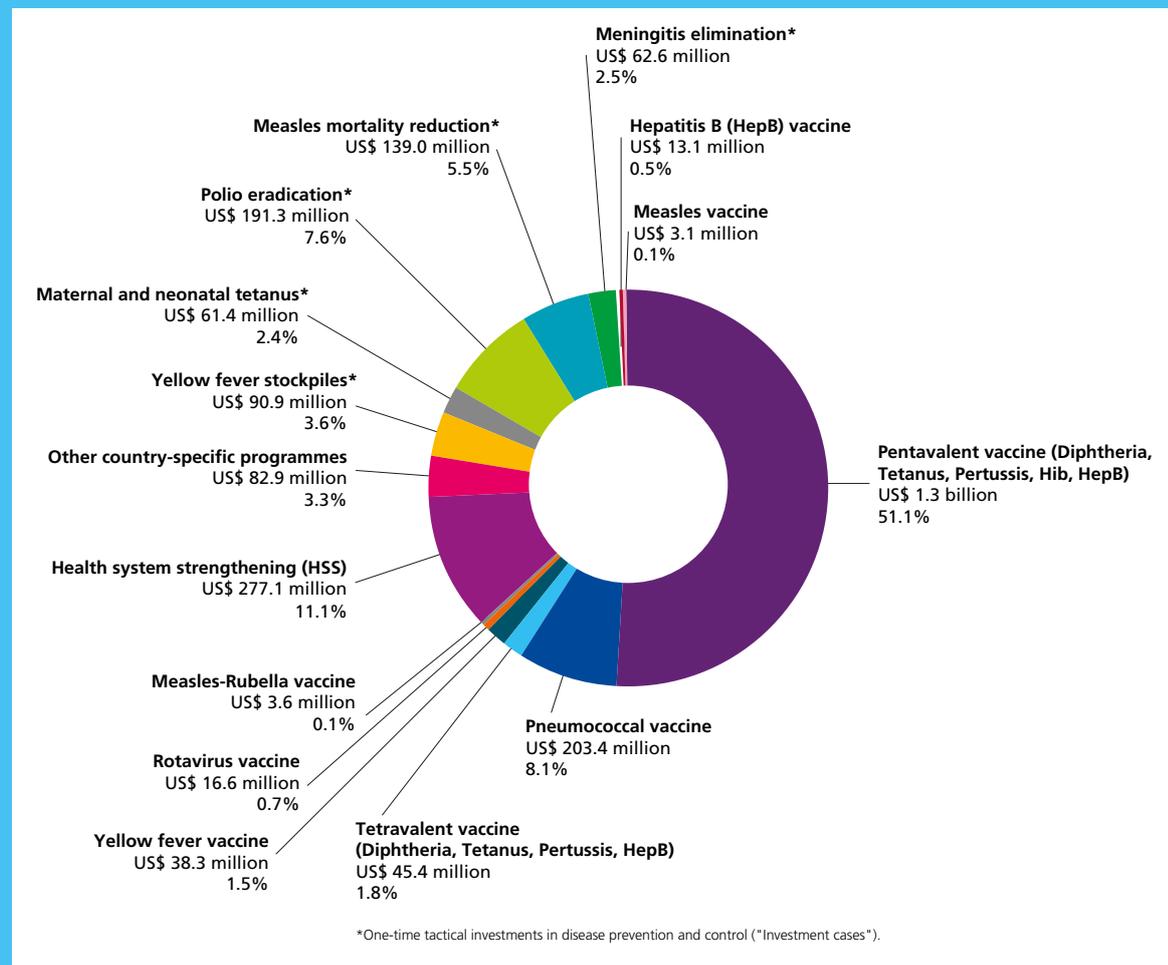
IFFIm provides Gavi with funding flexibility and predictability

In 2006, IFFIm was designed as a vehicle to frontload international aid for immunisation programmes. This frontloading capability has been a key feature of the facility, increasing Gavi's operational efficiency and providing the organisation with the flexibility to use funds when they are needed most. This innovative instrument has also delivered several other important benefits to Gavi.

In addition to financial flexibility, IFFIm also provides predictable resource flows that help to strengthen Gavi's long-term commitment and capability to support its programmes, attract investment in vaccine production, and improve market stability. In this way, IFFIm has helped Gavi save lives faster and at a lower overall cost than funding solely through traditional aid programmes.

Gavi programmes funded by IFFIm

As of 30 June 2017, more than US\$ 2.5 billion of IFFIm funds were disbursed by Gavi to support vaccine purchase and delivery to 71 developing countries, representing approximately one fourth of Gavi's programme funding since IFFIm's inception in 2006. IFFIm has been instrumental in helping Gavi fund breakthrough vaccines quickly and securely. For instance, IFFIm financed more than 90% of Gavi's promised payment to UNICEF to secure initial doses of pentavalent, a single shot of which immunises against five infectious diseases: diphtheria, tetanus, pertussis, *Haemophilus influenzae* type B (Hib) and hepatitis B.



IFFIm looks to the future with four initiatives

Donors, the Gavi Secretariat, IFFIm and the World Bank are working together to maximise the impact of IFFIm's predictable and flexible funding on Gavi's mission. They are exploring ways to help Gavi meet its goals. Potential ideas include:

Market shaping

Gavi's market shaping activities aim to ensure sufficient supply of appropriate, quality vaccines at low and sustainable prices. From time to time Gavi uses financial commitments to secure favourable terms on vaccine procurement. IFFIm provides certainty of funds over a long period — a suitable funding source for such medium and long-term commitments and an application of IFFIm that is under development.

Cold chain support

Gavi's Cold Chain Equipment Optimisation Platform (CCEOP) will help countries modernise cold chains with high-performing equipment — a vital building block for delivering vaccines more equitably. Gavi has committed US\$ 250 million to invest jointly with countries to implement the platform. IFFIm's access to a growing socially responsible investor (SRI) base could provide unique funding opportunities for CCEOP, including through impact investment products.

Vaccine scale-up

Gavi's Vaccine Investment Strategy (VIS) identifies new types of vaccines and other immunisation products of most importance and with the greatest need for financial support. Conducted every five years, the current VIS was launched in 2017 and will conclude in late 2018. IFFIm's financial predictability and flexibility are important components of Gavi's funding strategy and will influence and add value to the VIS.

Funding unpredictable events

Contingent pledges could provide Gavi with an efficient funding tool when responding to unforeseen events, such as if Gavi's decides to play an active role in disease outbreaks. A contingent pledge through IFFIm could provide ready access to capital at scale when needed.



Gavi/2017/Tormod Simonsen



Gavi/2017/Karel Prinsloo

Gavi shapes the vaccine market to save more lives

In 2000, global health leaders formed Gavi in large part to solve one of the biggest challenges to global immunisation: the seemingly insurmountable gap between what low-income, developing countries could pay for vaccines and what was economical for vaccine suppliers to charge.

Gavi's solution to that problem was to pool the demand from many different countries at a scale large enough to enable manufacturers to offer vaccine at more affordable prices.

This "market shaping" role has continued since then, as in the case of an October 2016 tender by UNICEF of 450 million doses of pentavalent vaccine for distribution in 80 countries over the next three years. Of those, 400 million doses will go to countries receiving support or transitioning from Gavi.

The volume of the purchase made it possible for six vaccine suppliers to agree to a price of 84 cents for each dose, half what UNICEF currently pays. That will make it possible for more countries to afford a vaccine against potentially deadly infections caused by diphtheria, tetanus, pertussis, hepatitis B and *Haemophilus influenzae* type b.

"We estimate that pentavalent vaccination will avert 5.7 million deaths in Gavi-supported countries between 2011 and 2020," said Gavi CEO Seth Berkley when the purchase was

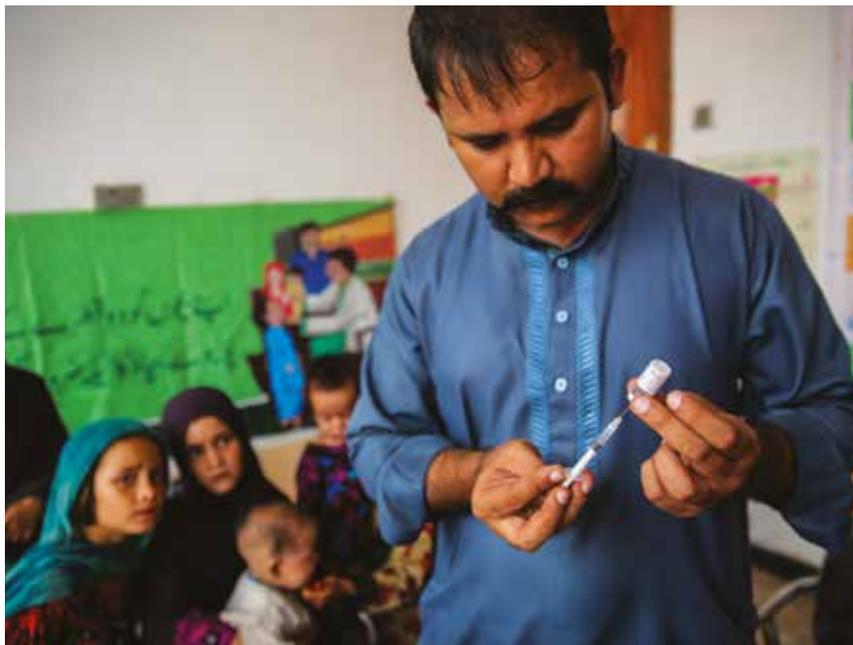
announced. "The market for five-in-one vaccines is now a lot healthier than it was just a few years ago thanks to our collective efforts to grow a base of vaccine suppliers."

IFFIm funding has played a critical role in giving Gavi the flexibility and resources to shape the pentavalent vaccine market. For example, IFFIm helped establish Gavi's pentavalent programme by frontloading more than 90% of initial vaccine purchase (US\$ 191 million), encouraging manufacturers to step up production of the pentavalent vaccine and reduce its price.

An independent evaluation of IFFIm found that funding provided by IFFIm led to "greater competition and reduced prices" in the market for pentavalent vaccines. Total IFFIm support for pentavalent vaccines is now close to US\$ 1.3 billion, and Gavi is able to procure the vaccine for as little as US\$ 1.68 per dose, a weighted average price reduction of more than 50% since 2006.

As a result, Gavi's pentavalent programme has immunised about 355 million children in 73 countries by the end of 2016.

"Gavi enthusiastically supports IFFIm's efforts to develop additional financial tools to continue Gavi's success in market shaping activities," said Berkley.



Gavi/2017/Asad Zaidi

Former IFFIm board member reflects on evolution of socially responsible investing



At age 25, Didier Cherpitel went to Abidjan, Côte d'Ivoire on an 18-month assignment for the Coopération Civile — France's alternative to national military service and an equivalent of the U.S. Peace Corps. During the day, Cherpitel worked in the country's Ministry of Financing and Planning in Abidjan, building on his undergraduate and graduate school training in business and finance. In the evenings, he taught adults how to read, write and count.

"It was an eye opener for me," says Cherpitel. "I didn't realize that some people the age of my parents could not read or count."

While in Abidjan, he learned firsthand about how a low-income country manages its finances, lessons he later drew on during his more than three decades as a commercial, private and merchant banker for JP Morgan in New York, Singapore, Brussels, Paris and London. He also acquired an enduring desire to address global humanitarian and development challenges.

That's why in December 2009, IFFIm invited Cherpitel to serve on its board, alongside a roster of highly experienced international finance leaders. He completed his IFFIm board service in 2016.

"IFFIm and Gavi are model public-private partnerships, so Didier, who has a keen understanding of both the business and global development worlds, was a natural fit for our board," says IFFIm Chair René Karsenti.

Cherpitel deepened his experience in both the business and development worlds after his retirement from JP Morgan. "I knew I wanted to do something very different," he says. "I wanted to go back to the roots I grew during my time in Côte d'Ivoire."

That led to his becoming Secretary General of the Federation of National Red Cross and Red Crescent Societies in Geneva, a post he held from 1999 to 2003. There he used his many years of setting business strategy to restructure the organisation and to launch new initiatives — such as leveraging financing from a fund — aimed at sustaining the Federation for years to come.

During his tenure there, he saw that people from the for-profit and non-profit worlds can learn from one another. He learned that non-profits can learn management techniques that for-profits have long applied and that the for-profit sector can learn that there are a many other bottom lines to strive for.

At the time he made his transition to the Federation, he says, "There were very few people like me passing from one to the other. Now there are many, and they're very good."

Even as he finishes his service to the IFFIm board, Cherpitel stays busy with many pursuits. He is currently a director of several listed companies and sits on the Boards of numerous foundations and NGOs in Switzerland, France, Great Britain and the Benelux countries.

Additionally, he has since 2005 served on the board of directors and as Treasurer of the Mérieux Foundation, a family foundation based in France that focuses on fighting infectious diseases in more than 20 countries.

And, also in 2005, he founded Managers Without Borders in partnership with Université Laval in Quebec. The group allows business students to live in and apply their management skills to help developing countries — just as Cherpitel did when he was in his 20s.

With such a long tenure in international banking, Cherpitel has of course witnessed the transformation of socially responsible investments. Even five years ago, he says, there was nearly not as much enthusiasm for such investments as there is now.

"Now it's a must to present a board with an SRI policy," Cherpitel says. "The policy could be a list of non-investments — into, say, tobacco or uranium. That's the minimum. But it's also important to affirmatively support endeavors that bring real social value."

He adds that the implementation arm of the investment has to be very well equipped, extremely efficient and able to report accurately to the investor. "Gavi — along with the governments it supports — does this extremely well."

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