

## International Finance Facility for Immunisation: The value of innovative finance in Saving children's lives

Two million children die needlessly each year from diseases that could be prevented by vaccines, particularly in the developing world, according to the WHO. This means we have the ability to end a quarter of all child mortality through immunisation.

The GAVI Alliance continues to make huge inroads toward achieving this goal, with a target of raising US\$ 6.8 billion for new and underutilised vaccines from 2011 through 2015. GAVI already has met US\$ 3.1 billion of this goal through direct donor contributions, use of the Advance Market Commitment between donors and pharmaceutical manufacturers and the efforts of GAVI's unique innovative finance mechanism, the International Finance Facility for Immunisation (IFFIm).

But US\$ 3.7 billion still must be secured, of which US\$ 1.7 billion is needed between 2011 and 2013. One key way to achieve this is through IFFIm, an innovative, highly efficient way to raise funds – and thus help save 5 million children's lives while strengthening GAVI in the long term. Under IFFIm, donor countries make long-term, legally-binding commitments against which IFFIm can borrow on the capital markets to fund immunisation programmes.<sup>1</sup>

"IFFIm's approach can increase the impact of vaccine coverage by 22 percent," according to a 2006 working paper by the Center for Global Development (CGD). "This is because stable and long-term financing allows vaccine manufacturers and countries to plan for long periods of time, knowing that resources will be available."

Thus, GAVI's ability to secure visible and predictable long-term funds helps to:

- **Save lives** by bolstering its ability to meet country demand, and
- **Increase financial efficiency** by shifting liquidity across periods, smoothing funding fluctuations and matching country demand for vaccines.

*"IFFIm funds have been spent on activities which have delivered, or seem likely to deliver, extremely good development returns... we estimate that the benefit cost ratio is likely to be at least 3.5:1."*

-- Independent evaluation of IFFIm by health care consulting firm HLSP, April 2011

<sup>1</sup> For more information on the GAVI Alliance and IFFIm bonds, see Appendix II.

Such efficiency is among IFFIm's biggest innovations, creating in partnership with the World Bank flexible access to the bond markets and ensuring predictable funding for GAVI programmes. This means GAVI can draw quickly from the market as liquidity constraints emerge, avoiding programme disruption. It also enables significant front-loading of funds when this is required and appropriate for rapid roll-out of vaccines. "Front-loading helps to reduce the spread of disease and to immunize large groups of people faster," in part through large-scale immunisation against infectious disease (herd immunity), CGD explains.

### **IFFIm: Innovation that saves lives**

GAVI has led the effort to vaccinate more than 288 million children in the past decade, saving more than 5 million lives. This would not have been possible without IFFIm, representing 44% of programmatic expenditures since GAVI's inception in 2000 through 2010.

The benefits of IFFIm are illustrated by the use of US\$ 535 million in proceeds from IFFIm bonds to fund tactical purchases in special disease areas, known as "investment cases." This helped prevent 1.4 million deaths from yellow fever, polio and measles. Such dedicated funding also played a significant role in combating 600,000 cases of meningitis and maternal and neonatal tetanus.

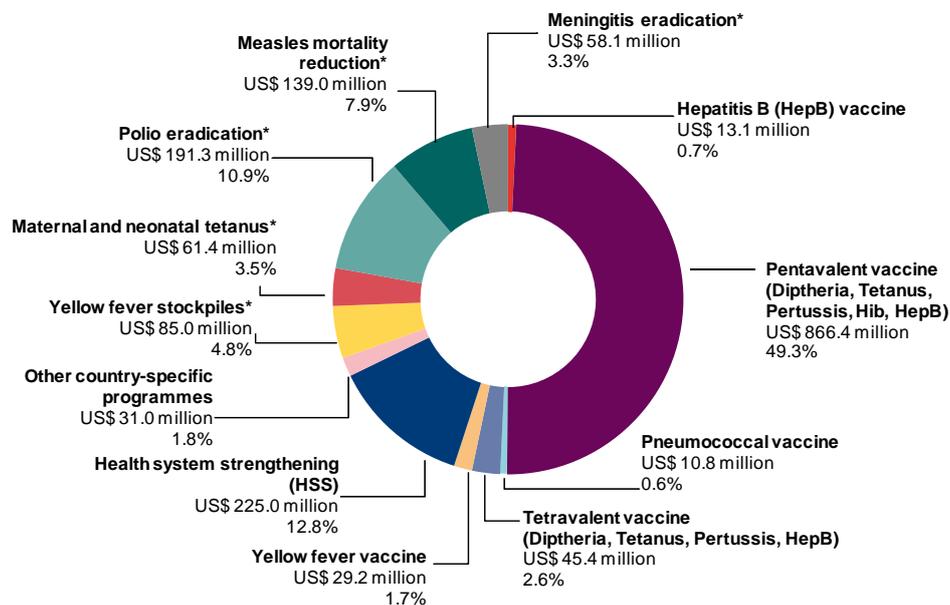
IFFIm's visibility in the retail market as a socially-responsible investment also has advanced its mission, reputation and brand. About US\$ 1.5 billion of GAVI's issuance has gone to consumers in Japan and the UK. Most of this has been for a "Vaccine Bond" programme in Japan purchased by nearly 30,000 people.

In addition, IFFIm has been instrumental in helping GAVI fund breakthrough vaccines quickly and securely. For instance, IFFIm financed more than 90% of the 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. GAVI could not have made that promise, including upfront cash payments, without its ability to rely on long-term, stable funding from IFFIm.

## IFFIm increases financial efficiency

Long-term committed funds are valuable to multilateral organisations because they help smooth funding fluctuations. In the case of GAVI, such funding predictability has enabled implementing countries to develop multi-year programmes that fundamentally improve the quality of and access to health care services.

### IFFIm funds disbursed to countries



**GAVI disbursements of IFFIm funds 2006-March 2011: US\$ 1.8 billion**

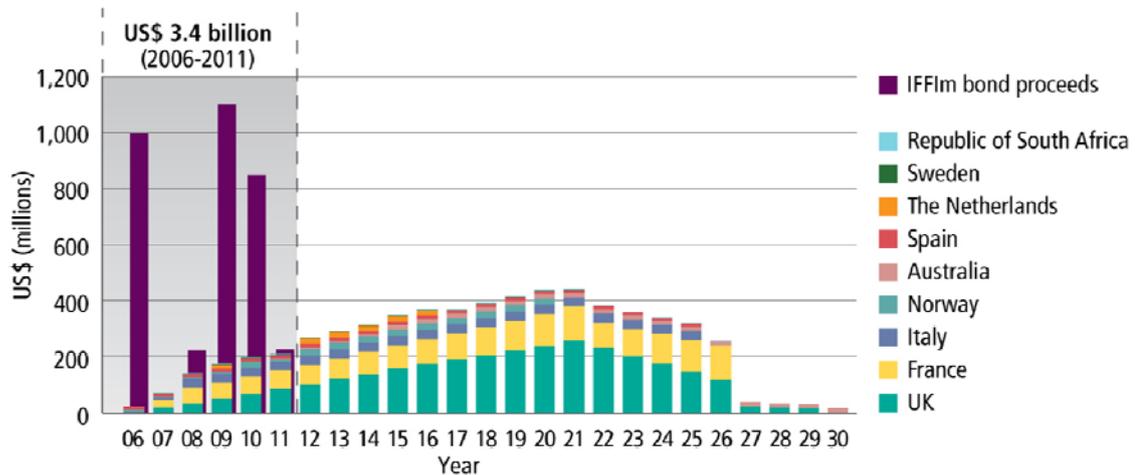
Note: Asterisks indicate one-time tactical investments in disease prevention and control ("Investment cases").

But it is only through IFFIm's legal and governance framework that such long-term funding is possible for many donors. Donors often are not able to make long-term direct grants to GAVI. IFFIm, however, provides the framework for long-term donor pledges that can be monetised through the capital markets. That is how Australia was able to finalise a 20-year, A\$ 250 million (US\$256 million) commitment in March 2011 that would not have been possible under any other structure.

IFFIm bonds – rated triple A – also offer an average cost of debt that represents a savings of 0.14% compared to the blended funding cost of its donors. (Its average cost of debt is 3-month US Dollar Libor minus 0.09%.<sup>2</sup>) This is possible due to the World Bank's involvement as IFFIm's Treasury Manager, applying its experience and access to the capital markets and liquidity management to IFFIm. The market views IFFIm as having a risk profile in the same category as the World Bank and other multilateral development agencies.

<sup>2</sup> For detailed financial and numerical data on IFFIm, please see Appendix I.

## IFFIm issues bonds based on long-term donor pledges



IFFIm has gained strong financial efficiencies through its partnership with the World Bank. In a recent institutional offering in Australia, for example, IFFIm was able to price tighter than the European Investment Bank and KfW, two of the largest Europe-based triple A bond issuers. As a result of this and other excellent funding opportunities, IFFIm is able to earn more than the cost of financing (positive carry) and the cost of operations, while generating since inception tens of millions of additional dollars of investment income for immunisation.

IFFIm is an especially powerful tool for middle income donors, which can make a significant contribution to GAVI programmes starting from a relatively modest cash commitment that grows over time. However, to maintain IFFIm's credit standing and efficient market access, it will also need to grow its AAA donor base as middle income countries join the programme.

### The need for new funding

IFFIm has redefined the concept of long-term predictable aid and driven the concept of "innovative finance" for development. The tenor and predictability of IFFIm pledges allow GAVI to confidently make long-term programmatic commitments that help rapidly scale up immunisation:

- Protecting 5 million children against disease;
- Providing large-scale immunity that lowers disease transmission and saves more lives sooner; and
- At a lower overall economic cost to donors and implementing countries.

However, IFFIm's positive impact will dissipate over time without new financial commitments. From 2006-2010, IFFIm provided more than 50% of GAVI's funding. But this percentage will decline to about 22% from 2011 to 2015, and to 7% from 2016 to 2020, if no new pledges are added.

IFFIm is a significant and proven financial tool. GAVI encourages current and potential donors to consider new pledges to it. This not only will increase GAVI's programmatic strength, but it also will reduce IFFIm's reliance on a narrow range of generous donors and help it refinance maturing debt at very low cost.

*"The model is clearly robust having emerged from the financial crisis relatively unscathed.... The case for further investment through IFFIm is strong."*  
--Independent evaluation of IFFIm by health care consulting firm HLSP, April 2011

In particular, GAVI's current funding effort is focused on longevity of grant, with many donors considering multi-year commitments. If a portion of those grants flow through IFFIm, then not only would GAVI have long-term visibility of funding, but IFFIm investors would have the security of knowing there are additional donor commitments backing up outstanding debt. This would be true even if those grants were not to be front-loaded.

IFFIm also has been a highly successful issuer whose "model is clearly robust, having emerged from the financial crisis relatively unscathed," as noted in March 2011 by HLSP, a health care consulting firm that performed an independent evaluation of IFFIm.

For donors, IFFIm's strong performance has brought positive visibility to their decision to support global health initiatives. Similarly, IFFIm's continued credit strength offers a significant long-term value to donors. But this will rest in part on IFFIm's continued ability to raise very low-cost financing to address maturing debt. In short, low borrowing costs directly translate into increased resources for immunisation.

IFFIm has proven to be a win-win-win development tool. It provides investors with a solid financial investment. Donors match their cash flows with their financial capacity. And, most important, the world's poorest countries receive life-saving vaccines to protect their children from disease and help them live productive and healthy lives.

## Appendix I: IFFIm by the numbers

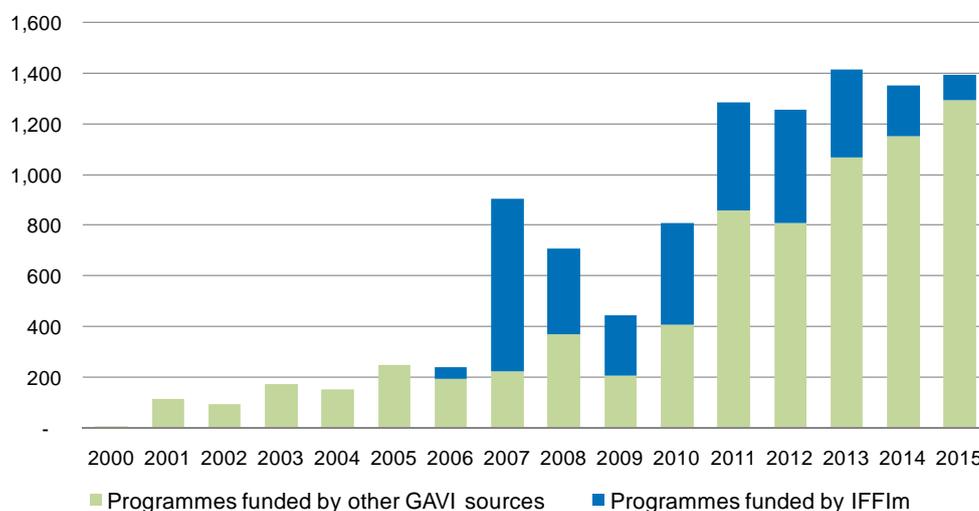
<b>Cash flows (Inception to March 2011)</b>	
Total bonds issued	US\$3,399.7 million
Add:	
Donor payment receipts	+ US\$674.2 million
Less:	
Paid for debt service	(US\$331.9 million)
Paid for admin expenses	(US\$19.6 million)
Reserved for minimum liquidity requirements	(US\$1,451.5 million)
Available for programmatic use	US\$2,270.9 million
IFFIm's impact (total bonds issued / donor payment receipts)	5.0x

<b>Bond issuance (Inception to March 2011)</b>	
Average bond maturity	4.3 years
IFFIm funding cost	LIBOR - 0.09%
IFFIm cost compared to donor country financing	0.14% cheaper

<b>Donor pledges</b>	
Donor nominal pledges (US\$ eq.)	US\$6.2 billion
Present value at inception (2006 basis)	US\$3.8 billion

<b>Disbursements</b>	
IFFIm funds disbursed to countries (2006-March 2011)	US\$1.8 billion
IFFIm portion of GAVI programme disbursements (2006-2010)	55%
IFFIm portion of GAVI programme disbursements (2000-2010)	44%

## Programme disbursements by funding source 2000-15 (US \$m) (Cash basis)



## Appendix II

### About IFFIm

International Finance Facility for Immunisation Company (IFFIm) is a multilateral development institution created to accelerate the availability of predictable, long-term funds for health and immunisation programmes through the GAVI Alliance in 70 of the poorest countries around the world. IFFIm was created as a development financing tool to help the international community achieve the Millennium Development Goals. IFFIm's financial base consists of legally binding grants payments from its sovereign sponsors (Australia, France, Italy, Norway, South Africa, Spain, Sweden, The Netherlands and the UK), on the basis of which IFFIm is rated AAA/Aaa/AAA (Fitch/Moody's/S&P). IFFIm was established as a charity with the Charity Commission for England and Wales. More information: [www.iffim.org](http://www.iffim.org)

### About IFFIm Bonds

IFFIm issues AAA rated bonds in capital markets supported by the value of donor pledges of future funding to IFFIm. This ability to raise liquidity is what gives IFFIm its flexibility. The cash IFFIm receives from donors (settlement of donor pledges) is adjusted by a Grant Payment Condition (or "High Level Financing Condition"). This condition allows donors to reduce their actual contributions to IFFIm should countries comprising a predefined Reference Portfolio of GAVI eligible countries fall under protracted arrears with the IMF. To provide sufficient comfort to rating agencies and bondholders that IFFIm will always be able to service its bonds from donor contributions, IFFIm only raises bonds against a proportion of the net present value of donor pledges. The balance serves as a cushion or reserve against a possibility of Reference Portfolio countries falling under protracted arrears and, to a much lesser extent, against donors defaulting on their pledges. The proportion of this reserve is determined by a Gearing Ratio Limit, defined as the net outstanding debt (debt minus liquidity balances) divided by the net present value of outstanding donor pledges. The Gearing Ratio Limit is reviewed regularly and currently is about 70%.

### About the World Bank

The World Bank is a global development cooperative owned by 187 member countries. Its purpose is to help its members achieve equitable and sustainable economic growth in their national economies and to find effective solutions to pressing regional and global problems in economic development and environmental sustainability. The goal is to help overcome poverty and improve standards of living for people worldwide. The International Bank for Reconstruction and Development (IBRD), rated Aaa/AAA (Moody's/S&P), is the oldest and largest entity in the World Bank Group and provides funding, risk management tools and credit enhancement to sovereigns. To fund this activity, IBRD has been issuing debt securities in the



international capital markets for 60 years. The World Bank is also the Treasury Manager for IFFIm. In that capacity, the World Bank, as IFFIm's agent, 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, hedging transactions 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 the GAVI Alliance.

#### About the GAVI Alliance

The GAVI Alliance is a public-private global health partnership committed to saving children's lives and protecting people's health by increasing access to immunisation in poor countries. The Alliance brings together developing country and donor governments, the World Health Organization, UNICEF, the World Bank, the vaccine industry in both industrialised and developing countries, research and technical agencies, civil society organisations, the Bill & Melinda Gates Foundation and other private philanthropists. For more information, please visit our website at [www.gavialliance.org](http://www.gavialliance.org).

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