

Cost, maturity point to strong market return

IFFIm raises US\$ 137 million, boosting GAVI's efforts to immunise a quarter billion children



GAVI/Olivier Asselin/2012

IFFIm made a strong return to the capital markets this summer, raising US\$ 137 million with two appearances in the Japanese "uridashi" retail bond market.

IFFIm funds play a catalytic role in support of the GAVI Alliance and its promise to immunise 243 million children from 2011 through 2015, saving 4 million lives. In its first 10 years, GAVI helped immunise 326 million people in the world's poorest countries, saving more than 5.5 million lives. About US\$ 2.8 billion in IFFIm funds have been approved for GAVI.

IFFIm's continued access to the capital markets amidst the euro zone crisis is a sign of IFFIm's market position.

"During a time of great market uncertainty, IFFIm has continued to raise critical funding for GAVI's immunisation programmes," says IFFIm Chair René Karsenti. "We must also give credit to Japanese investors, who recognise that IFFIm vaccine bonds are an extremely efficient and innovative way to promote this cause."

Investors in the first uridashi were offered a 3-year fixed-rate South African rand-denominated bond, a 4.5-year fixed-rate Australian dollar-denominated bond and a 15-year South African rand-denominated deep-discount bond. The second uridashi was a 5-year Australian dollar-denominated bond underwritten by J.P. Morgan. The World Bank is IFFIm's treasury manager.

"We are delighted to once again have the opportunity to support IFFIm in offering this bond to Japanese investors nationwide," said Kenichi Tatsuzawa, CEO of HSBC

Securities (Japan), which worked with nine local distributors on the initial offerings. "This issue highlights Japanese investors' strong interest in helping to contribute to improvements in health and social conditions in some of the world's poorest economies."

IFFIm inaugural retail bond issue cited among 25 most influential deals. See page 2.

IFFIm successfully completes transformative year

IFFIm's year was characterised by additional donor pledges, continued strong access to the capital markets in Japan amidst turmoil in the euro zone and the introduction of a new Board Chair.

Donor support was highlighted by an additional Italian pledge of €25.5 million to be paid over 15 years — bringing Italy's total IFFIm pledge to €499 million, or US\$ 638 million, over 20 years — alongside the commitment of Brazil to become IFFIm's tenth donor with a US\$ 20 million pledge over 20 years (the grant agreement is in process).

The UK — IFFIm's largest donor (£1,630 million over 23 years) — also made a pledge equal to the value of Brazil's and Italy's new pledges.

In the summer of 2012, IFFIm successfully raised more than US\$ 137 million equivalent (see related story, page 1), as it accessed the capital markets in Japan for the first time as an issuer with a split rating. In January 2012, IFFIm was rated AA+ by Standard & Poor's, and it has maintained its AAA/Aaa ratings by Fitch and Moody's Investor Service.

Meanwhile, IFFIm also made an historic transition, appointing as Board Chair René Karsenti, President of the International Capital Market Association (see related story, back page). He took

over in February 2012 from Alan Gillespie, who led IFFIm from its inception to help secure US\$ 6.3 billion in donor commitments and raise US\$ 3.6 billion in the capital markets.

That includes IFFIm's 2008 inaugural retail bond issue in Japan, which was cited in May 2012 by EuroWeek magazine as among the 25 most influential deals of the past five years, helping set a trend of ethically-themed bonds sold in Japan.

In the final year of his chairmanship, Mr. Gillespie led the renewal of IFFIm's treasury management agreement with the World Bank in October 2011, and saw the publication of an independent evaluation of IFFIm by health care consulting firm HLSP.

That report, completed in July 2011, concluded that IFFIm provides "extremely good development returns" and has helped "transform GAVI from a niche actor into a major player in international health." The report cites IFFIm as a low-cost, efficient model, helping GAVI save an additional 2.1 million lives while delivering more than three times the value of each dollar spent.

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 the GAVI 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 the United Kingdom, France, Italy, Spain, Australia, the Netherlands, Sweden, Norway and South Africa. Brazil has committed to become IFFIm's tenth donor.



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 sector partners. Since it was launched in 2000, GAVI has prevented more than 5.5 million future deaths and helped protect 326 million children with new and underused vaccines.

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The World Bank is a global development cooperative owned by 188 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 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.

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IFFIm helps global innovative effort to protect children from pneumonia

In a broad swath from the Horn of Africa along the equator to the shores of West Africa, the biggest killer of children under age 5 is under siege, thanks to funding from IFFIm.

There — in Ghana, Congo, Kenya, Ethiopia, and elsewhere, even across the Red Sea in Yemen and in Latin America — the GAVI Alliance has expanded a campaign to immunise children in the world's poorest countries against pneumococcal disease, which causes childhood pneumonia.

To help protect these children, IFFIm provided US\$ 41.58 million toward GAVI's pneumococcal vaccine programme in 2011, funding that could immunise more than 3 million children. In all, 17 countries on three continents now receive GAVI support for pneumococcal vaccines, which GAVI hopes to expand to 40 countries by 2030, to help prevent more than 7 million deaths.

IFFIm is playing a major role, alongside another innovative finance programme called the Pneumococcal Advance Market Commitment (AMC), under which donors pledge funding as an incentive to vaccine makers to scale up production for developing countries, which then can plan programmes while paying a fraction of the price charged in wealthy countries.

Through this collaboration, IFFIm, the AMC and the GAVI Alliance are helping to defeat the leading vaccine-preventable death of young children.

Consider 1-year-old Kedir Mudi and his mother Alemnesh Gerefa, who are in the waiting area of a health post in the rural village of Derer Ebija, Ethiopia. Three months earlier, this happy toddler came dangerously close to death after contracting pneumonia.

"I thought he would die on me," said Ms. Gerefa. Today, Kedir is back to receive the pneumococcal vaccine. It is only the second week that this vaccine has been available in Derer Ebija, and Ms. Gerefa is keen for Kedir to receive it following the launch in fall 2011.

"Pneumonia is an illness that affects many of the children in this area," said health extension worker Belainesh Arersa. "As a result, mothers have to stop doing their work to go to and from the hospital. Now that this vaccine has been introduced, children will not die, and mothers will no longer waste their time traveling back and forth between home and hospital."

Rolling out a vaccine takes enormous preparation. Once the first consignment of pneumococcal vaccines reached neighboring Kenya, for instance, thousands of health workers began attending one-day training sessions across the country.

"At times nearly half of the children treated for illnesses in the Langata District Health Centre come in with pneumonia," said Eunice Wanjiku Njab, who administered the inaugural dose of Kenya's national rollout of pneumococcal vaccine. "The pneumococcal vaccine will make a big difference to Kenya."

In the Dadaab refugee camps in the northeast of the country, refugee Somali children also are being vaccinated. With a population of 430,000 people, Dadaab has unofficially become the third largest city in Kenya. With this high concentration of people, low hygiene standards and pressure on sanitation services, the risk of disease spreading rapidly is ever-present.

Hubia Aden and her six children are new arrivals at one of the three camps around Dadaab. She and her children had to walk for 21 days to get there. During the registration process, the family is medically screened and her children receive a cocktail of vaccines against polio, measles and diphtheria, plus 9-month-old Mohammed receives pneumococcal vaccine, given to those under one year of age.



GAVI/Jonathan Stern/2012

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“There were no hospitals in Somalia, and my children were not vaccinated,” Hubia says. “I understand it is important because I was immunised as a child.”

Across the Red Sea in Yemen, pneumonia has accounted for about 20 percent of all child deaths. But the country has been working to bring that number down since launching its pneumococcal vaccine campaign in 2011.

“It is my biggest dream, as a pediatrician and as a [former] Minister [of Health]” to witness the launch, said Dr. Abdulkarim Rasae, a GAVI Alliance Board member from 2008-011. “This will make a big difference in cutting the number of child deaths in Yemen.”

The Ministry even negotiated an agreement with a Yemeni mobile phone carrier to send SMS text messages to its clients ahead of the launch, informing them about the vaccine.

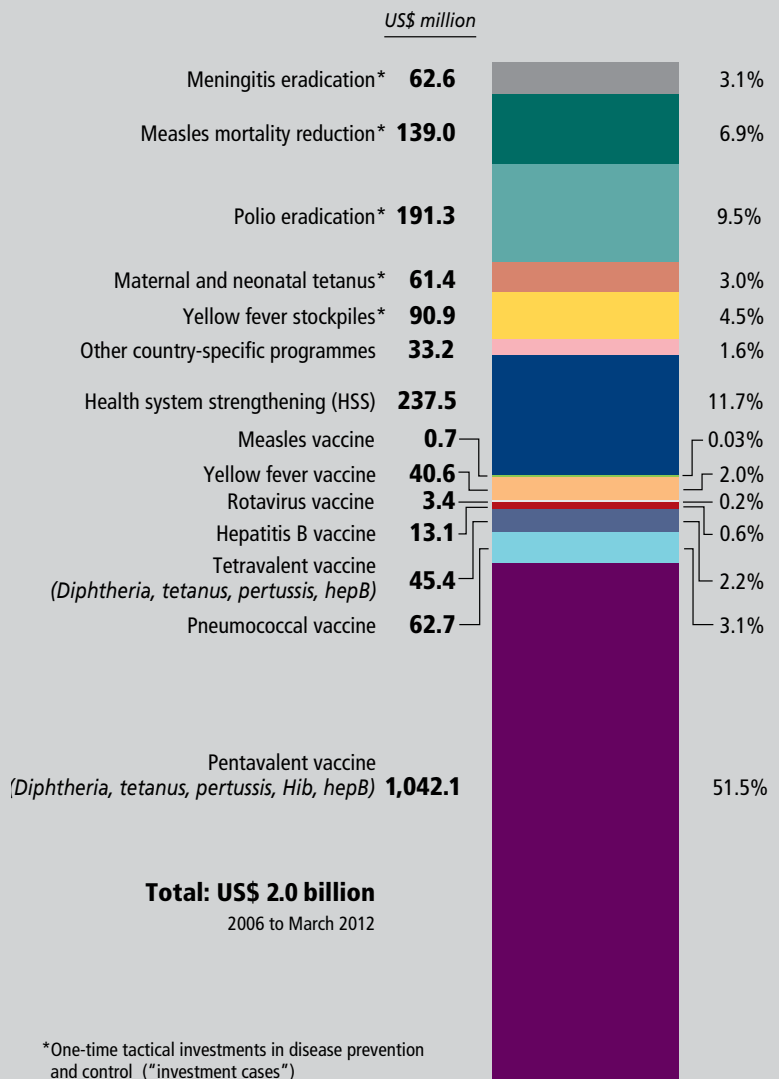
“We wanted to create momentum around this launch so that people would understand how necessary it is to have their babies vaccinated,” said Dr. Majid Al Jonaid, Deputy Minister for Primary Health Care. “That is why it was so important to make sure we got the vaccine out to every single health facility. We did not want any parents bringing their babies for vaccination only to find there was no pneumococcal vaccine available.”

“Vaccines target people before they get diseases,” he emphasises. “For every dollar we invest in vaccination, we save US\$ 20 in health-care and other related costs. That benefits not only the child and the family, but also the entire community and the country.”

GAVI programmes funded by IFFIm

As of 31 March 2012, IFFIm had approved programmes of US\$ 2.8 billion (since inception). Of that amount, more than US\$ 2 billion already has been disbursed to support GAVI vaccine purchases. This is approximately double the amount that would have been possible had GAVI not had access to the market based on IFFIm donor pledges.

IFFIm has been instrumental in helping GAVI provide 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 upfront cash payment, without its ability to rely on long-term, stable funding from IFFIm. Since the initial upfront cash payment of US\$ 177 million, IFFIm has continued to fund the procurement of pentavalent and other life-saving vaccines for country programmes.



IFFIm proves itself predictable and flexible for GAVI, seeks new donors



GAVI/Aksel Jakobsen/2012

The significant benefits that IFFIm has provided to GAVI will begin to tail off in 2015, when IFFIm enters a repayment phase.

This means IFFIm is working as intended: Long-term donor pledges have supported near-term funding through the capital markets. IFFIm has approved US\$ 2.8 billion for GAVI programmes — more than three times the donor inflows to IFFIm to date.

Meanwhile, GAVI itself is examining its long-term funding strategy. Its goal is to build a diverse capital structure that provides flexible funding and the ability to shape the vaccine market — objectives that IFFIm is well-situated to help GAVI achieve. The GAVI secretariat has recommended that IFFIm be a long-term part of GAVI's capital structure.

As a result, IFFIm is exploring avenues to bring in new pledges and new donors, both from traditional and emerging markets, a topic that IFFIm donors discussed at a workshop in April 2012 and at their donors meeting in June 2012, both in Washington, DC.

IFFIm appeals also to GAVI's donors because of its impact on aid effectiveness, says GAVI Alliance Board Chair Dagfinn Høybråten (pictured upper left). "IFFIm has significant value in GAVI's long-term funding strategy because it addresses core

needs and supports our donors' objectives," he adds. "It is an instrument of efficient aid and good governance."

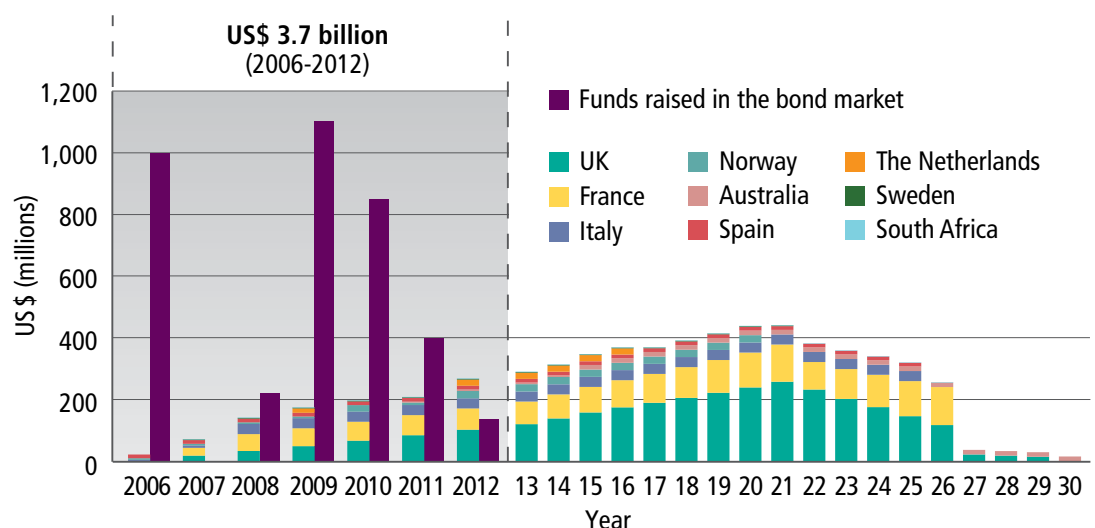
The long-term availability and legally-binding nature of IFFIm funds provide confidence to the vaccine industry to scale-up production and build capacity — as it did for the pentavalent vaccine.

"These commitments send a strong signal to the vaccine industry and recipient countries about the predictability of GAVI's programmes," says GAVI CEO Seth Berkley. "What's more, IFFIm provides GAVI with predictability, visibility and flexibility in its funding."

This is because IFFIm — unlike direct funding that typically is time-constrained — can decouple donor payments to GAVI from the time funds are needed for programmes. IFFIm has helped GAVI increase the funding for its programmes by 41% over the past six years and allowed it to respond quickly to changes in country programmes.

"The power of IFFIm is that it is long-term, flexible and legally binding," says David Ferreira, GAVI's Managing Director for Innovative Finance. "It has the ability to move money through time by frontloading, offering the binding promise of future payments by donors as assurance for investors to buy bonds today."

IFFIm issues bonds based on long-term donor pledges



Africa's Meningitis Belt a target of IFFIm special investment case

Meningitis type A epidemics bring death, disability and fear every year to Africa's so-called "Meningitis Belt," a string of 25 countries that stretches from Senegal in the west to Ethiopia in the east.

The region's biggest epidemic in recent years affected 250,000 people, killing 25,000 and leaving another 50,000 with disabilities, including deafness and mental retardation.

But an IFFIm-supported vaccine called "MenAfriVac" has been developed specifically for the Meningitis Belt by a consortium of partners, including GAVI, collectively known as the Meningitis Vaccine Project. MenAfriVac costs less than 50 US cents per dose and is expected to save as many as 150,000 lives between 2010 and 2015.

Its initial results have been excellent, most recently in December 2011 in Nigeria, Chad and Cameroon, following December 2010 introductions in Burkina Faso, Mali and Niger. For example, by the end of the 2011 epidemic season, Burkina Faso had just four cases of meningitis A, all in unimmunised individuals, including three from Togo who came for medical care. Almost 55 million people in the six countries have been immunised so far, according to figures from the Meningitis Vaccine Project, a collaboration

between PATH and WHO to develop the vaccine, in partnership with UNICEF and GAVI.

In 2011, IFFIm provided US\$ 1.49 million to GAVI to purchase the meningitis vaccine as a "special investment case," bringing IFFIm's total investment in it to US\$ 59.55 million.

IFFIm has funded these one-time investments, such as providing nearly US\$ 200 million toward GAVI's participation in polio eradication and US\$ 139 million toward measles mortality reduction. Other investment cases have included purchasing yellow fever stockpiles and funding maternal and neonatal tetanus vaccines.

"People are always apprehensive, scared ahead of the meningitis season. They never know what will happen," says Muhammad Sani Adamu, Head of Accelerated Disease Control in Nigeria's National Primary Health Care Development Agency. In 2009, Nigeria had nearly 50,000 cases that left 2,000 dead. "The new vaccine is a golden opportunity to protect our people against the commonest strain, responsible for 90% of all epidemics. MenAfriVac is a big deal actually for our country."

Adamu says Nigeria installed new cold rooms and used 30-tonne lorries to transport vaccines and injection materials from the national storage



facility to a targeted five of its 36 states, where it sometimes had to be transported by motorcycle or bicycle across difficult terrain. It reached about 15.7 million people with the vaccine within two weeks.

"If all of this works like we think it is going to work, then we are going to eliminate these epidemics. Stop. Period," said Marc LaForce, Director of the Meningitis Vaccine Project.

GAVI has budgeted US\$ 370.4 million to help rid the Meningitis Belt of meningitis A. For its 2011–2015 programme, GAVI plans to support immunisation in all 25 countries in the region. The remainder of the US\$ 571 million budget to eliminate group A meningitis in Africa will come mostly from the countries themselves.

Meningitis is an infection of the lining that covers the brain and spinal cord, caused by a viral or bacterial infection. Groups at highest risk of infection are infants, children and young adults.

"My son is afraid of the needle, but he will realize in a minute that it is nothing," says a Chadian father who brought his son Ahmad to be vaccinated during an outbreak. "I lost my younger sister two weeks ago. By no means do I want my son to suffer as she did."



UNICEF/Prozai/2008



GAVI/Eva Lotta Jansson/2012

"I lost my younger sister two weeks ago. By no means do I want my son to suffer as she did."

— Father of a boy receiving the meningitis vaccine in Chad

New IFFIm Chair's journey in global development started early

One of IFFIm's unique features is that it uses the capital markets to aid global development. New IFFIm Board Chair René Karsenti has spent his career doing much the same thing.

René was inspired by his father, a career French Air Force officer who fought for peace and unity in Europe as a member of the Allied forces in Italy and France before settling in Algeria. There, René grew to understand the challenges of those in the developing world and the effect that war, inadequate health care and poverty have on economic development.

René's upbringing — the Karsenti family moved to the French coastal city of Nice in 1962 — offers several connections to IFFIm. René received a master's degree in chemical engineering from the Université de Lyon. Due to his academic background, René was appointed to a pharmaceutical research team during his Army service. As a result, René's Ph.D. thesis (economics/Sorbonne with post-graduate work at University of California, Berkeley) focused on market efficiency in pharmaceutical research, an important topic today for GAVI.

The academic work led René down an unusual path in the early 1970s: He was hired to analyse chemical, oil and pharmaceutical companies for French investment management firm Groupe Caisse de Dépôt. The timing was perfect: he took the job as the 1973 oil crisis unfolded, and at age 26 was helping French companies channel their investments into development finance.

"It was a fascinating platform for me to see how these companies were adapting their financial strategies," René recalls.

This unusual combination of work in both capital markets and development

finance led to René's selection by the World Bank for its Young Professional Program. René moved his young family to Washington, D.C. and spent 11 years at the World Bank Group, exposed to a variety of regions (Western Africa, Far East) and functions (World Bank Treasury Department, International Finance Corp.).

At World Bank Treasury, René helped develop the world's first swap, issued in 1981 by Salomon Brothers on behalf of IBM, which held large amounts of lower-paying debt issued in Swiss francs and German marks. The World Bank agreed to borrow dollars in the U.S. market and swap the dollar payment obligation to IBM in exchange for its Swiss franc and Deutsch mark obligations.

The swap helped spark development of the derivatives market, and soon René was appointed to a new World Bank task force on innovation, which looked closely at how technology could be used as an analytical tool in development finance. It also was during this time that a colleague at the IFC, Antoine van Agtmael, coined the term "emerging markets" to promote the first mutual fund investments in developing countries.

René was sitting at the nexus of innovative finance, using capital markets to fund development. Sound familiar?

His journey toward becoming IFFIm's second chair has continued unabated, eventually leading René to become treasurer at the IFC, which like IFFIm uses the best capital markets techniques and channels to help developing countries. He took a comparable job in 1991 for the new European Bank for Reconstruction and Development (EBRD), designed to transition the former Soviet Bloc to open market-



Martin Black Photography/2012

oriented economies. René moved on to the European Investment Bank in 1995 as its CFO.

It was at the EIB that René first was exposed to IFFIm, which in 2005 was in its nascent stage. René had become a big early fan. "I was intrigued by the idea of decoupling pledges from payments," he says. "But I knew it was challenging."

The path to success, René contended, was for IFFIm to seek the highest quality pledges and capital, and seek well-managed, quality assets. IFFIm hit the trifecta, offering donors unique flexibility and predictability to support new vaccine introductions and world class financial policies that have led to low-cost funding and a carrying gain in the management of its liquid assets.

"IFFIm gives an interesting role to the capital markets to fund a cause that is socially responsible," he says. "The capital markets have been criticised, but we have lost sight of the efficient use of capital markets for a noble cause. Being part of the GAVI family, IFFIm has an important role to play."