Appendix B. Replicability of Innovative Financial Mechanisms

1. Innovative financing mechanisms enable the international community to respond to international development and global health priorities by leveraging a variety of financial resources. The World Bank has been critical for the establishment and very effective in the management of two globally innovative financial instruments, IFFIm and the AMC. Working with partners, the Bank has effectively operationalized new financial instruments, devoting significant time and resources to this task, and assuming financial risks for the AMC and potential reputational risks (both AMC and IFFIm). The Bank’s experience in operationalizing these innovative financial mechanisms provide lessons for other innovative financing mechanisms beyond the sector.

2. IEG concurs with the external IFFIm evaluation and finds that in its present format and with the current governance structure, as a UK charity, IFFIm is unlikely to be replicable for other health-sector initiatives. IFFIm was set up in 2004 with the principal donors requesting that commitments could be accounted for “off budget” requiring a favorable ruling by the regulators (Eurostat). It is unlikely that after the dramatic changes in the financial landscape in 2008 such a ruling could be obtained again today. The mechanism is transaction intensive and not inexpensive.

3. The total projected operational costs over IFFIm’s lifetime are difficult to estimate as they critically depend on future projected interest rates. The 2010 IFFIm external evaluation estimated the lifetime cost of governance and treasury management as 4.1-4.6% of present value of then-current pledges. Essential running cost, such as directors insurance for IFFIm Board members, legal advice, and treasury management fees amount to US$5-6 million per year. Recent work by the Bank projects the cost to be closer to the 8-10% range, when also taking into account the potential interest paid for outstanding debt. This means that IFFIm’s management costs over the life of the facility could amount to $150-$340 million.¹

4. Thus, unless frontloading is absolutely critical and the recipient is a mature organization with an established pipeline of activities ready for financing, direct funding by donors would seem to be easier and a lower cost option for the recipient.

5. The AMC—a so called “pull mechanism” was a pilot operation to operationalize and test the concept of an “advanced market commitment. The AMC was intended to cover the capital cost for pneumococcal vaccine production for established manufacturers in order to make the vaccine rapidly available for GAVI eligible countries. Because the AMC for pneumococcal vaccines was the first AMC ever, its design process was driven by learning by doing. The recent process and design evaluation considers the AMC a success. IEG concurs with this assessment.
Appendix B. Replicability of Innovative Financial Mechanisms

6. However, the choice and modification of an existing pneumococcal vaccine for the pilot and its cost has attracted considerable criticism from civil society organizations, such as Doctors without Borders. The long-term nature of the commitment and its consequences for GAVI finances—forecast at about a third of overall GAVI outlays for the next decade—have also been pointed out.

7. Recently several new vaccines, such as MenAfriVac, Oral Cholera, and Japan Encephalitis, have been effectively developed by using so called “push mechanisms,” facilitating technology transfer to manufacture the vaccine with the provision of up-front funding to meet a specific target. Most important is the new low-price conjugate vaccine for Meningitis in Africa (MenAfriVac) to combat epidemic meningitis in the African meningitis belt. It was developed with a US$70 million grant from the Gates Foundation and is now manufactured in India at a cost of US$0.40 per dose. Not counting vaccine prices, development costs using a push mechanism have been a fraction (less than 5 percent) of that of the AMC.²