2. The World Bank as a Financial Partner to GAVI

2.1 This chapter assesses the World Bank’s contributions to GAVI’s finances. The Bank’s most significant contribution to GAVI is helping to establish and manage two innovative financing mechanisms, the International Finance Facility for Immunisation (IFFIm) and the Advanced Market Commitment (AMC) for pneumococcal vaccines. They have contributed one-third of GAVI’s financial resources from 2000 to 2010 and both represent pilot models of globally innovative development finance.

2.2 The Bank’s financial relationship with GAVI and IFFIm has been highly competent and professional and deserves widespread recognition. Operationalizing the IFFIm and AMC instruments required the Bank to assume financial risk, develop new systems, and make a long-term commitment. The Bank assumed a direct balance sheet risk on behalf of AMC and used its excellent credit rating to place IFFIm bonds. The Bank reviewed these commitments at the Board level and worked consistently to launch and implement two complex and somewhat risky innovative financial vehicles. The Bank subsidized the system development costs of IFFIm.

2.3 The key lesson of this chapter is that the Bank has a unique capability to assist the international development community with setting up and running innovative finance for development, even if the two specific GAVI-related pilots are unlikely to be replicated.

Setting up an International Finance Facility for Immunisation

Origin and Establishment of IFFIm

2.4 The United Kingdom (UK) and Goldman Sachs proposed the concept of an International Finance Facility (IFF) as a new vehicle for development finance, and the Bank was critical in translating and implementing this concept. Health spending was seen as needing to be scaled up, and the IFF concept was conceived as an innovative way to cover the funding gap required to meet the MDGs. The basic concept—that aid pledges can be used to issue bonds that raise funds for development—was initially proposed for piloting by Gordon Brown, then UK Chancellor of the Exchequer, in 2001 and further developed with input from Goldman Sachs and set out in a UK Treasury paper in 2003.

2.5 An IFF for Immunisation (IFFIm) was raised at the World Health Assembly in 2004 and discussed at the Group of Eight Highly-industrialized Nations (G8) meeting in 2005. The World Bank became involved in the detailed design work on IFFIm at the end of 2005. IFFIm was launched in 2006 to pilot the innovative
financing mechanism with GAVI as the implementing partner and the World Bank as the Treasury Manager.¹ IFFIm was incorporated as a UK charitable company in June 2006.

2.6 IFFIm is thus a pilot application of a general conceptual innovation in which aid pledges by sovereign donors can be used to leverage private capital. Immunization was chosen to test the IFF concepts because it has features consistent with the requirements of the IFF concept: it is a cost-effective intervention that offers positive externalities and contributes to economic and social development. IFFIm raises funds on international capital markets by issuing bonds, colloquially referred to as “vaccine bonds.” IFFIm’s assets against which it issues bonds are long-term, legally binding grant agreements from sovereign donors. IFFIm uses these grant payments to pay the principal and interest on its bonds.

2.7 IFFIm addresses not only the constraints of high vaccine prices and irregular supplies by frontloading resources, it also provides predictable resource flows that it hopes will increase market volumes, attract new investment in vaccine research and production, and improve market stability.

2.8 The World Bank provides treasury management services to IFFIm. The donor countries wanted to keep IFFIm’s running costs low by utilizing existing organizations. IFFIm operates without staff and outsources its functions to the GAVI Secretariat and the World Bank. Key donors wanted IFFIm to have highly conservative financial and risk management policies; AAA credit ratings; and for the treasury manager to have supranational status.² A competitive tender was undertaken for the treasury management services, and the World Bank emerged as the only qualified bidder (the donor requirements restricted the number of available bidders). As a result, the IFFIm Board had to directly negotiate with the World Bank for the treasury management services.

2.9 Obligations and responsibilities were very clear at the outset.³ The founding legal agreements were signed in September 2006 by all parties involved in IFFIm. The Finance Framework Agreement (FFA) governs the GAVI-GFA-IFFIm-World Bank-donor relationships (Figure 3).
2.10 The governments of the UK, France, Italy, Norway, Australia, Spain, the Netherlands, Sweden, and South Africa have committed funds totaling over US$6.3 billion to IFFIm over a period of 23 years. IFFIm bonds have raised approximately US$4.55 billion since the program’s inception, and IFFIm has used the proceeds to fund GAVI programs and refinance its debt (Figure 3). The upfront costs of establishing IFFIm and gaining access to the financial markets have been paid, yet as noted in the external evaluation, the full potential of the IFFIm mechanism has not been utilized because its assets are not sufficiently large and are highly concentrated on a few donors. New donors had been expected to join IFFIm, but this has yet to be realized. Future funding from IFFIm is in decline (unless it is replenished) just as GAVI is embarking on an ambitious spending program.
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Figure 4. IFFIm Donor Commitments and Funds Raised, 2006-2030

Figure 5. Cash Received by GAVI by Source (1999-2009)

Source: GAVI Alliance Website.
Note: BMGF is the Bill and Melinda Gates Foundation.
2.11 From IFFIm’s inception in 2006 to June 2013, IFFIm has provided US$2.4 billion to GAVI, funding 47 percent of GAVI programs in that period. Funds from IFFIm allowed GAVI to ramp up its commitments and disbursements: GAVI’s average annual commitments more than doubled from US$196 million during 2004-2006 to US$474 million during 2007-2009. IFFIm has proven to be a very effective financial mechanism to frontload funding for GAVI.

2.12 The Bank’s role as treasury manager is critical for IFFIm’s position as a supranational and has allowed IFFIm to raise funds in the AAA bond markets on very favorable terms, including spreads that have been lower than the weighted average of donor’s borrowing costs. The World Bank’s reputation, participation, and credibility have benefited IFFIm which is perceived as a “World Bank surrogate” by investors. For example, IFFIm suffered only minor negative returns during the recent recession starting in 2008 and was able to issue bonds in the Japanese foreign currency denominated bond market (Uridashi market).

IFFIm’s Governance and Management

2.13 IFFIm is a multilateral development institution incorporated as a private company and registered as a charity in England and Wales. IFFIm works with the GAVI Alliance and the World Bank treasury department to achieve its objectives. As a registered charity in the UK, IFFIm is accountable to the UK Charities Commission and prepares an annual trustees report and financial statements for the Charity Commissioners. The complicated IFFIm governance arrangements were chosen to satisfy the Eurostat regulators in order to allow for off-budget financing by donors.

The World Bank’s Role and Responsibilities as Treasury Manager of IFFIm

2.14 The Treasury Management Agreement (TMA) sets out the legal relationship between the IFFIm Board and the World Bank in relation to policy and treasury management functions. The Bank provides IFFIm with a comprehensive set of financial services: development and execution of market-based financing strategies and funding operations, liquidity and investment management, risk monitoring and asset-liability management, tracking of donor grants and payments, and accounting and reporting. The Bank is compensated for these services on a cost-recovery basis; earned fees from the IFFIm TMA are US$16.6 million since 2006.

2.15 The Bank maintains a single, commingled investment portfolio for IFFIm, as well as assets held in trust for other Bank Group institutions. The Bank also manages the risk on derivative contracts, executes a swap program, and is counterparty on all of IFFIm’s currency and interest swap contracts. “IFFIm’s liquid assets are invested in high-grade, fixed-income instruments with interest rate sensitivity matching that of the liabilities funding IFFIm’s projected investment portfolio.” If the Bank determines that the funds it manages are insufficient to meet all of IFFIm’s financial
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obligations, it is empowered by the FFA, which governs the GAVI-IFFIm-World Bank donor relationships, not to comply with a GAVI request for disbursement.14

2.16 There have been differences in the interpretation of the TMA, particularly concerning the authority of the Bank in executing an approved strategy, including all individual transactions. There have also been some differences in opinions on the Bank’s conservative investment management strategy.15 The relationship between IFFIm Board and the World Bank has evolved over time; improved communication and engagement between the World Bank, IFFIm Board, and GAVI have ameliorated most, but not all, of the differences between the entities. Further clarity may be needed on the World Bank’s services to the IFFIm Board. Overall, the relationship between the Bank and GAVI has been cordial and professional, despite the complicated governance structure of IFFIm.

2.17 The World Bank was essential in the setup of IFFIm. The Bank was one of only a few Multilateral Development Banks (MDBs) capable of performing the roles and functions required for IFFIm, understanding the complexity of IFFIm, and subsidizing the systems development costs. Furthermore, liquidity management by the Bank’s Treasury Department has generated more revenues than costs to IFFIm.16 However, there are indications that the Bank’s essential contributions—setting up and running a new complex innovative financing mechanism and intermediating long-term financial hedges—may not have been sufficiently recognized by GAVI and other partners.

2.18 The credit downgrade of IFFIm is a major development that the Bank has navigated well. IFFIm’s financial strategy required excellent credit ratings in order to qualify for low yields. Under the original FFA, any new GAVI programs to be funded by IFFIm could not be approved by IFFIm if it is not rated “AAA” by two of the three major agencies. In 2012, IFFIm revised the minimum rating to “AA”. The main risk to IFFIm’s credit rating is the credit ratings of its key donors, specifically the credit ratings of the UK and France whose commitments jointly represent more than 70 percent of IFFIm assets. The three credit rating agencies have linked IFFIm’s rating to those two countries’ ratings. In November 2013, Standard and Poor’s Ratings Service lowered the long-term issuer credit rating for France and IFFIm to “AA.”17 Moody’s and Fitch downgraded France’s credit rating in November 2012 and July 2013, respectively. In early 2013, Moody’s Investor Service and Fitch Ratings downgraded the UK to AA+ rating; subsequently, IFFIm’s credit rating was also downgraded by the two credit rating agencies. Presently, IFFIm is not rated “AAA” (or its equivalent) by any of the three major international rating agencies.18

2.19 Under the agreed terms, IFFIm’s credit downgrades allow the World Bank the right “to call for collateral to protect against its exposure on IFFIm’s derivative positions.”19 The Bank decided not to exercise this right. Instead, the Bank added
“an additional buffer to the existing gearing ratio limit to manage the exposure for the World Bank under the derivative transactions entered into between IFFIm and the World Bank.” This prevented further negative effects on IFFIm’s credit rating.

2.20 IEG finds the Bank showed appropriate flexibility in making an exception to its practices of calling collateral, instead mitigating the risk through changes to the gearing ratio. It would be appropriate to determine if there is a potential for the World Bank’s reputation to be harmed if IFFIm continues to be viewed and presented as a “World Bank surrogate.”

**EXTERNAL EVALUATION OF IFFIm**

2.21 The GAVI Secretariat, on behalf of the IFFIm Board, commissioned the consulting company Health and Life Sciences Partnership (HLSP) to carry out an evaluation of IFFIm. The Evaluation of the International Finance Facility for Immunisation Report, published in June 2011, concludes that IFFIm is now a proven concept but is not, on its own, a sustainable model and is unlikely to be replicable for other health-sector initiatives. Long-term, predictable donor funding would be preferable, as such IFFIm can be considered an efficient “second best solution” to providing international development financing by offering features such as predictability which traditional development aid does not provide.

2.22 The Bank’s performance of treasury functions received high marks by the evaluators. In its stewardship of IFFIm, the Bank has clearly been a vital and effective financial partner to GAVI. It has fulfilled its roles and responsibilities as treasury manager exceptionally well, managed liquidity well, and used its supranational status and conservative risk management approach to the advantage of IFFIm. The World Bank has added credibility to IFFIm through its conservative policies and investment management which reassures investors’ confidence in IFFIm as a World Bank-managed vehicle. Discussing various risks, the evaluators consider the highest risk to IFFIm to be the loss of the World Bank as its treasury manager, something which would make it cease to be perceived as a “World Bank surrogate” by investors and therefore face sharply higher borrowing and refinancing costs. The evaluation also makes the point that the “the importance of the World Bank’s participation is overlooked.” The report remarks that the “World Bank’s reputation, credibility, and strong AAA ratings were absolutely critical to IFFIm being able to qualify as a supranational; zero percent risk weighting, AAA credit ratings, and investor confidence all depended in part on the World Bank’s participation.” Without the World Bank’s participation, IFFIm’s entire structure would have been different and the feasibility of IFFIM would need to be re-evaluated.

2.23 IEG considers the evaluation to be of high quality and concurs with the main conclusions. IEG agrees that IFFIm has proven to be a very effective, predictable,
and flexible financial mechanism to frontload funding for GAVI, but that it is unlikely to be replicated in the current format in the health sector. In part, this is because the total (including non-World Bank) legal, administrative, financial management, and governance costs are rather high and because of the drawbacks of frontloading, namely that, unless it is replenished, IFFIm will be going into repayment mode at a time when GAVI’s spending and financing needs are peaking.

**Advanced Market Commitment to Spur Vaccine Development**

**Origin and Establishment of the AMC**

2.24 The AMC for pneumococcal vaccines was launched as a pilot program in June 2009. The concept of an AMC for vaccines was conceived in 2005. In an AMC, donors commit funds to guarantee the price of medicines once they have been developed. The AMC provides an innovative financing mechanism for accelerating access to life-saving medicines in low-income countries and reduce the time gap between access to new vaccines in industrialized countries and low-income countries by incentivizing pharmaceutical manufacturers to develop and manufacture medicines for diseases more prevalent in low-income countries. Thus, the AMC is another instance where the Bank helped turn a conceptual idea into a viable pilot for innovative development finance.

2.25 With support from the World Bank, the Government of Italy presented a proposal for a pilot AMC for vaccines (the “Tremonti report”) to the Group of 8 (G8) Finance Ministers in December 2005. The World Bank and GAVI were asked to co-lead the design of a pilot AMC, and an advisory group was formed to provide insight and support. In 2006, an Independent Disease Expert Committee recommended pneumococcal disease as the candidate to pilot the AMC concept.

2.26 A study conducted by GAVI and World Bank staff recommended that the optimal arrangement for an AMC would be for GAVI to host the AMC Secretariat and provide the programmatic functions, with the Bank providing financial and fiduciary functions. The World Bank and GAVI signed the AMC Legal Agreements in June 2009, which were subsequently revised in March 2011 to incorporate lessons learned from the first year of implementation. GAVI funds the vaccine purchase, UNICEF procures the vaccines from manufacturers, and the Bank provides the financial platform for the AMC, which includes taking on the financial risk of donor default on its own balance sheet (Figure 6).
2.27 The AMC pilot for pneumococcal vaccines was formally launched in June 2009 with US$1.5 billion legally binding commitments from Italy, the United Kingdom, Canada, the Russian Federation, Norway, and the Gates Foundation for the purchase of 2 billion doses of pneumococcal conjugate vaccines. In addition to the donor commitments, GAVI has also budgeted US$1.3 billion for the period 2010-2015 to help fund vaccine costs.\(^2\)

2.28 The overarching goal of the pilot AMC is to reduce morbidity and mortality from pneumococcal diseases in low-income countries. GAVI hopes to achieve this goal by (i) accelerating the development of vaccines that meet developing country needs; (ii) bringing forward the availability of pneumococcal vaccines by scaling up production capacity; (iii) accelerating vaccine uptake through predictable vaccine pricing; and (iv) testing the AMC concept for potential future applications.
AMC FUNDING AND OPERATIONS

2.29 Donors commit funds to the AMC to subsidize the purchase of pneumococcal vaccines at an affordable price for developing countries, thereby offering vaccine manufacturers a long-term, guaranteed market price. The AMC functions as an offer agreement for the manufacturers of pneumococcal vaccine to supply a proportion of the targeted demand of 200 million doses annually for 10 years at a maximum price (tail price) of US$3.50. This is more than a 90 percent reduction from industrialized country prices in 2009. The agreement also provides each manufacturer an additional payment equal to US$7.00 minus the tail price per dose, for approximately 20 percent of the doses they provide. This additional top-up price is to help manufacturers recover the incremental cost of building up additional production capacity.

2.30 It is expected that the AMC will encourage multiple manufacturers to set up production and that competition will lower prices over time. There are presently two AMC-approved manufacturers (GlaxoSmithKline and Pfizer) while two Indian manufacturers are registered for the AMC and working to develop a vaccine. As of April 2014, 51 eligible countries have been approved to receive pneumococcal
vaccine support and over 25 countries have introduced pneumococcal vaccines.\textsuperscript{30} The unprecedented country demand and rapid introduction of pneumococcal vaccines have led to temporary shortages of supply and postponement of vaccine introduction in some countries.\textsuperscript{31}

**The World Bank’s Role in AMC’s Financial Platform**

2.31 The World Bank provides fairly standard financial management and administrative services with respect to donor contributions and AMC commitments and disbursements. Donors make grant payments to the World Bank in accordance with specific schedules or through a demand-based payment agreement; fixed-payment donors have pledged US$765 million and on-demand donors have pledged US$735 million (Table 1). The Bank holds the donor contributions in trust for GAVI and informs GAVI about the amounts being held and available for disbursement on a quarterly basis.

**Table 1. Contribution Receipts from AMC Donors, as of March 31, 2013**

<table>
<thead>
<tr>
<th></th>
<th>Contribution Amount</th>
<th>Paid-in Amount</th>
<th>Remaining Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed Schedule Donors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Italy</td>
<td>635,000,000</td>
<td>263,334,056</td>
<td>371,665,944</td>
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<tr>
<td>Russia</td>
<td>80,000,000</td>
<td>32,000,000</td>
<td>48,000,000</td>
</tr>
<tr>
<td>Gates Foundation</td>
<td>50,000,000</td>
<td>40,000,000</td>
<td>10,000,000</td>
</tr>
<tr>
<td><strong>On Demand Donors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UK</td>
<td>485,000,000</td>
<td>93,333,874</td>
<td>391,666,126</td>
</tr>
<tr>
<td>Canada</td>
<td>200,000,000</td>
<td>173,297,577</td>
<td>26,702,423</td>
</tr>
<tr>
<td>Norway</td>
<td>50,000,000</td>
<td>50,000,000</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,500,000,000</td>
<td>651,965,507</td>
<td>848,034,493</td>
</tr>
</tbody>
</table>


2.32 The Bank also takes on an exceptional financial risk associated with donor default on its own balance sheet. The Bank has committed to pay AMC funds to GAVI regardless of whether or not donors actually pay on schedule or default. The purpose of this additional commitment is to enhance the predictability of AMC funding, even if the funds have not been received on schedule from donors.\textsuperscript{32} This financial risk is transparently disclosed on International Bank for Reconstruction and Development (IBRD’s) balance sheet and IBRD is compensated by a 30 basis point premium on outstanding grant payments not yet paid by AMC donors.\textsuperscript{33}

2.33 The Bank deserves recognition for having translated the AMC concept into a pilot financial mechanism; even if it is unlikely to be replicated in the health sector (its many critics contend that it is not a cost-effective way to subsidize vaccine development, see Annex B). The AMC has achieved its objectives of increasing the supply and accelerating the uptake of pneumococcal vaccines in low-income
countries, and it has inspired somewhat similar innovative financing mechanisms for development in other sectors, such as AgResults Initiative, Low Carbon AMC, Emission Reduction Underwriting Mechanism, and Sustainable Energy Sources. The Bank is involved in some of these new mechanisms.

Conclusions and Lessons on the Bank’s Contributions to Innovative Finance on Behalf of GAVI

2.34 The Bank’s most significant contribution to GAVI is helping to develop, establish, and effectively manage two major innovative financing mechanisms which have helped GAVI become a major organization in global public health and expand immunization in low-income countries. The Bank has proven twice that it can turn conceptual ideas into viable financial pilot models and raise substantial funds for its partner, GAVI in this case. The Bank has devoted significant time and resources to this task, and has assumed financial risks (for the AMC) and potential reputational risks (for both AMC and IFFIm). The Bank’s relationship with GAVI in the financial management of IFFIm and AMC has been collegial and effective.

2.35 Leveraging resources and partnerships with the private sector and pursuing innovative finance are major aspects of the new World Bank Group strategy. The Bank’s work on behalf of GAVI is an example of just this. Even if the two specific GAVI-related pilots are unlikely to be replicated in their current form, there are lessons for the Bank and its partners for any future attempts to set up innovative development finance:

- Find ways to keep total costs down: financial mechanisms can be costly to set up and operate.
- Keep governance arrangements simple and maintain a clear division of labor: some aspects of the arrangements are complex and burdensome.
- Ensure appropriate Bank recognition and reasonable protection against reputational risks associated with its work on innovative finance on behalf of partners: although IEG saw no evidence that controversies surrounding the AMC impacted the Bank’s reputation, a real risk existed.
- Innovative finance does not necessarily equate with new, additional resources for development. Private investors expect to be repaid. In the case of IFFIm, the financial mechanism borrowed from future aid to finance and accelerate the introduction of vaccines today.
- Balance the long-term financial risks and obligations of these arrangements against their short-term benefits: both mechanisms have long-term financial consequences for the Bank and its partners that need to be carefully considered.