



Report to the GAVI Alliance Board

4-5 December 2012

Subject:	Long-term funding strategy
Report of:	Marie-Ange Saraka-Yao, Director, Programme Funding and David Ferreira, Managing Director, Innovative Finance
Authored by:	Marie-Ange Saraka-Yao, Director, Programme Funding and David Ferreira, Managing Director, Innovative Finance
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Category:	For Decision
Strategic goal:	SG3 - Financing: global predictability/nat'l sustainability

Section A Overview

1 Purpose of the report

- 1.1 This report presents GAVI's long-term funding strategy (LTFS), namely the long-term funding model, capital structure, and the replenishment process. The strategy focuses on the period 2016-20, although the recommendations consider the impact beyond 2020.

2 Recommendations

- 2.1 The Secretariat recommends that the GAVI Alliance Board:
- a) **Approve** GAVI's long-term funding strategy priorities as presented in paragraph 3.4 of Doc 07.

3 Executive Summary

- 3.1 Since the conclusion of the 2011 pledging meeting, implementation of GAVI supported programs has accelerated at an unprecedented pace¹ to meet the agreed targets by 2015. While the GAVI Mid-Term Review (MTR) at the end of 2013 will detail results achieved so far, countries' longer-term requirements to build on and sustain immunisation gains are already emerging for the next period 2016-20 and beyond. With Sub-Saharan Africa, South and East Asia still lagging behind on MDG4 and 5, looking ahead, GAVI plans to demonstrate both that it has cost-effectively achieved a substantial health impact, and what it can achieve over the next replenishment cycle.

¹ See Board Paper on update on programmes, December 2012, Doc 14.

- 3.2 This potential impact will be demonstrated both in terms of GAVI's existing vaccine portfolio through new introductions and increases in coverage, continued support to health systems strengthening and in terms of vaccines that could be added to the portfolio through the new Vaccine Investment Strategy (VIS). These preliminary investment priorities call for continued funding over 2016-20 to meet an estimated annual expenditure plateau in the range of US\$ 1.9 billion. During the 2016-20 period, annual assured resources² stand at US\$ 0.2 billion.
- 3.3 Against this backdrop and in the midst of continued fiscal constraints for traditional donors and evolving aid partnership model involving emerging BRICS and G20 countries, the Alliance's challenge is to develop and implement a long-term funding model that can deliver the predictable, and flexible funding required to meet GAVI's variable resource needs over the long term.
- 3.4 To meet this funding challenge, the Secretariat proposes that the GAVI's LTFS focus on the following priorities:
- a) promoting a collaborative fundraising approach with active donor diversification strategy, expanding engagement of current and new emerging public and private partners, sustaining/growing co-financing from recipient and graduating countries, and seeking market shaping gains;
 - b) building a capital structure with an appropriate balance of short-term and long-term financing instruments-including a predominant share of long-term resources³ and, a target IFFIm replenishment in an initial range of US\$ 1 billion in total contributions over the next IFFIm cycle (5 + years) - to support the business model and to offer current and new public and private donors a choice of diverse instruments (direct funding, IFFIm, Matching Fund, challenge grants, earmarked funds, instruments to support market shaping);
 - c) emphasising core pooled funding as the default/preferred approach for the majority of GAVI's resources while accepting a flexible degree of earmarked funding under defined considerations (See Annex 1);
 - d) carrying out regular replenishment cycles, preferably in line with 5-year strategy and business model needs. A shorter cycle which, while aligning with some donors funding cycles risks jeopardizing's GAVI's ability to meet its financial predictability and market shaping goals.
- 3.5 The Secretariat proposes to implement the LTFS as follows: (i) an initial case will be made towards the end of 2013 following GAVI's, MTR and the adoption of a new VIS; (ii) the full case will be made ahead of the replenishment conference; (iii) a first replenishment meeting will be held

² Assured resources include confirmed direct contributions, IFFIm and AMC proceeds, investment income and drawdown of cash (to the required reserve level).

³ Defined as direct or innovative finance commitments of four or more years in length. During the 2011-15 cycle, approximately 70% of financial resources were long-term.

late 2014 and a final pledging conference early in 2015. Advocacy and communication activities to strengthen political will both in GAVI-eligible and donor countries and communicate the evidence base will be rolled out.

4 Risk implication and mitigation

4.1 See Section C

5 Financial implications: Business plan and budgets

5.1 The impact on budget is addressed in the context of the 2013-14 business plan.

Section B Content

1 Background

1.1 The assessment of the first GAVI's replenishment process⁴ emphasised the need for a more developed LTFS and clear implementation plan. Based on Board guidance in June 2012 and additional consultations, final recommendations and a suggested implementation strategy are presented below.

2 The Investment Case and long-term funding needs

2.1 Over the 2016-20 period, GAVI aims to capitalise on its first successful 15 years and continue supporting countries to maximise impact on children's lives. To help avert approximately 5 million future deaths, GAVI's preliminary funding options summarised in the framework below could cover two broad investment envelopes: (i) expanding the portfolio of currently Board-approved programmes⁵; and (ii) introducing new vaccines⁶ subject to decisions of the GAVI's forthcoming VIS⁷. Both options include continued support to health systems strengthening at the same level as the current cycle. With upcoming country graduations, health systems strengthening support will be even more needed to provide tailored support to the remaining countries particularly the most vulnerable and challenging ones.

2.2 Estimated country demand already highlights the need for continued long-term funding over the 2016-30 expenditure horizon. The expenditure trends remain primarily driven by the timing of vaccine introductions, declining birth cohort, and graduation from GAVI support by select

⁴ See Annex 3 of the June 2012 Board paper on the long-term funding strategy.

⁵ Board approved vaccines include: pentavalent, pneumococcal, rotavirus, meningitis A, HPV, rubella, yellow fever, measles, Japanese encephalitis (JE), typhoid.

⁶ Potential GPEI support options other than IPV are not included in this paper but are covered in the Board paper on new strategy for polio eradication.

⁷ The new Vaccine Investment Strategy (VIS) including roadmaps for new vaccines is expected to be presented to the Board in December 2013.

countries. Estimated expenditures for GAVI's current portfolio (including current vaccines, cash support, and business plan needs) average US\$ 1.65 billion a year for the 2016-20 period and an average of US\$1.4 billion for the period 2021-2030. Potential investment options could require a minimum of US\$ 0.22 billion in additional annual funding for the 2016-20 period, and more than US\$ 0.45 billion in additional annual funding for the 2021-30 period.

Preliminary Strategic Funding Options framework

Support options ⁸	2011-15	2016-20
	Estimated cost to GAVI ⁹ (US\$) and projected health impact	
i) Current portfolio Including penta, pneumo, rota, HPV, MR, JE, typhoid, MeninA, YF	USD\$ 7.8 B (USD \$1.57 B/year) Approx. 4 million future deaths averted	USD \$ 8.3 B (USD \$1.65 B/year) Approx. 5 million future deaths averted
ii) Potential portfolio¹⁰ Illustrated by cholera, IPV, and other potential vaccines - subject to GAVI's VIS	USD\$ 0.2 B (USD \$0.04B / year) Approx. 12,000 future deaths averted ¹¹ + contribution to global polio eradication	USD \$ 1.1 B – USD \$ 1.8 B (>USD \$0.22B / year) Approx. 100,000 future deaths averted + contribution to global polio eradication

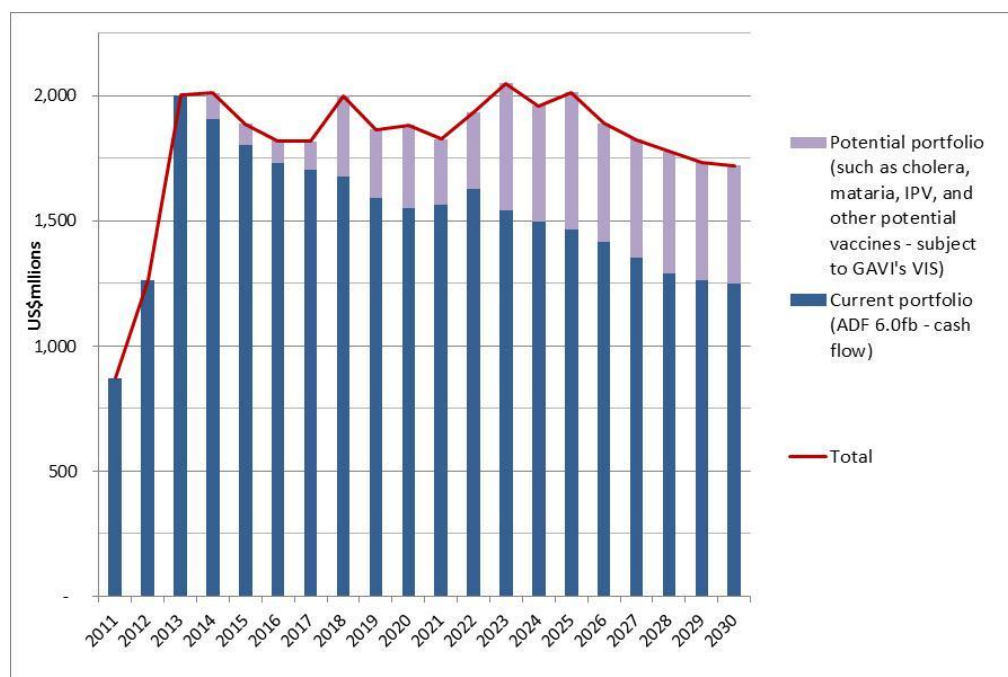
⁸ Cost estimates include 15% cash support investments for all current and potential vaccines.

⁹ Total cost of vaccine paid by GAVI for countries eligible at the time of adoption, under current rules of co-financing.

¹⁰ April 2012 GAVI Board options paper estimates updated for 2016-20 timeframe.

¹¹ Current health impact estimates for cholera relate to the stockpile option presented to the GAVI Board in April 2012. Costs, however, include catch-up campaigns and routine introduction in endemic countries. Thus, current impact figures are very conservative and will be revised to reflect the additional impact from this option.

Long-term funding needs



Note: For the period beyond 2015, a placeholder for malaria vaccine is included in the expenditure forecast. However recent clinical trial results may mean that there may not be a viable vaccine for the period 2016-20.

- 2.3 To meet its strategic goals including predictable financing for countries and market shaping, GAVI needs are three-fold: (i) develop a regular replenishment format; (ii) sustain the collaborative “three legged stool” model; and (iii) build a balanced capital structure¹² that maximizes funding sources and reduces financial inefficiencies, while increasing the long-term predictability of funding streams.

3 The replenishment format

- 3.1 The need for long-term, predictable financing to sustain over time country demand for GAVI support calls for a more predictable replenishment cycle. In considering the length of the replenishment cycle, the Secretariat weighed the following goals: (i) maximising revenue, (ii) ensuring predictability through longer term pledges while also aligning with donors’ funding cycles, considering other replenishment timing, (iii) and supporting country and vaccine manufacturers’ needs. The Secretariat recommends adopting a regular replenishment process, preferably based on 5 year cycle. Such a process would allow the optimal trade-off between maximising revenues, the predictability of funding in line with GAVI’s year business plan cycle, complementing product development cycle and providing visibility to donors’ own funding cycles.

¹² The term “capital structure” used in this paper refers to the distribution of funding instruments in GAVI’s overall resources; more specifically, it refers to the relative share of each instrument in GAVI’s resources. In other words, it is not only the total amount of funding but also how GAVI is financed that creates strategic value.

4 Sustainable collaborative funding model: “the three legged-stool”

- 4.1 A key priority of the LTFS would be to support GAVI’s “three-legged stool” model, defined as a (i) diversified pool of donors; (ii) sustainable co-financing¹³ catalytic and health systems investments from recipient countries; and (iii) active market shaping. Together, these three pillars would support a sustainable “burden share” of GAVI’s long-term financing needs. This section details the initial resource scenarios, as well as suggested strategies and next steps that may be needed from the various stakeholders to reach a sustainable burden share.

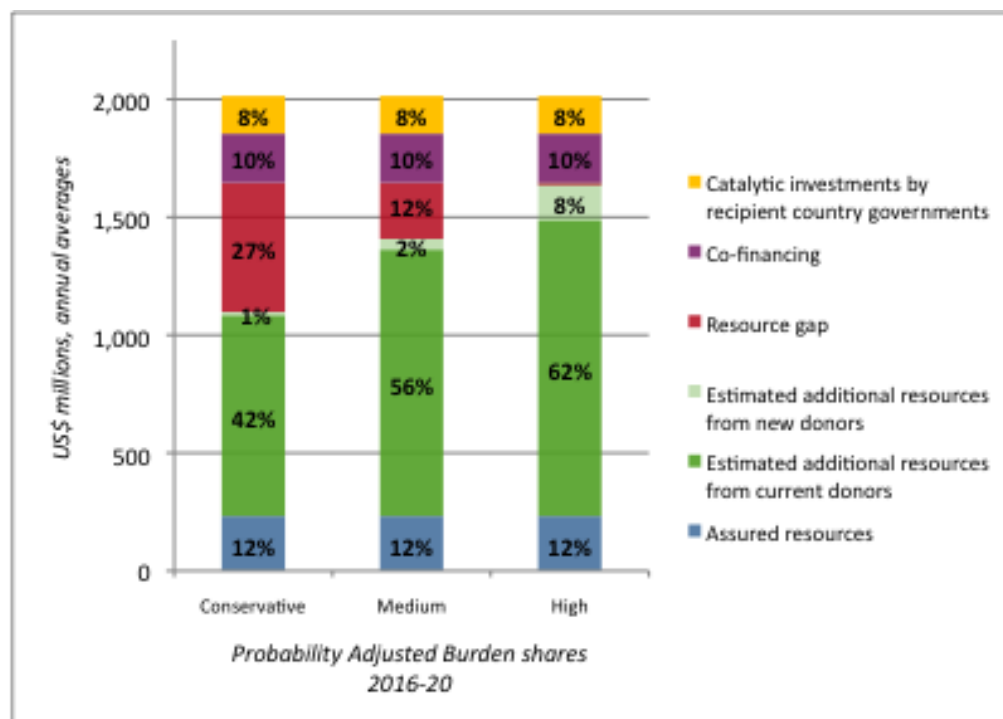
5 Initial resource scenarios

- 5.1 In the context of severe budgetary constraints and low levels of assured resources, sustaining the collaborative model initiated during the first replenishment will be critical. As illustrated in the probability adjusted resource scenarios graph below¹⁴, only under a high scenario example does GAVI predict it could fully finance the current portfolio (US\$ 1.6 billion in annual GAVI financing, not including the cost of potential vaccines and/or GPEI support).
- 5.2 These illustrative scenarios point to the persistent efforts that will be needed from the various stakeholders to fill the gap: continued and broadened support from current donors, a significant ramp up from new donors and sustained co-financing from implementing countries, possibly 18% of the suggested funding model, a significant illustration of the long-term sustainability of GAVI’s model.¹⁵ Contributions from the market shaping pillar are discussed in a subsequent section.

¹³ Under the current GAVI co-financing policy.

¹⁴ Donor-by-donor projection methodology: Conservative scenario includes pledges associated with 80% or greater probabilities. Medium scenario includes pledges associated with 50%-79% probabilities. High scenario includes pledges associated with 30-49% probabilities. Probability adjusted pledges are calculated based on their unique probabilities on an incremental basis. Example: If the conservative projected pledge is \$100 at 100% probability, its probability adjusted amount is $(\$100 \times 100\%) = \100 . If the medium projected pledge is \$200 at 50%, its probability adjusted medium result is $(\$200 - \$100) \times 50\% + \$100 = \$50m + \$100m = \150 .

¹⁵ As per the co-financing policy, these co-financing investments are a defined share of GAVI-financed vaccine costs, and thus indirectly contribute to GAVI’s fundraising effort (they cannot fill a funding gap).



6 Donor diversification

6.1 GAVI is working actively to diversify its concentrated donor base through a two-fold approach:

- Increase and broaden the current donor base:* GAVI aims to shift from a highly concentrated donor base to a broader critical mass of existing donors, doubling the number of large core players. Outreach will be intensified to increase the collective share of five “rising star” donors to approximately one-quarter of the donor base by 2015. Post-2015, GAVI aims to further diversify the funding structure among existing donors.
- Target potential new public and private donors particularly in Asia and the Middle East:* although the majority of potential new, emerging donors have currently relatively smaller potential funding sources than existing donors, GAVI is intensifying its outreach now to secure increased partnership and funding for immunisation from these growing economies in the long term.¹⁶

6.2 GAVI proposes the following additional strategies to achieve the donor diversification objectives for existing and new donors:

¹⁶ In addition to financial resources, new donors could contribute to GAVI through: strategic positioning for the political and economic future including through G20 and BRICS fora; technical assistance; increased vaccine supply from emerging market manufacturers; and advocacy with other new donors.

- a) *Enhance risk mitigation efforts:* GAVI will intensify risk mitigation approaches given the uncertain fiscal environment and political changes by GAVI's next replenishment that could impact donors representing one-third of the funding base. Suggested mitigation approaches include: enhanced policy dialogue with a broader range of stakeholders; consolidated bi-partisan and broad support; and strengthened partnership with civil society and private sector.
- b) *Leverage select donor priorities:* The Secretariat will focus on key donor priorities to sustain their support in GAVI's work: (i) consolidating the reputation for the effectiveness of GAVI's business model and championing achievement of results; (ii) a strong and tailored country focus including exploring synergies between bilateral and multilateral support; (iii) maintained focus on immunisation, health system strengthening and inclusion of gender/reproductive health approaches; and (iv) maintaining health and immunisation within the post 2015 MDG framework as crucial interventions for sustainable development.
- c) *Seek new forms of engagement with emerging public and private donors:* In order to strategically position GAVI within the evolving political and economic context, the Alliance needs to seek new forms of engagement that respond to new donors' interests. In the lead up to the next replenishment, GAVI is exploring engagement opportunities with a pool of new and emerging donors, notably from G20, BRICS countries and the Gulf region. Some partnership approaches being pursued include: (i) engagement with regional development banks for potential financing and advocacy, and to access actors that GAVI alone cannot reach; (ii) partnering with the private sector to leverage their skills in delivering immunisation in GAVI eligible countries; and (iii) engagement of new donors on a packaged value proposition (technical assistance, access to markets).
- d) *Sovereign earmarked funding:* Drawing on the external review of the bilateral sovereign earmarked funding pilot approved by GAVI's Executive Committee (EC) in 2011, to support donor diversification strategies, the Secretariat proposes to continue considering sovereign earmarking proposals on a case by case basis taking into account the principles agreed to by the EC in February 2011: (i) alignment with GAVI-approved programmes; (ii) additionality of support to unrestricted funding from GAVI donors; (iii) negligible transaction costs for the countries; and (iv) manageable transaction costs for the Secretariat and partners. These principles are crucial to maintain the integrity of the GAVI business model and to limit the risk of any negative impact with regards to GAVI's aid effectiveness. Broad earmarks (i.e. multi-country and multi-vaccine earmark) will be preferable as they provide more flexibility in allocation and contingency planning. In addition, the Secretariat could monitor certain operational and risk criteria such as overall and country ceilings until the end of the current cycle and adopt a minimum contribution threshold and exit strategies (see Annex 1 for details).

- e) *Private sector engagement*: With an upcoming 2013 comprehensive private sector strategy, spanning across its various functions, GAVI will examine how to leverage support from private sector entities, in such diverse areas as (i) resource mobilisation and fundraising, (ii) advocacy, and (iii) core business skills, potentially improving GAVI's business model and operations.

7 Co-financing and catalytic investments

- 7.1 The LTFS would rely on recipient countries continuing to provide sustainable co-financing contributions. To clearly communicate the importance and success of contributions by recipient countries, the share of direct co-financing and 'catalytic' investments in immunisation and broadened health systems investments will be communicated alongside donor contributions, as illustrated in the resource scenarios graph.
- 7.2 GAVI's co-financing policy, unique amongst international development agencies, aims to ensure that countries can eventually sustain their immunisation programmes without GAVI support.¹⁷ Despite the impact of the ongoing global financial crisis, GAVI's co-financing policy has demonstrated success. In total, co-payments in 2011 amounted to US\$ 38 million.
- 7.3 As per the co-financing policy, GAVI expects that co-financing payments will significantly increase as countries introduce new vaccines and some countries move closer to graduating from GAVI support.¹⁸ Annual co-financing contributions could be more than six-times the current 2011 level for the 2016-20 period. The post-2015 period will see numerous countries fully graduate¹⁹ from GAVI support and be responsible for paying the full cost of vaccines. These countries post-graduation contributions to immunisation efforts are referred to as 'catalytic investments'.
- 7.4 In terms of quantifying impact, the GAVI Secretariat recommends that the Alliance separately report on the following categories post-2015:

1) Direct impact:	GAVI provides direct support for a vaccine (deaths averted, DALYs, cases averted, cost of illness etc). This includes co-financing.
2) Catalytic impact:	GAVI does not provide direct vaccine cost support, only where it still has a catalytic effect, such as in the following cases: i) Countries that introduced vaccines with GAVI support and continue to finance routine delivery after GAVI support concludes;

¹⁷ For some countries the sustainability aim of the policy is a long-term goal and in the shorter-term the policy aims at increasing country ownership of their immunisation programmes.

¹⁸ As countries near graduation, they are required to pay a greater portion of the vaccine costs.

¹⁹ Currently, 16 countries are graduating from GAVI support. Each year, some countries will start graduating from GAVI support, as their GNI per capita increases beyond the eligibility threshold.

	ii) Graduated countries that use AMC funds and have access to the AMC prices for pneumococcal vaccine²⁰; iii) Graduated countries that have access to prices obtained with GAVI support; and iv) Countries that finance routine delivery of a vaccine on their own after GAVI finances the introduction of the vaccine in the country (e.g., rubella, measles second dose, JE).
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- 7.5 The impact of catalytic support would be quantified for five years only. After the five year period, the catalytic support will be reported separately, in narrative rather than quantitative terms.²¹

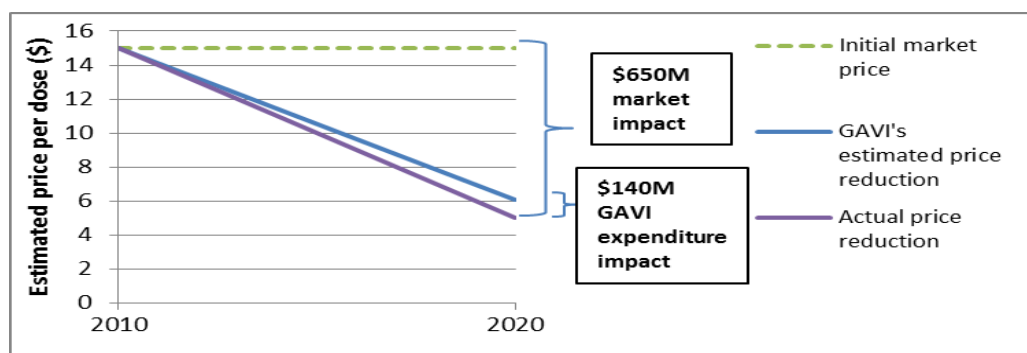
8 Market shaping

- 8.1 The final element to achieving GAVI's mission is developing a healthy vaccine market that provides sufficient supply of high quality, appropriate vaccines at low and sustainable prices. By forecasting and pooling demand from eligible countries and purchasing large amounts of vaccines, the Alliance has created a reliable market for vaccines in developing countries.
- 8.2 GAVI's impact has been evidenced by the changing production base, accelerated price decreases and consistent application of tiered pricing. Price drops of HepB and hib-containing, as well as rotavirus and HPV vaccines illustrate how these dynamics play out, with AMC for pneumococcal vaccines as an example of how innovative financing mechanisms can influence the market.
- 8.3 Any potential new financial instruments in support of market-shaping could be considered only if identified through the roadmaps as part of the supply and procurement strategy for a given vaccine.
- 8.4 Market shaping impacts will be communicated in parallel to donor contributions, country co-financing and catalytic investments. GAVI aims for the highest level of accuracy possible in price forecasting, so price reductions are already built into the expenditure forecast. This results in market shaping gains being an impact on the market or "costs avoided" rather than "savings".

²⁰ All GAVI eligible countries that had a GNI at or below \$1,000 in 2003 will continue to be able to apply for pneumococcal vaccines through GAVI and UNICEF at the terms and conditions of the Advance Market Commitment (AMC). This also applies to graduating countries that in 2011 passed the threshold of \$1,500 GNI (World Bank, 2009) and are therefore no longer eligible to receive financial support from GAVI for new vaccines. These countries will be able to apply for pneumococcal vaccines through the AMC and should note that they will need to fully pay the vaccine co-payment of US\$ 3.50 from the outset. Countries that have not yet applied for pneumococcal vaccines and therefore meet these criteria are: Bhutan, Cuba, Indonesia, Mongolia, Sri Lanka, and Ukraine.

²¹ In line with this proposed definition of direct and catalytic impact, GAVI proposes to calculate the financial value of these 'catalytic' doses purchased by countries using GAVI vaccine prices. Currently, GAVI does not have a system to monitor and track 'catalytic' investments. Should the Board agree with the proposal to include catalytic investment in the funding model, GAVI will explore viable tracking options.

- 8.5 As illustrated in the example below, the rotavirus tender completed in 2011 resulted in a market impact of approximately US\$ 650 million, all but US\$ 140 million of which had already been included in GAVI's expenditure forecast.



9 The capital structure

- 9.1 Alongside implementing a collaborative fundraising model, building a balanced capital structure that maximizes funding sources and reduces financial inefficiencies, while increasing the long-term predictability of funding streams is of critical importance.
- 9.2 GAVI's current (2011-15) capital structure is supporting GAVI's strategic goals. For instance, GAVI's long-term, legally-binding financing instruments, the International Finance Facility for Immunisation (IFFIm) and the Advance Market Commitment (AMC), have helped to attract new donors, lock in legally binding commitments, shape vaccine markets, and support sustainable planning by partner countries. In addition to the AMC and IFFIm commitments, long-term direct support agreements have also been crucial drivers in increasing the predictability of GAVI funding; for the 2011-15 period, donor agreements of four or more years make up more than 80% of donor contributions. The lessons learnt from the impact of current financing mechanisms have informed the qualities GAVI seeks in its post-2015 capital structure.
- 9.3 However, in comparison to the vast funding tools available to a corporation, GAVI has relatively less access to credit and financial markets, restricted cash flow management ability and limited ability to leverage its balance sheet. As a result, fewer children can be immunised because GAVI and similar organisations usually need to retain higher levels of cash balances instead of employing those funds for immunisation.²²
- 9.4 Looking forward, GAVI's post-2015 capital structure requires more long-term, predictable and flexible funding. Innovative finance instruments and long-term direct agreements are key components of a toolkit of

²² GAVI's relatively inflexible balance sheet was recently evident in our experience securing the rotavirus supply agreement. Securing a similar transaction could have been more efficient if GAVI had more funding tools that could leverage its balance sheet.

instruments that may offer the diverse funding that GAVI requires. Yet, without further action, the share of long-term innovative finance instruments is currently expected to decrease from approximately 35% in 2011-15 to 10% in 2016-20.

- 9.5 Therefore, GAVI needs to maintain and grow the long-term, flexible and predictable instruments in its capital structure. The Secretariat proposes to set a priority to mobilise a predominant share of GAVI's total resources through donor commitments of four or more years.

10 Instrument: IFFIm

- 10.1 IFFIm continues to have significant value for GAVI because it fully addresses GAVI's long-term, predictable, flexible funding needs. By 2015, however, the existing IFFIm structure will enter a repayment phase when donor contributions exceed IFFIm proceeds to GAVI. This means IFFIm is operating as intended, but it also means that GAVI will have a declining pool of flexible, long-term capital to fund programmes.
- 10.2 To maintain the required long-term, flexible funding for GAVI's business model, the Alliance will encourage IFFIm eligible donors to contribute through IFFIm in the next GAVI replenishment. The GAVI Secretariat proposes a replenishment of IFFIm as part of the GAVI replenishment because IFFIm continues to be critical to GAVI's sustainability and its importance to GAVI's operating model will be recognised together.
- 10.3 An increased IFFIm can provide distinct benefits to GAVI. Based on minimum levels of business requirements, the GAVI Secretariat in consultation with the IFFIm Board proposes an initial target of approximately US\$ 1 billion for new IFFIm commitments total over many years (5+ years). This is a preliminary figure, which may vary widely above or below this level. Taking the US\$ 1 billion amount over 10 years as a mid-point, of which donor contributions will be US\$ 97 million per year²³, proceeds could equate to US\$ 600 million between 2016-20, a level that would also allow substantial long-term funding beyond 2020.²⁴ Combined with existing IFFIm proceeds, IFFIm could then represent approximately 12-13% of GAVI's funding needs between 2016-20. If approved, the Secretariat will engage in formal consultations with donors to validate this. The Secretariat analysed IFFIm's impact on each of GAVI's strategic goals, including market shaping and financial efficiency, along with the impact on IFFIm, and then determined a level at which benefits are reasonably attained²⁵.

²³ 3% reduction due to Grant Payment Condition.

²⁴ Assuming IFFIm raised US\$ 1 billion over 10 years (US\$ 100 million per year) and fully frontloaded, this would potentially raise US\$ 600 million in 2016-20 and leave approximately US\$ 320 million between 2020 and 2025. Combined with existing pledges, IFFIm would then help relieve the burden of the next replenishment. The distribution of IFFIm proceeds depends on a variety of factors, including the amount of frontloading needed to accelerate programme funding for immunisations, interest costs, the Grant Payment Condition and the Gearing Ratio Limit; this is a simplified model example to be used for illustrative purposes only.

²⁵ See Annex 2 for more information about this analysis.

- 10.4 In addition, to support GAVI's core mandate as approved by the Board, GAVI may explore potential new uses of IFFIm. Some of the areas for application include new strategic uses of proceeds (e.g. polio eradication or a new vaccine) and new investments. On the new investments side, another socially responsible investment campaign targeted towards the retail market is being explored. This could bring benefits similar to the retail advocacy seen in Japan through foreign currency retail ("uridashi") IFFIm bond issuances.

11 Instrument: Long-term direct funding

- 11.1 Long-term direct funding is also a key source of support, particularly where IFFIm is not an option. GAVI will work with its donors to extend the term of these commitments to 5 or 10 year agreements wherever possible. Notably, direct grants will likely continue to form the primary source of GAVI's funding.
- 11.2 At the June 2011 pledging conference, the Bill & Melinda Gates Foundation (BMGF) announced a US\$ 200 million challenge fund to match new and additional 2011-15 pledges by sovereign donors. Looking forward, the renewal of a sovereign challenge fund for the post 2015 period could be instrumental in further incentivising new and current donors.

12 Instrument: GAVI Matching Fund

- 12.1 At the 2011 pledging conference in London, the UK Department for International Development (DFID) and the BMGF committed GBP 50 million and US\$ 50 million to create the GAVI Matching Fund. Designed as a financing and advocacy mechanism to incentivise private sector support and tap business competencies for the GAVI Alliance through a 1 to 1 match by either DFID or BMGF, the GAVI Matching Fund has already attracted a variety of new corporate and foundation donors to the GAVI mission.²⁶
- 12.2 The goals of the GAVI Matching Fund through 2015 are two: firstly, to seek to fully leverage the remaining US\$ 104 million (thereby also building strong partnerships to leverage in 2016-20), and secondly, to develop a 2016-20 strategy, strongly aligned with GAVI's broader resource mobilisation plans.
- 12.3 At this stage, it is already possible to identify several key principles of the 2016-2020 strategy:

²⁶ To date, partnerships with Anglo American, Absolute Return for Kids, 'la Caixa', JP Morgan, Comic Relief, Children's Investment Fund Foundation and LDS Charities have been established, raising US\$ 26 million (US\$ 52 million with the match) for GAVI's programmes. Moreover, partners have helped increase visibility in both the corporate and public sector, by deploying corporate champions and advocacy campaigns. La Caixa's work through its business alliance, the current in-flight videos about vaccination on all British Airways flights and Comic Relief's 2012 Sport Relief broadcast, which raised money from its 6.7 million viewers in the United Kingdom, are examples.

- a) Renew the Matching Fund at US\$ 130 million, with the support of DFID and BMGF along with other potential backers;
- b) Grow existing and new partners, in order to increase participation in the fund by at least 25%;
- c) Explore new financing mechanisms in growth regions and potentially design regional matching funds (e.g. Middle East, Asia); and
- d) Leverage world class business expertise to strengthen immunisation delivery programmes, tackle operational challenges such as data collection and supply chain management and increase visibility and advocacy.

13 Instrument: AMC

- 13.1 The pilot AMC for pneumococcal vaccine is an important component of the current capital structure, delivering pay-on-results financing through long-term legally binding donor commitments totalling US\$ 1.5 billion and making markets for vaccines. While the mechanism is not open to new donor contributions, some donors have shown interest in a second AMC. Results of a design and process evaluation of the AMC expected in December 2012 will help draw lessons for potential future mechanisms. (See section 13 of this paper).

14 New financial instruments

- 14.1 GAVI should continue to pursue innovative uses of its balance sheet to increase purchasing capacity and optimise flexible cash utilisation. One way to optimise GAVI's cash reserve is to secure guarantee-like products that could free a corresponding amount of cash for programmes. For example, the Backstop Facility could release a one-time amount of US\$ 300 million for use in the period it is implemented.²⁷ GAVI is also working on a small pipeline of potential new products that are attuned to both donors' and GAVI's needs, such as partnerships in the asset management industry, and a results-based debt buy-down instrument. These are, however, in the early development stage.

15 Advocacy priorities

- 15.1 Building public and political support for immunisation and GAVI and answering convincingly the question 'why invest in the GAVI Alliance?' will be critical to successful resource mobilisation. Going forward, GAVI needs to expand networks of supportive advocates while building and promoting the evidence base for the value of vaccines, the results achieved, and the opportunities ahead. To this end, GAVI seeks to strengthen the following priorities:

²⁷ This mechanism was proposed to the Audit & Finance Committee last year. Its funding level could be increased, although it is limited by the size of GAVI's balance sheet and therefore not fully scalable.

- a) Scale up efforts to position GAVI's market-oriented business model as a '21st century approach to effective and sustainable aid'. To this end, GAVI will continue to monitor and respond to rising donor and developing country policy concerns on aid effectiveness, including such issues as transparency and sustainability, identifying potential improvements to our approach and opportunities to share our experience;
- b) Consolidate advocacy partnerships focusing on shared concerns such as aid effectiveness, promoting health in the post-2015 development framework, in-country equity, new child survival initiatives;
- c) Influence the new development agendas of the emerging power centres in forums such as the G20 and BRICS;²⁸
- d) Continue to align the campaign plans and timelines of supportive advocates with GAVI's resource mobilisation schedule, through intensified consultation with advocacy partners;
- e) Foster new networks of developing country advocates and supporting their activism on public policy issues in close collaboration with partners;
- f) Sustain and grow collaborative efforts with powerful cancer and women's health advocates and with faith based organizations; and
- g) Develop and implement new evidence-based advocacy tools such as convening expert economists and development specialists to elaborate the current knowledge base and set a framework and research agenda for the broader economic impact of vaccines.

15.2 Over the next two years, advocacy efforts will increasingly be focused on priority donor markets, emerging countries and implementing countries. Close monitoring of new vaccine development and new approaches to achieving immunisation targets (e.g. polio eradication) will inform new advocacy approaches. New GAVI policy and programme developments, such as a new VIS, improvements to vaccine supply chains and a new post-2015 GAVI strategy and business plan will be important in building the confidence of existing and new public and private donors.

16 Communication priorities

16.1 Leveraging its reputation for credibility, effectiveness, and impact among expert stakeholders and decision-makers, the focus of the Secretariat's communications work continues to be on demonstrating the results and impact of GAVI's investments in countries. A key goal is to ensure that the voice of the GAVI Alliance is heard in an increasing range of fora, with a broader engagement around economic development as well as strictly health issues. To this end, the Secretariat will implement the following strategies:

²⁸ This is recognised as a resource-heavy lift and success will depend on alliances with extended networks of supportive advocates.

- a) Continued investment in media support for GAVI Alliance partners and donors to promote the value of investing in immunisation to their stakeholders. There is growing interest in developing media partnerships to showcase the impact of immunisation and GAVI's investments in countries;
- b) Develop and implement a platform for increased presence in social media through extensive collaboration between the GAVI Alliance and its advocacy partners;
- c) Strengthen GAVI's brand and reputation in order to better leverage GAVI's assets, expand supportive constituencies and enhance visibility; and
- d) Continue efforts to protect the reputation of the GAVI Alliance, including by preparing for and mitigating potential reputational risks.

17 Next steps to implementation

- 17.1 The Secretariat proposes to implement the LTFS as follows: (i) an initial case will be made towards the end of 2013 following GAVI's mid term review (MTR) and the adoption of a new vaccine investment strategy (VIS); (ii) the full case will be made ahead of the replenishment conference; (iii) a first replenishment meeting will be held late 2014 and a final pledging conference early in 2015. Advocacy and communication activities to strengthen political will, both in GAVI eligible and donor countries, and communicate the evidence base will be rolled out.
- 17.2 In the short-term, the host, time and venue for the MTR will be announced at the GAVI Board meeting in Tanzania. The MTR is foreseen to be an accountability meeting where GAVI stakeholders take stock of progress since the London pledging conference and discuss how to meet challenges in reaching the Alliance's targets for 2015. Following the MTR, a high-level political meeting will take place on the benefits of investing in health where the findings of the MTR can be presented and discussed.
- 17.3 The MTR will also provide donors with an opportunity to renew commitments, and allow emerging donors to signal interest in joining the Alliance as donors. As the first step towards the second replenishment, the MTR will also set the stage for a broader understanding from partners and donors for the need to examine sustainable funding through 2030.

Section C Implications

1 Risk Implications

- 1.1 Donors: Given the current economic climate, there is a significant risk that some donors may not be able to continue or increase their investments to the GAVI Alliance. To mitigate this risk, GAVI is strengthening its donor outreach efforts (see section B) and is actively seeking to engage new donors.

- 1.2 Capital structure: A risk to channelling a large amount of funding through IFFIm is that substantial ratings downgrade of IFFIm may trigger the suspension of IFFIm funding to GAVI. The IFFIm board is proactively working with donors to make this trigger more flexible. Another risk is that the process required to complete the legally binding agreements typically takes longer than formalising a direct commitment particularly from a new IFFIm donor. To mitigate this risk, sufficient time will need to be built in for the negotiation of IFFIm commitments ahead of 2016.
- 1.3 Sovereign earmarked funding: GAVI risks limiting its ability to fully and equitably implement its strategy and priorities. In order to mitigate this risk, GAVI should monitor annually the relative share of earmarked resources and annually report to the Executive Committee on the trend and perceived impact on GAVI's strategy and business model.
- 1.4 Co-financing by countries: With a six-fold increase to the current 2011 co-financing level for the 2016-20 period, GAVI will continue to work with countries to see that these payments are contributed on a timely basis. Moreover, GAVI is scheduled to review its co-financing policy in 2014 and will present recommendations to the Board after that time. The Secretariat will continue to undertake fiscal space analysis in partnership with countries to better understand the financial risks, and options to mitigate them.

2 Impact on Secretariat

- 2.1 See 2013 and 2014 business plan.

3 Legal and governance implications

- 3.1 The Secretariat will manage any legal and governance implications associated with LTFS implementation, in particular with regard to requirements of new products and new donors.

4 Consultation

- 4.1 See paragraphs 20- 22

5 Gender implications

- 5.1 The LTFS has no specific direct implications on gender.

Section D Annexes

Annex 1: Sovereign earmarked funding

- 1.1 In assessing sovereign earmarked funding requests, the following operational criteria will be used:
- a) Overall ceiling: While strictly enforcing an overall ceiling for earmarked resources as a share of GAVI's total resources may constrain GAVI's access to additional funds and potential donors, the share of GAVI's resources that are earmarked annually will be monitored and reported to the EC once certain thresholds are met.
 - b) Country ceiling: To minimize donor and recipient country risks, the monitoring and reporting on country ceiling²⁹ will take place when earmarking will represent a significant share of GAVI's resources.
 - c) Minimum contribution: A minimum threshold for earmarked contributions from a given donor in the range of US\$4 million per year is critical to ensure the benefits of additional funds justify any additional costs. Careful consideration should be given to the expected additional transaction costs before making a final decision: if these costs are minimal, exceptions could be granted.
 - d) "Exit strategy": An aspirational strategy would be to offer donors a transition phase during which GAVI would accept earmarks but collaborate with the donor to reduce over time the stringency of the earmark and increase the scope of funding to a higher number of countries, and eventually become unrestricted.

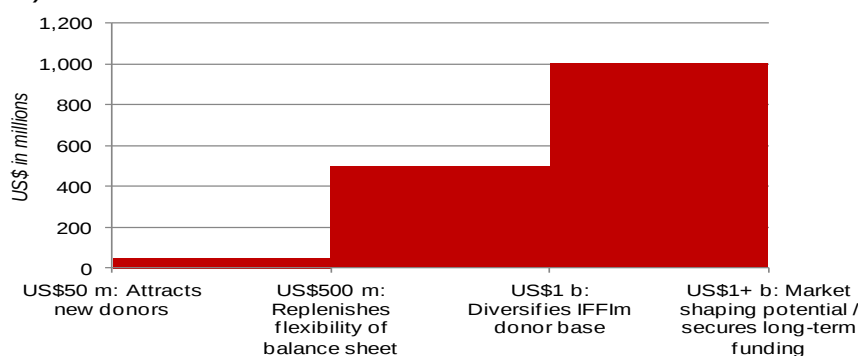
Annex 2: IFFIm

- 2.1 IFFIm continues to have significant value for GAVI because it fully addresses GAVI's long-term, predictable, flexible funding needs.
- a) Long-term: Donors to IFFIm have found sufficient comfort in the IFFIm structure to make commitments of 20 years or more, a much longer period than typically is found in multi-year donor grant agreements.
 - b) Predictable: As of IFFIm long-term, legally-binding commitments, IFFIm can accelerate the development of a vaccine market. This is evident in the case IFFIm's role funding the pentavalent vaccine. The fact that commitments to IFFIm are legally binding is key in this regard.
 - c) Flexible: IFFIm is GAVI's main mechanism for efficiently managing its balance sheet and cash flow. IFFIm allows GAVI to match cash inflows with required cash outflows without interfering with GAVI's investment portfolio. Unlike direct donor contributions, IFFIm can decouple the timing of donor inflows from that of health investments. With IFFIm, GAVI can choose to fully frontload IFFIm resources over a shorter period of time, or opt for a smaller but more consistent drawdown over a longer term while still maintaining the option to frontload where needed.

²⁹ I.e. earmarked resources originating from a single donor as a share of the size of a country programme.

- 2.2 Since its launch in 2006, IFFIm has helped GAVI nearly double funding to programmes by frontloading donor contributions. By 2015, however, the existing IFFIm structure will enter a repayment phase when donor contributions exceed IFFIm proceeds to GAVI. This means IFFIm is operating as intended, but it also means that GAVI will have a dwindling pool of flexible, long-term capital to fund programmes.
- 2.3 For sizing the next IFFIm replenishment, the Secretariat estimates levels by which IFFIm contributions over 10 to 20 years would need to be increased to trigger material benefits:
- Replenishes flexibility of balance sheet (Minimum US\$ 500 million to US\$ 1 billion):* IFFIm is GAVI's main mechanism for efficiently managing its balance sheet and cash flow; IFFIm allows GAVI to meet its resource needs with the exact funding when GAVI countries need it. An IFFIm replenishment of US\$1 billion over 10 to 20 years could double IFFIm's forecasted proceeds to GAVI in 2016-20 and enhance operational cash flow flexibility.
 - Diversifies IFFIm (Minimum US\$ 500 million to US\$1 billion):* Bringing additional funds into IFFIm from multiple sources will help manage donor concentration risks and other IFFIm risk management issues.
 - Market shaping potential:* Given that vaccine manufacturers value multi-year commitments for predictability of funding, IFFIm's long-term, legally-binding agreements help create the conducive financial environment for the development and shaping of the market. As per the evaluation of IFFIm, IFFIm has had an important role to fund the pentavalent market".³⁰
 - Attracts new donors (Minimum US\$ 50 million):* At this level, GAVI continues to provide IFFIm as an option to attract new donors. IFFIm's long-term pledges are particularly desirable to new donors with smaller short-term budgets, but seeking to make a health and political impact today.

Figure 1: Tiered benefits of sizing IFFIm replenishment (US\$ in millions over 10-20 year period)



³⁰ "It is clear that IFFIm funding changed the pentavalent market size substantially and it is no coincidence that supply dynamics changed alongside. ...IFFIm strengthened the signal and gave additional confidence to countries to take up the vaccine and to producers to invest." (Evaluation of IFFIm by HLSP, June 2011.)