Citi Banking, Capital Markets & Advisory:
Global Public Sector Group

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Doc 08 - Annex D

# Gavi

## COVAX Facility Risk Framework

**November 25, 2020**

# Overarching Risk Management Framework



Citi has developed a framework to assess risks. Contract risk is the foundational layer; Citi and Gavi have prioritized 12 contract risk factors which are receiving ongoing consideration.

## Approach to Contract Risks with Participants

**Sovereign Credit Risk**

1. Committed SFPs Balancing Payments from weaker rated sovereigns (High Risk Factor)
2. Optional SFPs lack of Financial Guarantee (High Risk Factor)
3. Contingent Guarantee too small or inadequate (High Risk Factor)
4. Novation of T&C with manufacturers (Medium Risk Factor)

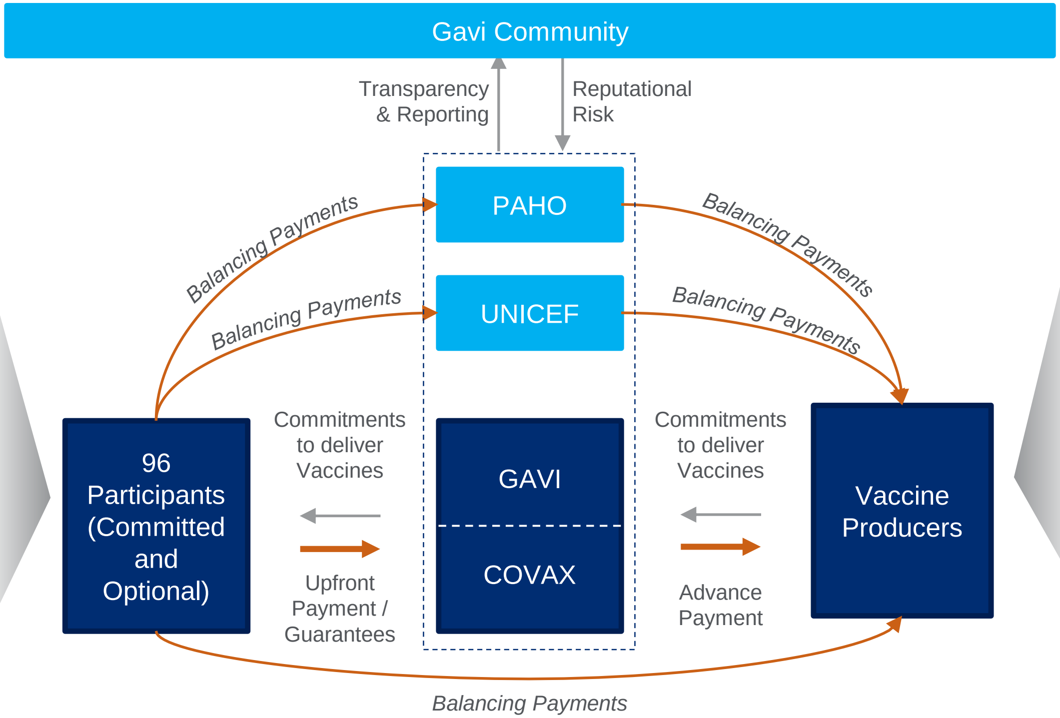
5a. Potential for long vaccine position due to mismatch between Windows 1 & 2 (Highest Risk Factor)

5b. Potential for long vaccine position due to over ordering (High Risk Factor)

6. Sovereign Immunity and Governing Law (Moderate Risk Factor)

7. Liquidity Risk (Medium Risk)

- **Contract Risk:** Contracts with suppliers and participants form the foundational layer of risk. It is the first and primary decision layer for Gavi, to either absorb risk or push risk to participants and/or suppliers
- **Long Vaccine Risk:** Understanding Gavi's risk from the perspective of supply and demand, efficacy and price issues is fundamental. This risk is unlikely to be absorbed by banks or MDBs
- **Sovereign Credit Risk:** Gavi must understand, quantify and consider mitigation strategies for sovereign credit risk, particularly for sovereigns below Single A credit rating
- **Operational Risk**: Gavi should have best practice operational risk mitigation strategies for three functional areas including Treasury Operations, Accounting Services and Banking Services
- **Overarching Risk Management Framework:** Gavi should have an operational cash flow model which can inform management in its contractual negotiations, risk mitigation strategies, and the availability of its cash flow position to act as a residual risk absorption layer




## Approach to Contract Risks w/ Manufacturers

8. Potential Oversupply/ Herd Immunity Risk (High Risk Factor)
9. Manufacturer Credit Risk (Moderate Risk Factor)
10. Potential Reselling Risk (High Risk Factor)
11. Deposit/manufacturer performance Risk (Moderate Risk Factor)
12. Liability Risk (Moderate Risk Factor to GAVI)

# Gavi-Citi Risk Priorities



**Time Sensitive:**

- Citi to prioritize all steps necessary to assess risk related to the first manufacturer contract
- Citi is urgently working to understand Gavi and McKinsey models. Citi is updating the models to reflect the information provided to us thus far, and will work with Gavi to ensure that their operational cash flow model is dynamic and fulsome and will stress test it once it is completed.
- Build complex financial/risk analysis capacity within Gavi
- Based on Gavi's understanding of manufacturer negotiated positions, enhanced by feedback provided through Citi, Gavi and Citi will develop a timeline for how and when critical decisions along our agreed upon contractual decision tree will be made
- Given the heavy reliance on MIGA for sovereign credit risk mitigation, urgently agree upon the contractual perfection necessary with participants satisfactory to MIGA to enable Non-Honoring cover while exploring applicability of breach of contract cover in parallel. For example, in the optional purchase agreement, participants that do not opt-out during Window 2 are not required to provide a Financial Guarantee, but would then require sovereign risk mitigation in the form of Non-Honoring
- Gavi will seek to decide upon the potential requirement for accelerating Window 2 such that SFPs either go final (preferred) or do not opt-out (if final not viable). Sign FOCs for participants that have not opted out or mirror optionality

**Challenges:**

- Long vaccine risk is not a commercial risk efficiently mitigated by the market or the MDBs, therefore it must either be mitigated through contract negotiation or through a Gavi risk absorption layer that is carefully managed by a management and governance structure
- If each manufacturer is able to negotiate how much Balancing Payment and sovereign credit risk it will absorb over time, it is unclear how Gavi would mitigate the remaining sovereign credit risk

## Assumptions

- Gavi must solve for sovereign credit risk that is not taken by manufacturers through Balancing Payment clauses
- Gavi must tightly choreograph the sequencing between Firm Order Commitments with manufacturers, committed APAs, and risk mitigation measures
- Gavi's projected and stress-tested cash flows will support some amount of risk absorption, and ideally the full potential [5]% amount of loss absorption necessary to satisfy MIGA and / or similar MDBs
- Gavi must incorporate price risk into the manufacturer's contract; payments to the manufacturer should be based on a price cap and/or on a price/dose determined by the ultimate recipient of the vaccine rather than the recipient originally intended

## Variables

- Manufacturers have little to no propensity to take sovereign credit risk, however there will be consultation as to which Single A or better risk they may take
- Acceptance of "mirrored" optionality will vary by manufacturer agreement
- Since manufacturer contracts are being negotiated over time, only Gavi understands its Balancing Payment and therefore Sovereign Risk as each contract is completed
- Additionally, since optional participants can opt out at each window for each manufacturer, the Balancing Payment and Sovereign Risk change over time
- Is the $0.40 cost of the optional model sufficient to cover the risk of a high opt-out, high optionality situation?

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