

Annex A: Gavi's Day Zero Pandemic Financing Facility for Vaccines

Overview

As the global community advances discussions to define an ecosystem to enhance equitable access to medical countermeasures (MCM) during health emergencies, the issue of financing remains unresolved. It is also important to note that not all financing has the same requirements. It is particularly complicated in the context of vaccines, which require heavy up-front, at-risk investments at the onset of a crisis.

The Secretariat is exploring options to solve this problem by leveraging Gavi's existing suite of innovative financing tools to create a *Day Zero Pandemic Financing Facility for Vaccines*. This could potentially see US\$ 2 billion rapidly mobilised as additional surge and contingent financing at the onset of a global pandemic. Building on Gavi's 20 years of experience in innovative financing, our core proposition is to leverage the systems already built to support COVAX AMC, to avoid the need for new complex structures or bodies to provide this surge funding capacity.

Pre-agreed considerations, such as a WHO declaration of a Public Health Emergency of International Concern as well as geographic scope of concern and Gavi Board processes, are examples of what would be considered in an expedited process to realise liquid resources. While the total cost of a global vaccine response would likely require much more than US\$ 2 billion, based on the COVAX experience a figure of approximately US\$ 2 billion is an initial needs estimate for early deals and preparation for equitable delivery. This funding could enable Gavi to enter into advance purchase agreements on a competitive timeline while we define a more complete picture of expected funding needs spanning vaccine procurement and delivery- buying time to mobilize resources for a comprehensive response.

The Day Zero facility would comprise multiple financing windows and contingent arrangements that offer donors different ways to contribute – and could limit the impact of commitments on national balance sheets until they are activated.

Our proposed approach includes:

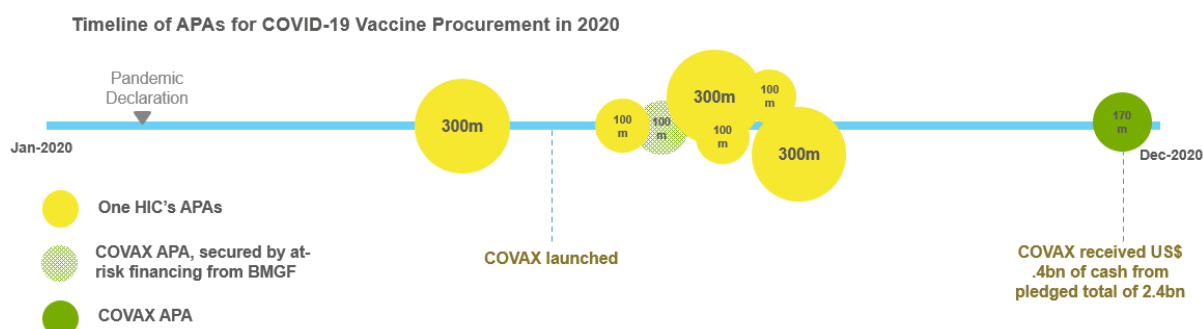
- Contingent financing – funding that is only unlocked once certain predefined events occur. An example of a tool being developed to provide rapid access to contingent donor financing in this way is the IFFIm Contingent Financing Mechanism.
- Surge funding includes two types of tools:
 - Standby funds that can be deployed immediately (e.g. a future iteration of a Pandemic Vaccine Pool).
 - Frontloading tools that accelerate the availability of funds once new pledges or grants are made. Funding through frontloading tools would typically take longer to become available than contingent financing but be faster than a traditional new grant agreement. Examples of these types of tools are the European Investment Bank frontloading facility and the US Development Finance

Corporation Rapid Financing Facility, both of which were originally developed for the COVID-19 response.

These could enable the global community to fund initial steps at the onset of a crisis.

The challenges of emergency vaccine financing

While COVAX has delivered more than 1.7 billion COVID-19 vaccines to lower income countries, during much of 2021 vaccine supply (as well as sufficient delivery financing bundled with supply) was scarce and these countries did not receive vaccine doses at the scale needed. An IMF study found that a key driver of vaccine inequity in lower income countries has been their lack of capacity to provide the upfront funding that vaccine manufacturers require for advanced purchase agreements (APAs).¹ This was also true in the case of COVAX: while it received pledges of US\$ 2.4 billion in 2020, due to budget cycles and grant negotiation timelines it took time to receive the cash, and by December 2020 only US\$ 0.4 billion of that funding was paid-in. As a result, COVAX was only able to contract its first APA with at-risk funding provided by BMGF and of limited volume (figure below).² Meanwhile, high-income countries entered into APAs as early as May 2020, which helped them secure supply faster and in larger quantities than COVAX, as well as assemble a diversified portfolio to mitigate supply risk.



Given the high up-front, at-risk costs of vaccine production, and the fact that producing vaccines for lower income markets may not be a priority for manufacturers, successful pandemic financing must be able to advance sufficient resources at the onset of an emergency to commit to vaccine deals.³ Current global instruments do not offer funding that is rapidly available and capable of assuming the risk of regulatory uncertainty or manufacturer non-delivery. This financing gap hinders rapid scale-up, with manufacturers bound by their commercial responsibilities. As noted by external reviews, this is in part because multilateral

¹ Agarwal, Ruchir; and Reed, Tristan. "Finance Vaccine Equity: Funding for day-zero of the next pandemic." IMF Working Papers (2022)

² The figure displays the number of secured doses and timing of the APAs entered into by the US with vaccine manufacturers in 2020, based on publicly available information. It may not cover every APA made during the given period.

³ Funding in circumstances, in which regulatory approval is not yet secured, and/or manufacturer delivery dates and volumes not guaranteed, is often referred to as "at-risk"

organisations are often restricted from providing the financing for critical yet uncertain investments.⁴

Contingent and surge financing tools present the best option to provide expedited access to funding in an emergency to allow lower income countries to reserve vaccines and vaccine capacity in the same timeframe as higher income countries. Early financing can also be deployed to prepare delivery capacity to enhance equity and protect core health systems (including Routine Immunisation) from additional demands.

By way of contrast, having a reserve fund – cash provided upfront that sits idle in a fund, potentially for many years – requires a high degree of political will and patience to remain untouched until needed for this purpose. Contingent and surge financing can supplement reserve funds, making more efficient use of contributor resources, albeit with some administration overheads.

Overview of Gavi's surge and contingent financing tools

Innovative finance has been a core component of Gavi's model since its founding. Over the course of its 20+ year history, the Alliance has successfully developed several tools that have helped deliver critical vaccines in emergencies, prevent wider outbreaks, and manage cash flows to maximise routine immunisation programmes.

Through its current financing mechanisms, Gavi has the ability to support new surge and contingent financing possibilities for vaccines as part of a wider MCM strategy – both through leveraging its existing tools as well as extending them to improve their ability to respond in a future crisis.

Gavi's surge and contingent financing tools include:

- **The International Finance Facility for Immunisation (IFFIm) allows donors to make upfront pledges but pay through annual instalments that can be scheduled over years or even decades.** Once legally binding agreements are signed, IFFIm turns these multi-year obligations to pay grants into immediate cash for Gavi by issuing vaccine bonds on international capital markets. EU donors also benefit from a budgetary ruling that allows them to record each year's commitment as government expenditure in the year it is paid – this accounting treatment is of critical importance for many IFFIm donors.

IFFIm has also been used to respond to emergency situations. So far in the COVID-19 pandemic, over US\$ 1.1 billion in new grants have been signed for IFFIm to leverage funds to deploy against the pandemic.

In 2014, Gavi stepped up to address the Ebola crisis. IFFIm's ability to provide funding at scale gave Gavi latitude to quickly make a previously unbudgeted commitment of US\$ 300 million to support a broad Ebola response, including procuring millions of doses of a safe, effective Ebola vaccine if one was to be

⁴ Shanmugaratnam, Tharman; Lawrence Summers; Okonjo-Iweala, Ngozi. "Rethinking multilateralism for a pandemic era." IMF Finance & Development (2021)

licensed. This helped signal a new market for the vaccine, encouraging health organizations and manufacturers to invest in the accelerated development of candidate vaccines and begin advanced trials. Thanks to an advance purchase agreement backed by Gavi's resources, a stockpile of 300,000 investigational doses was available to combat Ebola outbreaks in the DRC during 2018 and 2019, protecting more than 206,000 people against the disease. In November 2019, the vaccine manufactured by Merck received regulatory approval and was prequalified by WHO. At its December meeting, the Gavi Board approved the creation of a global emergency stockpile of Ebola vaccines, with an estimated investment of US\$ 178 million through 2025.

A new IFFIm Contingent Financing Mechanism (IFFIm CFM) currently being explored, would build on classic IFFIm to provide rapid financing for pandemic response. Under the IFFIm CFM, donors would sign contingent grants to be utilised solely in case there is a future pandemic for which Gavi and donors agree that Gavi has a role to play in response. Upon activation of these grants, Gavi would have secured resources to fund negotiation of vaccine APAs and other pandemic response activities.

- **An extended partnership with the European Investment Bank will accelerate access to liquidity from both traditional and contingent signed grants for Gavi programs.** The European Investment Bank frontloading partnership was originally created to provide a rapid response for Team Europe's desire to finance the pandemic response in the early stages of 2020, whereby the EIB provided Gavi with EUR 600M against future donor grant agreements. Building on the experience of the pandemic, Gavi and the EIB have designed the new facility to be available based on signed and active grant agreements, which can include multi-year contingent grants that have been activated after a pre-agreed trigger event has occurred, providing all donors with the capacity to contribute rapidly to an emergency in times of need.
- **The US Development Finance Corporation Rapid Financing Facility further accelerates access to liquidity for COVID-19 response by unlocking capital on the back of a public pledge.** Gavi and DFC launched a new US\$ 1 billion frontloading facility in 2022 that enables donor pledges to be monetized in an emergency by not requiring the formal legal paperwork to first be signed with a donor before use. The DFC facility is unique in the global health landscape in enabling surge financing to be mobilized within weeks of a public donor announcement. At present, the Gavi-DFC partnership provides the COVAX AMC with liquidity in this way, but we are in discussions to extend this use of proceeds to Gavi's routine immunization programmes, and potentially future global health emergencies.

Options for donor engagement and further discussion

Each donor has unique capacities and limitations in its funding rules and therefore may need to look at specific approaches. For example, while IFFIm offers a sophisticated and efficient financing model, not all donors and sovereign governments

can make the multi-year legally binding commitments required to invest in IFFIm. However, subject to determination by Gavi and IFFIm's Treasury Manager (IBRD) there *may* be some scope for very limited flexibility, provided it does not materially adversely impact IFFIm's credit ratings or the basis on which existing investors have bought bonds and can be accommodated within risk disclosures in bond documentation provided to potential investors.

As other donors consider their capacity to support and champion surge or contingent financing tools for future pandemics, some additional options for discussion include:

- Extending development finance instruments to cover Gavi's wider vaccine purchases, potentially including future global health emergencies
- Exploring creating or supporting a guarantee facility that is activated during pandemics, enabling Gavi to quickly negotiate APAs with manufacturers
- Advocating for broader utilization of existing facilities: IFFIm, DFC, and EIB

The vision going forward

While leveraging contingent and surge financing tools for future pandemics requires political leadership and will, the payoff is well worth the effort: having the necessary funding up front is the difference between potentially millions of lives saved versus lives lost; millions of dollars in disease treatment and programs versus health that is protected through prevention; and the cost of prolonged pandemic restrictions versus the savings of early containment. We will not know what the next pandemic has in store – but in all but one PHEIC (Zika) over the course of the last 25 years, vaccines have played a central role in the response. In some cases, early vaccine investment is the difference between a pandemic and a limited outbreak. With future pandemics an evolutionary certainty, now is the time to ensure we are prepared to act quickly to vaccinate the world in the next emergency.