



Report to the GAVI Alliance Board

12-13 June 2012

Subject:	IFFIm/GFA restructuring
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Agenda item:	20
Category:	For Decision
Strategic goal:	Alliance operations

Section A: Overview

1. Purpose of the report

- 1.1 This report updates the GAVI Alliance Board on progress made since the report presented to the Board at its meeting in November 2011 on the removal of the GAVI Fund Affiliate (“**GFA**”) from the IFFIm structure and sets out a recommendation for the Board in relation to GAVI undertaking to perform GFA’s major responsibility under the IFFIm Agreements.¹

2. Recommendations

- 2.1 The GAVI Board is requested to:
- (a) **Approve** GAVI entering into any new grant agreements with the IFFIm donors once the Finance Framework Agreement (“**FFA**”) is amended to remove the GFA from the IFFIm structure; and
 - (b) **Approve** the immediate assignment to the IFFIm Company of any new grant agreements entered into between GAVI and the IFFIm donors.

3. Executive summary

- 3.1 The Secretariat presented at the GAVI Board meeting in November 2011 its initial analysis on the proposal to remove GFA from the IFFIm structure. That work is now complete and it is confirmed that there are no legal, tax or accounting impediments to removing GFA. In addition, we have consulted with most of the donors to IFFIm and they have expressed support for this change. Once GFA is removed from the IFFIm structure, the donors have expressed a preference that GFA’s major responsibility of entering into grant agreements with IFFIm donors should be assigned to GAVI (rather than to IFFIm directly)

¹ The IFFIm Agreements includes, among others, the Finance Framework Agreement, Procedures Memorandum and the Master Definitions Agreement.

in order to retain separation between the IFFIm Company and IFFIm donors. The proposed amendment will reduce the IFFIm structure from four entities in 2006 when it was established to two and will generate up to US\$ 1.4 million a year in savings.

- 3.2 The GAVI Alliance is registered as a public charity in the US and must continue to meet the requirements of a US public charity, including receiving a certain amount of its income from public sources as defined by the US Internal Revenue Service. The analysis undertaken on the impact to GAVI's public charity status confirms that GAVI's status would not be impacted negatively by removing GFA.

4. Context

GAVI to enter into future grant agreements with IFFIm Donors

- 4.1 IFFIm donors wishing to make additional grants or new donors to IFFIm currently would enter into a grant agreement with GFA. In turn, GFA, pursuant to its programme funding policy and requirements of the FFA, immediately assigns these grants to the IFFIm Company. IFFIm raises funds in the international capital markets based on the value of the pledges and transfers these funds to approved GAVI programmes.
- 4.2 Once GFA is removed from the IFFIm structure, future grants to IFFIm, subject to Board approval, will be made by way of a grant agreement between the donor and the GAVI Alliance. IFFIm donors have expressed a preference for future grant agreements to be entered into with GAVI because this clearly retains the independence and separation between the IFFIm Company and the IFFIm donors. It should be noted that, with regard to all grant agreements previously entered into between IFFIm donors and GFA, all rights under those grant agreements have already been assigned entirely to IFFIm. Removing GFA will not in any way affect those agreements.

Public Support Analysis

- 4.3 The GAVI Alliance is recognised as a public charity in the US and therefore must demonstrate (based on a methodology specified by the US Internal Revenue Service) that it receives at least one-third of its total support from governmental units and/or the general public. If it can not meet the one-third threshold, it may still qualify as a public charity if it can demonstrate that ten percent of its funds are derived from governmental units and/or the general public and it passes a facts and circumstance test.
- 4.4 The Secretariat developed various scenarios demonstrating how different tax positions impact GAVI's public support analysis. For each scenario the Secretariat prepared a financial forecast to assess compliance with the abovementioned public support tests. Scenarios were developed in which foreign pledges are considered public support (which is GAVI's current tax position) and also in which foreign pledges are not considered public support

(which is a more conservative tax position). See Table 1 in Annex 1 for descriptions of the various scenarios and a summary of the results.

- 4.5 The removal of GFA makes virtually no difference to the calculation of GAVI's public support numbers. GAVI must manage its public support with or without GFA in place. By managing the timing of GAVI's incoming grants, the Secretariat will be able monitor its public support analysis so as not to jeopardise its status as a public charity. Table 2 in Annex 1 provides sensitivity analysis by setting out the amount in additional grants in any one year that would jeopardise GAVI's public charity status.

Programme Monitoring Implications for GAVI if GFA is removed from the IFFIm

- 4.6 IFFIm currently transfers funds directly to GFA. Under the proposed structure, IFFIm will be making grants directly to the GAVI Alliance. A requirement of the UK HM Revenue & Customs ("HMRC") is that charity trustees "take follow up action to confirm that payments overseas are applied properly." The GFA has met this obligation by putting in place a Monitoring Policy which requires, among other things, that GAVI provides programme approval material, certifies the use of funding and informs the board of cases of misuse.
- 4.7 With the removal of GFA, IFFIm will be required to adhere to the HMRC requirements with regard to transferring funds overseas and will need to adopt a policy similar to the GFA Monitoring Policy to comply with HMRC requirements. IFFIm may, as is the case with the GFA, periodically request further information on GAVI programmes, processes or procedures. GAVI's responsibility is to ensure that information requested from time to time by IFFIm is provided in a timely manner.

Implications on the consolidated financial statements if GFA is removed from the IFFIm

- 4.8 GFA and IFFIm are consolidated within the GAVI Alliance's financial statements. The removal of GFA will likely be treated as a "discontinued operation" in the GAVI Alliance's consolidated financial statements. US GAAP defines a discontinued operation as a component of an entity (e.g. a subsidiary or an asset group) that either has been disposed of or is classified as held for sale. As a discontinued operation, GFA's revenues, expenses, assets, liabilities and cash flows will be segregated from those of GAVI's continuing operations and presented separately in the consolidated financial statements. The consolidated financial statements will also include, in the footnotes, a description of the facts and circumstances leading to GFA's disposal, as well as the expected manner and timing of that disposal.
- 4.9 The Annual Financial Report includes a Discussion and Analysis section. The Discussion and Analysis section will include further discussion of removal of GFA from the IFFIm structure. This discussion will, among other things, describe the cost savings and other benefits associated with removing GFA and place GFA's removal in the context of GAVI's overall strategy and mission.

- 4.10 The disclosures and discussions mentioned above will only be included in the 2011 Annual Financial Report if GAVI has a firm plan in place to remove GFA prior to the issuance of the 2011 Annual Financial Report in September 2012. Such a plan would have to demonstrate both the intent and ability to remove GFA and will require, among other things, necessary approvals from the boards of IFFIm, GFA and consent from all IFFIm donors.
- 4.11 The Annual Financial Report also includes GFA's standalone financial statements. If the final approved plan to remove GFA from the IFFIm structure includes a decision by the Board of the GFA to wind up GFA, then GFA will cease to be a going concern from the time that the plan is in place and disclosures to this effect will be included in GFA's standalone financial statements.

5. Implications for Board members

- 5.1 The removal of GFA from the IFFIm structure does not change the fiduciary duties or responsibilities of the GAVI Board members. The only activity GAVI is carrying out which it has not previously done is to receive the IFFIm donor pledges and assign them directly and immediately to the IFFIm Company. It remains IFFIM's responsibility to raise funds from the capital markets.

6. Conclusion and next steps

- 6.1 Amendments to the IFFIm transaction documents have been prepared reflecting the removal of GFA. These will be circulated and reviewed by all relevant parties and the IFFIm donors.
- 6.2 We anticipate seeking final approval from GFA and IFFIm during their September meetings and from donors over the next few months. We would then prepare to sign amended documents in the fourth quarter 2012.

Section B: Implications

7. Impact on countries

- 7.1 There is no impact on countries.

8. Impact on GAVI Stakeholders

- 8.1 There will be one less entity for GAVI and the World Bank to support and one less entity in the IFFIm programme approval chain.

9. Impact on the Business Plan / Budget / Programme Financing

- 9.1 Retiring GFA will generate over US\$ 1 million in savings per year when looking at all GAVI entities. Since GFA has its own budgeting process, there will not be a direct impact on the GAVI budget.

10. Risk implications and mitigations

- 10.1 There are no substantial risks associated with removing GFA from IFFIm.

11. Legal or governance implications

- 11.1 The governance and legal implications are noted throughout this paper.

12. Consultation

- 12.1 In preparing this paper, the Secretariat has consulted with external legal, tax and accounting advisors. The Audit and Finance Committee reviewed the implications of the amendment.
- 12.2 In addition, we have had a number of discussions and email exchanges with donors on these issues. Most of the donors have confirmed that the amendment process could be completed at the ministerial level and should not require further approvals (e.g. parliamentary approvals). We will continue to consult with donors to confirm their ability to enter into new agreements in the fourth quarter 2012.

13. Gender implications / issues

- 13.1 There are no direct gender implications.

14. Implications for the Secretariat

- 14.1 Removing the GFA will lead to one less Board of Directors for the Secretariat to manage, at least four fewer meetings per year; however, the Secretariat will be required as noted above to confirm to IFFIm that it will continue to undertake on-going monitoring of its programmes and report to IFFIm in accordance with the monitoring policy adopted by the IFFIm Board.

Annex 1 - GAVI Alliance Public Support Test Forceted Information

Table 1: Percentage Support from Governmental Units and the General Public, after Removal of GFA

Scenario (see descriptions of scenarios below)	2011	2012	2013	2014	2015
Scenario A.1	76%	73%	71%	64%	64%
Scenario A.2a	76%	73%	74%	69%	72%
Scenario A.2b	76%	73%	71%	65%	65%
Scenario B.1	22%	24%	25%	29%	30%
Scenario B.2a	22%	24%	26%	30%	32%
Scenario B.2b	22%	24%	25%	29%	29%

Table 2: Approximate Additional Non-Public Support that Would Result in the 10% Threshold not being met

Scenario (see descriptions of scenarios below)	2011	2012	2013	2014	2015
Scenario A.1	4,596	4,797	5,005	3,847	3,495
Scenario A.2a	4,596	4,797	5,116	4,064	3,817
Scenario A.2b	4,596	4,797	5,099	4,035	3,777
Scenario B.1	854	1,055	1,263	1,378	1,316
Scenario B.2a	854	1,055	1,280	1,403	1,347
Scenario B.2b	854	1,055	1,269	1,384	1,321

Scenario A.1: Assuming foreign governmental contributions are public support and donor pledges are made directly to IFFIm. Contributions from IFFIm to the GAVI Alliance are included in the public support calculation.

Scenario A.2a: Assuming foreign governmental contributions are public support and donor pledges are made to the GAVI Alliance which assigns them to IFFIm. Donor pledges to the GAVI Alliance are included in the public support calculation while contributions from IFFIm to the GAVI Alliance are not.

Scenario A.2b: Assuming foreign governmental contributions are public support and donor pledges are made to the GAVI Alliance which then assigns them to IFFIm. Donor pledges to the GAVI Alliance and contributions from IFFIm to the GAVI Alliance are both included in the public support calculation.

Scenario B.1: Assuming foreign governmental contributions are not public support and donor pledges are made directly to IFFIm. Contributions from IFFIm to the GAVI Alliance are included in the public support calculation.

Scenario B.2a: Assuming foreign governmental contributions are not public support and donor pledges are made to the GAVI Alliance which then assigns them to IFFIm. Donor pledges to the GAVI Alliance are included in the public support calculation while contributions from IFFIm to the GAVI Alliance are not.

Scenario B.2b: Assuming foreign governmental contributions are not public support and donor pledges are made to the GAVI Alliance which assigns them to IFFIm. Donor pledges to the GAVI Alliance and contributions from IFFIm to the GAVI Alliance are both included in the public support calculation.