



IFFIm Board Response to the IFFIm Evaluation

In 2010, the IFFIm Board asked the GAVI Secretariat to commission an evaluation of IFFIm as a cost-efficient funding device and to establish an Evaluation Committee to undertake the evaluation process. HLSP was commissioned to undertake the IFFIm Evaluation.

The IFFIm Board has read the IFFIm Evaluation report with great interest and believes that after 5 years of operations, it is timely and detailed. The IFFIm Board notes that the IFFIm Evaluation report includes an assessment of the efficiency of the use by the GAVI Alliance of funds raised through IFFIm, which is beyond the terms of reference initially set by the IFFIm Board. IFFIm delivers funding; GAVI delivers health through immunisation. The response in this paper does not comment on this assessment of the GAVI Alliance, which is beyond the scope, influence and competence of the IFFIm Board.

Overall, the evaluation affirms positively that IFFIm has raised capital efficiently in the international capital markets, that it has been a successful vehicle to raise finance for front-loading and that the case for further donor investment through IFFIm is strong. IFFIm has performed much better than was originally anticipated. The evaluation also identified some areas for improvement.

This paper provides a response to the IFFIm Evaluation by the IFFIm Board of Directors.

IFFIm Role and Purpose

The IFFIm Board was delivered a mandate under which IFFIm was established to provide a predictable source of funding to GAVI (alongside GAVI's other funding sources) via access to international capital markets, at a competitive cost consistent with the credit standing of donor governments.

Through the long-term funding of IFFIm, irrevocable support by a group of important sovereign donors to the GAVI Alliance has been cemented. The GAVI Alliance has had, and will have, the benefit of IFFIm-leveraged cash flow availability for approximately 10 years dating from IFFIm's inception in 2006. 'Front-loading' should be understood in the context of this 10-year period.

Role of the IFFIm Board

IFFIm does not have any employees and all of IFFIm's operations are outsourced. The role of the IFFIm Board is to provide a supervisory role in relation to IFFIm's contracted service providers (which act as agents or representatives of IFFIm) and to act as trustees (in the commercial sense) for sovereign donors and of their pledges.

The IFFIm Board does not agree with the HLSP recommendation that at least one Board member should have direct knowledge of health systems in developing nations. The IFFIm Board is of the view that it has sufficient technical experience and capacity in each area relevant to its mandate. While health experience might be helpful, it is not critical for determining the appropriate financial policies and controls for IFFIm.



IFFIm's Costs

The IFFIm Board considers that HLSP has not adopted a consistently uniform approach to IFFIm's costs throughout the evaluation.

The IFFIm Board disagrees with HLSP's approach to reporting costs as an aggregate to date and with HLSP's methodology of adding 'additional economic costs' to adjust for market discounts in their Economic and Financial costs analysis.

The IFFIm Board has taken a proactive approach to ensure that IFFIm receives professional services commensurate with donor and investor expectations and that the costs of these services are reasonable and benchmark well against market prices. In addition, the IFFIm Board has deliberately avoided adding resources or incurring costs in areas that are outside IFFIm's core mandate to raise funds to support GAVI's mission. An example of this is the limited amount of funds spent on advocacy, media and communications.

The IFFIm Board has sought to economise costs by undertaking competitive tenders for services, accepting pro bono services and accepting discounted below-market rates from service providers. The fact that in the early years, IFFIm's service providers were willing to provide their services to IFFIm on a pro bono or reduced fee basis is a demonstration of the value of the IFFIm mission to service providers. As a consequence, adjustments by HLSP for discounts to market prices are not considered appropriate.

The IFFIm Board's view is that IFFIm's costs should be considered on an annual basis as a fraction of its aggregate bond programme (costs over volume). This is normal practice in the financial services sector and provides a basis for comparison in the private sector.

GAVI Fund Affiliate (GFA)

The IFFIm Board agrees with HLSP's suggestion to examine streamlining the IFFIm structure by considering the removal of the GFA from the IFFIm structure. GFA was a structural necessity at the time that IFFIm was established and may no longer be necessary. At present, the GAVI Secretariat and the World Bank are working jointly with other IFFIm stakeholders to assess the feasibility of winding-up the GAVI Fund Affiliate, including performing an analysis of costs and benefits.

Market Shaping and Health Proceeds from IFFIm Funds

Contrary to HLSP's stated opinion, IFFIm's founding documents do not make reference to shaping vaccine markets as an objective of the IFFIm Board. The IFFIm Board sees the shaping of vaccine markets and the efficacy of health outcomes as part of GAVI's mission, not IFFIm's.

While the IFFIm Board is well pleased with the evaluation's broad conclusions on the efficacy of IFFIm funds to generate health benefits, it nevertheless sees this as an evaluation of GAVI and GAVI's mission. Reference is made to GAVI's response on the health aspects of this evaluation.

IFFIm and the World Bank (Treasury Manager)

HLSP makes extensive reference in their report to the role of the World Bank and the relationship between the IFFIm Board and the World Bank. The IFFIm Board wishes to make the following clarifying remarks.

The IFFIm Board fully appreciates the role of and the benefits brought to IFFIm by the World Bank in capital markets and its operational expertise (management of funds flows for donor pledges, coupon payments, bond issuances and redemptions). As Treasury Manager, the World Bank



provides IFFIm with operational credibility. The IFFIm Board respects the advice, integrity and non-profit nature of both the World Bank and the GAVI Secretariat.

It should be made clear that IFFIm bond issuances in the market do not benefit from any direct or indirect credit enhancement from the World Bank's involvement as Treasury Manager. We do not believe that any other message is being given or implied by the Treasury Manager or any of the executing banks. Investors purchase and price IFFIm bonds because of the underlying government pledges, the credit rating of the bonds and the use of proceeds to support immunisation. The IFFIm Board believes that the attractiveness of GAVI's mission and the use of proceeds are at least partially responsible for the highly competitive funding costs achieved by IFFIm relative to the blended average cost of funding for the underlying governments.

Central to good governance, the role of the IFFIm Board is to observe, comment, critique and require improvement as necessary. Given IFFIm's mandate (described above), the IFFIm Board takes a proactive approach in the approval of bond issuances. This approach is supported in clause 5.1 of the Treasury Management Agreement which states: "... within a reasonable period in advance of any subsequent issuance of Notes, the Treasury Manager shall prepare a funding strategy for the purposes of subsequent issuance of Notes by IFFIm." The IFFIm Board nevertheless takes a less active role for certain bond issuances into mature markets (e.g. not participating in road-shows for all markets).

To effectively discharge their duties as Board members and trustees, IFFIm Board members are required to make informed decisions. The IFFIm Directors see the professional time required of them to exercise their legal duties as a fulfilling activity, but also one where they and other stakeholders devote no more than the necessary time and resources.

IFFIm has been in operation for only five years. The time commitment required of all stakeholders continues to evolve and may have been under-estimated at inception. In retrospect the IFFIm Board believes IFFIm could possibly have been better-served by having a small (one to two person) executive office or a dedicated staff resource from the GAVI Secretariat.

Communication and Financial Reporting

The IFFIm Board acknowledges the comments of HLSP on communications to donors, the GAVI Alliance and financial reporting.

Donor Communications

IFFIm donors were consulted extensively during IFFIm's inception on the level and frequency of communication they wished to receive. IFFIm has complied with the reporting requirements of the Finance Framework Agreement and has scheduled regular IFFIm donor meetings to coincide with GAVI Board meetings to reduce the travel costs for donors and, where possible, to open a teleconference bridge to enable participants from donor Finance Ministries / Treasuries to attend.

The IFFIm Board will seek feedback at the next IFFIm donor meeting as to steps the IFFIm Board can undertake to develop further communication with donors. A possibility is to host donor meetings that coincide with other forums attended by Finance Ministry / Treasury officials.

GAVI Alliance Board Communications



The IFFIm Board Chair has been in attendance (or available to GAVI Alliance Board members) at GAVI Alliance Board meetings. The IFFIm Board Chair has made presentations to the GAVI Alliance Board when requested to do so.

The IFFIm Board will seek guidance from the GAVI Alliance Board on recommendations to improve communications between the IFFIm Board and the GAVI Alliance Board.

Financial Reporting

IFFIm's annual financial statements are prepared in accordance with regulatory requirements and international accounting and reporting standards. The application of those mandatory requirements and standards inevitably results in a certain complexity of financial reporting.

The IFFIm Board and the GAVI Secretariat are working jointly to provide donors with separate financial information in a format that is more easily understandable to donors.

Swap Overlay

HLSP has commented extensively on the 'Swap Overlay' transaction and included an appendix dedicated to the topic. The IFFIm Board considers this to be an unnecessary level of discussion of one specific transaction in the context of all of IFFIm's numerous transactions in the financial markets. The IFFIm Board wishes to clarify the Swap Overlay transaction.

In December 2010, IFFIm's financial (asset) management required for the first time an investment of US\$1 billion for a 12 month period. On no previous occasion over the past four years had there been a requirement to invest such a significant sum for such a duration. This provided an opportunity to earn a return commensurate with the size and duration of the investment.

The IFFIm Board views the Swap Overlay transaction as providing certainty of returns, over a 12-month period, for US\$1 billion of funds that IFFIm was required to hold on its balance sheet in advance of the redemption of the inaugural US\$1 billion IFFIm bond issue in December 2011. The IFFIm Board fully evaluated the benefits (particularly the likelihood of an improved return) and the risks associated with this transaction prior to proceeding and considered it appropriate to lock in a fixed return for 12 months rather than 'rolling' the investment four times at an interest rate of 3-month LIBOR.

The transaction was undertaken in December 2010, and as is customary will be discussed at the next IFFIm donors meeting under the 'investment policy' part of the agenda.

Gearing Ratio Limit

The Gearing Ratio Limit (GRL) Model is a core component of the IFFIm structure and provides input to the maximum level of funds that IFFIm should prudently raise. In retrospect, it appears the GRL may have played only a limited role in confirming the quality of IFFIm's creditworthiness with ratings agencies and investors.

In formulating its remarks on the scope for front-loading, HLSP's recommendations would have been enhanced if they had independently assessed the Gearing Ratio Limit Model. The World Bank has offered to host a workshop with the IFFIm Board, the GAVI Secretariat and other relevant stakeholders in 2011 to examine the Gearing Ratio Limit Model in greater detail.