Annex A: Risk implication and mitigation

1. Risks associated with this proposed transaction are as follows:

   a) Risk of Norway failing to honour its commitment: IFFIm will issue a bond on the back of the pledge from Norway and disburse the proceeds of the bond to Gavi. Gavi disburses this amount to CEPI. Repayment of the bond will be covered by IFFIm’s assets, which will now include the new Norway pledge. If Norway fail to make a payment, IFFIm would use future pledges that have not been drawn to repay that portion of any debt incurred on the back of the defaulting donor’s pledge. This is an inherent risk of any IFFIm pledge that has not materialised in over 11 years of operation. It is for this reason that the IFFIm donors must approve any new donor and why IFFIm pledges are legally binding. IFFIm has the capacity to seek recovery from any donor of any unpaid pledge. Norway is Gavi’s third largest donor (and IFFIm’s fifth largest donor) and has a longstanding strategic relationship with Gavi, as well as being rated triple-A (the highest credit rating awarded by rating agencies). Donors are also aware of the fact that any non-payment could be seen as weakening of donor support to IFFIm with a subsequent downgrading of IFFIm and loss of its financial strength in the capital markets.

   b) Risk that Gavi is perceived as acting outside of its mandate: At the PPC discussion of Norway’s proposal in May, there were questions around whether Gavi could support research and development under its current mandate. Gavi’s Statutes set out its purpose as promoting health by “(i) providing vaccines and the means to deliver such vaccines to people in the poorest countries; (ii) facilitating the research and development of vaccines of primary interest to the developing world; and (iii) to provide support in connection with achieving the foregoing purposes by helping to strengthen health care systems and civil societies supporting such purposes in the developing world.” The Secretariat considers that the support proposed in this paper would fall within the wording of sub-paragraph (ii) above given CEPI’s focus on emerging infectious diseases for which no commercial market exists that would typically affect low income countries. The Secretariat has consulted with Swiss counsel, who have confirmed that support to CEPI would fall within the scope of Gavi’s mandate. Furthermore, Gavi’s mission and strategic goals are not changing for the current strategic period, and the CEPI Arrangement will not impact upon Gavi’s current focus.

   c) Risk of liability for Gavi arising from an adverse event following immunisation: At this point the Secretariat considers this risk to be limited given that Gavi would be funding CEPI, and CEPI would then be funding a vaccine developer. Gavi would be remote from any decisions made by CEPI and/or a vaccine developer and as a consequence any third party claims would be directed against the vaccine developer. For example, at no point would Gavi have any control as to how a clinical trial would be managed. The Secretariat has also confirmed with its insurers that any
additional risks associated with funding CEPI would be covered under Gavi’s existing insurance policies.

d) Risk that CEPI R&D pipeline fails to deliver: This is a clear risk of R&D for new vaccines and has been observed for many years now by Product Development Partnership (PDP) organisations. There is no known case of the public assuming that because a PDP was funding a vaccine development programme for a specific disease, that a successful vaccine was guaranteed. As it is CEPI that is performing the R&D funding role, and not Gavi, Gavi would be appropriately insulated from such a risk.

e) Risk of IFFIm bond transaction failure or risk of an adverse effect on IFFIm’s credit profile: Historically there has been strong investor demand for IFFIm bonds, attributable to its conservative and robust financial and risk management policies, and to Gavi’s mission. This has enabled IFFIm to successfully execute more than 30 bond transactions, generating US$ 6.5 billion in proceeds. A new pledge from a triple-A rated donor to IFFIm would be a positive development and is expected to be well-received by rating agencies and investors.

2. Financial implications of the transaction:

a) Impact on IFFIm’s operations: The proposed transaction would not impact upon IFFIm’s operations. The steps to implement the arrangement are further described in Annex B and would not deviate from the usual structure by which donors make pledges to IFFIm and IFFIm makes disbursements to Gavi.

b) Impact on Gavi’s financial flexibility: Based on Gavi’s current IFFIm proceeds forecast and IFFIm’s funding capacity to accelerate funding to Gavi if needed, it is highly unlikely that the CEPI transaction will pose a constraint on Gavi’s ability to drawdown funding from IFFIm based on need.

c) Financing of transaction costs: As with any capital market transaction, the frontloading of the Norwegian pledge on behalf of CEPI will incur transaction costs, some of which may only be known once the transaction is completed. As such, Norway and CEPI have agreed in principle to defray the cost of the bond proceeds and Norway agrees to Gavi seeking to recover any incremental costs directly attributable to the IFFIm-CEPI frontloading transaction. While external costs (e.g. legal costs, bank fees, etc.) are easier to isolate, internal costs, such as Secretariat resourcing, are more difficult to value. However, the Secretariat is prudently managing its resource allocation in relation to the CEPI Arrangement to ensure that these remain very limited.