

International Finance Facility for Immunization

Background

The International Finance Facility (IFF) is a financing mechanism intended to raise funds for the achievement of the Millennium Development Goals, which are estimated to require an additional investment of \$30 billion to \$70 billion per year until 2015. The IFF would issue bonds on international capital markets and be backed by donor countries. The unique characteristic of the proposal, championed by then-Chancellor of the Exchequer Gordon Brown in 2003, is that it allows frontloading of assistance—the funds would be available to borrowers immediately, but the countries offering the assistance would be able to pay for it over a longer period. This approach could reduce uncertainty about the flow of aid by capturing the costly, up-front investments that otherwise would be inadequately financed. Immunizations offer a near-ideal vehicle for testing the IFF, because cash up-front to expand current coverage can create long-term health benefits that greatly exceed the costs associated. Competition among development agencies for IFF funds could introduce an element of competition to improve their performance.

This snapshot describes the international finance facility for immunization and explores how it helps provide immunizations as well as some potential drawbacks.

What is the International Finance Facility for Immunization (IFFIm)?

The IFFIm, a pilot project of the larger IFF mechanism, is a UK-registered charity whose sole assets are legally binding payment obligations from sovereign donors. To date, eight countries have created such obligations payable to the IFFIm over 20 years (the amounts shown are total nominal value pledged for the 20 year period): Italy (€473.5 million), Norway (\$27 million over 5 years), Spain (€189.5 million), Sweden (SEK 276.15 million), South Africa (\$20 million), the UK (£1.38 billion). France has pledged €372.8 million and is expected to make a further commitment of up to €920 million. Brazil has announced a pledge of \$20 million. For the European donors, the European Statistical Agency has ruled that pledges to the IFFIm will not be classified as government debt, so the obligation is off-budget.

The IFFIm's first \$1 billion bond (rated AAA/Aaa/AAA) was sold on November 7, 2006, with an annual yield of 5.019 percent, 31 basis points above the benchmark five-year U.S. Treasury bond. The IFFIm expects to issue such bonds to finance a total of \$4 billion in disbursements over the next 10 years, using the pledges as collateral. The disbursements will be channeled exclusively through the GAVI Alliance (previously known as the Global Alliance for Vaccines and Immunization) for immunizations and systems improvements in countries with annual per capita incomes below \$1,000. The Alliance partners include the GAVI Fund, national governments, UNICEF, WHO, the World Bank, the Bill & Melinda Gates Foundation, the vaccine industry, public health institutions, and nongovernmental organizations.

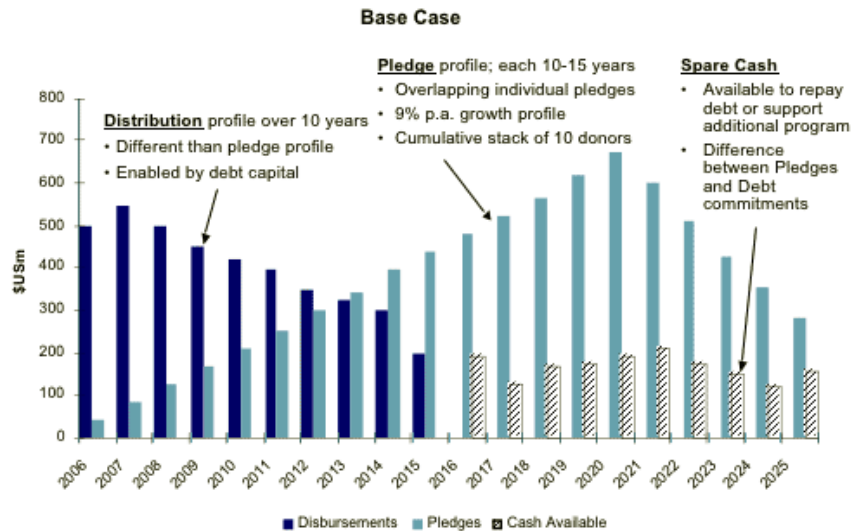
Why vaccinations?

Immunizations are a cost-effective intervention with a direct impact in reducing child mortality and morbidity. They have been delivered successfully virtually everywhere in the world. If a health system

does not perform consistently well, immunizations can be delivered through campaigns, and the programs can be scaled up relatively quickly. Since its inception in January 2000 with a Gates Foundation grant, the GAVI Alliance has proven its effectiveness by disbursing more than \$1.3 billion for vaccine programs to increase coverage. The GAVI Alliance's grant system encourages good performance and could disburse significantly more funds without greatly increased costs.

The figure to the right, provided by GAVI, illustrates how frontloading works. With a constant stream of income based on donors' binding agreements between 2006 and 2025, the IFFIm goes into the market to raise funds to finance an expansion of the GAVI Alliance. In this example, in the years 2008 through 2012, the amount available is almost double donors' pledges. The major benefit is that many more children will have access to vaccines early in the funding cycle that otherwise would not have been available, with the frontloading also giving time for the partners to evaluate the impact and decide how to sustain the gains. An important secondary benefit to GAVI is its ability to manage a predictable revenue stream that does not depend only on current donations.

IFFIm: Frontloaded Financing for Immunization



The GAVI Alliance estimates that the current guarantee of \$4 billion will translate into 5 million fewer child deaths over 10 years and 5 million fewer adult deaths from liver-related diseases, which can be prevented by Hepatitis B vaccinations. The incremental cost per life saved by the IFFIm is estimated to be \$755. These numbers are in addition to an estimated 1.5 million lives saved through the GAVI Alliance without the additional resources from the IFFIm. Moreover, the Alliance expects that greater predictability of higher-volume purchases will lead to more competition, less risk to producers, and consequently reduced prices for vaccines.

What are the drawbacks of the IFFIm?

The IFFIm reduces the amount of assistance disbursed by an estimated 3.5 percent for interest and commissions, the cost of frontloading through borrowing. The return to beneficiary countries due to the frontloading is expected to outweigh these additional costs, so unless donor countries could reliably contribute without the IFFIm at levels equivalent to the amounts shown in the figure above, the IFFIm makes sense. It costs donors the same overall and produces a higher return for the beneficiaries. The major risk lies in whether the additional resources will actually produce the expected gains. As a test of the IFF, the IFFIm seems to be a good fit. However, tying it to GAVI does not test whether it could improve aid effectiveness by causing agencies to compete for funds. That could be an important additional benefit of the IFF and may merit a test pilot.