FINANCIAL SUSTAINABILITY?
SOME SUGGESTED METHODS TO SUSTAIN FUNDING
One recent slide…

“

• Many GAVI countries are highly dependent on external funds for immunization
• Adding new vaccines and expanding coverage drive total immunization costs higher
• Immunization funding is very vulnerable if/when GAVI resources end
• ...but of course we're not going to let them fail, and so here are the innovative financing instruments…

”
Vaccine Funding 2005-15

Billions required to achieve targeted vaccine programs over 10 yr. period.

<table>
<thead>
<tr>
<th>Region</th>
<th>New Vaccines</th>
<th>Existing Vaccines</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>2.7</td>
<td></td>
</tr>
<tr>
<td>Germany</td>
<td>8.5</td>
<td></td>
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<tr>
<td>Poland</td>
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<tr>
<td>Mexico</td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>1.4</td>
<td></td>
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<tr>
<td>GAVI</td>
<td>18.0</td>
<td></td>
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</tbody>
</table>

**New Vaccines**

- Conj. Men ACWY, Men B, HPV, MMRV
- + Hib. MenC, Rota
- + Rota
- + Rota, TB
- + TB
- + Rota, TB, Dengue, Malaria

**GAVI New Vaccines**

- Men AC, HPV, Rota, TB, Malaria, Strep

A prospective analysis in UK, Germany, Poland, Mexico, Thailand - Smart Pharma Consulting
GAVI financial sustainability

• “Although self-sufficiency is the ultimate goal, in the nearer term, sustainable financing is the ability of a country to mobilize and efficiently use domestic and supplementary external resources on a reliable basis to achieve target levels of immunization performance.”
GAVI Phase 2

• If current donors continue rates of commitments and IFFIm launches as planned, GAVI will raise about $6 billion from now until 2015

• With current policies supported by GAVI including new support to systems and new applications for current vaccines, GAVI is projected to spend about $4 billion until 2015

• $2 billion remains for new vaccines
The gap

- $2 billion available for new vaccines
- GAVI Executive Committee signaled its intention to finance new vaccines
- WHO GIVS estimates $3.7 billion is needed for new vaccine introduction
- GAVI faces a **gap of at least $1.7 billion** even with current IFFIm and regular donor commitments
- Bridging this gap will require new sources of financing
Overview, GAVI phase 2 finance

‘Innovative’ Financing Mechanisms
– Global Alliance for Vaccines & Immunization
  • The Vaccine Fund
  • Advanced Development & Introduction Plans
  • International Finance Facility for Immunization
– Other Funding Mechanisms
  • PAHO Revolving Fund
  • Vaccine Independence Initiative
  • ARIVAS (Appui au Renforcement de l’indépendance Vaccinal en Afrique Sub-Saharien)
– ‘Advance Market Commitments’

GAVI, IFF-Im, and AMCs represent $5-10B worth of financing for immunization systems and new vaccines between 2006-2010
1. What is the IFFIm?

• An IFF for immunization (IFFIm) has been proposed as a pilot for the IFF mechanism
  – The IFF has been conceived as a large-scale US $50 billion per year mechanism to double global aid and help meet the MDGs
  – On September 9th 2006 the IFFIm was launched in London with the five donors - UK, France, Italy, Spain, and Sweden: now Norway and Brazil have announced contribution as well; South Africa is considering a contribution
  – Estimated disbursable of $3.2 billion before 2015
  – Ongoing effort to secure resources from additional donors to reach $4 billion resource goal
• First bond issuance took place late 2006
International Finance Facility for Immunization

- IFFIm will raise additional funds for GAVI programs
  - Pilot of the UK-sponsored International Finance Facility to frontload immunization financing over 10 years
  - $4 billion borrowed from the capital markets in the form of bonds

Over 2005-15, 5.3 million under 5 deaths and an additional 5 million adult deaths could be prevented

- New and under-used vaccines: $1.9 b
- Systems support for new vaccine introduction: $290m
- Mortality reduction campaigns: $515m
- Funds for services strengthening: $1.1b
- Polio stockpile: $175m
Components of the IFFIm

- Donors enter into 20 year legally binding commitments
- These commitments are leveraged in the bond market
- Proceeds distributed to countries and for supply procurement
- Resources nominally split 50/50 systems and vaccines
The IFF: Donor pledges
Long term commitments generate near-term resources

- Disbursements (to programs)
- Pledges from Donors
- Spare cash – “cushion”
Implications of the IFFIm

• Influencing the market
  – Long-term predictable commitments allow longer-term planning for supply strategy
  – More flexibility for contracts with manufacturers with a potential to negotiate a lower price or accelerate supply through strategic use of long-term contracting

• Better planning and sustainability for countries
  – Commitments can be made to countries over longer-term allowing for better integration within national planning cycles and longer lead time to plan for country financing and eventual sustainability

• Additional financing & donors
  – Countries not previously contributing to GAVI attracted by innovative nature of IFFIm supplying additional resources

• But it all has to be repaid, and will phase out at a later date. Discuss.
Proposed benefits detailed

• Principal IFFIm benefits are claimed as:
  – Accelerating coverage of immunisation with traditional and new and under-used vaccines, and
  – ‘pulling’ the vaccine industry via predictable market, leading to increased industry capacity and lower vaccine prices

• Key claimed benefits are 5.3 million additional children’s lives saved over 10 years, (Africa 3.1 million, Asia 2.1 million and others 0.1 million)

• A further 5 million adult lives saved through HepB

• Estimated “financial cost” of IFFIm at 3.5% against IRR of accelerated benefits of 18%

• Discuss all this
PAHO revolving fund

- Procurement mechanism, supported by technical assistance and advocacy efforts
- Consolidates country requests to bargain for lower vaccine prices from manufacturers
- Countries pay the fund for the vaccines ordered
- Limited to countries with long-term program plans
What are Advance Market Commitments (AMCs)?

**Problem:**
- Small, risky and unpredictable markets lead to underinvestment in vaccines of importance to the developing world

**AMC supposed to:**
- Motivate additional private investment
- Focus on (and pay for) results
- Market based (not a prize)
How is an AMC supposed to work?

• Donors and manufacturers enter into a binding legal agreement
• Donors commit to pay an initial, high price for as long as AMC funding is available and countries demand the vaccine
• Manufacturers commit to provide a set number of doses at a long term lower price after AMC funds are depleted. Claimed will
  – Simulate the market conditions of pharma products in wealthy countries by ‘increasing the value and predictability of demand’
  – Incentivizes more private investments into R&D and capacity
  – Payments only ‘for results rather than inputs’
  – Reduces country risk of ‘unsustainably high long-term prices’
Funding the pipeline

<table>
<thead>
<tr>
<th>Discovery &amp; Research</th>
<th>Clinical Development</th>
<th>Licensure</th>
<th>Capacity Investment</th>
<th>Supply</th>
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</thead>
</table>

Medicines for affluent countries

Medicines for poor countries

Health R&D for affluent countries $106 billion

Health R&D for poor countries $8 billion

Private investment to complete the pipeline
Previous vaccine prices

Price declines over time

Marginal cost

pays for R&D
Two-stage pricing

- Guaranteed first stage price
- In return, firms obliged to sell at lower long run price
- Marginal cost

$(x)bn total market

- Sponsors guarantee to top up price
- Developing countries buy at low price
- Sponsors top up the price for a maximum number of treatments
Conditions

- No quantity guarantee
- ‘Creates incentives to innovate and invest’
- Allows for less exhaustive technical specifications
- Firms still face some demand risk
- Allows developing countries ‘to choose’
Some Issues Though

- Are funds credible?
- Are funds sufficient to cover all risks and R&D costs?
- Can mechanisms deal with follow-on vaccines?
- Who ‘polices’ and rewards, etc.?
- Mechanisms have rarely not been much more complex to run in practice than theoretical models suggest
- On the ground market/systems/delivery failures that have to be accounted for in ‘rewards’
- How to drive efficiency and stop prize turning into inefficient subsidy?
- How are these mechanisms different from procurement mechanisms? Would well-resourced competitive procurement mechanisms work better?
Vaccine Independence Initiative

- VII is a revolving fund that works through UNICEF
- Assists countries in paying for vaccines themselves
  - Payment in either hard or local currency depending on the absorptive capacity of the UNICEF country programs
- Encourages governments to gradually increase their share of financing