



## **Submission to the Inquiry into “the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region” by the Joint Standing Committee on Foreign Affairs, Defence and Trade**

September 2014

### **Introduction**

Gavi, the Vaccine Alliance is pleased to have this opportunity to provide a submission to the [Joint Standing Committee on Foreign Affairs, Defence and Trade](#) inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region.

Gavi also welcomes the Australian Government’s commitment to economic diplomacy and shares its recognition of the difference that the private sector can make in promoting economic growth and reducing poverty in this region.

Indeed, much of Australia’s successful engagement with the private sector has been through its commitment to multi-lateral organisations such as Gavi<sup>1</sup>. Significant value is added to the funds contributed by Australia, because of the unique value added by Gavi’s partnerships with the private sector.

Gavi is an international public private partnership dedicated to saving children’s lives and protecting people’s health by ensuring access to new and underused vaccines for children living in the world’s poorest countries. Gavi brings together public and private sectors with the shared goal of creating equal access to vaccines for children, wherever they live including in the many developing nations of the Indian Ocean – Asia Pacific region<sup>2</sup>.

Poor immunisation outcomes can adversely affect the bottom line of private investments and impede economic growth. These effects can be seen within micro-businesses, such as those undertaken by women to support their families, through to large-scale foreign investments. Immunisation needs to be seen as a key public good that not only helps determine quality of life for individuals and communities, but also the attractiveness of a country to private investment, and thus essential to boosting the productive capacity of the economy<sup>3</sup>.

Since 2000, Gavi has driven unprecedented progress in immunisation. Through partnering with developing countries, supported by the other Alliance partners, close to half a billion children have been immunised, which will lead to 6 million lives saved. Moving into the next strategic period of 2016-2020, Gavi’s unprecedented scale-up in immunisation coverage will generate between US\$ 80 and US\$ 100 billion in economic benefits<sup>4</sup> – equivalent to nearly three quarters of the total Official Development Assistance (ODA) contributed by OECD DAC donors in 2013<sup>5</sup>.

Gavi is recognised as a leader in innovative and sustainable approaches to development, supporting countries to secure a healthy and prosperous future. Joint investments and engagement by the public and private sectors are yielding social and economic returns far beyond what any country or agency could achieve alone.

<sup>1</sup> DFAT Submission 21, the role of the public sector in promoting economic growth and reducing poverty in the Indo-Pacific region, page 29, 33.

<sup>2</sup> Afghanistan, Bangladesh, Bhutan, Cambodia, China, India, Indonesia, Kiribati, Korea DPR, Laos, Mongolia, Myanmar, Nepal, Pakistan, PNG, Solomon Islands, and Vietnam.

<sup>3</sup> DFAT Submission 21, the role of the public sector in promoting economic growth and reducing poverty in the Indo-Pacific region, page 16.

<sup>4</sup> Preliminary findings from Johns Hopkins and GVAP Steering Committee (2014), Costing, Financing, Gap, and Return on Investment Analysis for the Global Vaccine Action Plan (GVAP).

<sup>5</sup> OECD DAC = The Organisation for Economic Cooperation and Development’s Development Assistance Committee. According to the OECD, donors contributed a total of US\$ 134.8 billion in net official development assistance (ODA) in 2013, <http://www.oecd.org/newsroom/aid-to-developing-countries-rebounds-in-2013-to-reach-an-all-time-high.htm>

The private sector's involvement and engagement are embedded in the Gavi model as demonstrated and revealed by its very nature of public private partnership. By combining the technical expertise of the development community with the business know-how of the private sector, the Alliance has contributed to an unprecedented increase in immunisation coverage in the world's poorest countries.

The **partnership with the vaccine industry** has been central to and an integral part of Gavi's business model since its inception. Market-shaping is one of the pillars of Gavi's strategy, explicitly stating Gavi's objective to ensure that countries have access to quality and innovative vaccines at an affordable price and in sufficient quantities to ensure vaccination programmes are sustainable over time. Gavi actively engages with industry from short term supply to long term development so that the vaccines delivered to countries are adapted to their needs. Industry's engagement is also reflected in Gavi's governance structure which includes two seats on the Gavi board for the vaccine industry (representing the industrialised and developing country respectively), ensuring that decisions are informed by the realities of vaccine development and production.

Furthermore, Gavi's public-private partnership dynamic has enabled the development of new and innovative financing mechanisms such as the **International Finance Facility for Immunisation (IFFIm)** which enables engagement and cooperation with the finance industry and has had a sea-change effect on the levels and predictability of funding for immunisation.

Moreover, we are looking to apply our learnings from existing practices to other areas of our business; and developing **partnerships at scale that leverage the capabilities of the private sector** in helping improve immunisation delivery and overcome operational challenges. We aspire to work more closely with the private sector, on issues such as poor data quality, disruptions to the supply chain, poor equipment maintenance, and inadequate cold chain storage in order to bring best practice into the vaccine space.

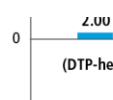
In summary, the private sector advances Gavi's mission through shaping the vaccine market to reduce prices, ensuring predictable and flexible funding, sharing business expertise and advocating for the importance of immunisation. In the following section, the role of the private sector and its engagement in Gavi are elaborated further as mentioned above with a focus on the Indo-Pacific region.

## Vaccine Industry Partners

GAVI's approach is grounded in the belief that sustainable development depends on making markets work – in Gavi's case vaccine markets. As a result, market shaping is a core component of the Gavi model and one of four strategic goals in our strategy: to shape markets to make sure a sufficient supply of high-quality and appropriate vaccines are available to developing countries at low and sustainable prices. Gavi's market shaping power means it is able to procure vaccines at a fraction of the price charged in high-income countries (see Figure 1).

*Figure 1. Tiered Pricing*

## Tiered pricing



- <sup>1</sup> The UNICEF/G the US public reflects the co
- <sup>2</sup> The UNICEF/G the US public
- <sup>3</sup> The UNICEF/G the average as
- <sup>4</sup> The UNICEF/G market price is

Source: UNICEF Supply Division; CDC

By aggregating country demand for new vaccines (Gavi-supported countries together currently account for 60% of the world's annual birth cohort) and pooling predictable financing from donors, the Alliance has transformed the global vaccine market. Long-term funding commitments provide the security for countries to adopt vaccine programmes, and for manufacturers to make new investments in production capacity. Greater demand attracts more suppliers and increases healthy competition, resulting in lower prices and a more stable supply of appropriate vaccines. For example, with Alliance support, Indonesia introduced a pentavalent vaccine developed and produced by their national manufacturer (see box 1). Similarly, with Alliance support, a Chinese manufacturer recently had a vaccine "prequalified" by the World Health Organization (WHO) for the first time.

### Box 1. Indonesia – self supplies pentavalent vaccine

*“In August 2013, Bio Farma – a national vaccine supplier based in Bandung, 100 miles from Jakarta – started manufacturing enough pentavalent vaccine to reach children across Indonesia’s 6,000 inhabited islands.*

*The vaccine, which contains five antigens in one shot and protects against diphtheria-tetanus-pertussis, hepatitis B and haemophilus influenza type b (Hib), reduced the number of separate injections required for protection and minimises the number of health centre visits required. Indonesia previously used tetravalent vaccine, which does not protect against Hib.*

*Gavi is supporting Indonesia’s plan to introduce the vaccine nationwide as quickly as possible. The government plans to deliver the vaccine in three phases. Four provinces began immunising children immediately, and all other regions started immunisation in July 2014.”*

In 2001, the GAVI Alliance bought vaccines from five manufacturers. Today, there are 16 manufacturers of prequalified vaccine that Gavi finances – 8 of which are based in or have operations in the Indo-Pacific region – spread across 11 countries (see figure 2.). From 2010 to 2013 the Alliance achieved a further 37% reduction in the total vaccine cost to immunise a child with pentavalent, pneumococcal and rotavirus vaccines while increasing the number of vaccine manufacturers from which Gavi purchases vaccines.

Figure 2. Vaccine supply – expanding the base

### **Vaccine production: greatest diversity ever of manufacturers of GAVI-supported vaccines**



Sources: UNICEF Supply Division and WHO list of pre-qualified vaccines, 2014

Gavi’s model is that countries “graduate” from support once their GNI per capita reaches a certain threshold. In order to ensure that such countries are able to sustain their immunisation programmes, it is important to ensure they can continue to access vaccine prices which are commensurate with their ability to pay. Gavi has negotiated, with specific manufacturers, stable prices for graduated countries for

pentavalent, rotavirus and pneumococcal vaccines and a request for access to pricing for graduated countries is now part of tenders conducted by UNICEF on Gavi's behalf. In May 2013, GlaxoSmithKline (GSK) committed to supporting countries graduating from Gavi to have access to the price that Gavi pays for GSK's vaccine for five years from the date of the graduation. This is an extremely important issue for the Indo-Pacific region as a number of countries are on track for graduation. Therefore, continued support from Gavi together with the private sector is crucial.

The significance of this approach within the context of Australia's focus on economic growth as a driver of poverty reduction should not be underestimated. Market shaping such as that undertaken by Gavi plays a critical role in efficiently converting economic growth into vital public goods that can be sustained without further aid, in this case the supply and distribution of life vaccines.

### **International Finance Facility for Immunisation (IFFIm)**

An important aspect of the Gavi model is predictable and long term donor funding for immunisation programmes combined with country co-financing and active market shaping and vaccine price reductions. While direct contributions, from public and private donors make up the majority of Gavi funding, such pledges normally cover a relatively short period of time with most pledges not exceeding five years. The International Finance Facility for Immunisation (IFFIm) was created to address the need for long-term financing to ensure the sustainability of immunisation programmes and effectively shape markets (given long industry R&D and manufacturing timelines). IFFIm provides a vehicle for Gavi to work with the private sector and the finance industry to secure longer term, flexible funding.

IFFIm borrows money in the international capital markets on the basis of long-term pledges from donor governments. The bonds that IFFIm issues, so called "vaccine bonds," provide Gavi with the flexible and predictable funding it needs in order to deliver life-saving vaccines and immunisation programmes in Gavi-eligible countries.

IFFIm receives binding pledges for future contributions from donor governments and then issues investment-grade bonds in the international capital markets against those pledges. IFFIm's bonds are purchased both by traditional institutional and retail investors, as well as Socially Responsible Investors (SRIs). Bondholders are then repaid using the funds received when donors deliver on their pledges. Proceeds from the bond issuances have been used by Gavi to support vaccine programmes, strengthen health systems in-country, and contribute to the funding of vaccine stockpiles at a level greater than the donor contributions to IFFIm to date. According to a 2011 independent evaluation, IFFIm funding helped to avert at least 2.1 million deaths between 2006 and 2010.

IFFIm makes Gavi more effective and efficient by: 1) Increasing substantially the available funding for life-saving vaccines and immunisations; 2) Giving Gavi the flexibility to 'frontload'<sup>6</sup> funds, accelerating the uptake of life-saving vaccines; 3) Helping to drive down vaccine prices and increase security of vaccine supply by increasing the long-term predictability of funding; and 4) Improving the efficiency of Gavi's financial management. The 2011 independent evaluation cited in particular IFFIm's financial efficiency and its positive impact on vaccine markets, and stated "the case for further investment through IFFIm is strong."

To date, IFFIm has received donor pledges of around US\$6.3 billion spread over 20 years from its nine donors, namely Australia, France, Italy, Norway, Spain, Sweden, South Africa, the Netherlands, and the UK. In March 2011, Australia became an IFFIm donor by making a pledge of AUD 250 million to be paid over 20 years to IFFIm.

IFFIm has successfully proven itself as an innovative mechanism to engage the private sector in addressing global health issues by successfully raising funds through the issuance of "vaccine bonds" in

<sup>6</sup> Frontloading refers to bringing forward future funding resources



various markets – from London to Australia and Tokyo over several years. As of August 2014, IFFIm has issued bonds totaling over US\$ 4.5 billion, of which more than US\$ 2.1 billion have matured. From 2006-13, IFFIm provided US\$ 2.4 billion to Gavi, about 40% of Gavi's funding. Out of this funding, over 24% (USD 590 million) was spent on vaccination programs in Australia's priority countries in the Indo-Pacific region<sup>7</sup>.

IFFIm has demonstrated this partnership not only with the support of the Australian Government but also **in partnership with the Australian banking sector and investors**. Through strong partnership with Commonwealth Bank of Australia and RBC Capital Markets in Australia, IFFIm provided Australian investors with unique opportunity to invest in "Vaccine Bonds" and help them contribute to global health development. The AUD\$ 400 million, **five-year bonds were issued in the AUD Kangaroo bond market** in November 2010. Around 76% of the investors who participated in the offering were from Australia, indicating Australian investors' strong support for IFFIm and its life saving goals for children.

The following quotes (box 2) from IFFIm's partners in Australia provide further illustration of this support.

Box 2. Quotes from IFFIm partners in Australia

"The successful debut of IFFIm in the AUD Kangaroo bond market is a testament to the innovative financing function IFFIm provides in supporting the Gavi Alliance with direct funding for vaccines to the developing world. And, the Australian investor community appreciated that with the market rate financial return comes an even greater social return, by providing funding directly to child immunization programmes in the world's poorest countries. "

- *David Hancock, Head of Debt and Equity Capital Markets, Commonwealth Bank of Australia*

"IFFIm's debut Kangaroo benchmark comes on the heels of Australia's decision to join the list of donors, highlighting the great strides this very innovative organization has made since its inception in 2006... **...It's rare that any financial transaction provides such a direct link to making a positive contribution to the world, and that we were able to deliver the funds at a competitive level is a testament to all the investor development work that has been done by IFFIm and the World Bank.**"

- *Enrico Massi, Managing Director and Head of Debt Capital Markets, Asia-Pacific, RBC Capital Markets*

The upcoming period 2016-2020 will be a critical time for global immunisation. As Gavi continues to scale up current interventions and to provide sustainability to the progress already made, IFFIm is critical for Gavi to access additional long-term, predictable, and flexible funding to support its mission.

<sup>7</sup> Afghanistan, Bangladesh, Bhutan, Cambodia, India, Indonesia, Kiribati, Lao PDR, Mongolia, Nepal, Pakistan, Papua New Guinea, Solomon Island, Sri Lanka, Timor-Leste, Vietnam

## Other private sector engagement

Based on the experiences of Gavi's market shaping and innovative finance mechanisms, we are looking to scale up of our partnership with the private sector to overcome some of the key challenges in immunisation delivery. The GAVI Matching Fund (GMF) was launched in June 2011 to help catalyse broader engagement with the private sector.

The GMF has proven to be a catalytic and cost-effective tool, motivating private sector partners to choose Gavi as a preferred partner. Since the GMF was established, the private sector has invested more than US\$ 111 million, making private sector contributors collectively the 12<sup>th</sup> largest donor to Gavi. This amount has been matched by the UK Government and the Bill & Melinda Gates Foundation, bringing the total contribution to date to US\$ 222 million.

A number of current high-value partners, from both private and civil society, are also contributing in-kind support aimed at improving Gavi operations. Beyond their cash contributions, partners such as Comic Relief, the Lion's Club International Foundation (LCIF), and "la Caixa" bank have collaborated with Gavi to advocate for immunisation in the UK and Europe and raise awareness of immunisation programmes in Gavi-eligible countries.

For example, LCIF launched immunisation-related grassroots advocacy in 3 countries in 2013, which will grow to 12 countries by 2016. Similarly, Comic Relief's advocacy reach in the UK has dramatically expanded. For Sports Relief 2014, the organisation again utilised popular music and TV stars to advocate for the importance of vaccines among the British public. Based upon Comic Relief's own metrics, immunisation ranked as the premier issue that drew the most support among TV viewers and individual donors, with 11 million peak TV viewers at the time of immunisation programming. "la Caixa"'s "Business Alliance for Immunisation" is raising awareness and funds from more than 300 company members. In early 2014, "la Caixa" bank launched an online giving option for customers and website visitors to further increase fund raising for Gavi.

In the area of data quality, the Government of Mozambique, Vodafone and Gavi launched an mHealth initiative aimed at improving the collection and management of immunisation and vaccine stock data, in which the global telecom provider is providing expertise, software and hardware and training. If successful, Gavi will offer to scale-up this initiative in other interested countries.

## Looking forward

In the upcoming 2016–2020 strategic period, Gavi will need to find new ways of working in order to tackle the key barriers to immunisation and create scalable and sustainable solutions for countries. Increasing the private sector's role in Gavi's public-private model can potentially bring new innovations to help achieve the Alliance's life-saving goals.

In particular, the Alliance's 2016-2020 Strategy highlights where the private sector has the potential to improve operational impact, specifically in the areas of supply chain management, data and information systems, and demand generation.

The rich potential to apply private sector skills, products and services to improve the delivery of immunisation in Gavi-eligible countries has been widely recognised<sup>8</sup>. In particular, Gavi's 2016-2020 Strategic Goal 2, to improve the effectiveness and efficiency of immunisation delivery, identifies three core areas, and objectives, in which the private sector has pioneering expertise: supply chain management, data and information systems, and demand generation. In these areas there is a significant gap between innovations and developments widely adopted in the private sector and the processes currently used in the global EPI<sup>9</sup> system.

The private sector has been critical in Gavi's success to date. Expanding engagement with the private sector will ensure Gavi continues to develop its operating model and build better business enabling environments to fully capture the value of its public-private partnership design. Going forward, Gavi will need the private sector to engage even more deeply in immunisation in order to achieve its goals of immunising 300 million children, averting 5-6 million deaths and achieving \$80-100 billion in economic benefits. It will also respond to key donors, such as Australia, interested in leveraging the private sector, both as an additional funding source and as a partner for sustainable operational improvements.

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<sup>8</sup> For example, the Gavi Second Evaluation Report (2010) highlighted that “private sector stakeholders in country need to be engaged more meaningfully” and the Global Vaccines Action Plan (2012) underlines the need for “understanding the lessons learnt from private-sector practices”.

<sup>9</sup> EPI: Expanded Programme for Immunisation