

Advance Market Commitment for Pneumococcal Disease

Innovative Finance for Development

David Fleming

Chair, Economic Expert Group and Implementation Working Group

Alice Albright

GAVI CFO

Joint GAVI Alliance & Fund Board meetings

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Presentation Outline

- AMC overview
- The Pneumo Pilot - goal, objectives and progress to date
- Terms of the deal
- Financial implications
- Next steps



AMC Overview

What is an AMC?

An upfront financial commitment by donors to subsidise purchase of vaccines at a set price, if & when vaccine:

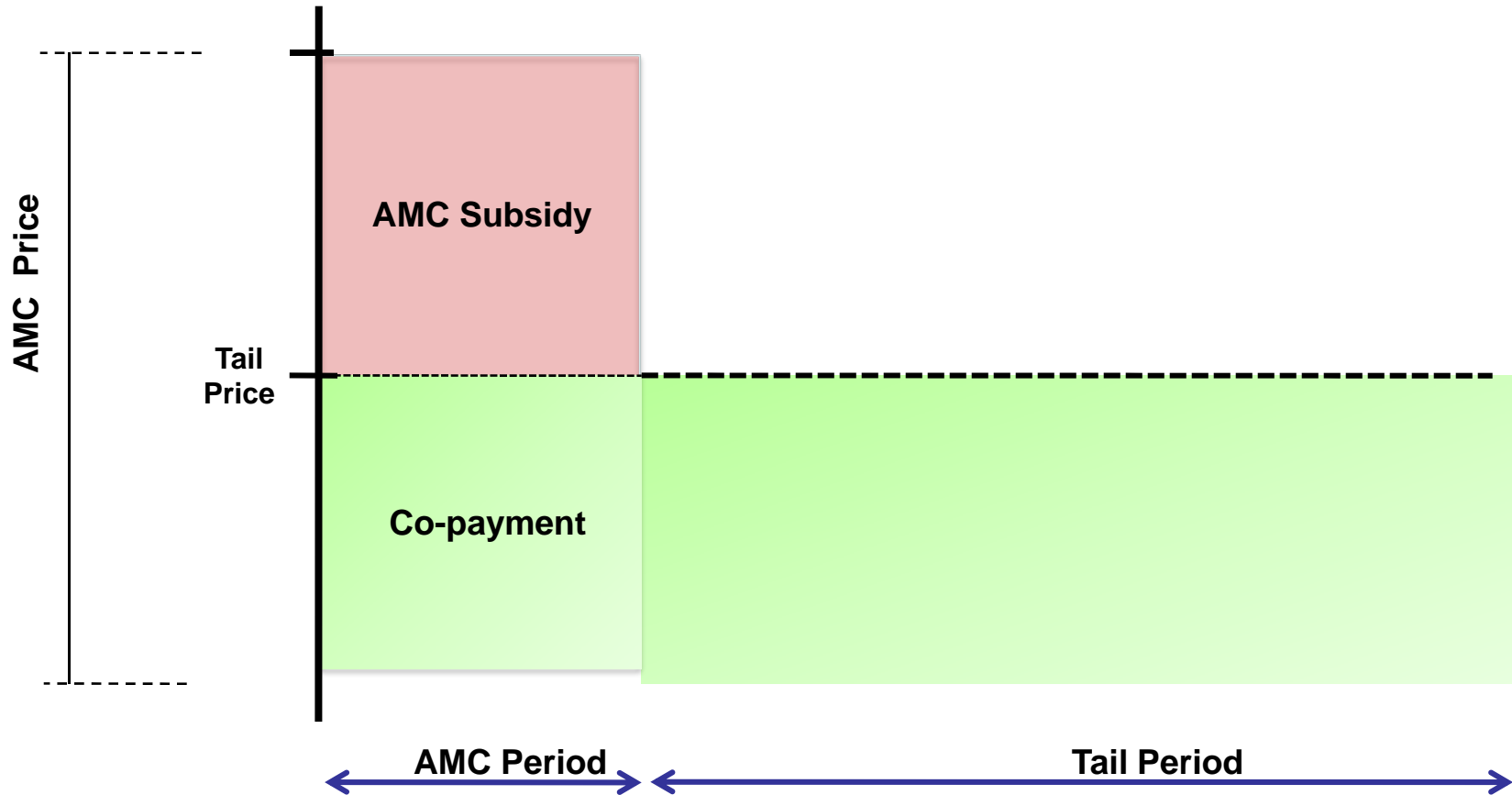
- meets minimum specified criteria
- demanded by GAVI-eligible countries

An AMC seeks to 'make a market' as in incentive for investments in R&D and manufacturing capacity



Source: GAVI

How does it work?





The Pneumo Pilot

Goal and Objectives

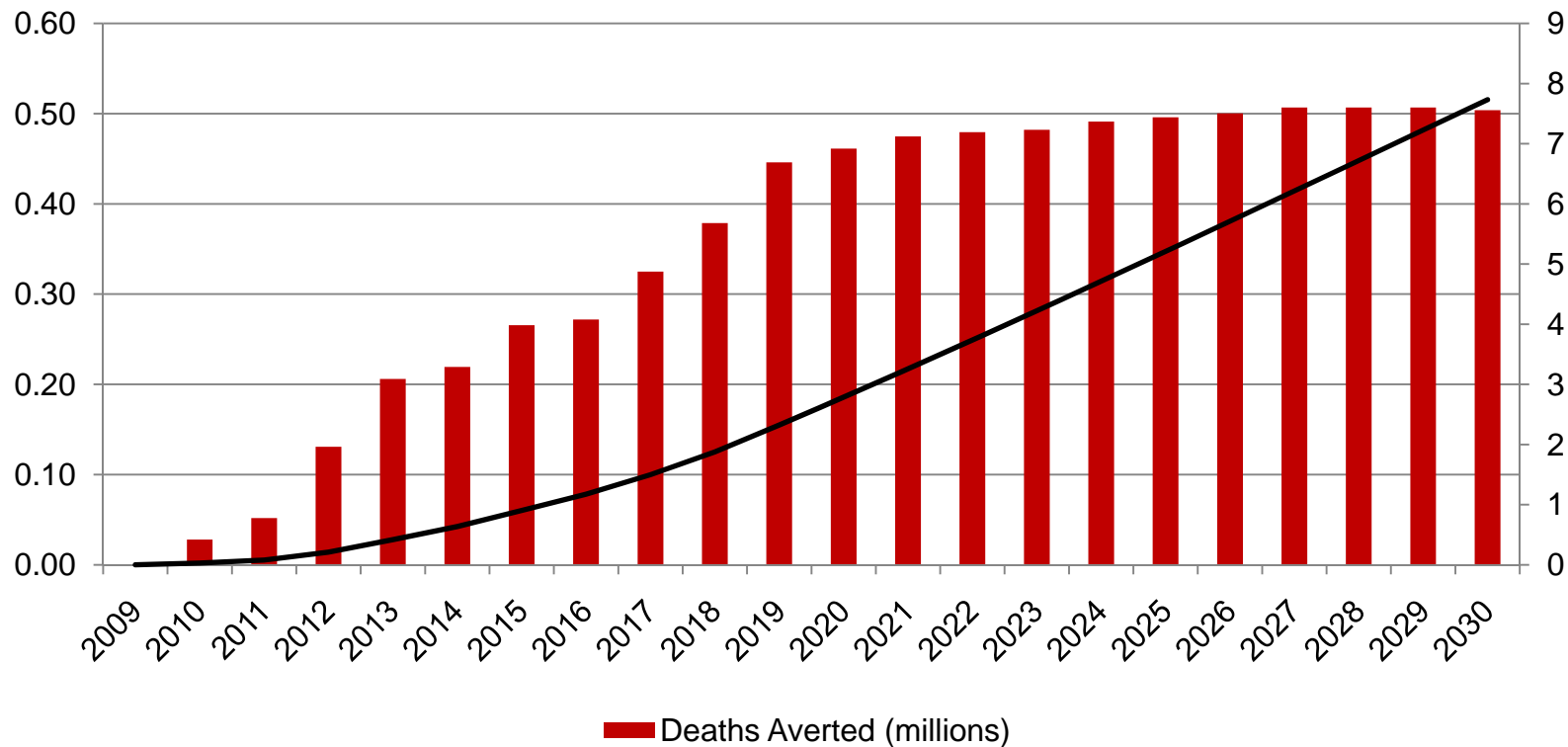
Overarching goal: reduce morbidity and mortality from pneumococcal diseases

Specific objectives:

- Accelerate vaccine development that meet developing country needs
- Accelerate vaccine uptake by ensuring predictable vaccine pricing for countries and manufacturers
- Pilot test the effectiveness of the AMC mechanism

Pneumo AMC

Cumulative Deaths Averted (\$M)



Serious pneumococcal diseases are the primary vaccine-preventable cause of death in children under 5.

The AMC will save 900,000 lives up to 2015 & 7.7 M lives up to 2030

AMC History

- 2005: CGD publishes “Making Markets for Vaccines”
- 2006: World Bank and GAVI join forces to develop the concept
- 2006: Disease Expert Committee reviewed vaccine candidates and recommended pneumo as AMC Pilot
- 2007: Launch in Rome in February \$1.5 billion pledged by Italy, United Kingdom, Canada, Norway, Russia, and the Gates Foundation to fund AMC Pilot

Defining the AMC

- Spring 2007: AMC donors requested an Independent Expert Group analysis and stakeholder consultations
- Summer 2007-March 2008: Economic Expert Group convened under chairmanship of David Fleming
 - Includes independent experts in economics, public health, vaccine production and finance
- March 2008:
 - Expert Group presents recommendations to donors
 - Donors created Implementation Working Group including GAVI, World Bank and UNICEF to develop working terms of the AMC (chaired by David Fleming and Ruth Levine)



Terms of the deal

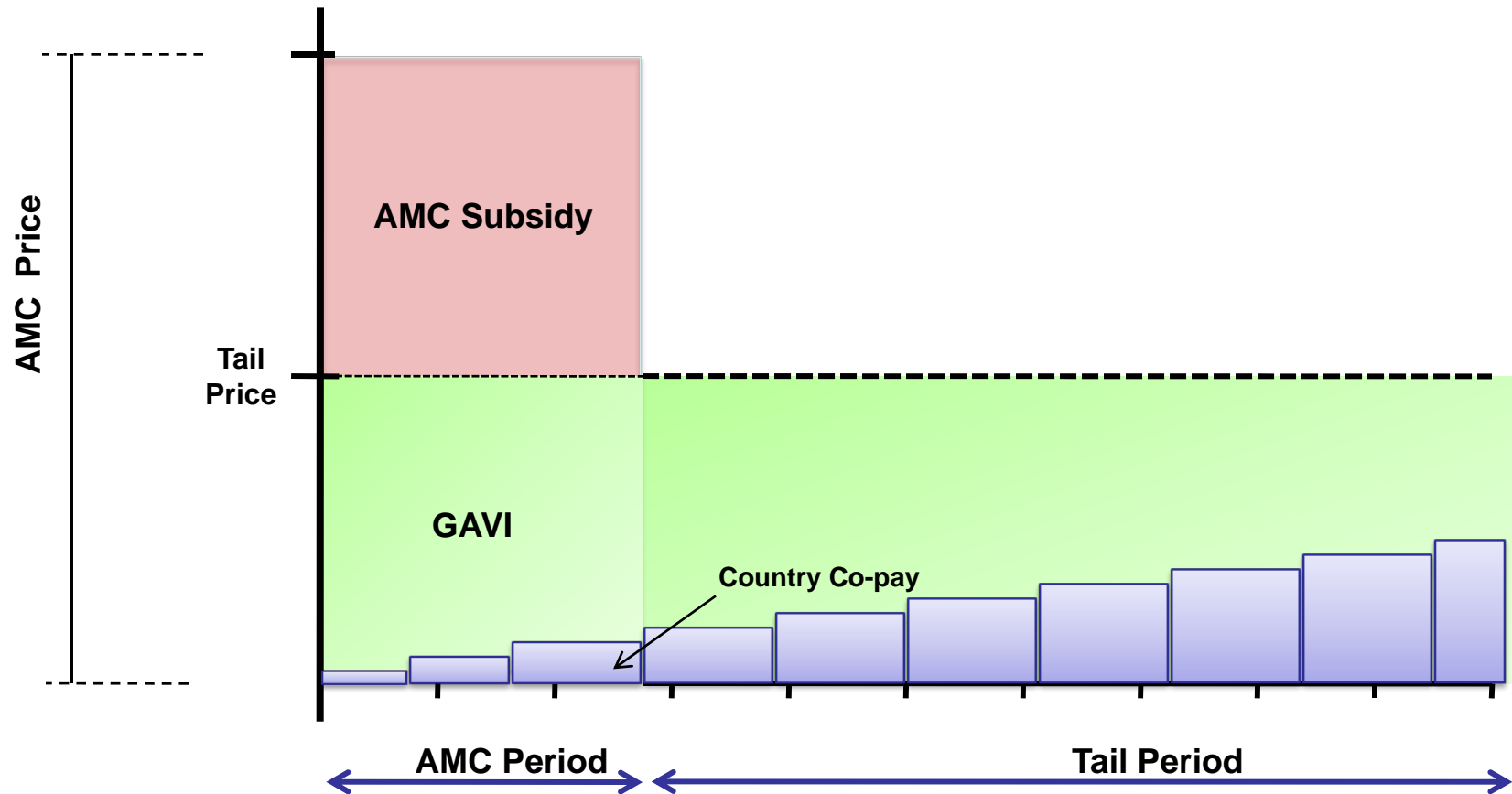
Terms of the Deal

- Integrate AMC with GAVI financing, procurement and vaccine introduction system
- Introduce 10-year supply commitments by industry to build adequate capacity for GAVI countries
- Mitigate demand risk for companies by providing 'frontloading' of AMC price & limited demand assurance
- Recommend specific AMC and tail price
- Stagger commitments with industry to match demand

1. Integrate AMC with GAVI procedures

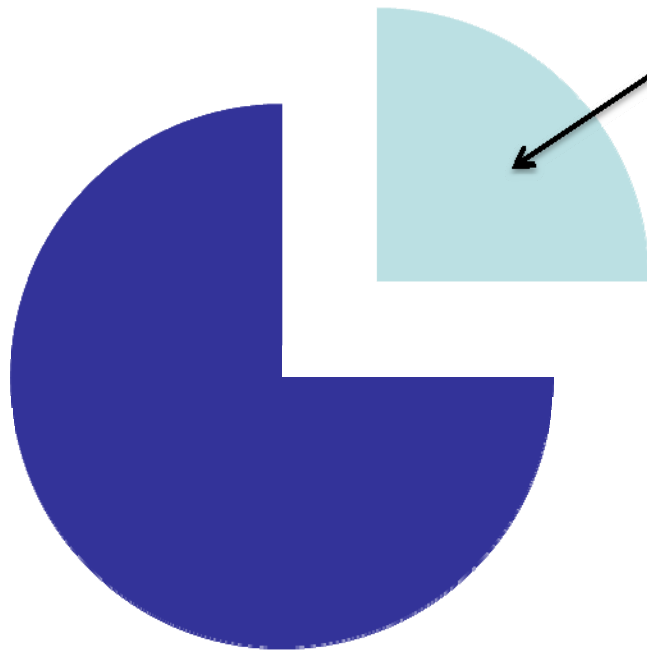
- Pneumococcal vaccine introduction and delivery systems aligned with other GAVI support
- Using existing co-financing mechanism provides predictability for countries
 - Recognition of differing ability to pay
 - Follow GAVI default policy
- Follow current approval processes – 2 years of committed funding in advance (vertical approvals) plus longer-term budget envelopes (5 years plus)

1. AMC Financing



2. Supply Commitments

AMC Envelope of \$1.5 B
200 M annual doses



Firm A commits to supply 50M doses per year or 25% of the total (200M) doses = \$375M of the total \$1.5B AMC

- Primary benefit: aligns AMC resources directly with desired AMC outcome
- Match capacity build-out goals to resources; lowers risk minimal new capacity build-out

3. Mitigate risk for companies

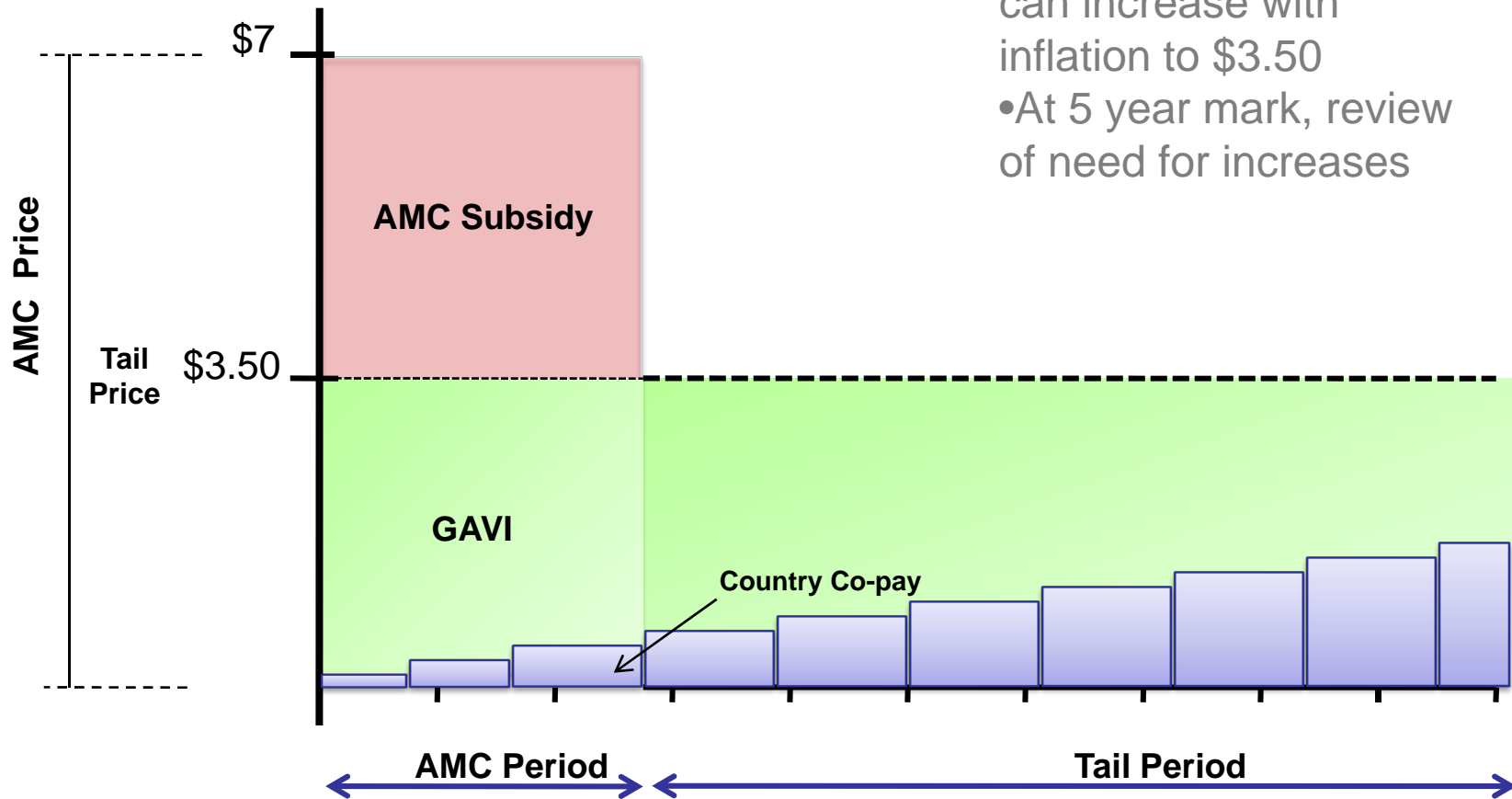
Two incentives will help ensure dedicated capacity

1. Frontloading by making initial “AMC price” sufficiently high (high AMC price, low tail price)
 - If demand is substantially less than anticipated, frontloading reduces firms’ financial exposure
 - Firms value earlier revenues
2. Provide limited demand assurance (firm order timing) :
 - At the time of signature of the supply agreement, the AMC donors & GAVI will make a legally binding commitment to buy 20, 15 and 10 % of the supplier’s dedicated capacity in year 1, 2 & 3, respectively

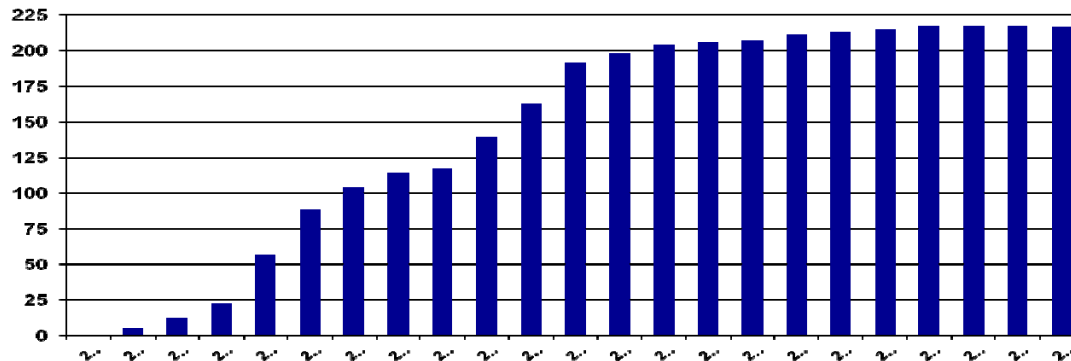
4. Prices

Inflation adjustment

- If tail price below \$3.50 can increase with inflation to \$3.50
- At 5 year mark, review of need for increases



5. Stagger commitments with industry

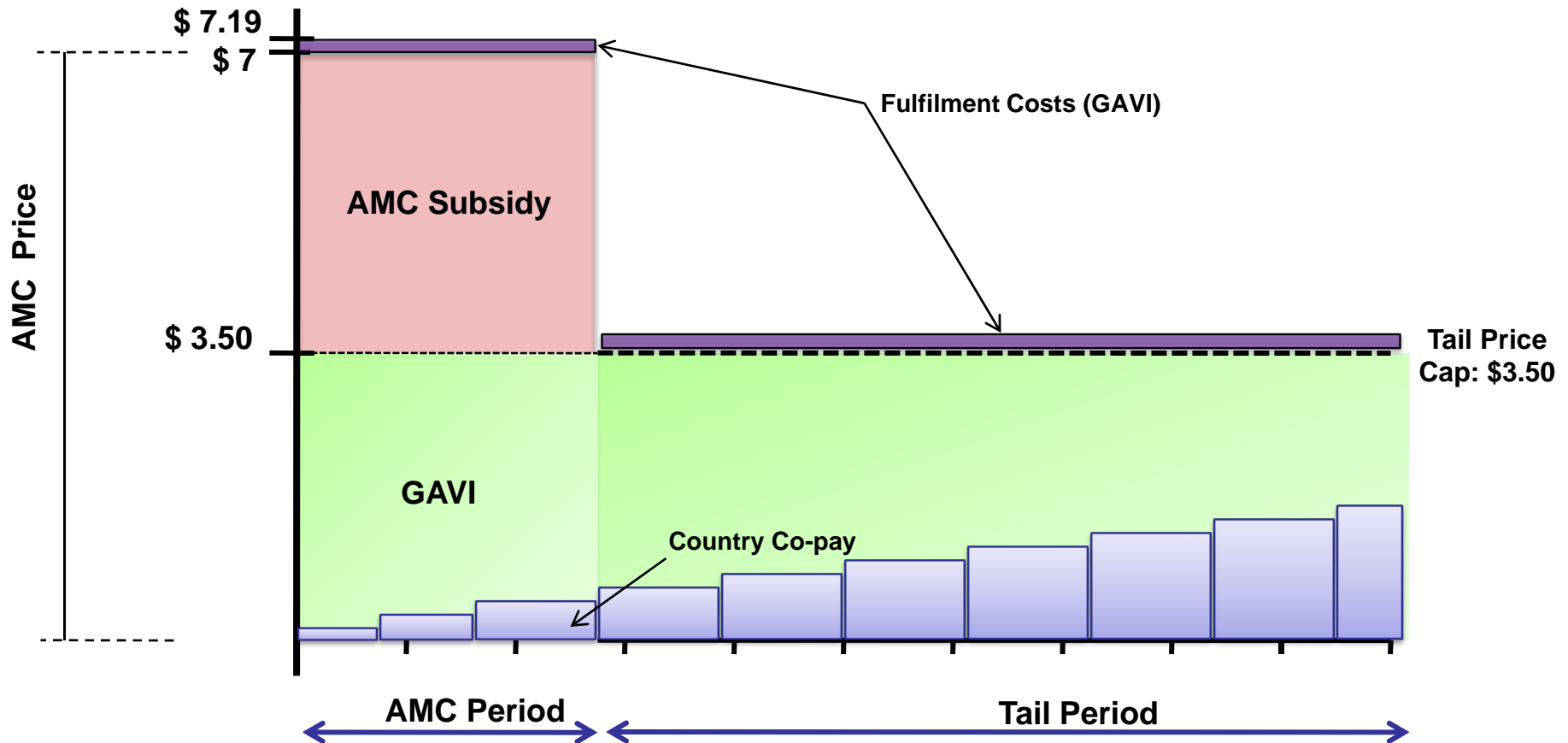


- The entire \$1.5 billion aggregate AMC contribution is on offer at the launch of the pneumo-AMC
- Suppliers are allowed to bid up to forecasted demand levels five years in advance
- Once projected demand for a given year is met, commitments would no longer be accepted for that year
- Can supply from existing headroom in interim



Financial implications

Sharing the vaccine costs

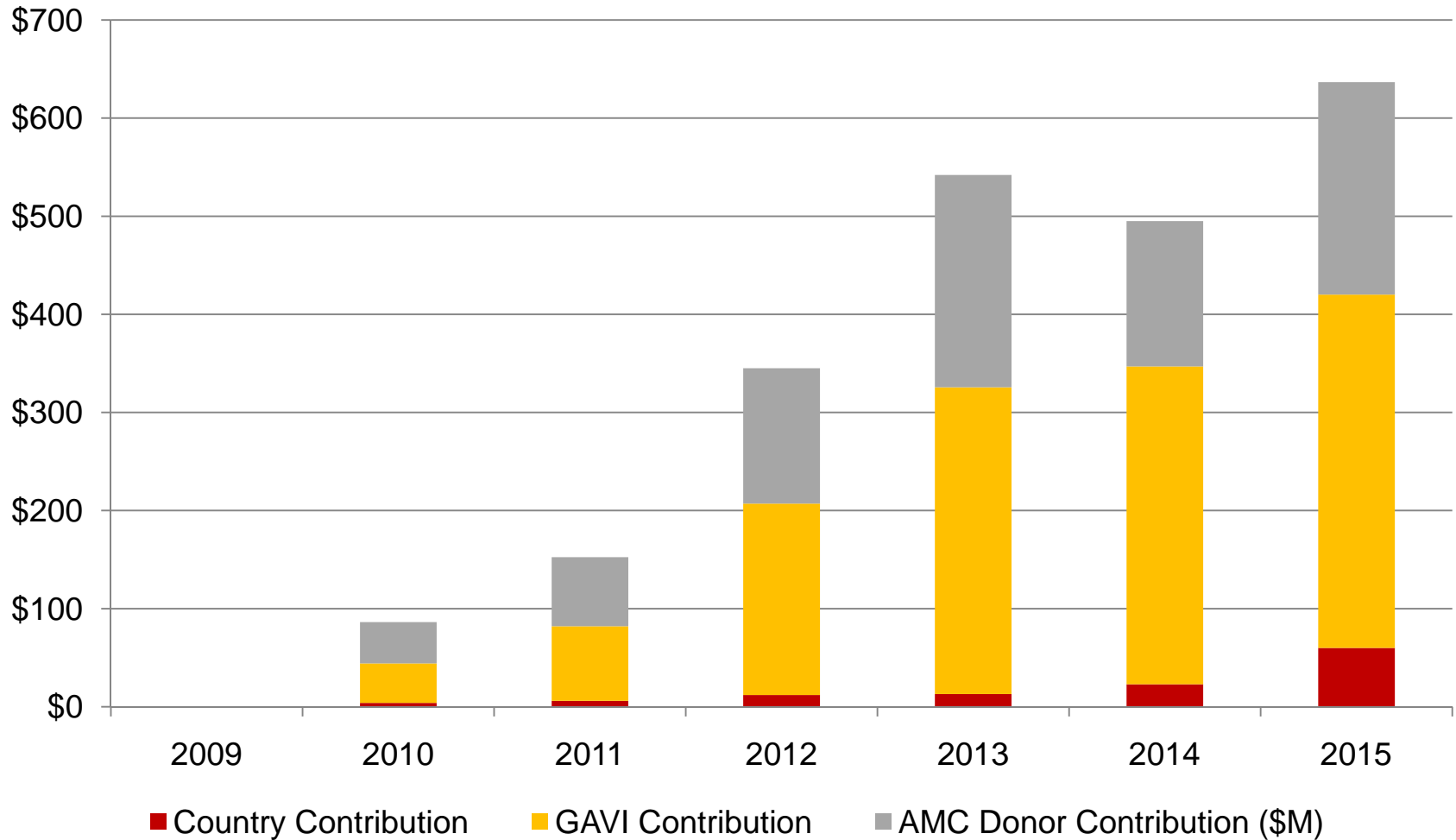


GAVI Vertical and Horizontal Approvals per usual GAVI financial policy

Maximum contributions by payer

Years	2010	2011	2012	2013	2014	2015	Cumulative (\$M)	
							2010-2015	2010-2020
AMC Donor Contribution (\$M)	42	70	138	216	148	216	831	1,500
GAVI Contribution (\$M) (no inflation)	40	76	195	313	324	360	1,308	3,381
Country contribution (\$M)	4	6	12	13	23	60	118	667
Total	86	153	345	542	495	637	2,257	5,548

Maximum contributions by payer (cont.)



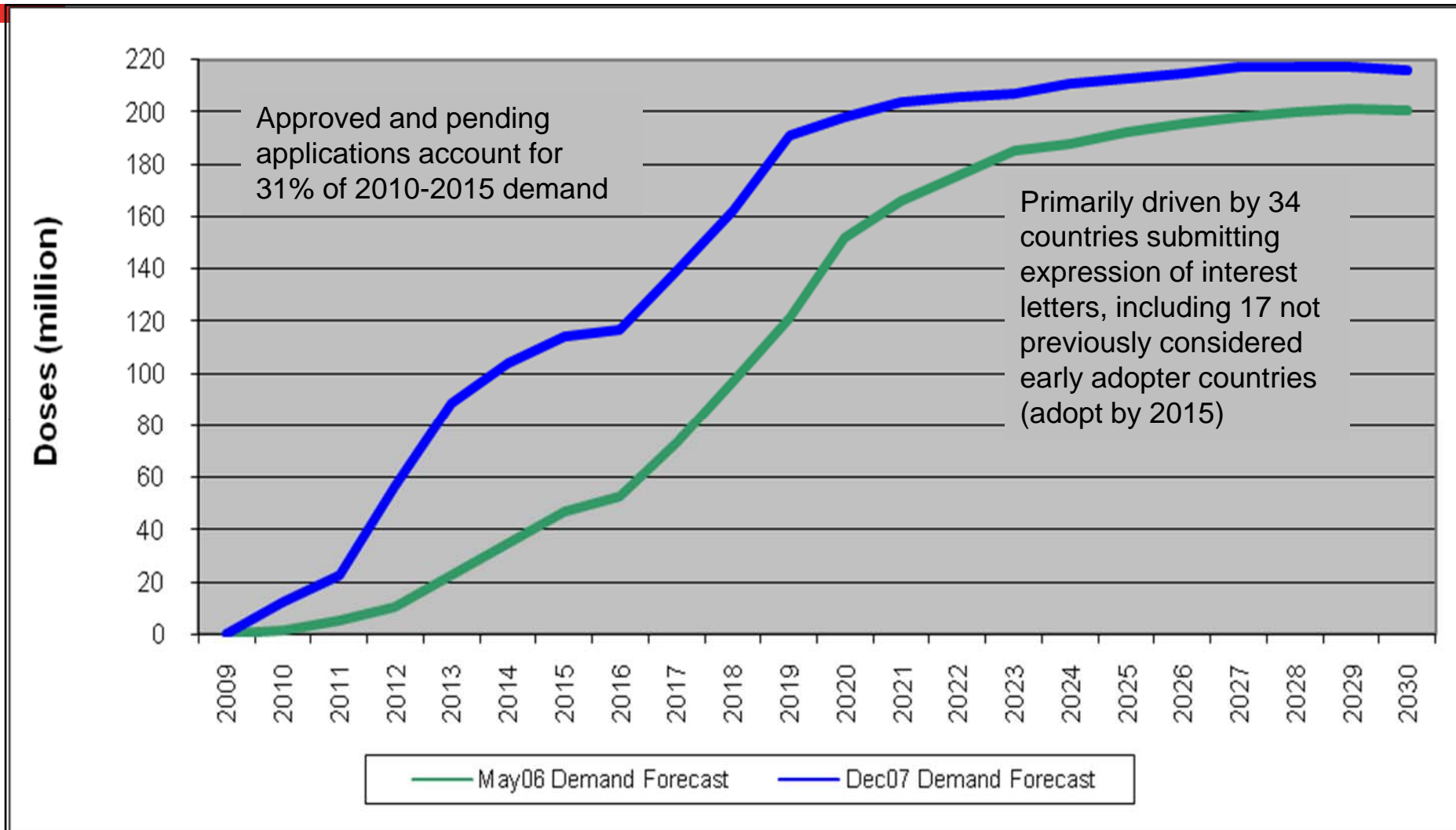
The AMC is in line with GAVI financial approval processes

- GAVI legal commitment will be undertaken separately for each supplier via the supply agreement
- The Board will be presented with a budget to approve for each supply agreement
 - GAVI will commit itself to 'vertical' financing for 2 years worth of approved country vaccine requirement (specific terms of supply agreements may generate subsequent provisioning requirements tbd)

Firm Order Timing

- GAVI will commit to purchase 20, 15 and 10 % of supplier's dedicated capacity in years 1, 2 & 3, respectively
- Likely that GAVI will need to provision against this purchase commitment as a function of UNICEF rules
- Firm Order Timing will not be an issue unless actual demand <20% of forecasted demand
 - In theory, GAVI could be liable for up to \$130M of product over the 2010-2019 timeframe
 - If only realize **approved** application level demand (4% of 2010-2015 demand), GAVI would owe \$60M for 17 M guaranteed doses.

Updated Demand Forecast



Changes from 2006 investment case

November 2006 Investment Case

- Projected demand 2011-2015: 185 million doses
- Price per dose: up to \$5
- Estimated total cost to GAVI : \$926 million (\$ 185 million per year average)

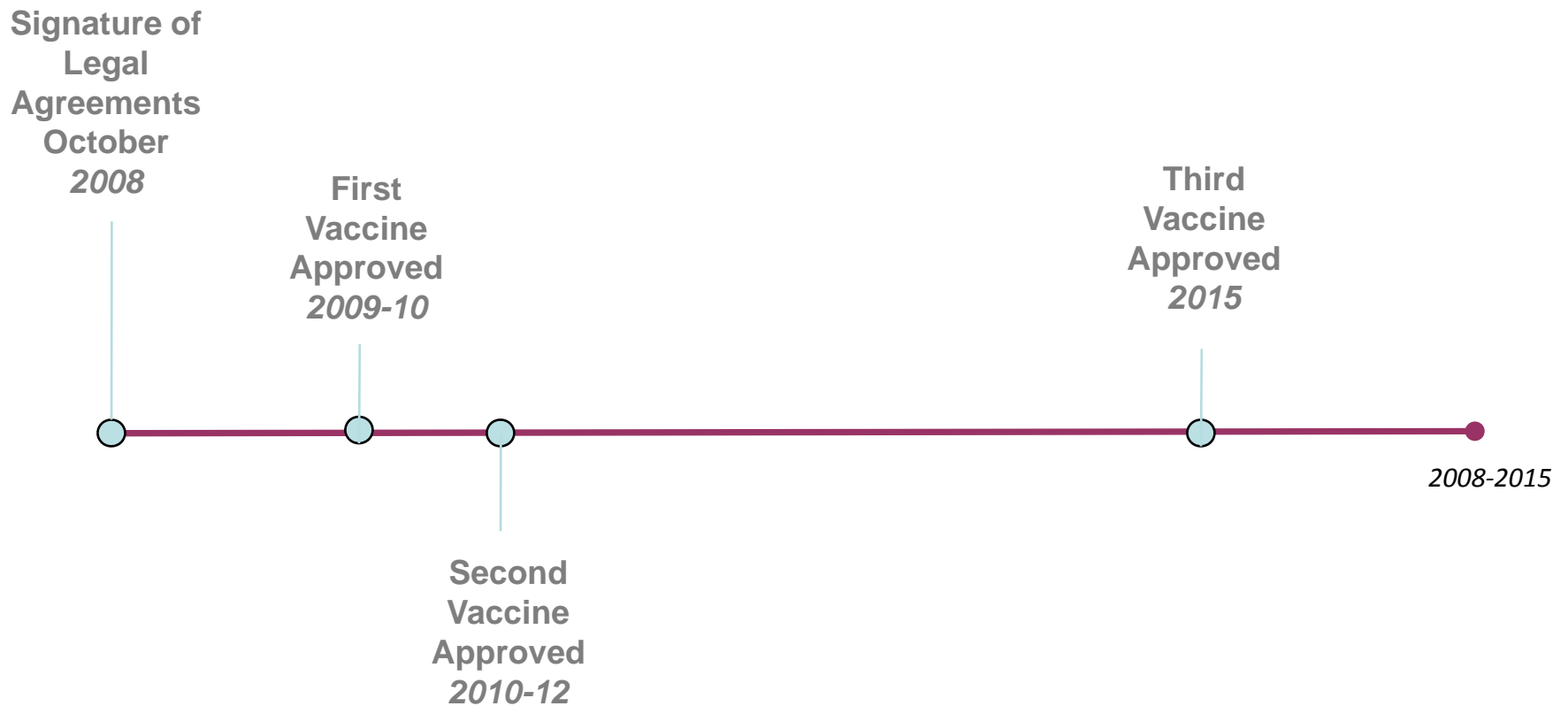
■ *June 2008*

- Projected demand 2011-2015: 384 million doses
- Price per dose: not greater than \$ 3.50
- Estimated total cost to GAVI : \$ 1.3 billion (\$276 per year average)



Next Steps

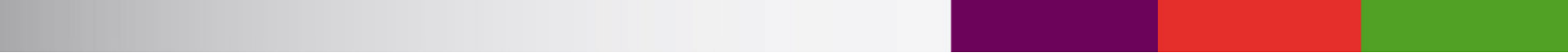
AMC timeline



*GAVI Alliance & Fund Board meetings
25 & 26 June 2008*

Request to the Boards

- Endorse a budget envelope of up to \$1.308 Billion during 2010-15. Disbursement from envelope subject to Board approval, final terms and normal GAVI Fund approval procedures.
- Take note that Board will be asked to enter into firm order commitments up to \$130 M in aggregate when individual supply agreements are signed (it is expected that GAVI will need to provision against this commitment when supply agreements are signed).
- Delegate authority to the GAVI Alliance and Fund Executive Committees to approve the AMC legal documents, based on guidance from the Boards



GAVI's overall Cash Picture: 2009 - 2015

