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Decision of Eurostat on deficit and debt

Accounting implications of the “International Finance Facility for Immunisation” initiative

Eurostat, the Statistical Office of the European Communities, has taken a decision on the classification, in national accounts, of the International Finance Facility for Immunisation (IFFIM), on the recording of debt which will be raised by IFFIM, and on the time of recording of government donations under this initiative. The decision is in line with the European System of Accounts (ESA 95) and is consistent with the opinion of the Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) as described in annex.

The case

The IFFIM initiative concerns the provision of development aid in the context of a programme of large-scale immunisation against disease in developing countries. It involves the creation of a securitisation vehicle, IFFIM, to securitise part of its expected future income stream, which is mainly expected to be a series of future conditional annual donations by governments.

It is important to stress that this consultation concerns only the IFFIM case and does not set a precedent for any other similar cases concerning the provision of development aid to developing countries, such as the proposed IFF (International Finance Facility), which will be considered on its own merit if and when finally adopted.

Starting in 2005, it is expected that IFFIM will raise funds for the rapid scaling-up of immunisation programmes in the world's poorest countries. Funds will be raised by borrowing against long-term, legally binding donor governments' conditional commitments. The funds raised will support already existing immunisation programmes of existing non-profit organisations, namely the Global Alliance for Vaccines and Immunisation (GAVI) and the Vaccine Fund (VF). The focus of GAVI is to provide access to vaccination to children in developing countries, while VF is a financing mechanism set to aid the work of the GAVI. IFFIM will be a Special Purpose Vehicle (SPV) for VF. The IFFIM donors are expected to be mainly governments of developed countries. GAVI will evaluate and recommend specific programmes, and VF will approve the programmes recommended by GAVI and determine how it will finance them, including the possibility of using IFFIM funds.

As far as the practical implementation of the initiative is concerned, according to the available information, a number of donors would agree to make conditional annual payments to VF. The payments would be of predetermined expected amounts and timing, but the actual amounts paid would be subject to a condition being met each year, namely that recipient countries would not be in a situation of protracted arrears with the IMF. Once the agreements (known as pledges) have been made by donor governments, IFFIM would borrow by issuing bonds. The VF will repay the borrowing using a proportion of the promised donations from governments. Donors would enter into legally binding contracts (pledges) with VF. These pledges will have to be honoured as long as GAVI produces enough programmes that require this funding. However, if a recipient country enters protracted arrears, the donors will have to reduce payments to IFFIM by amounts equal to that recipient country's percentage share of the total programme (either 1%, 3% or 5%). If this happens, bondholders will hold the risk of non-payment.

Classification of the units involved

It was decided that GAVI, VF and IFFIM are to be combined in a single institutional unit for the purpose of national accounts. It was decided also that this unit should be classified in the International Organisation sub-sector (S.22) and it would therefore be outside the national accounts of individual countries.

Recording of debt

The borrowing of IFFIM should be considered as the borrowing of a non-government unit, and not as the borrowing or debt of donor countries. This is because it was decided that the GAVI/VF/IFFIM institutional unit should be classified in "the rest of the world" sector. Moreover, due to the conditionality of payments by governments, depending on the fulfilment of certain conditions by recipient countries, and due to the fact that government would not be guaranteeing the debt of IFFIM, the bondholders would be at risk if IFFIM's resources were not sufficient to repay principal and interest of the bonds issued. Finally, there is the possibility that private donors may also join the initiative, putting additional resources at the disposal of IFFIM and VF.

Recording of deficit

It was decided that government donations in the context of the IFFIM initiative should be recorded as government expenditure when the donations are actually made to GAVI/VF, with an impact on the deficit of governments in each year for the amount of the payment made, and not at an earlier point in time, either when government pledged the amounts or when disbursement was made by VF. The payments should be recorded as current transfers (D.7).

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CMFB opinion

concerning the recording of the International Finance Facility for Immunisation (IFFIM)

1. On Eurostat's request the CMFB Chairman, with the assistance of the CMFB Executive Body, asked the CMFB Members to state their opinion on the recording in national accounts of the International Finance Facility for Immunisation (IFFIM). Twenty-one (21) national statistical institutes and twenty-two (22) national central banks from the Member States returned the questionnaire. A total of forty-three (43) national institutions responded to the questionnaire. The ECB also provided a reply.
2. The results of the consultation were as follows:
 - 2.1 Based on a large majority of the replies received, the CMFB considers that for national accounts purposes, IFFIM and two existing non-profit organisations – the Global Alliance for Vaccines and Immunisation (GAVI) and the Vaccine Fund (VF) - should be combined and treated as a single institutional unit.
 - 2.2 A majority of CMFB Members are of the opinion that this combined institutional unit (GAVI, VF and IFFIM) should be treated as an international organisation outside Member States; and a very large majority considered that this combined unit should not be classified in the government sector.
 - 2.3 A majority of CMFB Members considered that the bonds issued by IFFIM to raise money on the market should be recorded as debt of a non-government unit and not imputed to the donor governments.
 - 2.4 Based on a large majority of the replies received, the CMFB considers that the donors' expenditure should be recorded at the time the actual payments by the donors are to be made.
3. Further details on these accounting treatments are provided in the background document prepared by the Task Force in support of this CMFB consultation.
4. This opinion has been transmitted to Eurostat and will be kept in the records of the CMFB secretariat.

(Signed)

Bill KEATING
CMFB Chairman

Dublin, 29 July 2005