



Report to the GAVI Alliance Board

7-8 July 2011

Subject:	Financial Forecast update
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Agenda item:	04
Category:	For Information
Strategic goal:	SG3 - Financing

Section A: Overview

1. Purpose of the report

- 1.1 This paper informs the Board of the updated GAVI financial forecast for 2011-2015.

2. Recommendations

- 2.1 For information only.

3. Executive summary

- 3.1 This updated GAVI financial forecast for 2011-2015 incorporates the latest demand estimates and funding decisions taken to date and reflects the level of assured resources as known following the 13 June Pledging conference.
- 3.2 With assured resources for 2011-2015 now amounting to US\$ 7.6 billion, GAVI is well placed to meet the current expenditure forecast of US\$ 6.8 billion for those years. Further resources are expected to be contributed by new donors and existing donors who have not yet pledged for all of those years.
- 3.3 Expenditure is also likely to exceed the current estimate, enabling GAVI to reach more children faster than planned and to accelerate the introduction of new vaccines, in ways to be determined by the GAVI Board.
- 3.4 A further update will be provided to the Executive Committee in September that will include the financial implications of the new proposals submitted to GAVI in June 2011, following review by the Independent Review Committee and based on its recommendations. The record number of new proposals

submitted is an early indication of a more ambitious level of country demand than previously estimated.

4. Context

4.1 See sections C and D.

5. Next steps

5.1 An updated forecast will be provided to the Executive Committee to inform its decisions regarding the funding of new proposals in September 2011.

6. Conclusions

6.1 With expenditure needs for 2011-2015 (as currently estimated) fully covered by assured resources and with further resources expected to be contributed in for those years, GAVI will be able to respond to additional demand to reach more children faster than planned and to accelerate the introduction of new vaccines.

Section B: Implications

7. Impact on countries

7.1 The new visibility on resource availability through 2015 will enable countries to advance their immunisation plans with greater confidence.

8. Impact on the Business Plan / Budget / Programme Financing

8.1 The forecast indicates GAVI's programme financing capacity through 2015.

9. Risk implications and mitigations

9.1 None

10. Legal implications

10.1 None

11. Consultation

- 11.1 The expenditure estimates within the forecast were reviewed by the Audit and Finance Committee in May 2011. Since then, the resource estimates have been updated following the June Pledging Conference.

12. Gender equality implications

- 12.1 None

13. Implications for the Secretariat

- 13.1 Secretariat capacity may need adjustment in the event of a significant increase in demand for GAVI support.

Section C: Country demand in 2011-2015**14. Expenditure estimate based on February 2011 demand forecast**

- 14.1 Country demand¹ for GAVI support and associated costs is currently estimated to require cash outflows of US\$ 6.8 billion in the period 2011-2015, as summarised in Figure 1. Of this, US\$ 6.1 billion is for direct programmatic support through GAVI's vaccine and cash-based programmes; Business Plan costs for programme implementation by GAVI partners and mission support are estimated at US\$ 0.7 billion over the five years.
- 14.2 Of the US\$ 6.1 billion for direct programmatic support, US\$ 3.7 billion is for existing programmes that have already been approved or endorsed by the Board, including provision for extension of these through 2015. A further US\$ 2.4 billion is estimated for the 'balance of demand' from new (or expanded) programmes through 2015. Within the overall programmatic total of US\$ 6.1 billion, 82% is projected for vaccine programmes and 18% for cash-based programmes.

¹ Country demand based on the Strategic Demand Forecast version 3.0, issued in February 2011

Figure 1: Summary of Expenditure 2011-2015

US\$ million	Cash flow basis			
	Approved / Endorsed	Extensions	Balance of Demand	Total
Programmes:				
Penta	1,164	215	160	1,539
Pneumo	1,080	586	769	2,435
Rota	103		302	404
Other vaccines	198	5	454	657
Total Vaccine Programmes	2,544	806	1,684	5,035 82%
Cash-based Programmes	379		729	1,108 18%
Total Programmes	2,924	806	2,413	6,143 100%
Business Plan	252	436		689
Total Expenditure	3,176	1,243	2,413	6,832

Further details of the composition of expenditure are provided in Annex 1, figures A1-1 and A1-2. Details of the changes since the November 2010 forecast are provided in Annex 3.

15. Likelihood of demand increasing

- 15.1 The current estimate of US\$ 2.4 billion for demand from new (or expanded) programmes is based on the latest Strategic Demand Forecast, issued in February 2011. Demand is likely to increase as countries strive to reach more children faster than previously planned and to accelerate the introduction of new vaccines, given the increased confidence in GAVI's ability to support those needs with the resources now pledged.
- 15.2 The record number of new proposals submitted to GAVI in June 2011 is an early indication of a more ambitious level of country demand than previously estimated. At the same time, potential reductions in vaccine prices will tend to offset some of the cost to GAVI of meeting a higher level of demand.
- 15.3 An updated financial forecast will be provided to the Executive Committee in September that will include the financial implications of the new proposals submitted in June 2011 and adjustments to existing programmes, following review and recommendation by the Independent Review Committees. That update will also take account of any vaccine price reductions confirmed by then (to the extent these exceed price reductions already anticipated in the current forecast).

16. Outlook through 2020

- 16.1 Tentative estimates of demand for 2016-20 indicate growth in projected outflows from an average approximately US\$ 1.4 billion per year in 2011-15 to US\$ 1.6 billion per year in 2016-20, as illustrated in Figure A1-2 in Annex 1.

- 16.2 Those estimates are based on the February 2011 Strategic Demand Forecast and GAVI's current plans, and do not include any expansion of expenditures to meet the potential increases in demand discussed in paragraph 15.

Section D: Resources to meet the demand in 2011-2015

17. London Pledging Conference – Key Outcomes

- 17.1 By the close of the 13 June London Pledging Conference, GAVI's Assured Resources for 2011-2015 had increased to US\$ 7.6 billion. The extension of direct contribution pledges through 2015 is expected to add a further US\$ 0.3 billion² (or more). Hence, 'Qualifying Resources' of US\$ 7.9 billion can be taken into account when considering the approval of new programmes.

18. Capacity to meet more demand than currently estimated

- 18.1 Of the Qualifying Resources of US\$ 7.9 billion, US\$ 4.4 billion is needed to cover existing programmes (including their extension through 2015), leaving US\$ 3.5 billion available for new programmes. With the current estimate of demand from future programmes amounting to US\$ 2.4, a further US\$1.1 billion could be available to meet demand beyond the current estimate (i.e. 7.9 minus 4.4 and 2.4). Given the record number of new proposals submitted in June 2011, some of that additional demand may already be evident.
- 18.2 Figure 2 below provides an overview of the resources and expenditure estimates. Included in Assured Resources is a US\$ 200 million drawdown of cash and investments from their US\$1.24 billion level at the end of 2010 to a level of US\$ 1.04 billion during 2011- 2015. That lower level still maintains the required eight-month reserve³.

² Some donors that have made pledges for multiple years during 2011-2015 have not yet pledged for all of those years and are expected to pledge additional contributions in the future. In accordance with the Programme Funding Policy, a conservative estimate is made for such additional contributions when establishing the amount of 'Qualifying Resources' that must be available to cover GAVI's commitments. That estimate, in the amount of \$300m, assumes that the total direct contributions in 2015, currently \$829m, will by 2015 equal the \$1,132m annual average of total direct contributions for of the preceding three years (2012-2014).

³ A cash and investments balance of US\$ 1,043 million would provide an eight-month reserve for an annual expenditure level of US\$ 1.6 billion, as is required by the Programme Funding Policy. That level exceeds the annual expenditure average of US\$ 1.4 billion per the current estimate for 2011-2015, allowing some headroom for increased demand.

Figure 2: Overview of Resources and Expenditures in 2011-2015

US\$ millions		2011-15	
Resources Available			
	Direct contributions confirmed	4,964	
	IFFIm proceeds through GFA	1,480	
	AMC contributions	880	
	Investment income	80	
	Total inflows	7,404	
	Drawdown of cash & investments	195	
	Assured Resources	7,599	\$7.6 bn Pledging Conference
	Further direct contributions expected	300	\$0.3 bn Further expected
A	Qualifying Resources	7,899	\$7.9 bn
Expenditures (cash outflows)			
	Existing Programmes (& Business Plan)	4,418	
	Future Programmes (current estimate)	2,413	
B	Total Expenditures	6,832	\$6.8 bn Current estimate
A-B	Available for additional demand	1,068	\$1.1 bn (\$7.9bn - \$6.8bn)
Cash and investments at year-end		1,043	\$1.0 bn

- 18.3 A year-by-year breakdown of Figure 2 is provided in Annex 1, Figure A1-3. This indicates that the capacity to approve additional demand beyond the current estimate begins to arise in 2011.

Annex 1: Supplementary Tables

Figure A1-1: Expenditure 2011-2015 – by programmatic component and commitment level

Context: Paragraph 14.2

US\$ million	Programmatic Year basis				Cash flow basis			
	Approved / Endorsed	Extensions	Balance of Demand	Total	Approved / Endorsed	Extensions	Balance of Demand	Total
Vaccine Programmes:								
Penta	1,178	218	112	1,508	1,164	215	160	1,539
Pneumo-GAVI funded	655	400	500	1,554	556	392	589	1,537
Pneumo-AMC funded	534	195	150	880	524	194	180	898
Rotavirus	103		272	375	103		302	404
HepB mono	0			0	5			5
Hib mono	0			0	0			0
Tetra DTP-HepB	3			3	2			2
Tetra DTP-Hib								
Measles	1	3	19	23	1	3	19	23
Meningitis A (Routine & catchup)	73		102	174	73		104	177
Yellow Fever	63	2	3	67	62	1	6	70
Japanese Encephalitis (JE)			54	54			53	53
Rubella			52	52			53	53
Typhoid							6	6
Human Papillomavirus (HPV)			52	52			61	61
Investment Cases:								
- Yellow Fever	22		153	175	32		153	184
- Meningitis	18			18	23			23
Total Vaccine Programmes	2,650	818	1,468	4,935	2,544	806	1,684	5,035
Cash-based Programmes:								
HSS	99		650	749	253		585	838
CSO Type A & B	1		11	12	7		11	18
ISS	27			27	75			75
IRIS			68	68			62	62
Meningitis A - operational costs	28		38	66	28		38	66
Vaccine Introduction Grant	5		37	42	11		34	44
INS					6			6
Total Cash-based Programmes	160		804	964	379		729	1,108
Business Plan:								
Programme Implementation	201	357		558	201	357		558
Mission Support	51	80		131	51	80		131
Total Business Plan	252	436		689	252	436		689
Total Expenditure	3,062	1,254	2,272	6,588	3,176	1,243	2,413	6,832

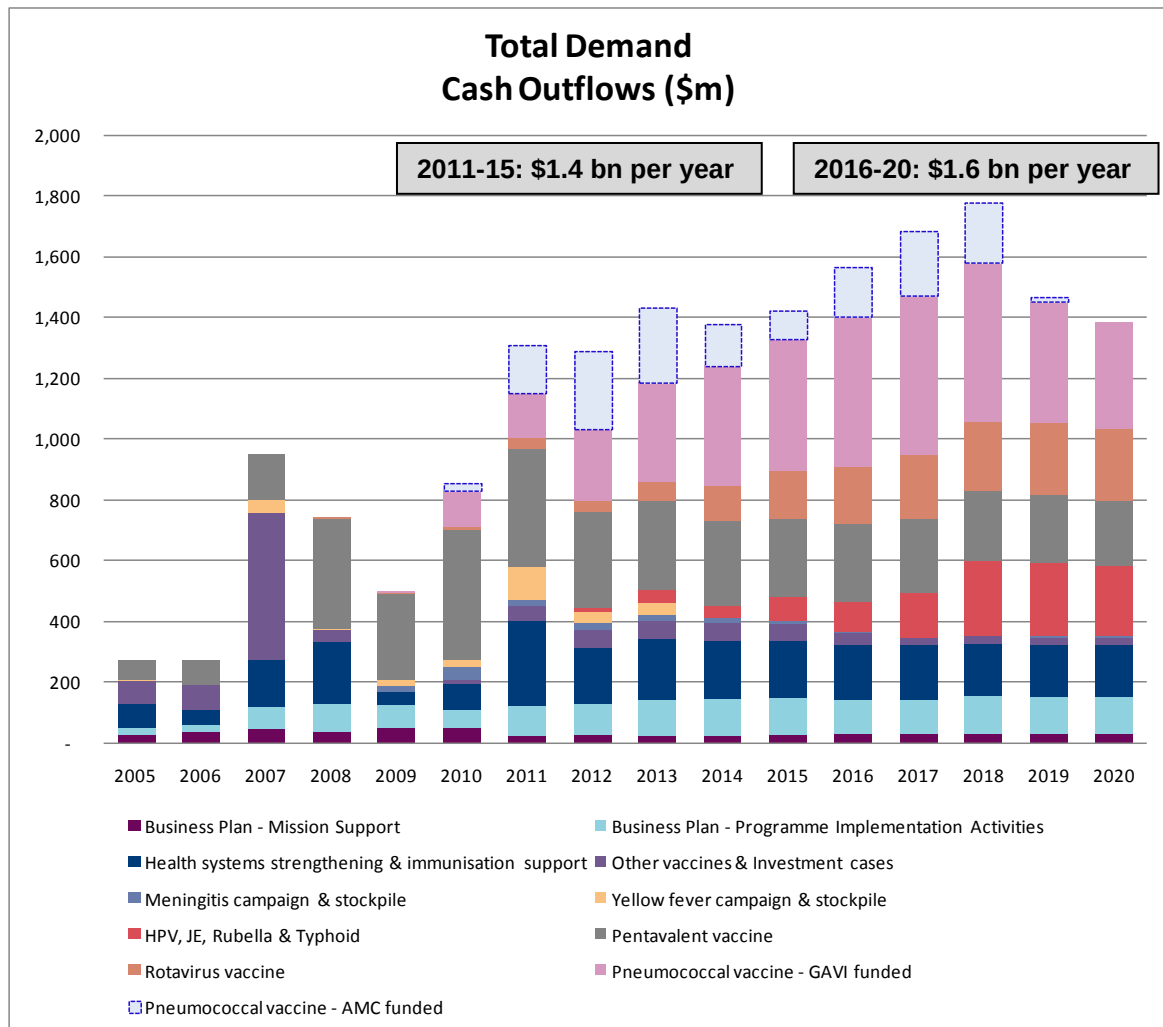
\$6.8 bn

Notes to Figure A1-1

1. The country demand projected for 2011-2015, estimated at a cash-flow amount of US\$ 6.8 billion, has been updated since November 2010 to reflect:
 - (a) The latest version of the Adjusted Strategic Demand Forecast (version 3.0 issued in February 2011).
 - (b) Board / EC programme funding decisions taken in November 2011, February and April 2011.
 - (c) An estimate for expenditure on health systems strengthening (HSS) through the joint funding platform, computed under the new HSS resource allocation method that was approved by the Board in June 2010. Included in the latest forecast, under Balance of Demand, is a provision for new programmes for Low-Middle Income Countries (as decided by the Board in December 2010), as well as Low Income Countries.
 - (d) Price assumptions have been updated taking into account latest UNICEF Supply Division provided “weighted average costs” and historical data trends.
 - (e) The methodology used in calculating the estimates is outlined in Annex 2.
2. Projected expenditures vary in levels of commitment, from the highest level of commitment (‘approved’), where legally binding contracts are in place, to the lowest level where no country applications have yet been received (‘balance of demand’).

Figure A1-2: Composition and Timing of Cash Outflows

For context, see paragraphs 14 and 16



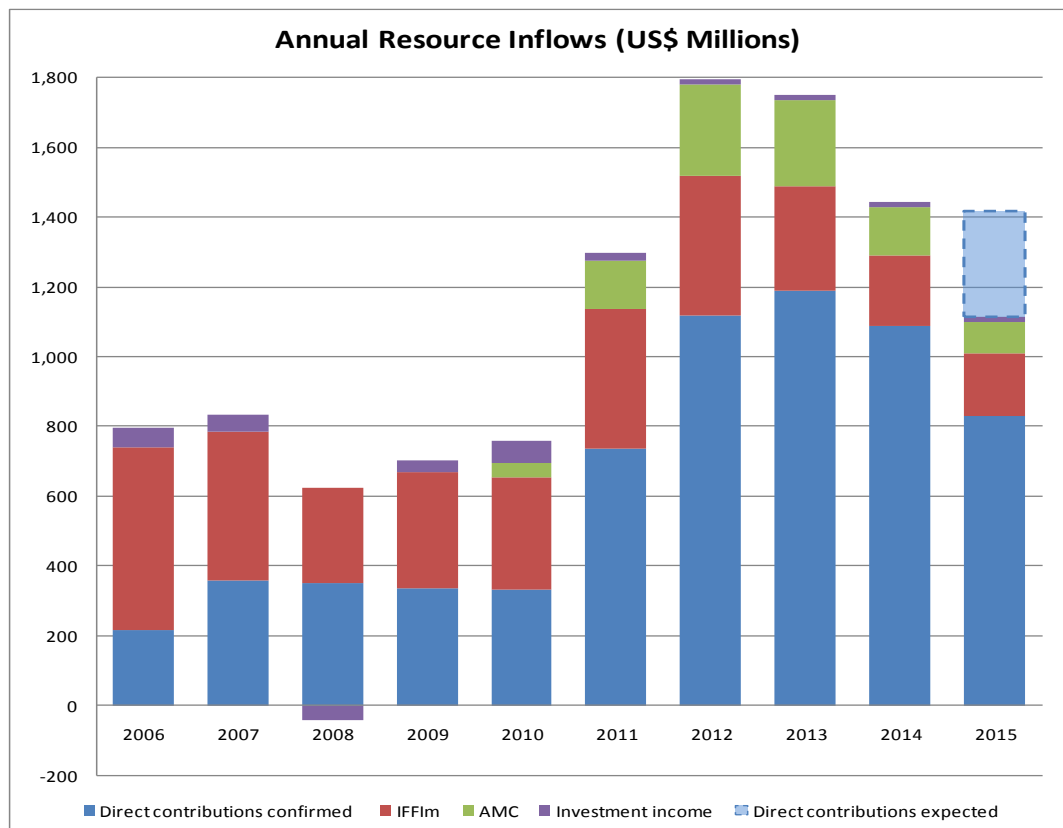
Note: The decrease projected in 2019 and 2020 is due mainly to the cessation of AMC funding from currently existing pledges and graduation of countries.

Figure A1-3: Overview of Resources and Expenditures in 2011-2015 (by year)

For context, see paragraph 18.3

in \$ billions		2011	2012	2013	2014	2015	2011-15
Resources Available							
A	Direct contributions confirmed	0.7	1.1	1.2	1.1	0.8	5.0
	IFFIm proceeds through GFA	0.4	0.4	0.3	0.2	0.2	1.5
	AMC contributions	0.1	0.3	0.2	0.1	0.1	0.9
	Investment income	0.0	0.0	0.0	0.0	0.0	0.1
	Total inflows	1.3	1.8	1.7	1.4	1.1	7.4
Drawdown of cash & investments		0.2					0.2
Assured Resources		1.5	1.8	1.7	1.4	1.1	7.6
B	Further direct contributions expected					0.3	0.3
	Qualifying Resources	1.5	1.8	1.7	1.4	1.4	7.9
Expenditures (cash outflows)							
B	Existing Programmes (& Business Plan)	1.2	1.0	0.9	0.8	0.6	7.9
	Future Programmes (current estimate)	0.1	0.3	0.5	0.6	0.8	2.4
	Total Expenditures	1.3	1.3	1.4	1.4	1.4	6.8
Available for additional demand		0.2	0.5	0.3	0.1		1.1
<i>Cumulative</i>		0.2	0.7	1.0	1.1	1.1	
Cash and investments at year-end		1.2	1.0	1.0	1.0	1.0	

Figure A1-4: Annual Resource Inflows 2006-2015



Annex 2: Estimation methodology

Cash Outflows

Programmatic Expenditures

Vaccines

For Country Programme expenditures there are three main drivers of the expenditure estimates, demand, supply and prices.

- Demand
 - The forecasted demand used for the latest financial estimates are taken from the Adjusted Strategic Demand Forecast (“SDF”) Version 3.0 updated to reflect the recommendations of the 2010 IRCs for all vaccines with the exception of the measles vaccine. In the case of the latter a GAVI internal projection as at October 2009 has been used. Demand is reflected by “programmatic year” i.e. the year in which the vaccine is available for use in the recipient country.
 - India: Whilst for pentavalent vaccine the demand forecast provides for a roll-out of Penta to five States during the period 2012-15, the financial forecast continues to reflect the original board approved \$165 million commitment. For Pneumococcal vaccine, the forecast assumes that India will not introduce this vaccine before 2016.
- Supply
 - No supply constraints are included in the latest dose assumptions, based on current expectations. This reflects a change from the previous demand forecast which was adjusted for supply constraints for Pneumococcal vaccine in 2010 and 2011.
- Prices
 - GAVI uses best information available for its price estimates with the starting point being UNICEF’s confidential 3 year “weighted average cost” values. Added to these weighted average costs are assumptions for the costs of freight, safety boxes and syringes.

Investment Cases

- Yellow Fever
 - Included in these costs are estimates for vaccine stockpile, “Outbreak response” and Preventative; costs as well as operational support costs provided by WHO and UNICEF to the extent not covered in the Business Plan.
 - For 2011-13, US\$ 22 million for vaccine stockpile costs has been included under “Approved and Endorsed” reflecting the July 2010 Executive Committee approval.
- Meningitis
 - Included in these costs are estimates for vaccine stockpile, “Outbreak response and Preventative
 - Estimated costs for country specific programmes have been presented separately as part of the Country Programmes section, under Meningitis A - “Routine & Campaign”. For 2011-13, US \$72.6 million for vaccine costs have been included under “Approved and Endorsed” reflecting the April 2011 Executive Committee approval.

Cash Based programmes

- HSS
 - “Committed” programmes reflect all previous approvals and endorsements by the Board / Executive Committee including recommendations made by the September 2010 Monitoring IRC.

“Balance of demand” estimates reflect values derived from the new method (as approved by the Board in June 2010) for computing the maximum grant an eligible country could receive through the Health Systems Strengthening (HSS) programme. Included in the latest forecast, under Balance of Demand, are the values computed for Low Income and Low Middle Income Countries

- IRIS:
 - Estimates are based on values previously approved and endorsed by the Board / Executive Committee.
- ISS
 - Demand reflects programmes previously approved and endorsed by the Board / Executive Committee.
- CSOs
 - Demand reflects programmes previously approved and endorsed by the Board / Executive Committee together with best case estimates for “Balance of Demand”.

Expenditures converted from “Programmatic Year” to “Cash outflow”

- GAVI’s expenditure estimates are first built on a “programmatic year” basis and then converted to cash outflows based on a set of standard timing assumptions including historical trends e.g. for vaccines the general assumption is that 20% of the programmatic year’s expenditure will be disbursed in the preceding year, 75% in the year itself and 5% in the subsequent year; for cash-based programmes, it is assumed that 60% will be disbursed in the programmatic year and 40% in the following year.

Business Plan

- The financial forecast reflects those estimates included in the Business Plan Budget for 2011 and the provisional amount for 2012, as considered and recommended by recommended Executive Committee on the 4 November 2010.
- Beyond 2012, an annual cost increase of 2% is assumed for Partner and Secretariat budgets following three years of a flat budget.

Cash Inflows

- Direct Contributions
 - These reflect direct contributions to either the GAVI Alliance or GAVI Campaign and are reflected on a cash basis.
 - Direct contributions and commitments represent received contributions and publicly announced and confirmed commitments as at 13 June 2011.
- IFFIm / GFA Proceeds
 - The cash inflows projected reflect “GFA to IFFIm transfers”, i.e. the monies that would be available for supporting programmes.
 - The total amount of US\$ 1,400 million projected to be disbursed by 2015 will result in an IFFIm Gearing ratio of 67.5% which is below the upper limit of 70.7%.
- AMC
 - AMC inflow estimates have been derived from the AMC financial model that takes into account both demand and supply assumptions etc.
- Investment Income
 - Estimated investment incomes for 2010 and 2011 remain unchanged from the previous forecast. A conservative estimate of US\$ 15 million per year from 2012 is included; if the cash and investment reserve is maintained at US\$ 1 billion, investment income should considerably exceed this estimate.

Annex 3: Changes in Projected Expenditure for 2011-2015

Context: See paragraph 14

The overall change of US\$ 8 million in forecast expenditure outflows from the November 2010 forecast to the current (May 2011) forecast is comprised of a reduction of US\$ 155 million of expenditures on a programmatic year basis (i.e. year for which expended) and an increase of US\$ 163 million in the timing of cash flows (mainly due to expenditures for 2010 being paid for in 2011).

US\$ millions	As per forecast of:		<u>Change</u>	(see below)
	<u>Nov 2010</u>	<u>May 2011</u>		
<u>Programmatic year basis:</u>				
Total Programmes	6,053	5,900	-153	
Business Plan	690	689	-1	
Total Expenditure	6,743	6,588	-155	
Timing of cashflows	81	243	163	
Cash Flow Basis	6,824	6,832	8	

Reasons for changes to programme expenditure estimates for 2011-2015, on a programmatic year basis (overall reduction of **-\$153 million**):

Penta **-\$22m**

- Δ volume: \$55m additional introductions: Nigeria
- Δ price decrease -\$77m (*Lower weighted average price assumption driven by new 10 dose vial presentation*)

Pneumo **+\$84m**

- Δ volume: additional introductions in Nigeria, Angola, Vietnam
- Δ AMC \$ 'top-up' utilization \$67m (*AMC top-up funds used faster in the revised supplier contracts assumptions for 2011-15*)

Rota **-\$242m**

- Δ volume: -\$217m demand shifted out from 2011-15 to 2012-16 driver Bangladesh & Ethiopia
- Δ price -\$25 *Updated assumptions*

JE **-\$64m**

- Δ volume: -\$62m revised date of intro: Myanmar; Cambodia self finances
- Δ price: -\$2m

HPV **-\$43m**

- Δ volume: revised date of introduction: Tanzania
- Δ price – no change

All other vaccines **+\$7m**

Cash based programmes **+\$112m**

- Latest forecast is based on updated assumptions in accordance with Board decisions to treat Lower Middle-Income countries as eligible for HSS support and assuming that cash-based programmes represent 20% of direct programmatic expenditure (being the mid-point of the 15%-25% range set by the Board).

Investment Cases **+\$15m**

- Updated to reflect updated assumptions for Meningitis A & Yellow Fever