

SUBJECT: FINANCIAL UPDATE, INCLUDING FORECAST

Agenda item: 04a

Category: For Decision

Section A: Executive Summary

Context

At its December 2020 meeting, the Gavi Alliance Board reviewed and approved the Financial Forecasts for the Strategic Periods 2016-2020 (Gavi 4.0) and 2021-2025 (Gavi 5.0) which reflected; (a) the impact of COVID-19 including Gavi's immediate response to the pandemic; (b) the outcome of the Global Vaccine Summit; and (c) the financial impact of the additional investment decisions made by the Board after the successful replenishment.

As the Gavi 4.0 Strategic Period is now complete, this paper presents a summary of the financial results for 2016-2020 period, as well as the updated Financial Forecast for Gavi 5.0. The updated Financial Forecast reflects the final results for the previous strategic period as well as updated Available Resources and Forecast Expenditures, including the impact of the additional investment priorities presented for decision at this Board meeting.

The Financial Forecast presented excludes COVAX which is considered separately under Agenda Item 4b. Specifically, the Programme and Policy Committee (PPC) agreed to recommend to the Board it approve the design and associated funding envelope of the COVID-19 Delivery and System Strengthening. As there is no proposed change to the Gavi 'core' funding envelope of US\$ 150 million and any additional expense will be funded from COVAX AMC delivery resources, there is no financial impact of this decision on the Financial Forecast presented in this paper. Effective from the next forecast cycle, the Secretariat will include COVAX in the Financial Forecast and a consolidated view will be presented to the Board from December 2021.

Except to reflect the actual expenditures of Gavi 4.0 and the financial impact of the investment decisions being considered at this Board meeting, there are no material changes to the Financial Forecast approved by the Board in December 2020. The Audit and Finance Committee (AFC) considered and recommended to the Board for approval this updated Financial Forecast at its meeting on 7 June 2021 and concluded, in line with the Programme Funding Policy, that sufficient resources were available for the Board to approve the investment decisions being considered at this meeting. After reflecting the financial impact of these investment decisions, the amount available for future investments is US\$ 224 million.

There are a number of significant risks and opportunities not yet reflected which could crystallise over the period and materially impact the Financial Forecast. These include additional direct contributions from donors who have not yet pledged for the full five year strategic period thereby increasing available resources to fund the additional investment priorities still being considered by the Alliance. These are outlined in more detail under Section B and will be included in the forecast once they materialise, or sufficient information is available regarding their certainty, nature and value.

Conclusions

The Gavi Alliance Board is requested to approve the Financial Forecast for the Strategic Period 2021-2025 including the financial implications of the decisions that the Board will consider at this meeting.

Section B: Financial update, including forecast

1. Overview of Actual Financial Performance 2016-2020

Figure 1: Actual Financial Performance 2016–2020

	2016-2020				
	Investment Opportunity	Forecast Dec 2015 Board	Variance	Actuals 2016-2020 December 2020	% of the Forecast Dec 2015
Qualifying Resources	9,536	9,850	(275)	9,575	97%
Total Expenditure	9,536	9,518	(157)	9,360	98%
Available for future investments	-	332	(117)	215	

- 1.1 With the 2016-2020 strategic period now complete, the financial forecast at the start of the strategic period (as presented to the Board in December 2015) can be compared with actual performance.
- 1.2 Actual Qualifying Resources were 3% or US\$ 275 million lower than originally forecast. This reflects US\$ 228 million higher direct contributions and US\$ 292 million higher investment income in the period, offset by a reduction in the amount of IFFIm (International Finance Facility for Immunisation) proceeds required for 2016-2020 period. A decision was taken to leverage the flexible funding mechanism and defer US\$ 714 million IFFIm disbursements to 2021-2025.
- 1.3 Actual Total Expenditure was 2% or US\$ 157 million lower than originally forecast mainly due to significantly lower vaccine programme expenditure (primarily due to price reductions for the Pneumococcal and Pentavalent vaccines as well as supply constraints for Rotavirus vaccines and HPV (human papillomavirus) vaccines, and slower implementation rate for Measles & Measles-Rubella programmes) partly offset by higher cash-based programmes disbursements. See **Appendix 1** for further details.

2. Financial Forecast 2021-2025

- 2.1 The updated Financial Forecast for Gavi 5.0 (v18.2) forecasts Assured Resources of US\$ 10.3 billion and Forecast Expenditure of US\$ 10.1 billion after including the financial impact of the investment decisions being considered at this Board meeting.

Figure 2: Overview of resources to meet expenditure

US\$ million, cash-flow basis	2021-2025			New Forecast (v18.2) June 2021 Board
	Prior Forecast (v18.0) Dec 2020 Board	Change upon updating estimates	Impact of June 2021 decisions	
Assured Resources (projected)	10,442	(111)		10,332
Allow. for Further Direct Contributions	0	0		0
Qualifying Resources	10,442	(111)		10,332
	\$10.4 bn			\$10.3 bn
Forecast Expenditure	10,018	(55)	144	10,108
	\$10.0 bn			\$10.1 bn
Available for future investments	424	(56)	(144)	224
	\$0.4 bn			\$0.2 bn

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Decisions for consideration by the Board US\$ million	Already in the Forecast	Decision amount	Forecast proposed
(a) Fiduciary risk assurance costs & Financial Management	25	139	164
(b) Vaccine Innovation Priorisation Strategy	0	5	5
	25	144	169

- 2.2 Compared with the Prior Forecast approved by the Board in December 2020, there is a modest US\$ 56 million net change upon updating estimates as a result of timing difference on cashflows on transition to the next strategic period and changes to the assumptions relating to the Gavi 5.0 period. The final actual results of Gavi 4.0 are set out in **Appendix 1**.
- 2.3 After allowing for the funding required for the investment priorities being considered at this Board meeting, US\$ 224 million resources remain available for future investments in Gavi 5.0.
- 2.4 There are a number of significant risks and opportunities summarised below which are not currently reflected in the forecast but could crystallise over the Gavi 5.0 period. These will be included in the forecast once they materialise, or sufficient information is available regarding their certainty, nature and value:
- a) The impact of the COVID-19 pandemic on vaccine programme introductions in both 2021 and 2022 is based on our best estimate, however the context is very uncertain. The successful and timely execution of Gavi programmes depends on appropriate capacity in the countries including the Ministries of Health (MOH), Secretariat, Alliance partners, and other in-country partners providing support;

- b) Future contributions not yet pledged and not reflected in the forecast. It is anticipated that additional contributions will be received over and above the pledges reflected in the forecast, particularly for donors that have not made multi-year pledges for the entire strategic period; and
- c) As discussed at the December 2020 Board meeting, additional investment opportunities for Gavi 5.0 are being considered including Gavi's strategic partnership with India, innovation, VPD (vaccine-preventable disease) surveillance and a potential malaria vaccine programme. Gavi's strategic partnership with India is being presented at this meeting for Board guidance, while the other potential investment areas will be brought back to the PPC, AFC and Board for further discussion and consideration at a later stage once they are further developed.

Overview of Resources Available

Figure 3: Analysis of resources available

US\$ million, cash-flow basis	2021-2025			
	Prior Forecast (v18.0) Dec 2020 Board	Change upon updating estimates	Impact of June 2021 Board decisions	New Forecast (v18.2) June 2021 Board
	US\$m	US\$m	US\$m	US\$m
Resources Available				
Direct contributions	7,693	19		7,712
IFFIm Proceeds, excl CEPI	2,172	-		2,172
Investment Income, etc.	125	-		125
Total Inflows	9,990	19		10,009
Decrease/(increase) in Cash & Inv. Reserve	108	(0)		108
Resources available from 2016-2020	345	(130)		215
Available from Cash & Investments Reserve (beyond the minimum amount required)	453	(130)		323
Assured resources 2021-2025	10,442	(111)	-	10,332
Allowance for additional direct contributions	-	-		-
Qualifying Resources	10,442	(111)	-	10,332
	\$10.4 bn	(\$0.1 bn)		\$10.3 bn

- 2.5 Compared with the Prior Forecast approved by the Board in December 2020, the Assured Resources have reduced by US\$ 111 million as a result of higher vaccine spend in the final quarter of 2020 thereby reducing the net resources carried forward. This decrease was partially offset by US\$ 60 million in pledges initially forecast for 2020 now being received in 2021, less US\$ 40 million of pledges redirected to COVAX AMC.

Overview of Forecast Expenditures

Figure 4: Forecast expenditures

US\$ million, cash-flow basis	2021-2025			
	Prior Forecast (v18.0) Dec 2020 Board	Change upon updating estimates	Impact of June 2021 decisions	New Forecast (v18.2) June 2021 Board
Vaccine programmes	5,195	(108)		5,088
Health Systems Strengthening	1,700	-	-	1,700
core HSS	1,200			1,200
Equity Accelerator Funding	500			500
CCEOP programmes	205	23		228
Other cash-based, including op costs & VIGs	644	(6)		638
COVID-19 vaccine delivery costs	70	29		99
Institutionalising post-transition support & exploring MICs	281	-		281
Prevention of backsliding	20	-		20
Fiduciary risk assurance costs & Fin. Mgmt.	25	-	139	164
Vaccine Innovation Prioritization Strategy	-	-	5	5
PEF - Programmatic	1,129	1	-	1,130
Targeted Country Assistance	500	-	-	500
Strategic Focus Areas & Found. Support	155	0	-	155
Foundational Support	210	-	-	210
Other	264	1	-	265
Programmatic Expenditure	9,269	(55)	144	9,359
OpEx - PEF	102	-	-	102
OpEx - Secretariat	648	-	-	648
Operating Expenditure (Secretariat & PEF)	749	-	-	749
Total Expenditure	10,018	(55)	144	10,108
	\$10.0 bn	\$0.1 bn		\$10.1 bn

- 2.6 The Forecast Expenditure has decreased by US\$ 55 million, compared to the previous forecast approved by the Board. This decrease is due to a reduction in vaccine programme expenditure of US\$ 108 million mainly resulting from programme disbursements being brought forward to 2020 from 2021-2023. This was partly offset by a US\$ 52 million increase in cash-based expenditure mainly due to COVID-19 vaccine delivery costs and CCEOP expenditure being delayed from 2020.
- 2.7 The updated Financial Forecast includes the financial impact of investment decisions considered at the May meeting of the PPC and recommended to the Board for approval at this meeting:
- Fiduciary Risk Assurance and Financial Management:** An additional US\$ 139 million has been included in the forecast for Gavi's approach to fiduciary risk assurance and financial management support to ensure the timely, efficient and equitable management of Gavi grants by governments in accordance with the Board's risk appetite and focus on country ownership and sustainability. US\$ 25 million of interim funding for this priority area was approved by the Board in December 2020 and therefore already included in the forecast.

- b) **Vaccine Innovation Prioritisation Strategy:** An initial investment of up to US\$ 5 million has been included in the forecast for the Vaccine Innovation Prioritisation Strategy (“VIPS”) to cover costs in 2021-2023 to provide guidance for and incentivise development of three VIPS innovation priorities (namely microarray patches (MAPs); heat stable and Controlled Temperature Chain (CTC) qualified vaccines; and barcodes on primary packaging).
- 2.8 The impact of the **COVID-19 pandemic and COVAX** deployment on existing vaccine programmes and new introductions in Gavi 5.0 remains uncertain. In particular, the following assumptions in relation to the forecast should be noted:
- a) **Procurement:** The December 2020 forecast assumed that the acute phase of the COVID-19 pandemic would last throughout 2020 with recovery only starting from 2021. Stronger vaccine procurement levels in the second half of 2020, however, suggest that recovery already started in 2020. The forecast has been updated to reflect volumes initially forecast in 2021 that were actually delivered in 2020. However, there remains a high level of uncertainty in terms of the impact of the pandemic in 2021 given the rapidly changing context and the emergence of new variants.
- b) **Supply capacity and pricing:** The forecast currently assumes that the pandemic has caused no widespread macro impact to supply capacity or pricing. Some isolated instances of supply disruptions and change in estimates of supply have been reflected in the forecast where relevant. While there is evolving information about suppliers adjusting to incorporate the impact of COVID-19, it is too early to reflect a major shift in supply or price in the forecast with certainty.
- c) **Economic impact of the pandemic:** The forecast does not reflect the economic impact of the pandemic on country eligibility and transition, and long-term co-financing. This will be updated once the 2020 World Bank gross national income per capita and updated gross domestic product per capita growth projections are released.
- d) **New Vaccine Introductions:** The December 2020 forecast already assumed a reduction in the number of new vaccine launches across Gavi 5.0 due to the impact of the pandemic (with a 20% reduction compared to pre-pandemic expectations). There are no changes in the current forecast (with the same level of launches forecast across the Gavi 5.0 period). However, there is a change in the timing of vaccine launches, with 77 launches projected in 2021-2022, rather than the 86 launches reflected in the December 2020 forecast.

- e) **Routine immunisation:** The December 2020 forecast assumed a minimal disruption to ongoing routine immunisation activities as a result of COVID-19 vaccine deployment. This forecast reflects no significant change in this assumption. Where available, WHO data shows that nearly all countries saw monthly numbers of children immunised return to 2019 levels in the second half of 2020, (although the need for routine catch-up activities remained). However, the impact of the pandemic on routine immunisation in 2021 still remains highly uncertain.

Update on New Opportunities, New Investments and New Programmes

- 2.9 It is anticipated that additional contributions will be received over and above the pledges reflected in the forecast, particularly from donors that have not made multi-year pledges for the entire strategic period. Future Direct Contributions from donors that have not yet pledged for the full strategic period, but expected in 2024-2025 based on resource management forecast, has been estimated at US\$ 591 million.
- 2.10 The Secretariat has implemented a pro-active hedging policy to provide certainty on the US dollar value of non-US dollar denominated pledges as pledges are converted to contribution agreements. Based on the hedges in place and current exchanges rates, there is a potential favourable impact from exchange rates of US\$ 62 million which has not been reflected in the forecast until the Secretariat has further certainty from market trends or contribution agreements are in place.
- 2.11 If the above opportunities crystallise as anticipated, this will increase the net available for future investments from US\$ 224 million up to US\$ 877 million.
- 2.12 The Secretariat is working on four additional investment priorities in the range of US\$ 450–550 million relating to (i) Strategic Partnership with India; (ii) Gavi 5.0 Innovation Strategy; (iii) vaccine-preventable disease (VPD) surveillance; and (iv) a potential malaria programme to further accelerate progress on the Alliance vision of leaving no one behind with immunisation.
- 2.13 These investment priorities, financed through funds available for future investments and the allowance for future contributions not yet pledged, will be presented to the Board for further discussion and guidance in due course upon recommendation by the PPC and AFC.

Section C: Actions requested of the Board

The Gavi Alliance Audit and Finance Committee **reviewed** the Financial Forecast and **recommends** to the Gavi Alliance Board that it:

- a) **Note** that the Audit and Finance Committee has reviewed the financial implications of the recommendations made by the Programme and Policy Committee at its meeting on 19-20 May 2021 as set out in Figure 2 of Doc 04a and concluded that these recommendations could be approved by the Board in accordance with the Programme Funding Policy;

- b) **Note** that except for reflecting the financial implications for Gavi 5.0 of the recommendations made by the Programme and Policy Committee, no changes have been made to the Finance Forecase approved by the Audit and Finance Committee on 4 May 2021; and
- c) **Approve** the Financial Forecast for the Gavi 5.0 (2021-2025) Strategic Period as set out in Section B of Doc 04a.

Annexes

Annex A: Implications/Anticipated impact

Annex B: Terminology Used

Additional information available on BoardEffect

Appendix 1: Financial Update on 2020 and 2016–2020 (Gavi 4.0) Actuals