
Subject	Partners' Engagement Framework and Secretariat Budget (2023–2024)
Agenda item	04b
Category	For Decision

Section A: Executive Summary

Context

This paper presents the operating budgets for the Gavi Secretariat, COVAX AMC (COVAX) and Partners' Engagement Framework (PEF) for the fiscal years 2023 and 2024 to the Board for approval based on a recommendation from the Audit and Finance Committee (AFC).

The proposed **Secretariat budget** for 2023 and 2024 is in line with the total Gavi 5.0 envelope included in the Board approved Financial Forecast, including the additional budgets approved for the special initiatives (Malaria, Diagnostics and Middle-Income Country strategy (MICs)), with the US\$ 45 million underspend from 2021 and 2022 rephased across the strategic period. This rephasing reflects the anticipated acceleration of activities delayed due to the pandemic and higher inflation, as well as providing a level of flexibility to enable the Secretariat to respond to uncertainties and evolving needs given that we are still operating in the context of the pandemic as well as enhanced global economic uncertainty. This flexibility will also enable certain operating costs associated with Gavi 5.1 to be absorbed, specifically the human papillomavirus (HPV) vaccine relaunch and some of the potential costs relating to regional manufacturing diversification (noting these are still to be determined).

The Secretariat budget does not yet reflect the efficiency gains and synergies to be realised through the new Operational Excellence approach. The Operational Excellence framework is structured around 5I's: Innovate (e.g. EVOLVE), Integrate (e.g. COVAX Integration), Improve (e.g. simplify the way we work), Invigorate (Gavi's culture and employee engagement) and Inform (change management and communication). The full financial impact of the Operational Excellence initiatives and related needed capabilities still need to be qualified and quantified. This will include a holistic view of implementation costs (funded under the existing budget), financial benefits, impact on the organisation design and workforce, and a multi-year timeline for execution.

The proposed **COVAX budget** is in line with the 2020-2023 budget envelope approved by the Board, with the US\$ 10 million underspend from 2022 rephased to 2023. The Board has approved the COVAX mandate until the end of 2023.

A potential COVID-19 vaccine programme from 2024 onwards as well as Gavi's role in pandemic preparedness and response (PPR) is being considered as part of Gavi 5.1. An in-principle decision on these Gavi 5.1 priorities is being requested by the

Board at this meeting, with availability of funding to be confirmed by the Board in June 2023. Therefore, an operating cost budget estimate of US\$ 27.7 million is included in 2024, to be further updated subject to Board decision in June 2023.

The proposed **PEF budget** for 2023 and 2024 reflects a decrease compared to 2022 due to a reduction in COVID-19 vaccine procurement fees based on lower forecast volumes and the number of COVID-19 vaccines in the portfolio.

Questions this paper addresses

What operating budget is required for the Secretariat, COVAX Facility and PEF to deliver on the Board-approved priorities for 2023 and 2024, and whether there is sufficient financial flexibility within the approved Board envelopes to fund?

Conclusion

The AFC reviewed the budget proposals for 2023 and 2024, and **concluded that the financial envelopes are available for the Board to approve the budgets** as follows:

- Secretariat operating budget of US\$ 149.8 million for 2023 and US\$ 152.8 million for 2024;
- COVAX AMC operating budget of US\$ 43 million for 2023;
- Gavi 5.1 operating budget of US\$ 27.7 million for 2024 (excluding US\$ 2.4 million for procurement fees under PEF), noting that these additional Gavi 5.1 priorities are subject to Board approval and contingent on funding being made available;
- PEF budget of US\$ 73.9 million for 2023 and US\$ 73.1 million for 2024.

Section B: Partners Engagement Framework and Secretariat Budget (2023 and 2024)

1. Secretariat Operating Budget

Figure 1: Secretariat Operating Budget

Accrual basis	2022		2023		2024	
	Budget 5.0	Forecast	Budget 5.0	Budget 5.0	Variance	Variance
All values in US\$ m Full Year Values unless otherwise stated						
Salary and Other staff costs	75.3	64.7	82.0	85.0	9%	13%
Consultancy & Professional Services	22.6	27.3	23.8	22.1	5%	-2%
Facility & Office costs	10.0	10.6	11.3	11.8	13%	17%
Travel, subs & accommodation	6.1	2.9	6.6	6.6	8%	8%
Events & Mtgs	3.5	2.6	4.0	4.0	13%	13%
Other costs	6.1	5.2	6.8	7.0	11%	15%
Total Secretariat excl. One-off expenditure and FX	123.7	113.3	134.5	136.5	9%	10%
One off expenditure	4.4	1.7	8.6	8.1	95%	84%
Gavi 5.0 reaffirmed priorities and Flexibility	5.8	0.0	10.0	10.0	72%	72%
Impact of Foreign exchange rate assumptions	0.0	0.0	(3.3)	(1.8)	-	-
Secretariat incl. One-off expenditure and FX	133.9	115.0	149.8	152.8	12%	14%
Approved carryforward of 2021 underspend	12.5	0.0	0.0	0.0	-	-
Total Secretariat including Board approvals	146.4	115.0	149.8	152.8	2%	4%
Secretariat CAPEX	0.5	1.0	1.0	1.0		

Note: Gavi 5.0 budget includes Secretariat Expenditure associated with Board approved special initiatives (Malaria, Diagnostics, MICs) in line with the incremental Secretariat budget approved at the time of approving these initiatives.

- 1.1 The **forecast underspend** in 2022 reflects the continuing impact of the pandemic on activities and travel, as well as the lower staff costs incurred as a result of the slower hiring of open roles (noting that a number of vacant roles have been backfilled with consultants). Across 2021 and 2022 it is forecast that there will be US\$ 45 million underspend which will be rephased with US\$ 25 million forecast for rephased activities and one-off costs, and US\$ 20 million retained (US\$ 10 million in 2023 and 2024) for flexibility to respond to the uncertain operating context and absorb operating costs for certain Gavi 5.1 priorities (e.g. HPV relaunch and regional manufacturing diversification).
- 1.2 **Salaries and Other staff costs** make up the majority of the Secretariat budget, with an increase of US\$ 6.7 million (9%) proposed in 2023 and US\$ 9.7 million (13%) in 2024 compared to the 2022 budget of US\$ 75.3 million (and 2022 forecast actuals of US\$ 64.7 million). The increase is driven by staff costs associated with the Board approved special initiatives (Malaria, Diagnostics and MICs, US\$ 3 million), inflation and the 2022 performance management cycle (US\$ 2 million), as well as filling existing vacant roles and the allocation

of targeted additional roles for key areas (e.g. Audit & Investigations, Ombudsperson, Gender, Risk, Operational Excellence) incorporating an allowance for vacancy and attrition. The budget does not yet reflect potential synergies and efficiencies related to operational excellence.

- 1.3 **One-off expenditure** is estimated to increase by US\$ 4.2 million in 2023 and US\$ 3.7 million increase in 2024 versus the 2022 budget reflecting the Secretariat focus on implementing a significant change and transformation agenda under the Operational Excellence framework including EVOLVE (US\$ 5 million) and the costs of the Mid-Term Review (US\$ 1.8 million).

2. COVAX Operating Budget

Figure 2: COVAX and Gavi 5.1 Operating Budget

Accrual Basis All Values in \$US m Full Year Values unless otherwise Stated	2022		2023	2024	2023	2024
	Budget COVAX	Forecast COVAX	Budget COVAX	Budget Gavi 5.1	Variance	Variance
Salary & other Staff Costs	12.0	10.9	8.7	5.7	-28%	-53%
Consultancy & Professional Services	35.2	32.8	23.1	15.2	-34%	-57%
Travel, subs & accomodation	0.9	0.6	1.0	0.9	5%	-2%
Events & Mtgs	1.0	1.0	1.0	0.8	4%	-15%
Other Costs	8.1	4.1	9.2	5.1	13%	-38%
Total COVAX exd. one-off expenditure & FX	57.2	49.4	43.0	27.7	-25%	-52%
PEF Procurement Fees	11.2	9.1	5.2	2.4	-54%	-79%
Total COVAX & PEF	68.4	58.4	48.2	30.0	-30%	-56%

- 2.1 The **COVAX Operating budget is US\$ 43 million for 2023** which is in line with the multiyear 2020-2023 budget approved by the Board in December 2020 and June 2021 (US\$ 155 million, including PEF).
- 2.2 The 2023 budget supports an average of 120 full time equivalent roles (FTEs), a 21% decrease from 2022 staffing levels, with progressive reduction assumed towards the end of 2023. Of these FTEs, 65% are consultants and the remaining are temporary staff positions. In line with previous discussions with the Board, the Secretariat intends to convert key positions to long-term staff positions (current assumption is approximately 25), recognising the importance of these roles to Gavi's core business and the value in maintaining and leveraging specific expertise and capabilities from COVAX to support Gavi's mission.
- 2.3 COVAX operating costs are assumed to cease at the end of 2023 however a **Gavi 5.1 budget estimate of US\$ 27.7 million has been developed for 2024** (with a further US\$ 2.4 million for procurement fees under PEF) relating to the estimated operating costs to support a potential COVID-19 routine vaccine programme from 2024 onwards as well as Gavi's role in PPR being considered by the Board as part of Gavi 5.1, noting that these are subject to further Board approval and contingent on funding being made available.

3. PEF Budget

Figure 3: PEF Budget

Accrual basis All values in US\$ m Full Year Values unless otherwise stated	2022 Budget			2023 Budget			2024 Budget		
	5.0	COVAX	Total	5.0	COVAX	Total	5.0	COVAX/ Gavi 5.1	Total
Procurement Fees	28.7	11.2	39.9	28.7	5.2	33.9	28.7	2.4	31.1
Partnerships in Innovation	24.0	0.0	24.0	20.0	0.0	20.0	20.0	0.0	20.0
Post Transitional Support	1.4	0.0	1.4	0.0	0.0	0.0	0.0	0.0	0.0
PEF Programme Expenditure	54.1	11.2	65.3	48.7	5.2	53.9	48.7	2.4	51.1
Evaluations and Assessments	21.4	0.0	21.4	20.0	0.0	20.0	22.0	0.0	22.0
PEF Operating Expenses	21.4	0.0	21.4	20.0	0.0	20.0	22.0	0.0	22.0
Total PEF Budget	75.5	11.2	86.7	68.7	5.2	73.9	70.7	2.4	73.1

The PEF procurement fee budget set out above relates solely to the procurement fees reported as PEF programmes in the disbursement forecast and excludes US\$ 0.95 m of procurement fees reported under Diagnostics within vaccine programmes in accordance with the Dec 2021 Board approval classifications.

- 3.1 The PEF budget is US\$ 73.9 million for 2023 and US\$ 73.1 million for 2024 compared with the 2022 budget of US\$ 86.7 million. This decrease is mainly due to anticipated decline in COVID-19 vaccine procurement fees based on lower forecast volumes and the number of COVID-19 vaccines in the portfolio.
- 3.2 Procurement fees are paid to UNICEF/PAHO, in their capacity as procurement agent for vaccines, cold chain equipment and diagnostic equipment. The UNICEF annual fee calculation is governed by the framework set out in MOU 9 (Gavi 5.0) and MOU 11 (COVAX).

4. Operating Ratios

Figure 4: Operating Expense Ratios

Cash flow basis All values in US\$ m Full Year Values unless otherwise stated	2022			2023			2024			Gavi 2021-2025		
	Gavi 5.0	COVAX	Total	Gavi 5.0	COVAX	Total	Gavi 5.0	COVAX/5.1	Total	Gavi 5.0	COVAX/5.1	Total
Programmes (Vaccines & Cash)	1,581	5,141	6,722	1,692	3,652	5,344	1,668	1,791	3,459	8,283	12,262	20,545
PEF Programmatic Expenditure	201	9	210	250	5	255	265	2	267	1,157	31	1,188
Total Programmatic Expenditure	1,782	5,150	6,932	1,942	3,657	5,599	1,933	1,793	3,727	9,440	12,293	21,733
PEF Operating Expenses	15	0	15	20	0	20	22	0	22	90	0	90
Secretariat Operating Expenses	113	49	163	141	43	184	145	28	172	643	184	827
IFFm Operating Expenses (est)	5	0	5	5	0	5	5	0	5	25	0	25
Total Operating Expenses (A)	132	48	181	166	43	209	172	28	199	758	184	942
One-off expenses	2	0	2	9	0	9	8	0	8	23	0	23
Total Expenditure (C)	1,916	5,199	7,115	2,117	3,700	5,817	2,113	1,821	3,934	10,221	12,477	22,698
Operating Expense Ratio (D=A/C)	6.9%	0.9%	2.5%	7.9%	1.2%	3.6%	8.1%	1.5%	5.1%	7.4%	1.5%	4.1%

- 4.1 The total budgeted operating expense ratio is 3.6% in 2023 and 5.1% in 2024, with the increase in 2024 reflecting the decrease in forecast programmatic expenditure for COVAX in 2024.
- 4.2 The operating expense ratio for Gavi 5.0 for the total strategic period (2021–2025) will remain within the 7.5% ceiling communicated to the Board in December 2020. On an annual basis the operating expense ratio for Gavi 5.0

is forecast to increase to 7.9% and 8.1% in 2023 and 2024 respectively reflecting the rephasing of activity post pandemic.

Section C: Actions requested of the Board

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

- a) **Approve**, US\$ 149.8 million in 2023 and US\$ 152.8 million in 2024 for Secretariat Resources excluding COVAX.
- b) **Approve**, US\$ 1.0 million in 2023 and US\$ 1.0 million in 2024 for capital expenditure budgets.
- c) **Approve** the COVAX Operating budget of US\$ 43 million in 2023.
- d) **Approve** the Gavi 5.1 Operating budget for the additional targeted priorities related to the pandemic of US\$ 27.7 million in 2024 noting these additional priorities are subject to Board approval of the Gavi 5.1 strategy and contingent on funding being made available.
- e) **Approve** US\$ 73.9 million in 2023 and US\$ 73.1 million in 2024 for the Partners' Engagement Framework budget including:
 - i. US\$ 5.2 million in 2023 for COVAX procurement fees;
 - ii. Continuation of US\$ 2 million complexity fee relating to UNICEF procurement of Gavi 5.0 vaccines during the pandemic for both 2023 and 2024;
 - iii. US\$ 2.4 million in 2024 for procurement fees for the additional targeted priorities related to the pandemic.

Additional information available on BoardEffect

Appendix 1: Implications/Anticipated impact

Appendix 2: Gavi 5.0 Secretariat Budget (2021–2025)