

SUBJECT: FINANCIAL UPDATE

Agenda item: 05

Category: For Decision

Section A: Introduction

- This report requests the Gavi Alliance Board ("Board") that it approve a fee budget for vaccines and cold chain equipment procurement functions to be performed by UNICEF in 2018.
- It also informs the Board of actual expenditure and resources for 2016 and the updated outlook for 2017. The overall Financial Forecast for 2016-20 that was reviewed by the Board in December 2016, will be updated and presented to the Board in November 2017.

Section B: Budget for 2018 procurement fees; update on resources and expenditure

1. Budget request for 2018 procurement fees

- 1.1 Procurement activities are governed by a MoU between Gavi and UNICEF (signed in 2016) covering the period 2016-2020. UNICEF has provided an early indication of procurement fees for 2018 and an overview of what these fees relate to (see Appendix 2). The Board is requested to now approve a budget for UNICEF for 2018 procurement fees for vaccines and cold chain equipment now, because 2018 procurement activity will commence in Q4 2017, before the November 2017 Board meeting.
- 1.2 The current MoU sets out the procurement fees for 2016 and 2017 for both vaccine and cold chain equipment. Fees for procurement of vaccines are based on volume estimates and a retrospective fee adjustment mechanism as set out in the MoU. UNICEF is requesting a 2018 vaccine procurement fee of US\$ 19.0 million, which is US\$ 0.6 million less than for 2017. The Secretariat considers this fee request reasonable.
- 1.3 For procurement of cold chain equipment, UNICEF is requesting approval of a procurement fee of US\$ 2.4 million in 2018. An increase to this amount may be requested in November 2017 based on updated demand estimates at that time, informed by projected country applications and approvals in the interim. UNICEF notes that these preliminary estimates may require discussion of an upwards adjustment to as much as US\$ 4.6 million.

- 1.4 In November 2017 the Board will be presented with a comprehensive Partner Engagement and Secretariat budget for 2018 and 2019. That budget request will include the 2019 UNICEF procurement fees for vaccines and cold chain equipment. Any necessary amendment to the 2018 fees would be taken into account then.
- 1.5 At its meeting on 27 April 2017, the AFC noted it had “reviewed the financial implications of these proposed decisions, and concluded that these decisions could be approved by the Board in accordance with the Programme Funding Policy” (as indicated in Appendix 4). An overview is provided in Figure 1 below.

Terminology used in this paper is described in Appendix 1.

Figure 1: Overview of resources to meet expenditure in 2016-2020

US\$ million	Post Berlin Meeting Jan 2015 (plus IPV)	Last Forecast Dec 2016 Board	Impact of decisions already made this year	Impact of decisions for consideration in June 2017	Including proposed decisions
A Qualifying Resources	10,261 \$10.3 bn	9,914 \$9.9 bn			9,914 \$9.9 bn
Includes the Allowance for Further Direct Contributions of \$425m, which depends on extension of pledges through 2020					
B Forecast Expenditure	9,809 \$9.8 bn	9,606 \$9.6 bn			9,606 \$9.6 bn
A-B Available for future investments	452 \$0.5 bn	307 \$0.3 bn	0 *	0	307 \$0.3 bn
Shortfall, if the Allowance for Further Direct Contributions (\$425m) is excluded					(118)

Decisions for consideration at June 2017 Board meeting

US\$ million	Decision amount	Already in Forecast	Addition to Forecast	Document
2018 UNICEF procurement fee budget				
(a) - for vaccines <i>Investment return: Direct Health Impact</i>	19.0	19.0	0	This paper
(b) - for cold chain equipment <i>Investment return: Direct Health Impact</i>	2.4	2.4	0	This paper
			<u>0</u>	

Potential future investment opportunities		
Needs that were explicitly not part of the Replenishment Ask	US\$m	Investment Return
IPV post 2018	~100-150 (i)	Sustaining polio gains
Ebola	55-255 (ii)	Epidemic preparedness
<i>(i) Contingent on additional resources being made available</i>		
<i>(ii) Discussions ongoing with donors to secure additional resources for Ebola programme</i>		

*In March 2017, the Board approved that four transitioned countries could apply for support for multi-age cohort HPV vaccinations (vaccine & operational costs). The cost of approximately US\$3 million was already included in the December 2016 Forecast.

Allowance for Further Direct Contributions is for future contributions from existing donors who have not yet confirmed their pledges for all years through 2020. Mandated by the Programme Funding Policy, the Allowance is based on current overall contribution levels, and is important towards enabling funding decisions to be made in advance of pledges being confirmed for all years.

2. Update on Resources and Expenditure in 2016 & 2017

Resources

Cash flow basis All values in US\$m	2016 Full Year			Q1 2017 Actual	2017 Full Year		
	Projection Dec 2015	Actual	Actual - Proj 2015		Projection Dec 2016	Projection Apr 2017	Proj 2017 - Proj 2016
Direct contributions (incl. IPV)	1,568	1,562	-6	181	1,518	1,444	-74
IFFIm proceeds	100	100	0	0	150	100	-50
AMC proceeds	100	99	-1	28	89	89	0
Investment Income	36	62	26	32	25	25	0
Other*	0	40	40	-2	0	0	0
Total Inflows	1,804	1,863	60	239	1,782	1,658	-124
% of original Projection		103%			13%	93%	

* Other: 2016 actual relates to US\$ 40 million of Gavi Campaign financial assets transferred to the Alliance upon the Campaign's dissolution in December 2016; Q1 2017 actual - relates to internal bank movements & month-end FX impact.

2.1 2016: Cash inflows in 2016 were at 103% of the amount projected in December 2015 and are in line with the forecast presented to the Board in December 2016.

2.2 2017: Cash inflows in 2017 are now forecast to be at 93% of the amount projected in December 2016, based on updated assumptions for the timing of donor contributions and foreign exchange movements. Further details are included in Appendix 5.

Expenditure

Cash flow basis All values in US\$m	2016 Full Year				Q1 2017 Actual	2017 Full Year		
	Projection Dec 2015	Projection Dec 2016	Actual	Actual - Proj 2015		Projection Dec 2016	Projection Apr 2017	Proj 2017 - Proj 2016
Vaccine Programmes	1,145	1,016	927	-218	273	1,130	1,111	-19
Cash Programmes	452	350	270	-182	54	495	403	-92
Total Programmes	1,597	1,366	1,197	-400	327	1,625	1,514	-111
Partners	169	161	148	-21	89	184	194	10
Secretariat	103	98	94	-9	21	108	108	0
	272	259	241	-30	110	292	302	10
Adjustment to cash flow basis*	0	0	16	16	-50	0	0	0
Partners + Secretariat	272	259	257	-14	60	292	302	10
Total Expenditure	1,869	1,625	1,455	-414	388	1,917	1,816	-101
% of original Projection		87%	78%			20%	95%	

* Secretariat & PEF expenditures presented on an accrual basis. Adjustment to cash flow basis reflects the difference between 'accrual' and 'cash flow' basis for these PEF & Secretariat expenditures

2.3 2016: Cash outflows in 2016 were at 78% of the amount projected in December 2015. The reduction of US\$ 414 million is almost entirely due to programme disbursements being US\$ 400 million less than projected. This is mainly because of changes in timing of some Measles-Rubella and Meningitis A campaigns and of payments for pentavalent vaccine; and delays in disbursing health systems strengthening (HSS) grants. This is discussed further in the Alliance Update paper. Some of the programmatic

underspend will be spent during 2017-2020. Appendices 3 and 6 provide further details.

2.4 Expenditure on Secretariat and Partners' activities consumed 94% of the budget for 2016. Much of the underspend will be absorbed in 2017 (within the combined budgets for 2016-2017). Appendix 7 provides further details.

2.5 2017: Cash outflows in 2017 are now estimated at 95% of the amount projected in December 2016. The projected net reduction of US\$ 101 million is almost entirely due to revised estimates for programme disbursements. This includes anticipated delays in campaign timing and HSS disbursements, offset by increased expenditure on HPV vaccine. Appendix 6 provides further details.

2.6 The table below provides detail of the expenditure for 2016 and the current projection for 2017, together with the ratios adopted by the Board.

Cash flow basis All values in US\$m	2016 Full Year				2017 Full Year			
	Projection Dec 2015	Projection Dec 2016	Actual	Actual - Proj 2015	Projection Dec 2015	Projection Dec 2016	Projection Apr 2017	Proj 2017 - Proj 2015
Programmes (Vaccines & cash)	1,597.0	1,366.0	1,197.3	-399.7	1,645.9	1,625.0	1,514.1	-131.8
Partner Engagement Framework								
- Targeted Country Assistance	64.5	57.2	51.8	-12.7	69.5	65.0	74.4	4.9
- Strategic Focus Areas	26.0	22.2	21.5	-4.6	29.0	29.0	25.0	-4.0
- Foundational Support	36.4	36.4	36.3	0.0	36.4	36.4	33.1	-3.2
- Procurement fees	22.9	22.0	22.0	-0.9	22.9	22.9	22.9	0.0
- AMC fees	0.6	0.6	0.0	-0.6	0.5	5.0	5.1	4.6
- Evaluations and Assessments	18.9	17.2	16.2	-2.7	20.4	20.4	23.0	2.7
- Operational Partnerships	0.0	5.0	0.0	0.0	0.0	5.0	10.0	10.0
Total PEF	169.2	160.6	147.8	-21.5	178.6	183.7	193.6	15.0
Secretariat								
- Programmatic support	58.4	53.7	50.9	-7.5	63.0	63.0	60.2	-2.8
- Mgt & General + Fundraising	44.2	44.6	42.8	-1.4	45.6	45.3	48.3	2.7
- IFFIm*	3.8	3.2	3.0	-0.8	3.5	3.5	3.5	0.0
Total Secretariat	106.4	101.5	96.7	-9.7	112.1	111.8	112.0	-0.1
Adjustment to cash flow basis **			16.0	16.0			0.0	0.0
Total Expenditure	1,872.6	1,628.1	1,457.7	-414.9	1,936.6	1,920.5	1,819.7	-116.9
Total Operating Expenses	125.9	119.3	112.9		132.9	137.2	140.2	
Operating Expense ratio	6.7%	7.3%	7.7%		6.9%	7.1%	7.7%	
Total Overhead	48.0	47.8	45.8		49.1	48.8	51.8	
Overhead ratio	2.6%	2.9%	3.1%		2.5%	2.5%	2.8%	

* IFFIm is included here to provide a complete view of overheads associated with Gavi.

** Secretariat & PEF expenditures presented on an accrual basis. "Timing adjustment" reflects difference between 'accrual' and 'cash flow' basis for these expenditures

2.7 Although the absolute amounts for Operating Expenses and Overhead in 2016 are each lower than was forecast in December 2015, the ratios are higher because of reduced programme expenditure:

- (a) The **Operating Expense ratio for 2016 was 7.7%**. This was forecasted at 6.7% in December 2015. It is currently forecasted at 7.7% for 2017.
 - (b) The **Overhead ratio for 2016 was 3.1%**. This was forecasted at 2.6% in December 2015. It is currently forecasted at 2.8% for 2017.
- 2.8 Utilisation to date of the Programme Funding Envelopes is within the Board approved amounts (see Appendix 8).

Section C: Actions requested of the Board

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

Approve, within the overall Partnership Engagement Framework, a budget of:

- (i) US\$ 19.0 million for UNICEF Supply Division fees for the procurement of vaccines and related devices in 2018; and
- (ii) US\$ 2.4 million for UNICEF Supply Division fees for the procurement of cold chain equipment in 2018.

Annex A: Implications/Anticipated impact

- **Impact on countries**
 - Approval now of the procurement fees for 2018 will enable procurement of vaccines and chain to proceed without delay.
- **Risk implication and mitigation, including information on the risks of inaction**
 - Determination of Gavi's financial capacity to approve the recommended decisions relies on the current Financial Forecast. Risks that may impact the reliability of financial forecast and the associated mitigation measures remain as outlined in doc 05 of the December 2016 Board meeting ("Financial Forecast & Programme Funding Request").
 - One of those risks arises from exposure to foreign currency exchange rate fluctuations. In the forecast, non-USD pledges are valued at their USD equivalents using the current Bloomberg forecast exchange rates when compiling the forecast (consistent with the approach agreed with donors at the Berlin Replenishment Meeting) or, where hedged, at the hedge rate. Pledges are hedged progressively, and pledges (mainly for 2019 and 2020), representing ~20% of 2016-2020 Assured Resources are not yet hedged.
 - The table below illustrates the evolution of direct contributions for 2016-2020, since the Berlin pledging conference in January 2015, including the impact of currency exchange rate fluctuations.

US\$ million	Valuation at Berlin	FX impact	Valuation Mar 2017
Pledges at Berlin, plus IPV			
At spot rate at Berlin	7,187		
<i>Uplift to forecast rates</i>	327		
Valuation at Berlin	7,514		
Pledges since Berlin	128		
Total Direct Contributions	7,642	(537)	7,105 **
		Reduction of value	↑
Realised or hedged pledges			4,701
Unhedged, valued at <u>forecast rates</u> *			2,404
			7,105
			change
If unhedged is valued at <u>forward hedge rates</u> *			6,996 (109)
If unhedged is valued at <u>spot rates</u> *			6,903 (202)

* Rates are per Bloomberg at 31 March 2017

** In the **December 2016 forecast**, the corresponding amount was **US\$ 7,160 m** before deducting a \$120m provision for depreciation in the value of the unhedged amounts

- Gavi's 8-month Cash and Investments Reserve provides a cushion for adverse fluctuations in resources and expenditures. Gavi can also decline or defer funding requests based on resource availability.

Additional information available on BoardEffect

Appendix 1: Terminology and Rounding

Appendix 2: UNICEF procurement fees for 2018

Appendix 3: Financial Forecast 2016-2020

Appendix 4: Coverage of the decisions for consideration at this board meeting

Appendix 5: Resources received in 2016 and outlook for 2017

Appendix 6: Expenditure in 2016 and outlook for 2017

Appendix 7: Secretariat and partner engagement budgets – expenditure in 2016 and update for 2017

Appendix 8: Report-back on utilisation of Programme Funding Envelopes