

SUBJECT: FINANCIAL UPDATE, INCLUDING FORECAST

Agenda item: 05

Category: For Decision

Section A: Summary

- This report asks the Gavi Alliance Board ('Board') to approve the updated financial forecast of resources and expenditure for 2016-2020, and provides an indicative expenditure forecast for 2021-2025.
- The forecast includes the financial implications of previous funding decisions, highlights the financial implications of the decisions that have been recommended to the Gavi Board for approval at this meeting and indicates potential future investments yet to be considered.
- Compared to the previous forecast approved by the Board in December 2016, the estimated amount available for future investments, through 2020, has increased by US\$ 198 million (excluding the decisions to be considered by the Board in November 2017). This is due to the estimated expenditure for 2016-2020 decreasing by US\$ 452 million which is offset by a reduction in the estimated qualifying resources of US\$ 254 million (due to the postponement of IFFIm proceeds).
- The reduction in the expenditure estimate for 2016-2020 is largely due to market shaping that has reduced vaccine prices (by US\$ 0.6 billion), while better management of vaccine stocks has reduced the volume of vaccines required by countries. These savings have allowed the Board to approve new programmes – such as a new measles strategy, investments in CCEOP, enhanced support for yellow fever, and a new HPV strategy. The scale-up of these new programmes has been less predictable than for the more mature programmes (penta, rota and pneumococcal), with some delays in implementation.
- The forecast indicates that sufficient resources are available such that all the decisions recommended for approval can be made in accordance with the Gavi Programme Funding Policy.
- The report provides an update on the evolution of the estimates of resources and expenditure in 2017 and reports back on utilisation of the Board-approved programme funding envelopes. It also includes an overview of cash balances of Gavi-support held in countries, for information.

Section B: Financial Update

1. Updated forecast of expenditure needs and resources 2016-2020

1.1 Figure 1 summarises the updated Financial Forecast¹, which incorporates the financial impact of the decisions for consideration at this Board meeting. It indicates that after allowing for these potential decisions and all other programmes already foreseen in the forecast, resources of US\$ 485 million could be available for future investments, through 2020. This is dependent on donors contributing and extending their pledges through 2020. Terminology used in the Forecast is explained in Appendix A.

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

| Presented on a <u>Cash flow</u> basis | Post Berlin Meeting Jan 2015 (incl IPV) | Last Forecast Dec 2016 Board | Decisions already made this year | Change upon updating estimates | Impact of decisions for consideration in Nov 2017 | New Forecast Nov 2017 Board |
|---|---|------------------------------------|---|---|--|--------------------------------------|
| US\$ million | | | | | | |
| A Qualifying Resources | 10,261 \$10.3 bn | 9,914 \$9.9 bn | | (254) | | 9,660 \$9.7 bn |
| Includes the Allowance for further Direct Contributions of \$345m, which depends on extension of pledges through 2020 | | | | | | |
| B Forecast Expenditure | 9,809 \$9.8 bn | 9,606 \$9.6 bn | 0 | (452) | 20 | 9,175 \$9.2 bn |
| A-B Available for future investments | 452 \$0.5 bn | 307 \$0.3 bn | 0 | 198 | (20) | 485 \$0.5 bn |
| Available for further investments if the Allowance for further Direct Contributions is excluded | | | | | | 141 |

Decisions for consideration at November 2017 Board meeting add up to \$20m (2017-2020)

| US\$ million | | Decision amount | Already in Forecast | Addition to Forecast | Document # |
|--|-----------------|-----------------|---------------------|----------------------|------------|
| (a) PEF budget (2018-2019) | | 448 | 448 | 0 | |
| Secretariat budget (2018-2019) | Reviewed by AFC | 223 | 223 | 0 | 05 |
| (b) PNG Strategy * | Reviewed by PPC | up to 20 | 0 | 20 | 14 |
| <i>Investment return: Direct Health impact</i> | | | | | |
| (c) Typhoid Window ** | Reviewed by PPC | 102 | 102 | 0 | 08 |
| <i>Investment return: Direct Health impact</i> | | | | | |
| | | | | 20 | |
| * Reflects increase in HSS window and provision for MR Campaign | | | | | |
| ** 2017-2020 Programme = \$85m plus \$17m paid in advance for 2021 | | | | | |

Potential future investment opportunities

| Needs that were explicitly not part of the Replenishment Ask: | US\$m | Investment Return |
|---|----------|------------------------------|
| - VIS 2018 Strategic Investments | TBD | Direct Health Impact |
| - Nigeria Strategy (Board to consider in June 2018) | ~50m | Sustaining prior investments |
| - Technical assistance post transition for high-risk countries | TBD | Sustaining prior investments |
| IPV post 2018 - Will be included in Forecast in terms of both resources and expenditures upon formal funding commitment provided by GPEI to Gavi | ~100-150 | Sustaining polio gains |

Resources

¹ This is Version 15Fb of the Financial Forecast. It is an update of the version (15Fa) that was reviewed by the AFC on 19 October 2017. It now includes updated expenditure estimates (US\$ 47 million reduction) and the recommendations from the PPC meeting on 26-27 October 2017.

- 1.2 The forecast of resources includes amounts pledged to date, including in Berlin in January 2015. Further contributions are expected as donors complete pledging for all years through 2020. In advance of that, an allowance of US\$ 345 million for further direct contributions that have not yet been pledged is included for programme approval purposes. This allowance assumes that overall direct contributions will continue at their 2016-2018 level in 2019 and 2020 and subsequently, solely for the purpose of providing visibility to the Board regarding programme funding decisions.
- 1.3 Of the total direct contributions pledged for 2016-2020, 88% has been realised in US dollars or is hedged at known exchange rates. The remaining 12%, representing 8% of Qualifying Resources, remains exposed to future currency exchange rate fluctuations until timing of receipt is more certain. (See Appendix E for further details).
- 1.4 To align with updated demand estimates and increased estimates for direct contributions and investment income, Gavi anticipates postponing the receipt of approximately US\$ 364 million of IFFIm proceeds previously planned for 2018-2020 until after 2020. These proceeds will help fund vaccine campaigns that are being postponed from the current strategic period into the next one, and can serve as a cushion for either period. This is now reflected in the forecast, consistent with the verbal update provided to the Board in June 2017.

Figure 2: Forecast of Qualifying Resources 2016-2020

| US\$ million | Post Berlin Meeting Jan 2015 (incl IPV) | Last Forecast Dec 2016 Board | Change upon updating estimates | New Forecast Nov 2017 Board |
|---|---|------------------------------------|--------------------------------|-----------------------------------|
| | US\$m | US\$m | US\$m | US\$m |
| Resources Available | | | | |
| Direct contributions - confirmed | | 6,795 | 76 | 6,871 |
| Direct contributions for IPV | | 245 | 24 | 270 |
| IFFIm Proceeds | | 1,314 | (364) | 950 |
| AMC Proceeds | | 492 | 39 | 530 |
| Investment Income | | 150 | 72 | 222 |
| Total Inflows | 9,538 | 8,996 | (153) | 8,844 |
| Decrease/(increase) in Cash & Inv. Reserve incl. resources available from 2011-2015 | 200 | 492 | (21) | 471 |
| Assured resources 2016-2020 | 9,738 | 9,488 | (173) | 9,315 |
| Allowance for additional direct contributions, not yet pledged | 523 | 425 | (80) | 345 |
| Qualifying Resources | 10,261 | 9,914 | (254) | 9,660 |

Expenditure

- 1.5 The forecast includes all currently anticipated expenditure for programmatic and operational needs through 2020, prior to any decisions that may be made as part of the 2018 Vaccine Investment Strategy.

- 1.6 The expenditure estimate for 2016-2020 has reduced by US\$ 452 million compared to the December 2016 forecast, before adding US\$ 20 million for the decisions to be considered by the Board in November 2017, bringing the estimate to US\$ 9.2 billion. At US\$ 9.2 billion, the 2016-2020 expenditure estimate is now US\$ 0.6 billion less than the US\$ 9.8 billion² estimated in January 2015 (post Berlin replenishment). This reduction in the cost of responding to country demand is largely due to market shaping that has reduced vaccine prices (by US\$ 0.6 billion), while better management of vaccine stocks has reduced the volume of vaccines required by countries.
- 1.7 These savings have allowed the Board to approve new programmes – such as a new measles strategy, investments in CCEOP, enhanced support for yellow fever, and a new HPV strategy – with more ambitious targets than those included in the investment case. The scale-up of these new programmes has been less predictable than for the more mature programmes (penta, rota and pneumococcal), with some delays in implementation (e.g. due to supply shortages for HPV, IPV). The evolution of estimates for each area of expenditure is illustrated below. Further detail is included in Appendix B.

² Comprised of the US\$ 9.5 billion per the Investment Case for replenishment, plus US\$ 241 million for IPV expenditure added subsequently.

Figure 3: Forecast of Expenditures 2016-2020

| | Post Berlin Meeting Jan 2015 (incl IPV) | Last Forecast Dec 2016 Board | Change upon updating estimates | New Forecast Nov 2017 Board |
|---|---|------------------------------------|--------------------------------|-----------------------------------|
| Forecast Expenditure | US\$m | US\$m | US\$m | US\$m |
| Pneumo | | 2,420 | (46) | 2,375 |
| Rota | | 782 | (10) | 772 |
| Penta | | 562 | (7) | 555 |
| Measles-Rubella | | 533 | (239) | 294 |
| HPV | | 424 | (69) | 355 |
| Yellow Fever | | 320 | (1) | 319 |
| IPV | | 241 | 10 | 251 |
| Typhoid | | 136 | (52) | 84 |
| Other vaccines | | 426 | 33 | 460 |
| Vaccine programmes | 6,491 | 5,845 | (380) | 5,465 |
| Health Systems Strengthening | | 1,300 | 0 | 1,300 |
| Campaign operational costs | | 548 | (115) | 432 |
| Vaccine introduction Grants | | 138 | (49) | 89 |
| Other cash-based programmes | | 111 | (3) | 108 |
| HSIS programmes | 1,509 | 2,096 | (167) | 1,930 |
| CCEOP programmes | | 200 | 0 | 200 |
| Provision for Strategic Investments | 500 | | | |
| PEF - Programmatic | 705 | 810 | 111 | 921 |
| Programmatic expenditures | 9,205 | 8,951 | (435) | 8,516 |
| PEF - OpEx | 90 | 96 | (0) | 96 |
| Secretariat - OpEx | 514 | 559 | (17) | 543 |
| Operating expenditures | 604 | 655 | (17) | 638 |
| Total Expenditure | 9,809 | 9,606 | (452) | 9,155 |
| Add: Impact of decisions for consideration in Nov-2017 | | | | 20 |
| Total including impact of "new decisions" | | | | 9,175 |

Notes to the financial forecast:

- 'Other cash-based programmes' includes US\$ 40 million for a measles outbreak response fund for 2018-2020 to further the measles-rubella strategy approved by the Board in November 2015.
- The HSIS programmes estimate includes an amount for additional costs related to enhance risk assurance measures, such as those associated with channelling funds through Alliance Partners.
- The forecast amounts take into account possible future market shaping transactions such as long term commitments and pre-payment arrangements.
- Partnership Engagement Framework ("PEF") expenditures distinguish between those classified as 'programmatic' and 'operating'. More details are provided in the PEF and Secretariat Budget paper.

- 1.8 The expenditure forecast represents a point estimate where underlying demand and price-related assumptions rely on the latest information readily available. There remains a significant degree of inherent uncertainty in demand assumptions, particularly regarding introduction timing and especially for vaccine campaigns due to the high dose volumes involved. Fluctuations in expenditure estimates of up to 5% or more are likely to occur.

2 Indicative forecast for 2021-2025

- 2.1 A tentative forecast indicates projected expenditure of US\$ 8.3 billion in 2021-2025, as compared to US\$ 9.3 billion in 2016-2020. The projection for 2021-2025 includes expenditure of US\$ 4.2 billion for the continuation of existing programmes, and a provision of US\$ 4.1 billion for Future Demand from programmes that may be approved in future years, in response to demand as currently estimated. The forecast takes into account the postponement of some programmes (e.g. MR campaigns) from the 2016-2020 period. The forecast excludes the financial impact of any decisions that may be made as part of the 2018 Vaccine Investment Strategy.

Figure 4: Forecast of Expenditures 2021-2025

| Expenditure estimate 2021-2025 (INDICATIVE) Cash flow basis, US\$ million | Existing Programmes | | Estimate for future demand | Total |
|---|---------------------|--------------------------|----------------------------|-----------------|
| | Endorsed | Provision for Extensions | | |
| Programmes: | | | | |
| Vaccine Programmes | 51 | 2,295 | 2,083 | 4,429 |
| Cash-based Programmes | 111 | - | 2,026 | 2,137 |
| Total Programmes | 162 | 2,295 | 4,109 | 6,566 |
| PEF - Programmatic | | 1,076 | | 1,076 |
| Programmatic expenditure | 162 | 3,372 | 4,109 | 7,642 |
| Operating expenditure | - | 657 | - | 657 |
| Total Expenditure | 162 | 4,028 | 4,109 | 8,299 |
| 2021-2025 | \$4.2 bn | | \$4.1 bn | \$8.3 bn |

- 2.2 For the purpose of approving funding for multi-year programmes in 2018, which typically are for 5 years (hence extending beyond 2020), it is assumed that Gavi will have sufficient resources to continue to fund those programmes after 2020. This is consistent with the parameters laid out in the Board-approved Programme Funding Policy.
- 2.3 This estimate is based on needs associated with the current Gavi strategy. It will be revised to align with the strategy to be developed for the 2021-2025 period, that the Board will approve in due course. That new strategy will determine the resource needs for Gavi's 2021-2025 replenishment.

Section C: Other financial matters

3 Update on resources and expenditures in 2017 and 2018

- 3.1 **2017:** Cash inflows in 2017 are predicted to be 92% of the amount projected in December 2016, due entirely to Gavi postponing receipt of IFFIm proceeds. Disbursements for programmes in 2017 are predicted to be 92% of the amount projected in Dec 2016. Further detail is provided in Appendix C.
- 3.2 **2018:** Cash inflows in 2018 are predicted to be 93% of the amount projected in December 2016, due entirely to Gavi postponing receipt of IFFIm proceeds. Disbursements for programmes in 2018 are predicted to be 87% of the amount projected in Dec 2016. Further detail is provided in Appendix C.

4 Programme funding envelope utilisation

- 4.1 By 30 September 2017, 32% of the 2017 General Envelope had been allotted, with a forecasted allotment of 64% by year end. Further detail is provided in Appendix D.

5 Overview of cash balances held in country

- 5.1 The table below provides an overview of the balances held in countries of funds provided by Gavi to support cash-based programmes. It is estimated that this amounts to approximately US\$ 260 million, representing 8-9 months of annual need. Further details are provided in Appendix F.

| IMPLEMENTER CASH BALANCES IN GAVI CASH SUPPORT GRANTS | | | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| YEAR END 31 DECEMBER 2016 | GRANT IMPLEMENTER | | | | | |
| | MoH | Other* | UNICEF** | WHO** | WORLD BANK** | Total |
| Total all Countries | 74,235,351 | 15,278,095 | 72,031,531 | 62,638,755 | 34,000,000 | 258,183,732 |
| <i>% of Fin reporting Compliance</i> | 76% | 100% | 100% | 90% | 100% | 92% |
| By Grant type | | | | | | |
| HSS | 33,796,889 | 14,102,934 | 60,618,856 | 24,482,006 | 34,000,000 | 167,000,684 |
| Other cash grants | 40,438,462 | 1,175,161 | 11,412,676 | 38,156,750 | - | 91,183,049 |
| Total | 74,235,351 | 15,278,095 | 72,031,531 | 62,638,755 | 34,000,000 | 258,183,732 |
| *Other implementers include: PAHO, UNDP, UNOPS and Redcross | | | | | | |
| **Reported cash balances are before commitments | | | | | | |
| ANALYSIS | | | | | | |
| Overall 71% of 2016 cash balances are with Alliance Partners, other UN agencies and the WB. | | | | | | |
| UNICEF cash balances 2016: 38% of cash were disbursed in Q4 2016, and 21% in Q3 2016. | | | | | | |
| WHO cash balances 2016: 18% of cash balances were disbursed in Q4 2016 and 13% in Q3 2016. Further info on the age of WHO cash balances by year disbursed indicated: 30% relates to 2013 (mostly Pakistan), 8% to 2014, and 23% to 2015. | | | | | | |
| World Bank: 100% cash balances relate to Pakistan MDTF, with no implementation in 2016 due to delays in finalizing legal agreement between the World Bank and Govt of Pakistan. The cash balance is pooled and Gavi's proportion is taken pro rata to respective disbursements of contributory agencies. | | | | | | |
| MoH cash balances 2016: 17% of cash balances relate to disbursed made in 2016, 34% in 2015 and 49% in 2014 (relating mainly to ongoing programmes in Indonesia and Bangladesh). | | | | | | |

Section D: Actions requested of the Board

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

Approve the Financial Forecast as set out in Figures 1 to 4 in Section B of Doc 04 for the period 2016-2025 within which the Secretariat is authorised to allot funding to programmes in 2018 for new programmes and for the continuation and adjustment of funding, in accordance with the Programme Funding Policy.

Attachments

Annex A: Implications/Anticipated impact

Additional Information available on BoardEffect

Appendix A: Terminology and Rounding

Appendix B: Updated Financial Forecast – details

Appendix C: Update on resources and expenditures in 2017 & 2018 – details

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

Appendix E: Currency hedging update and direct pledges valuation – details

Appendix F: An overview of cash balances held in country – details