

**SUBJECT:** FINANCIAL UPDATE, INCLUDING FORECAST

**Agenda item:** 05

**Category:** For Decision

### **Section A: Introduction**

- This report asks the Gavi Alliance Board to approve the updated financial forecast of resources and expenditure for 2016-2020 and take note of the indicative financial projections for 2021-2025. Doing so will enable the CEO to allot funding to programmes in 2019.
- The Audit and Finance Committee (AFC) has reviewed the 2016-2020 forecast and 2021-2025 projections, including the financial implications of the decisions that the Board will consider at this meeting. The AFC concluded that these decisions could be approved by the Board in accordance with the Programme Funding Policy.
- This report also recommends that the Board approve a request from UNICEF for an additional amount of US\$ 0.7 million in 2019 for UNICEF fees for procurement of cold chain equipment for delivery to countries.
- For information, the report provides an update on the evolution of the estimates of resources and expenditure in 2018, reports back on expenditures that are subject to Board-approved programme funding limits, and provides an overview of in-country cash balances of Gavi-support.
- For 2016-2020, the overall expenditure forecast has remained consistent at the level that was forecast a year ago, whereas resources have increased. Therefore, the amount available for future investments has increased slightly. Expected programmatic expenditure for this period is less than previously forecast, primarily due to supply constraints. This has enabled the decisions made at the June 2018 Board, and those proposed for the current Board meeting to be absorbed.
- For 2018, the programmatic expenditures are anticipated to be 86% of the forecast, again due mainly to the impact of supply constraints. The Partners' Engagement Framework (PEF) and Secretariat budgets are forecast to be nearly fully utilised by the year-end, and as a result, the Secretariat's operating and overhead ratios have increased slightly.
- For 2021-2025, an indicative projection is included, based on existing and anticipated programmatic expenditures, and a formulaic allowance for future contributions, in accordance with policy. This projection is dependent on the future Board approval of Gavi's strategy for the 2021-2025 period, as well as any programmatic or policy changes.





## Resources

- 2.4 For **2016-2020**, the forecast of resources has increased by US\$ 77 million upon inclusion of funds pledged for CEPI that would match the related expenditure, if the Board adopts the decision that is for consideration. A further net increase of US\$ 37 million arises from updating of estimates, mainly for contributions and investment income.
- 2.5 For **2021-2025**, some resources are already assured, from IFFIm proceeds, direct contributions, a conservative estimate of investment income, and the ability to draw some funds from the Cash and Investments Reserve<sup>1</sup>, which can be reduced as programme expenditure declines.
- 2.6 Donors have not yet been asked to pledge for 2021-2025 and an allowance for this is taken into account, in accordance with the Programme Funding Policy. This is solely for the purpose of enabling funding to be allotted to programmes in advance of the next Replenishment, because programmes have financial needs extending into years beyond 2020. As prescribed by the Policy, the forecast includes an allowance for direct contributions in future years. The allowance is calculated on the theoretical basis of donors collectively maintaining an annual level of direct contributions equivalent to the current overall level (for 2016-2018), in subsequent years. The allowance is currently calculated at US\$ 397 million through 2020; and US\$ 7,238 million for 2021-2025, in advance the Replenishment for that period.

**Figure 3: Resources**

| US\$ million, cash-flow basis  | 2016-2020                             |                              |                                |   |                             | 2021-25                         |
|--|---------------------------------------|------------------------------|--------------------------------|---|-----------------------------|---------------------------------|
|  | Post Berlin Meeting Jan 2015 plus IPV | Last Forecast Nov 2017 Board | Change upon updating estimates | Impact of Nov 2018 decisions in 2016-2020 | New Forecast Nov 2018 Board | Indicative Projection 2021-2025 |
| US\$ million   | US\$m                                 | US\$m                        | US\$m                          | US\$m                                     | US\$m                       | US\$m                           |
| <b>Resources Available</b>   |                                       |                              |                                |   |                             |                                 |
| Direct contributions - confirmed   |                                       | 6,871                        | 22                             |   | 6,893                       | 52                              |
| Direct contributions for IPV   |                                       | 270                          | (2)                            |   | 268                         | 0                               |
| IFFIm Proceeds   |                                       | 950                          | 0                              | 77 (a)                                    | 1,027                       | 1,010                           |
| AMC Proceeds   |                                       | 530                          | (0)                            |   | 530                         | 0                               |
| Investment Income, etc.  |                                       | 222                          | 44                             |   | 266                         | 125                             |
| <b>Total Inflows</b>   | <b>9,538</b>                          | <b>8,844</b>                 | <b>64</b>                      | <b>77</b>                                 | <b>8,984</b>                | <b>1,187</b>                    |
| Available from Cash & Investments Reserve (beyond the minimum amount required) | 200                                   | 471                          | (80)                           |   | 392                         | 504                             |
| <b>Assured resources 2016-2020</b>   | <b>9,738</b>                          | <b>9,315</b>                 | <b>(16)</b>                    | <b>77</b>                                 | <b>9,376</b>                | <b>1,692</b>                    |
| Allowance for additional direct contributions, not yet pledged                 | 523                                   | 345                          | 53                             |   | 397                         | 7,238                           |
| <b>Qualifying Resources</b>  | <b>10,261</b>                         | <b>9,660</b>                 | <b>37</b>                      | <b>77</b>                                 | <b>9,774</b>                | <b>8,930</b>                    |
|  |                                       | \$9.7 bn                     |                                |   | \$9.8 bn                    | \$8.9 bn                        |

(a) Dedicated pledge from Kingdom of Norway to IFFIm equal to 100% of CEPI programme expenditure that Gavi would incur. (NOK 600m/~USD 77m)

<sup>1</sup> Gavi's Programme Funding Policy requires Gavi to maintain a Cash and Investments Reserve that equates to eight months' expenditure. Accordingly, as expenditure decreases, the Reserve amount also decreases.

## **Section C: Other financial matters**

### **3 UNICEF procurement fees – for approval**

- 3.1 In November 2017, the Gavi Board approved US\$ 19 million and US\$ 3.6 million for 2019 fees for procuring vaccines and cold chain equipment, respectively. UNICEF has now requested an increase in cold chain equipment procurement fees in 2019. Approval is now sought for an US\$ 0.7 million additional 2019 CCEOP fees, as recommended by the Audit and Finance Committee. UNICEF's request for 2020 procurement fees will be presented for Board approval in June 2019. Its preliminary estimate for 2020 is US\$ 19 million for vaccines and US\$ 4.3 million for CCEOP.

### **4 Resources and expenditures in 2018**

- 4.1 Resource inflows in 2018 are predicted to be 98% of the amount projected in November 2017. Disbursements for programmes in 2018 are predicted to be 86% of the amount projected in November 2017. The reduction is primarily due to supply constraints on Rotavirus and HPV in 2018. By September 2018, 75% of the programme expenditure for 2016-2020 (cash-flow basis) had been allotted to countries.

### **5 PEF and Secretariat expenditures 2018**

- 5.1 In November 2017, the Board approved the PEF and Secretariat budget for each of 2018 and 2019. In the first eight months of 2018, 77% of the PEF budget and 58% of the Secretariat budget had been utilised. Both will be close to 100% by the year end.
- 5.2 As previously communicated to the Board, partially in response to recommendations from the Kroll audit on control risks directed at strengthening the internal control environment, Gavi has added two additional staff positions in the Finance team. The Secretariat continues to seek efficiencies and contain costs, while focusing on achieving value for money. Therefore, the Secretariat is endeavouring to absorb these additional resource costs within the approved budgets for 2018 and 2019. If necessary, the Secretariat may request some flexibility to enable the already approved budgets for 2018 and 2019 to be treated as an overall budget amount that may utilised over both these years.

### **6 Ratios**

- 6.1 Gavi is managing its operating expenses within the Board approved budget. Latest assumptions indicate that 2018 programme expenditures will be lower than was projected in November 2017. As a result, the Operating Expense and Overhead ratios will be slightly higher than projected, and are currently forecast at 7.6% and 3.1%, respectively. This is still within the relevant corporate performance metric limits of 9% and 5%, respectively.

## 7 Cash balances held in countries

7.1 The balances held in countries of funds provided by Gavi to support cash-based programmes at 31 December 2017 is estimated at approximately US\$ 267 million, representing 8-9 months of annual need. This remains at broadly the same level as at December 2016 (US\$ 258 million). As the total disbursed amount for cash grants is 17% higher in 2018 compared to 2017, the consistent level of cash balance in-country shows an improvement in underlying utilisation trends.

## 8 Foreign currency exposure

8.1 As at 31 August 2018, Gavi had hedged 74% of its currency exposure for 2019 and 72% for 2020 of the non-US dollar direct contributions pledged, consistent with policy (and reliant on clarity of contribution value and timing).

### **Section D: 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) **Approve** the Financial Forecast for the period 2016-2020 as set out in Section B of Doc 05.
- b) **Take note of** the indicative Financial Projections for the 2021-2025 period, as set out in Section B of Doc 05, which is based on existing and anticipated programmatic commitments but is dependent on Board approval of the next Gavi Strategy, and any potential programmatic and policy shifts for the given period.
- c) **Authorise** the Gavi Secretariat to allot funding in 2019 for new programmes and for the continuation and adjustment of funding to existing programmes, in accordance with the Programme Funding Policy. In making such allotment decisions, the Secretariat will take into consideration the development of the strategy for the 2021-2025 period.
- d) **Approve** within the overall Partners Engagement Framework: an amount of US\$ 0.7 million in 2019 for UNICEF Supply Division for fees to implement cold chain equipment, in addition to the US\$ 3.6 million already approved for 2019 by the Board in November 2017.

### **Additional information available on BoardEffect**

**Appendix 1 (in October 2018 AFC meeting book):** Annex A to Doc 02a  
*Implications / Anticipated impact*

**Appendix 2 (in October 2018 AFC meeting book):** Annex B to Doc 02a  
*Terminology used in the Financial Forecast*

**Appendix 3 (in October 2018 AFC meeting book):** Annex H to Doc 02a  
*UNICEF: Gavi Vaccine and CCEOP proposed fees for 2019-2020*