

FOR DECISION

GAVI Alliance is faced with a historic opportunity to roll out vaccines for the main killers of children, pneumonia and diarrhoea, having laid the foundation for this over the last decade. Yet core donor contributions scenarios and IFFIm proceeds, the former inevitably affected by the economic crisis, will not fully meet the demand. Even under the most conservative income scenario, GAVI can deliver on country programme budgets which have been approved and endorsed by the Board. However, in the event that there are insufficient new resources either from donors and/or innovative financing sources and/or reductions in vaccine prices, to meet this new demand GAVI will need to limit its expenditures by prioritising. To assist the Board in forming its approach, the Audit and Finance Committee discussed options A-C during its meeting on 28 October.

A. Cash and investment reserve. The Secretariat and the Audit and Finance Committee propose that the Board adopt a policy of maintaining a minimum unrestricted cash and investment reserve. The Audit and Finance Committee recommends that the reserve should target 12 months of annual expenditure (US\$ 1,342 million in 2010) with an absolute floor of 8 months (US\$ 899 million in 2010). The Committee proposes to monitor this policy.

B. Cap on expenditures in 2010. A cash and investment reserve of 8 months would mean limiting cash out flows during 2010 to US\$ 1,325 million, which in turn would mean that US\$ 68 million of new demand could not be met. A cash and investment reserve of 12 months would mean limiting cash outflows to US\$ 882 million, which in turn would mean that US\$ 511 million of demand would not be met.

C. New IRC recommendations. The IRC new proposal team has just completed its review of new country programme applications. Given the above, the Secretariat made a proposal, which the Audit and Finance Committee endorsed, that the Board should consider one of the following two options:

1. A pause in the Board considering IRC recommendations for new proposals until June 2010, when future donor commitments and possible new innovative sources of funding will be clearer; or
2. Maintain momentum and submit recommendations for new proposals from the October IRC to an Executive Committee meeting in January (to be scheduled).

The Secretariat and the Audit and Finance Committee recommend option 1.

D. Meeting the funding challenge. In the past 10 years the Alliance has prepared the ground for this moment: effective new vaccines are available; there is evidence that countries want to and can successfully increase vaccination levels, and meet their co-financing obligations; and have plans in place to introduce the new vaccines. Beyond the proposed short term pause, there are two possibilities for the GAVI Alliance. The first is for the Board to accept that funding will remain around currently projected levels, that GAVI will continue to fulfil part of its mission, but that it will not have the additional funding necessary to introduce effective vaccines which it is currently poised to deliver and which

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could save millions of children's lives. The second possibility is for the Board to take collective responsibility for finding solutions to the funding challenge ahead. This would involve the Board adopting the following priorities over the next 12 months:

- Expand core funding in 2009 and 2010 through unspent end of year funds to help meet demand while sustaining an 8 month cash reserve in 2010 and 2011;
- Increase contributions to core budget and innovative financing mechanisms between 2011 and 2015 to provide \$4bn additional funding (\$800m per annum).

The resource mobilisation event in March 2010 will allow us to take stock of what has been and what can be achieved and how this responsibility can be met. It will provide an opportunity to discuss the mechanisms by which long term commitments can be made, for example through long term pledges, innovative financing or other frontloading mechanisms. The objective will be to explore ways to provide an alternative to an extended pause and to scale up investments towards GAVI's mission of saving lives through vaccination, recognising the impact of the economic crisis on short term prospects, but identifying ways forward.

Managing GAVI's finances

Introduction

Thanks to steady support from donors and rapid progress in immunisation by countries over the past decade, the GAVI Alliance has achieved significant results. We have helped to diversify the vaccine industry and bring prices down. We have ensured predictable funding, and helped countries to increase their capacity to immunise their children. This has improved the health of over 200 million children, and avoided 3.4 million deaths from vaccine-preventable diseases. Country demand for existing vaccines has never been higher, and demand for the new pentavalent, pneumococcal and rotavirus vaccines is growing rapidly.

We must respond to this demand. Doing so presents both a historic opportunity and a challenge.

The opportunity is that - for the first time in history - we have the commitment from countries and the systems in place to maintain immunisation rates at current high levels and deliver new life-saving vaccines to protect millions of children against the world's biggest childhood killers. Achieving this is vital to achieve MDG 4. The challenge is that the current global downturn could affect GAVI's ability to meet this opportunity. Of course, despite the downturn, donors continue to show a strong commitment to health and to meeting the health MDGs. The recent announcement of an additional US\$ 1 billion to an expanded IFFIm to strengthen health systems demonstrates this commitment. And GAVI is intensifying its resource mobilisation

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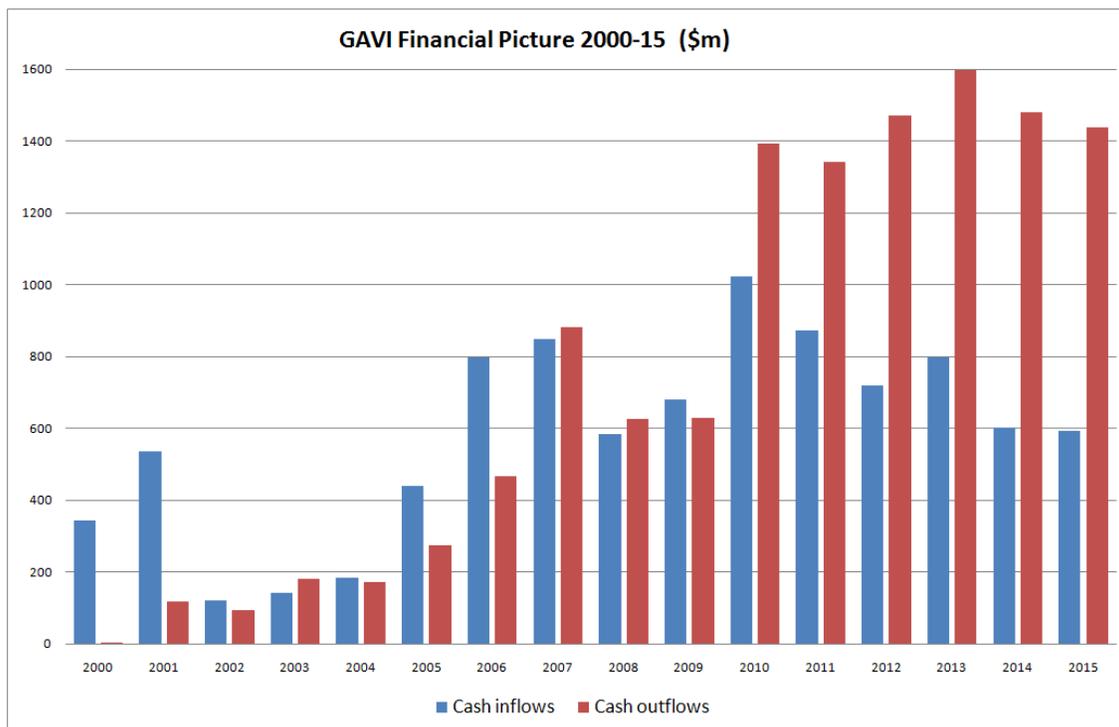
efforts. But we also need to plan for the possibility that additional core funding is not received. This paper provides proposals around this possibility.

1. Country demand and projected expenditure

Total projected expenditure 2009-2015

As noted above, country demand for existing vaccines has never been higher, and demand for the new pentavalent, pneumococcal and rotavirus vaccines is growing rapidly. This demand entails expenditure by GAVI. Table 1¹ below reflects projected expenditures for the period 2000 through 2015 based on a demand forecast in October 2009. The anticipated disbursements rise between 2009 and 2015 from US\$ 628 million to US\$ 1.6 billion annually, with the largest part of that growth coming from pneumococcal, pentavalent and rotavirus vaccines.

Table 1: GAVI demand – Projected expenditure to save 5-6 million lives 2009 – 2015



Expenditure by commitment level

Projected expenditures vary in levels of Board commitment, from the highest level of commitment, where legally binding contracts are in place, to the lowest level where no country applications have yet been received and there has been no endorsement by the Board. Table 2 provides a management perspective on the various levels of commitments showing committed expenditure of US\$ 3.4 billion through the period 2009-2015. The table reflects all board decisions to date as well as the

¹ An explanation for changes in these estimates vs. those shown at the June Board are described in Annex 1

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In the light of the global economic downturn, and following discussions with donors, for planning purposes the Secretariat has established cash inflow forecasts for GAVI, based on three scenarios:

1. 'Most conservative' scenario
2. 'Modest growth' scenario
3. 'Progressive' scenario

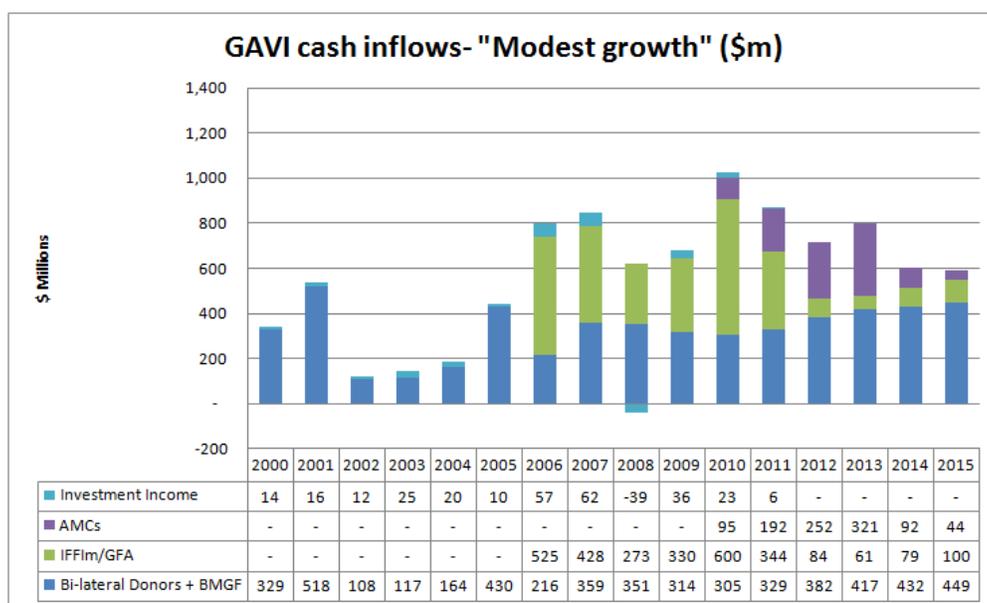
Definitions for each of the scenarios and the charts for the 'most conservative' and 'progressive' scenarios are included in Annex 2.

For Board planning purposes, we believe it is prudent to focus on the 'modest growth' scenario. It reflects the impact of the economic crisis on the immediate giving scenario for GAVI while building in a slow recovery between 2010 and 2015. This 'modest growth' scenario would provide US\$ 5.3 billion (including US \$ 1.0 billion in AMC monies earmarked for pneumococcal vaccine) between 2009 and 2015 including US\$ 1'023 million for 2010 coming from three primary funding sources: 1) core contributions, 2) innovative financing, and 3) investment income.

Table 3 illustrates the 'modest growth' scenario's trends and the respective actual and projected cash inflows from donors, the IFFIm/GFA (excluding the HSS announcements at the UN in September), the AMC and investment income.

It is notable that, as of 2011 and accelerated from 2012 onward, the IFFIm funding share declines, in line with its initial funding schedule which brings funding forward in larger amounts in the early years. So there is a need for alternative strategies to meet increasing country programme demands.

Table 3: GAVI actual and projected cash inflows – 'modest growth'



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Since the Board approved a comprehensive resource mobilisation strategy this June some ODA budgets have been reduced as a result of the global economic downturn. A number of governments have already announced (Ireland, Netherlands and Sweden) or implemented (Italy) plans either to cut development aid or scale back growth; however, others (the U.K., Norway) have reaffirmed existing growth plans, albeit it with revised timing.

Looking to 2015, these economic pressures further compound the trends in the IFFIm/GFA income line (from US\$ 600 million in 2010 to US\$ 61 million in 2014), as evidenced in Table 3. This progressive but significant decrease is a known systemic product of the IFFIm design. A third of the IFFIm proceeds, or US\$ 1.0 billion, is by design set aside for disbursement after 2015; this is explained in the IFFIm section below. Therefore, in the interim, and in particular from 2012 on, unless additional IFFIm resource mobilisation is undertaken, GAVI is compelled to rely more heavily on core contributions, which are most affected by the economic crisis, and at a time when the demand for vaccines is the highest.

The announcement in September of an additional US\$ 1.0 billion to help GAVI and its partners strengthen health systems demonstrates a renewed commitment to health meeting the health MDGs. However, these funds have been specifically dedicated to health systems strengthening and will not help meet the costs of vaccines. GAVI needs to take stock of this new reality.

The Board should consider the following priorities for the next 12 months:

- Expand core funding in 2009 and 2010, including through unspent end of year funds, to help GAVI meet qualified demand, including documented demand from the October 2009 IRC and expected 2010 applications, while sustaining an 8 months cash reserve.
- Increase contributions to core budget and innovative financing mechanisms between 2011 and 2015 to provide \$4bn additional funding (\$800m per annum).

Key resource mobilisation strategies focus on GAVI's diversification to broaden its prospects for funding in the long term, but are unlikely to substantially alter the short term financial perspective. These strategies include private philanthropy and outreach to current and future OECD DAC donors; Gulf States; and BRIC countries.

The following sections review GAVI's sources of funding and their relative strategic priority and present plans for the resource mobilisation event in March 2010.

Priority funding sourcesCore contributions

GAVI's business model is premised on sufficient un-earmarked core funding to finance the procurement of vaccines, which at present constitutes 76 percent of

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GAVI expenditure, as well as to complement donor contributions for the AMC. Core contributions (cash inflows) included in the 2010 Budget amount to US\$ 305 million, based on the 'modest growth' scenario. (See Annex 3 for detailed assumptions).

GAVI's ability to bring down the costs of vaccines (for GAVI eligible countries and the market at large) and to drive efficiencies in the vaccine market is linked to its ability to pool considerable funds over multi-year commitments. Core, unearmarked, funding is:

- the mechanism to implement the Paris principle of country ownership;
- critical to programme flexibility in line with GAVI's country driven approach; and
- central to the pneumococcal AMC model.

In the past, donors have generally provided un-earmarked funding.² To attract new donors, the possibility of earmarking under certain conditions, in particular if related to a new vaccine, could be discussed by the Board.

IFFIm

IFFIm's framework was designed to fund US\$ 4 billion of programmes through the period 2006-2015. This innovative financing mechanism is delivering tremendous health gains by front-loading investments in immunisation programmes: it enables GAVI to accelerate access to vaccines and save lives, provide predictable funding to countries for multi-year plans, and tackle bottlenecks in accessing immunisation while solidifying GAVI's market shaping power, with cheaper vaccines as a result of public commitments and accelerated investments.

IFFIm was launched in late 2006 with an initial bond offering of US\$ 1 billion. Subsequent bonds have been raised to meet programmatic needs and refinancing of prior issuances as appropriate. Based on the current³ pledges, approximately US\$ 2.8 billion of bond proceeds can be utilised for programmes through 2006-2015 with a further estimated \$1.0 billion during the period 2016-25⁴.

IFFIm has demonstrated that it is an effective vehicle for investments in vaccine purchases and related investments in immunisation programmes.

The IFFIm/GFA line in the 2010 Budget amounts to **US\$ 600 million** as outlined in Table 4.

² Exceptionally, GAVI receives earmarked contributions from the European Commission (EC), as this has historically been the only way for GAVI to receive funds from this donor. With the help of Board members, the Secretariat is exploring a change in the status of GAVI vis-à-vis the EC.

³ Pledges since inception total \$5.3 billion using the prevailing FX rates at the time of signing the grant agreements. Current pledges include the recent Netherlands pledge of €80m

⁴ As per Section 5.5 of the Finance Framework Agreement

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IFFIm - Programme Approvals and Cash transfers to GFA (\$m)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016-25
	Act	Act	Act	Est	Budget	Est	Est	Est	Est	Est	Est
Finance Framework Agreement											
Cumulative Max Approved Programmes		1,050	1,550	2,000	2,425	2,825	3,175	3,500	3,800	4,000	TBD
IFFIm											
Actual Approved programmes - Annual		1,047	325	627	350	150	100	60	70	60	
Actual Approved programmes - Cumulative vs. max permissible		1,047	1,372	1,999	2,349	2,499	2,599	2,659	2,729	2,789	3,800
		-3	-178	-1	-76	-326	-576	-841	-1,071	-1,211	
IFFIm transfers to GFA - Annual	525	428	273	330	600	344	84	61	79	100	1,000
IFFIm transfers to GFA - Cumulative	525	953	1,226	1,556	2,156	2,500	2,584	2,644	2,723	2,824	3,800
GFA Programme Disbursements - Annual	230	629	226	428	480	300	200	70	70	80	-
GFA Programme Disbursements - Cumulative	230	858	1,085	1,513	1,993	2,293	2,493	2,563	2,633	2,713	3,800
GFA Ending Cash Balance	296	101	162	167	287	331	215	205	215	235	0

Note: Data includes Netherlands pledge

In the current tight economic climate, the IFFIm mechanism is an attractive option for donors with immediate budget constraints, as demonstrated by the recent further pledge of additional resources for HSS. Even with the recent announcement of the IFFIm expansion, capacity still exists under the existing framework to provide additional funding for immunisation through additional pledges contracted with IFFIm. At the same time, careful planning and peer guidance among Board members are needed to ensure sufficient core funding matches longer term commitments.

Expanded IFFIm for Health Systems Strengthening

As noted above, the announcement on 23rd September in New York of US\$ 1 billion towards an expanded IFFIm for a joint platform for HSS from UK, Norway and Australia bear testimony to the success of the IFFIm model as an innovative financing instrument. GAVI has been working intensively with the Global Fund to Fight AIDS, Tuberculosis and Malaria and the World Bank, with facilitation from WHO, to develop a joint platform for health systems support to channel these and other investments in a coordinated fashion. This harmonised platform will help countries access money more efficiently and spend it more effectively. HSS is essential to ensuring delivery of vaccines, drugs, bed nets and other services.

However it is important to note that these new commitments do not change GAVI's financial picture in relation to funding core vaccines: the recent pledges are not factored into our financial estimates as they are directed to health system strengthening programmes not yet included in GAVI's programmatic expenditure projections.

These pledges to an expanded IFFIm are distinct from the HSS directly financed by GAVI - the Board had endorsed a potential window of up to US\$ 800 million for HSS, of which US\$ 525 million have been committed to date. A decision by the November Board in relation to the future of GAVI's HSS programme has implications for the figure for unmet demand.

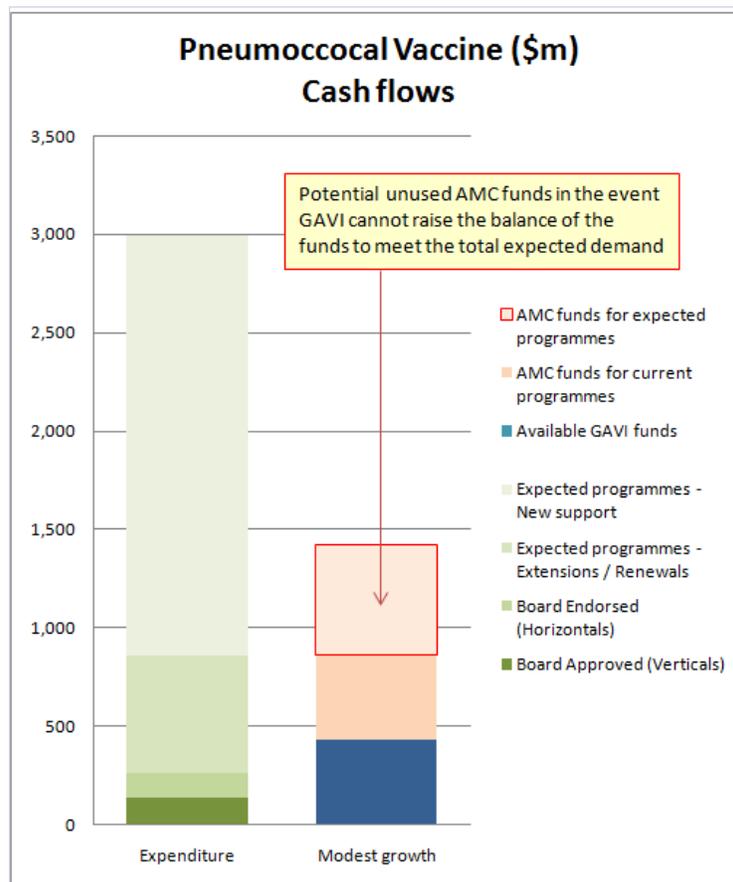
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Advanced Market Commitment

The pneumococcal AMC aims to speed up vaccine roll-out in GAVI-eligible countries and has the potential to reduce childhood deaths by an estimated 7 million by 2030. Suppliers have shown great interest in the programme and four offers were made in response to UNICEF's first AMC pneumococcal tender. AMC inflows for pneumococcal are conditional on vaccines meeting WHO's and AMC's technical specifications and on vaccine availability. The inflows are expected to begin with US\$ 95 million in 2010 and total US\$ 996 million through 2015. This is offset by the matching outgoing programme expense.

Vaccine-specific funding is an inherent part of the AMC design in order to provide suppliers with an incentive to increase production capacity for pneumococcal vaccines. Since the AMC contributions from six donors (US\$ 1.5 billion) fund only the incentive to spur capacity scale up, GAVI must rely on core contributions to purchase created supply and meet created demand, see Table 5. As it reflects on a possible future AMC for a new vaccine, the Board should consider the option of making contributions to the AMC conditional on matching contributions to GAVI's core funding.

Table 5: Pneumococcal vaccine



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Other Strategies

Diversified and expanded donor base

As endorsed by the Board at its last meeting, GAVI must broaden its donor base as it has relied on a relatively narrow donor base (17 governments, the EC, the B&MGF and smaller private donors). Outreach has been intensified to three main groups of potential new donor governments: current and future OECD DAC donors; Gulf States; and BRIC countries. The Secretariat has also engaged the GAVI Board constituencies; particularly donor governments and implementing countries, to take part in these outreach efforts.

Expectations of bringing in new donors should be realistic. Building up relations with potential new donor governments takes time, and results in terms of major funding must be expected in the medium, not short term. Therefore, priority has also been accorded to intensifying resource mobilisation efforts with current donors, to increase their contributions to GAVI to meet short term programme demand.

The Secretariat has mapped individual strategies for each donor government. These strategies are continually updated as the political and economic circumstances of each donor country change. Donor relations staff systematically analyse these changes and proactively engage Board members in discussions of individual strategies to ascertain where their interventions can best be made. Over the past several months, GAVI has intensified its outreach to Members of Parliament, parliamentary groups and civil society organisations (CSOs) in donor countries. A combination of donor government budget mapping and timely advocacy with parliaments and influential CSOs is a central piece of each individual donor strategy.

Private philanthropy

In order to diversify funding and raise GAVI's visibility, a private philanthropy initiative was launched in 2007. Philanthropy from individuals, family foundations and corporations has accounted for US\$ 2.13 million cash received plus additional pledged commitments. In addition, work with Spain's La Caixa Foundation to renew its contribution, launch its Business Alliance for Childhood Vaccination, and initiate and promote a La Caixa employee giving programme has raised funds in excess of US\$10 million. In 2009, the GAVI Alliance Immunize Every Child Board has endorsed a robust outreach initiative involving natural allies, such as parents and paediatricians, as well as high net worth individuals.

The initiative, now in its second year, is growing and over time aims to raise annually at least the equivalent of a contribution from a small- to medium-sized bilateral donor. Targets are to increase donations to US\$ 10 – US\$ 12 million annually by the end of 2011. Reaching this level of success will be especially challenging given both the current economic climate in the US - where the initiative has largely been focused - and the downturn in charitable giving globally. The value of private philanthropy goes beyond the level of mere returns. Multiple funding sources ensure a more stable and predictable funding base in the long term.

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Importantly, private donations and engagement in development often enhances government support, with Spain being a notable example in this regard. With a Government contribution as well as a private campaign and donations received through the la Caixa bank and foundation, it brings to GAVI a true mix of public and private money, demonstrating strong support for the cause of immunisation across different layers in society.

Increased brand recognition in the United States promises to similarly underpin strong and lasting US support for childhood immunisation - and, in particular, the massive life-saving opportunities new vaccines for pneumococcal disease and rotavirus represent. The private philanthropy team is well positioned to articulate the return on investments in GAVI in a language that business leaders and government policy makers understand.

Investment Income

Investment income included in the proposed 2010 Budget amounts to US\$ 23 million, based on the 'modest growth' scenario. On average, investment income has provided US\$ 25 million per year. GAVI's (consolidated) highest investment income in a year was US\$ 69 million in 2007 with the worst performance occurring in 2008 during the financial crisis of (US\$ 39 million). Given the current conditions in credit markets and exceptionally low LIBOR, expectations for 2010 are not significant. For 2010 we are assuming a net return of 2.0 percent across our long and short term portfolios held in the GAVI Alliance and GFA, offset by custodian and management fees. A breakdown of this value can be found in Annex 4.

Board stewardship

It will be significantly easier to meet the coming year's challenges with both increased individual engagement of board members and their coordinated, collective responsibility to ensure the funds are available to achieve the GAVI Alliance's core mission.

Collective Stewardship and the 2010 Resource Mobilisation Event

At its June 2009 meeting, the Board decided that GAVI should organise a resource mobilisation event in early 2010 as an urgent priority. The event is neither a pledging nor a formal policy-making meeting. It is intended to be a dynamic stakeholder consultation to determine how we can collectively muster the resources needed. The objective of the event is to share information on GAVI's achievements to date, potential for the future, and financial forecast, and mobilise further financial support from current and potential donors.

The preparations for the event will allow GAVI's donors and implementing countries to take stock of the new reality that GAVI faces and build the resource mobilisation strategy together. The presence of implementing countries is a crucial element to bring evidence of the success of GAVI's past results and to speak to demand projections.

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In accordance with the Board's recommendation that GAVI should explore potential synergies in resource mobilisation with other global health initiatives, the event will be held back-to-back with a lead-up meeting to the replenishment meeting of the GFATM's main donors, in Seoul in March 2010 (subject to confirmation). Board members are encouraged to use their networks to ensure that a number of potential GAVI donors will participate actively.

Individual engagement

GAVI has benefited immensely from the energy and stature of its Board members. Board members have voluntarily used their connections to fundraise (from private and public sources), advocate and speak out.

As the Board noted in June 2009, there is scope to do more. The question is how to make best use of a Board member's resources – time, connections and experience. The Secretariat consults Board members to review their existing networks, connections and potential to raise issues related to each individual donor resource mobilisation strategy, as described above. Where feasible, individual work plans for Board members are being elaborated together and shared within the Secretariat to give others systematic ideas across the spectrum of advocacy, communications and fund-raising.

Ensuring that these efforts are designed and prioritised in alignment with the collective stewardship will be critical to the success of these initiatives.

2010: a year of opportunity.

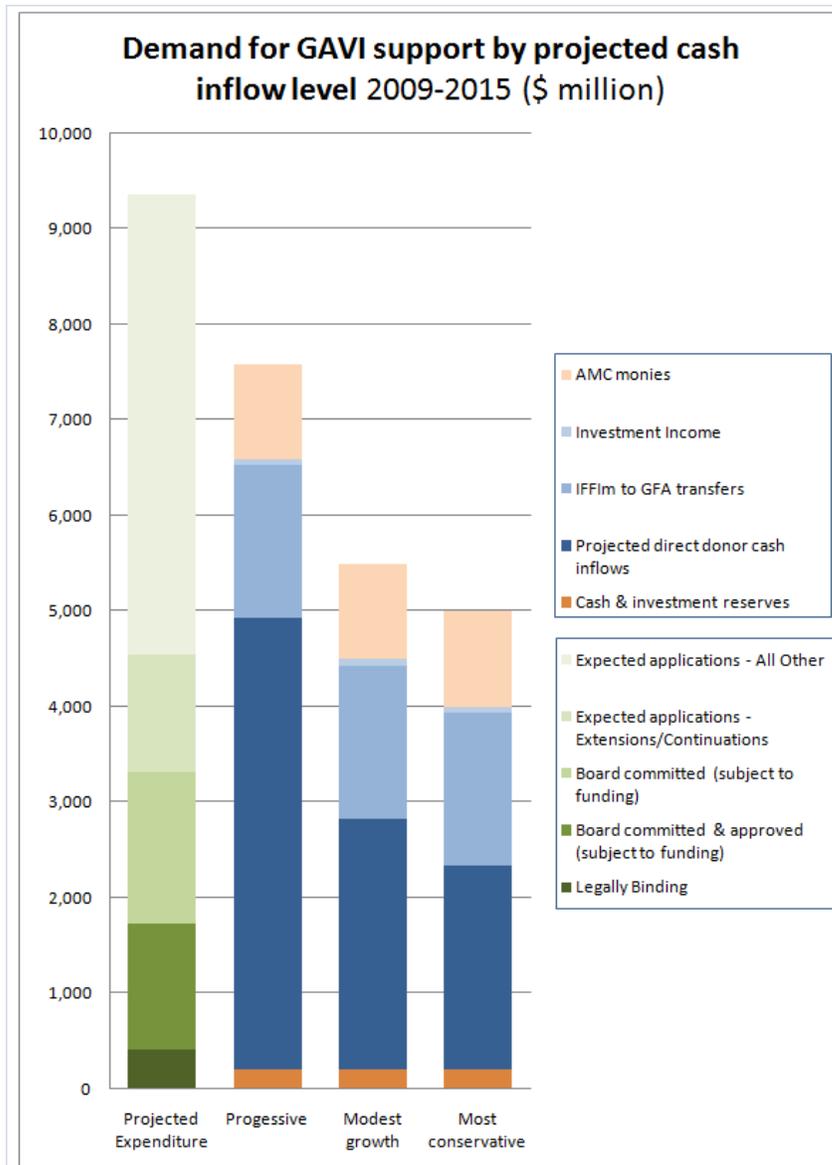
2010 is a year of opportunity for intensified advocacy on the health MDGs and for leadership initiatives by donor countries to help meet the MDGs. For example, the transition from G8 to G20 with next year's meetings being co-hosted by Canada and Korea, the high-level United Nations Summit on the MDGs, and the Spanish Presidency of the EU, provide opportunities for us all to advocate for health and immunisation and for donors to signal their leadership with new announcements. The Secretariat has initiated contacts to help ensure that the health MDGs are extensively profiled in these events, and look forward to our board members to also take this on at the government level with support from the Secretariat. To meet this opportunity, the Secretariat is strengthening its capacity to support the board in engaging the donor community and to scale-up advocacy and communication efforts with new partners like civil society and parliamentarians.

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4. Reconciling cash inflows and expenditure

Under all three cash inflow scenarios there is a gap between projected cash inflows and expenditure. As Table 6 demonstrates, even under the most conservative scenario, GAVI can deliver on country programme budgets which have been approved and endorsed by the Board. But even under the most optimistic scenario, we cannot meet all of the projected demand.

Table 6: Projected expenditure by cash inflow scenario

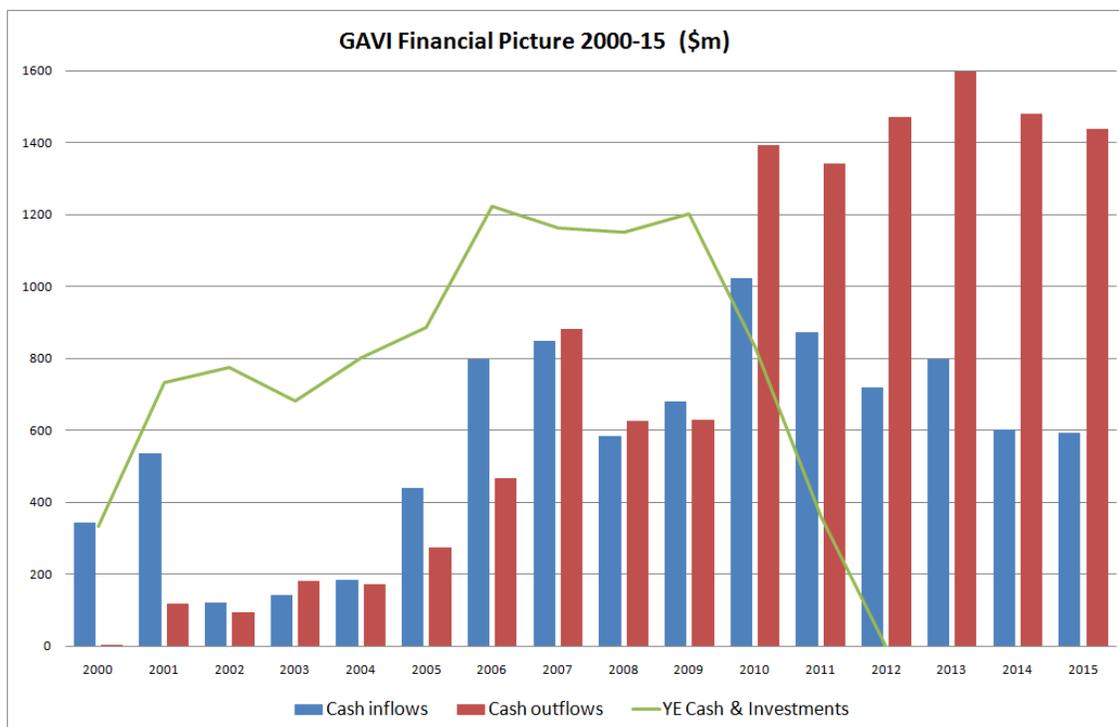


Note – “AMC unallocated” monies that are available for pneumococcal vaccine but only if matching monies from GAVI resources are available.

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Table 7 highlights the impact on year-end assets of projected cash outflows assuming total demand is met and the “modest growth” cash inflow scenario.

Table 7: GAVI Capacity to Fund Projected Country Programmes



As evidenced in Table 8, with country demand (cash outflows) estimated at US\$ 9.3 billion for 2009-2015, the programme funding needs range from US\$ 1.8 billion in the ‘progressive’ scenario to US\$ 4.4 billion in the ‘most conservative’ scenario.

Table 8: Funding challenge – 2009-2015

Funding Challenge - 2009 - 15			
\$ Billion	Cash flow projections		
	Most Conservative	Modest Growth	Progressive
Unfunded demand	4.4	3.9	1.8
Projected resources*	5.0	5.5	7.6
Total demand	9.3	9.3	9.3

* Projected resources including a draw down of \$0.2bn from GAVI’s investments

The cash inflow and expenditure estimates for 2010 through 2015 have significant cash flow and balance sheet implications that should be considered before finalising the 2010 endorsements and approval. We model below the impacts of projected

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expenditure and cash inflows, introducing a simplified cash flow statement and a chart showing the annual change in net assets.

Impact of projected cash inflows and expenditures on GAVI's cash flow availability

Table 9 presents a simplified “cash flow plan” based on the “modest growth” cash inflow scenario (detailed in Annex 2).

Table 9: GAVI Simplified Cash Flow Projections 2009 – 2015

Simplified Cash Flow Plan (\$m)								
	Cash Basis - Assuming Modest Growth Direct Funding							
	2009 Est	2010 Est	2011 Est	2012 Est	2013 Est	2014 Est	2015 Est	Total
Cash & Inv. Opening Balance	1,149	1,201	1,112	1,097	1,014	1,024	1,024	
Cash outflows								
Programme Expenditures:								
Approved / Endorsed	487	922	432	203	131	108	79	2,364
Expected - Extensions & Renewals	0	49	215	301	277	216	162	1,219
	487	971	647	504	408	324	241	3,583
Procurement Fees	9	9	9	6	9	9	9	60
Work Plan	87	67	78	80	82	84	86	563
Administration	45	44	45	47	48	49	51	329
Savings to be found								
Total cash outflows	628	1,091	780	637	547	466	387	4,536
Cash inflows								
Bi-laterals + BMGF	314	305	329	382	417	432	449	2,628
GFA	330	600	344	84	61	79	100	1,598
AMC monies		74	86	87	80	56	45	429
Investment Income	36	23	6	0	0	0	0	64
Total cash inflows	680	1,002	765	553	558	567	595	4,720
Cash & Inv. Closing Balance	1,201	1,112	1,097	1,014	1,024	1,126	1,232	
Cash inflows vs. Outflows	52	-89	-15	-84	11	101	208	184
Cash & Inv. CB vs. future Exp	1.10	1.43	1.00	0.92	0.93	1.02		
	2009 Est	2010 Est	2011 Est	2012 Est	2013 Est	2014 Est	2015 Est	Total
Programme Exps. (Not included above)								
Expected - All Other (cash outflows)		302	562	833	1,050	1,015	1,051	4,814
AMC monies (cash inflows)	0	21	107	165	240	36	-1	567
Net Cash Outflows	0	281	455	668	810	979	1,052	4,246
Including all expenditures and cash inflows								
Cash & Inv. Closing Balance	1,201	831	361	-391	-1,190	-2,068	-2,035	
Cash inflows vs. Outflows	52	-370	-470	-752	-799	-878	-844	-4,062
Cash & Inv. CB vs. future Exp	0.86	0.62	0.33	(0.36)	(1.08)	(1.88)	(1.85)	

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The table above illustrates cash inflows and expenditures. GAVI's cash and investments are expected to decrease by \$370 million and \$470 million during 2010 and 2011, respectively if full full projected demand for future requests is approved by the Board. However if the Board only supports their existing commitments plus expected extensions and renewals then sufficient funds are available assuming the modest growth inflow assumptions are met.

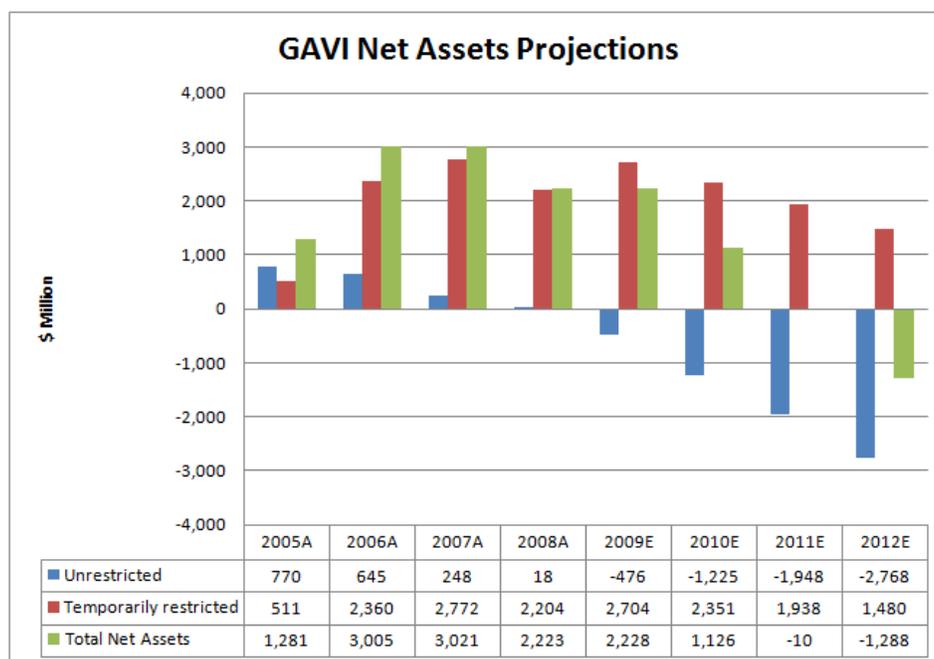
The Board has not yet decided on a minimum unrestricted cash and investment reserve position, but an initial suggestion from the investment committee was to hold one year's worth of operating expenditures as cash and investments. This initial target is likely to be met, or almost met, in 2009. However, if there is no pause in programme approvals, cash and investments held will only be equivalent to seven months and four months of cash expenditure for 2010 and 2011, respectively.

Impact of projected cash inflows and expenditures on GAVI's net assets

Net assets are the resources (assets) that GAVI has available to it after deducting all its obligations (liabilities). Net assets can either be *unrestricted* (meaning that they are available for immediate use by GAVI) or *restricted* (meaning that they are not immediately available for use). *Restricted* net assets are mainly comprised of contributions made by donors that are either paid over time (*time restricted*) or whose use is restricted to a particular programme (*purpose restricted*).

Maintaining positive *unrestricted* net assets is important as it allows GAVI to continue to operate despite short term operating losses. Positive unrestricted net assets also afford GAVI the opportunity to innovate and take risks.

Table 10 GAVI Net Assets projection 2010-2012



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Table 10 above shows GAVI's projected net asset positions through 2012 if the full projected demand is approved by the Board and no additional resources are raised over and above the “modest growth” resource scenario.

As shown in this table, GAVI is projected to have negative unrestricted net assets of \$476 million at the end of 2009. The table also shows a steady reduction in both GAVI's restricted and unrestricted net assets from 2008 through 2012, with negative unrestricted net assets reaching \$2.8 billion in 2012.

The trend in net assets indicates that as early as 2011, and in the absence of corrective measures, an increase in donor funding or a fall in vaccine prices, GAVI may not have sufficient financial resources to provide uninterrupted delivery of vaccines to the countries. Also, absent corrective measures, the information in the Table 10 above may adversely impact the assessments of GAVI's financial health made by third parties as the information becomes available to them through GAVI's published financial statements.

5. Actions to ensure responsible financial management

In the light of the projected difference between cash inflows and expenditure, the Audit and Finance Committee recommends that the Board takes steps to ensure that GAVI's finances are managed responsibly in the new climate.

Cash and investments reserve recommendation

All organisations need some financial reserve; a non-profit procuring (rather than service) organisation has a particular requirement for a reserve. In GAVI's case, 30 percent of its annual vaccine costs are advanced to its procurement partner (UNICEF) in the fourth quarter of the preceding year of delivery, and the timing of cash inflows within a year is unpredictable due to a variety of factors beyond its control, including the arrival of donor funds at the end of the year.

The Secretariat and the Audit and Finance Committee recommend that the Board establish a clear policy of maintaining a reserve so that we can be certain that we can meet our obligations if additional donor funding is not available. During 2010, the Secretariat anticipates that budget approval requests will be submitted to the Board up to the amounts noted below.

The following options are provided for Board consideration:

1. A minimum unrestricted cash and investment⁵ reserve of 6 months of annual expenditure. On current expenditure projections (cash outflows), this would imply that total demand (cash outflows) of **US\$ 1'393 million** expenditure could be met and still maintain unrestricted cash and investments of more than 6 months. This would result in a reduction of GAVI's unrestricted cash and investments of US\$ 370 million in 2010, to **US\$ 831 million**. (*Note – in the minimum scenario full*

⁵ Unrestricted cash and investments held in GAVI Alliance plus GFA. IFFIm cash & investments are excluded as they are deemed to be required for gearing purposes.

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2010 demand could be met and as such the actual year end coverage equates to 7.4 months in 2010)

2. A minimum unrestricted cash and investment reserve of 8 months of annual expenditure. On current expenditure (cash outflow) projections, this would imply that expenditure would be limited to **US\$ 1'325 million** in 2010, which in turn would mean that **US\$ 68 million** of projected demand would not be met. Unrestricted cash and investments would be reduced by US\$ 302 million in 2010, to **US\$ 899 million**.

3. A minimum unrestricted cash and investment reserve of 12 months of annual expenditure. On current expenditure (cash outflow) projections, this would imply that expenditure would be limited to **US\$ 882 million** in 2010, which in turn would mean that **US\$ 511 million** of projected demand (approximately 38 percent) would not be met. Unrestricted cash and investments would be increased by US\$ 141 million in 2010, to **US\$ 1'342 million**.

The Audit and Finance Committee recommends that the reserve should target 12 months of annual expenditure (US\$ 1,342 million in 2010) with an absolute floor of 8 months (US\$ 899 million in 2010). The Committee will monitor this policy.

Recommended 2010 cash flow plan

Table 11 presents this revised expenditure scenario (assuming the “modest growth” cash inflow scenario) the proposed basis for 2010 budget (on a cash basis), and its impact on the cash and investment position.

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Table 11 Recommended Budget for 2010

Simplified Cash Flow Plan (\$m) - Recommended Budget				Alternative options	
	2009 Est	2010 Est	2010 Budget	2010 Budget	2010 Budget
			8 Months	6 Months	12 Months
Cash & Inv. Opening Balance	1,149	1,201	1,201	1,201	1,201
Cash outflows					
Programme Expenditures:					
Approved / Endorsed	487	922	922	922	922
Expected - Extensions & Renewals	0	49	49	49	49
Expected - All Other	0	302	302	302	302
	487	1,273	1,273	1,273	1,273
Procurement Fees	9	9	9	9	9
Work Plan	87	67	67	67	67
Administration	45	44	44	44	44
Savings to be found	0	0	-68		-511
Total cash outflows	628	1,393	1,325	1,393	882
Cash inflows					
Bi-laterals + BMGF	314	305	305	305	305
GFA	330	600	600	600	600
AMC monies	0	95	95	95	95
Investment Income	36	23	23	23	23
Total cash inflows	680	1,023	1,023	1,023	1,023
Cash & Inv. Closing Balance	1,201	831	899	831	1,342
Cash inflows vs. Outflows	52	-370	-302	-370	141
Cash & Inv. CB vs. future Exp	0.86	0.62	0.67	0.62	1.00

(7.4 months)

A pause in programme approvals

A prioritisation paper is before the Board. This recommends the principles to steer future decisions and ensure expenditure limits are maintained. In the event that additional donor funds are received for 2010, it will be possible to meet a greater proportion of projected country demand.

The IRC new proposal team has just completed its review of new country programme applications. Given the above, the Secretariat made a proposal, which the Audit and Finance Committee endorsed, that the Board should consider one of the following options:

1. The Board may decide that in order to ensure that we manage demand prudently and avoid committing funds we do not have, there should be a pause in the Board considering the New Proposals IRC recommendations until June 2010, when donor commitments will be clearer. If this proposal is agreed by the November Board, recommendations by the October 2009 IRC will be put to the

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June 2010 Board. In June the Board would be able to consider new proposals in the light of donor funds received, and the prioritisation principles which it has agreed. This would involve a significant change in message by GAVI, which has until now been successfully encouraging eligible countries to plan for vaccine introduction and the vaccine industry to scale up production.

2. The Board may decide to maintain the status quo and the recommendations of the New Proposals October IRC would be brought to an Executive Committee meeting in January (to be scheduled). The Board's decision on the size of the cash reserve would have implications for how quickly the limit imposed by the reserve would be reached, at which time it would be impossible to fund new recommendations without additional donor funds. The advantage of this approach is that momentum is maintained for countries and suppliers. However, it might send a signal to donors that reductions in funding do not have an impact. The scope of any future prioritisation exercise would also be limited by the extent of commitments made in January 2010, because once GAVI makes a commitment to a country there is little scope for cancelling the programme.

The Secretariat and the Audit and Finance Committee recommend option 1.

List of Annexes

1. Projected expenditure 2009-2015
2. Most conservative' and 'progressive' scenarios
3. Core contributions (cash inflows)
4. Investment income

ANNEX 1**Projected expenditure 2009-2015**

GAVI Alliance Projected Expenditure 2009 - 2015					
	2009-15 Jun 09 Board	2009-15 Nov 09 Board	2009-15 Nov 09 vs Jun 09	2010-15 Nov 09 vs Jun 09	2010-15 cumulative - comments on change in estimates
Programmes					
Vaccines					
Pentavalent	3,403	2,743	(660)	(502)	a) 5.4% decrease in number of doses mostly due to India and Nigeria delayed introduction b) 13.3% decrease in average cost per dose (-\$351m)
Pneumo	2,320	2,758	+438	+460	a) 8.4% increase in number of doses due to elimination of supply constraints on demand awaiting for better view on supply (+\$220m) b) 16.0% increase in number of doses due to inclusion of buffer stock and wastage consistently with AVI methodology (+\$240m)
Pneumo (India)		135	+135	+135	Remainder of India cap in 2014 and 2015
Rotavirus	521	1,071	+550	+554	a) 78.7% increase in number of doses to reflect that new SAGE recommendations will accelerate demand, and correcting for past exclusion of buffer stock and wastage b) 16.6% increase in average cost per dose (+\$151m)
Other vaccines	296	324	+28		
Subtotal Vaccines	6,541	7,031	+490	+647	
Cash Based	663	663	-		
Investment Cases	613	613	(0)		
Procurement Fees	72	70	(3)		
Total Programmes	7,890	8,377	+487		
Work Plan	681	568	(113)		a) with regard to budget reductions for 2009 and 2010 see explanations in 'GAVI 2010 Administrative and Work Plan Budget' Board document;
Administrative	356	329	(27)		b) from 2011 onwards budgets are projected to increase annually by 3% instead of 5.5% on Admin and 6.3% on Workplan
Grand Total	8,927 *	9,274	+347		

* The total actually cited in the June 2009 Board meeting document (8,147b) reflected a proposed global 10% reduction which was not based on demand forecasts. In order to provide like-with-like comparisons, the original total is included here.

ANNEX 2

Definitions for each of resource projection scenarios and the charts for the 'zero-based' and 'progressive' scenarios

1. 'Most conservative' scenario

The main assumption of this scenario is that despite an eventual economic upturn beyond 2010, GAVI's main donor governments will continue to contribute to GAVI at current levels. Although there is a small risk that some donors may decide to reduce future contributions, the Secretariat believes that traditional donors may be expected to increase their contributions over time following the end of the current financial crisis, and efforts to broaden the base to non-traditional donors will begin to bear fruit. Therefore the 'Most Conservative' scenario is considered less probable than the 'Modest growth' scenario at 2 below.

2. 'Modest growth' scenario

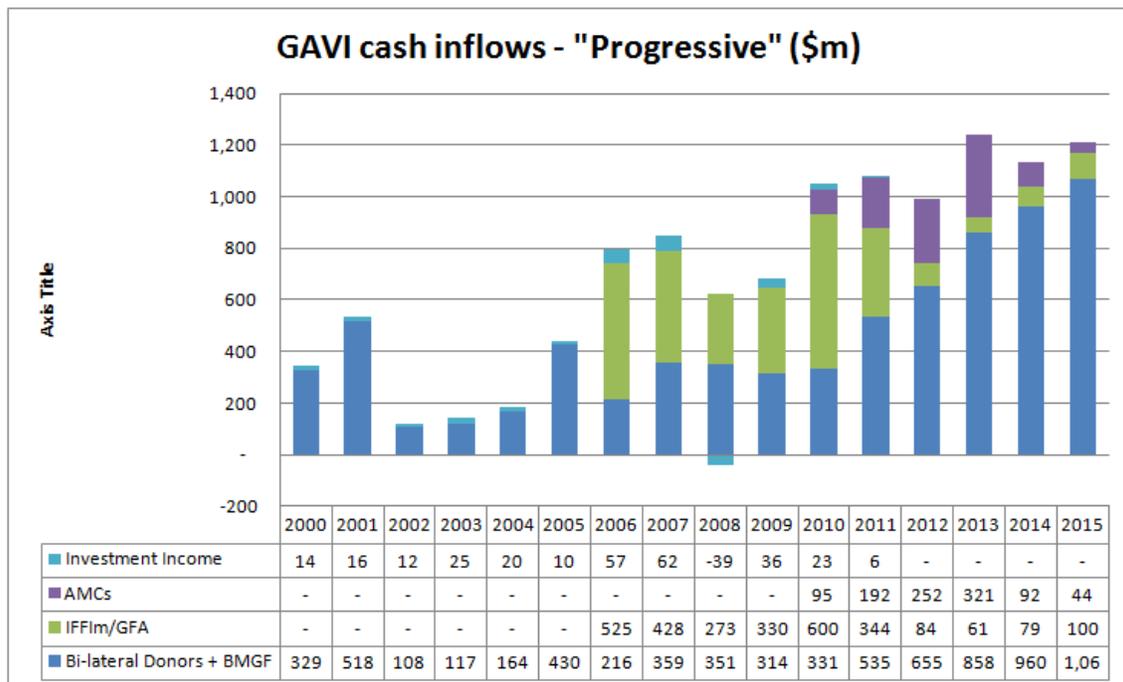
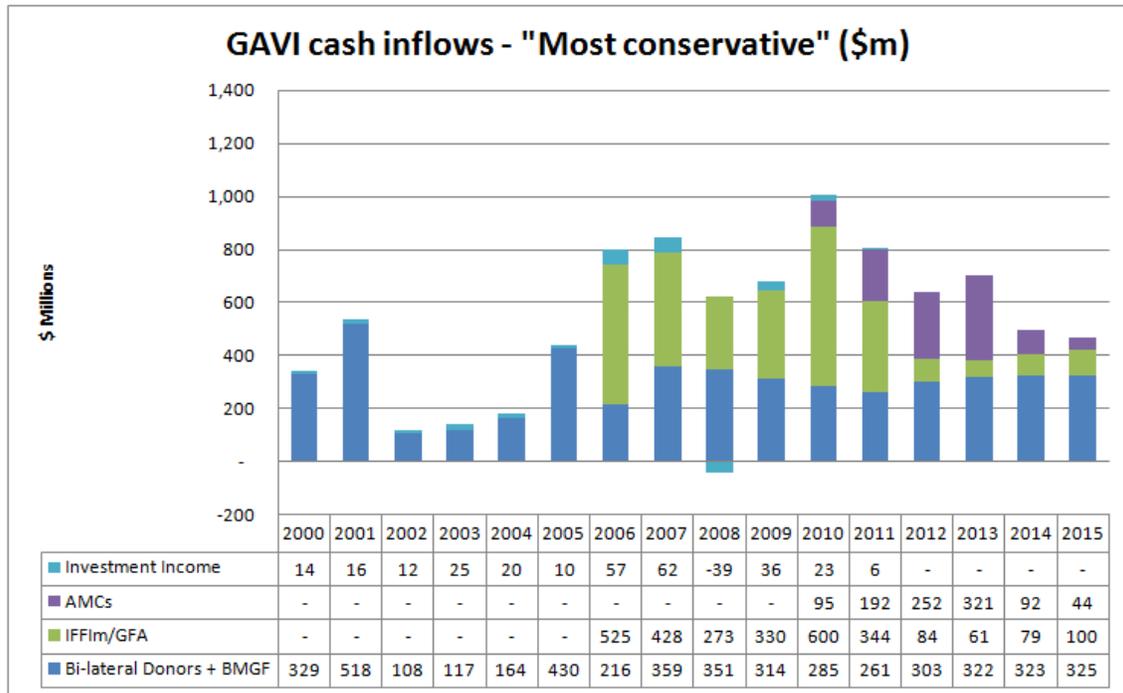
The assumption underpinning the 'Modest growth scenario' is that an upturn in the economies of GAVI's main donor governments will see modest increases in bilateral donations to GAVI from 2011 onwards. The figures contained in this scenario have been arrived at by consultations with donor representatives in Geneva and capitals.

3. 'Progressive' scenario

Under the 'progressive' scenario, the forecast for estimated income is based on the assumptions that an economic upturn will be rapid and substantial, and that donor contributions will grow commensurately, as a result of massive resultant increases in ODA health sector investment. The figures in this scenario are for internal Secretariat planning purposes only and have not been corroborated by donor representatives.

ANNEX 2

Most conservative' and 'progressive' scenarios



ANNEX 3

Core contributions (cash inflows)

Donor Contributions and Projections 2000-2015 (Cash inflows)																
	History			Most conservative						Modest growth						Progressive
	2000-07 Actual	2008 Actual	2009 Est.	2010 Est.	2011 Est.	2012 Est.	2013 Est.	2014 Est.	2015 Est.	2010 Est.	2011 Est.	2012 Est.	2013 Est.	2014 Est.	2015 Est.	Total Est.
Australia	10,000	5,000	5,000													
Denmark	17,051	0	9,099													
European Commission	6,110	23,129	25,786													
Germany	11,208	0	5,721													
Ireland	18,829	3,841	2,078													
Luxembourg	2,776	1,423	1,191													
Netherlands	120,665	38,885	31,206													
Norway	292,607	65,449	70,772													
Spain	0	40,536	0													
Sweden	53,096	19,132	6,134													
United Kingdom	121,562	0	1,475													
United States	421,812	71,913	75,000													
Gates Foundation	987,838	75,000	75,000													
Lo Coeko Foundation	0	6,021	5,188													
Other Private GAVI Fund	9,749	517	795													
Canada	148,728	0	0													
Finland	0	0	0													
France	18,659	0	0													
Italy	0	0	0													
Japan	0	0	0													
Korea	0	0	0													
Other countries	0	0	0													
Total incl. Private	2,280,690	250,866	314,447	295,181	261,164	302,995	322,388	323,360	324,658	304,728	329,258	381,738	416,778	431,768	446,559	
Cumulative 2009-15									2,134,194						2,628,077	4,721,925

ANNEX 4**Investment income**

2010 Investment Income (\$m)			
	<u>Yield</u>	<u>Avg Bal</u>	<u>Interest \$</u>
IFFIm Cash/short term investments	0.30%	800	2.40
GFA Cash/short term investments	0.05%	100	0.05
Alliance Cash/short term investments	0.20%	200	0.40
Alliance Procurement A/C (Restricted)	0.20%	100	0.20
Alliance long term portfolio	3.00%	700	21.00
Lombard Odier Custodian Fees			(0.28)
State Street Custodian Fees			(0.06)
SRI Consultant Fees			(0.03)
Angeles Fees			(0.30)
State Street Global Advisors Fees			(0.17)
Western Asset Fees			(0.21)
Investment Income Total			23.01