

SUBJECT: APPROACHES TO FIDUCIARY RISK MANAGEMENT IN GAVI'S CASH GRANTS

Agenda item: 06b

Category: For Guidance

Section A: Summary

- This paper addresses the recent trend that an increasing amount of Gavi funds are being channelled away from governments in Gavi supported countries primarily as a means to manage fiduciary risks. It provides a more holistic evaluation of the issue and trade-offs associated with the current way of managing fiduciary risks, and presents alternative approaches that Gavi proposes to further explore, evaluate and scale up. It is anticipated that this will allow Gavi to strike a better balance between using and building country systems and staying within acceptable levels of fiduciary risk.
- Following a discussion in the Programme and Policy Committee (PPC), the Board is asked for further guidance on this proposal. PPC members were overall supportive and expressed a desire to accelerate timelines for moving funds back to government systems. Some members clarified that their constituencies' fiduciary risk appetite remained low while others welcomed looking into a more differentiated risk appetite for misuse beyond deliberate fraud. PPC members asked to identify which tools are, and under what circumstances, most conducive and appropriate to achieving the aims of channelling more funds through government systems and to building country systems, while keeping fiduciary risks at a low level. It was also highlighted as important to pro-actively identify and address patterns of fiduciary risk and to ensure Gavi works closely with national assurance mechanisms where feasible, relevant and practical.

Section B: Working through country systems while managing fiduciary risk

1. Introduction

- 1.1 Working through country systems and building country ownership and long-term sustainability is at the heart of the Gavi model. However, working in the world's poorest countries, often with weak systems, comes with inherent risks of misuse. With an improved understanding of country-level risks and the Board's low appetite for fiduciary risks, Gavi has found it increasingly challenging to channel its cash grants through country systems.
- 1.2 While PPC and Board members, in previous discussions, agreed that the amount of funding being channelled away from governments is concerning

and emphasised that it was critical to find ways to reverse this trend¹, the Board also confirmed its low appetite² for the risk of misuse. Assuming that the Board's risk appetite remains unchanged, Gavi cannot channel more funds back through country systems without exploring, evaluating and scaling-up alternative approaches which allow it to use and build country systems, while maintaining appropriate levels of assurance.

2. Current approach to managing fiduciary risk

- 2.1 Historically, Gavi had a light-touch model for fiduciary oversight, relying primarily on a lean Secretariat with no direct country presence. Furthermore, while Gavi recognises the importance of building strong and sustainable (public) financial management systems (both before and after transition from Gavi support), building such capacity has traditionally not been core to Gavi's mandate (or to that of our Alliance partners WHO and UNICEF).³
- 2.2 With the Secretariat strengthening its risk management and assurance practices over the past years, it has further improved its understanding of country-level risks. Programme Capacity Assessments, which assess in-country capacity to manage funds and implement Gavi programmes, have identified weaknesses in many countries' financial management systems and capacity. Moreover, Programme Audits have found an increasing number of actual cases of misuse⁴ across a number of countries. Due to its zero tolerance of misuse, Gavi has to date received close to 100% payments against scheduled reimbursement for misuse found, however these findings also point to persistent financial management weaknesses in many of the Gavi supported countries. In countries where misuse and/or weak systems have been identified, the Secretariat has typically sought to channel funds through Alliance partners (WHO and UNICEF), in line with the Board's preference, while these weaknesses are addressed.
- 2.3 As a result, approximately 2/3 of Gavi funding is currently channelled away from governments primarily as a means to manage fiduciary risks, with no significant change in this trend likely to occur in the short to medium term. However, fiduciary risk is not the only reason why funds are channelled

¹ The Board furthermore emphasised that it was critical to Gavi's mission to build the capacity of governments and use government systems wherever possible, and that when partners (as the preferred option) manage Gavi funds on behalf of countries this should be done with an emphasis on transparency, accountability and performance, and that it should be accompanied by a clear plan to transition fund management back to government systems as quickly as possible.

² <http://www.gavi.org/library/gavi-documents/policies/risk-appetite-statement/>

³ Except for the World Bank, which does not have operations in all Gavi supported countries.

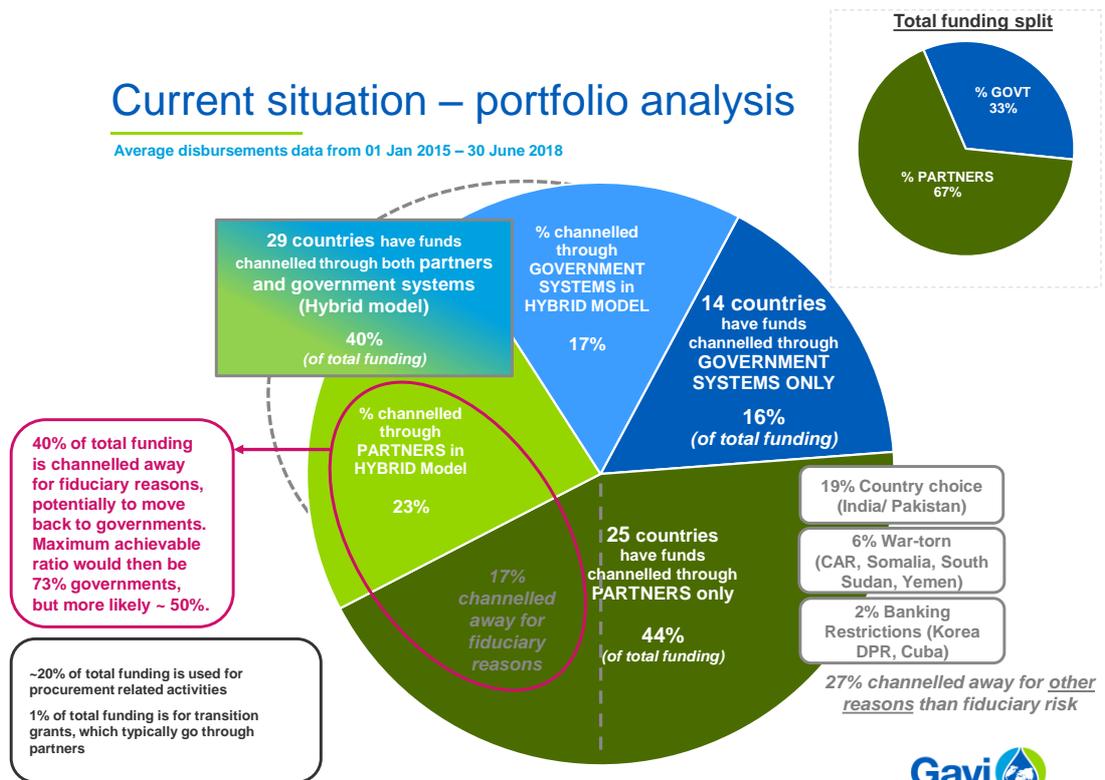
⁴ Gavi defines misuse as non-compliance with any of the following: (i) resources received from Gavi are used for the sole purpose of carrying out programme activities; (ii) funds/vaccines/supplies received are not misused or wasted or subjected to corrupt, illegal, or fraudulent activities; (iii) all expenses are properly evidenced with supporting documentation sufficient to verify such expenses. The term misuse therefore does not necessarily equal deliberate fraud, and it includes the lack of proper documentation of expenditures; while this does not allow Gavi to validate how funds have been spent, which is a key grant requirement, it does not necessarily mean that funds have been spent inappropriately.

through partners. As illustrated in the graph below, on average over 2015-2017⁵, 27% are for reasons other than fiduciary risk:

- a) India and Pakistan have themselves chosen to have funds channelled through partners (including the World Bank) rather than through their own government systems);
- b) In some countries (e.g. Korea, DPR), Gavi has had to channel funds through partners to work around banking restrictions;
- c) In some countries, Gavi had to channel funds through partners due to war or acute fragility (including for example Yemen, South Sudan, Somalia and CAR).

Current situation – portfolio analysis

Average disbursements data from 01 Jan 2015 – 30 June 2018



Note: Transition, INS, NVS grants and CCEOP has been excluded from this analysis; Govt systems also includes amounts going to SANRU (CSO)

The remaining 40% of funds that are channelled through partners have been channelled away from governments mostly due to fiduciary risk (although this includes a portion for non-medical procurement, which, although also typically associated with high fiduciary risk, is also often channelled through partners to ensure better procurement quality and pricing). In many of these countries (24 countries, representing 23% of funds), Gavi has put in place hybrid models where at least part of the funding flows through governments. Only in 17 countries (representing 17% of funds channelled through partners) are all funds channelled away from government systems.

⁵ For a year-on-year trend since 2010, see slide 10 of the presentation on the Alliance Update on Country Programmes to the May 2018 PPC, available on BoardEffect.

- 2.4 Nevertheless, as the Board has indicated, Gavi's aspiration must be to return to using country systems as much as possible in as many countries as possible. This recognises that channelling through country systems can have several positive implications with respect to countries' ownership and commitment, accountability, budget visibility, and domestic and donor funding harmonisation and alignment. It also enables testing and enhancing country systems and when funds are included on the national budget this subjects them to a country's own financial oversight and audit mechanisms, which in turn reinforces the existing systems. Various Gavi evaluations have raised issues in countries where this was not the case⁶. In addition, switching from one funding modality to another can incur high transaction costs, including by delaying disbursements or programme implementation⁷. Also, once channelled away, channelling back can be more difficult and cause again programme delays. While channelling away from governments will be necessary in certain cases, the potential benefits in terms of fiduciary risk mitigation should outweigh these potential costs.
- 2.5 Where funds are currently channelled through partners, they are transferred to partners' accounts which then, by applying their own control and assurance mechanisms, oversee Gavi funds on behalf of countries (noting that the funds are sometimes passed back through government systems). This arrangement has worked well in several settings (e.g. in countries facing emergencies or fragility) and for certain activities (e.g. for managing procurement activities). However, the scope and quality of partners' fiduciary assurance can be inconsistent across the Gavi portfolio and sometimes insufficient⁸. The Gavi Secretariat, UNICEF and WHO have held several meetings to discuss these issues, which confirmed that while partners have a clear comparative advantage in managing programmatic risks and procurement activities, managing fiduciary risk and building financial management capacity are not a core competency. Although some improvements in reporting and other aspects of programme oversight have been agreed, structural differences between the organisations make it difficult for partners to adapt their standard assurance systems to fully meet Gavi's fiduciary needs.

3. Exploring, evaluating and scaling up alternative approaches

- 3.1 Acknowledging the limitations of the current approach and the Board's dissatisfaction with the level of funding flowing through partners, further analysis and discussion is required on options that allow Gavi to strike a better balance between using and building country systems and staying

⁶ See meta-review of country evaluations of Gavi's Health System Strengthening Support. CEPA, 2016, available at: <http://www.gavi.org/library/gavi-documents/evaluations/gavi-hss-meta-review-report/>.

⁷ For example, programme implementation in Kenya was delayed for nearly one year following a decision to switch funds away from the government.

⁸ The Audit and Investigations update to the October Audit and Finance Committee (AFC) reported upon four programme audits in countries where funds were channelled through partners, and concludes that the model of channelling monies through partners to achieve fiduciary assurance is, at least in these cases, challenged.

within acceptable levels of fiduciary risk, as defined by the Board's risk appetite. As discussed at the PPC, this could potentially also include guidance on how to more clearly differentiate the Board's appetite for the risk of deliberate fraud from its appetite for the risk of weak management (e.g. if Gavi funds are used for other health programmes outside the approved HSS budget) as part of countries' learning and sustainable development.

3.2 There are a few things Gavi can do immediately to further strengthen its assurance model and (over time) move back some more funding to governments, especially by leveraging and strengthening countries' own capacity more systematically:

- Continue strong engagement with Ministries of Finance, Budget and Planning, where relevant and feasible, and ensuring that all Gavi funds are "on-budget" to ensure they come under the oversight of national assurance mechanisms. This has always been Gavi's objective in line with good development principles but has not systematically happened in practice.
- Ensuring that government external audits are complying with the standard audit terms of reference for Gavi grants, and conducted by robust national audit institutions or recognised contractors.
- More broadly apply hybrid models where low-risk grant activities are channelled through governments, while high-risk activities (such as procurement and cash-intensive campaigns), are channelled away until higher levels of assurance on country systems can be obtained. The same approach can be used to test government systems by gradually channelling back less risky activities after misuse occurred (and weaknesses are remediated), or as countries approach transition.
- Scaling-up more targeted support to countries to build specific financial management systems and capacities required in the immunisation programme and related teams by extending the Leadership Management and Coordination (LMC) approach to include a financial management component. Gavi can also collaborate with other development partners (such as the World Bank and the Global Fund) on broader strengthening of public financial management systems (an area broader than Gavi and immunisation alone), recognising that other organisations have a clear comparative advantage, and much larger financing, for this.

3.3 In order to accelerate the process of returning to channelling funds through governments, alternative fiduciary risk mitigation models are needed that provide more embedded monitoring and assurance on funds (potentially combined with financial management capacity building). Gavi currently provides around US\$ 16 million p.a. in funding to Alliance partners to administer Gavi grants on behalf of countries. Some of this could be used to further explore, evaluate and eventually scale up alternative models. Gavi

is already testing some alternative models in a limited number of countries (see Annex A), and can align with and draw on the experiences of other organisations (such as the Global Fund and the World Bank) where relevant.

- 3.4 Given that sources of risk vary by country and grant, each country requires a differentiated solution, possibly combining a number of alternative models tailored to its specific situation and risk profile. Countries which have acceptable financial management capacity in place but show low compliance with their own procedures, require an approach with more focus on monitoring and assurance. Countries that lack basic capacity require a stronger focus on capacity-building to enable use of their systems over time.
- 3.5 A description of alternative models that are proposed to be further explored, evaluated and scaled-up is provided in Annex A, together with an overview of where these models are currently already being tested (including together with the Global Fund), and an initial list of countries to which the Secretariat would propose to expand them. The different models and the circumstances under which these could be best applied will be formally evaluated in a representative set of countries against a set of criteria, including most importantly, impact on fiduciary risk, but also impact on country ownership and capacity-building, as well as feasibility of implementation and required costs⁹, resourcing implications, and required expertise. The Secretariat will report back to the PPC and Board on initial learnings by October 2019 and with a more systematic evaluation by October 2020. Based on this evaluation, approaches that will have been evaluated as successful and efficient would then be rolled out more broadly under Gavi's 2021-2025 strategy to adapt Gavi's risk management and assurance model. It is anticipated that these approaches will allow Gavi to strike a better balance in using and building country systems while staying within acceptable levels of fiduciary risk. However, we would only expect to see a significant change to the amount of funding being channelled away from governments in the next period, as relevant models are being scaled up.

Section C: Actions requested of the Board

The Gavi Alliance Board is asked for guidance on the proposed approach.

Annexes

Annex A: Fiduciary risk mitigation models

⁹ Costs of alternative models will be compared with the ~US\$ 16 million spent on Alliance partner assurance today.