

SUBJECT: CO-FINANCING WAIVER

Agenda item: 02g

Category: For Decision

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Section A: Overview

1. Executive Summary

- 1.1 Investments made by Gavi countries in the co-procurement of their vaccines have increased remarkably since the introduction of Gavi's co-financing policy, from US\$ 21 million in 2008 to over US\$ 113 million in 2014. In spite of this overall positive trend, two countries, South Sudan and Yemen, have defaulted on their 2015 co-financing obligations and therefore, as per the co-financing policy, would normally see all Gavi support suspended at the end of 2016. Both have formally requested Gavi to continue its support in spite of their default status on their 2015 co-financing obligations.
- 1.2 **South Sudan**, which emerged from a protracted civil war as an independent State in 2011, witnessed a sharp and rapid deterioration in the political and security situation in 2016, with renewed concerns about a possible resumption of large-scale hostilities. **Yemen** also has been affected by internal and external conflicts since January 2015, which has inhibited its ability to co-finance Gavi-supported vaccines. Gavi's co-financing policy stipulates that the Board may consider waiving default sanctions under exceptional circumstances. The PPC has considered the evidence and a number of elements (see sections B and C) to guide the judicious application of such exceptions, and has recommended that the Board approve the continuation of Gavi support in those countries irrespective of their default status on their 2015 co-financing obligations.

2. Recommendations

- 2.1 The Gavi Alliance Programme and Policy Committee **recommended** to the Gavi Alliance Board that it:

Find that exceptional circumstances in South Sudan and Yemen justify the continuation of Gavi support in those countries irrespective of their default status on their 2015 co-financing obligations.

Section B: Content

3. Co-financing policy and South Sudan and Yemen

- 3.1 South Sudan and Yemen have formally requested Gavi to continue its support to both countries in spite of their current default status on their 2015 co-financing obligations. Under the Co-Financing Policy, Gavi support for the relevant vaccine(s) and other programmes in both countries would normally be suspended as of 2017 until co-financing arrears for 2015 are paid in full. However, the Board may consider that exceptional circumstances justify that support for the relevant vaccine(s) is continued.
- 3.2 Co-financing started in 2008 with 32 countries, when most of them only had one programme. By 2015, 70 countries¹ had started co-financing a total of 179 programmes, with more than half of the countries having introduced at least three co-financed vaccines. Every year, a few countries do not meet their co-financing requirements before the end of the year. Over the 2008-2015 period, this number has varied between 4 countries in 2011 to 17 countries in 2014. In all but one instance², countries have managed to pay off the full arrears in the year following the payment deadline. Since the inception of the co-financing policy, in only two instances has the Board been requested to allow the continuation of the programmes for countries that were in arrears³. In 2014, the Board decided to waive the default sanctions for CAR's programmes due to its civil conflict, and in 2014, it proactively waived the co-financing requirements for the Ebola affected countries (Guinea, Liberia, and Sierra Leone) for 2014 and 2015⁴. Therefore, the number of programmes for which the default sanctions have been waived, accounts for only 2% of the total number of co-financed programmes since the start of co-financing until 2015⁵. This small share demonstrates the Alliance's due diligence, and the level of scrutiny that is applied before requesting the Board for such an exception.
- 3.3 **South Sudan**, which emerged from a protracted civil war as an independent state in 2011 started co-financing in 2014 for pentavalent vaccine, but defaulted in both 2014 and 2015. Last year the country managed to pay the 2014 arrears (US\$ 237,345); however, the country has witnessed a sharp and rapid deterioration in the political and security situation in 2016, with renewed concerns about a possible resumption of large-scale hostilities.
- 3.4 **Yemen** also has been affected by internal and external conflicts since January 2015. Until the conflict, Yemen has not only met its obligations on time but even co-financed pentavalent voluntarily from 2008-2011, before

¹ 3 out of the Gavi73 countries do not co-finance: Ukraine is not receiving Gavi support, Cuba only receives HSS support, and India has a special approach.

² Congo Rep. had met its 2014 co-financing requirements in January 2016, thus 13 months after the payment was due.

³ In addition, in 2013 DRC was granted a waiver as part of the CTA.

⁴ In 2014, the waiver only applied to Guinea and Sierra Leone, as Liberia had already fulfilled its co-financing requirements of that year.

⁵ Including South Sudan and Yemen's programmes would increase this share to 3%

this became mandatory, demonstrating its commitment to immunisation. Since Yemen started co-financing in 2008 it has co-financed US\$ 16 million for pentavalent, rotavirus, and pneumococcal vaccines. In addition, because the country has paid co-financing levels above the minimum requirement of the policy in 2012, 2013, and 2014, it has paid approximately US\$ 3.8 million more than was required of a country in the preparatory transition phase.

- 3.5 The civil conflicts in Yemen and South Sudan have inhibited these countries' ability to co-finance Gavi supported vaccines. In a similar situation in CAR, the Board has already agreed to continue vaccine support when CAR was in default of its co-financing requirements in 2013. At the time, a civil conflict was ongoing in CAR, similar to the conflicts ongoing in Yemen and South Sudan, which in turn would support the recommendation to continue Gavi support for both countries. Given that South Sudan and Yemen do not need the doses in arrears Gavi will not require them to procure these pending doses. Gavi is closely monitoring the situation in South Sudan and Yemen. If the situation is not improving, these countries' ability to co-finance their 2016 obligations would equally be affected.

Section C: Risk implication and mitigation and Financial implications

4. Risk and mitigation

- 4.1 Two main risks were identified with this decision. The first relates to the extent to which such a decision could be interpreted as creating perverse incentives for non-compliance with the co-financing policy, and/or rewarding low performance or lack of political will. However, the decision is justified by strict criteria that apply to **situations that are largely outside of the control of the government**. For this reason two major justifiable circumstances were identified: a situation of major organised violence/armed conflict and overwhelming disaster of natural or technological origin. For the conflict criterion, which is applicable to the cases of both South Sudan and Yemen, the analysis drew upon selected indicators from the Fragile State Index (Fund for Peace) and on the number of deaths data from the Uppsala Conflict Data Program (UCDP). South Sudan and Yemen score top on the scale of at least one of the selected indicators from the Fragile State Index and are considered in a state of war based on the number of deaths (more than 1000 battle-related deaths in a given year). Moreover, **the decision would cover exclusively 2015 co-financing obligations**, hence clearly delimiting its temporal scope and setting expectations going forward.
- 4.2 The second potential risk refers to whether enough doses would be available in both countries given that Gavi will not require them to procure the 2015 doses in arrears. This risk is mitigated by the fact that the arrear doses, which amount, respectively, to 10% and 17% of the total doses needed to achieve coverage targets in South Sudan and Yemen, are less than the 25% buffer provided by Gavi. In addition, the coverage targets used to calculate the 2015 dose requirements were higher than the estimated or

reported coverage achieved by Yemen and South Sudan.⁶ **Hence, neither country is expected to experience a shortage of doses due to the arrears.** Nevertheless, Gavi will continue to closely monitoring the situation.

5. Financial implications

- 5.1 The decision does not have financial implications in the short-term given that South Sudan and Yemen do not need the doses in arrears. Gavi will not require them to procure these pending doses.

⁶ Yemen: 90% used for Gavi's dose allocation, 84% admin and JRF, 69% WUENIC. South Sudan: 72% used for Gavi's dose allocation, 62% admin, 50% official JRF, and 31% WUENIC estimate.