

## Annex B: Proposed new strategic approach

### 1. Gavi's new strategic approach

- 1.1 **Responding to these challenges, the Secretariat has developed a new strategic approach for Fiduciary Risk Assurance and Financial Management of cash grants for Gavi 5.0.** It is anchored in three objectives: promoting timely and efficient funding of immunisation activities; building ownership and capacity; and ensuring fiduciary risk assurance and mitigation. As previously discussed, these objectives are at times in conflict and the right trade-offs have to be made for each country.



Figure 1

- 1.2 **Gavi has developed a strategic decision-making framework and applied it across its portfolio to guide the trade-offs between the three objectives for each country.** For each country, the framework has been used to systematically assess whether the country conditions are favourable to using government systems, the required level of effort as well as the strategic importance of shifting to the use of government systems. Favourable country conditions include political will and sufficiently strong public financial management systems with adequate capacity. Based on this, the ambition for using government systems and financial management capacity building in each country for Gavi 5.0 has been defined. When defining its ambition, Gavi has looked beyond the relatively narrow definition of using government accounts as a proxy for using government systems and has identified seven components that it will attempt to integrate as they become strong and mature (see Annex A). As part of the approach, Gavi will also further focus on opportunities for alignment and coordination with other donors on using government systems and jointly building capacity in countries.

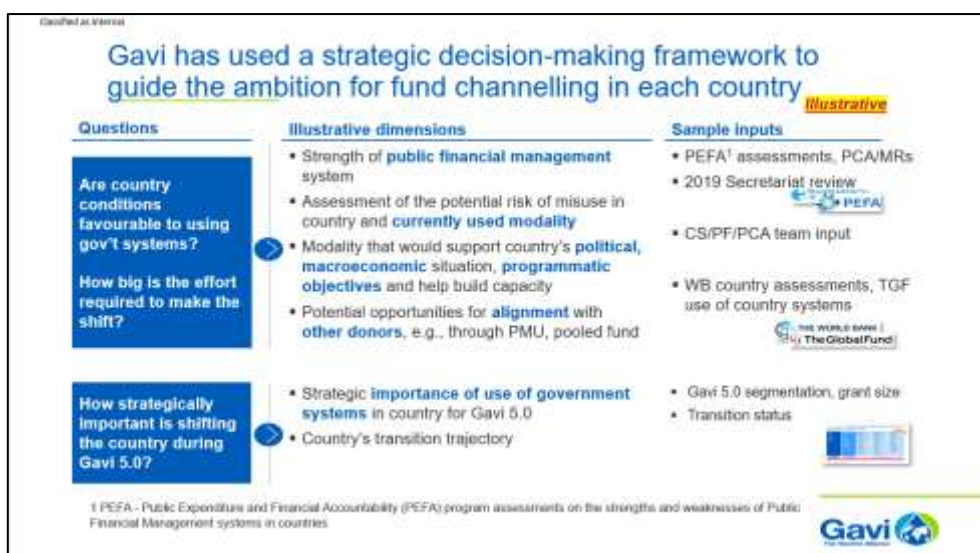


Figure 2

- 1.3 **This framework has been used to define an ambition to reach 55% of funds channelled through government systems and 65% of countries at least partially using government<sup>1</sup> systems by the end of Gavi 5.0<sup>2</sup>.** This represents an ambitious target and a significant shift from Gavi 4.0 where less than a third of resources were channelled through government systems. It will require **strengthening financial management capacity** in seven countries with relatively weaker systems to be able to start using government systems for channelling cash grants during Gavi 5.0 (e.g. Benin and Cameroon). It will also entail **accelerating and safeguarding the progress** in four countries where the change to government systems is already underway (e.g. Tanzania and Côte d'Ivoire). Lastly, the Secretariat will also work to **further use the different components of government systems** in five countries with relatively strong systems, helping build government ownership and long-term sustainability (e.g. Uganda and Kenya).
- 1.4 **The new approach is ambitious yet achievable, and will see almost double the share of funds flowing through government systems when compared to Gavi 4.0, building ownership and strengthening capacity in countries.** Gavi will regularly reassess the situation in countries using its strategic decision-making framework, to advance its ambition as circumstances permit.

<sup>1</sup> "At least partially using government systems" refers to the countries that are using government systems for at least a portion of their HSIS grants

<sup>2</sup> The ambition excludes countries that have requested to have Gavi grants channelled through Partners, i.e. India and Pakistan. With India and Pakistan included, the ambition by the end of Gavi 5.0 would be ~52%

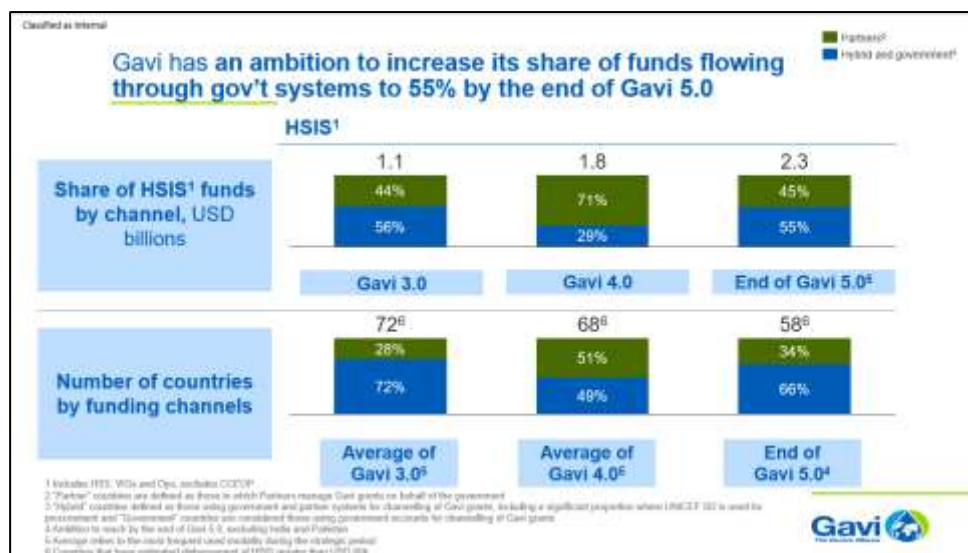


Figure 3

1.5 **The Secretariat has analysed different scenarios for the share of funds to be channelled through government systems.** For example, the Secretariat explored a highly ambitious target of channelling close to 70% of funds through government systems by the end of Gavi 5.0. However, achieving such a target would be highly challenging if not unrealistic for the following reasons:

- Without a major change in Gavi's fiduciary risk appetite, channelling a much higher share of funds would require significant additional investment as well as significant additional capacity for Secretariat oversight to build the wider public financial management systems and galvanise a higher political will in countries;
- In a number of countries funds will need to be channelled through new and local partners to accelerate the zero-dose agenda;
- A significant proportion of procurement is channelled through Alliance Partners as requested by the governments due to efficiencies<sup>3</sup> or due to high fiduciary risk as identified by the Secretariat (e.g. Nigeria);
- While COVID-19 makes Gavi's new approach even more crucial, it has also negatively affected its ability to reach such a high target given delays in the implementation of existing plans, competing priorities in countries, and changes to countries' socio-political and economic context.

## 2. Resources and effort required

2.1 **Increasing the use of government systems as proposed will require significant effort for both the Secretariat and the countries and close coordination with other donors and partners.** As an example, successfully shifting to the use of government systems in Tanzania in Gavi 4.0 required significant effort on behalf of the country and the Secretariat and took over two years. Gavi used interventions such as developing IT systems and leveraging

<sup>3</sup> Efficiencies described include challenges in the procurement systems in countries (e.g., Burkina Faso), access to better prices as a result of economies of scale, or an inability by MoH to efficiently obtain tax exemptions when purchasing directly (e.g., Ghana)

embedded technical assistance to build capacity and develop a level of trust and cooperation from the government and other partners, which required an investment of over US\$ 500,000.

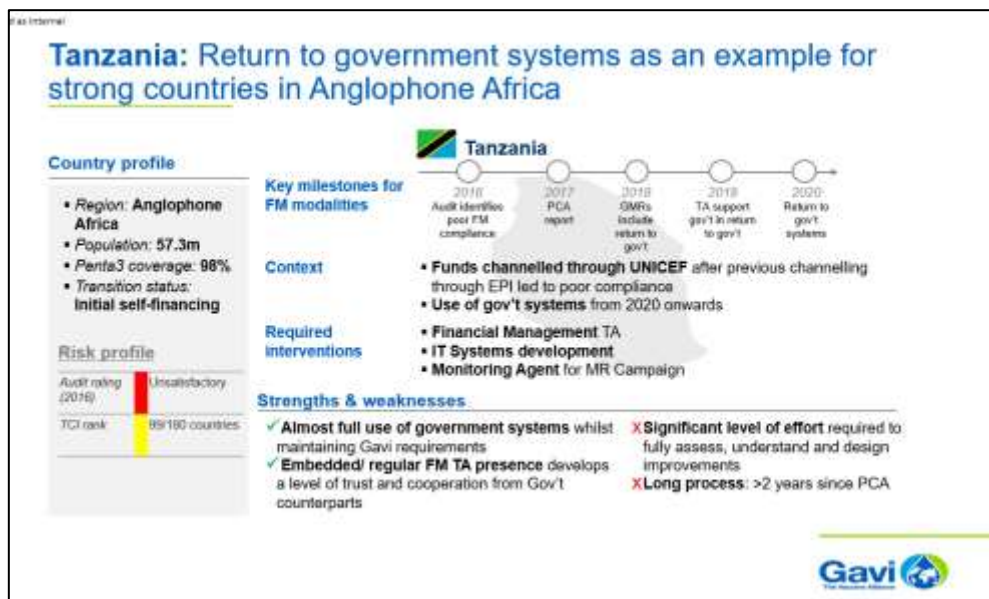


Figure 4

**2.2 Capacity building and the use of innovative technologies will be a core component of the new approach.** Building on previous successful experience and working closely with the Global Fund to Fight AIDS, Tuberculosis and Malaria, and other partners, Gavi will strategically leverage technical and management assistance to build financial management capacity and enable the use of government systems. This will include the use of innovative technologies (e.g. digital payments); building financial management systems that enable efficient and effective management of cash grants by the government; improving processes related to financial management; building capabilities and capacities of the Ministry of Health (MoH) Finance staff; and upscaling its strategic partnerships with institutions such as the International Organization of Supreme Audit Institutions (INTOSAI), the International Consortium on Governmental Financial Management (ICGFM) and the International Federation of Accountants (IFAC). Gavi will also focus on building capacity to strengthen systems after instances of misuse to potentially continue using government systems after the resumption of grants. The Alliance has already successfully supported a number of countries with such interventions:

- Implementing mobile money in Liberia.** The country had a low absorption rate of funds and a high amount of questioned expenditures, with an excessive reliance on cash at sub-national level. In 2019, with technical assistance (TA) support, the first pilot was conducted with mobile payments to vaccinators for outreach and campaigns facilitation and supervision support. The MoH has since scaled up the use of mobile payments across the country.



- b) **Using Financial Management Agents in Uganda to build financial management processes whilst managing risks.** Uganda's EPI programme had a history of fiduciary problems and poor audits. Gavi engaged a local partner as Financial Management Agent to provide assurance over fiduciary risk and to build capacities. The partner supported the EPI on financial systems training, IT configuration and improved tools and guidance. This has allowed all funds, except for large procurements, to remain within the government systems.
- c) **Moving to sustainable financing and management in Côte D'Ivoire.** In 2017, several issues were identified with the MoH financial management system. In coordination with the government, TA was provided to complete an organisational review, establish a government-led Project Management Unit (PMU) and develop a grant management system. The MoH is now on track to strengthen the financial management systems.

**2.3 Gavi will also continue to use fiduciary risk mitigation mechanisms when required, ensuring to embed capacity building.** Whenever possible, Gavi will utilise Government-owned fiduciary risk departments such as offices of the Accountants General, Internal Audit departments and Supreme Audit institutions. In instances where countries' public financial management systems are weak, fiduciary risk mitigation mechanisms such as Fiduciary Agents or Monitoring Agents provide an important way to mitigate fiduciary and programmatic risk. Gavi has successfully implemented several fiduciary risk mitigation mechanisms across countries (overview available in Annex B). Gavi will use fiduciary risk mitigation mechanisms until the country systems and capacity are sufficiently robust, ensuring a clear exit strategy is in place, and there is coordination with others donors. Given the increase in fiduciary risk due to COVID-19 and a relatively high fiduciary risk across the Alliance's portfolio, fiduciary risk mitigation mechanisms will enable the use of government systems while remaining within Gavi Board's risk appetite.

**2.4 Institutionalising a new strategic approach without diverting resources from programmatic investments requires dedicated funding.** In the previous strategic period, a total of US\$ 93 million was utilised for fiduciary risk mitigation, TA, capacity building, and Alliance Partner programme support costs (PSC) to support US\$ 1.8 billion of cash grants provided to countries, reflecting ~5% cost. The funding source was fragmented and mostly came from the PEF TCA, health systems and immunisation strengthening (HSIS) grants and an additional funding envelope approved by the Board for fiduciary risk assurance<sup>4</sup>, at times diverting resources away from programmatic investments and making it challenging for the Secretariat to systematically engage in capacity building to enable the use of government systems.

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<sup>4</sup> During Gavi 4.0, a funding envelope was approved by the Board for fiduciary risk assurance (referred to as "Change 3 Facility"). This envelope covered part of the overall fiduciary risk costs.

- 2.5 **For its new approach, the Secretariat is requesting US\$ 139 million in funding for fiduciary risk assurance and capacity building** in addition to US\$ 25 million of bridge funding already approved by the Board for 2021<sup>5</sup>. Funding needs have been estimated on a bottom-up basis using the projected cost in each country based on forecasted cash grants for Gavi 5.0, and the projected funding modalities (further detail on the methodology in Annex C). Total funding needs in Gavi 5.0 correspond to ~7% of cash grants, a slight increase compared to ~5% in Gavi 4.0. This reflects a higher ambition on the use of government systems, higher fiduciary risk across the Alliance's portfolio, as well as an increase in HSIS grants from US\$ 1.8 billion to US\$ 2.3 billion in Gavi 5.0<sup>6</sup>, going to countries with weaker systems and capacity. The proposed funding would include US\$ ~25 million for capacity building and TA and US\$ ~47 million for fiduciary risk assurance. It would also cover US\$ ~58 million in programme support costs (PSC) for countries where Gavi chooses to channel funds through partners due to fiduciary risk, as well as US\$ ~33 million for fiduciary risk assurance for channelling of Equity Accelerator Funding (EAF).

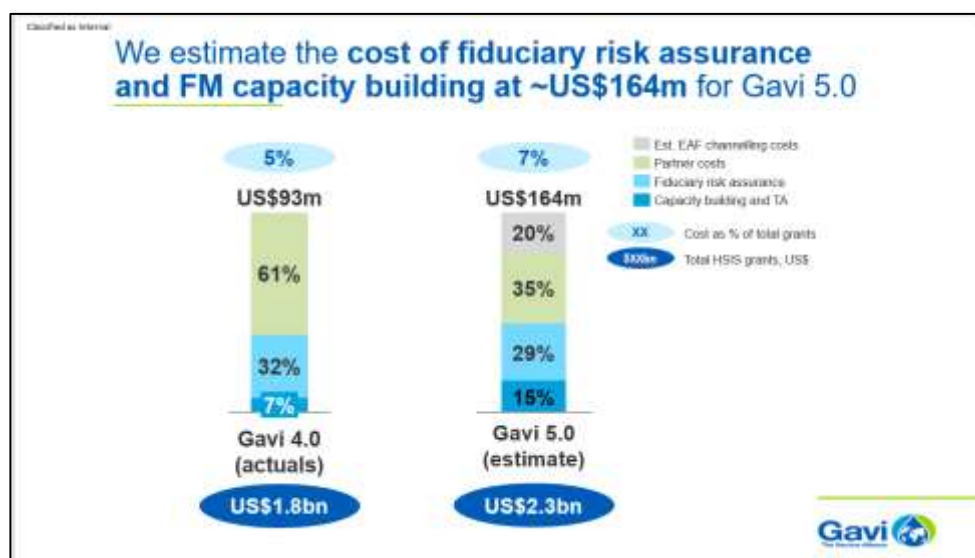


Figure 5

- 2.6 **The Secretariat considers that this investment is necessary** given the importance of accelerating country ownership and sustainability through the use of government systems and the need to appropriately mitigate fiduciary risk to ensure Gavi's risk of misuse is within appetite.
- 2.7 **The Gavi Alliance Audit and Finance Committee (AFC) considered the proposed US\$139 million investment** in its updated forecast discussion at its meeting on 4 May 2021 and concluded that this recommendation could be approved by the Gavi Alliance Board in accordance with the Programme Funding Policy.

<sup>5</sup> From bridge funding for 2021, US\$ 1.9 million have already been utilised and further US\$ 1.6 million are in progress

<sup>6</sup> This includes US\$ 33 million funding for channelling of USD 500 million for the Equity Accelerator Fund (EAF; see Doc 03), but excludes investment of US\$ 40-50 million into fiduciary risk assurance of the Covid Delivery and System Strengthening Support (CDSS), see Doc 08