

SUBJECT: FIDUCIARY RISK ASSURANCE AND FINANCIAL MANAGEMENT CAPACITY BUILDING

Agenda item: 07

Category: For Decision

Section A: Summary

During Gavi 4.0, less than a third of cash grants were channelled through government systems compared to over two-thirds during Gavi 3.0, due to a greater focus on fiduciary risk management and assurance. This led to challenges in balancing fiduciary risk appetite with other priorities such as efficient funding of immunisation activities and the strategic principle of building country capacity, sustainability, and ownership, which is at the heart of Gavi's model. Hence, while the Alliance has already made some progress in reversing this trend and channelling an increased share of grants through government systems in recent years, a more strategic approach towards the financial management of Gavi's grants is required for Gavi 5.0.

The Secretariat has developed a proposed systematic approach for the financial management of cash grants for Gavi 5.0, applying a strategic decision-making framework across its portfolio. This will be essential to **ensure timely and efficient funding of immunisation activities** in line with the Gavi Board's risk appetite. **It would result in 55% of funds being channelled through government systems by 2025, almost double the current share, and 65% of countries at least partially using government systems for channelling Gavi grants by the end of Gavi 5.0.** In order to implement this approach, **Gavi is requesting US\$ 164 million for 2021-2025** of which US\$ 25 million bridge funding has already been approved by the Board for 2021.

At its 19-20 May 2021 meeting the Programme and Policy Committee (PPC) expressed its support for the proposed approach and recommended it for approval by the Gavi Board, recognising the critical importance of effective fiduciary risk mitigation and financial management capacity building in countries.

Section B: Content

1. Background and context

- 1.1 Financial management and fiduciary risk assurance are crucial in achieving Gavi's 5.0 mission to leave no one behind with immunisation.** Cash grants totalled US\$ 1.8 billion during Gavi 4.0 and are estimated at US\$ 2.3 billion for the Gavi 5.0 strategic period¹. They need to be channelled in a timely, efficient, and equitable manner to catalyse the desired programmatic impact while also building country capacity and

¹ Does not include the COVID-19 Delivery and System Strengthening Fund (CDSS) (see Doc 06)

ownership. At the same time, it is important to ensure appropriate fiduciary risk management to keep the risk of misuse within the risk appetite defined by the Board. However, reaching all of these objectives is challenging, as Gavi works with countries with some of the weakest public financial management systems, funding expenditure with a high inherent risk of misuse, without having a direct country presence.

- 1.2 **During Gavi 4.0, the Secretariat further improved its understanding of country-level fiduciary risk, having introduced the three lines of defence model in 2015².** With new Programme Capacity Assessments, weaknesses were identified in country systems and their capacity to manage funds and implement Gavi programmes. Moreover, strengthened Programme Audits identified an increased amount of misuse across Gavi grants. **In order to appropriately mitigate the identified fiduciary risks, funds were increasingly shifted away from government systems to Alliance Partners.** Overall, during Gavi 4.0 less than a third of cash grants – including procurement – were channelled through government systems compared to almost two-thirds during Gavi 3.0. This led to difficulties in balancing the different objectives of fiduciary risk assurance, efficient funding of immunisation activities, and the strategic principle of building country capacity and ownership, which is at the heart of Gavi's model.
- 1.3 **The Board has previously emphasised the importance of reversing the trend and channelling more funds through government systems, in line with the Alliance's sustainability and country ownership model.** In response, the Secretariat has relied on detailed country roadmaps and implemented a number of solutions towards rechannelling funds, improving the share of funds being channelled through government systems from 25% in 2018 to 30% in 2020. In order to make further progress, in line with Board guidance³, the Secretariat has developed a more strategic approach, with clearly defined objectives and trade-offs. At the December 2020 Board meeting, due to limited capacity in light of COVID-19, a short update was presented including a request for bridge funding of US\$ 25 million for 2021. The full strategic approach is now being presented in this paper.
- 1.4 **Two factors make the strategic approach towards the financial management of Gavi's grants even more crucial.** Firstly, the Alliance's ambition on reaching zero-dose children and missed communities in Gavi 5.0 will require new partnerships, more funding disbursed at sub-national levels, and working with local partners and civil society organisations with a lower fiduciary risk assurance capacity and where financial management capacity tends to be weaker. This requires Gavi to adapt the approach to fiduciary risk management, being explicit about the trade-offs when choosing to channel the funds outside of government systems. Secondly, the COVID-19 pandemic may impair grant oversight, increasing the risk of misuse and making appropriate risk mitigation even more critical.

² Gavi 3.0 included a lighter-touch model for fiduciary oversight compared to Gavi 4.0

³ At its November 2018 meeting, the Board discussed and supported that Gavi take a more strategic approach on fiduciary risk management of its cash grants with the aim of moving a higher amount of funding back to governments.

2. Gavi's new strategic approach

- 2.1 **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 (see Figure 1).



Figure 1

- 2.2 **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** (see Figure 2). For each country, the framework has been used to systematically assess whether the country conditions are favourable to using government systems, and the required level of effort as well as the strategic importance of shifting to the use of government systems. Based on this, the ambition for using government systems and financial management capacity building in each country for Gavi 5.0 has been defined.

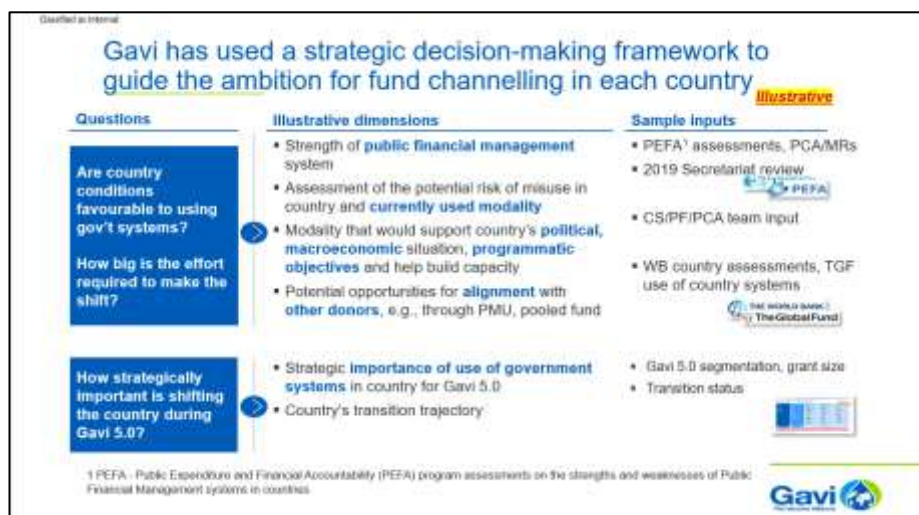


Figure 2

- 2.3 **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 Gavi's funding into (see Figure 3). 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.

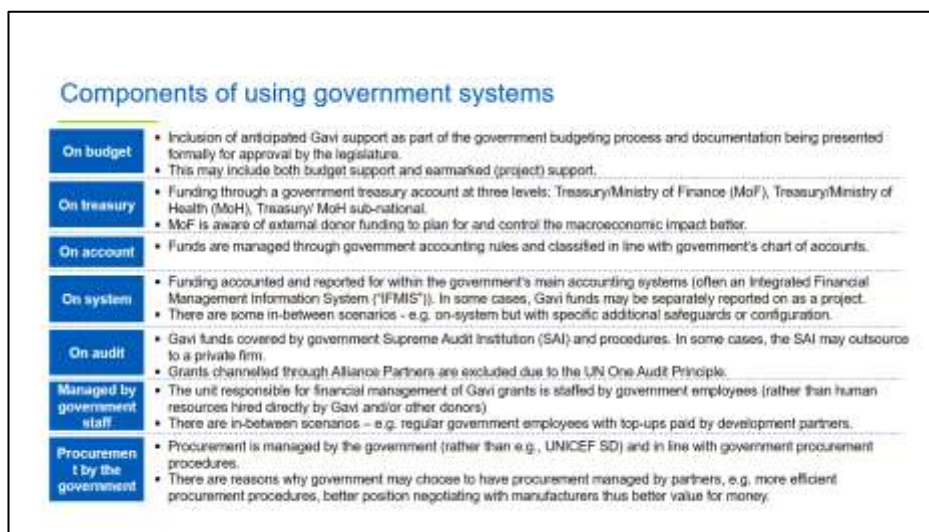


Figure 3

2.4 **The 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 government⁴ systems by the end of Gavi 5.0⁵.** (See Figure 4.) This represents an ambitious target and a significant shift from Gavi 4.0. 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).

2.5 **The PPC endorsed this approach and the associated target, noting that it is ambitious yet achievable.** The approach will see almost double the share of funds flowing through government systems when compared to Gavi 4.0. Gavi will regularly reassess the situation in countries using its strategic decision-making framework, to advance its ambition as circumstances permit.

⁴ "At least partially using government systems" refers to the countries that are using government systems for at least a portion of their health systems and immunisation strengthening (HSIS) grants

⁵ 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%

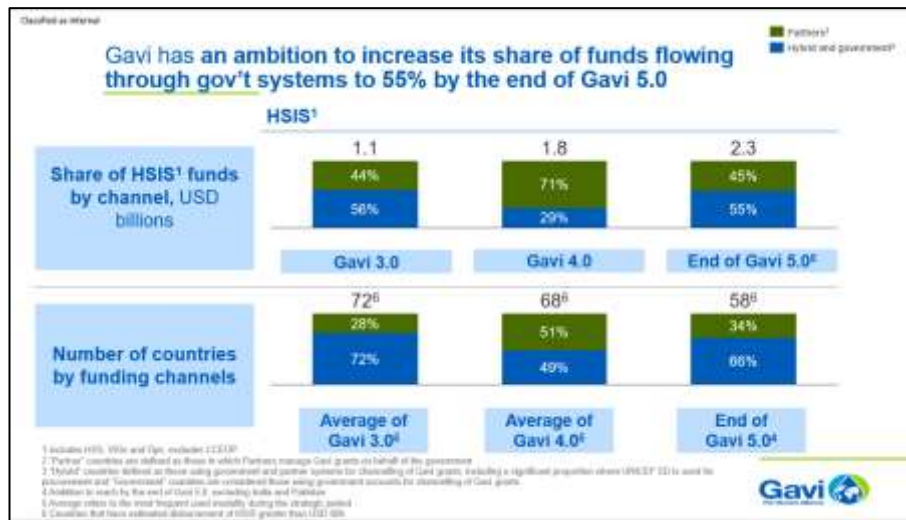


Figure 4

3. Resources and effort required

3.1 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 (see Annex A).

3.2 **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 country oversight institutions; and upscaling its strategic partnerships with institutions such as the International Organization of Supreme Audit Institutions. 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 (see Annex A).

3.3 **Gavi will also continue to use fiduciary risk mitigation mechanisms when required, ensuring embedded 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 – working in tandem with country oversight institutions – will provide an important way to mitigate fiduciary and programmatic risk. Gavi has successfully implemented several fiduciary risk mitigation mechanisms across countries (see Appendix A). 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 other 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.

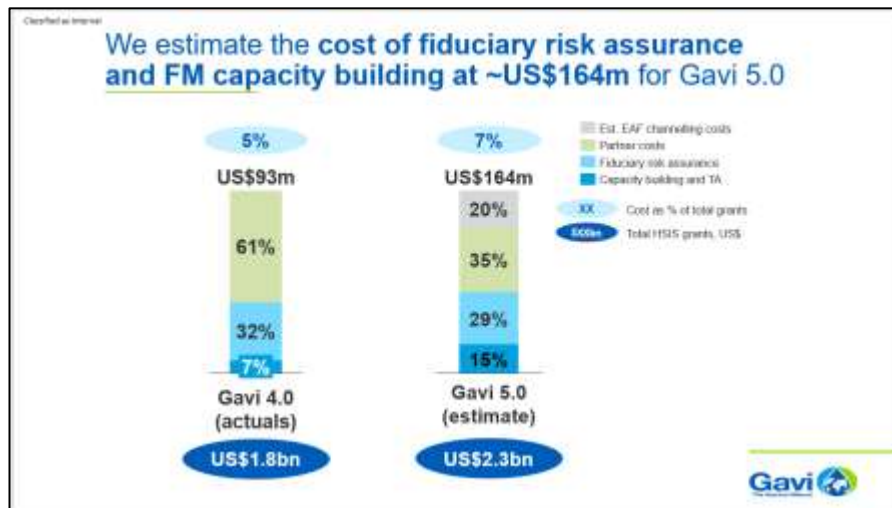


Figure 5

- 3.4 **For its new approach under Gavi 5.0, 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 2021⁶. 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 can be found in Appendix B). 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 5.0⁷, going to countries with weaker systems and capacity.
- 3.5 **The PPC emphatically endorsed this investment** 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.

Section C: Actions requested of the Board

The Gavi Alliance Programme and Policy Committee **recommends** to the Gavi Alliance Board that it:

- a) **Approve** the approach set forth in Annex B to Doc 07 to strengthen fiduciary risk assurance and financial management of Gavi grants in Gavi 5.0; and

⁶ From bridge funding for 2021, US\$ 1.9 million have already been utilised and further US\$ 1.6 million are in advanced planning stages.

⁷ This includes US\$ 33 million funding for channelling of US\$ 500 million for the Equity Accelerator Fund (see Doc 03) but excludes investment for fiduciary risk assurance of the CDSS (see Doc 07).

- b) **Approve** the associated investment of US\$ 139 million for 2022-2025, in addition to the US\$ 25 million of bridge funding previously approved by the Board for 2021, for an overall amount of US\$ 164 million for the approach in Gavi 5.0 to be used for the duration of the strategic period (2021-2025).

Annexes

Annex A: Overview of Capacity Building Interventions

Annex B: Proposed new strategic approach

Additional information available on BoardEffect

Appendix 1: Overview of Fiduciary Risk Mitigation Mechanisms

Appendix 2: Further detail on the funding request for Fiduciary Risk Assurance and Financial Management of cash grants