**FOR DECISION**

Having reviewed and discussed the recommendations from the task team reviewing GAVI's co-financing policy, the Programme and Policy Committee recommends the following decision be taken by the GAVI Board:

"The Board approves the revision of the co-financing policy as follows. Beginning January 1, 2012:

- Country groups to be divided into Low income group (GNI per capita at or below World Bank low income threshold); Intermediate group (GNI per capita between the low income group and the GAVI eligibility threshold); and, Graduating group (GNI per capita above GAVI eligibility threshold). Each country will be reviewed annually to enable transitions from one group to another based on GNI per capita.
- Low income group co-financing, to be set at a minimum of 20 cents (US$) per dose for all vaccines, and with no mandatory annual increases.
- Intermediate group co-financing, to be set at the higher of 20 cents per dose (US$) or the amount paid for the specific vaccine in the previous year. This amount to increase annually by 15% per dose.
- Graduating group co-financing:
  - For vaccines adopted prior to entering the Graduating group to be set at an amount calculated on the basis of a linear increase over a four year period from the amount paid in the first year in the graduating group to the projected weighted average price of the vaccine the year after GAVI support ends.
  - For vaccines adopted after entering the Graduating group to be set in 2012 at 20 percent of the projected average price of the vaccine in 2016, and shall increase linearly until it reaches 100% of the projected average price of the vaccine the year after GAVI support ends.
- Countries moving between these groups will be given a one year grace period to plan for the associated changes in co-financing levels.

# **GAVI's Co-financing Policy:** Proposed Revision

## 1. Background

1.1. As part of the decision to adopt a co-financing policy in 2008, the Board requested that GAVI's co-financing policy be reviewed following 2 years of implementation to assess early experience. While the current co-financing policy has been successful in several respects, with strong compliance and positive reactions from countries, there are areas where it needs adaptation. For example, the existing four country co-financing groups[1] are no longer well aligned with country income categories. Most importantly, the current co-

[1] Fragile, poorest, intermediate, least poor (see Annex 2)

financing policy does not put countries that are graduating from GAVI support on a smooth trajectory to financial sustainability.

1.2. The Programme and Policy Committee (PPC) recommends revisions that maintain the successful features of the current policy while introducing important innovation, including a link to vaccine price for graduating countries. The proposed revised policy is summarised in Annex 1. A more detailed paper presented to the PPC is available upon request.

1.3. The analysis underpinning the revision suggests that the co-financing requirement will amount to an affordable share of government health spending through 2015 for almost all countries, including graduating countries which will be asked to assume the full cost of vaccines by the time they graduate. In each group, however, there are one or more countries with low government spending on health relative to their income which could face significant challenges in meeting their co-financing obligations.

1.4. The PPC believes that the proposed co-financing levels for the low and intermediate groups are set at manageable levels. However, GAVI and its partners will have to work intensively with graduating countries starting in 2011, as well as with the handful of other countries that are currently struggling with co-financing. This effort should include high-level dialogue to secure country commitment for immunization financing.

1.5. The greatest risk to the proposed policy is that more countries could default as co-financing obligations increase. Widespread default, especially by graduating countries, could threaten immunisation gains as well as the implementation of GAVI's strategic goal of encouraging financial sustainability.

1.6. A review of the co-financing policy is proposed for 2014 and should draw upon the lessons from the implementation of this policy if approved by the Board in December 2010. Of note, the revision in 2014 should reassess the feasibility of linking co-financing to price for non-graduating countries.

## 2. Review process

2.1. The co-financing policy review was steered by a time-limited Co-financing Task Team (CTT) made up of technical experts drawn from many of GAVI's constituencies, under the oversight of GAVI's Policy & Programme Committee.[2] The analysis was conducted by a study team consisting of GAVI Secretariat staff and consultants from the Results for Development Institute. Extensive

[2] CTT membership: Paul Fife, Norad (Chair); Lidija Kamara, WHO; Diana Kizza, Sabin Institute; Rama Lakshminarayana/Logan Brenzel, World Bank; Maziko Matemba, Health N Rights Educations Programme; Eunice Miranda, representing IFPMA; Violaine Mitchell, BMGF; Katinka Rosenbom, UNICEF Supply Division; Santiago Cornejo, Gian Gandhi, GAVI Secretariat. Their terms of reference are in Doc 0, PPC Meeting, 17-18 Feb 2010.

consultations have also been conducted with donors, countries and external experts.[3]

2.3.1 The first stage reviewed experience with co-financing to date, assessed the fiscal space available to GAVI countries for co-financing, and made recommendations regarding the objectives of the policy. In June 2010 the GAVI Alliance Board approved **financial sustainability[4] as the overall objective of co-financing, but it acknowledged enhancing country ownership as an intermediate objective for countries that are many years away from graduating from GAVI support.**

2.3.2 The second stage of this work, which is the focus of this paper, deals with proposed country groups, co-financing levels, the default mechanism, and implementation considerations. Although not part of this revision, several issues related to co-financing require additional analysis and will be addressed a part of GAVI's future efforts related to its strategic goal on market shaping. These include: (1) affordable post-GAVI prices for graduated countries; (2) phasing out support of certain vaccines; (3) potential variations to the co-financing policy for less expensive vaccines (e.g. JE, and rubella vaccines).

## 3 Proposed New Country Groupings

4.1 In order to tailor the co-financing policy to country needs and capacities and to simplify and rationalize a structure that has become outdated, **the PPC proposes three new country groups**. As the new policy will be implemented in 2012, information is provided on the co-financing implications for countries starting this year.

4.1.1 The LIC group would comprise all low income countries (LICs), that is, countries with per capita incomes at or below the World Bank threshold, currently $995. This category would include 40 countries in 2012, the first year of implementation of the new policy. It corresponds to a projected birth cohort of 29 million in 2012, or 53% of the total birth cohort in GAVI-eligible countries (excluding India[5]).

4.1.2 The intermediate group would include all countries with per capita incomes above $995 but below the GAVI graduation threshold, currently $1,500 (15 countries in 2012, a birth cohort of 18 million, or 34% of the total).

[3] List of consultations available upon request.

[5] India is excluded from co-financing requirements as GAVI funding is such a small share of its vaccine spending.

4.1.3 The graduating group comprises countries with incomes above the eligibility threshold but still receiving GAVI support (16 countries in 2012, a birth cohort of 7 million in 2012, or 13% of the total).

4.2 The PPC recommends that **Gross National Income (GNI) per capita, provided annually in July by the World Bank for the previous year, be used to define the groupings.** This indicator is recommended because it adheres to the principles of transparency and feasibility, is updated regularly and the analytical work shows that it is a good proxy for a country's ability to pay. Furthermore, it allows the co-financing policy to easily align with the new eligibility policy. Country classifications would be updated annually.[6] (Annex 2 displays country assignments to the current and proposed categories in 2012).

## 5 Revised Co-financing Levels and Approaches

5.1 In June 2010 the Board decided that the overall objective of the revised co-financing policy would be *financial sustainability*, but acknowledged that enhancing *country ownership* should be an intermediate objective for countries that are many years away from graduating from GAVI support.

5.2 Figure 1 summarizes the proposed revisions compared to the current co-financing policy. Flat rates per dose are proposed for the LIC category, flat initial rates with annual increases are proposed for the intermediate group, and a major ramp up in co-financing is proposed for graduating countries. The sections that follow provide more detail on the co-financing levels and approaches for each country grouping and how these recommendations were reached. The group with the largest proposed changes—graduating countries—is discussed first, followed by the low income group which represents the majority of GAVI countries, and finally the intermediate group.

5.3 <u>Graduating countries</u>

5.3.1 The overall objective of the co-financing policy is financial sustainability as determined by the Board in June, 2010. Graduating countries[7] -- countries that become ineligible in 2011 -- have an urgent need to prepare themselves for bearing the full cost of vaccines when GAVI support ends, either from their own budgets or with the help of other donors. Presently, these countries' co-financing payments per dose bear no relationship to (and are generally only a small fraction of) vaccine price. Countries would face a huge jump in co-financing expenditures for these GAVI-supported

[6] The income projections that were used in the analysis suggest that the groups are stable; i.e. the changes from one category to another would be relatively small. For example, only four of the 40 low income countries are projected to transition from the low income group to the intermediate group by 2015 and another three by 2020.

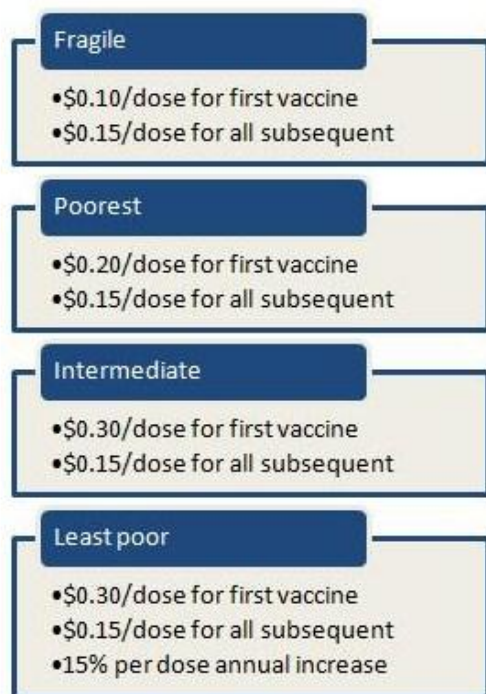
[7] Angola, Armenia, Azerbaijan, Bhutan, Bolivia, Republic of Congo, Cuba, Georgia, Honduras, Indonesia, Kiribati, Moldova, Mongolia, Sri Lanka, Timor-Leste, and Ukraine. Cuba, Indonesia, Timor-Leste, and Ukraine are not currently receiving GAVI support for new vaccines. The analysis focused on the 12 that are receiving or are projected to receive support.

vaccines between 2015, the last year of GAVI support, and full payment of vaccines in 2016.

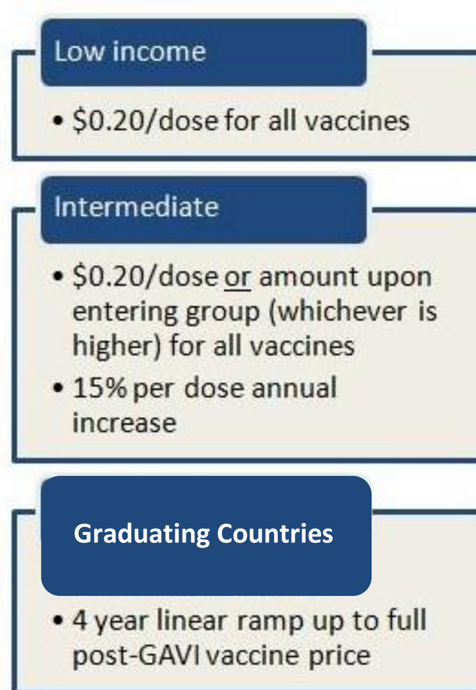
5.3.2 To better prepare these countries and to give them time to adjust their budgets, **the PPC recommends that for graduating countries, GAVI support would continue for five years from the time a country crosses the eligibility threshold.** The first year of these five years would be a grace period during which co-financing would be governed by the previous requirements. The grace period would be followed by a four-year ramp up in co-financing to reach the projected post-GAVI price for the year after GAVI support ends. The ramp up would be defined along a linear trajectory, although some flexibility would be possible and will be defined as part of the implementation planning. (Please see paragraph 7.1.1 for how this rule will be applied in special circumstances that a graduating country adopts a new vaccine during/after 2011).

Figure 1. Comparison of Current Co-financing Policy and Proposed Revisions[8]

**Current Policy:**




**Proposed Policy:** Simplified and better aligned to country incomes




5.3.3 Although the proposed approach for graduating countries strives to provide a smooth transition for these countries, they could still face

[8] With the current policy, country classifications are fixed. In the proposed policy, thresholds and country classifications would be updated annually. All countries receive a one-year grace period to transition into new categories.

challenges during the transition and when GAVI support ends. The projected magnitude of the challenge that countries face in assuming full responsibility for vaccine financing depends on how many and which vaccines they have adopted, projected prices for these vaccines, vaccine budgets (the proxy being projected per capita public spending on health), and the size of the birth cohort relative to population size. The number of new vaccines that the 12 countries have adopted (or are projected to adopt) with GAVI support ranges from one to three. Prices for some vaccines are expected to stay roughly constant through 2016 while others are expected to fall.

5.3.4 In considering the impact of ramping up co-financing levels to the end of GAVI support, the CTT reviewed at co-financing as a share of public spending on health and the required yearly changes in budgets. Considering all graduating countries, the analysis reveals that the Republic of Congo might have the greatest difficulty in meeting the proposed co-financing obligations as well as in assuming full responsibility for vaccine financing after GAVI support ends. This challenge stems from the fact that the Republic of Congo has relatively low public spending on health per capita and is expected to adopt three vaccines in total. Its expenditure on GAVI vaccines is projected to reach 1.8% of public spending on health in 2016.

5.3.5 The remaining graduating countries are projected to have smaller vaccine financing commitments relative to public health spending. While expenditures on this scale seem affordable in principle, securing the large increases in budget commitments in such a short period could nonetheless pose a challenge. Political commitment (or lack thereof) could make all the difference in scaling up expenditure on vaccines, but this is difficult to measure and predict.

5.3.6 The GAVI Alliance can take other measures to help reduce the risk of countries defaulting and, more importantly, of not being able to sustain immunisation gains, such as working with graduating countries in early 2011 to prepare detailed plans for ramping up co-financing. This is discussed later in the document.

5.3.7 Although there was significant desire by task team members and other stakeholders to link co-financing rates with vaccine price, the PPC concluded that for the current revision, this would only be feasible for graduating countries. In summary, this is because the link to price would be very complex given: the range of prices among vaccines, uncertainty about future prices, and given that there was no agreement on the objective for linking co-financing rates to vaccine prices. Further, if co-financing were linked to price for these country groups by using a single percentage of price, cheaper vaccines, such as yellow fever, would have

lower co-financing obligations than more expensive vaccines such as pneumococcal vaccine[9]. While the proposed co-financing levels for LIC and intermediate countries are not directly linked to vaccine price, it should be noted that the policy as a whole would contain potential incentives for countries to incorporate price, alongside other factors, to consider product preferences when there are multiple presentations for a vaccine.

5.4 Low income countries (LICs)

5.4.1 For GAVI's poorest countries, the Board endorsed country ownership as the objective of co-financing over financial sustainability, given that these countries will need support for new vaccines for many years. Under the study team's income projections, none of the countries in this category in 2012 are projected to graduate by 2020. The aforementioned fiscal space analysis indicated that these countries can afford only modest increases over current obligations. **As a result, the PPC recommends continuation of the current policy of flat co-financing payments per dose for the poorest countries. It proposes the flat rate be set at 20 cents per dose, with the distinction removed between first-adopted and subsequent vaccines.**

5.4.2 Of note, co-financing obligations for most countries in the low income group would increase in 2012, the year that the new levels would come into effect, as many are currently paying 15 cents per dose for at least one vaccine. A smaller group (those reclassified from intermediate to low income) would pay less than before. While there are countries in this group who could pay more, these countries, if their per capita income is growing, will eventually transition into the intermediate group, where their obligations will begin to increase annually.

5.5 Intermediate countries

5.5.1 Given the overall policy objective of putting countries on a trajectory towards financial sustainability and given that the intermediate group of countries represent lower middle income GAVI-eligible countries, the PPC felt that the co-financing levels should begin to prepare countries in this group for eventual graduation, while still ensuring affordability. An important challenge in designing co-financing levels for this group of countries is that while some countries are expected to move on to the graduating group relatively quickly, most will probably remain in the intermediate group for many years. Of the 15 countries in this group in

[9] A detailed explanation on the complexity of link to price was presented to the PPC and is available upon request.

2012, only Guyana is projected to start the graduation process before 2015; two or three more countries might start the graduation process by 2020.

5.5.2 **The PPC recommends that co-financing rates per vaccine dose for this group increase at 15% per year, as is currently required of countries in the "least poor" group.** A rate that begins at 20 cents would reach 30 cents in 2015 and 61 cents in 2020, which would represent a significant fraction of the cost of many vaccines and thus furthers the goal of preparing countries for eventual graduation. It would also ensure that rates remain affordable for most countries in this group particularly for the duration of the policy.

5.5.3 By 2015, total co-financing from this group would reach $31 million, compared to $19 million projected for that year under the current policy.

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5.5.4 In terms of affordability, the proposed policy for intermediate countries seems affordable – no country is projected to spend more than 1% of its health budget on co-financing in 2015 (Some countries with relatively low health spending that adopt several vaccines could experience difficulty, especially after 2015. The PPC recommends, however, that these cases be dealt with on an individual basis through the default mechanism.

5.5.5 With 15% annual growth, co-financing obligations are likely to eventually exceed the price of certain vaccines, especially yellow fever. The idea that GAVI might phase out support for certain vaccines, once their prices are sufficiently low and stable, has been discussed for some time, but the Board has made no decision. The Supply Strategy Task Team is developing a framework to inform GAVI's exit (and entry) into vaccine markets. Once complete, the issue might be revisited from the standpoint of co-financing.

5.5.6 As with the LIC group, the main overall risk for the intermediate group of the proposed co-financing levels is the potential for default; this is discussed later in the risks section.

## 6 Default Mechanism and Safeguards

6.1 The PPC reviewed the current default mechanism and country experience with default in the first two years of implementation[10] and recommended language to tighten the definition of default. Also it is recommended that GAVI assess fragile states through the implementation of the default mechanism.

[10] The co-financing update to the PPC in May 2010 contains a review of the default experience to date.

**FOR DECISION**

# 7 Operational Considerations and Implementation Issues

7.1 Grace period following a change in co-financing group:

7.1.1 When countries find out that they are going to change co-financing country groups, they need time to adjust their budgets to new requirements. Estimates of country GNI per capita are released by the World Bank in July of each year for the previous year. For example, the 2010 GNI p.c. estimates will be released in July 2011.

7.1.2 When countries move from one co-financing group to another, the new levels corresponding to the new group would not come into effect until the subsequent year, that is, a year and a half after the new GNI figures are available. For example, if a country found out following the release of GNI data in July 2011 that its most recent GNI p.c. places it in a higher co-financing group, the new co-financing levels would only take effect starting January 2013, but would need to be reflected in applications and Annual Progress Reports submitted in 2012.

7.2 Special circumstances for graduating countries

7.2.2 Permission to apply one last time for vaccine support: The Board recently decided to permit countries that are going to cross the eligibility threshold in 2011 to apply one last time for vaccine support in 2011 on an exceptional basis. Should a graduating country apply for and be approved to receive new support in the 2011 round, the vaccine will need to be introduced over the period to 2015 at the same time that co-financing is ramping up. The PPC proposes that co-financing for vaccines adopted by graduating countries in this particular circumstance start at a 20% of the 2016 projected GAVI price (or more generally, of the GAVI price for the year after the end of GAVI support) and then ramp up to the target price.

7.2.3 Pneumococcal vaccines and the AMC: Graduating countries could potentially adopt pneumococcal vaccines after they become ineligible for GAVI support. If they do so, per the Board's decision in June 2010, they will pay the full AMC tail-price (currently about $3.50).[11] This is not considered co-financing because this cost will not be shared with GAVI from its regular funds.

7.3 Implementation issues

7.3.2 The current policy revision presented an opportunity to revisit implementation procedures and make improvements based on experience to date. The design of the co-financing levels on a per-dose rather than

[11] Subject to willingness on the part of AMC-approved manufacturers

per-course basis presents a unique situation for Rotavirus vaccines. The Secretariat notes that, depending on the recommendations of the Supply Strategy work, the situation can be dealt with at the implementation stage.

7.3.3 Given the potential low cost of rubella and Japanese Encephalitis vaccines, as GAVI moves forward with these interventions, the co-financing implications will require further assessment.

## 8 Financial Implications and Resource Needs

8.2 Under the proposed policy, some countries face a modest increase in costs per dose in 2012 while a few (the 6 countries currently classified as intermediate that would move to the low income group under the proposed policy) will see modest decreases in their obligations. Setting aside the graduating countries, most countries will have steadily increasing total co-financing levels, but this is driven primarily by the adoption of new vaccines. The biggest change is for the graduating countries, whose contributions will begin to increase steeply in 2012.

8.3 Projected total co-financing increases steadily from about $30 million in 2011 to about $90 million in 2015. Payments by graduating countries are projected to increase from about $2 million in 2011 to $20 million by 2015, their last year of GAVI support. The increase in co-financing will allow GAVI to reallocate around $100 million during this period to support new proposals.

8.4 The growth in co-financing as a share of GAVI vaccine costs is largest for graduating countries increasing from 7% in 2011 to 81% by 2015. The increase is more gradual for intermediate countries, rising from 8% in 2011 to 12% in 2015. The most conservative increase is, appropriately, for low income countries, from 6% in 2011 to 8% in 2015.

## 9 Risks

9.2 The main risk of the new co-financing policy is that some countries may default. While default is a possibility for countries in all three groups and is also a risk with the current policy, the consequences of default by graduating countries in the future are the most serious. Failure on the part of these countries to successfully assume responsibility for vaccine financing would endanger not only the new co-financing policy but also the eligibility policy, since this policy depends on a successful transition by graduating countries to vaccine financing without GAVI support. Default by graduating countries could lead to one of two highly undesirable outcomes: interruption of immunisation programs or continuation of GAVI support past 2015 and the resulting loss of credibility to GAVI's policies and to its business model.

9.3 The proposed policy is designed to minimize the risk of default by basing co-financing levels on an analysis of the fiscal space available to countries in different income categories and by phasing in increases for the graduating countries over the remaining years of GAVI support. While a risk remains that some countries will not be able to fulfil their co-financing obligations, the PPC agreed that the policy should not be designed to accommodate a small number of countries identified as "outliers" – those for whom co-financing requirements could be substantial relative to very low levels of government spending on health (See Annex 3 for a summary of the risk assessment).

## 10 Monitoring, Evaluation and Future Policy Review

10.2 GAVI will monitor and evaluate the new co-financing policy particularly in terms of defaults, fulfilment of co-financing requirements and country-reported feedback on the policy changes and associated implementation. To the extent possible, GAVI needs to monitor the co-financing policy within the context of immunisation financing more generally, paying special attention to (among other things) issues such as countries that are not at the moment financing traditional vaccines themselves. Further, the policy would be reviewed in 2014 and draw lessons from the experience of graduating countries in rapidly increasing their co-financing expenditures. The review could once again explore linking co-financing rates to vaccine prices for other countries outside the graduating group.

## 11 Linkage with GAVI's 2011-2015 Strategy and Business Plan and Gender Policies

11.2 GAVI's new strategy and business plan contains a strategic goal and set of activities focused on increasing "the predictability of global financing and improving the sustainability of national financing for immunisation (SG3)." The co-financing policy is a key component in the programmatic objective of increasing and sustaining allocation of national resources to immunisation (SG3.1). The strategic plan allocates funding to the Secretariat, WHO and UNICEF to monitor and support the implementation of the policy and prioritise activities to support graduating countries. Finally, under the market shaping goal (SG4), in 2011, GAVI will actively engage with manufacturers to pursue affordable post-GAVI prices for graduated countries.

11.3 Co-financing is gender neutral and does nothing to either exacerbate or address any potential gender inequalities.

**FOR DECISION**

## 12 Next Steps

12.2 If the policy recommended by the PPC is approved by the Board, the GAVI Secretariat will plan for the communication and implementation of the new policy in January 2011 so countries can factor any changes in co-financing requirements into their 2012 budget submissions, GAVI Annual Progress Reports, and new applications to GAVI. Special efforts will be needed to reach out to all countries, including Ministries of Finance, over the period January to March 2011 in order to ensure that they understand the new policy and make timely efforts to adjust their budgets for the new co-financing requirements that come into effect in 2012.

12.3 GAVI and its partners will work intensively particularly with graduating countries starting in 2011, as well as with the handful of other countries that are currently struggling with co-financing. This effort will include high-level dialogue to secure country commitment for immunization financing.

**FOR DECISION**

# GAVI Alliance Co-financing Policy Revision

*For Board consideration*

## 1. Objectives

1.1. The co-financing policy's objective is to put countries on a trajectory towards financial sustainability in order to prepare them for phasing out of GAVI support for new vaccines, recognising that the time frame for attaining financial sustainability will vary across countries.

1.2. The co-financing policy's intermediate objective (for those countries with an extended time frame for achieving financial sustainability) is to enhance country ownership of vaccine financing.

1.3. This policy covers country co-financing groupings, co-financing levels, the process for annual updates, and the default mechanism.

## 2. Principles

2.1. The co-financing policy should be transparent, fair, and feasible to implement, and should build on existing systems and processes.

2.2. All countries should contribute to new vaccine support.

2.3. Co-financing should represent new and additional financing; it should not displace financing from other vaccines.

2.4. The policy should provide countries with a long term planning horizon.

## 3. Definitions

3.1. GNI per capita atlas method: Gross national income (GNI) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output plus net receipts of primary income (compensation of employees and property income) from abroad. GNI per capita is GNI divided by mid-year population. GNI per capita in US dollars is converted using the World Bank Atlas method which smoothes exchange rate fluctuations by using a three year moving average, price-adjusted conversion factor.

3.2. Co-financing: GAVI-eligible countries and GAVI share the costs of new vaccines.

3.3. Graduating country: Once the new eligibility policy starts in 2011, the term "graduating country" means that a country has crossed the current eligibility threshold and can no longer apply for new vaccine support, but it continues to receive support for existing vaccines.

3.4. Graduation process: The period of time after a country crosses the eligibility threshold and becomes a graduating country until all GAVI support ends (the country graduates).

3.5. Financial sustainability: The ability of a country to mobilize and efficiently use domestic and supplementary external resources on a reliable basis to achieve current and future target levels of immunisation performance.

**FOR DECISION**

4. **Country Co-financing Groups**
   4.1. Low Income group: This group includes countries with GNI per capita at or below the World Bank low-income threshold. Co-financing obligation in 2012 and thereafter: 20 cents per dose (no annual increase).
   4.2. Intermediate group: This group includes countries with GNI per capita above the World Bank low-income threshold but below the GAVI eligibility threshold. Co-financing level in 2012: 20 cents per dose, or the amount per dose paid in 2011, whichever is higher. Thereafter, the dose amount would increase by 15% annually. For future adoptions, the co-financing amount would start at 20 cents per dose, and increase by 15% annually. When countries in the future transition from the low income to the intermediate group, they would start at 20 cents per dose for vaccines, followed by 15% annual increases. Vaccines adopted later would start at 20 cents per dose, followed by 15% annual increases.
   4.3. Graduating group: This group includes countries with GNI per capita above the GAVI eligibility threshold, who are still receiving GAVI support. Starting in 2012, co-financing obligations would ramp up over four years from rates paid in 2011 in order to reach 100% of vaccine price in 2016, the year after GAVI support ends. For countries adopting a new vaccine in 2012 (and therefore with no history of co-financing payments for that vaccine), co-financing per dose would equal 20% of the projected 2016 vaccine price (projected price for GAVI countries, unless a set of price projections for GAVI graduates could be developed by the GAVI Alliance). Support for countries that enter the graduating group after 2012 would be phased out in the same manner and over the same number of years as support for countries that became ineligible in 2011.

5. **Timeline for implementation, grace period, and updates**
   5.1 Countries will be informed of their co-financing group for 2012 and co-financing obligations for 2012 following the December 2010 Board meeting, or at the latest by early 2011. These initial classifications will be done according to 2009 GNI per capita data, which were released by the World Bank in July 2010. 2011 should be seen as a "**grace year**" whereby countries are informed of their new co-financing group and ready their budgets for the new obligation requirements for 2012.

   5.2 Co-financing group thresholds will be updated annually according to the latest GNI p.c. data, which is released by the World Bank in July of each year.

   5.3 Co-financing group updates will be made by September of each year. Countries will then be informed of any changes to their co-financing grouping and when those changes will take effect. Countries will have the following calendar year as a grace period to ready budgets following their change in co-financing grouping. The new co-financing obligations will take effect in the subsequent calendar year.

6. **Default mechanism**
   6.1. Fulfillment of the co-financing commitment is defined by the country's purchase of the number of doses outlined in the decision letter, or the corresponding dollar amount for vaccines (excluding handling fees, freight, and buffer charges). For self-procuring countries, compliance is defined by the purchase of the number of doses in the decision letter.

6.2. A country enters into default when it has not fulfilled its co-financing commitment for a particular year by 31 December of that year.
6.3. Countries can apply for, but not be approved for new vaccine support when they are in default of co-financing commitments.
6.4. If a country remains in default for more than one year, the GAVI Board may suspend support for the vaccine in question until the co-financing arrears are paid in full.
6.5. There are exceptional circumstances that can prevent a country from fulfilling its co-financing commitments due to severe natural, economic, social, or political difficulties. In these cases, the GAVI Board may grant a grace period or exemption. While in this grace period, GAVI will continue to finance GAVI-supported vaccines but the country cannot apply for new vaccine support until it has cleared its arrears.

**7. Primary data sources**

7.1. GNI per capita (Atlas method) from World Bank classifications
7.2. Definition of Low Income Country upper threshold from World Bank classification
7.3. Eligibility threshold adjustment for annual inflation using World Bank deflators

# ANNEX 2

## **ANNEX 2:** Current co-financing groups mapped to proposed groups

| | | Proposed Classification in 2012 (revised annually thereafter) | | |
|---|---|---|---|---|
| | | **Low income group** | **Intermediate group** | **Graduating group** |
| **Current Classification** | **Fragile** | Afghanistan, Burundi, CAR, Congo DR, Eritrea, Haiti, Liberia, Sierra Leone, Somalia | Cote d'Ivoire, Sudan | Angola, Congo Rep., Timor-Leste |
| | **Poorest** | Bangladesh, Benin, Burkina Faso, Cambodia, Chad, Comoros, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Lao PDR, Madagascar, Malawi, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Solomon Islands, Tanzania, Togo, Uganda, Zambia | Lesotho, Sao Tome and Principe, Senegal, Yemen | Bhutan |
| | **Intermediate** | Ghana, Kenya, Korea D.R., Kyrgyz Republic, Tajikistan, Zimbabwe | Nicaragua, Nigeria, Pakistan, Papua New Guinea, Uzbekistan, Vietnam | Cuba, Moldova, Mongolia |
| | **Least poor** | | Cameroon, Djibouti, Guyana | Armenia, Azerbaijan, Bolivia, Georgia, Honduras, Indonesia, Kiribati, Sri Lanka, Ukraine |

# ANNEX 2

# ANNEX 3

| Annex 3: Risk of Default – Assessment by Country Grouping and Proposed Mitigation Measures | | | | | |
|---|---|---|---|---|---|
| **Sources for Risk of Default** | **Risk Assessment by Country Grouping** | | | **Overall Assessment** | **Proposed Risk Mitigation Strategies** |
| | *LIC* | *Intermediate* | *Graduating* | | |
| **A. At the country level, sudden transitions in 2012** | Risk for countries that jump from 10c or 15c per dose under current policy to 20c per dose under new policy in 2012. | Risk for countries that jump from 10c or 15c per dose under current policy to 20c per dose under new policy in 2012. | Significant jump in 2012 for countries but new policy eases transition to assume full cost of vaccines in 2016. | Moderate risk for LIC and Intermediate countries which represent 55 GAVI countries but large risk for graduating countries. | ✓ Early communications in Jan/Feb 2011 to all countries so that they can include new co-financing requirements in 2012 budget submissions. |
| **B. At the country level, inadequate public spending or political will to secure co-financing budgets** | Risk for countries with low public spending on health and several vaccine adoptions (at-risk: Congo DR, Eritrea, Korea DR, Myanmar). | Risk for countries whose incomes do not grow overtime to keep pace with 15% annual increase (at-risk: Cameroon, Cote d'Ivoire, Pakistan). | Risk for countries unable to secure budgets to cover steep increase in co-financing amounts over the 4 year ramp-up period (at-risk: Congo). | Significant overall risk. | ✓ Monitor for early warnings of problems with at-risk countries.<br>✓ Increase advocacy with partners and country policy-makers to enhance political support to secure budgets.<br>✓ Communicate long run cost implications of new vaccines to inform better country decision-making. |
| **C. At GAVI level, delayed or ineffective communication with countries and partners to transition from *current to new* policy** | Moderate risk because flat level same as current policy but some countries have to increase starting levels (see A). | Moderate risk because annual increase same as policy for current grouping "least poor" but some countries have to increase starting levels (see A). | Large risk because 4-year ramp up in co-financing is significant transformation to current policy and many countries face a significant jump in 2012. | Moderate risk for LIC and Intermediate countries which represent 55 GAVI countries but large risk for graduating countries. | ✓ Roll out implementation strategy and incorporate into GAVI business plan by 2011.<br>✓ Work with graduating countries to develop tailored co-financing plans in time for 2012 budget submissions. Graduating countries also need information on their co-financing obligations to inform them prior to any submission for the "exception" round. |
| **D. At GAVI level, uncertainty about evolution of vaccine prices and post-GAVI prices to define co-financing trajectories** | NA | NA | Risk as it makes it difficult to estimate GAVI and country co-financing obligations. Also, countries could potentially face significant price increase after GAVI support ends, undermining a smooth transition. | Large risk for graduating countries only. | ✓ Provide better information on likely range of prices countries will face after GAVI support ends under different procurement methods (e.g. UNICEF range on price premium for LMIC countries).<br>✓ Review and communicate best estimates on GAVI prices for 5 years to countries; adjust regularly based on UNICEF prices for 3 years. |

NB: The areas in dark red signify higher risks while the lighter shade of red reflects lesser risks.