SUBJECT:	**COUNTRY PROGRAMMES: STRATEGIC ISSUES**
Agenda item:	13
Category:	For Information

Section A: Introduction

- Based on the discussions at the Programme and Policy Committee (PPC) in October, this paper provides an **update** to the Board on channelling funding away from and back to government systems in the context of ensuring programmatic sustainability and country ownership.

- **Annex A** provides an update on the implementation of the Policy on Fragility, Emergencies and Refugees (approved by the Board in June 2017). The Operational Guideline (OG) that operationalises this Policy was presented to the PPC (Appendix 6 to the October 2017 Alliance update on Country Programmes). During the development of this OG, relevant stakeholders, including the CSO community, were consulted, and their feedback has been reflected in the final document. The issues raised by the Board at its June meeting have all been clarified in the OG. The PPC also reviewed measures that the Alliance will further explore to improve the planning and implementation of campaigns and Supplementary Immunisation Activities (SIAs) with a view to strengthening routine immunisation (RI) efforts (see October 2017 Alliance update on Country Programmes).[1] An update on the Secretariat's thinking on the sustainability tracers was also presented to the PPC (see Annex A to the October 2017 Alliance update on Country Programmes).

Section B: Alliance Update on Country Programmes

1. Channelling funds away from and back to government systems

1.1 In June 2017 the Board discussed that Gavi is increasingly channelling funding through partners and other agents as a risk management measure, which is not always conducive to the timeliness and predictability of funding nor always easily reconcilable with the principles of country ownership and sustainability. Since the last Board meeting the trend of channelling funding away from government systems has further increased with a number of additional grants being transitioned – in part or in full – away from funding

[1] The Board has identified frequent or unplanned mass campaigns as one of the top 15 risks facing the Alliance. See the 2017 updated Board risk appetite statement.

to government systems.[2]

1.2 The Board – in line with global commitments on aid effectiveness (Paris Declaration and Accra Agenda for Action) - has advised that Gavi should aim to channel funding through governments whenever possible, and only when necessary and for a limited time period, through partners or other agents. However, the Board, as part of its Risk Appetite statement, also agreed that "the Alliance has a low appetite for the risk of misuse. When government systems are insufficiently robust it will utilise alternative mechanisms to ensure strong fiduciary oversight. At the same time, it will provide support to strengthen country systems to ensure they are fit for purpose."[3] During its discussions, the Board asked the Secretariat to:

(a) Clarify its criteria for channelling Gavi support away from government systems and for returning to country systems

(b) Explain Gavi's approach to building countries' capacity to manage Gavi support

1.3 In addition, the Board stressed the need for transparency, accountability and performance when HSIS grants are channelled through partners, similar to the approach used for the Partners' Engagement Framework (PEF).

1.4 To address the above raised questions, the Secretariat is engaging with partners as described below.

Criteria for channelling Gavi support away from government systems and for returning to government systems

1.5 With the expansion of the scope of the former Financial Management Assessment (FMA) to the Programme Capacity Assessment (PCA)[4] as well as more specific guidance to internal and external stakeholders around the financial management of Gavi grants, Gavi has increasingly strengthened its processes to assess country financial management capacity. These processes have also led to the following set of information points and qualitative and quantitative criteria for making funding modality decisions:

(a) **Criteria 1 – Misuse:** Has potential misuse been identified? If so, what was the level of this misuse, including for example the amount of misuse as a proportion of total grant amount and the nature of the misuse?[5] Is

[2] Over US$ 658 million in cash support was disbursed to partners from 2010-2016, equivalent to 46% of all cash support. This trend is expected to grow over time – 8% through partners in 2010 vs. 67% in 2016. More than half of cash grants in countries approaching transition are channelled through partners. In addition, arrangements for channelling funds are currently under review for 34 grants.

[3] http://www.gavi.org/library/gavi-documents/policies/risk-appetite-statement/

[4] PCAs examine countries' capacity to implement Gavi-supported programmes with regard to financial management, vaccine and cold chain management, and overall programme management.

[5] 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

misuse occurring for the first time or repeated, is it an isolated case relating to a single individual or pervasive? Have root causes been remediated and what is the risk of misuse reoccurring?

(b) **Criteria 2 – Country actions and demonstration of political will**: If potential misuse has been identified, what actions have been taken to address it and how proactive were the national authorities in isolating and addressing the misuse? In cases of suspected fraud, have the perpetrators been credibly investigated? Is there a realistic plan to address the weaknesses in the short-term? Is there strong political will to address more systematic in-country weaknesses, improve financial management systems, combat corruption, invest in EPI and health, and to mitigate the risk of any future recurrence of misuse, if applicable?

(c) **Criteria 3 – Weakness of in-country systems**: Are country systems inadequate or unreliable, in particular is there poor and ineffective reporting? Are national internal control systems and processes lacking? Is the government complying with the principles of transparency and accountability, and ensuring that it holds itself accountable to Gavi on how it manages the resources it receives? Are procurement systems weak? What is the level of engagement of governance scrutiny over relevant decisions?

(d) **Criteria 4 - Third party assessments**: Is there evidence of systemic weakness or misuse of funds from other third party assessments or other credible third party evidence? Of note, Gavi is increasingly considering credible third party sources, such as a partner or donor fiduciary risk assessments or sector-wide audits, to inform its funding modality decisions.

(e) **Criteria 5 – Effectiveness of available risk mitigation and assurance options:** Gavi considers a range of risk mitigation, transference or avoidance options. These can include (not exhaustively): (i) Interagency pool funds, (ii) UN Partner agencies, (iii) Project Management Units, (iv) embedded Fiduciary Agents, (v) externalised Fiduciary Agents, (vi) Monitoring Agents, (vii) enhanced internal audit, and (viii) whether enhanced external audit controls are available and most effective in the country context. In some countries, where, for example, there is an identified need to build financial management capacities, fiduciary agents typically offer greater expertise than Alliance partners, while in other countries where close knowledge of the programme is needed, Alliance partners might offer stronger assurance.

(f) **Criteria 6 – Impact of suspension on in-country systems**: What impact would a suspension of support through government systems have on the country and, conversely, what potential benefit could there be in keeping channelling through government? These considerations

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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.

do not apply in cases of, for example, pervasive misuse that takes place in the context of weak country systems with little sign of political will to improve the system. However, in some cases, the potential benefits of keeping funds channelled through governments and thereby enhancing country ownership must be carefully weighed against considerations of risk. There is, for example, greater urgency to ensure ownership and strong in-country capacity in countries that are close to transitioning from Gavi support.

(g) **Criteria 7 – Other considerations**: Other relevant considerations collected in country or through exchange with other organisations, such as the Global Fund and World Bank.

1.6 A risk-informed consideration of relevant criteria is then undertaken by staff within the Secretariat with the necessary technical skills and seniority. All three lines of defence are engaged in the decision making process and decisions are documented. Decisions are reviewed on a regular basis.

1.7 While decisions in some cases are prescriptive (for example, evidence of pervasive fraud and deliberate misuse would mean that funds must immediately move away from the government systems), other cases are more nuanced and require greater judgement. E.g. a case of abuse of authority which is an isolated case relating to a single individual, and which takes place in a context of otherwise strong management systems, might allow for mitigation measures which enable funds to continue to flow through the government systems. In other cases hybrid solutions may be considered if judged as most effective in mitigating or spreading the risk, whereby the higher risk elements of the programme, such as, for example, the procurement of high value goods, are channelled through Alliance partners, with lower monetary based activities remaining with the government.[6]

1.8 As with decisions for moving away from governments, decisions around moving back to government systems have to be made on a case by case basis, taking into account any changes in the risk context. Such decisions continue to require a diligent assessment of countries' capacity to manage the grants while bearing in mind the Board's guidance that Gavi should only channel funding away from country systems when absolutely necessary and for a time-limited period. When making such decisions Gavi must be willing to accept that some residual risk may still exist when reverting to national systems. Yet, before funding can be moved back to government systems, in whole or in part, at a minimum the following needs to be in place:

[6] In DRC, for example, such a hybrid solution was deemed to be most effective: 30% of the cash grants are being channelled through the MoH using an embedded Fiduciary Agent (FA), jointly contracted with the Global Fund and expanded to cover selected provinces, enabling funds to reach sub-national levels with sufficient oversight; WHO/UNICEF conduct all procurements (50%) and UNOPS delivers construction/renovation works under a turnkey contract (10%); in addition, a CSO is engaged as a sub-beneficiary of the MoH, with oversight from the FA (10%).

(a) Relevant Grant Management Requirements (GMRs) [7] have been addressed including filling capacity gaps identified through the PCA or other sources;

(b) Financial management and procurement systems have been assessed as satisfactory through a follow up PCA assessment;

(c) If applicable, reimbursement of misused funds has occurred in accordance with Gavi policies;

(d) There is strong political in-country will to avoid any recurrence of misuse, if applicable;

(e) Satisfactory external audit reports have been received.

1.9 Going forward, the decision framework around when to move away from government systems and back to country systems will be further formalised into an Operational Guideline.

Gavi's approach to building countries' capacity to manage Gavi support

1.10 Gavi recognises the importance of building strong and sustainable financial management and procurement systems to ensure countries' stewardship of immunisation and broader health funding in future, especially beyond transition from Gavi support**.** Building financial capacity has only recently become a stronger focus for the Alliance and traditionally not been core to Gavi's mandate. Given the expected scale up of the Alliance's work in this area, Gavi will likely need to consider further and different investments including to help further address the capacity gaps and issues being identified in PCAs and audits. However, while Alliance support can help build capacity over the long term, many gaps are dependent on factors that are beyond the Alliance's direct control, including macro-economic and political factors. Therefore, this approach is unlikely to be a complete or rapid solution.

1.11 At the global level the Secretariat has reached out to UNICEF and WHO headquarters to discuss a range of issues for when they are managing Gavi grants, including: application of assurance procedures to Gavi grants; accountability through grant performance frameworks; the sharing of relevant information, such as prior assessments of countries; improved financial reporting; and approach to country capacity building. Discussions with Alliance partners are underway and several meetings have taken place to, for example, facilitate a better understanding of partners' risk assessment and management tools and processes. Yet, further discussions are required to ensure for example that all Memorandums of Understanding with partners (which regulate the terms on which partners manage Gavi

[7] GMRs are requirements that must be met prior to the first disbursement of funds or during the course of a grant. They are distilled from the findings of PCAs and negotiated with countries. GMRs are then annexed, as a legal document, to the Partnership Framework Agreement.

grants) include in-country capacity building components and performance assessments of partners when they manage Gavi grants.

Covering the Programme Support Cost

1.12 As reported at the last Board meeting, to recover their administrative overhead costs, UN partners charge a Programme Support Cost (PSC) at an agreed standard rate when overseeing Gavi cash grants, including in situations where funds are channeled via partners in countries with low risk assurance.[8] WHO currently charges 7% PSC and UNICEF charges 8% PSC or 5% in countries where tripartite agreements are signed that include the government. When UNICEF takes on an enhanced oversight role it charges additional direct costs to the Gavi grant resulting in an effective cost of oversight of between 15-25%, depending on the size of the grant and the risk context. Other risk assurance mechanisms such as fiduciary agents can cost the grant anything from 5-10%.

1.13 To date, such PSC and other direct costs have been deducted from the amount available to deliver on the grant objectives and implement associated activities as set out in countries' proposals. Going forward, and applying the principles set out in the Gavi funding policy, PSC or other risk assurance costs will be added to the available grant amount so that all proposed activities can be implemented and countries can fully benefit from the funds available under the ceilings set in the HSIS framework. These additional costs related to enhanced risk assurance measures can be absorbed within the 'Total Cash-based programmes" already included in the financial forecast and they will be allotted in accordance with the Programme Funding Policy.

PPC discussion

1.14 PPC members noted that the trend in channelling funding away from government systems was continuing and that this trend, while necessary in some circumstances, was overall undesirable and difficult to reconcile with Gavi's model of country ownership and sustainability. PPC members asked that the Secretariat should further work to ensure it had appropriate thresholds in place for moving funding away from governments and a clear plan, including milestones, for moving funding back to government systems. It also asked the Secretariat to further explore hybrid options. PPC members asked that the Secretariat report back on the issue to the next PPC meeting.

Annexes

Annex A: Update on the implementation of the Policy on Fragility, Emergencies and Refugees

[8] These are collected on disbursement of funds to HQ with no additional accountability to Gavi as to what they fund, including whether any amounts are directly channelled to countries.