FOR DECISION

The Board requested a review of GAVI's co-financing policy after two years of implementation. The Programme and Policy Committee (PPC) is overseeing the policy revision and recommends that GAVI retain the following working definition of financial sustainability as originally approved by the Board in 2001:

> *Although self-sufficiency is the ultimate goal, in the nearer term sustainable financing is the ability of a country to mobilise and efficiently use domestic and supplementary external resources on a reliable basis to achieve current and future target levels of immunisation performance.*

Based on various analyses and extensive consultations across the Alliance and taking into account GAVI's new graduation policy, the PPC would like to request the Board to approve certain co-financing objectives and principles. Pending board approval of the proposed objective and principles, a second stage of work will define policy options for country groupings; co-financing levels and trajectories over time; the default mechanism; and risk management.

The Programme and Policy Committee requests the Board approve the following:

- Overarching Policy Objective: 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.

- Intermediate Objective (for countries with a long timeframe for achieving financial sustainability): To enhance country ownership of vaccine financing.

- Policy Principles:
  - To be transparent, fair, and feasible to implement;
  - To build on existing systems and processes;
  - To require all countries to contribute to new vaccine support,;
  - To ensure that country co-financing of new vaccines represents new and additional financing and does not displace financing from other vaccines;
  - To provide countries with a long term planning horizon.

Co-financing Policy Revision: Principles and Objectives

Background and Overview

When approving GAVI's co-financing policy the Board requested a review after two years of implementation. The current co-financing policy objective underwent several iterations with involvement by several expert advisory groups before it was finalised. The final policy objective of the current policy– to "increase demand and access to underused and new vaccines" while "promoting national ownership in the decision making process"- differed from the Board's original objective for developing the policy for countries "to gradually assume financial responsibility to purchase the vaccine at the target price".

FOR DECISION

The Programme and Policy Committee (PPC) at its February 2010 meeting endorsed the scope and objectives for the revision of the co-financing policy as described in the meeting document the Secretariat prepared. In particular, the PPC agreed that the revision of the co-financing policy will be divided in two stages. In the first stage, the project would lay the foundations of the policy revision and should lead to the selection of the policy objective(s) that will drive the new policy. The key tasks of the first stage of the revision included a review of the experience to date with co-financing policies (GAVI's and other organisations), an assessment of the fiscal space available in GAVI eligible countries to sustain GAVI's existing and future new vaccines portfolio, and a reasonably high-level consultation across GAVI constituencies to assess the vision that various Alliance stakeholders have for the revised policy. Pending board approval of the policy objective(s), the second stage will involve the creation of policy options and an assessment of the relative feasibility of these options through analysis and consultation, particularly with developing countries.

Finally, the PPC appointed a time-limited task team made up of technical experts and constituency representation that would steer the analytical efforts for this work. The membership and terms of reference of this task team can be found within the paper presented to the PPC in May 2010. The task team has met twice since being constituted to support the analytical work conducted by the study team and to facilitate the formulation of the key findings presented in this document. The study team consists of GAVI Secretariat staff and consultants from the Results for Development Institute.

The PPC has based the recommendations in this paper on the results of the analytical work and consultations and the task team's proposals. Beyond the PPC's recommendations for the board's decision, this paper presents a summary of the findings of the analytical work and consultations conducted to date (Annex 1), and the proposed new objective with key next steps for the second stage of work.

Experience to Date with GAVI's Co-financing Policy

Implementation of the co-financing policy began in 2008. The GAVI Secretariat, with assistance from Alliance partners,[1] has been responsible for monitoring the implementation of the policy. To date, the outcomes are as follows:

- In 2008, a total of 32 countries co-financed GAVI supported vaccines.
- Of these, 26 co-financed on a mandatory basis and 6 voluntarily, with a combined total country co-financing amount of just over US$20 million.
- 6 countries out of the 32 co-financed on a voluntary basis.
- By the end of 2008, 9 countries out of the 32 were classified in default as they did not fulfil their commitments by the end of the calendar year.
- Throughout 2009, the GAVI Secretariat and IF&S Task Team members worked with these 9 countries to successfully bring them to compliance with the policy and all 9 countries came out of default by September 2009.

[1] The GAVI Secretariat's monitoring activities of the co-financing policy have been assisted by a standing task team known as the Immunization and Financing Sustainability (IF&S) task team whose membership includes staff from within the GAVI Secretariat, the World Bank, UNICEF, PAHO, and the Bill & Melinda Gates Foundation and which reports to the DCEO of the GAVI Secretariat.

- In 2009, as additional countries finished their multi-year commitments that were made during GAVI's first phase of operations, the number of countries required to co-finance increased to 49 countries.
- All 49 countries have co-financed their requirement for 2009, plus an additional 3 countries voluntarily co-financed.
- By the end of 2009, 5 countries out of the 49 were classified in default as they did not fulfil their commitments by the end of the calendar year, but in early 2010 these countries were able to make some payments for their co-financing requirements.

While the co-financing policy has been under implementation for only two years, the following summary highlights experience to date. There was considerable confusion with regards to the implementation process of the co-financing policy when it was first introduced. Furthermore, the co-financing policy was rolled out before the associated default policy was approved by the Board. Nonetheless, as countries and partners have gained experience over the past two years, there has been proactive problem-solving and indications that understanding of the policy and its implementation are improving.

At the country level, there have been challenges to getting co-financing amounts into national budgets, working with fiscal years that may differ from GAVI's, national administrative regulations/procedures, SWAp procedures, and the like. But certain indicators show improvement. For example, the number of countries in default as of the end of the respective calendar year dropped from 9 (out of 32) at the end of 2008 to 5 (out of 51) by the end of 2009.[2]

Country defaults do not appear to be strongly linked to country income levels. Defaults appear to be more of an issue of political commitment, bottlenecks for disbursement, and EPI programme management. Defaults occur for a variety of reasons, such as confusion over co-financing procedures, existing vaccine stocks, national procurement regulations, political instability, and financial problems. Monitoring of defaults by GAVI's Immunisation Financing and Sustainability Task Team has helped identify problems and resolve cases.

Co-financing implementation was designed to build on existing systems and processes, instead of creating special mechanisms just for GAVI's co-financing. For example, the decision was made to have countries procure co-financed doses themselves, instead of reimbursing GAVI for their co-financing obligation. Co-financed doses are procured by the countries (either through UNICEF Supply Division Services, the PAHO Revolving Fund, or direct procurement) in order to build country capacity, encourage a country-driven process, and use the country's existing systems (see Annex 2). When the UNICEF Supply Division is requested by the country to provide procurement services, UNICEF handles this through its normal business processes. It is too early to evaluate what effect this has had on country capacity building and ownership.

[2] Note that all countries initially in default in 2008 have paid the arrears in 2009 and of the 5 countries in default in 2009, 2 already co-financed and 2 have partially done so.

External assistance for health can and often does displace some government spending for health.[3] Information gathered to date suggests that countries have not displaced funds from traditional vaccines to fund the co-financing requirements. However, it is difficult to comment from existing data on the sources of funding for co-financing and whether these resources are incremental to the health budget.

In workshops and consultations, many countries have reported that they view co-financing as a positive policy. The current policy has increased the visibility and ownership for immunisation within the Ministry of Health and has helped raise resources for vaccines in these countries. However, there are areas where the current policy remains confusing to countries and partners. The new policy will seek to address these issues.

Co-financing Policies of Other Institutions Financing Commodities

A review of co-financing or cost-sharing policies of eight multilateral organisations and programmes, excluding development banks that finance and/or provide commodities to developing countries finds that GAVI is unique in requiring co-financing from the poorest countries. Consultations with donors and other stakeholders underscore that, while GAVI's co-financing policy has been in practice for two years, it is an innovative model that other development organisations could potentially learn from.

Fiscal Space for New Vaccines – Preliminary Analysis and Implications

Fiscal space refers to the ability of a government to make budgetary resources available for desired purposes without harming the sustainability of the government's financial condition[4]. The study team has prepared a fiscal space analysis to inform the revision of the co-financing objectives and the development of co-financing scenarios. A summary of the main findings follows.

None of the countries that are currently receiving GAVI support for new vaccines are currently paying these full costs. The intent of presenting the fiscal space analysis information is to give a sense of how much of public spending would need to be devoted if governments assumed the full cost of vaccines. This analysis does not assess the additional system costs which countries will need to bear for new vaccines since these programme costs are more challenging to measure for many reasons (e.g., wage costs vary by country and many health system costs are shared across multiple interventions). While these other costs are important to bear in mind, for GAVI-eligible countries, analysis of countries financial sustainability plans and comprehensive multi-year plans indicate that vaccine costs are the single largest cost of immunisation programmes.[5]

[3] Lu et al. "Public Financing of Health in Developing Countries: a cross National Systematic Analysis", The Lancet, April 9, 2010.
[4] Peter Heller. 2005. Understanding Fiscal Space. IMF Policy Discussion Paper
[5] See for example P. Lydon, Immunization Financing Analysis: A look across 50 GAVI countries, November 2006.

FOR DECISION

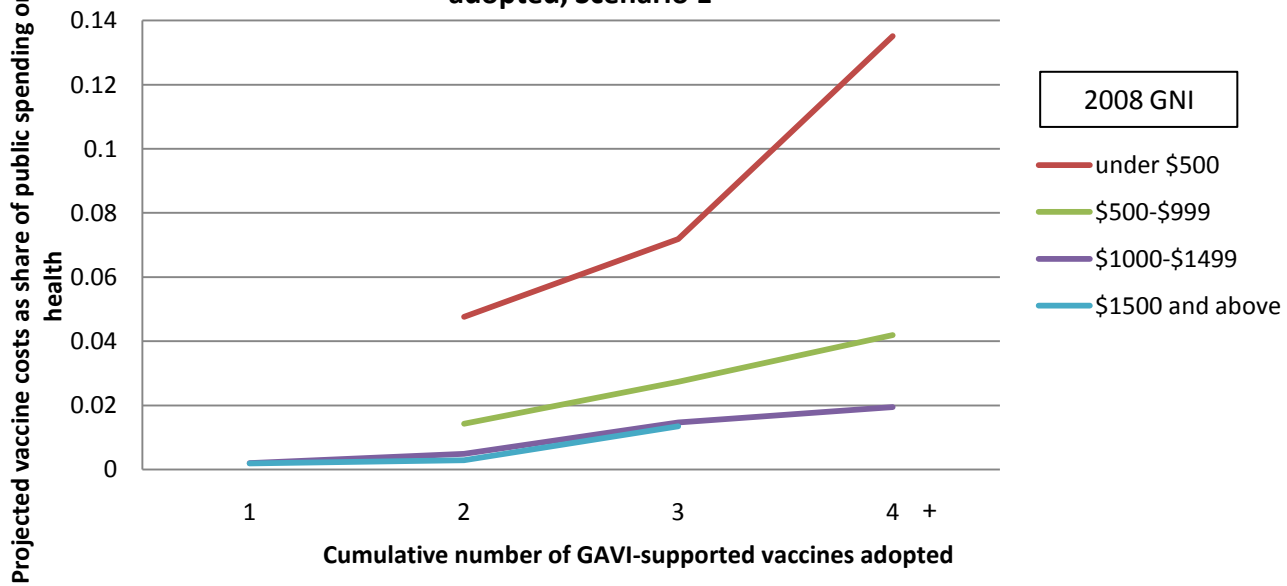
Table 1: Key Indicators, Fiscal Space Analysis

2008 GNI per capita	Number of countries	2008 Birth cohort	Average real GDP growth p.c., 2000-2008	Ave. Public Spending on Health p.c., 2008	Vaccines as a % of public spending on health, 2010 (Scenario 1)	Vaccines as a % of public spending on health, 2015 (Scenario 1)
<$500	21	17.7 m	3.3%	$9.8	5.1%	10.2%
$500-$999	20	18.2 m	6.8%	$18.9	1.7%	3.2%
$1000-$1499	12	8.8 m	4.7%	$50.4	1.0%	1.4%
$1500+	14	6.6 m	10.7%	$108.5	0.5%	0.4%

Note: Numbers do not include Eritrea, India, Korea D.R., Somalia, and Zimbabwe.

As illustrated in Table 1, when projected total vaccine costs (regardless of how financed) are compared to projected public spending on health, they represent the largest share in the poorest countries in 2010 at about 5%, contrasted to only 0.5% in the highest income GAVI eligible countries, mainly because of the differences in public spending on health in the different country income groupings. For 2015, with additional vaccines introduced, vaccine costs as a percent of public spending on health would be significantly higher, at about 10% for the poorest countries. For the highest income countries, vaccine costs are projected to fall slightly from 0.5% to 0.4% of projected public spending on health from 2010 to 2015. For these countries, once their GAVI commitments run their course in 2015, they will need to assume vaccine financing, either from domestic resources or a combination of domestic and external (non-GAVI) resources.

Figure 1. Projected vaccine costs as a share of public spending on health in 2015, by income category and cumulative number of GAVI-supported vaccines adopted, Scenario 1



Note: Numbers do not include Eritrea, India, Korea DR, Somalia or Zimbabwe

As the number of vaccines adopted grows, the share that vaccine costs absorb of projected public spending for any particular country rises. Figure 1 shows the projections of vaccine costs as a share of public spending on health in 2015, by country income category and by number of vaccines adopted. The poorest countries (GNI p.c. <$500) with 4 or more vaccines have projected vaccine costs at close to 14% of public spending on health. As a comparison, the same indicator drops to about 4% of total public spending on health for countries in the income grouping $500-$999.

The analysis suggests that countries that are likely to lose GAVI eligibility soon are much better positioned, as a group, to assume new vaccine financing relative to the poorest countries. That said, there are many competing priorities in the health sector and budgetary reallocation for immunisation could still be very challenging for these countries. It is likely to be easier to secure additional funds from *growth* in budgets rather than from reallocations within budgets. For just over half of GAVI eligible countries in the poorest category (2008 GNI<$500 p.c.), vaccine costs in 2015 (most of which are new vaccine costs) would represent more, in some cases several times more, than the *entire* projected increase in the health budget over that same period. About 20% of the GAVI eligible countries in the second category (2008 GNI p.c. between $500 and $999 p.c.) are in this situation. For countries with 2008 GNI between $1000 and $1499, vaccine costs represent between 1 to 55% of the entire projected growth in the health budget from 2010 to 2015. For countries most likely to graduate, vaccine costs in 2015 as a share of the growth in public spending over 2010 to 2015 is 3% or less--with three exceptions, where it ranges from 12 to 20%. These outlier countries are likely to need special attention in the transition from GAVI support to other financing.

The analysis also modelled the end support for specific vaccines in order to support new ones over time. The analysis took pentavalent vaccine and yellow fever vaccines as examples and explored how much it would cost countries to assume the cost of these vaccines relative to their health budgets. Not surprisingly, the challenges would be greatest in the poorest countries (<$500 GNI p.c.). Pentavalent vaccine alone would require 1.9% of public spending in these countries in 2015. If yellow fever vaccine support ended by 2015, it would require this same country grouping to dedicate 0.4% of their health budgets to fund this. But, within the category of poorest countries, there is significant variation, with one country requiring almost 1% of its health budget to cover the cost of yellow fever vaccine and others requiring less than 0.2%.

The fiscal space analysis suggests that the goal of financial sustainability for vaccines is more achievable in the medium term (2015) for countries nearing graduation than for other countries. The analysis also suggests that the poorest GAVI countries will continue to need external support over the medium to long term (well past 2020) for immunisation, given their low income and growth prospects.

Consultations

Annex 1 details all consultations, conducted and planned. GAVI sought feedback on GAVI's co-financing policy from countries and partners at various fora. One key event was the GAVI sponsored workshop in Dakar, Senegal, in May 2009, which was

attended by delegations from 16 African nations.[6] The feedback provided at this meeting is being used in the development of the revised co-financing policy.

GAVI staff also have sought input on the policy revision from country delegations (Armenia, Azerbaijan, Bangladesh, Georgia, Moldova, Nepal, Sri Lanka, Uzbekistan), and CSOs by piggybacking on other events. In summary, given consultations to date countries expressed that sustainability should be the focus of the co-financing levels. However, countries that are near graduation have focused their concern on the price they might have to pay once GAVI support ends, more than phasing in increased co-financing to prepare for the end of GAVI support. At the CSO consultation, it was suggested that countries that voluntarily pay more than minimal co-financing requirements might be categorised as GAVI "donors".

The study team has thus far consulted with several donors on the co-financing policy revision; several more consultations are scheduled. Donor representatives from these initial consultations consider the GAVI co-financing model a success and believe all countries should continue to make a contribution, however small in the case of the poorest countries. They support the recommended objective presented in this paper of putting countries on a trajectory towards financial sustainability. They also support a focus on country ownership for the poorest countries as a complementary objective. Furthermore, they support the recommended principles to guide the co-financing policy.

Donor representatives indicated that the revision is needed to better align the co-financing policy to the new eligibility and graduation policies. Co-financing levels should be better linked to ability to pay and to an indicator of vaccine price. Some donor representatives noted that linking co-financing to an indicator of vaccine price would likely make countries more conscious of the long-term affordability of GAVI vaccines in the decision-making process. These donors would like to see co-financing levels increase steadily over time towards the end of GAVI support. They also thought country groupings should be updated more regularly. Donors consulted thus far expressed concern about the affordability of post-GAVI vaccine prices for countries once their GAVI support ends and encouraged the revision to take this issue into account.

New Eligibility/Graduation Policies and Co-financing

Since GAVI's inception, eligible countries have experienced different economic growth paths, and countries have different levels of ability to pay for vaccines. Under the new eligibility policy, some countries are poised to lose eligibility in 2011 when the new policy takes effect, with their GAVI support for new vaccines ending in 2015. The challenge here is to help prepare these countries to finance their GAVI-supported vaccines once GAVI support ends so that the gains achieved in immunisation are maintained. The current co-financing policy does not adequately do this as:

- Co-financing levels are not linked to vaccine price. The annual co-financing requirements set out by GAVI do not plot a trajectory towards 100% of the vaccine price by 2015. So countries that are fulfilling the co-financing commitment could still face challenges to sustain the vaccines after 2015.

[6] Co-financing New Vaccines and Sustainability, Meeting Report of the Africa Region Workshop, 25-28 May, 2009, Dakar, Senegal.

- Inconsistencies among country classification criteria. For example, Angola is classified as a fragile state under the co-financing country grouping and as such it is still only required to co-finance at US$ 0.10 per dose. However, Angola's GNI per capita in 2008 was US$3,450 and the country will probably graduate from GAVI support when the revised eligibility policy takes effect in 2011. Consequently, Angola will shift from being a 'fragile state' today and paying the lowest co-financing level to being ineligible and having to pay the full cost of vaccines after its multi-year commitments end in 2015.

Proposed Policy Objective and Principles

The objectives of co-financing evolved considerably during the discussion leading to the current policy. In December 2005, the GAVI Board agreed that support for the introduction of new and underused vaccines will require countries to contribute financing in the next phase. In February 2007, the objective for the co-financing policy was defined as to "increase demand and access to underused and new vaccines," while "promoting national ownership in the decision making process". The two elements of this objective are in tension, as the effect of co-financing on national decisions could be to decrease demand. This objective de-emphasises the earlier board objective, which was for countries "to gradually assume financial responsibility to purchase the vaccine at the target price".
In the current context of GAVI, there is a need to revisit the policy objective and align it with GAVI's 2011-2015 strategic planning process, as well as new GAVI policies. The proposed objective would align the policy with GAVI's proposed new strategic Goal #3 of increasing the predictability of global financing and improving the sustainability of national financing for immunisation. However, any changes in the emphasis of this strategic goal and the balance with the strategic goal of accelerating uptake of new vaccines in GAVI's priorities for 2011-2015 will need to be reflected in the policy.

The new graduation policy, as a result of which, some 12-14 countries are expected to lose eligibility in 2011, provides the most compelling rationale for revision. These countries face the prospect of paying for GAVI supported vaccines as soon as 2016. A co-financing policy that made the increase in vaccine financing obligations gradual between 2012 (when the new policy is expected be implemented) and 2016 could help ease the transition from GAVI support to domestic resources. Moreover, the fiscal space analysis presented here suggests that the countries likely to graduate should in general be able to assume this burden, given adequate preparation and that this burden should not slow the uptake of new vaccines. The current co-financing policy is not well suited to this role, as outlined above[7].

A second, related argument for focusing co-financing policy on financial sustainability is the possibility that GAVI could at some point end its support for specific vaccines, e.g. Yellow Fever, for some or all countries. Although no such decision has been made, given the aim that GAVI's support be catalytic, there may be a need for co-financing

[7] It is worth noting that graduation policies were less well defined at the time that the current co-financing objective was defined.

policies to prepare countries and/or their development partners, to take on the cost of vaccines that GAVI currently supports at some future point.

For these reasons, the PPC recommends to the Board that the revised objective of the co-financing policy focuses clearly and simply on the transition to financial sustainability, recognising that GAVI-eligible countries will be at quite different points towards reaching this goal. As a result, the PPC proposes that the objective of co-financing should be to put countries on a trajectory towards financial sustainability in order to prepare them for phasing out of GAVI support for new vaccines. The PPC recognises that the time frame for attaining financial sustainability will vary across countries. The PPC also recommends that enhancing country ownership of vaccine financing as an important intermediate objective for the poorest countries that will require an extended time frame to achieve financial sustainability**.** Countries that will become ineligible in 2011, with GAVI support ending in 2015, on the other hand, need to be on a fast track for financial sustainability.

The PPC also proposes to the Board to maintain GAVI's working definition for financial sustainability:

> *Although self-sufficiency is the ultimate goal, in the nearer term sustainable financing is the ability of a country to mobilise and efficiently use domestic and supplementary external resources on a reliable basis to achieve current and future target levels of immunisation performance.*

Although the overall co-financing policy objective has the virtue of simplicity, it is worded to encompass several quite different circumstances. First, "phasing out of GAVI support for new vaccines" could include both the end of support for graduating countries and, potentially, the end of support for specific vaccines. Second, the objective explicitly recognises that some countries will require more time to prepare for the end of GAVI support. In fact, the fiscal space analysis indicates that the poorest countries are both far from graduation and far from being able to fully pay for new vaccines. Co-financing can still help to prepare these countries by building procurement and budgetary processes while strengthening ownership of immunisation decisions, even if the eventual goal of financial sustainability is still distant. As such, country capacity building and ownership are intermediate goals that can be supported by the co-financing policy.

The focus in the objective of financial sustainability does not stem from GAVI's current financial situation, but from the idea that GAVI support should be catalytic and time-limited, where possible. Furthermore, there would be an equity benefit to more differentiated co-financing levels. If co-financing for higher income countries were increased relative to the poorest, it would enable GAVI to redirect more resources to the poorest. An important caveat to the objective is that co-financing only refers to financing of new and underused GAVI vaccines. It does not include other costs of the immunisation programme, such as the health workforce and health system, for which sustainability is equally critical. Strong engagement between countries and other partners will be needed to achieve this.

FOR DECISION

The PPC acknowledges that a tension remains between this focus on sustainability and GAVI's strategic goal of accelerating vaccine use and uptake. But this conflict can be minimised by the design of co-financing levels that are linked to ability to pay.

The PPC also recommends the following principles to guide the policy revision. The co-financing policy should:

- be transparent, fair, and feasible to implement;
- build on existing systems and processes;
- require all countries to contribute to new vaccine support;
- ensure that country co-financing of new vaccines represents new and additional financing and does not displace financing from other vaccines; and
- provide countries with a long term planning horizon.

The PPC would also like to highlight to the Board that in order to improve linkages between the co-financing policy and the new eligibility policy and graduation procedures there is most likely going to be a need to:

- simplify the co-financing country groupings, linking better to ability to pay;
- link co-financing levels more closely to an indicator of vaccine price;
- have more regular updating of country groupings; and
- introduce much greater differentiation in payments across country groupings, with the country grouping closest to graduation ramping up co-financing levels quickly to help it transition from GAVI support to self-financing and the poorest countries making modest payments.

Next Steps

Pending the Board's approval, the task team and study team will:

- establish the desired characteristics of criteria used to determine country groupings and co-financing levels;
- develop options for policy implementation and risk management issues such as country groupings, co-financing levels and trajectory over time, actions and mechanism for defaulting countries, key performance indicators to monitor implementation of the policy, the process for updating groupings and co-financing levels;
- assess the potential financial impact of co-financing on GAVI's resources;
- conduct in-depth case studies to learn from experience on the impact of co-financing on country ownership, government budgets, capacity building, and how feasible ramping up co-financing payments would be for graduating countries;
- continue consultations with countries and implementing partners;
- explore access to affordable vaccine prices for graduating countries;
- identify necessary steps to improve implementation of the policy's roll out.

The task team will then propose revisions to GAVI's co-financing policy for review of the PPC in October and the eventual board approval in December 2010. The revised policy is expected to go into effect in early 2012, thus allowing for a one year grace period to facilitate integration of the new policy in national immunisation/ health programme planning and budgeting processes and timelines.

ANNEX 1

Consultations: Completed and Planned During March-May 2010

Institution	Names of interviewees	Titles, Relevant affiliations
Completed Consultations		
CSO Consultations		GAVI (March 29, 2010)
Bill & Melinda Gates Foundation	Rajeev Venkayya	Director, Global Health Program
DFID, UK	Abigail Robinson, Julia Watson	Global Funds & Development Finance Dept.
European Commission	Ondrej Simek	Policy Officer
GAVI Secretariat, Executive Office	Julian Lob-Levyt	CEO
Global Fund	Brad Herbert	COO (former)
Global Drug Facility	Tom Moore	Manager
Government of Cambodia		
Government of Nepal		
Government of Sri Lanka		
IFPMA consultation		
Ministry of Foreign and European Affairs, France	Gustavo Gonzalez Canali	PPC Chair
Ministry of Foreign Affairs and Development, Spain	Fidel Lopez Alvarez	Ambassador
Ministry of Health, Armenia		
Ministry of Health, Azerbaijan		
Ministry of Health, Georgia		
Ministry of Health, Moldova		
Ministry of Heath, Uzbekistan		
PAHO	Claudia Castillo	Technical Officer, Immunization Unit
UNICEF Programme Division	Dragoslav Popovic	Senior Advisor, Immunization System Strengthening Programmes
UNICEF Supply Division	Meredith Shirey	Contracts Manager
USAID	Ruth Levine	Director of Evaluation, Policy Analysis & Learning
World Bank	Bruce Benton (retired staff)	Onchocerciasis Control Program
Planned Consultations		
Government delegations from Bangladesh, Bhutan, Cambodia, Laos, Liberia, Nepal, Nigeria, Rwanda, and Sri Lanka at May 2010 workshop on immunisation financing organised by the World Bank		
Global Fund	Kirsi Viisainen	Manager, Program Effectiveness Team
Global Fund	Daniel Low Beer	Director of Performance, Impact and Effectiveness Unit
Bilateral agencies:		
German Federal Ministry for Economic Cooperation and Development	Joachim Schmitt	
Ministry of the Economy and Finance, Italy	Leone Gianturco	Deputy Head, International Development Cooperation Office, International Financial Relations
Ministry of Foreign Affairs, Netherlands	Annie Vestjens	
USAID	Susan McKinney	Senior Technical Advisor for Immunization
Multilateral agencies:		
UNICEF Program Division	Osman Monsoor	
World Bank	Armin Fidler	
WHO, Regional Immunization Financing Focal points		
Experts (t.b.d.)		

ANNEX 2

Country Procurement of Co-financed Doses: Flow of Funds and Implementation Issues

This annex describes the procedures for the determination of co-financing levels, the timing of country procurement and payment, and monitoring processes. It also highlights when bottlenecks or confusion typically occur. Countries generally use UNICEF or the PAHO Revolving Fund to procure co-financed doses. Pakistan is an exception as it handles its procurement for co-financed doses directly. This annex focuses on work processes involving UNICEF, as UNICEF handles procurement of co-financed doses for the majority of GAVI-eligible countries.

Determination of Co-financing Doses

In country applications for new vaccine support, countries include the value and timing of co-financing requirements and the mechanism they plan to use for procurement. These costs are calculated in terms of cents per dose, using standard average weighted prices provided in the application instructions. Countries also specify their intended procurement method and when they intend to transfer funding to pay for vaccines in country applications (at least in applications since the co-financing policy was rolled out).

GAVI decision letters to countries indicate the doses and value for GAVI-supported vaccines and the doses and value for the co-financed portion. This is based on average weighted prices and estimated freight and insurance costs. UNICEF is copied on decision letters. UNICEF forwards a copy of the decision letter to its country offices as part of the regular shipment planning process with countries.

Country Procurement Through UNICEF

This section describes the business process for country procurement through UNICEF, although frequently some of these steps do not happen or do not happen in the order intended. If a country has indicated that it wishes to have UNICEF handle its procurement of co-financed doses, UNICEF then confirms this, and the planned procurement timing, with the country. UNICEF includes this information in its monthly procurement forecasts to manufacturers. UNICEF handles co-financing procurement using its regular procurement service processes—it has not created any new processes specific to co-financing procurement, apart from the monitoring of the co-financing to GAVI..

Sometime during the year, countries send UNICEF a request for a cost estimate for their co-financing obligation. This should include the quantity of doses, the vaccines needed, the consignee information, and all of the delivery information. Based on this country-initiated request, UNICEF issues a cost estimate which includes its handling fee, freight and insurance, and a procurement buffer. After UNICEF issues the cost estimate to the government, the government needs to approve the cost estimate and transfer the funding to UNICEF. How quickly these steps take varies a great deal from country to country, and procurement to procurement. As a rule, the government is the consignee for co-financing doses so it is liable for whatever taxes or fees the government imposes (or exempting itself). The government, as consignee, is also responsible for clearing the vaccine shipment through customs. The government is also consignee for GAVI-financed doses.

ANNEX 2

UNICEF and the IF&S task team have discussed whether it would be more efficient to issue the cost estimate to countries (for those countries who plan to procure through UNICEF) following the decision letter, rather than waiting for countries to initiate the request for a cost estimate. The decision to have the cost estimate be initiated by the country was done in order to keep ownership of the process at the country level.

Also many countries use UNICEF procurement services for procurement of other vaccines, or other supplies and are familiar with the system. However it is still important that it is the countries that define and designate whether the funding they have transferred to - or already have with UNICEF SD should be used to meet co-financing requirements or other needs.

After funding is transferred to UNICEF in response to a specific cost estimate, UNICEF places the order. Delivery dates are specified by the government, and accommodated to the extent possible. UNICEF pays the supplier and freight forwarder's invoices after the goods have been delivered. The government is responsible for clearing the shipment through customs, although sometimes the UNICEF country office can facilitate, on request.

GAVI financed doses and country financed doses are generally not shipped together. For small countries, or small island countries, it can make a lot of sense to try to combine shipping, but GAVI doses are often needed to prevent stock outs and cannot wait to go out with co-financed doses.

UNICEF has some level of information on what entity transferred the funding for a co-financing transaction, but cannot verify whether the origin of the co-financing obligation is paid by an external donor or by the government budget.

Most of the countries are paying their co-financing obligation in US dollars, but a few countries have difficulties paying hard currency. In these situations, the UNICEF country office may try to absorb the local currency for local programme expenses. This is not a guarantee, as UNICEF's ability to do so depends on the size of the country programme office and on other requests to use local currency, and it requires special approval by the UNICEF Controller.

Monitoring

The Immunization Financing and Sustainability Task Team and UNICEF monitor the following steps:

(1) Whether the country has requested the cost estimate from UNICEF;
(2) The quantity and value in the cost estimate, if it has been issued;
(3) If funds have been transferred, how much was transferred and when;
(4) If the Purchase Order has been placed, and the quantity requested; and
(5) When the vaccines were delivered.

This is updated on a quarterly basis and reviewed by the IF&S Task Team. Starting in the 4th quarter of the fiscal year, this information is usually updated monthly to help ensure that the fiscal year does not end with countries going into default on their co-financing obligations.

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UNICEF does follow up with some countries throughout the year, after consultation and agreement with GAVI. For example, if the middle of the fiscal year is reached and countries have not initiated a cost estimate request, it has usually been agreed that UNICEF will inquire if it is concerned that the country might be falling behind. In 2009, GAVI sent letters in October/November warning countries that they might be heading to default after learning from the experience in 2008 that it should be more proactive in helping countries avert a default situation.

In January or February of the following year, the IF&S Task Team reviews the co-financing payments for the prior year to assess what countries might be in default, and the reasons for the default. In certain situations, the IF&S recommends excusing a country from its co-financing obligation, for example in cases of delayed or interrupted introduction of the vaccine.

Common Issues/Bottlenecks/What Can Go Wrong

- Agencies involved at country level have different levels of understanding of the co-financing policy requirements. And the people involved can change from year to year, so that the learning done in the year may not be carried over into the next year. Furthermore, financing of co-financed doses may be a relatively small activity in busy schedules of staff in government and UNICEF country offices, so it may not receive a lot of attention. Some countries have gone into default status because of confusion over process issues rather than financial constraints.
- In 2009, there was improvement in countries in following procurement steps; some of this improvement was triggered by reminders from GAVI.
- UNICEF sometimes receives the transfer of funding for the procurement of co-financed doses *before* a cost estimate is issued. This requires additional follow up with the country to verify that the transfer is intended for co-financing, to verify the requested products, quantities, and delivery timing.
- Some countries want to procure two years worth of co-financing requirement for delivery in one year. So far, this has not been accepted by the IFS team acceptable.
- At other times countries transfer funding for two years at a time. Although UNICEF does not want to play a “banking” function, this has been acceptable in many instances when the transfer for two years is made towards the end of the first year, or has been initiated to cover the default from the previous year and the requirement of the current year.
- GAVI’s decision letter includes estimated costs of the vaccine, freight, and insurance. Countries generally focus on this decision letter in planning for co-financing financing. But actual obligations, if the country is procuring through UNICEF, include the standard handling fee and the buffer requirement (10% of supply value). (The buffer requirement is intended to cover fluctuations in the cost of freight or the exchange rate. The money is returned to the government or reprogrammed at the government’s request once the procurement is completed.) The difference in costs between the decision letter and the funds to be transferred to UNICEF create confusion as well.
- As the decision letter values are based on the weighted average price, while the actual procurement for countries are based on a specific supplier price there will never be a 1:1 correct relationship between the value and doses in the decision

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letter on one hand and the actual procurement on the other hand. The primary confusion resulting from this stage of the co-financing process is whether GAVI should be monitoring compliance with the number of doses to be procured, or the dollar value estimated at the time of application.

Some of these issues should be addressed, if at all possible, in the revision of the co-financing procurement policy and its implementation roll out. Better communications to countries and partners on the co-financing policy could help. The recurring issue of country confusion over the amount of the co-financing obligation needs to be addressed as well.