

<b>SUBJECT:</b>	<b>CONSENT AGENDA: PROGRAMME FUNDING POLICY UPDATE</b>
<b>Report of:</b>	Barry Greene, Managing Director, Finance and Operations
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<b>Agenda item:</b>	02e
<b>Category:</b>	For Decision
<b>Strategic goal:</b>	Alliance operations

## **Section A: Overview**

### **1. Purpose of the report**

- 1.1. This report proposes changes to the Programme Funding Policy following a review of the policy to assess its fitness for purpose, under the guidance of the Audit and Finance Committee (the “AFC”).

### **2. Recommendation**

- 2.1 The Gavi Audit and Finance Committee recommends to the Gavi Board that it:

**Approve** the amended Gavi Programme Funding Policy attached as Annex A to Doc 02e.

### **3. Executive summary**

- 3.1 Gavi’s Programme Funding Policy was first approved by the Board in June 2010. Subsequent revisions were reviewed and recommended by the AFC, and approved by the Board in 2011, 2012 and 2013. The Policy aims to ensure the prudent management of Gavi resources and commitments.
- 3.2 With five years of experience of operating the Policy, a review of the Policy has been undertaken by the Secretariat at the request of the AFC to see if it is still fit for purpose and whether there are opportunities for further simplification. This paper outlines key aspects of the Policy review and highlights the proposed changes.
- 3.3 The review proposes no changes to the core areas of the Policy, notably those that pertain to Visibility Periods and the Needs and Resources that are included in assessing programme funding decisions. Additional clarity

is proposed with regard to the requirement to hold a minimum of eight months' cash and investment reserve.

- 3.4 The Secretariat has identified a number of opportunities for simplification and improving operational effectiveness that it seeks to reflect in the proposed update to the Policy. These include (1) updating funding decision language, (2) establishing a modality for timely communication of expected procurement needs and (3) the inclusion of vaccine campaigns in the funding envelope.
- 3.5 At its meeting on the 6 November the AFC recommended to the Gavi Board that it approve the amended Gavi Programme Funding Policy attached as Annex A to this document.

#### 4. Context - Scope of the review undertaken

- 4.1 Consistent with the scope agreed with the AFC at its meeting on 22 May 2015, the Secretariat undertook a review of the policy focusing on:
- (a) whether the visibility periods of 3 and 6 years for considering resource availability are still appropriate;
  - (b) the expenditure needs and available resources that are taken into account;
  - (c) whether Gavi should dispense with the concept of "endorsed and approved amounts" in its funding decisions, to reduce complexity;
  - (d) whether the cash reserve is still needed and whether 8 months is still the appropriate level, considering the peaks and troughs that occur during the course of the year; and
  - (e) whether the Policy could be enhanced in light of experience to respond better to Gavi's needs, including considering the advantages and disadvantages of extending the envelope approach to the funding for new vaccine programmes.

#### 5. Overview of findings and proposed changes

- 5.1 The table below summarises the outcome and proposed revisions of the Secretariat's review.

Content matter	Existing policy	Revision proposed	Related para.	Comment
Visibility Periods	3 + 3 years	n/a	3.1 & 3.3	<b>No change</b> – still appropriate
Minimum Cash &	8 months of expected annual expenditures	8 months of expected annual expenditures on average over a year,	3.6 & 4.1	<b>Clarity</b> in definition to address operational issues associated with

Investment reserve		including a liquidity component equal to 3 months' expenditure		significant intra-year cash flow movements
Content matter	Existing policy	Revision proposed	Related para.	Comment
Needs and resources to be taken into account	All forecast expenditures and Qualifying Resources	n/a	Para 4.1	No change – still appropriate
Decision making criteria	<u>Endorsed</u> programme budgets & <u>approved</u> near-term liabilities	<u>Endorsed</u> programme budgets. Near term liabilities will be recorded in accordance with Gavi's accounting policies for Programme Grants	Para 3.1 & 3.2 Annex 1 Para 3	Simplification
Vaccine Procurement	n/a	Addition of language to enable timely authorisation and financial commitment to UNICEF for vaccines procurement	Para 3.8	Operational Efficiency and simplification
Decision making for Campaign vaccines	n/a	Inclusion of campaign vaccines (~5% of annual expenditure) in the Programme Funding Envelope	Annex 1 2(a)	Operational Efficiency and simplification
Programme Funding Envelope operational processes	Ongoing approval of existing programmes	Simplified decision making process proposed to speed up and simplify programme funding decision-making	Annex 1 Para 2(b)(i)	Operational Efficiency and simplification

## 6. Risk implication and mitigation

- 6.1 The proposed policy includes a process under which Gavi would communicate a commitment for the expected vaccine needs of each country for the upcoming year to UNICEF by the end of the third quarter. On the basis of this commitment and a related communication to countries, including their co-financing obligations, UNICEF, as procurement agency for Gavi, would start the procurement of vaccines and related supplies for the upcoming year. The final opportunity to review the performance of a programme in any year may not be conducted until the fourth quarter,

whether conducted by the High Level Review Panel or other mechanism. Therefore recommendations on some programmes may not take place until after Gavi has made its commitment to UNICEF. There may be a small risk that there would be a discrepancy between the amounts of Gavi's commitment to UNICEF and the amounts finally confirmed following the performance review. This risk is expected to be manageable as any discrepancies would be small and would be managed through adjustments in the following year's procurement needs.

## **7. Financial implications: Engagement Framework and budget**

- 7.1 The financial implications of the proposed updated Programme Funding Policy are described in this report.

## **Section B: Implications**

### **8. Impact on countries**

- 8.1 The proposed changes to the policy will provide clarity for countries in respect of Gavi's processes.

### **9. Impact on Gavi stakeholders**

- 9.1 Following the approval of the new grant application, monitoring and review processes by the Gavi Board in June 2013, and their subsequent implementation by the Gavi Secretariat, there are several opportunities during the year for the review of programmes. Given that some reviews occur during the final quarter of the year, they do not always align with UNICEF's timeline of the end of the third quarter for the procurement of vaccines and related commodities for each country. The proposed updated policy addresses this challenge by allowing the Gavi Secretariat to provide timely authorisation and financial commitments to relevant stakeholders. The Secretariat is continuing to explore with UNICEF how best to operationalise this approach.

### **10. Impact on Secretariat**

- 10.1 The proposed changes aim to result in simplification and operational efficiencies.

### **11. Legal and governance implications**

- 11.1 Subject to Board approval, the proposed changes to the policy in respect of the authorisation to UNICEF for the procurement of vaccines and related commodities will need to be reflected in the Memorandum of Understanding between Gavi and UNICEF.
- 11.2 Subject to Board approval of the proposed changes to the policy, the Secretariat will amend the Gavi accounting policy for programmes grants payable and share with the AFC.

## **12. Consultation**

- 12.1 The Secretariat consulted with Donor representatives on the AFC and UNICEF. The Secretariat also reviewed the Global Fund's Amended and restated Comprehensive Funding Policy (*March 2014*).

## **13. Gender implications**

- 13.1 Not applicable

### **Section C: Annex**

Annex A: Revised Gavi Alliance Programme Funding Policy in track-changes

## Annex A

## Gavi Alliance Programme Funding Policy Version 3.0

### DOCUMENT ADMINISTRATION

VERSION NUMBER	APPROVAL PROCESS	DATE
1.0	Barry Greene, Managing Director, Finance and Operations	
	Reviewed by: Gavi Programme and Policy Committee	19 May 2010
	Reviewed by: Gavi Audit and Finance Committee	25 May 2010
	Approved by: Gavi Alliance Board	17 June 2010 Effective from: 17 June 2010
2.0	Reviewed by: Gavi Audit and Finance Committee	24 March 2011
	Approved by: Gavi Alliance Board	8 July 2011 Effective from: 8 July 2011
Section 3.5 and Annex 1	Reviewed by: Gavi Audit and Finance Committee	11 April 2012
	Approved by: Gavi Alliance Board	13 June 2012 Effective from: 13 June 2012
Section 4 and Annex 1	Reviewed by: Gavi Audit and Finance Committee	11 April 2012
	Approved by: Gavi Alliance Board	13 June 2012 Effective from: 13 June 2012
Annex 1	Reviewed and recommended by: Gavi Audit and Finance Committee	10 October 2013
	Approved by: Gavi Alliance Board	22 November 2013 Effective from: 22 November 2013
	Next review:	At the request of the Board
<u>3.0</u>	<u>Reviewed and recommended by: Gavi Audit and Finance Committee</u>	6 November 2015
	<u>Approved by: Gavi Alliance Board</u>	<u>(2 December 2015)</u>

## 1. Purpose

- 1.1. The Programme Funding Policy aims to strengthen the prudent management of Gavi Alliance resources and commitments.

## 2. Scope

- 2.1. This Policy shall apply to all programme funding decisions ~~to approve or endorse new programmes for funding.~~

## 3. Principles

- 3.1. When GAVI decides to support a country's vaccine or cash programme(s), it normally does so with the intention of maintaining its support for the duration of the country's multi-year plan, with the potential to extend that support to subsequent such plans, subject always to an annual assessment of the availability of funding and the performance of the programme.
- 3.2. The performance of each programme is reviewed periodically by Gavi's High Level Review Panel or other body as may be so empowered by the Board; and in years between such reviews, by the Gavi Secretariat based on its routine monitoring of the programme.
- 3.3. As a prerequisite to ~~the approval or endorsement of any new programmes, any~~ programme funding decision, an amount of Qualifying Resources (as defined below) shall be set aside to fully cover all commitments arising in the period from the start of the then current year through the next two calendar years (the Defined Period).
- 3.4. The Secretariat shall provide the Board with a projection of the amounts arising during the Defined Period (per 1 above), in respect of:
  - a) Qualifying Resources available in the defined period; and
  - b) Cash outflows required to meet Gavi Alliance commitments, other than to the new programmes being considered (i.e. to programmes being already supported, including extensions thereof, and workplan and administrative costs) in the Defined Period.
  - c) The remainder (a-b), being the amount available to cover commitments to new programmes in the defined period.
- 3.5. The Secretariat shall also provide the Board with a projection of commitments arising and Qualifying Resources available in the three years subsequent to the Defined Period, so that the Board can take into account the longer-term implications when considering the funding of new programmes.
- 3.6. In addition to the foregoing, the Gavi Alliance shall maintain a ~~minimum~~ cash and investment reserve equalling not less than eight months of expected annual expenditure on average over a year. The reserve shall include liquid assets equivalent to not less than three months' expenditure.
- 3.7. The Board may from time-to-time approve a funding envelope from which the Secretariat shall allot funding to individual programmes in accordance with the provisions of Annex 1 hereto.

- 3.8. The Secretariat shall provide timely authorisation and commitments to UNICEF for the purposes of procuring Gavi-funded vaccines, related supplies and cold chain equipment for delivery to Gavi-supported countries through the next calendar year, based on Gavi's then current projections of country needs to be met by Gavi pursuant to existing and expected funding decisions.

#### **4. Definitions**

- 4.1. Qualifying Resources, meaning the resources that can be counted for the purposes of covering commitments, shall comprise:

**Funds on hand:**

- a) Cash and investments of the Gavi Alliance (excluding funds held in the procurement escrow account over which UNICEF has sole drawing rights).

**Future inflows expected during the Defined Period from:**

- b) Contributions contingent on programmatic expenditure (e.g. AMC contributions)
- c) Expected funding from IFFIm, based on existing donor pledges
- d) Expected grants from the GAVI Campaign
- e) Confirmed contributions to Gavi Alliance (under already-signed agreements or otherwise confirmed in writing)
- f) Expected contributions from existing donors who have not yet confirmed their contributions for the entirety of the Defined Period, based on current contribution levels (i.e. a conservative projection)
- g) Projected investment income.

#### **5. Effective date and review of policy**

- 5.1. Section 3.4 of this policy on the cash reserve requirement came into effect on 18 November 2009. Section 3.5 of this policy establishing the funding envelope arrangement and Annex 1 thereto came into effect on 13 June 2012. All other sections came into effect as of 17 June 2010. This policy will be reviewed and updated as and when required. Any amendments to this policy are subject to Gavi Alliance Board approval.



## Annex 1

### Funding Envelope

1. The Board or EC may from time-to-time approve a funding envelope, to be allotted by the Secretariat in the upcoming calendar year or other period as the Board or EC may specify for the continuation and adjustment of funding for existing programmes, and for new cash and vaccine campaign programmes.
2. The Secretariat, acting within that Board-approved funding envelope, shall during the upcoming calendar year (or specified period):
  - (a) for new cash programmes and vaccine campaign programmes recommended by an IRC Independent Review Committee or other body as may be so empowered by the Board; allot funding to individual programmes based on those recommendations ~~of the IRC~~; and
  - (b) for then existing programmes, including programmes in the first year:
    - (i) allot funding to extend budgets into future years and/or adjust annual budget amounts for individual programmes, as authorised by the CEO or Deputy CEO taking into account the latest results of a programme's performance review, Monitoring IRC, adjust budget amounts for updated timing of implementation and budget utilisation;
    - (ii) adjust budget amounts, as authorised by the CEO or his or her delegate, for price variances and dose reductions, as well as dose increases not exceeding 5% of the approved amount; and
    - (iii) allot funding for dose adjustments exceeding 5% of the approved amount based on the recommendations of the IRC or other appropriate body.
3. By 'allot funding' is meant that the Secretariat shall, from within the Board-approved funding envelope, establish a multi-year budget for Gavi support to each programme, and record a liability in accordance with Gavi's accounting policies.
 

~~(a) endorse or adjust the multi-year budget for a programme; and~~

~~(b) establish or adjust a near-term liability on the Gavi Alliance balance sheet for funding through the then current calendar year and one further year. (This amount is a sub-set of the endorsed multi-year budget).~~
4. The Secretariat shall implement appropriate safeguards for oversight of the funding envelope and reporting to the Board on its utilisation, including:
  - (a) Following receipt of recommendations of the Independent Review Committee, the High Level Review Panel, or other body empowered by the Board to recommend funding decisions, the financial implications of the recommendations shall be assessed by the Secretariat and documented in a report prepared by the Country Programmes and Finance teams. That report shall be provided to the Managing Director – Finance & Operations (instead of to the AFC), for certification that the financial implications are within the Board-approved funding envelope.
  - (b) Following that certification, the funding recommendation shall be reviewed by the CEO or Deputy CEO each of whom is empowered to authorise the allotment of funding to individual programmes, from within the funding envelope. If that certification is not provided, then the funding recommendations shall be referred to the AFC for review and recommendation to the EC Executive Committee or the Board.

- (c) Following authorisation by the CEO or Deputy CEO, countries shall be notified accordingly by implementation letter.
- (d) The Secretariat shall report back to the AFC and the Board or EC semi-annually on utilisation of the funding envelope. This reporting shall summarise the programme funding allotments made by the Secretariat in the previous half-year with regard to the Board/EC-approved funding envelope.