

FOR DECISION

In the context of a resource-constrained environment, and at the Board's request, GAVI is establishing a system for prioritising country applications for funding. As a complement to this, the Secretariat, with the input of the Programme and Policy Committee and the guidance of the Audit and Finance Committee, has developed a system for determining the amount of resources available for approval of new applications. Collectively, these two components (prioritisation and resource measurement) could comprise GAVI's Programme Funding Policy.

The Board is requested to:

- Approve the proposed system for determining the amount available for funding new programmes (page 4)
- Provide guidance to the Secretariat regarding the other matters for consideration as future additions to proposed system (page 6)

GAVI's Programme Funding Policy – Concept Paper**Context***Increasing Country Demand*

The success of the GAVI Alliance in making new and underused vaccines available to children in the world's poorest countries over the past ten years has transformed this aspect of life-saving healthcare in the developing world, diminishing the inequity in access to immunisation between these countries and the rest of the world. Countries – supported by Alliance partners – have seized that opportunity, enabling them to expand the coverage and range of key vaccines. Until recently, GAVI has had sufficient resources to meet that growing demand.

Resource Constraints and Prioritisation

In the midst of global economic pressures that have limited the new resources the Alliance expected to be available, in November 2009 – for the first time – the Secretariat proposed and the Board agreed that resource constraints forced GAVI to defer funding of country applications that had been recommended by its Independent Review Committee (IRC) following its October 2009 meeting, until the prioritisation process be approved. The Board launched a process under the guidance of the PPC to determine how it should prioritise IRC-recommended applications when resources were insufficient to fund all such applications but also to develop principles of prioritisation as good practice. A complementary consideration is measurement of the resources deemed to be available for allocation amongst the prioritised applications. A policy governing this area would supplement the policy on the cash

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reserve established in 2009 to further strengthen the prudent management of resources and commitments¹.

Measurement of Available Resources

Central to the ability of the Board to make well-informed decisions when allocating resources to prioritised applications are:

- (a) a clear understanding of the duration(s) for which it wishes to set aside² resources for programmes already approved, the extension of those programmes, and new programmes (see: *Setting aside resources for future commitments*); and
- (b) definition of what should be counted as resources for this purpose (see: *Qualifying Resources*).

These two elements combine to measure the maximum amount of additional programme approvals that may be undertaken at any point in time – the “approval authority” limit.

Such an approval authority limit would complement the cash reserve requirement introduced in 2009, which requires that the amount of cash and investments should always equate to at least eight months’ cash outflows. The approval authority limit would define the duration over which future commitments and resources (both liquid and non-liquid) should be considered, while the cash requirement further defines the liquidity ‘cushion’ to be maintained.

Terminology

Annex 1 provides a clarification of the terminology used to describe various degrees of financial responsibility towards country programmes (endorsement, approval, commitment).

¹ “Commitment” is used in this paper to refer to all cash outflows required within the defined period, and includes: programme expenditures, workplan and administration costs.

² It is important to recognise that in this context, ‘set aside’ does not mean the creation of a legal liability or a balance sheet reserve or liability; it simply means taking into account the future need to have resources available for commitment (as a liability) as and when required, for the purpose of determining the amount of remaining resources that could be used for new programmes. GAVI records programme commitments as balance sheet liabilities on a year-by-year basis for a duration of 12-18 months for vaccines and 12 months for cash based programmes.

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Setting Aside Resources for Future Commitments

Country Needs and Expectations

When GAVI grants support to a country's programme, there is a shared expectation that this support will continue through the duration of a comprehensive multi-year plan for immunisation (typically 4 to 5 years). Meeting this expectation of predictability could be assured in various ways, such as:

- (a) setting aside resources at the outset to cover commitments for the full duration of the programme (GAVI's current approach);
- (b) setting aside resources to cover commitments for a defined period with the intention to subsequently set aside resources for further period(s), with the latter being accorded priority over any new programmes being considered for funding at that time; or
- (c) setting aside less than 100% of the projected commitment need, on the assumption that less than 100% will actually be used. This could apply under either (a) or (b) and merits consideration in that it would make allowance for the likelihood, based on experience, that less than 100% of approved funding is actually used because of changes to country requirements post approval.

Each of the foregoing approaches, while serving the objective of ensuring predictability of GAVI support for endorsed programmes, has a different impact on the amount of resources to be set aside and hence on the remaining resources that would be available for new programmes. Approach (a) provides a quasi 'cast iron' guarantee of predictability for the entire duration of the programme, whereas approach (b) does that initially for a shorter defined period, and subsequently for the remaining years by according priority of funding to existing programmes.

Limitation of Current Visibility on Future Needs and Resources

Discussion to date of resource needs has focused on the overall resource needs projected through 2015 (which coincides with the end of the next strategic planning cycle). However, the amount of contribution income that will be received over those six years is only partially known at this time, because many contributions (other than pledges made to IFFIm) become known only from year to year. In other words, visibility on income is of a shorter duration than visibility on resource needs. Because of this limitation, the amount of resources available for new programmes would be understated if it were computed by simply comparing projected resource needs for the coming six years with contribution income for those years as currently known. To address that limitation, resource needs have been considered in the context of assumed levels of future contribution income, in discussion to date.

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Proposed system for determining the amount available for funding new programmes

In an environment of resource constraints that requires the prioritised selection of programmes for funding, it is important to have a clearly understood basis for determining the amount of resources available for funding new programmes. A proposed system to address that need has been developed with the guidance of the Audit and Finance Committee (AFC) and the the input of the Programme and Policy Committee (PPC), and is described below. The Board is asked to approve this proposed system.

The Proposed System

The system would require that whenever the GAVI Alliance Board is considering the approval or endorsement of funding for new programmes:

- 1) As a prerequisite to the approval or endorsement of any new programmes, 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 current year through the next two calendar years (the Defined Period).
- 2) 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.
 - (b) Cash outflows required to meet GAVI Alliance commitments, other than to the 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) 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 programme.
- 4) 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
- (b) Cash and investments of the GAVI Fund Affiliate that are committed for approved programmes and are available for transfer to GAVI

Future inflows expected during the Defined Period from:

- (c) Contributions contingent on programmatic expenditure (e.g. AMC contributions)
- (d) Expected IFFIm funding from the GAVI Fund Affiliate, based on existing donor pledges
- (e) Expected grants from the GAVI Campaign

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- (f) Confirmed contributions to GAVI Alliance (under already-signed agreements or otherwise confirmed in writing).
 - (g) Expected contributions from existing donors who have not yet confirmed their contributions for the entirety of the Defined Period, based on current contribution levels³ (i.e. a conservative projection).
 - (h) Projected investment income
- 5) The Board may wish to notify potential applicants and other stakeholders of the amount expected to be available for new programmes (and potential allocations to programmatic windows) in advance of preparation of applications for funding. For this purpose, a forecast of the amount could be compiled at the appropriate time. This would alert potential applicants to the likely capacity for approval of new programmes and allow resource mobilisation efforts to be aligned accordingly.

Preserving predictability of support

The proposed system would maintain the principle of predictability of support by setting aside resources to fully cover the next two years' commitments to all already endorsed programmes, prior to approving any new programmes. This increases predictability during that period for all programmes.

The expectation that resources would, after the next two years, continue to be sufficient to maintain support to all programmes would remain unchanged. Heretofore, no resources were set aside for that purpose and that would remain the case under the proposed system, however a projection of commitments arising and resources available in the three subsequent years would allow the Board to assess the longer-term implications when considering new programmes for support.

Potential Allocation to Programmatic Envelopes

Once the amount available for the approval of new programmes has been calculated, the Board may wish to decide:

- (a) the relative shares of *funding envelopes* for New Vaccine Support (NVS) and cash-based programmes (if the recommendation to do as set forth in the proposed Prioritisation Mechanism, Doc 03 is adopted);
- (b) whether all of the amount available should be used for the approval of new programmes at this time, or a *portion retained* for the approval of new programmes in the future;
- (c) the amount of *budget caps* for country applications (if the recommendation to do as set forth in the proposed Prioritisation Mechanism is adopted);

³ If (g) was based on current contribution levels, then (f) plus (g) would currently total approximately US\$350 million per year.

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Duration of the Defined Period (for which commitments are to be covered by set-aside resources)

As outlined above, the proposed system would require that, as a prerequisite to the approval or endorsement of any new programmes, an amount of Qualifying Resources be set aside to fully cover all commitments through the next two calendar years (the Defined Period). Both the PPC and the AFC considered this duration, with AFC concluding that a two-year duration would enable a greater amount of new programmes to be approved and strike a balance between prudence and ambition.

The AFC also considered whether it might be preferable to set aside less than 100% of the projected commitments, on the assumption that less than 100% will actually be used, and concluded that this could be considered further in the future in the light of experience with the system.

Other Matters for Consideration

The Board is asked to provide guidance on whether the following matters should be developed further for future approval by the Board, as additions to the system proposed herein:

- (a) Guidelines could be developed to specify ‘use it or lose it’ deadlines for reduction of committed resources that have not been used. A systematic review of commitments that may be in excess of need should be undertaken at least annually and appropriate reductions made in order to release resources so that they may be available for allocation to other programmes.
- (b) Budget estimates provided in country applications to the IRC may require adjustment subsequent to Board approval of an application in order to align with updated demand estimates that take account of revisions to programme start dates, time to reach peak coverage, supply constraints and other factors.
- (c) To facilitate the timely release of committed resources that are identified as being in excess of needs through the processes proposed for consideration in (a) and (b) above, the Board may wish to consider empowering the Secretariat to make reductions to committed amounts.

ANNEX 1

Terminology

The following clarification of the terminology used to describe various degrees of financial responsibility towards country programmes may be helpful:

- **Endorsement:** Each time a new country programme is recommended for approval by the IRC, the GAVI Alliance Board (or Executive Committee) is asked to **endorse** the programme and its associated multi-year budget. This endorsement does not constitute a binding commitment to fund the programme budget for its entire multi-year duration, but instead sends a positive signal that GAVI intends to fund the programme over its entire lifespan, subject to performance and availability of funds. (The endorsement is also referred to as being ‘horizontal’ because of its multi-year nature.)
- **Approval:** Of the total amount ‘endorsed’, the Board **approves** funding at the outset for the initial near-term funding needs (covering 12-18 months for vaccine programmes and one year for cash programmes). (This approval is referred to as being ‘vertical’ because of its single-year nature.) Later, the Board may approve extensions of funding for the programme beyond the period originally endorsed.
- **Commitment:** A financial liability is recorded on the balance sheet when a **legally binding** financial **commitment** is made (to the country). This occurs:
 - at the outset, following *endorsement* of the programme, in respect of the amount *approved* (that covers the initial 12-18 months);
 - subsequently each year, for an additional year of the *endorsed* programme budget; and
 - later, for each year of any extensions of the originally endorsed programme.
 - Thus, it is **commitments** that reflect legally binding financial liabilities to the countries (whereas approvals and endorsements convey, respectively, the approval or conditional intent to enter into such a commitment).