Guidance Note[1]

GAVI Financial Management Assessments

February 2009

I. Objective of this guidance note

The following document provides GAVI-eligible countries and their development partners with important information on the GAVI Financial Management Assessment (FMA). As of 1 January 2009, the FMA will will be required before a country can receive cash support for ***NEW*** Health Systems Strengthening (HSS) and Immunisation Services Support (ISS) programmes; this includes proposals approved in November of 2008.

This note addresses the following areas:

- GAVI's approach to managing fiduciary risk for its cash-based programmes – ***Section III***;
- The goal, scope and components of the GAVI Financial Management Assessment (FMA) – ***Section IV***;
- Roles and responsibilities in conducting FMAs (for the GAVI Secretariat; eligible country governments; and development partners) – ***Section V***;
- Mitigating risk to GAVI funds and follow-up procedures – ***Section VI***

II. Background

The GAVI Alliance has adopted a Transparency and Accountability Policy (TAP) for all cash-based support, which took effect as of 1 January 2009. The policy outlines a set of minimum requirements for the financial management of GAVI HSS support:

- Funding should be used for objectives stated within a proposal;
- Funds must be managed in a transparent manner, and accurate and verifiable financial reports should be provided on a regular basis, as specified by individual funding arrangements;
- Funds must be managed within accounts that meet national legal requirements for auditing, accounting and procurement.

The policy states that all countries introducing new HSS or ISS programmes (recieving funds after 1 January 2009) will be required to conduct a Financial Management Assessment (FMA)[2]. ***There are two overall objectives of the FMA***: 1) to allow GAVI to

[1] Because GAVI's TAP is relatively new and development of the FMA is work-in-progress, this Guidance Note is issued in draft form and will be revised as the FMA develops.

[2] Exceptions will be granted for those countries whose total, multi-year cash awards will be USD$100,000 or less. Exceptions may also be granted for countries that wish to channel GAVI funds through joint

better understand how the public financial management (PFM) system works in a country's health sector, with specific focus on the relative strengths and weaknesses that could affect GAVI cash-based support; and, 2) to assist the country and GAVI in identifying the best financing mechanisms for the management of GAVI cash support. GAVI will finance the FMAs from its own resources.

III. GAVI's approach to managing fiduciary risk for its cash-based programmes

The purpose of GAVI's cash based programmes is to support the achievement of GAVI's Strategic Goals, in particular: *strengthening the capacity of the health system to deliver immunisation and other health services in a sustainable manner*. GAVI's Transparency & Accountability Policy and financial management assessment are designed to support this goal. GAVI firmly believes that when funds are managed efficiently and effectively, the overall health system, and consequently, immunisation service delivery, will benefit.

GAVI will apply a country-by-country approach that will strike a balance between the need to increase transparency and accountability in the management of cash-based grants, and the need to maintain flexible and effective programme implementation. GAVI strongly supports the *Paris Declaration on Aid Effectiveness*, and the principles of harmonisation and alignment; GAVI strongly encourage the use of countries' own public financial management systems whenever possible. Countries with well functioning joint financing mechanisms in the health sector (like those used to manage funding for SWAps), are strongly advised to use them. If a country prefers not to use an existing joint financing mechanism, it must present a compelling case for doing so, and receive the endorsement of its Health Sector Coordinating Committee.

IV. The goal, scope and components of the GAVI Financial Management Assessment

a. Goal

The financial management assessment (FMA) will allow GAVI to get a better understanding of eligible-countries' public financial management (PFM) systems in the health sector, the relative strengths and weaknesses of these systems, and the different financing mechanisms available to manage GAVI cash-based support.

The goal of the assessment is to guide both the country and GAVI in identifying and agreeing on the best financing mechanism for GAVI support, as well as additional fiduciary assurance activities that may be needed to address perceived risks. Available Public financial management assessments, reviews and diagnostic studies will inform the GAVI FMA process. It should be noted that the FMA ***will not*** be used to establish conditionality for GAVI support nor will it be used to rank and/or score financial management systems in the health sector.

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financing mechanisms already being used by other development partners and where recent diagnostic work already exists on financial management, particular to that joint financing mechanism.

b. Scope

The FMA will take its starting point with the funding mechanism(s) proposed or preferred by countries and their development partners. Such mechanisms may include: direct budget support; sector budget support; joint financing mechanisms; and parallel mechanisms. The FMA will carefully evaluate the relative strengths and weaknesses of this mechanism. At the same time, the FMA will seek to provide GAVI with a better understanding of the system for public financial management in the health sector, as well as any additional financing mechanisms that could potentially be used to channel GAVI support. This combined information should guide the country government, its development partners, and GAVI in agreeing upon the ideal financing mechanism, and additional assurances needed (if any) to reduce risk.

c. Components of the FMA

The FMA is conducted in two stages:

i. ***Desk review:*** During this stage the GAVI Secretariat will review the documentation submitted by countries in their applications for cash based support (ISS, HSS etc.) The Secretariat will also review findings from existing financial management assessments and other diagnostic work, on both national and health sector public financial management practices, including, but not limited to:

- Public Expenditure and Financial Accountability (PEFA) reports on public financial management;
- World Bank Country Financial Accountability Assessment (CFAA) reports;
- Documentation on joint financing arrangements for development partners in the health sector;
- Any additional reports (existing fiduciary risk assessments) that assess public financial management and procurement systems.

The aim of the desk review is to get a better understanding of the country's preferred funding mechanism within the context of the overall government and health public financial management system, and identify areas to be addressed in the in-country visit, if needed.

ii. ***In-country review****:* The purpose of the in-country review is to verify the findings of the desk review, and to supplement information in particular areas, in order to fully understand the strengths and weaknesses of the financial management mechanism proposed by countries and their partners, within the context of health sector PFM systems.

The GAVI Secretariat will work with the Ministries of Health and Finance and key development partners to agree on the best option for managing GAVI cash

support. The outcome of the review will be captured in an Aide Memoire highlighting the key findings and agreements reached during the review process.

In-country reviews will vary in scope and breadth (hereafter termed "intensity") depending on: the quantity and quality of information available during the desk review; whether other partners are undertaking or have recently completed similar assessments; and the type of financing mechanism proposed by the country (for instance, joint financing mechanisms already used by other partners are likely to require little to no additional assessment). General levels of "intensity" can be described as follows:

- ***Low intensity:*** where PFM practices in the health sector are already well documented; other recent assessments are readily available; the country has already selected a well established joint funding mechanism for the management of GAVI funds, which other donors are using with success. It should be noted that GAVI FMAs may be waived for those countries participating in the International Health Partnership + (IHP+) or other similar initiatives, as well as those countries that will receive less than USD$100,000 in total cash support.

- ***Medium intensity:*** national PFM practices are well documented, but only limited information exists on PFM arrangements in the health sector and/or the proposed funding mechanisms. The in-country review will provide additional information on the financial management systems used in the health sector and of the financial management arrangements proposed by countries and assist in identifying the best funding mechanisms, and any additional assurance activities, if needed.

- ***High intensity:*** where no recent assessments of the country's PFM systems exist, (national or health sector). The in-country visit will provide a better understanding of public financial management practices in the health sector, and of the financial management arrangements proposed by countries and assist in identifying the best financing mechanism, and any additional assurance activities, if needed.

In some cases where good information exists, where detailed assessments of PFM arrangements in the health sector have already been completed and where risks to GAVI funds can be established, GAVI may be able to waive the in-country component of the FMA. In such instances, GAVI and the country would move ahead directly with the Aide Memoire (see section VI below) based on the findings of the Desk Review.

V. Roles and responsibilities in conducting FMAs

i. ***The GAVI Secretariat*** will lead and finance the technical team responsible for the desk and in-country review, including the drafting of the terms of reference, review reports and the Aide Memoire.

ii. ***Eligible-country governments*** are responsible for: proposing the dates for the in-country review process; providing GAVI with relevant background information, and ensuring that government representatives from the Ministry of Health and Finance are participating in the in-country review process.

iii. ***Development partners*** At the invitation of the government, development partners are requested to assist in assembling the relevant background information and to participate in the in-country review process. They may also be well placed to make recommendations on the best financing mechanisms for the GAVI ISS and HSS support.

VI. Mitigating risk and follow-up procedures

The financing mechanisms identified in the FMA process, as well as additional risk mitigation measures, will be formalised in an ***Aide Memoire***, to be signed by GAVI Secretariat and the government. Compliance with the terms of the *Aide Memoire* will be monitored by the Independent Review Committee (IRC) through the Annual Progress Report, submitted by each country.

FMAs will be repeated, at a minimum, every three years. They could also be conducted more frequently as dictated by risk and/or changes in circumstances.

VII. The FMA framework and methodology

Table 1 sets out the recommended content of the FMA report. Individual country circumstances will determine the length and content under each heading.

Table 1: Content of the GAVI FMA Report

	Content	***Detail***
1	***Executive Summary***	• Summary of financial management strengths and weaknesses in the health sector and key risks identified. • Agreed financing mechanism for GAVI funds and additional measures, if required.
2	***Public Financial Management Systems***	• Brief description and analysis of the wider context in which health sector financial management systems operate
3	***Financial Management Assessment***	• Description of the strengths and weaknesses of the financial management systems in the health sector, with particular focus on potential systems for the management of GAVI funds. This section is detailed in the **ANNEX on pg. 6**.

4	***Identification of key fiduciary risks and safeguards (for inclusion in Aid Memoire)***	• Summary of strengths as well as risk areas associated with the financing mechanisms proposed by the country • Agreed Financing mechanisms for GAVI funds • Additional safeguards, if required.
5	***Bibliography***	• List of all source material and analysis used to inform the FMA process.

ANNEX

Health Sector Financial Management Assessment (FMA)
The framework in summary

The framework of the financial management assessment (FMA) is designed to allow GAVI, eligible countries and their development partners to address the following questions:

1. Does the proposed/preferred mechanism (or mechanisms) for managing GAVI cash support meet GAVI's minimum requirements[3]?
2. Does the mechanism exhibit desired attributes (e.g. funds on budget; captured by the MTEF process; captured in the annual budgeting and planning process of the Ministry of Health; harmonised and aligned etc)
3. What other mechanisms exist in the health sector that could be used to manage GAVI cash support? What are their relative strengths and weaknesses?

Each of these questions will be framed within the context of the overall public financial management system in the health sector, with particular focus on six key areas. These six areas are outlined in greater detail in the table below. They are used in all internationally recognised public financial management assessment tools. Reference to these six areas will allow the GAVI FMA to draw upon previous assessments, thus reducing the intensity of the GAVI FMA. However, it is important to note that individual FMAs may not consider each area in depth; the scope and focus of each FMA will be tailored to the unique circumstances in the country and will depend largely on how much information already exists (through other assessments), as well as the proposed/preferred mechanism selected by the country.

1. CREDIBILITY OF BUDGET

This area considers the extent to which the budget, as a plan, is a good indication of what happens in practice. It examines the difference between budgeted and actual expenditure and revenue and whether actual reported expenditure is distorted by unpaid/undisclosed bills.

Specific considerations may include:

1.1 Aggregate expenditure out-turn compared to original approved sector budget;

1.2 Composition of expenditure out-turn compared to original approved sector budget; and,

1.3 Stock and monitoring of sector expenditure payment arrears.

[3] a) Funds should be used for purposes stated within a proposal; b) Funds must be managed in a transparent manner, and provide accurate and verifiable financial reports on a regular basis as specified by individual funding arrangements; c) Funds must be managed within accounts that meet national legal requirements for auditing, accounting and procurement.

2. COMPREHENSIVENESS AND TRANSPARENCY

This area examines the extent to which instruments such as the budget and accounts of the sector reflect the totality of public finances. It examines the extent to which the sector makes available information, in a suitable form, through which it can be held accountable for the way it manages resources.

2.1 Classification of the sector budget

3. POLICY BASED BUDGETING

This area reflects the extent to which budget allocations are made in a strategic context reflecting agreed policies and priorities and with due consideration to the longer term impact of decisions. It considers whether or not a budget circular is adhered to (and related budget guidelines and procedures on budget preparation and execution), is understood and implemented at sector level; whether there is an effective relationship between the sector ministry and Ministry of Finance for negotiating the annual budget; and whether there is an effective decision making body (e.g. health budget committee) that examines the sector budget appropriations for example.

Specific considerations may include:

3.1 Orderliness and participation in the annual sector budget process; and,

3.2 Multi-year perspective in fiscal planning, expenditure policy and budgeting.

4. PREDICTABILITY AND CONTROL IN BUDGET EXECUTION

This area considers the extent to which managers and service providers inside the public service can deploy resources provided in the budget with certainty and timeliness and within a control framework that is effective in enforcing discipline without being so cumbersome that service delivery is compromised.

At sector level, this area evaluates whether the roles and responsibilities of different parties are clearly defined and understood, particularly between the Ministry of Finance and the line ministry. Where there are other available financial management arrangements (for example, additional SWAp procurement arrangements are in place) to what extent do these arrangements strengthen capacity development of national systems. This area seeks to determine if there is an adequate system of control over non-payroll expenditure and if there is a robust asset management system in place. Crucially, it will assess if there is a regular review of the internal control system in the sector through an effective internal audit function.

Specific considerations may include:

4.1 Effectiveness of payroll controls;

4.2 Competition, value for money and controls in procurement (in particular procurement of drugs/vaccine/etc);

4.3 Effectiveness of internal controls for non-salary expenditure; and,

4.4 Effectiveness of internal audit.

5. ACCOUNTING, RECORDING AND REPORTING

This area reflects the adequacy of information about what happens to resources in practice as a means of both informing managers at all levels about their own progress and that of other levels in implementing the budget; and as a means of exerting control and transparency.

Weak performance here implies vulnerability to sub-optimal usage of resources, slippage in performance and weak accountability. It would also have implications for the effectiveness of controls dealt with by the previous area since many of those controls are dependent on the flow of appropriate data.

This area would also consider consistency of accounting policies at the sector level with Ministry of Finance requirements, additional reporting requirements specific to the sector (as may occur in a SWAp agreement). It also determines whether sector budget reports provide accurate, comprehensive and understandable information to allow progress against the budget to be monitored?
Specific considerations may include:

5.1 Timeliness and regularity of accounts reconciliation;
5.2 Quality and timeliness of in-year sector budget reports; and,
5.3 Quality and timeliness of annual financial statements.

6. EXTERNAL SCRUTINY AND AUDIT

This area seeks to show the extent and effectiveness of independent scrutiny of the sector's operations through the external audit functions of government.

6.1 Scope, nature and follow-up of external audit.