Co-Financing Strategy

Accelerating Sustainable Scale of Family Planning in Nigeria through Innovative Financing

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# Table of Contents

## Acronyms and Abbreviations

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## Introduction

---

Why the TCI Co-financing Strategy? --- 3

What Is In the TCI Co-financing Strategy? --- 4

How to Use This Strategy --- 4

## About TCI’s Business Unusual Model

---

Business Unusual through Value-Driven Partnership --- 5

TCI Nigeria’s Challenge Fund --- 6

## Fundamental Principles of TCI’s Co-financing Strategy

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Co-financing Strategy Premises --- 8

Key Elements of the Co-financing Strategy --- 9

## Conclusion

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### Acronyms and Abbreviations

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BMGF</td>
<td>Bill &amp; Melinda Gates Foundation</td>
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<td>CCP</td>
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<td>Disbursement-Linked Indicator</td>
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<td>NSHIP</td>
<td>Nigeria State Health Investment Program</td>
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<td>SOML</td>
<td>Saving One Million Lives</td>
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<td>The Challenge Initiative</td>
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<td>TCI University</td>
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Introduction

Nigeria’s state governments face increasing financing and operational pressures in meeting the health and development needs of their constituents. These pressures are compounded by changes in the external funding environment, where donors are stepping back and seeking models to promote self-reliance and sustainability of the interventions they fund. Declines in donor funding globally present a substantial threat to development financing, especially in low- and middle-income countries, but also offer an opportunity to expand growth of non-donor sources of financing, especially through public financing and leveraged co-financing models.¹ Nigeria’s states operate in a context where donors are increasingly recognizing that state leadership and direction, not that of external actors, are needed to grow and sustain any gains that have been achieved. In Nigeria, The Challenge Initiative (TCI) supports states in responding to these realities.

TCI applies a “Business Unusual” approach that accelerates positive changes in reproductive health outcomes through the scale up of proven solutions that expand access to services and reduce unmet need for family planning. Through a demand-driven model, states self-select to be part of TCI, put their own financial and human resources on the table, and prioritize and adapt proven approaches for scale, ultimately achieving sustainable health outcomes in an efficient and cost-effective manner. TCI partners with state governments that have a vision for their state, want to expand access to family planning (FP) services for their constituents and seek to use resources to do so in the most efficient ways possible. States opt in and, through a co-financing approach, draw on TCI coaching, guidance on proven approaches, data for decision-making and supportive funds, called the Challenge Fund, to design and deliver FP services to the urban poor.

Why the TCI Co-financing Strategy?

Over the years, developing countries have committed to better the lives of their citizens and achieve far-reaching goals for improved health care, including expanding access to FP. At the same time, it is increasingly obvious that the resources required to achieve some of these goals surpass government budgets and available donor funding. Traditional financing models, which depend heavily on development aid, are no longer sufficient to sustain gains made by government and development investments, achieve the universal health coverage goals and ensure productive societies. To stop the development aid dependency cycle, new ways of accessing development financing continue to emerge. Donors and government are seeking more efficient and cost-effective ways of making development financing work to catalyze system-wide transformative changes.

TCI partners with state governments to leverage all available resources – solutions, technical expertise and funding – in states to drive and sustain system-wide change to improve access to FP. Through the TCI co-financing strategy, it works with government to expand the health financing opportunity through a model built on practical realities of government funding that differs from state to state and allows for homegrown adaptation instead of a one-size-fits-all approach.

TCI’s co-financing strategy seeks to fulfill the following objectives:

- To document, track and amplify progress and learning on FP financing, with particular focus on understanding state-level fiscal environments
- To simplify state mechanisms for routine documentation of FP expenditures to more readily unlock access to additional state-level funding
- To explore and refine emerging metrics to measure state government progress in contributing to FP2020 commitments
- To serve as a framework to guide partnership between government and non-state actors for strengthened FP financing and programming at state levels.

What Is In the TCI Co-financing Strategy?

This strategy document highlights the innovative approaches with which state governments in Nigeria can harness their own resources to accelerate improvement in reproductive health outcomes, unveils new strategies for domestic financing for FP, and serves as a results-based financing guide to help states, partners and donors explore the dynamics of the FP fiscal space and structure appropriate reward mechanisms.

The strategy contains four key components: (1) a co-financing model that shows the overall methodology, approach and process to achieving commitment; (2) co-financing requirements that track the processes leading to states’ achievement of their commitments; (3) a performance incentive framework that measures, tracks and rewards financial and non-financial (technical and operational) commitments; and (4) application of and compliance with the matching requirement agreed upon by states within the TCI partnership.

How to Use This Strategy

The co-financing strategy is a tool that can be applied to build strong relationships among state actors (donors, implementers and government) and improve accountability through transparent agreement and documentation of commitments and action required to fulfill them. The framework can be used to drive advocacy and local ownership in a manner that removes the unhealthy power dynamics between state and non-state actors but promotes buy-in and reinforces commitment as states share learnings.

This strategy is not a replacement for existing program tracking and monitoring tools. It does not override, supersede or downplay the importance and effectiveness of existing co-financing tools, framework or models. Instead the mechanism and recommendations herein are structured in line with the TCI Business Unusual model of state-led implementation of FP programs.

TCI hopes this strategy document will stimulate new thinking and action by governments, implementing partners, donors and local organizations and also expand the body of knowledge on emerging practices in co-financing for FP implementation.
About TCI’s Business Unusual Model

More than half of the world’s population currently lives in cities, and the rate of urbanization is accelerating. By 2050, 70% of people will live in cities, with some of the greatest growth in Africa and Asia. Although cities benefit from economic growth, they also struggle to accommodate the rising demand for services, especially among their growing, under-served poor communities. From 2009 to 2015, the Bill & Melinda Gates Foundation pioneered the Urban Reproductive Health Initiative (URHI) that pilot-tested a comprehensive approach to improving contraceptive access in select cities in India, Kenya, Nigeria and Senegal. Like no other project before, URHI was designed specifically to address the reproductive health needs of the urban poor, achieving increased modern contraceptive prevalence, especially among the poorest quintiles; improved knowledge of modern methods; and large increases in use of long-acting and permanent methods. Building off of this demonstrated success, TCI aims to scale up the FP interventions tested and proven under URHI.

**Business Unusual through Value-Driven Partnership**

TCI was born as a partnership platform where states self-select to receive technical support and catalytic funding from TCI to right-size and scale up proven FP initiatives in a sustainable manner (see Figure 1). In order to sustainably fund these proven initiatives, TCI ensures state buy-in from a range of resource streams through its co-financing mechanism.

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Figure 1. TCI Theory of Change

TCI is pioneering new ways of thinking and operating to help support local governments to efficiently and effectively drive their own programs. It refers to this new mindset to scaling up and sustaining proven urban reproductive health solutions as “Business Unusual.” TCI empowers cities toward self-reliance with high-impact FP solutions to improve the health and well-being of those living in poverty.

TCI’s Business Unusual approach hinges on six guiding principles:

- **Demand-driven City Engagement**: TCI’s partnership structure requires cities to self-select in order to participate. States that express interest in partnering with TCI gain access to the highly competitive “Challenge Fund” by bringing their resources (financial and human) to the table in cash and in-kind.

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- **Local ownership and systems readiness**: This approach requires cities to be ready, willing and able to address their challenges. TCI helps states to take the lead to improve the reproductive health and well-being of their population.

- **Right-fitting best-practice interventions**: TCI offers evidence-based interventions in service delivery, demand generation and advocacy, with research, monitoring and evaluation as cross-cutting issues. States are supported to take these high-impact interventions to scale and eventually transition to self-reliance during a structured **Graduation process**.

- **Coaching and TCI University**: TCI’s **Lead, Assist, Observe Coaching model** transfers capacity through TCI University, an online platform that provides continuous learning opportunities to improve knowledge, skills and confidence of FP program managers and implementers. Partner states also receive technical coaching and mentoring support from TCI through embedded state technical teams at the state Ministry of Health.

- **Leveraging of existing platforms**: TCI works with existing government-led systems to harmonize strategies, funding and technical assistance to achieve efficiency at scale. To achieve this, TCI promotes collaboration and synergy among supported states. New TCI states leverage learning and technical capabilities from existing states.

- **Real-time or near real-time data for decision-making**: With TCI, state governments strengthen their capacity to use data for problem solving and better decision making. This is achieved through technical assistance to states on routine data quality reviews, analysis and dissemination to key stakeholders.

After years of intensive implementation, states are expected to become self-reliant and transition into Centers of Excellence – capacity strengthening launch sites and learning hubs – for new and emerging states. These Centers of Excellence continue to receive on-demand technical support from TCI (see Figure 2).

**Figure 2. TCI Pathway to Self-reliance**

**TCI Nigeria’s Challenge Fund**

The Challenge Fund is an innovative, demand-driven, incentivized approach that encourages states to assume an active role in project design and implementation while local and global partners take supporting and facilitating roles. Instead of being selected by donors and partners, states self-select and apply to participate in the initiative. Participating states work with embedded technical experts – called Technical Support Teams – to design programs.
for implementing high-impact FP interventions that are targeted, cost-effective and customized to each state’s needs, geographic context and social dynamics. Implementation of selected interventions are reviewed on an annual basis and reflected in each state’s FP work plan and Health Annual Operational Plan. Selected interventions are expected to be co-financed by TCI, states and other implementing partners.

Through a collaborative process, promising states are awarded catalytic funds from TCI’s Challenge Fund pool to subsidize project and activity costs associated with the chosen high-impact interventions. The partner states also receive targeted technical assistance from the hub during project implementation and benefit from joining TCI’s global community of practice, which exchanges lessons learned and shares best practices in delivering FP and health services.

The Challenge Funds primarily seek to:

- Prime local ownership at the outset through a self-selection process.
- Amplify URHI achievements by encouraging greater cost-efficiency in scale-up.
- Test a rapid scale-up model that strengthens local health systems.
- Cultivate program sustainability through matching contributions from participating cities and by leveraging funding from a variety of sources.
- Foster transparency among the geographies interested in and committed to implementing effective family planning.
Fundamental Principles of TCI’s Co-financing Strategy

The TCI co-financing strategy is at the heart of its Business Unusual model and a means for encouraging state governments to lead, drive and own implementation of their programs. The strategy is also an instrument to accelerate states' transitions to self-reliance in FP within the shortest period possible.

Co-financing Strategy Premises

The strategy is premised on the hypothesis that by distributing the responsibility to finance FP implementation, government is able to allocate and channel scarce financial resources to: (a) implement effective FP interventions; (b) act as a rapid catalyst in response to the contraceptive needs of more women and men with equity and quality of care in mind; (c) generate a wider beneficiary pool for URHI’s proven, high-impact interventions; and (d) track government health expenditure trends and provide a better evidence base for sustainable scale-up and adaptation.

Co-financing in the context of TCI refers to domestic public resources (financial and non-financial) that are used to finance FP programs. The sources of co-financing include government revenues channeled through the Health Ministry, Department and Agencies such as the State Ministry of Health and the State Primary Health Care Agency; government borrowings through intervention funds such as Saving One Million Lives (SOML), Nigeria State Health Investment Program (NSHIP), Basic Healthcare Provision Funds and others; social health insurance; and debt relief proceeds.

Domestic financing commitments pertain to specific co-financing toward the FP component of the state Annual Operational Plan costs and do not cover recurrent government spending on human resources, health systems, delivery of care and/or general operations. Similarly, funds expended for procurement of contraceptives in part or full through the Federal Ministry of Health or directly through state deductions are exempted from this classification. In addition, other forms of development assistance directly from bilateral agencies, philanthropies and private-sector investors, even when channeled through government budgets or implementing partners, are not considered as co-financing.

The TCI co-financing strategy draws on the learnings of previous health co-financing mechanisms, such as those championed by Gavi,3 The Global Fund4 and World Bank,5 which includes the need for early engagement of partners on co-financing expectations and requirements; securing firm and timely commitments from co-financiers; and alignment of the requirements, terms and conditions in program design and planning cycles. Consistent with the expectation for continuing and open dialogue with co-financiers, as well as open sharing of project information, progress and learning, TCI conducts Grant Management Orientation with partner states at the start of the partnership and annual review of implementation progress and operational plan development.

The TCI co-financing strategy is built on three key premises:

1. **It must ensure, from the outset, financial sustainability and transition to self-reliance.** Through a graduated co-financing mechanism, the strategy brings to bare the absorptive capacity of states and intentionally avoids the risk of financial oversaturation, which may weaken the growing pace of accountability and fiscal responsiveness of partner states.

2. **It must deploy policy and program advocacy to ensure states are on a pathway to ownership and health systems resilience.** Built on the cardinal premise that co-financing does not happen in isolation, TCI works with partner states to design a robust advocacy strategy, which includes setting the appropriate policy framework and engagement plans to foster consistent and sustained financing for health.

3. **It must institutionalize health financing transparency, accountability and good governance.** The core of TCI’s work is to build management and leadership capabilities of states to lead, drive and own their health program while supporting them to transition to self-reliance and autonomy. States can leverage governance and accountability structures including advocacy groups and accountability platforms like the budget tracking team, technical working groups and steering committees.

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Key Elements of the Co-financing Strategy

Taking into account experience, precedent and learning, the TCI co-financing strategy includes the following key elements:

• Aligning co-financing requirements with a capacity strengthening continuum, not just for FP but also for delivering the mandate of Universal Health Coverage and broader health sector priorities.

• Minimizing duplication and leveraging other resources, with the expectation that more transparent engagement of development financing channels contributes to more optimized health outcomes, facilitates equitable distribution of scarce resources and allows for more focused domestic financing.

• Contributing to institutionalizing the mechanism for collaborative health financing governance including monitoring of the co-financing requirements and setting a standard for future co-financing opportunities across the health sector.

• Providing a framework that is adaptable to multiple geographic and operating contexts and fiscal spaces.

This strategy includes the following sections:

• Co-financing Conditions describes the two core conditions for effective implementation of TCI’s co-financing strategy.

• Co-financing Model explains the overall methodology, approach and process to achieving commitment and requirements that track the processes leading to states’ achievement of their commitments.

• Performance Incentive Framework measures, tracks and rewards financial and non-financial (technical and operational) commitments.

• Accountability to Co-financing Requirements outlines the application of and compliance with the matching requirement agreed upon by states within the TCI partnership.

Co-financing Conditions

Financial responsiveness is not sufficient to guarantee successful implementation of health scale-up initiatives. Hence, TCI’s support to government requires an incentivization mechanism driven by evidence of what works (or is working), consideration of the absorptive fiscal capacity and realistic alignment of implementation capabilities with health system accountability and governance. It is expected that by putting a state in charge of managing its relationships and resources, there will be greater likelihood of sustainable improvement of the FP financing architecture, which will be widely beneficial across the entire health system.

TCI recognizes that successful implementation of this strategy is contingent upon collaboration with relevant partners including donors, implementing partners and secondary government entities such as Ministries, Department and Agencies. While TCI attempts to incorporate requirements of co-financing and risk/benefit implications in its annual agreements with states, the conditions have remained nimble and evolutionary throughout the partnership life cycle. These have also been included in investment case, advocacy and technical briefs as it relates to the relevant (in this case, FP) program.

While the co-financing conditions prescribe the policy, programmatic and fiscal requirements from co-financiers during the partnership period, it builds in some measure of flexibility for adaptation and predictability for resourcing, systems growth and implementation progress. These conditions are not standalone but align to the extent possible with the existing sustainability system, process and plans. In addition, all rates have been adjusted to conform to the generally agreed standards and operational realities.
TCI’s co-financing strategy comprises **two core conditions**:

- **Financing**: Government expenditures on health meet or exceed minimum co-financing goals with progressive increases year to year as prescribed in the model. The state government must fund an ever-increasing share of the cost of delivering its FP programs.

- **Adaptive Leadership**: The proportion of high-impact interventions led and funded by domestic resources, as well as the results demonstrated, must progressively and comparatively increase from one allocation period to the next. A state government must lead the technical implementation to deliver results of its FP programs in an ever-increasing proportion.

**Accountability to the prerequisites is managed as follows:**

- Regarding the first prerequisite, Financing, the funding released and spent by the state must be equal to or greater than the ratio that was agreed upon at the beginning of the year; otherwise, the state must pay back the shortfall through increased spending in excess of the minimum requirement set for the subsequent year or face a deficit reimbursement from the TCI Challenge Fund allocation. Prerequisite 1 is tracked through the Implementation Progress Tracker.

- Regarding the second prerequisite, Adaptive Leadership, the results demonstrated along key output and outcome indicators must progressively increase with implementation progress year to year. By this, the state can only compare its progress with itself and continuously recalibrate its baseline with the intention to ensure continuous improvement in terms of program maturity and health systems resilience. Prerequisite 2 is tracked through the Grant Performance Tracker.

TCI considers these two prerequisites as levers for resource leverage and health systems capacity strengthening on the path toward long-term sustainability and effective scale-up of FP programs.

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**The Co-financing Model**

At the outset of engagement with a state, TCI Nigeria commits to provide technical and financial support to states as they lead the design and implementation of its FP program. The TCI co-financing model outlines the conditions for which the TCI Challenge Fund will be made available to states, how spending and commitments are tracked and the level of implementation leadership required from states during the partnership period (see **Figure 3**).

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**Figure 3. The TCI Co-financing Model**
During the period of partnership, there is an initial period of activation and probation, which requires interested states to submit their Expression of Interest, establish an embedded technical hub, develop a program design and inaugural work plan and agree on key milestones for the first six months of probation. This is followed by a maximum of three years of intensive engagement with states, during which TCI renews the partnership agreement with states subject to fulfillment of the relevant milestones. Finally, states transition to self-reliance and become a learning center for other states.

As highlighted in Figure 3, states commit each year to increasing the proportion of what they are obligating and expending, with the ultimate goal of them matching, and eventually exceeding, TCI's investment. TCI does not allocate or prescribe a fixed amount that states must obligate, and the total amount allocated for FP may change from year to year based on priority interventions for that year and amount of resources available. The allocations also vary from state to state. TCI matches the proportion of state allocation, not an absolute figure or amount, using the prescribed ratio.

TCI kicks off funding in its initial partnership with a state using a zero-based budgeting approach such that a state is not assigned a Challenge Fund budget ceiling or required to release a specific amount of government funding to commence implementation. For subsequent years, the amount of money available to that state through the Challenge Fund during the annual funding cycle will be dependent on the reward it unlocked. This is determined by retrospective review of state performance and justification to use Challenge Funds for priority interventions that respond to the geographic, structural and programmatic realities in the state.

In the period of activation and probation, states are not obligated to co-finance interventions. However, during the period of intensive engagement, states commit increasing proportions of the total funds dedicated to FP programming, with a minimum matching benchmark of 25% in the first year, 33.3% in the second year and 50% in the third year. As states transition to self-reliance, TCI's financial support to states is limited on a need-to basis only and so long as requested funding during this graduation period does not exceed 25% of state expenditure.

Depending on state performance, the proportion of TCI Challenge Funds invested will be proportionate to the level of financial expenditure of the state. In keeping with TCI's holistic model of strengthening state ownership, TCI may withdraw funding entirely if the state's financial commitments consistently fall short of the established TCI partnership agreements.

TCI Co-financing Components

State Obligated Funds

During the partnership cycle, it is expected that states will continue to demonstrate their commitment by pledging to bring their own resources (funds or in-kind) to the table. To help states evolve through this process, TCI adopts a graduated approach in which states are progressively primed and supported to increase their proportionate spending over the course of the partnership.

States are not mandated to release any financial resources during the activation year. However, states must demonstrate commitment to allocate and release funds to drive implementation of key interventions as reflected in the jointly developed program design, and, thereafter, in annual FP work plans and budgetary allocations for FP. At the end of the first year of probationary period, TCI and the state conduct a joint retrospective review of counterpart funding (cash and non-cash investments by states and TCI) using available financial data collected during the implementation year. Following the review, the government agrees to increase state funding annually through a predetermined ratio over time, which TCI incentivizes through the Challenge Fund as per Figure 3.

A shortfall in meeting the counterpart benchmark means that the deficit will be deducted from a state's unlocked Challenge Fund reward for the next program year, while exceeding the benchmark means that a state is able to unlock additional Challenge Funds. States that have been able to unlock more funding as a result of exceeding the minimum funding required can consider intensifying program implementation, expanding coverage and maximizing potential gains.

The Challenge Fund

Structured as an Indefinite Delivery and Indefinite Quantity (IDIQ) framework agreement, The Challenge Fund allows for multiple and flexible funding schedules and provides for an indefinite quantity of high-impact interventions implemented based on programmatic priority, potential for demonstrable impact and available funding. This method of incentivizing state financial contribution and program performance allows for states to creatively adapt TCI proven interventions to address their specific demographic reproductive health needs and inject the needed funding to
sustain them.
The amounts that each state will receive from the Challenge Fund, as well as the funds they are expected to contribute in the next year, are calculated based on:

- **Unlocked Reward.** Refers to funds secured as a result of performance in the previous year, tracked through the indicators shown in Table 1 and measured through the Grant Performance Tracker.

- **Supplemental Fund.** Under certain circumstances, supplemental funds may be available to states for the next partnership year to sustain implementation momentum. The amount of supplemental funding is based on the implementation momentum required for sustaining scale-up, readiness of the health system to absorb the resources and potential for matching contributions from the state (see Figure 4).

  **Note:** All funds must be released per the established benchmarks during the year under review.

- **Additional Funds.** TCI may add to the unlocked reward additional funding. This is done with the expectation that states are able to match the total sum in the relevant proportion prescribed for that particular year (see Figure 3). Additional funds may consist of:
  
  - **Bonuses** based on government cash released and spent above and beyond the amount committed at the beginning of the year
  
  - **Rollover Funds** are performance-based accruals not utilized from the previous year that TCI allows states to roll over

  **Note:** The total additional funds may also reflect deficits especially when states fail to match the allocated TCI funds for the previous year or where TCI expenditure exceeds the matching proportion with no rollover funds to close the gap.

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**Figure 4. TCI Challenge Fund Allocation Flow**

**The Performance Incentive Framework**

Every year, TCI and the state conduct a joint review of state’s performance and expenditures to determine to what extent this expectation was met. Results of the review determine the amount of unlocked funds and additional funding available, which form the TCI Challenge Fund ceiling for the following year.

The framework works through two trackers: the Implementation Progress Tracker and the Grant Performance Tracker (see Figure 5).
Implementation Progress Tracker

The **Implementation Progress Tracker** captures expenditures as they are made and tracks and visualizes the sum of these over time. It records month-by-month government expenditures toward implementation of FP activities as outlined in the state integrated FP work plan. The state commitment is tracked against the required matching fund for the year. The TCI Challenge Fund expenditure during the same period is tracked along with co-financing by other implementing partners and funding sources.

The Implementation Progress Tracker is therefore used to determine the total grant to be rolled over into the new year including the balance of the Challenge Fund from the previous year not expended and other funds in excess/deficit of the expected benchmark for that year. In determining the additional funds to be included in or deducted from the subsequent Challenge Fund grant, the following are key assumptions based on four applicable scenarios as it applies to state and TCI funding:

- **Bonuses Scenario:** If the amount released and spent by the state is greater than what was agreed upon at the beginning of the year, the state receives a bonus of the difference, in multiples equivalent to the matching ratio for the following year.

  For example, State X was expected to provide ₦10,000,000 of matching funds but instead exceeded this benchmark by expending ₦15,000,000 (₦5,000,000 more than expected). State X will therefore receive an additional ₦10,000,000 if the matching ratio is 2:1 (as in Year 3) or ₦5,000,000 if the matching ratio is 1:1 (as in Year 4) or ₦1,666,667 if the matching ratio is 1:3 (as in Year 5).

- **Deficit Scenario:** If the amount released and spent by the state is less than the agreed upon amount, the deficit is multiplied by the matching ratio for the following year. The state must then release and spend this new amount in order for them access to the following year’s Challenge Fund, or else this deficit is deducted from the subsequent Challenge Fund grant.

  For example, State Y was expected to provide ₦10,000,000 of matching funds but instead fell short of this benchmark by expending only ₦8,000,000 (₦2,000,000 less than expected). A total of ₦2,000,000 must be deducted from State X’s grant for the following year regardless of the funding ratio for the subsequent year.

- **Loan Scenario:** Under similar circumstances as the deficit scenario, where a state exceeds the allocated Challenge Fund grant perhaps due to justifiable program exigencies and need for initial heavy lifts, TCI will loan the difference (excess spend) to the state to be paid back through deduction from the following year’s grant.

  For example, State Z was allocated ₦10,000,000 in Challenge Fund grants for the year but spent ₦16,000,000 (₦6,000,000 more than what was allowed). State Z will therefore need to spend ₦6,000,000 more of their own funds...
in addition to the matching fund requirement for the following year or else ₦6,000,000 will be deducted from their allocated grant for the following year.

- **Rollover Scenario:** When a state does not use up all of its Challenge Fund grant allocation for the year under circumstances not related to underperformance, force majeure (unavoidable catastrophes) or political/institutional disruptions, the state may roll over remaining funds into the following year, which may be added to the Challenge Fund grant allocation for that year or used as a no-cost extension of technical support. However, it is worthy of note that this condition only applies when the state has met or exceeded its minimum matching fund benchmark for that year. Otherwise, the excess fund is used to cover the state deficit.

For example, State X was allocated ₦10,000,000 in Challenge Fund grants for the year but spent only ₦8,000,000 (₦2,000,000 less that what was allocated). State X will be eligible to roll over the ₦2,000,000 into the following year, which may be added to the allocated Challenge Fund grant or used to cover other FP interventions if no additional funds are required for the initial interventions.

### Grant Performance Tracker

The **Grant Performance Tracker** assesses and verifies the activities implemented by a state in a given year to determine the amount of Challenge Funds that the state will receive the following year. To ensure a long-term partnership, three key considerations determine the total amount of “unlocked” Challenge Funds: (1) progress of implementation and scale-up of interventions, (2) key program outputs, and (3) sustained financial commitment from state government.

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Every year, TCI conducts a joint review of the state’s performance and expenditure to determine to what extent this expectation was met. Through a set of performance metrics, TCI periodically tracks and measures progress and uses the outcome to determine performance accruals for the next partnership year. These metrics are classified as:

- **Determinant-Driven Indicators (DDIs),** which are used to understand the state implementation profile, funding gaps and fiscal space. They are also used to determine the annual ceiling allocation based on the understanding of absorptive capacity and implementation momentum per time. Indicators 1.1, 1.2 and 3.2 fall within this category.

- **Disbursement-Linked Indicators (DLIs),** which determine the unlocked reward based on performance. Indicators 2.1, 2.2, 3.1 and 3.3 fall within this category.

The limitation of this tracker, however, is that:

- Government approved expenditure and releases may not accurately translate to what may have been spent for execution. However, TCI explores multiple means of verification including the fund release vouchers, activity execution reports, analysis of implementation cost versus budget and other necessary and allowable records from finance.
- Implementing partners are not yet fully on-board with being completely transparent in terms of plans, budget and actual expenditure. While there seems to be more openness in collaborating with TCI due to the state-led approach and government-owned implementation model driven by efficiency, information regarding standalone activities are grossly lacking.

- Using the figure on TCI Challenge Fund expenditure as the size of the TCI financial support to states may be misleading and not a fair representation of TCI’s investment. The tracker only captures field activity costs executed through the Challenge Fund (also referred to as program delivery funds) and does not provide a complete picture of what is required to execute TCI coaching support and other operational overhead.

**Figure 6** summarizes the alignment between co-financing determinants for these two prerequisites.

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**Accountability to Co-financing Requirements**

In implementing the TCI co-financing model, it is expected that state-specific context is considered on the pathway to sustainability and self-reliance. Recognizing the varying capacities and level of systems readiness across states, the hub will consider any exceptions, modification or flexibilities to the co-financing model on an individual case-by-case basis, taking into account country context and fiscal space considerations, as well as other relevant factors.

The TCI hub through its embedded state hubs must verify and “approve” the means of verification of co-financing commitments by each state as evidenced through allocations, releases and expenditure to specific budget lines or through other agreed funding mechanisms.

What happens if a state fails to meet its co-financing requirements? Unless the requirements are waived by the hub, failure to meet the requirements may result in the reduction of a state’s current or future allocation. If the reduction is applied to current grants, TCI may withhold or deduct a share of future Challenge Fund disbursements proportional to the amount of co-financing requirement that the state has not met, or it may reduce the size of the annual disbursement amounts when they are determined.

How does TCI confirm that a state has the capabilities to meet its co-financing requirements? TCI deploys a rigorous selection and review process based on criteria outlined through the Demand-driven City Engagement model. While there are no guarantees that events may not change and negatively impact commitment and partnership, the TCI systems-driven approach that combines advocacy with key interventions driven through theory and evidence provides a coherent framework for building capabilities and ensuring health systems excellence. TCI continues to work with partner states to develop, operationalize and review its strategic and operational plans, costed implementation plan and budget, and track commitments through the program management team, advocacy groups, budget tracking team and other independent monitoring mechanisms.
TCI Nigeria’s co-financing strategy attempts to simplify the mechanism for harnessing partnership opportunities between TCI and government. With its focus on progressive increases in domestic financing, TCI in Nigeria has learned that the following considerations are key in implementing and replicating it elsewhere:

- Minimum threshold requirements in the first year are not demanded because, given the novelty of the TCI Business Unusual model, it is somewhat difficult to determine realistic differentiation between fiscal capacity and systems readiness.

- There are constraints to defining and measuring the minimum threshold of funding outside of the approved budget lines (being the generally acceptable verifiable proof of fund allocation and releases). Because TCI expects partner states to explore all available domestic resources, pegging a ceiling to either the dedicated budget line or its external domestic resources secured outside of the budget line may be problematic.

- The current measurement factors in additional external financing (such as bilateral donor support to states in the form of direct grants and loans) as they are actually counted as state counterpart funds. This means that the domestic contribution may appear higher than what it is in reality and the proportion of domestic funding may artificially seem to increase as TCI Challenge Funds decrease. To address this, TCI tracks cash releases through funding pipelines at different levels – budget line releases and other government allocations such as internally generated revenue and subventions; proportion of development grant and loans (such as SOML, NSHIP) allocated to FP; and other intervention funds (such as Basic Healthcare Provision Funds) channeled directly through state government.

- TCI qualifies what can be defined as state cash and in-kind resources – these exclude human resource cost of government, routine operations and maintenance cost, local travel and logistics. However, where government facilities such as training centers and consultant time are used to support implementation, they qualify as in-kind contributions.

The strategy has been structured to allow for easy adaptation and replicability beyond FP and aims to be the mainstay for programs embracing the TCI Business Unusual model to stimulate local ownership. The strategy, if used properly, can be a viable tool to build strong relationships among state actors (donors, implementers and government) and improve accountability in FP financing. TCI hopes this strategy stimulates new thinking and enriches the body of knowledge on FP financing.
The Challenge Initiative partners with the Federal Ministry of Health to implement its National FP agenda in contribution to the global FP2020 goal and Sustainable Development agenda. TCI Nigeria works with its partner states through the State Ministry of Health and State Primary Health Development Agencies/Boards.

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