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# Update on STC Policy Implementation

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## 42<sup>nd</sup> Board Meeting

GF/B42/12

14-15 November 2019, Geneva, Switzerland

### **Board Information**

*Purpose of the paper:* This paper provides the Global Fund Board with a summary update on the ongoing implementation of the Sustainability, Transition, and Co-Financing Policy (STC Policy). It is based on the detailed update provided to the Strategy Committee during the STC Deep Dive<sup>1</sup>, and draws upon lessons learned and recommendations for continued policy implementation from the TERG, OIG, TRP, and Secretariat.

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<sup>1</sup> GF/SC10/03 -- "Deep Dive on Sustainability, Transition and Co-financing (STC) Policy"

## Background and Context

1. The STC Policy was approved in April 2016<sup>2</sup> and implemented for the first time during the 2017-2019 allocation cycle. Approval of the STC Policy reflected key contextual considerations affecting the Global Fund's work, including: a) the overall move from the MDG to SDG era; b) the increasing disease burden in middle income countries and need to focus on the central role of domestic resources in the financing of health systems and national disease responses, and the need to increasingly use external resources to catalyze domestic investment; d) the Global Fund's decision to increasingly focus available resources on countries with greatest need and least ability to pay; e) a recognition of challenges with previous transitions; and f) a recognition that strengthening sustainability and supporting successful transitions requires resources, preparation, and programmatic / financial adaptations as countries move along the development continuum.
2. Although sustainability has always been an element of the Global Fund's work, the STC Policy codified the overall approach to strengthening sustainability, increasing domestic financing and co-financing, and supporting countries to better prepare for transition -- with the ultimate goal of better investing external and catalysing domestic resources to strengthen health systems and support countries to address critical sustainability and transition challenges, in order to maintain and scale service coverage and accelerate the end of the three diseases.
3. The Global Fund's STC work exists within the broader context of the ongoing health financing transition, transitions of other multi-lateral institutions<sup>3</sup>, and ongoing transitions (or modifications in funding priorities) of bilateral health funders. Due primarily to the Eligibility Policy<sup>4</sup> and global disease burdens of HIV, TB, and Malaria, the Global Fund has a larger funding footprint and a relatively slower rate of expected transitions than other major health financiers. Ongoing allocation reductions in certain portfolios will require advanced planning and gradual transfer of specific interventions well before full "exit" from Global Fund financing, but only a small percentage of the overall portfolio and global disease burden is expected to transition away fully from Global Fund financing by 2028.<sup>5</sup> This said, modifications in investments of other partners will affect ongoing availability of external financing for health and the three diseases, increasing the need to strengthen sustainability regardless of proximity to transition.
4. In this context, approval and ongoing implementation of the STC Policy represents a clear and comprehensive commitment to working with all stakeholders to strengthen sustainability of health systems, and support gradual, eventual transitions to full domestic financing and management of national responses. Given the critical role the STC Policy plays in achieving the objectives of the 2017-2022 Strategy, implementation will continue to be a priority in the 2020-2022 allocation period.

## Where are we now? Progress to date

### *Initial Priorities and Progress to Date:*

1. Following approval in 2016, the STC Policy was quickly operationalized so that key pieces (including transition funding and co-financing) could be included in funding requests and grants approved during the 2017-2019 allocation cycle. As outlined to the Board in 2017 ([GF/B37/17](#)), early policy implementation focused on a number of initial priorities, including: a) Embedding STC principles into the Global Fund funding cycle and work of CTs, PRs, CCMs; b) Strengthened transition planning in priority portfolios; c) Strengthened capacity of key STC stakeholders; d) Further strengthening STC-related partnerships; e) Accelerating exploration of innovative finance; f) Accelerating efforts to ensure access to quality, affordable commodities / health products; g)

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<sup>2</sup> GF/B35/DP08

<sup>3</sup> Including GAVI, the Global Polio Eradication Initiative (GPEI), and the shift from IDA to IBRD financing for World Bank supported countries

<sup>4</sup> GF/B39/DP03

<sup>5</sup> "Projected Transitions from Global Fund Support" -- <https://www.theglobalfund.org/en/funding-model/before-applying/eligibility/>

Harnessing catalytic funding to support STC goals; h) Continued internal prioritization of STC policy implementation and updating of guidance.

2. As highlighted in both the 2018 *OIG Transition Management Audit* and the 2019 *TERG STC Policy Review*<sup>6</sup>, significant initial progress has been made in many of these areas, providing a strong foundation for ongoing policy implementation, including (but not limited to):
  - Embedding STC into access to funding and other processes, including TRP and GAC reviews, the Tailored Transition Funding Request, STC-related Secretariat guidance, enhanced transparency of transition timelines<sup>7</sup>, CCM evolution, and portfolio optimization, resulting in a much more systematic inclusion into the “day to day business” of the Global Fund.<sup>8</sup>
  - Enhanced country support to analyze transition and sustainability challenges and strengthen planning, including implementation of Transition Readiness Assessments, relevant follow up to address challenges identified, and other equivalent country specific and regional planning, particularly in regions most affected by shorter-term transition.
  - Enhanced focus on tracking compliance and co-financing risks, setting co-financing incentives, and negotiating strong co-financing commitments. Continued prioritization of the co-financing policy has resulted in high levels of compliance with Global Fund requirements, as well as strong, positive trends in both domestic spending and future commitments.<sup>9</sup>
  - Operationalization of the approach to innovative finance (IF), including AFC endorsement of approaches to guide IF work,<sup>10</sup> and approval of initial blended finance transactions.
  - Strengthening strategic partnerships and leveraging partner expertise and resources to address specific transition and sustainability challenges.
  - Expansion of Wambo.org to support greater access to more affordable and quality assured health products via the domestic financing pilot.
  - Implementation of multi-country and Strategic Initiative funding to address specific challenges, including multi-country grants to address regional sustainability challenges, support for transition planning, public financing of civil society service provision (ie, “social contracting”), health expenditure tracking, health financing strategies, implementation of efficiency assessments, and country / regional specific advocacy activities.
  - Strengthening internal Secretariat organization and capacity of key stakeholders to address programmatic and financial sustainability challenges.

#### *Ongoing and Evolving Challenges:*

3. Despite significant initial progress, many challenges remain. Given the nature of the STC Policy objectives and inherent challenges of moving from externally to domestically financed and managed national responses, challenges are likely to continue, particularly as efforts evolve to more strategically and systematically focus on a larger portion of the Global Fund portfolio.
4. Specific ongoing challenges (including those highlighted in the *TERG STC Policy Review* and in the TRP lessons learned from 2017-2019) include (but are not limited to):
  - Continued gaps in domestic financing, including a need to encourage domestic uptake of all core interventions and increased domestic financing for services for KVPs, and to broaden Domestic Resource Mobilization (DRM) efforts at the country level.
  - Need to further and more strategically address health systems weaknesses that impact the sustainability of disease outcomes, including in the areas of (i) procurement and supply chain, (ii) public financial management; and (iii) integration of programs, systems and services.
  - Ongoing gaps and need to increase efforts to support robust sustainability assessments, planning, and other activities in higher burden and impact portfolios, including with partners.
  - Need for increased attention to efficiency and value for money, including in the development and review of funding requests.
  - Ongoing challenges to strengthen domestic procurement of quality, affordable commodities, particularly in countries making significant commitments to financing health products.

<sup>6</sup> *OIG Transition Management Audit* and *TERG Thematic Review of STC Policy Implementation*

<sup>7</sup> *Projected Transitions from Global Fund Support* -- <https://www.theglobalfund.org/en/funding-model/before-applying/eligibility/>

<sup>8</sup> According to the *TERG STC Policy Review*: “the implementation of the STC Policy is already well integrated into the day to day work of the Global Fund, country-level grant managers and global partners” [Page 7]

<sup>9</sup> Please see SC Deep Dive (GF/SC10/03) for details on co-financing compliance and domestic financing trends

<sup>10</sup> GF/AFC/08/04 “Structured approach for Innovative Finance”; GF/AFC05/06 “Framework for Joint Investments in Blended Finance Mechanisms”

### *Joint Recommendations to Guide Continued Policy Implementation:*

5. Based on lessons learned from the 2017-2019 cycle and independent reviews, as part of the STC Deep Dive<sup>11</sup> the Secretariat, TERG, TRP, and OIG agreed on a series of joint recommendations to guide continued STC Policy implementation. The recommendations drew heavily upon and respond to many of the core conclusions of the TERG's *STC Policy Review* and highlight key thematic areas deemed necessary to build upon existing progress, address ongoing challenges, and continue furthering the goals of the STC Policy. The recommendations are the core of the Secretariat's management response to the TERG review, as agreed with the TERG, TRP and OIG, and include:
- *Overall* -- Continue efforts to strengthen transition preparedness and support countries to prepare for transition from Global Fund financing, *while enhancing focus on longer term sustainability challenges in portfolios with larger Global Fund allocations & disease burdens.*
  - *Co-Financing* -- As a key piece of DRM efforts, maintain an ambitious approach to co-financing, with efforts to leverage the co-financing policy to support specific portfolio strategic objectives in the 2020-2022 allocation cycle. Includes an enhanced focus on fostering overall increases in health spending and specific increases in domestic resources for interventions heavily financed by the Global Fund or external financing, including services for KVPs.
  - *Transition / Sustainability Planning* -- Based on findings that transition planning has helped strengthen country ownership and began to address transition and sustainability challenges, gradually enhance and support earlier sustainability and transition planning across the Global Fund portfolio, including collaborating with partners where relevant and possible.
  - *Grant Design* -- Learn from best practices and continue to leverage grant design to increase alignment of Global Fund investments with national systems, strengthen strategic investments in RSSH, address country-specific sustainability & transition challenges, institutionalize domestic financing of services for KVPs and enhance integration (in line with RSSH Road Map).
  - *Value for Money (VfM) and Efficiency* -- Continue and intensify efforts related to VfM and efficiency across the portfolio, including an enhanced focus in the 2020-2022 funding request development and grant-making process.
  - *Domestic Financing for KVP Services* -- Continue and intensify efforts to promote domestic or alternate financing of services provided by CSOs, including via co-financing, grant design, engagement of partners, and explicit recognition of barriers / challenges in funding requests.
  - *Access to Health Products* -- Continue efforts to support access to health products, including through pooled procurement mechanisms (including Wambo<sup>12</sup>), strengthened early planning, and leveraging available tools, guidance, and partnerships to address country specific procurement and health product challenges, including in transition contexts.
  - *Learning and Monitoring of STC Progress* -- Learn from STC efforts already under way and review strategies for enhancing monitoring of STC policy implementation.

In addition, it will also be essential to continue to work with partners to address sustainability challenges, including in the context of the SDG3 Global Action Plan and Health Financing Accelerator.

### *Preparations for the 2020-2022 Allocation Cycle:*

6. Efforts are already underway to leverage these joint recommendations as the Secretariat and partners prepare for the next allocation cycle. In particular, efforts include (but are not limited to):
- Increasing the intentionality of co-financing, including enhancing engagement of CCMs in monitoring co-financing commitments, setting ambitious co-financing incentives where relevant, and articulating priority areas for co-financing in allocation letters to strengthen focus during country dialogue.
  - Revision of Funding Requests templates and Secretariat guidance to strengthen focus on VfM, integration, and sustainability challenges in each application.
  - Request to the Global Fund Board at its November 2019 meeting to approve lifting restrictions of the Wambo.org pilot, to allow countries and other implementers the ability to access the pricing and performance of the Global Fund's pooled procurement agreements with domestic and non-grant funding. This is also a key recommendation of the TERG MSS Mid-Term

<sup>11</sup> GF/SC10/03 -- "Deep Dive on Sustainability, Transition and Co-financing (STC) Policy"

<sup>12</sup> Including via the evolution of the non-grant funding pilot as described in GF/B42/04.

Review<sup>13</sup>, as a way to ensure long-term sustainability of market-shaping successes and reduce likelihood of backsliding on progress.

## Key summary messages and priorities:

1. Despite early stages of STC Policy implementation, progress has been made, with a particular focus on efforts in the transition preparedness part of the portfolio and via co-financing, as highlighted by the TERG and OIG.
2. As per main findings from the TERG, TRP, OIG and Secretariat, there are opportunities to strategically evolve the STC agenda to continue efforts to address transition challenges while *enhancing focus on longer term sustainability challenges across the portfolio, including in higher burden, middle income portfolios*.
3. Based on lessons learned from 2017-2019 and independent reviews, there are opportunities to strengthen efforts in specific thematic areas to respond to ongoing challenges that require further attention to achieve STC Policy objectives (as detailed in the Strategy Committee STC Deep Dive).
4. In collaboration with partners, countries, communities, civil society, and all relevant stakeholders, the Secretariat is committed to continue proactive STC Policy implementation and actively use joint recommendations and key lessons learned to further enhance STC efforts.
5. Many sustainability and transition challenges depend fundamentally on political will and policy decisions at the national level. The Global Fund's ability to influence these challenges will remain inherently limited. The STC Policy provides a strong foundation to engage strategically and support countries to address transition challenges, encourage increased domestic financing and efficiency, and strengthen long term sustainability of health systems and national disease responses. But given the inherent limitations, we expect continued challenges as policy implementation evolves.

## What are the next steps for Committees and Board?

1. Ongoing implementation of the STC policy will continue to be overseen as part of the Strategy Committee's oversight, with recognition of the cross-cutting nature of the policy and its impact on other areas of the Global Fund's work.
2. Board to provide input on how the Global Fund partnership can support ongoing implementation of the STC Policy as a critical piece of the 2017-2022 Strategy.

## Discussion questions

1. Are the Board and Secretariat appropriately balancing attention and efforts between transition and sustainability, given the TERG *STC Policy Review* and the joint TERG, Secretariat, OIG and TRP recommendation about enhancing focus on longer term sustainability across the portfolio, including in higher burden, middle income portfolios? How might the Global Fund ensure enhanced focus on longer-term sustainability?
2. Recognizing that the OIG and TERG reviews indicate significant progress in early STC Policy implementation, and the expectation of continued challenges due to factors partially to fully out of the Global Fund's control (economic crises, lack of political will, discriminatory practices, national legislation, etc.), what support can the Global Fund partnership (including Board constituencies, technical partners, etc.) provide to further improve the sustainability of Global Fund investments as policy implementation continues?
3. To what extent can the SDG3 Global Action plan support efforts to strengthen sustainability across the Global Fund portfolio?

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<sup>13</sup> GF/SC11/05

## ***Annex: Further information***

- STC Deep Dive Strategy Committee, 2019 -- GF/SC10/03
- STC Deep Dive Strategy Committee, 2017 -- GF/SC03/04
- The Global Fund Sustainability, Transition, and Co-Financing Policy -- GF/B35/04
- TERG Thematic Review of STC Policy Implementation, 2019 -- GF/SC10/04
  - Paper
  - Annex
- OIG Audit of Global Fund Transition Management Processes
- TERG Market Shaping Strategy Mid-Term Review -- GF/SC11/05
  - Paper
  - Annex
- Deep Dive on Market Shaping Strategy -- GF/SC11/06