



35th Board Meeting

The Challenging Operating Environments Policy

GF/B35/03
Board Decision

PURPOSE: This paper presents the Challenging Operating Environments Policy that the Strategy, Investment and Impact Committee recommends for Board approval.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

I. Decision Point

1. Based on the rationale described below, the following decision point is recommended to the Board:

Decision Point: GF/B35/DP09: Challenging Operating Environments Policy

1. ***Based on the recommendation of the Strategy, Investment and Impact Committee, the Board approves the Challenging Operating Environments Policy, as set forth in Annex 1 to GF/B35/03.***

II. Relevant Past Decisions

2. Pursuant to the Governance Plan for Impact as approved at the Thirty-Second Board Meeting,¹ the following summary of relevant past decision points is submitted to contextualize the decision point proposed in Section I above.

Relevant past Decision Point	Summary and Impact
GF/B34/DP04: Strategic Framework 2017 - 2022 (November 2015)	The Board approved the Strategic Framework 2017 – 2022 with a sub-objective to “improve effectiveness in Challenging Operating Environments through innovation, increased flexibility and partnership.” The policy presented in this paper for Board approval outlines the principles that will guide the approach and engagement in Challenging Operating Environments.

III. Action Required

3. This paper requests the Board to approve the Challenging Operating Environments Policy set forth in Annex 1 to this paper, based on the recommendation of the Strategy, Investment and Impact Committee (SIIC). Upon approval by the Board, the Secretariat shall implement the Challenging Operating Environments Policy.

IV. Executive Summary

4. The Challenging Operating Environments (COEs) Policy aims to systematize the Global Fund’s approach in COEs and to provide overall guidance on future Global Fund engagement in these contexts. It codifies the Global Fund commitment to “improve effectiveness in COEs through innovation, increased flexibility and partnership”, as stated in the Strategic Framework of the 2017-2022 Global Fund Strategy. The Policy is guided by analytical work conducted between 2014 and 2016 and by several consultations with external partners conducted in 2015 and 2016. The Policy also draws heavily on the experience and expertise of Global Fund country teams.

5. COEs are countries or regions characterized by weak governance, poor access to health services, and man-made or natural crises. The Policy classifies COEs based on countries with the highest External Risk Index (ERI) level in the Global Fund portfolio and allows for ad hoc classification to enable rapid responses to emergency situations. Classification as a COE is the first step towards potentially accessing the approaches and flexibilities described in the Policy, but does not automatically guarantee the application of such approaches and flexibilities.

¹ GF/B32/DP05: Approval of the Governance Plan for Impact as set forth in document GF/B32/08 Revision 2.

6. COEs are particularly critical to the Global Fund mission and objectives: they account for a third of global disease burden for HIV, TB and malaria, and for a third of Global Fund investments. Programmatic challenges in COEs require a differentiated approach to increase health impact, blending development and humanitarian approaches.

7. Global Fund investments in COEs aim to increase coverage of HIV, TB and malaria preventive and therapeutic services, to reach key and vulnerable populations, and to save lives. Investments in COEs also aim to build resilience through stronger community and health systems; and to address gender-related and human rights barriers to services. During emergencies, the scope of Global Fund investments may be more limited, aiming to provide continuity of treatment and essential services for people affected by the three diseases, as well as to prevent and contain outbreaks.

8. Global Fund financing in COEs is generally provided through country allocations. Country allocations may be reprogrammed to respond to crises, including at the sub-national and regional level. During emergencies, Global Fund country allocations may be complemented by financing via the Emergency Fund. Furthermore, in emergencies with significant cross border displacement, the allocation of a host country may be used to support services for incoming populations. Similarly, the allocation from a country of origin may be used in certain circumstances to provide services in a host country, including potentially if said country lacks the capacity to deliver services but is ineligible for Global Fund financing.

9. The Policy illustrates three principles governing Global Fund investments in COEs: flexibility, partnerships and innovation. Flexibilities should enhance responsiveness and timeliness of Global Fund investments, reduce administrative burden for partners, and facilitate more effective service delivery to populations in need. The Secretariat will apply the flexibilities described in the Policy on a country by country basis—where classification as a COE is not a guarantee of available flexibilities—while maintaining its emphasis on measuring impact and ensuring accountability. The Policy recognizes the centrality of partnerships in COEs and the need to optimize the types of partners to strengthen in-country governance, enhance service delivery, and improve technical assistance. Innovations are also crucial to maximize results in COEs.

10. The Secretariat will develop an operational framework to implement the COEs Policy, applying flexibilities on a case-by-case basis. The Board and its Strategy Committee will oversee the implementation of the Policy through regular updates by the Secretariat on the performance of the COEs portfolio. The Strategy Committee will propose any necessary modifications of the Policy to the Board. A COEs Support Team will be established to provide guidance to country teams operating in COEs, ensuring a Global Fund coordinated approach.

V. Background

11. The Global Fund has adopted the terminology Challenging Operating Environments (COEs) to refer to countries as a whole², but also to unstable parts of countries or regions, characterized by weak governance, poor access to health services, and man-made or natural crises. COEs form a heterogeneous group with marked differences based on the type, length and magnitude of crisis experienced, the relative strength of the health system, the degree of loss of structures protecting human rights, and the burden of disease. COEs present complex and challenging settings to programming and measuring for impact due to shifting needs, limited capacity, and accessibility constraints. Operational challenges and risks in COEs are therefore significantly higher than in non-COEs and require differentiated approaches to increase health impact.

12. COEs tend to be confined to low income countries, yet middle income countries can also experience sustained crises. Disease outbreaks, natural disasters and armed conflicts cross borders and cause fragility at national, subnational and regional levels, thus requiring interventions both within and across national borders.

² As of January 2016, the following countries are classified as COEs: Afghanistan, Burundi, Central African Republic, Chad, Congo (Democratic Republic), Eritrea, Guinea-Bissau, Haiti, Kenya, Iraq, Mali, Niger, Nigeria, Pakistan, Palestine, Somalia, South Sudan, Sudan, Syrian Arab Republic, and Yemen.

Crises in COEs may involve large numbers of refugees and displaced persons and can become protracted. The nature of these crises often calls for long term interventions that blend traditional humanitarian and development approaches.

13. COEs lagged behind in the achievement of most Millennium Development Goals (MDGs), although per capita official development assistance in COEs almost doubled since 2000. Current trends point to a growing concentration in COEs of absolute poverty, burden of disease, inequality, and threats to human rights and the rule of law, thus putting COEs among the priorities of the post-MDGs era. COEs are likely to face the hardest challenges to achieve the Sustainable Development Goals, as they lack the robust institutions, the social cohesion and the financial means needed to overcome the systemic exclusion and inequality that keep them unstable and underdeveloped.

14. COEs are particularly critical to the Global Fund mission and objectives. They account for a third of global disease burden for HIV, TB and malaria, and for a third of Global Fund investments. For malaria, half of the global burden as well as half of Global Fund investments are in COEs.

15. The Global Fund performance in COEs has traditionally been weaker than in other countries, thus affecting the overall performance of the Global Fund portfolio. The 2014 “Technical Evaluation Reference Group (TERG) Position Paper: Thematic Review of the Global Fund in Fragile States” reported, among others, the following constraints associated with the Global Fund operating model in COEs: limited flexibilities to rapidly adapt existing grants to evolving circumstances, heavy requirements for Country Coordinating Mechanisms (CCMs), and limited contextual analysis and ability to monitor results in areas affected by conflict.

16. In response to the 2014 TERG Position Paper, the Global Fund sharply increased its focus on COEs and embarked on a process to redefine its approach, both operationally and at the strategic level.

17. At the operational level, throughout 2015 the Global Fund introduced more flexibility in its procedures (e.g. simplified requirements for accessing new funding in selected COEs); it deepened and expanded partnerships with implementers active in COEs (e.g. joining the Global Health Cluster); and it experimented with innovative approaches (e.g. launching the Middle East Regional Initiative). In addition, between 2014 and 2015, the Global Fund approved several grants under the Emergency Fund³ to support continuity of treatment and essential services in Sierra Leone and Liberia during the Ebola outbreak, in Nepal following the April 2015 earthquake, in Lebanon and Jordan in response to the Syrian refugee crisis, and in the conflict zones of eastern Ukraine.

18. At the strategic level, the Board identified COEs as a priority at its November 2014 retreat that initiated the development process for the 2017-2022 Strategy. Consultations with various constituencies at the three Partnership Forums held in 2015 confirmed the importance of COEs to maximize future Global Fund investments against HIV, TB and malaria. In November 2015, the Board approved the Strategic Framework of the 2017-2022 Global Fund Strategy which includes a specific sub-objective on COEs. The Strategic Framework commits the Global Fund to “improve effectiveness in COEs through innovation, increased flexibility and partnership”.

19. The COEs Policy presented herewith aims to systematize the Global Fund approach in COEs and to provide overall guidance on future Global Fund engagement in these contexts. The Policy draws on: (i) the TERG Position Paper on fragile states presented to the SIIC in June 2014; (ii) the report of the Development Continuum Working Group “Evolving the Global Fund for Greater Impact in a Changing Global Landscape” presented to the Board in March 2015; (iii) the COEs Paper presented to the SIIC in June 2015; (iv) the recommendations provided to the Secretariat in the September 2015 external consultation on COEs; and (v) the preliminary findings of the TERG Review of the Emergency Fund Special Initiative conducted in January 2016. The Policy also draws heavily on the experience and expertise of Global Fund country teams and partners consulted throughout the policy development process.

³ As approved by the Board under decision point GF/B31/DP06 and set forth in GF/B31/08A –Revision 1.

20. To implement the Policy, the Secretariat will empower Country Teams to ensure an agile and timely management of their portfolio, under the overall guidance of regional managers and department heads. The composition of the Secretariat's Country Teams operating in COEs will be strengthened to ensure teams possess adequate experience and expertise in COEs and to better tailor the Secretariat's skills to country needs. A COE Support Team will be established to provide guidance to Country Teams operating in COEs, ensuring the Global Fund coordinated approach across COEs. It will also document best practices and share learning experiences, monitor and report key risks, build partnerships at global level and facilitate partnerships at country level.

VI. Recommendation

21. Based on the rationale described above, the SIIC recommends that the Board approve the Challenging Operating Environments Policy set forth in Annex 1.

Annex 1 – The Challenging Operating Environments Policy

PREAMBLE

1. This Challenging Operating Environments (COEs) Policy (the “Policy”) sets out the Global Fund’s differentiated approach to ensure maximum impact and greater accountability for Global Fund investments in COEs. It establishes criteria to define COEs, states Global Fund objectives in COEs, and identifies different sources of Global Fund financing. The Policy also defines the principles that guide Global Fund investments in COEs and clarifies oversight mechanisms.

PART 1: CLASSIFICATION

2. The Global Fund will base its classification of COEs on the countries with the highest External Risk Index (ERI) level in the Global Fund portfolio. The ERI is a composite index, developed by the Secretariat, which captures the complex and multidimensional reality of these countries. It is derived by compiling data from 10 authoritative published indices highlighting economic, governance, operational and political risks in a country⁴. The ERI is updated on an annual basis and published on the Global Fund website.

3. Additionally, countries experiencing emergencies⁵, and areas affected by subnational or cross border crises affecting people at risk of or living with HIV, TB and malaria may be classified as COEs on an ad-hoc basis.

4. Classification as a COE is the first step towards potentially accessing the approaches and flexibilities described in the Policy, but does not automatically guarantee the application of such approaches and flexibilities.

PART 2: OBJECTIVES

5. COEs are typically characterized by protracted crises that heighten the risk of death, disease and breakdown of livelihoods. In such contexts, Global Fund investments aim to increase coverage of HIV, TB and malaria preventive and therapeutic services, to reach key and vulnerable populations, and to save lives. As with the rest of the Global Fund portfolio, investments will cater to each country’s unique stage along the development continuum, and based on country context, will aim to build resilience through stronger community and health systems; and to address gender-related and human rights barriers to services. Particular attention will be given to contingency planning.

6. Global Fund investments during emergencies are typically more limited in scope. They aim to provide continuity of treatment and essential services for people affected by HIV, TB and malaria, to prevent and contain outbreaks of the three diseases, removing human rights-related barriers to services where needed, and to save lives.

PART 3: SOURCES OF FINANCING

7. Global Fund financing in COEs is generally provided through country allocations. Country allocations may be reprogrammed to respond to crises, including at the sub-national and regional level.

⁴ The 10 indices used to construct the ERI are: The Fragile States Index (Fund for Peace); INFORM Index (Inter-Agency Standing Committee Task Team for Preparedness and Resilience); Global Peace Index (Institute for Economics and Peace); UN’s Safety & Security Index; Ease of Doing Business Index (World Bank); and five of the six World Bank Governance Indices (Voice and Accountability Index, Government Effectiveness Index, Regulatory Quality Index, Rule of Law Index; and Control of Corruption Index).

⁵ An emergency situation in a country is defined as one in which an event or a series of events has resulted in a critical threat to the health, safety, security or well-being of a large group of people. It can be the result of an armed conflict and coup d’état, natural disasters, epidemics or famine, and often involves population displacement.

8. During emergencies, Global Fund country allocations may be complemented by financing via the Emergency Fund⁶. The Emergency Fund provides funding beyond country allocations to support activities that cannot be funded through the reprogramming of existing grants during emergency situations.
9. In situations of significant cross-border displacement, the funding allocation of a host country may be used to support services for populations entering the country in addition to support services for the host population.
10. The funding allocation from the country of origin may also be used for services in the host country, including where the host country is not eligible for Global Fund financing, provided that:
 - a) The ineligible country lacks the capacity to deliver the necessary services through their national health systems, as assessed by the Secretariat on a case by case basis; and
 - b) Provision of services for populations still in the country of origin is continued, wherever possible.

PART 4: PRINCIPLES GOVERNING GLOBAL FUND INVESTMENTS IN COEs

4a FLEXIBILITY

11. The Policy recognizes the need to adopt tailored approaches to each COE, exercising different types of flexibilities depending on each country's situation. Flexibilities should enhance responsiveness and timeliness of Global Fund investments, reduce administrative burden for partners, and facilitate more effective service delivery to populations in need. The Secretariat will apply the flexibilities described in the Policy on a country by country basis while maintaining its emphasis on measuring impact and ensuring accountability.
12. Although the Global Fund is willing to accept higher levels of risk in grants implemented in inherently riskier environments⁷, risk management and mitigation measures will be applied in grant design, in the selection of principal recipients (PRs) and in program evaluation. In addition, the classification of a country as COE does not automatically guarantee the adoption of any flexibilities by the Secretariat; rather it offers a variety of reasonable adaptations as appropriate for each setting.
13. Critical areas for enhanced flexibility include, but are not limited to, the following:
 - a) **Access to funding:** Flexibilities that could be adopted to access the country allocation include: extending the length of existing grants (e.g. in case of continuity of services), accepting applications under a Non-CCM approach (from other existing coordinating entities or a single institution applicant), providing the Technical Review Panel (TRP) and Secretariat discretion to adopt modalities and mechanisms to review applications, and waiving certain requirements during the application process (e.g. government commitment to counterpart financing, CCM eligibility requirements, or existence of national strategic plans). Country components with existing grants that would otherwise be ineligible to receive an allocation and apply for funding under the Eligibility Policy⁸ due to either disease burden or income level, will be eligible to continue to receive an allocation as long as their country remains classified as a COE. Eligibility thresholds for regional and multi-country applications, as set forth in the Eligibility Policy, may also be relaxed to ensure financing of critical activities in COEs.
 - c) **Implementing entities:** As with non-COE countries, PR selection will be based, whenever possible, on CCM nomination and capacity assessments to deliver services, collect, monitor and report results, manage risks and ensure strong financial oversight. In line with the Additional Safeguard Policy⁹, the

⁶ Authorized under Board decision point GF/B31/DP06 for a total amount of USD 30 million over the 2014 – 2016 allocation period.

⁷ As per the Global Fund Risk Management Policy approved under Board Decision Point GF/B32/DP11

⁸ Approved under Board Decision Point GF/B23/DP23 and set forth in GF/B23/14.

⁹ Approved under Board Decision Point GF/B07/DP14 and set forth in Annex 4 to GF/B7/07.

Secretariat may assume the responsibility for selecting the PR whenever Global Fund resources may be placed in jeopardy without the use of such additional measure. PRs could include multilaterals, bilaterals, NGOs, or other suitable entities. At the same time, capacity building measures to prepare or revive national institutions' to act as PR and/or Sub-Recipient will be factored into grants to enable the transition to national entities, where possible. The Global Fund will explore innovative grant management arrangements and mechanisms at the national and regional level to increase effectiveness and timely response to crises. It will establish pre-positioned partnerships with a view to strengthen its ability to ensure high quality service delivery and rapid response, while maintaining responsible fiduciary oversight of its funds.

- d) **Grant implementation:** Performance-based funding remains a core principle, whereby performance (measured through a variety of factors including grant ratings and absorption of funds) and risks determine levels of annual funding decisions. Where relevant and possible, goals, targets, activities and budgets could be adjusted, and implementation arrangements changed to reach target populations. In emergency situations, priority will be given to saving lives over strict performance requirements.
- e) **Procurement and supply chain:** Flexible approaches may be adopted to ensure timely forecasting, procurement and delivery of health products and equipment to the point of services. In countries where existing in-country supply chain systems are dysfunctional, disrupted or at risk of disruption, third-party providers may be selected for part or all of the supply chain management functions. A portfolio of such service providers able to operate in COEs may be centrally identified, and pre-positioned to facilitate the setup of the supply chain arrangements. In emergency situations, PRs with strong procurement and supply chain capacity may be selected. Innovations in logistics services will be promoted to improve the flexibility and the reliability of the supply chain up to the last mile of delivery. Capacity building measures would be supported to enable a transition to national mechanisms, where feasible.
- f) **Monitoring and evaluation:** Recognizing that flexible monitoring and evaluation approaches in COEs are needed to respond with greater agility, and that strengthening health data systems to measure impact is essential to improving health outcomes in COEs, the Secretariat will review and adapt current measurement requirements and systems investments. This aims to ensure a flexible approach grounded in strengthening data systems, while recognizing the sensitivity and confidentiality of data gathered in emergency contexts. Unaddressed needs will be identified through formal and informal channels, including routine data, ad hoc studies, surveys, evaluations and other information sources available at national and/or local level. Given data quality risks, in certain circumstances, performance frameworks may focus on output (even input) measures rather than impact.
- g) **Financial management:** The financial and fiduciary risk in COEs is inherently higher than in non-COEs. In that respect, it is important to have appropriate implementation and oversight arrangements to maximize programmatic outcomes and minimize financial and fiduciary risk. This starts from the choice of the implementing entity to the nature of the services provided. Depending on the circumstances of each COE and on the classification of the country in the differentiation framework, the Global Fund will define a range of flexibilities on key financial processes and ensure greater financial management support to implementers. The flexibilities will include among others: ease of reprogramming process with a high level budget based on past grant assumptions, reliance on implementers' own assurance mechanism where deemed strong, outsourcing of accounting and/or fiduciary function, and extension of audit and reporting due dates.

4b PARTNERSHIPS

14. The Policy recognizes the centrality of partnerships in COEs and the need to optimize the types of partners in COEs to strengthen in-country governance, enhance service delivery, and improve technical

assistance. Given that the Global Fund does not have in-country operations, strong partnerships are essential for impact, especially in COEs.

15. To strengthen in-country governance, the Global Fund will liaise with in country coordination and partnerships mechanisms and, wherever possible, use and complement existing aid modalities. Meaningful engagement of national key stakeholders and communities in decision making and oversight will be encouraged. Linkages with health, logistics, protection, gender-based violence and other clusters/sectors¹⁰, where applicable, will be strengthened both at national and global level to improve coordination and foster integrated approaches during emergencies.

16. To enhance service delivery, the Secretariat will work closely with national stakeholders and relevant partners, when developing each approach. This will ensure coordination and harmonization of the suggested interventions, as well as adherence to aid effectiveness principles, international principles for interaction with fragile states, and international human rights norms. Whenever feasible, the Global Fund will invest in civil society organizations and communities for implementation of programs, striving to establish partnerships with organizations committed to rights-based action. It will also work towards greater involvement of private sector providers, particularly in settings where public health services are primarily provided by the informal sector.

17. To improve technical assistance, the Secretariat will collaborate with academic institutions, technical partners, and civil society organizations with expertise in COEs. These can provide medium/long term support to implementers in COEs throughout the grant cycle in a range of service areas. In addition, the Secretariat will link to existing rosters of COEs specialists to be mobilized by countries and country teams for short term technical assistance.

4c INNOVATIONS

18. Both Secretariat and implementing partners will be encouraged to apply new approaches throughout the grant cycle, in order to maximize results in COEs. Areas of innovations may include, among others, partnership arrangements and service delivery mechanisms. The Secretariat will document and share lessons learnt within country teams operating in COEs, with the Board and its Committees, as well as with relevant external stakeholders.

19. Learning from other partners and sectors will also be key towards identifying innovative approaches and tools that can improve the effectiveness and efficiency of grants in COEs. The Secretariat will engage with, and learn from, international partners with extensive experience in targeted approaches in COEs. Similarly, the Secretariat will deepen its understanding of local health actors, including civil society, operating in COEs, especially those maintaining health services in remote conflict-affected areas, which are often disconnected from capital-city processes.

PART 5: OVERSIGHT MECHANISMS

20. The Policy recognizes the need to acknowledge and respond to the specific context of each COE. This is to ensure factors such as oversight mechanisms, risk management and grant implementation are tailored for the achievement of greater impact and accountability. As such, the Secretariat will implement the Policy through increased empowerment and flexible tools for Country Teams managing grants in COEs; more responsive and coordinated decision making mechanisms within the Secretariat; regular updates on progress in COEs to the Board and its Committees; and close collaboration with the Office of the Inspector General.

21. The Secretariat will develop an operational framework to implement the Policy, and accordingly it will approve, as well as apply, the flexibilities described in the Policy on a case-by-case basis. The Secretariat will

¹⁰ Clusters consist of humanitarian organizations, both UN and non -UN, in each of the main sectors of humanitarian action, e.g. water, health and logistics. They are designated by the Inter -Agency Standing Committee (IASC) and have clear responsibilities for coordination in non-refugee humanitarian emergencies. Protection and assistance to refugees is coordinated and delivered through the Refugee Coordination Model.

continue to manage the Emergency Fund, including selecting COEs in emergency situations and reviewing and approving such funding. The Secretariat will ensure consistency between the Policy and the measures adopted for greater differentiation for impact across the portfolio. The Secretariat will also provide regular updates to the Board and its Committees on the implementation of the Policy, including how flexibilities have been exercised.

22. The Board will continue to approve individual grants for COEs funded from the country allocations, based on the recommendations of the Secretariat and of the TRP. Modalities for the submission and review of funding requests may be adjusted as needed by the Secretariat and the TRP. The Board and its Strategy Committee will oversee the implementation of the Policy through regular updates by the Secretariat on the performance of the COEs portfolio. The Strategy Committee will propose any necessary modifications of the Policy to the Board.