



## Global Fund Strategy Committee approves the Prioritization Framework for Strategic Initiative Funds Available for Optimization

On 7, 11 and 12 July, the Global Fund's Strategy Committee (SC) met virtually to discuss a number of issues.

A key discussion centered on the approach to Strategic Initiative (SI) optimization and the SI Prioritization Framework for SC decision. Under GF/B41/DP04 and GF/B47/DP06 the Board has delegated authority to the SC to approve any increase or decrease of any amount for any Board-approved catalytic priority area above a fixed percentage.

### Context

Together with country allocations, catalytic investments (CIs) are an important tool to address requirements for the delivery of the Global Fund Strategy 2023-2028 with countries, communities, and partners. All three CI modalities – Matching Funds (MF), Multi-Country approaches (MC) and Strategic Initiatives (SIs) – can scale up innovation, accelerate promising practices and engage diverse stakeholders in addressing areas that cannot be solely met through country allocations.

Unlike MF and MC, SIs serve as additional resources that do not flow through grants. Instead, these resources catalyze change through the engagement of technical partners; community and regional networks; academic institutions; non-governmental institutions; and national, regional, and international expertise.

SI resources are limited by nature, making it important to maximize their impact and ensure that they are

fully utilized. They are closely monitored by the Secretariat to ensure good financial and programmatic performance. Consistent with grants, this includes quarterly forecasting exercises and semesterly reporting to the SC. SI funds are only fully disbursed based on sufficient progress and results.

In addition to ensuring performance against these catalytic priorities, monitoring highlights opportunities to increase investment in what is working well and address emerging needs. Revision (reprogramming funding within an SI) and reallocation are the two tools currently available to address these opportunities.

These tools were leveraged effectively in GC6, working well during the first two years of SI implementation to address bottlenecks and reinvest underutilized funding in areas where funds could be more fully maximized. However, revision and reallocation are constrained later in the cycle because they have limited to no capacity to reinvest contractually committed funding that is forecasted as underspend.

N.B. Contractual commitments include funding to an external entity against an agreed upon set of deliverables and time period. Until that commitment is closed and final payments made, that funding cannot be utilized for other purposes. Forecasted underspend are resources not anticipated to be utilized during the implementation period and/or following closure processes when final invoices and costs are paid and/or recuperated. The aggregate projected underspend for the portfolio is developed based on SI-by-SI considerations; a projected underspend may include funding that is committed but not expected to be spent.

In this final year of SI implementation in GC6, commitment levels are high; however, there is also a projected underspend within the SI portfolio that the existing tools of revision and reallocation are not well-suited to address in an efficient and timely way.

Although the current context highlights the limitations of currently available tools, the need for flexibility goes beyond GC6. With the updated performance approach, close monitoring of resources will continue, with disbursements continuing to be based upon sufficient progress and results. Efficiencies are also realized throughout implementation which creates additional opportunities for increased investment in what's working well, and to meet emerging needs.

By adding a third option to optimize SI funding, the SI portfolio would be in a better position to maximize resources throughout the implementation period. Unlike reallocation, optimization is not constrained by commitments and allows for investment based on available funds. This additional tool would draw on the existing optimization approach applied for grants, which allows grants to invest resources that may become available during the funding cycle.

What the Secretariat proposed to do and why

The proposal set out the utilization of an optimization approach for SIs, in addition to the revision and reallocation approaches already in place. SI optimization would follow a proposed Prioritization Framework to guide the reinvestment of funds within the SI portfolio.

The inclusion of an option to optimize funds provides an additional, complementary tool (alongside revision and reallocation) to maximize resources at all stages of SI implementation. As with grants, optimization requires close Secretariat monitoring and oversight by the Audit & Finance Committee (AFC). The AFC, consistent with its approach to grant portfolio optimization, would approve the amount available for optimization within the SI portfolio, after considering the overall Asset and Liability Management (ALM) balance and forecasted SI underspend identified by the Secretariat.

In the absence of optimization, the ability to maximize use of SI funding for the agreed upon priorities would be limited. Optimization would allow for more complete funding utilization and associated results within the overall funding envelope approved for SIs. This would be particularly important in the context of high commitment levels and would provide added agility that could be leveraged at any point in the SI implementation period in response to critical gaps or opportunities.

Optimization would seek to maximize resources within the overall SI portfolio, with no impact on the overall CI amount approved by the Board as part of the Sources and Uses of Funds. The Sources and Uses of Funds as approved by the Board, including the amount set aside for CIs, establishes the available funding in different areas for the relevant cycle. This balance of funding across areas is the foundation for decision-making at all levels. It is essential to maintain the approved balance, as required by the Comprehensive Funding Policy.

The Secretariat considered SC input regarding utilizing grant portfolio optimized funds to increase CIs, in particular SIs. To date, this has been done twice on an exceptional basis with Board approval, to increase the Emergency Fund SI to ensure continuity of life-saving health services during natural disasters and conflict. Given the demonstrated need for rapid response and agility, as well as the unpredictable nature of emergencies, for GC7 the Board decision on CIs (GF/B47/DP06) allows for the Emergency Fund to be increased up to 50% of its approved funding level (\$10 million) from available grant portfolio optimization resources.

As exercised with the Emergency Fund in GC6, the Secretariat has the same opportunity to submit such standalone requests to the Board on behalf of other SIs to utilize grant portfolio optimization resources. Such a request would follow realization of savings and depend on (i) needs facing an existing SI that exceed funding available within the overall catalytic investment portfolio; and (ii) sufficient resource availability for grant portfolio optimization, with critical and urgent gaps in unfunded quality demand (UQD) having been addressed.

SIs may also receive additional funding through Private Sector contributions which can be invested directly in an existing CI priority, in line with the Policy for Restricted Financial Contributions (PFRC). Additional, new funds received from other sources, including additional public pledges, can be included as part of grant portfolio optimized funds under AFC oversight.

The Strategy Committee discussed the need for additional flexibilities for the SIs

At its March 2023 meeting, the SC discussed that despite an aggregate projected underspend for the SI portfolio, the high commitment levels constrain options to effectively reinvest funding through revision or reallocation. The discussion centered around utilizing the optimization tool, as the Secretariat does with grants, with a right-sized approach for SIs (noting that SIs do not have an unfunded quality demand register, for example). Optimization would maximize potential impact against these catalytic priorities by unlocking a portion of forecasted SI underspend during the implementation period. The SC also discussed the possibility of utilizing portfolio optimized funding (e.g., from grants) to increase catalytic investments.

Additional input was received at the 49th Board Meeting during the Update on Country Funding and Catalytic Investments (GF/B49/07) session which focused on the need to maximize resources during the implementation period to address existing and emerging SI need and highlighted the limitations of the existing tools to do so in the context of high levels of contractual commitments (over 80% in the current funding cycle).

#### Stakeholder feedback

Many stakeholders consider the SIs to be an important complement to the allocated funds. The importance of flexibility in achieving the Global Fund's partnership's objectives is clear and people appreciated the Secretariat's efforts to respond to the SC's request to add Portfolio Optimization as a tool for managing SIs.

In discussing the proposal, many people assumed that addressing the gaps in funding needed for sustaining essential services, updated as appropriate, would be considered at the time of deciding whether any additional funding could be channeled to SIs.

However, there were mixed reactions to the proposal. So, while some felt it was a good idea, others had reservations. For example, when the SI launches in January 2024, how will existing funding be prioritized between the various efforts within this SI? How can we ensure that SI projects are evaluated for maximum impact for limited available funding? One group also noted that using committed but unused funds to top up SIs will drive up execution rates going into the Eighth Replenishment period, thereby reducing the carryover available. For these reasons, they urged caution in utilizing Portfolio Optimization for Strategic Initiatives, particularly with any additional public pledges. There are significant commodity gaps estimated for all three diseases in Year 3 of the GC7 grants. Some stakeholders strongly believed that any additional

financial resources should be targeted to covering those gaps, especially in malaria and TB; and hence would not support an expanded scope for flexibility between country envelopes and SIs.

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