

OPEX Evolution

Budget 2022

46th Board Meeting

GF/B46/02_Part A
46th Board Meeting
8-10 November 2021, *Virtual*

For Approval

Purpose of the paper: This document, in conjunction with Part B, presents a narrative complement to the Global Fund 2022 Operating Expenses Budget. It includes the Board decision point for approval of 2022 Operating Expenses Budget, which is recommended by the Audit and Finance Committee.

Decision

Decision Point: GF/B46/DP07: 2022 Work Plan and Budget Narrative and the 2022 Operating Expenses Budget

Based on the recommendation of the Audit and Finance Committee, the Board approves the:

1. 2022 Work Plan and Budget Narrative, as set forth in GF/B46/02; and
2. 2022 Operating Expenses Budget in the amount of US\$ 322.2million, as set forth in GF/B46/02 (the “2022 OPEX Budget”), which includes (i) US\$ 65.5 million for in-country and external assurance activities, as described in GF/B46/02, and (ii) US\$ 14.9 million for the Office of the Inspector General’s 2022 operating expenses.

A summary of relevant past decisions providing context to the proposed Decision Point can be found in Annex 2.

Executive Summary

Context

The Global Fund Work Plan and Budget Narrative forms a key component of the financial reporting, planning, and control structure of the organization. The work plan and budget narrative focus on activities funded through the Global Fund's Operating Expenses (OPEX) budget, which complements activities supported by catalytic and grant funds, and the contributions of implementers and partners, to drive the objectives of the 2017-2022 Strategy: Investing To End Epidemics (the "Strategy").

Question this paper addresses

What are the key drivers of 2022 Budget?

Conclusions

Key drivers of the proposed 2022 Budget

1. This document builds on the 'OPEX Categorization' framework, as introduced to the AFC in October 2020 (AFC14), differentiating investments into **Core Operations, Cyclical Enablers and Priority Initiatives**. The budgeting approach ensures strong cost discipline on Secretariat structural/fixed costs and increases the level of strategic/enabler funding. The 'fixed' Core Operation cost share of the total 3-year ceiling of \$930m has been reduced with freed up resources reallocated to activities related to strategy implementation under Cyclical Enablers or Priority Funding. **In terms of thematic areas, additional resourcing has been invested in programmatic capabilities, IT digitalization and in-country and External Assurance.**
2. The 2022 budget is designed to **accelerate delivery of core programs** during the critical second year of grant implementation for 70% of the Global Fund grant portfolio in a context still impacted by Covid-19, while preparing for the implementation of the next Global Fund Strategy from 2023 onward. **Six priorities** were identified for 2022 to meet these demands:
 - i. Achieve results in HIV, TB & Malaria
 - ii. Mitigate the impact of COVID-19
 - iii. Drive efficiency & effectiveness
 - iv. Invest in people
 - v. Prepare to implement the next Strategy
 - vi. Deliver the 7th replenishment
3. The proposed **2022 Budget amounts to US\$ 322.2M** in line with the extended plan ceiling for 2020-2022 of US\$ 930M and contains US\$ 27.5M for priority funding. Proposed areas of investment for 2022 are fully aligned with insights provided to the AFC in March 2021 (AFC15) as part of the discussion on the revision of the 3-year OPEX ceiling.

Input Sought

7. The Board is requested to approve the Decision Point presented on page 2.

Input Received

8. At the 17th AFC meeting, the Committee unanimously voted to recommend the 2022 Budget. During its meeting, the AFC also reviewed the revised approach to the costing of the new strategy as presented in AFC17/04. The Committee has requested the Secretariat to provide additional details on the 2022 budget workforce assumptions, to study complementary ratios to the one currently presented on OPEX to pledges and to give consideration to maintaining budget efficiency and value for money in a context of heightened risk.
9. At its 45th meeting, the Board unanimously adopted the AFC recommended decision to increase forecasted aggregate operating expenses available for the 2020-2022 allocation period by US\$ 30 million. The Board also requested the Secretariat to work closely with the AFC to present future OPEX budgets and a workforce plan that allows for necessary capacity increases, and to consider revisions including moving out of catalytic funds investments which should be costed as on-going core operational costs (e.g., CCM, Monitoring & Evaluation and Key Performance Indicators). In relation to the costing of the new Strategy, the Board stressed the need to place early focus on how the organizational structure evolves and associated costs involved.

Report

Context – OPEX Evolution and 2020-22 cycle

10. Increased commitment from donors to the fight against HIV, TB and malaria has resulted in a **growth of close to 40% in pledges over the past 10 years**, enabling ambitious programmatic targets to be achieved. In the meantime, the Secretariat has leveraged **robust financial planning discipline to activate cost efficiencies and optimization strategies** to remain within the US\$ 930M 3-year envelope, while continuously investing in strategic capabilities (Human Rights, RSSH or Prevention & Health Financing...), organizational maturity (Risk & Assurance, Treasury, Wambo.org, Ethics...) and delivering financial performance (pledge conversion and absorption). **Total Secretariat OPEX as % of pledges has continuously improved from 6.6% to 5.1%**¹ (peer benchmark of between 7-32%).
11. The allocation of US\$ 930M to operational activities has been governed by OPEX categories, as introduced in October 2020 (AFC14 and the 44th Board Meeting) under OPEX Evolution. OPEX budget **categories ensure differentiated resourcing along operational and strategic priorities** and provide transparency on OPEX cost drivers:
- Core operations (fixed)**: structural barebone costs and resourcing needed for the Global Fund to deliver its mandate (including statutory, host country context, and organizational structure) prior to strategic prioritization and investment trade-off decisions.
 - Cyclical enablers (fixed/variable)**: investment in strategic capabilities or business enablers to achieve medium term (3-year funding period) to long term (6-year strategy cycle) objectives for strategy implementation. Multi-year transformational initiatives are considered in this category.
 - Priorities (variable)**: emerging 'one off' or surge activities related to peaks in business cycle with resource requirements during the annual budget cycle.

Agile cost management has ensured that the allocation of funds to cyclical (9% of total, +9%p) and annual prioritized initiatives (9% of total, +3%p) has increased compared to the previous cycle, whereas the share of funding for Core Operations (82%, - 12%p) decreased. **Flexibilization of costs** has improved, allowing for +US\$ 30.7M or +60%p additional priority funding compared to prior cycle.

12. The increase of the 3-year OPEX ceiling for cycle 2020-22 to US\$ 930M has enabled **the integration of investments into programmatic capabilities** (+US\$ 23.3M: Supply Operations, SIID and implementation of new M&E framework), **digitalization & IT infrastructure/security** (+US\$ 12.3M: primarily IT resilience & security and in-country technology and digital services) and **external assurance & independent oversight mechanisms** (+US\$ 13.4M:

¹ Note OPEX clustering has been amended since presentation at AFC16

implementation effectiveness & assurance for CCM and LFAs, incorporation of TRP and TERG's role as independent assurance bodies). **Operational efficiencies** have been realized in both Secretariat Operational capabilities (-US\$ 9.7M) and Organizational Risk & Assurance (-US\$ 1.3M), limiting the need for an OPEX increase compared to the previous cycle.

Organizational Priorities and Budget 2022

13. **The OPEX Budget proposal for 2022 of US\$ 322M** is within the revised OPEX ceiling of US\$ 930M approved by the Board for the current cycle. This builds on a latest forecast for 2021 of US\$ 309M and actual cost for 2020 of US\$ 299M. Budget 2022 includes US\$ 65.5M for in-country and External Assurance and US\$ 14.9M for the OIG.
14. The focus of the Secretariat in 2022 will be on **accelerating delivery of core programs** during the critical second year of grant implementation for 70% of the Global Fund grant portfolio in a Covid-19 context, while preparing for implementation of the **next Global Fund Strategy from 2023 onward**. Hence, enabling adaptation of programs to mitigate the disruptive impact of COVID-19 on progress against the three diseases will be essential.
15. As part of the Secretariat's internal **integrated organizational planning process, used for prioritization, budgeting & workforce planning**, six priorities were identified. Priorities are closely aligned to strategic areas prioritized in 2021, while integrating priority initiatives specific to the new business/strategic cycle, including the 7th replenishment and preparation for implementation of the new strategy.
16. **Priorities map closely to emerging themes for 2022** that were presented to the AFC in March 2021 as part of the OPEX budget ceiling revision for 2020-2022 . Deviations from what was proposed in March are limited and reflect either routine work or a response to changes in the operating environment. These include the selection process for Board leadership and other governance officials, support to the Board and Committee leadership and other key governance improvements and continued investments in leveraging diversity & strengthening the Secretariat's organizational culture. These areas have emerged as more critical in the context of remote work.
17. **Initial requests for priority funding of US\$ 45.1M far exceeded the level of priority budget** available for allocation in 2022. A **rigorous prioritization** exercise applied the following considerations for:
 - a. Activities prioritized in 2021 and continuing into 2022: reinvestment decisions were made based on implementation status, continued relevance of the activity and linkage to 2022 priorities, and value for money relative to expected benefits; and
 - b. New activities aligned with 2022 organizational priorities: resourcing decisions were based on the level of resources available and considered how critical and specific the request was to the 2022 priorities. Value for money , team capacity and likelihood of implementation success were considered, along with a holistic review of the priority workforce and balance of funding across organizational priorities and teams.
18. A prioritized list of unfunded activities has been developed for further consideration for OPEX funding, as resources may be identified through quarterly reforecasting. Ultimately, US\$ 27.5M has been awarded to the six priorities as follows:
 - a. **Achieve results in HIV, TB & Malaria (US\$ 4.8M)**

This priority focuses on achieving grant targets through acceleration of grant implementation, particularly in mission-critical countries, with an emphasis on adaptation of programs and timely revision of grants as needed to respond to the impact of COVID-19. Funding request review and grant-making will be completed for the next cycle of grants in Focused portfolio countries. Work will continue on strengthening partnership engagement to accelerate impact on the three diseases, including efforts to ensure timely implementation of malaria campaigns, increasing coverage and quality of malaria case management in high impact and Sahel 5 countries, expanding progress on finding and treating missing TB cases in high-burden countries and addressing critical gaps in West and Central Africa. Accelerating HIV precision prevention programming for key and vulnerable populations, including for AGYW (adolescent girls and young women) in 13 priority countries, will be a considerable focus alongside strengthening data-driven country support, and analysis and monitoring of HIV investments. Support to countries on domestic health financing will also be expanded, including efforts to strengthen domestic financing of services provided by community-led organizations.

Activities will also enable systems strengthening, leveraging increased technical capabilities in key areas of private sector engagement, program quality, laboratory systems and community systems and responses. Implementation of the market shaping strategy, supply chain roadmap and quality assurance strategy will be complemented by the adaptation of procurement systems and processes based on learning from the COVID-19 response. In 2022, there will be significant focus on application of the Ethics & Integrity Framework to the Global Fund's grant-funded activities through CCMS, continued delivery of the PCFC (Policy to Combat Fraud and Corruption) Implementation Plan, and implementation of the framework for Prevention of Sexual Exploitation, Abuse and Harassment. The risk management framework will be adapted to the COVID-19 context, including strengthened monitoring & oversight for the three diseases.

b. Mitigate the impact of COVID-19 (US\$ 0.0M - funded via C19RM operating & management cost)

The focus is on mitigating the impact of COVID-19 on the Global Fund mission through rapid deployment and effective implementation of C19RM funds. Work will continue, in collaboration with partners, to fast-track program adaptations as needed, scale up supply operations for diagnostics, PPE and treatment in implementing countries and support meaningful engagement of communities and civil society within the broader COVID-19 response. The Global Fund will continue to lead and collaborate with the Access to COVID-19 Tools Accelerator and other partnerships to shape a more effective global response. Performance monitoring, oversight and reporting will be undertaken on C19RM funds.

c. Drive efficiency and effectiveness (US\$ 14.0M)

Driving efficiency and effectiveness will continue to be a priority in 2022, to optimize organizational processes, systems and structures, strengthen data-driven decision-making, and enhance dynamic management of OPEX to support strategy implementation. Optimization and simplification of processes for key functions, streamlining internal decision-making structures and refining the organizational configuration to reflect strategic priorities will contribute to continued organizational maturity. Implementation of a comprehensive approach to virtual governance and

enhanced support to Board and Committee leadership will support the effectiveness of Global Fund governance processes. Learnings from COVID-19 will be integrated in the enhancement of end-to-end Supply Operations processes and systems to address identified gaps and to update the Integrated Risk Management tool and operationalization of the revised Risk Appetite Framework. Operational launches for the grant life cycle will ensure key grant management processes, systems and tools are updated, including efforts to strengthen oversight of grant implementation. Data-driven decision-making will be enhanced by activities to improve data integration, frequency, availability, and quality assurance and strengthen reporting and analysis in key areas.

d. Invest in people (US\$1.5M)

This priority focuses on delivering the final components of the People Strategy, including continuation of work to leverage diversity and embed an inclusive culture of collaboration, trust and adaptability as well as alignment of strategic capabilities to the new Strategy and strengthening organizational agility. Implementation of the Diversity, Equity & Inclusion initiative and aspirational culture roadmaps will be a priority in 2022, as will continued investment in people management and leadership capability development, which is especially critical in a hybrid working environment. A new People Strategy will be articulated, and the Human Resources Policy Framework and Unified Competency Framework will be updated to align with the new Global Fund Strategy. On alignment of strategic capabilities, the focus will be on ensuring organizational readiness for the next Strategy through strategic workforce planning while reinforcing strategic capabilities in key areas to support the Global Fund's catalytic role (e.g. evaluation, RSSH, global health security, community systems & responses).

Implementing the Future of Work roadmap will also be a focus in 2022. This will involve adapting both Secretariat ways of working, through implementation of updated tele-working and travel and mobility policies, and workplace re-design of the Global Health Campus. The Secretariat will adapt Global Health Campus infrastructure and IT systems and continue to evolve the Digital Workplace environment to accommodate new ways of working. Implementation of the IT Security Roadmap and ISO certifications will enable a secure IT operating environment and ensure resilience and assurance of IT systems.

e. Prepare to implement the next Strategy (US\$ 2.8M)

Ensuring the organization is ready for implementation of the next Global Fund Strategy will be a major area of focus in 2022, as the Secretariat undertakes an effort to assess the operational implications of strategic shifts and develop and resource workplans aligned with the new Strategy. The Secretariat will develop and update key strategies and approaches, including development of an approach to address the Secretariat's impact on climate change and the environment (as part of the move toward climate neutrality), elaboration of the future wambo.org strategy for non-grant funded procurement, and articulation of an updated AGYW strategy. As part of a holistic approach to organizational performance management, a new M&E Framework, KPI Framework and targets, and Evaluation function will be established. The Performance & Accountability framework and performance frameworks for grants and Strategic Initiatives will be revised to align with the KPI Framework.

At the same time, preparations for the 2023-2025 allocation cycle will involve revision and application of the Eligibility policy and allocation methodology and approval and operationalization of catalytic investments. A set of internal analyses of key areas of grant and catalytic investments from the current cycle will also be undertaken, to inform the update of technical guidance and revision of operational policies, processes and systems, aimed at ensuring the Global Fund is ready for implementation in 2023.

f. Deliver the 7th Replenishment (US\$ 3.9M)

This priority will focus on implementing the 7th Global Fund Replenishment campaign and strengthening the foundation for on-going resource mobilization efforts. Delivering the 7th Replenishment will include finalizing the Investment Case in line with the new Strategy and rolling out the Replenishment strategy. This includes the marketing & communications campaign, media strategy, donor-specific resource mobilization efforts, mobilizing the civil society and communities advocacy ecosystem (which was a key success factor for the 6th Replenishment) and delivering the preparatory meeting and replenishment conference. Efforts will also be made to strengthen the organization's positioning and influence in key countries and nurture donor and partner engagement to strengthen the foundation for resource mobilization on an ongoing basis.

Recommendation

The Board is requested to approve the Decision Point presented on page 2.

Annexes

The following items can be found in Annex:

- Annex 1: 2022 Budget by major cost categories
- Annex 2: Relevant past Board/Committee Decisions
- Annex 3: Links to relevant past documents and reference materials

Annex 1 – 2022 Budget by major cost categories

24 The table below provides a summary of the 2022 Budget by major cost category.

Budget category (US\$ millions)

Total Workforce	LFA & CCM	Professional fees	Office infrastructure	Travel	Meetings
173.6	58.5	41.2	23.1	10.9	3.2
Communication	Board constituencies	Other	Non-recurring costs	Total	
1.4	1.6	5.6	3.0	322.1	

25 Total Workforce (incl. Individual contractor) (US\$ millions)

Budget 2021*	Budget 2022
166.0	173.6

Total workforce costs increase by +US\$ 7.6M. Reductions of individual contractors by -US\$ 2.7M partially compensates higher staff cost by +US\$ 10.3M. Increase is driven by strengthening Strategic Investments & Impact, Oversight & Support Functions as well as Organizational Risk & Assurance (Independent) and Supply Operations. Operational efficiencies are materializing in Grant Operations. An increase is impacted by operationalization of reorganization measures and related re-classification of expenses from non-recurring cost to staff cost in Budget 2022.

26 LFA & CCM (US\$ millions)

Budget 2021*	Budget 2022
57.8	58.5

Funding increases by +US\$ 0.7M to US\$ 58.5M in Budget 2022 in a Covid19 environment to support LFA, CCM in-country oversight of grants, Ethics and Integrity (PSEAH) as well as TERG activities.

27 Professional fees (excl. individual contractor) (US\$ millions)

Budget 2021*	Budget 2022
38.6	41.2

Professional fees increase by +US\$ 2.6M to US\$ 41.2M driven by cyclical replenishment investments and additional expertise required to establish the annual workplan.

28 Travel expenditures (US\$ millions)

Budget 2021*	Budget 2022
13.5	10.9

Continued travel constraints and adaptation of new ways of working lead to active reduction of travel budgets by -US\$ 2.6M down to US\$ 10.9M

* Budget 2021 restated to account for budget transfers from divisions to Health Finance. Individual contractors are reclassified from professional fees into Total Workforce cost.

Annex 2 – Relevant past Board/Committee Decisions

Relevant past Decision Point	Summary and Impact
GF/AFC17/DP05: 2022 Operating Expenses Budget	Based on the decision by the Board to increase the forecasted aggregate operating expenses available for the 2020-2022 allocation period by US\$ 30 million, such that the amount made available for operating expenses for the 2020-2022 allocation cycle is US\$ 930 million. The AFC acknowledges its review and discussion of the 2022 Work Plan and Budget Narrative, as set forth in GF/AFC17/04 – Part A and decided to recommend it to the Board for approval at its 46th Meeting in November 2021.
GF/B45/DP03: Operating Expenses for the 2020-2022 Allocation Period	Based on the recommendation of the Audit and Finance Committee, the Board approves the increase of forecasted aggregate operating expenses available for the 2020-2022 allocation period by US\$ 30 million, in order to facilitate the implementation of critical activities in 2022; such that the amount made available for operating expenses for the 2020-2022 allocation cycle shall be US\$ 930 million.

Annex 3 – Links to relevant Past Documents & Reference Materials

- GF/B45/02 [OPEX Evolution 2020-2022 Budget Ceiling Revision](#)
- [B45 Report](#)
- GF/AFC15/06A [OPEX Evolution 2020-2022 Budget cap](#)
- GF/AFC15/06B [OPEX Evolution 2020-2022 Budget cap](#)
- [AFC15 Meeting Report](#)
- GF/AFC14/07A [2021 OPEX Work Plan & Budget Narrative](#)
- GF/AFC14/07B Secretariat Operating Expenditures 2021 Budget
- AFC14 [Meeting Report](#)