



Investing in our future

# The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Twenty-Second Board Meeting  
Sofia, Bulgaria, 13-15 December 2010

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GF/B22/6  
Attachment 1

## FURTHER DETAILS ON THE 2011 OPERATING EXPENSES BUDGET

### PURPOSE:

This attachment provides additional details regarding the proposed 2011 Operating Expenses Budget.

## INTRODUCTION

The table below summarizes the significant adjustments decided by FAC since the submission of the initial 2011 Operating Expenses Budget (GF/FAC15/6)

<b>2011 Operating Expenses Budget - Summary table of adjustments recommended by FAC</b>	
Original 2011 Budget (GF/FAC15/6)	US\$ 295.2m
Increase for impact of Foreign Exchange (Secretariat US\$ 22.1 m and OIG budget US\$ 1.1m)	US\$ 23.2m
Increase in OIG Budget (from US\$ 12.4m to US\$ 15.7 m)	US\$ 3.3m
Create contingency budget for OIG	US\$ 3.0 m
<b>TOTAL 2011 OPERATING EXPENSES BUDGET</b>	<b>US\$ 324.7m</b>

### Notes:

1. The information covered in the following sections refers to the original budget of US\$295.2 million presented to FAC.
2. The adjustments summarized in the table above are explained in further detail in Part 2 of the main body of the paper (GF/B22/6).
3. Information shared in this Attachment 1 is presented in the following parts for ease of reference:

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## Part 1: Cluster Summaries

US\$ millions By Function	2010	2011	Increase on 2010	% Increase
	Budget	Budget		
<u>Secretariat Expenses</u>				
Country Programs	42.0	42.6	0.6	1%
Strategy, Policy & Evaluation	51.1	44.4	(6.7)	-13%
External Relations and Partnerships	27.6	27.0	(0.6)	-2%
Office of the Executive Director	3.2	4.7	1.5	45%
Corporate Services	62.1	59.4	(2.7)	-4%
Finance	9.2	10.0	0.8	8%
Office of the Chair of the Board	0.7	0.6	(0.1)	-12%
Board Constituency Funding	0.8	0.8	0.0	1%
Centralized Staffing Provision	0.0	5.6	5.6	100%
<b>Secretariat</b>	<b>196.8</b>	<b>195.1</b>	<b>(1.7)</b>	<b>-1%</b>
In-country Oversight (LFA fees)	67.3	74.2	6.9	10%
Funding of CCMs	6.9	12.4	5.5	79%
TERG	0.6	1.1	0.5	87%
Office of the Inspector General	10.1	12.4	2.3	22%
<b>Total Operating Expenses</b>	<b>281.8</b>	<b>295.2</b>	<b>13.5</b>	<b>4.8%</b>

The following pages outline the strategic role of each cluster, summarize the respective non-staffing budget and explain the reasons for major budgetary increases in the non-staffing expense categories.

### 1.1 Country Programs

NON-STAFFING COSTS  
(in US\$'000)

Country Programs	2010	2011	Non-Discretionary	Discretionary			
	Budget	Budget		High	Medium	Low	Total
Professional Fees	1,329	4,159	2,360	657	1,031	110	1,799
Travel	7,045	6,090	6,090	-	-	-	-
Meetings	2,653	2,823	2,823	-	-	-	-
Communications materials	477	559	-	559	-	-	559
Office infra-structure	-	-	-	-	-	-	-
Board Constituency funding	-	-	-	-	-	-	-
External co-funding	-	(230)	(230)	-	-	-	-
	-	-	-	-	-	-	-
<b>Total:</b>	<b>11,504</b>	<b>13,400</b>	<b>11,042</b>	<b>1,217</b>	<b>1,031</b>	<b>110</b>	<b>2,358</b>

The Country Programs Cluster is the main operational arm of the Global Fund and is the primary interface with countries, principal recipients and local fund agents. The Cluster is composed of eight regional teams and three grant support functions (Grant Renewals, CCM and LFA Management).

The overall 2011 budget of the Country Programs has increased by only 2% mainly due to lower actual staffing costs in the cluster. However the non-staffing costs have increased from US\$ 11.5 million to US\$ 13.4 million (16%) in line with the corporate priority to strengthen the grant management processes. This will be done in a dynamic environment where new grant architecture, single stream of funding and increasing grant complexity has an immediate and direct impact on the workload of the Cluster. The Cluster

leadership has allocated US\$ 2.4 million which includes US\$ 1.5 million to provide implementation support to countries, especially with regard to improving the quality of disbursements and accelerating signing of new grants. This allows the regional teams to more promptly respond to needs related to new implementers, complexities related to single stream financing, alignment to national fiscal cycles, prevention of treatment interruptions and fulfillment of conditions precedent to disbursement. The remaining US\$ 0.86 million will ensure a smooth operation of the cluster in phase of transition and fluctuating workload. This is comprised of US\$100'000 for each of the eight regional teams for support during peak workloads such as peak period of new grants signing, regional meetings, LFA receipting, implementation of new initiatives and other unforeseen events.

The cluster pioneered a critical review of travel costs incurred by their staff across various countries. Significant optimization of travel trips was achieved resulting in a reduction of US\$ 955'000 over the 2010 budget. The approach was later rolled out for other clusters to adopt.

Under OED guidance, Country Programs also led a cross-cluster initiative on alignment of meeting costs across clusters. The initiative identified cross-functional events that could be jointly held with the regional meetings thereby producing short-term budgetary savings in the 2011 budget. Simultaneously consideration was also given to the avoid representation overload at country level on principal recipients and LFAs.

The CCM team is in the process of finalizing an external co-funding arrangement for US\$ 230,000 with the Ford Foundation on project funding for Community Representation and Needs-Based Governance. The project study is spread over 2010-2011 and the total value of the co-funding is US\$ 300,000 of which US\$ 70,000 will be received and applied in 2010 and the remaining US\$ 230,000 will be received and implemented in 2011.

## 1.2 Strategy, Policy and Performance (SPE)

### NON-STAFFING COSTS (in US\$'000)

SPE	2010	2011	Non-Discretionary Others	Discretionary			
	Budget	Budget		High	Medium	Low	Total
Professional Fees	15,773	13,479	9,584	2,928	967	-	3,895
Travel	4,587	4,006	1,246	2,760	-	-	2,760
Meetings	2,709	1,476	564	-	912	-	912
Communications materials	2,146	1,998	1,310	-	688	-	688
Office infra-structure	-	-	-	-	-	-	-
Board Constituency funding	-	-	-	-	-	-	-
External co-funding	-	-	-	-	-	-	-
Total:	25,215	20,958	12,704	5,688	2,567	-	8,254

The SPE Cluster drives the Global Fund in the areas of Strategy and Policy, Country Proposals, Knowledge Management (KMU), Performance, Impact and Effectiveness (PIE), Monitoring and Evaluation (M&E), Pharmaceutical Procurement and Quality Assurance Management (PMU) and Affordable Medicines Facilities for Malaria (AMFm).

SPE Cluster's major deliverables for 2011 will include:

1. Strong support for grant management and implementation
2. Successful management of Round 11 launch and integrating new architecture, National Strategy Applications (NSA), and Health Systems Funding Platform (HSFP).
3. Effective implementation of AMFm pilot Phase 1 with countries and partners and continued work on the independent evaluation by the AMFm Unit
4. Generation of data and evidence and coordination for the Annual Results Report.
5. Generation of data and evidence to support on-going replenishment events, publications and activities by PIE, M&E and KMU overseen by the Office of the Cluster Director.
6. Implementation of next funding opportunity of NSA in Round 11 with increased number of participating countries
7. Piloting of HSFP with GAVI, World Bank and WHO

The major changes in the budget from 2010 to 2011 are a significant reduction in professional fees across all SPE teams, rationalization and reduction of meetings to be hosted and attended, and prioritization and decrease in regular travel, acknowledging a similar increase in travel related to implementation activities.

A careful planning of professional fees budget has resulted in an overall 15% savings of US\$ 2.3 million which reflects decreased reliance on consultant support and detailed review and prioritization of all studies to be commissioned, leaving only the highest priority studies in the 2011 budget. [In 2010 US \$2.5 million was budgeted for the AMFm evaluation in 2010 (net of a US\$ 2.8 million budget transfer from 2009), while there is no assumption for a budget transfer in 2011.] The 2011 budget has increased the TRP support budget by US\$ 0.9 million for expanded scope and cost. In addition with the implementation of the NSA second wave and the HSFP, increased translation costs are estimated with Round 11.

All other expense categories have reduced by over 10% compared to the 2010 budget.

### 1.3 External Relations, Partnerships and Resource Mobilization (ERP)

#### NON-STAFFING COSTS (in US\$'000)

ERP	2010 Budget	2011 Budget	Non- Discretionary Partnership Forum	Non- Discretionary Others	Discretionary			
					High	Medium	Low	Total
Professional Fees	4,846	3,597	145	502	1,598	841	512	2,950
Travel	4,805	5,134	992	2,129	629	-	1,384	2,013
Meetings	2,022	2,200	378	963	280	578	-	858
Communications materials	945	1,291	-	118	1,174	-	-	1,174
Office infra-structure	175	278	-	5	-	273	-	273
Board Constituency funding	800	800	-	800	-	-	-	-
External co-funding	(500)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
Total:	13,092	13,298	1,515	4,516	3,680	1,691	1,895	7,267

#### Key functions of the ERP Cluster:

- 1- Secure financial resources to meet the demand from Global Fund implementing partners
- 2- Develop and implement partnerships
- 3- Ensure effective global communication on the Global Fund and the results achieved by its partners.
- 4- Facilitate governance and support amongst stakeholders

The Cluster work plan for 2011 has been mainly developed around the following key objectives:

- 1- Continuation of post-replenishment resource mobilization efforts
- 2- Organization of a Partnership Forum in 2011
- 3- Develop and roll-out a new communication campaign

The professional fees budget has been reduced mainly due to substantial reduction in the role of external PR consultancies for organizing press events; provide support for crisis communications; for media training and for strategic advice. This has been cut down to an absolute minimum in 2011. The budget includes non-discretionary costs such as legal fees for trademark, copyright and other IP issues concerning corporate branding; Web CMS rollout and web site management for the Born HIV-free campaign's website; and discretionary, but fundamental items like minimum media training and advice; minimum PR capacity for events; technical expertise needed for video editing and development; training for implementer media and implementer representatives in communications; and scheduled marketing and media surveys. In addition the Cluster has been able to absorb the on-going costs of exchange traded fund (ETF) feasibility study earlier co-funded for US\$ 500'000 by the Bill and Melinda Gates foundation.

The increase in the travel and meetings budget is attributable to the Partnership Forum that has been separately reflected in the table above.

## 1.4 Corporate Services (CS)

NON-STAFFING COSTS  
(in US\$'000)

Corporate Services	2010 Budget	2011 Budget	Non- Discretionary- IT	Non- Discretionary Others	Discretionary			
					High	Medium	Low	Total
Professional Fees	22,581	22,420	14,105	5,821	2,307	186	-	2,493
Travel	1,888	1,315	105	1,024	186	-	-	186
Meetings	89	195	18	104	61	2	10	73
Communications materials	190	88	-	52	21	15	-	36
Office infra-structure	18,226	16,912	5,001	11,911	-	-	-	-
Board Constituency funding	-	-	-	-	-	-	-	-
External co-funding	-	-	-	-	-	-	-	-
Total:	42,975	40,930	19,229	18,913	2,576	203	10	2,789

The Corporate Services Cluster houses the teams that provide support services to the Secretariat, namely human resources, information systems and support, administration, contracting, internal communication and legal.

Key functions of the Cluster are:

1. Administration: Providing office facilities and services, relocation and orientation services, travel services and travel security to the entire Secretariat and OIG.
2. Human Resources: Implementing HR policies and procedures for the staff of the Secretariat; managing recruitment and training, payroll administration and performance management.
3. Legal: Provides legal advice to the Secretariat, the Board of the Global Fund and its Committees, as well as the OIG, TERG and TRP. The advice rendered primarily relates to grant negotiation and management, policy, governance, resource mobilization, partnerships, administrative matters and dispute resolution.
4. Information Systems: Providing information systems and infrastructure services to support the grant process from proposals through performance-based funding, information management and telecommunications.
5. Corporate Procurement: Enabling the acquisition of services and supplies for the functioning of the Secretariat and in-country oversight
6. Internal Communications: Ensure timely and transparent communication on internal policies and procedures across the Secretariat.

The CS Cluster has undergone a rigorous critical review of the non-IT professional fees budget to incorporate the changes in demand post transition from the WHO which earlier required external consultancy support. External consultancy support in the areas of administration, HR, Corporate Procurement and CS front office have been reduced to the basic essential needs. The 2011 scope of tax equalization services has been limited to the determination and calculation of tax liability for the Global Fund as against the additional assistance in the preparation of tax returns available until 2010. Adequate provisions have been maintained to engage external legal support in the areas of grant and corporate risk management. Substantial reductions have also been achieved under other expense categories.

The IT budget has undergone two comprehensive review phases at the IT Advisory Board. The corporate IT investment strategy (2010-2013) which has identified two strategic programs aims at an integrated application solution to increased productivity with reduced cost of ownership.

The two corporate IT strategic investment areas are:

**A- Integrated Grant Management**

- Grant Architecture
- Process automation linked with Task Force recommendations

**B- Information Management**

- Grant Information Model
- Business Intelligence
- Grant Document Management

Key deliverables on strategic areas planned for 2011 are:

- Deliver Grant Management through process automation based on Grant Architecture and Task Force recommendations (*Round 11, Periodic Review, Adapt systems to Single Stream of Funding, Disbursement*)
- Deliver Information Management streamlining flow of data & documents through the Grant Life cycle and providing operational / management reports from a trusted source
- Pilot with few countries (PR) to support key touch points and provide improved offline document support

Besides the corporate strategic programs the GF IT policy also aims at improving and stabilizing IT systems and process in the following business functions:

- **Administration and Finance**
- **Support services**
  - Application support and Maintenance
  - Operations and Helpdesk
  - Infrastructure & Technology consolidation
- **Human Resources**

Key deliverables on support areas planned for 2011 are:

- Deliver e-procurement capabilities (electronic PO's, invoices, receipts) to cut costs and reduce administrative effort
- Enhance / re-implement travel booking and reporting
- Integrate learning management and performance management with GFS HR
- Support LFA 2012 procurement
- Support 2012 budget round with Hyperion Planning

The following table demonstrates the budget review process at the ITAB and also provides a detailed breakdown of IT professional fees and office infrastructure budget across its key areas:

in US\$ million

Project Category	Original Submission	Reductions	Budget approved at ITAB
<b>RUN</b>			
Service levels	7.5	(0.2)	7.3
Telecom and blackberry	1.9	(0.2)	1.7
<b>Total</b>	<b>9.4</b>	<b>(0.4)</b>	<b>9.0</b>
<b>PROJECTS</b>			
Grant Management	5.0	(0.5)	4.5
Information Management	1.7	(0.2)	1.4
Administration and Finance	1.6	(0.3)	1.3
Infrastructure and Operation	3.3	(0.4)	2.9
<b>Total</b>	<b>11.5</b>	<b>(1.3)</b>	<b>10.2</b>
<b>Grand Total</b>	<b>20.9</b>	<b>(1.7)</b>	<b>19.2</b>



## 1.5 Finance

### NON-STAFFING COSTS (in US\$'000)

Finance	2010	2011	Non-Discretionary	Discretionary			
	Budget	Budget		High	Medium	Low	Total
Professional Fees	3,035	3,445	3,445	-	-	-	-
Travel	557	563	500	64	-	-	64
Meetings	23	12	-	-	2	10	12
Communications materials	-	-	-	-	-	-	-
Office infra-structure	1	-	-	-	-	-	-
Board Constituency funding	-	-	-	-	-	-	-
External co-funding	-	-	-	-	-	-	-
Total:	3,616	4,020	3,945	64	2	10	76

The Finance Cluster accounts for and reports on the financial transactions of the Global Fund, supports the financial aspects of grant-making, and provides financial forecasts and analysis to support Board decision making and to inform donors and other stakeholders of the financial resource needs of the Global Fund.

Key functions of the Cluster are:

1. Maintaining the financial records of the Global Fund and Provident Fund, compiling their annual financial statements and facilitating their external audit in compliance with best practices
2. Providing guidance on financial aspects of grants and reviewing disbursements to provide final clearance prior to payment by the Trustee
3. Processing grant and other transactions in close collaboration with all Units throughout the Secretariat
4. Supporting the Board and its Committees with regard to financial matters, including acting as focal point to the Finance and Audit Committee
5. Providing financial analysis and information for Replenishment and as otherwise required by donors, including projections and forecasts of needs and resources.
6. Compiling grant and contribution financial information for daily website publication
7. Participating in internal committees and panels that prepare policies for Board and Committee consideration and carry out governance roles delegated by the Board
8. Provide functional support to major IT, Purchasing and HR projects to enhance internal controls.

The Program Finance team has been allocated 6 additional positions under the internal position rebalancing process. The increase in professional fees of US\$ 410'000 includes provision for short-term external support during peak load periods in the grant signing and disbursement processes. The increase in staff numbers required a marginal increase in the travel budget.

## 1.6 Office of the Executive Director (OED)

### NON-STAFFING COSTS (in US\$'000)

OED	2010	2011	Non-Discretionary	Discretionary			
	Budget	Budget		High	Medium	Low	Total
Professional Fees	130	525	525	-	-	-	-
Travel	402	668	668	-	-	-	-
Meetings	40	31	-	31	-	-	31
Communications materials	-	51	-	51	-	-	51
Office infra-structure	-	-	-	-	-	-	-
Board Constituency funding	-	-	-	-	-	-	-
External co-funding	-	-	-	-	-	-	-
Total:	572	1,276	1,193	82	-	-	82

The role of the Office of the Executive Director (OED) is focused on the following main areas:

1. Providing overall leadership and strategic vision and direction
2. Managing the Secretariat
3. Building new partnerships as well as strengthening existing relationships with national, regional and international partners
4. Representing the Global Fund in meetings and events with external partners
5. Mobilizing financial support to the Global Fund through advocacy activities
6. Providing oversight of policy development

The professional fees budget has been increased by approx. US\$ 400'000 mainly to support the external consultancies that may be required for developing the Secretariat strategic vision, reinforcing the on-going grant architecture project and executive studies on strengthening of grant management systems and processes.

The travel budget has been corrected to reflect the estimated travel cost of mostly the ED and DED to continue their efforts on post-replenishment resource mobilization, partnership strengthening and country visits which have received very positive feedback during 2010. The correction has increased the travel budget by US\$ 266'000 (66%) which was necessary after analyzing the actual costs in 2010.

### 1.7 Support to the Chair/ Vice-Chair of the Board

NON-STAFFING COSTS  
(in US\$'000)

Chair of the Board	2010 Budget	2011 Budget	Non- Discretionary	Discretionary			
				High	Medium	Low	Total
Professional Fees	399	397	397				-
Travel	58	60	60				-
Meetings	-	-	-				-
Communications materials	-	-	-				-
Office infra-structure	30	-	-				-
Board Constituency funding	-	-	-				-
External co-funding	-	-	-				-
Total:	487	457	457	-	-	-	-

The support budget for the Board has marginally decreased due to non-repetition of the office-infrastructure budget in the second year of office which had been procured in first year of office. There have been no major changes in other expense categories.

## Part 2: In-country Oversight- LFA Budget

In-country Oversight	2009 Actual	2010 Budget	2011 Budget	Change	
	US\$	US\$	US\$	US\$ million	%
<b>1 Assessments of PRs</b>					
To assess PR capacity for: approved Round 9 applications; <b>Number new grants</b>		150 5,555,991	117 5,414,189		
National Strategy Applications; <b>Number NSA approved applications</b>		7 324,960	- -		
AMFm <b>Number AMFm approved applications</b>		12 516,353	- -		
Other PR assessments (RCC, change of PR) & M&E self- <b>ber assessments</b>		91 1,845,014	30 600,356		
	7,633,112	8,242,318	6,014,545	(2.2)	-27%
<b>2 Assessments of SRs</b>					
Assessment of sub-recipients, esp. in Additional Safeguard countries		2,593,825	1,716,130	(0.9)	-34%
<b>3 Verification of Implementation</b> <b>ants under management from previous rounds</b>					
To monitor implementation throughout the grant duration: PU/DR, <b>disbursement and progress reviews</b>		1510 28,016,908	1487 31,784,970		
Enhanced Financial Reporting; Price Quality Reporting					
On site-data verification (OSDV) <b>No. OSDV visits</b>		589 8,653,022	489 7,426,546		
Annual reports (PR annual report, audit report and PR-SR anti-terrorism certification)		1654 4,566,497	809 3,817,528		
Supporting Fund Portfolio Manager missions to countries		343 1,605,591	356 1,661,505		
Pharmaceutical Procurement reviews			184 2,793,646		
New services: PHPM Country Profiles, AMFm Spot Checks, On-site quality of services review, LFA PR/Country risk assessments			1,884,976		
Other vol: (incl. verification of revised PSM plans, monthly progress reports, attending CCM meetings, risk mitigation analysis etc.)		3,107,566	4,425,980		
	36,409,756	45,949,585	53,795,151	7.8	17%
<b>4 Phase 2 Renewal Reviews</b> <b>No. of Phase 2 Reviews</b>					
To inform decision making on Phase 2 renewal	3,078,210	102 3,838,072	134 5,088,817		
Periodic Reviews (for SSF to replace Phase 2s)			5 269,904		
			5,358,721	1.5	40%
<b>5 Grant Consolidation Reviews</b> <b>No. of grants consolidated</b>					
	98,482	25 393,125	55 1,441,918	1.0	267%
<b>6 Grant Closure reviews &amp; Continuity of Services</b> <b>No. of grants to be closed</b>					
	1,355,221	97 1,669,655	61 1,531,221	(0.1)	-8%
<b>7 Independent Data Quality Audit</b> <b>No. of countries</b>					
For the roll-out of assessment and audit tools to improve the quality of programmatic data and systems in grants and countries.	1,300,199	1,400,000	1,400,000	0.0	0%
<b>8 PR Surveys and verification of year-end programmatic results (incl. Paris Declaration)</b>					
PR Surveys: Collection of additional indicator data (e.g. gender related) from a sample of grants; Verification: for a selection of grants where additional verification is required of results that are reported to donors, the Board and the Replenishment	537,280	1,301,829	765,489	(0.5)	-41%
<b>9 LFA review of CCM funding requests</b>					
LFA review of CCM proposals and verification of expenditures	429,697	630,406	429,600	(0.2)	-32%
<b>10 Other services</b>					
Fees of outgoing LFA associated with hand-over to new LFA	24,333	16,110	80,409		
UNITAID related drug disbursement reviews	2,077	61,597	61,077		
Support to OIG related audits/investigations	860,994	805,499	805,499		
Training, including on new quality assurance procedures	2,416,481	360,000	540,730		
LFA-support to Country Teams in high-risk countries		737,980	2,912,912		
<b>Total allowance for the above</b>	3,303,886	1,981,186	4,400,627	2.4	122%
<b>11 Assumed savings</b>					
Assumed results of CPU projects to generate savings in LFA-costs		Prior period charges			
Assumed underexpenditure due to service slippage		WHO 2,100,000	(1,509,068)		
		UNOPS 800,000	(680,000)	(1,178,305)	
<b>Overall Cost</b>	<b>57,045,842</b>	<b>67,320,000</b>	<b>74,166,030</b>	<b>Increase on 2010</b>	<b>6.8 10%</b>
	2009 57	2010 \$ 67.3 m	2011 \$ 74.2 m		

2.1 The budget for LFA services reflects a rigorous review of the Secretariat's risk management and information requirements for decision making in 2011. The LFA management team coordinated the development of the budget in cooperation with LFA budget focal points in the Country Programs and Strategy, Policy and Evaluation (SPE) teams that manage LFA services and with the Corporate Procurement Unit. The budget is based on:

- i. *Quantification of requirements:* Each Fund Portfolio Manager (FPM) has confirmed the specific type and quantity of LFA services required for each grant and country. The LFA Management Team, CCM Team and Program Effectiveness Team (in SPE) have quantified the requirements for the specific LFA services coordinated by these teams.
- ii. *LFA pricing:* The forecasted cost of each LFA service in 2011 is based on the costs agreed between the Secretariat and the LFAs for the services delivered in 2010.
- iii. *Key assumptions:* The main assumptions that impact the size of the LFA budget are:
  - a. The budget assumes 117 PR assessments, costing US \$5.4 million, will be conducted by LFAs following the Board approval of the Round 10 applications in December 2010.
  - b. Additional LFA days required to fulfill the expanded LFA scope of work for the following updated LFA services that will be rolled-out across the portfolio in 2011: Progress Update & Disbursements request (PU/DRs); Phase 2; on-site data verification (OSDV) and the PR/SR audit review. Further details on the cost implications are given below.
  - c. The rates for LFA experts will not increase in 2011. The Secretariat-LFA 2010 cost negotiation process, coordinated by the Corporate Procurement Unit (CPU), succeeded in reducing by some 17% overall the value of the initial 2010 costs proposals submitted by the LFAs. This saving was achieved through: (i) reducing the average rates for LFA experts and LFA Central Coordination Teams (CCT); (ii) reducing the average LFA level of effort (LoE) required for LFA services; and (iii) reducing the volume of some LFA services to be implemented in 2010. Given the thoroughness of the 2010 cost review process, with negotiations taking 6 months to satisfactorily conclude, no further reductions in LFA rates are expected to be achieved in 2011.

## 2.2 Savings included in the 2011 LFA budget

The initial budget compiled in July 2010 was US\$ 88.6 million which was finally brought down to US\$74.2 million. The substantial reductions to the LFA budget were chiefly achieved through:

- i. **Reduction of LFA quarterly reviews on grants with semi-annual disbursement (savings US\$2.4 million):** At US\$ 32 million and 44% of the total budget, this is the single most important driver of the LFA budget. The main option implemented to reduce costs were:
  - a. Reduced the number of instances from 198 (included in the initial LFA budget) to 94 where an LFA is scheduled to complete a review of a PR's progress update (PU) on a grant that did not have a corresponding PR disbursement request (DR). Typically, these instances relate to Secretariat requests for a PR and LFA update of progress on a quarterly

basis for grants on a semi-annual disbursement scheme. The use of such hybrid PU/DRs across regions are used for grants in high risk environments and/or implemented by low capacity PRs to provide the Secretariat with frequent (quarterly) updates on progress and issues to enable more effective risk management. \$1m savings.

- b. Reduced the additional LoE for the expanded 2011 LFA ToRs from 2.5 to 2 days following a more in-depth review of the new requirements based on outcome of the piloting of the new PU/DRs US\$0.8 million savings.
  - c. Reduced frequency of PU/DR i.e. moving from a quarterly to a semi-annual disbursement schedule, mainly for well performing grants with low annual disbursement volumes. US\$0.6 million savings.
- ii. **Revised guidance on OSDVs (savings US\$ 1.0 million):** OSDVs are the second largest budget line with US\$7.6million or 11% of the budget. The 2010 budget was based on one OSDV per grant per year, in-line with the Secretariat guidance to FPMs and LFAs. The recently updated guidance from the M&E team is that one OSDV be conducted per PR per disease component, where feasible. Based on the newly agreed basis for determining the number of OSDVs required, each regional team has updated their OSDV schedule for 2011 based - reducing the number of OSDVs by 54.
- iii. **Reduced volume of discretionary LFA services (savings US\$ 0.6 million):** Each regional team has re-reviewed and cut its requirements for the following four LFA services:
- a. Other verification of implementation (US\$ 0.4 million savings)
  - b. Support for FPM visits (US\$0.1 million savings)
  - c. Pharmaceutical procurement reviews (US\$ 0.1 million)

These services are discretionary as they are specifically requested by the FPM rather than directly triggered by grant events. The services are an essential part of tailoring the LFA's scope of work in a country to risks in the implementation environment.

- iv. **Revised guidelines for the LFA anti-terrorism certification (savings US\$0.9 million):** This LFA service was introduced in 2007 to demonstrate to donors (and specifically the Gates Foundation) that the Secretariat was making reasonable efforts to ensure that Global Fund financing is not used to support violence, terrorism or money-laundering. As part of the anti-terrorism service, LFAs certify that the PR's implementation agreements with SRs comply with the Global Fund's grant agreement. This service is conducted: (i) annually on a sample of SR agreements for each grant; and (ii) prior to signing new grants (new rounds and Phase 2). Following discussions with Legal, there is a provisional agreement to reduce the frequency and volume of the LFA certifications through removing the requirement for annual reviews and lowering the sample size for reviews. The current requirement for annual certification is unnecessary, providing marginal additional value, given that certification is already done at grant signing. Specifically, in 2011 the LFA will conduct reviews: once for all new signings (Rounds, Phase 2/periodic reviews). The reduction in the number of certifications is justified given the significant expansion in the Secretariat's information and risk management processes and requirements since the certification requirement has launched in 2007 that also contribute to meeting the objective of the Certification service - that the Global Fund does not "support or promote violence, terrorist activity or related training, or money laundering".

- v. **Fewer countries included in the 2011 Portfolio Survey (savings US\$0.8 million):** The Global Fund's annual Portfolio Survey is required by the Secretariat to obtain additional information on the impact and effectiveness of its financing, which is not available through routine reporting. The Secretariat uses the information for the Global Fund's results reports, reporting on KPI achievements and to respond to information requests from donors. In 2010 and 2009, all countries (approximately 120) were covered by the Portfolio Survey. The 2011 survey will be coordinated by LFAs in some 63 countries that receive 90% of Global Fund disbursements. The reduction of the number of countries to be included in the 2011 Portfolio Survey will generate significant savings over the 2010 actual costs.
- vi. **Tailored use of the LFA review of CCM funding requests (savings US\$0.2 million):** Since 2009, the LFA reviews each CCM funding proposal to the Secretariat as well as each annual CCM expenditure statement. The LFA costs involved, US\$0.6 million in 2010, are high compared with the volume of funds provided to CCMs (up to \$150,000 but mostly less than \$50,000). To improve the value-for-money of the CCM service, the CCM Team is revising the LFA terms of reference for the service to better tailor the LFA review to the risks involved in funding the CCM i.e. lower LFA level of effort of funding requests from CCMs that have a proven track record in efficiently using previous Global Fund funding.
- vii. **Savings in the LFA cost structure (savings of 2% on LFA fees, US\$1.5 million):** CPU has identified a number of projects to strengthen the Secretariat's monitoring and management of LFA costs and thereby reduce expenditure on LFA. These project cover: LFA travel, which accounts are approximately 11% of LFA costs; CCT costs, particularly for the two LFAs that have a significant CCT structure; and fees charged to the Global Fund for sub-contracted LFA experts (e.g. many LFA sub-contract PHPM and M&E experts to deliver services to the Secretariat); LFA procurement - improving and speeding up how LFAs and LFA services are tendered and negotiated.
- viii. **Savings due to the slippage of 2011 services in 2012 (savings of 1.5% on LFA fees, US\$ 1.1 million):** One of the main reasons for annual expenditure on LFAs to be less than the budget is that a number of LFA services scheduled in the year are either not performed or are re-scheduled to the next year. For example: an FPM may spend fewer days in a country with the LFA that originally planned for; some services such as an OSDV (that include the PR) may be cancelled due to an already high reporting burden on a PR; or PRs miss scheduled dates for requests (disbursements, Phase 2) that delay the LFA service until the next year.

## 2.3 General factors that are increasing LFA costs

The table below summarizes the LFA budget, expenditure and implementation environment for LFA services.

Budget development 2007-2011	2007	2008	2009	2010	2011
<b>Budget</b> US\$ million	32.9	50.2	58.0	68.0	74.2
% increase on previous year	-	53%	16%	17%	6%
<b>Expenditure</b>	32.5	35.2	54.4		-
% underspend	1%	30%	6%	5-15%	
<b>Cost drivers (year start values)</b>					
No. PRs	189	204	212	242	307
% increase		8%	4%	14%	27%
No. Active grants*	368	436	459	503	570
% increase		18%	5%	10%	13%
No. countries	121	126	128	131	135
% increase		4%	2%	2%	3%
Volume of disbursement (US\$ million)	1,647	2,131	2,495	3,103	3,500-4,500
% increase		29%	17%	24%	13-45%
LFA budget as % of disbursements	2.0%	2.4%	2.3%	2.2%	2.1-1.6%

The significant growth in the number of grants and PRs in 2011 is a key driver of the increased LFA budget. While the number of active grants shows a 13% increase in 2011, the number of grants will stabilize: the 117 new grants expected to be added with Round 10 is balanced by the 81 grant closures and 55 grant consolidations scheduled in 2011. The number of grants in 2012 is expected to be roughly the same as for 2011. The significant increase of 27% in the number of PRs is due to the successful take-up of dual-track financing.

Some 94% of LFA costs are determined by grant events and LFA verification requirements. Specifically, LFA costs are determined by:

- **Grant milestones:** 70% of LFA costs. Most LFA services are triggered by scheduled grants events: PU/DR; Phase 2; PR assessment (before grant signing); grant consolidation and grant closure.
- **Required LFA verification of programs and PRs:** 24% of LFA costs. In addition to the services at grant milestones, LFAs are required to perform a number of grant or PR specific services to provide additional information and risk management verification to the Secretariat. These include: OSDVs; PR audit report; supporting FPM visits; SR assessments; pharmaceutical procurement assessments; and other verification of implementation information (e.g. monthly progress reports, SR spot checks, attending CCM meetings).
- **Non-grant specific LFA services:** 6%. There include: the Portfolio Survey; LFA training; CCM funding; and LFA handover fees (when retendering results in a change of LFA).

In addition to the general increase in the volume of LFA services, the price of some key LFA services is higher in 2011 due to the Secretariat expanding the LFA scope of work (SoW) for a number of key services. This is a result of the Secretariat's practice of routinely updating LFA reporting tools, guidelines and checklists in line with the Secretariat's expanding information and verification requirements for decision making (e.g. the Grant Score Card, DDMF) and in response to OIG recommendations (e.g. on PR audit

arrangements, pharmaceutical procurement). Updating LFA tools invariably adds new requirements, thereby requiring additional LFA days to complete the revised service. The expanded scope of work for PU/DRs, OSDVs, Phase 2 and PR/SR audit reviews has increased the budget by US\$ 7.2 million.

An additional driver of LFA costs is the Secretariat's response to OIG audits and investigations. Responding to OIG findings and investigations, typically results in FPMs requesting additional LFA services, particularly additional verification work, SR assessments and pharmaceutical procurement reviews. Preliminary analysis from CPU indicate that the LFA costs in a country increase by at least 5% (from the originally planned cost level for the year) following an OIG country audit.

The move to the new grant architecture, is impacting the LFA budget, chiefly through increased LFA work for grant consolidations, periodic reviews and quality of service verifications. The significant growth in grant consolidations, up from the 25 budgeted in 2010, is necessary to move to single stream funding (SSF) (one grant or funding 'stream' per PR per disease). The 2010 LFA budget includes a new LFA service for the new Periodic Reviews under the new architecture, as part of SSF, which will gradually replace the Phase 2 process. In response to the Secretariat's comprehensive information requirements for the Periodic Reviews, the Secretariat is introducing a new LFA service in 2011: on-site qualify-of-services verification visits (OSQVs).

The 2011 budget includes six new LFA services that were not included in the 2010 LFA budget: OSQVs; PHPM Country Profiles; AMFm spot checks; Paris Declaration; Periodic Reviews; and country/PR risk assessments. These new services, explained in the next section, add US\$ 2.2 million to the budget.

## 2.4 Rationale for increases to specific LFA budget lines

The table below describes the reasons for the largest budget line increases in the 2011 LFA budget. The cumulative increase to the LFA budget explained below is US\$ 16.2 million. This is higher than the overall budget increase of US\$ 6.2 million over 2010. The difference is due to the cumulative changes, including reductions and efficiencies achieved across the other 20 lines in the LFA budget.

Budget Line	Budget 2010 (US\$m)	Budget 2011 (US\$m)	Reason for increase
PU/DR	28.0	31.8	<p><u>Expanded LFA Scope of work (US \$4.2 million):</u> In February 2009, SPE established a cross-functional Working Group (composed of representatives from Country Programs, Program Finance, M&amp;E, PMAS and Performance team) to revise the PR and LFA sections of the PU/DR reporting template. The objective was i) to align the forms/guidelines to the new Grant Performance Rating Methodology (rolled out in 2009) and to the latest Global Fund requirements (eg. PQR); and ii) to provide PRs and LFAs with more comprehensive guidance on the Global Fund's PU/DR reporting requirements.</p> <p>The new PU/DR form and guidelines were piloted in 2010 six countries and the feedback integrated into the new PU/DR form. It is expected that the new PU/DR template will be rolled out by the end of 2010. The revision to the LFA section of the PU/DR template leads to an increased scope of work for the LFA, particularly due to the changes introduced to the</p>



Budget Line	Budget 2010 (US\$m)	Budget 2011 (US\$m)	Reason for increase
			<p>form in the following areas:</p> <ul style="list-style-type: none"> <li>• LFAs are required to <i>review and document in more detail issues related to grant management and performance</i>, particularly in the areas of M&amp;E, PHPM, SR management, financial management in a newly dedicated section in the template. This includes the identification of risks and actionable recommendations in each area. In addition, more detailed follow-up on the implementation of Global Fund management actions, special conditions, and Conditions Precedent are required in the new form.</li> <li>• <i>Pharmaceutical and health products procurement</i>: Previously no dedicated LFA review was required in this area. Based on OIG recommendations, the PU/DR form has been amended to include the following new sections: i) verification of PQR information: the LFA has to verify the cumulative expenditures entered in the PQR by the PR and comment on/analyze any variances between reported amounts and those due for reporting, seeking clarifications from PRs; ii) the LFA is requested to analyze and comment on the risk of stock-outs of key pharmaceuticals and health products based on information provided by the PR, stock level reports and health product consumption reports.</li> <li>• <i>SR Financial information</i>: Up until now, no information pertaining to financial expenditures by SRs has been required in the PU/DR. Given the large and increasing volume of funds managed by SRs, the LFA is now required to comment on the reported SR expenditure and cash balances, including on the PR's verification efforts of SR financial information. The LFA has to examine the source documentation (i.e. SR finance reports) used by the PR for completing the SR Finance table and confirm whether the information is correct.</li> </ul> <p>Based on the feedback received from the pilots of the new PU/DR forms, the increased LFA level of effort (LoE) for each PR PU/DR was originally estimated to require an average of 3 additional days of LFA effort (varying from 1 to 4 days per PU/DR depending on the grant context). The budget now assumes 2 additional days.</p> <p><u>Volume decrease (US\$ 0.4 million saving)</u>: There is a 1.5% decrease in number of scheduled PU/DRs over the 2010 values.</p>
Other verification of implementation (Vol)	1.9	4.4	<p><u>Additional requests for LFA services</u>: In 2010 there is already a significant increase in the number of requests to LFAs to undertake additional services such as spot checks at SR level, verification of PR invoices, review of PR tenders, and more frequent reporting on PR progress. Purchase Orders for \$8.6m for 'Other Vol' (including pharmaceutical procurement reviews) have already been issued in 2010. The other Vol line is used by FPMs to better tailor the LFA's scope of work to manage the risks in the grant, PR and country context.</p>

Budget Line	Budget 2010 (US\$m)	Budget 2011 (US\$m)	Reason for increase
Pharmaceutical PSM reviews	1.3	2.8	<u>Additional request for pharmaceutical procurement reviews:</u> There are increasing requests to LFAs to undertake PHPM reviews given that some 45% of grant expenditure is in this area and in response to the recommendations in the OIG Review of Oversight of Grant Procurement and Supply Chain Management Arrangements (April 2010). Some 83 reviews are planned for 2010. Teams are scheduling 194 for 2011.
Phase 2	3.8	5.1	<u>Expanded LFA statement of work (US\$ 0.5 million):</u> The LFA level of effort has been increased by 3 days in line with the expanded scope of work required for the new Phase 2 LFA review to meet the information requirements of the expanded CCM request and the new Grant Score Card. The new Phase 2 tool will be piloted by LFAs in September/October with the Phase 2 Wave 11 grants.  <u>Volume increase (US\$ 1.0 million):</u> There is a 31% increase in the number of Phase 2 reviews scheduled for 2011 vs. 2010.
PR/SR audit reviews	2.0	3.1	<u>Expanded LFA statement of work for LFA reviews of PR and SR audits:</u> Following the OIG report 'Review of Principal Recipient audit arrangements' published in September 2009, the CP Support Office set up a Working Group composed of representatives of the Program Finance team, Legal and the LFA Management team. In response to the OIG's findings and recommendations, the aim of the WG was to revise the current Audit Guidelines (for PRs) and to draft a reporting template for LFAs.  The new Audit Guidelines and the LFA template introduce and enforce more systematic due diligence when reviewing PR/SR audit arrangements. For the LFAs this means reviewing and reporting on i) the auditor selection process; ii) the audit ToR; iii) the SR audit plan; iv) the PR audit report, including selected SR audit reports; v) the implementation of the SR audit plan and vi) to comment on the implementation of previous audit recommendations. While these requirements are not entirely new, they have to date not been systematically implemented. Also, LFAs are now required to complete a report template for each of the named review steps. The newly revised guidelines and the LFA template have been shared with a number of LFAs for comment and feedback. Both PwC and Swiss TPH (our two largest LFAs) commented that this additional due diligence will require increased LoE to complete the review of the audit arrangements.  Following OPC review, the new Audit Guidelines and LFA reporting template are expected to be issued for implementation from September/October 2010. The new LFA requirements are expected to add 2 LFA days per grant.
Grant consolidations	0.4	1.4	<u>Volume increase and complexity:</u> 112% increase in volume with 53 consolidations planned in 2011. The unit cost of grant consolidations as agreed in the 2010 cost proposals is higher than the 2010 budget value. This is due to the fact that the grant consolidation process is more complex than originally

Budget Line	Budget 2010 (US\$m)	Budget 2011 (US\$m)	Reason for increase
			expected (e.g. identifying efficiency savings, revising performance framework etc). As a consequence, the actual LFA effort required is higher than originally estimated. The LFA Management Team is working with the Grant Architecture Team and Program Finance to develop a consolidation checklist and guidelines for FPMs, PRs and LFAs.
PR Assessments	5.6	5.4	<p><u>Expanded Statement of Work:</u> The actual cost of a PR assessment has increased by, on average, 20% over the 2010 budget due to the revision of the PR Assessment tools and guidelines for LFAs that were introduced in December 2009 for Round 10.</p> <p>The expanded assessment package includes a new M&amp;E checklist and a comprehensive Budget Review Checklist for LFAs to complete as part of PR budget reviews. The expanded PR assessment package will also be used in 2011 for Round 10. However, the increase in the unit cost for a PR assessment is more than offset by the lower number of PR assessments expected for Round 10.</p>
Support to Country Team Approach	0.7	2.9	The Country Team Approach (CTA) will be implemented across all countries in 2011, particularly in high and medium risk countries. The LFA is part of the CTA. This contingency budget line provides the CT members with the necessary flexibility to better tailor the scope and volume of LFA services in each country to the risks in the implementation environment and to the Secretariat's information needs. This budget line was 'scope and rate increases' in the 2010 budget
New Service- PHPM Country Profile	n/a	0.6	<p><u>New LFA service:</u> In early 2010, the OPC agreed the introduction of the PHPM Country Profile in a number of pilot countries in 2010. The PMAS team is conducting a lessons learnt exercise on the pilot and is expected to propose to rollout the initiative to a further 50 countries in 2011.</p> <p>Each PHPM country profile (which involves all PRs for each disease component) is estimated to require 10 days from the LFA PSM expert.</p>
New Service- LFA on-site qualify-of-services verification visits (OSQVs)	n/a	0.6	<u>New LFA service:</u> The purpose of this new service is for LFAs to assess and verify if Global Fund programs are implemented according to internationally recognized and/or acceptable QoS standards. The current plan is that OSQVs will be conducted annually on each SSF (or grant), and implemented by the LFA in conjunction with the existing OSDV service. The LFA ToRs for OSQV's are currently being drafted by the Secretariat for piloting in late 2010/early 2011. The budget assumes that the service will be performed once in each country in 2011.
New Service- AMFm spot checks	n/a	0.4	<u>New LFA service:</u> The Affordable Medicines Facility - malaria (AMFm) was introduced in nine countries in 2010 as part of Round 9. AMFm is an innovative financing mechanism designed to expand access to artemisinin-based combination therapies (ACTs). In 2011, the Secretariat will request LFAs to perform spot-checks on 'first line-buyers' (who purchase AMFm co-paid ACTs). The AMFm team is currently drafting the LFA terms of reference.

Budget Line	Budget 2010 (US\$m)	Budget 2011 (US\$m)	Reason for increase
New Service-Periodic Reviews	n/a	0.3	<u>New LFA service</u> : The Periodic Reviews will gradually replace the existing Phase 2 reviews as the Global Fund transitions to the new architecture. Five periodic reviews are provisionally scheduled for 2011. The LFA scope of the work for the Periodic Reviews (which includes value-for money, equity, aid effectiveness and quality of services) significantly broader than the LFA Phase 2 review.
New Service-Paris Declaration	n/a	0.25	<u>New LFA service</u> : The Global Fund signed the Paris Declaration on Aid Effectiveness in 2005. As part of its commitment to implementing the Paris Declaration, the Global Fund has taken part in the official OECD-led Paris Declaration monitoring rounds. These monitoring rounds have taken place in 2006 and 2008, covering 32 and 54 countries respectively. Because the Paris Declaration has set targets for the year 2010, the third and last monitoring round is scheduled for 2011 (covering the 2010 FY). Global Fund participation in this final monitoring round is crucial to show the organization's continued commitment to aid effectiveness as well as our progress made in improving aid effectiveness. Information on the Global Fund's aid effectiveness has been frequently asked by the Global Fund Board and donors.  LFAs will collect data to report against aid effectiveness indicators, participate as observers in the in-country meetings on the Paris monitoring and provide clarifications to the Global Fund Secretariat and the national focal point for the monitoring of the Paris Declaration. Around 70 countries have volunteered to monitor the Paris Declaration. Three days of LFA work per country have been budgeted at average LFA rates for 70 countries. These budget assumptions are identical to what has been used for the Global Fund's contribution to the 2008 Paris Declaration monitoring round.
New Service-LFA PR/country risk assessment	n/a	0.1	<u>New LFA service</u> : This new service is being piloted in Nigeria, Yemen and Syria. The aim is for the LFA based on its experience and previous reports to prioritize the main risks and necessary response actions by PR and at country level. The assessments are planned to be introduced in 28 high-risk countries.

While the 2011 LFA budget has 10% overall increase, the change from the 2010 budget is different for each region. Four regions have a budget increase less than 10 percent:

- Southern Africa (five percent);
- Eastern Europe (five percent);
- Latin America (two percent); and
- Middle East North Africa (six percent).

The reasons for the budget increases in four regions with above average growth are provided below:

Region	Increase over 2010 budget US\$ million / %	Reason
West and Central Africa	1.5 / 14%	32 Round 9 grants added to portfolio. 18 Round 10 grants expected, which is higher than most other regions. Increased focus on LFA risk management in high risk countries requiring additional requests for LFA service. Quarterly LFA PU without DR added for all Nigeria grants.
East Africa	1.9 / 23%	Significant incremental increase in 2011 LFA activities: 10 grant consolidations, 5 Phase 2; 1 periodic review; 15 SR assessments.
East Asia Pacific	1.0 / 13%	Significant increase in LFA service requests in Myanmar and North Korea
South West Asia	0.8 / 11%	Increased LFA service requests in Afghanistan, India, Nepal, Sri Lanka, Bangladesh and Pakistan, including in response to OIG country audits.

### Part 3: Budget Framework Ratios

The tables below illustrate the evolution of ratios over 2008, 2009 and 2010, based on the proposed budget and various measures of grant activity.

- 3.1 Guideline ratio 1- Operating expense as a % of Total Expenditure: 7.2%; this ratio has exceeded the stipulated ceiling of 6% mainly due to 22% reduction in the grant commitments estimated for 2011. The 4% increase in operating budget includes the reduction of 1% in the Secretariat operating costs. Guideline ratio 2- Grant Commitments per employee: US\$ 6.3 million; this has reduced by US\$ 2.5 million from the ceiling of US\$ 8.8 million. The grant commitments entered into during 2011 is assumed the size of Round 10 be US\$ 2 billion.
- 3.2 The other operating expenses ratios (3 and 4) would be more relevant in the context of 2011 where the value of active grants increases by 8% and value of disbursements is expected to increase by 45%. This reflects that in 2011 the Secretariat will be focusing more on the grant disbursement and on-going grant management processes than new grant signings.

<b>BUDGET FRAMEWORK RATIOS</b>		Guideline ceiling	2009 Actual	2010 Budget	2011 Budget
1. Operating Expenses as % of Total Expenditure	<6%		5.3%	5.4%	7.2%
2. Grant Commitments per Employee (FTE)	<\$8.8m	\$m	7.0	8.1	6.3

<u>Operating Expenses ratios:</u>					
3. Operating Exps. as % of Value of Active Grants			2.2%	1.7%	1.7%
4. Operating Expenses as % of Grant Disbursements			8.2%	9.1%	6.6%
5. Operating Expenses per active grant	\$k		383	460	479
<u>Value-added per employee (FTE):</u>					
6. Grant Disbursements in Year per employee	\$m		4.8	5.1	7.5
7. Value of Active Grants per employee	\$m		17.9	27.4	29.5

<b>Source Data:</b>	2009	2010	2011	<b>Changes from 2010 to 2011</b>	
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<b>Budget Totals:</b>	unit	Actual	Budget	Budget			
Operating Expenses (\$m)	(a)	\$m	226	282	295	13	5%
Staff Positions	#		569	603	603	-	0%
Staff FTE	#		569	603	603	-	0%

<b>Key Numbers:</b>		Actual	Budget	Budget			
Grant Commitments entered into in year	(b)	\$m	4,010	4,900	3,825	(1,075)	-22%
Total Expenditure in year	(a+b)	\$m	4,236	5,182	4,120	(1,062)	-20%
Grant Disbursements in year		\$m	2,755	3,103	4,496	1,393	45%
Value of Active Grants		\$m	10,204	16,500	17,791	1,291	8%
Number of Active Grants (average for year)		#	590	613	617	4	1%
Number of new grants signed		#	146	157	125	(32)	-20%

## Part 4: Three-year budget model

- 4.1 The development of a multi-year budget model amidst the current economic climate, pending results of replenishment, the upcoming Board Strategy and evolving grant portfolio complexities was a challenging exercise.
- 4.2 Based on the 2010 operating budget and the grant activity assumptions applied then, the Secretariat had estimated the following three-year model:

(in US\$ million)	2009	2010	2011	2012
Scenario A: Old Architecture	253	277	301	314
Scenario B: New Architecture	253	277	291	283

The 2011 budget under the new architecture budget was estimated to reach US\$ 291 million. The variance against the current proposed 2011 budget has been analyzed below:

in US\$ million

	2011 Budget- Current Proposed	2011 Budget- Projected in 2010	Variance	% Variance
Secretariat	195.1	206.6	(11.5)	-6%
In-country Oversight (LFA fees)	74.2	64.5	9.7	15%
Funding of CCMs	12.4	8.0	4.4	55%
TERG	1.1	0.6	0.5	88%
Office of the Inspector General	18.7	11.3	7.4	65%
<b>Total:</b>	<b>301.5</b>	<b>291.0</b>	<b>10.5</b>	<b>4%</b>

- 4.3 In the context of zero growth, the Secretariat deprioritized multiple project initiatives and deferred expansion plans to its headcount and process as were assumed in the earlier 2011 projections. The Secretariat maintained zero-growth over the 2010 approved budget. The other elements of OIG, LFA, CCM Funding and TERG have been influenced by Governance mandate and other factors beyond the Secretariat's control. In the case of the LFA budget the assumptions around the number of PRs and grant complexity has significantly evolved. The higher funding uptake by CCMs on the expanded scope of CCM PBF has increased the budget beyond the 2010 assumptions.
- 4.3 The Secretariat has made a conservative estimate on the three-year budget projection to mainly incorporate the impact of inflation. In view of the current economic climate the Secretariat assumes that it would be imposing an extended zero-growth phase over the following two years except to allow for cost of living adjustment and inflation. The expected three-year model, excluding any foreign exchange rate impact, is shown in the table below:

in US\$ million	2011 Budget	2012 Projection	2013 Projection
Secretariat	195.1	199.0	203.0
In-country Oversight (LFA fees)	74.2	74.2	74.2
Funding of CCMs	12.4	13.3	13.4
TERG	1.1	1.1	1.1
Office of the Inspector General	18.7	19.1	19.5
<b>Total:</b>	<b>301.5</b>	<b>306.7</b>	<b>311.2</b>

- 4.4 The Secretariat would be able to prepare an updated three-year model in early 2011 when it has the final results of the Replenishment conference, Round 10 and the new Board Strategy.