GF/B31/03-Part B

Board Information

THE GLOBAL FUND
CORPORATE WORK PLAN & BUDGET NARRATIVE 2014

Purpose:

This document presents a work plan and narrative as complement to the Global Fund Operating Expenses Budget for 2014 (GF/B31/03-Part A).

A preliminary workplan was shared with the Finance and Operational Performance Committee in December 2013. Suggestions and recommendations were incorporated into a subsquent draft which was favorably reviewed by the FOPC in January 2014. Consequently, this document is submitted to the Board following thorough FOPC discussion, review and feedback.
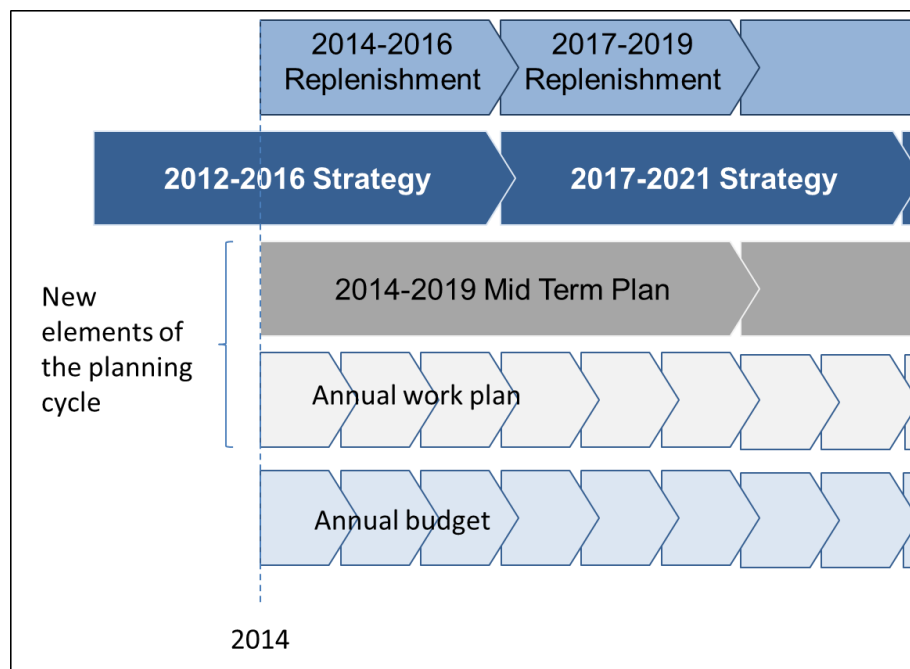
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PART A: INTRODUCTION

1. This document represents the first Global Fund Budget Framework and Work Plan, and forms an important part of efforts to strengthen the financial reporting and planning landscape of the organization. As a complement to the budget, the work plan:

   - Summarizes the current status of strategy implementation;
   - Identifies key priorities for the year ahead;
   - Provides an overview of budget allocations by Strategic Objective, Priority and Cost category, with an accompanying analysis of budget trends and drivers; and
   - Describes how performance on achieving Strategic Objectives will be monitored against the recently approved KPI Framework.

2. The Work Plan is designed to provide a better understanding and analysis of where operating expenses are being invested, what will be achieved with the allocated funds, and how budget decisions align with Strategy.

3. Along with the new Mid-Term Plan, the Work Plan strengthens the link between annual budgeting and the Global Fund Strategy. The Finance Step-Up initiative will enable the first Mid Term Plan to be developed in 2014. With a focus on financial data the plan will provide a forecast of grant and operating expenses over a horizon of two replenishment periods. A first phase will provide a plan for the 2014-2016 replenishment period, before development of a more strategic plan for 2017-2019. Further methodological work will be required before the scope of the Mid-Term Plan can be extended in 2015 to incorporate forecast programmatic results.
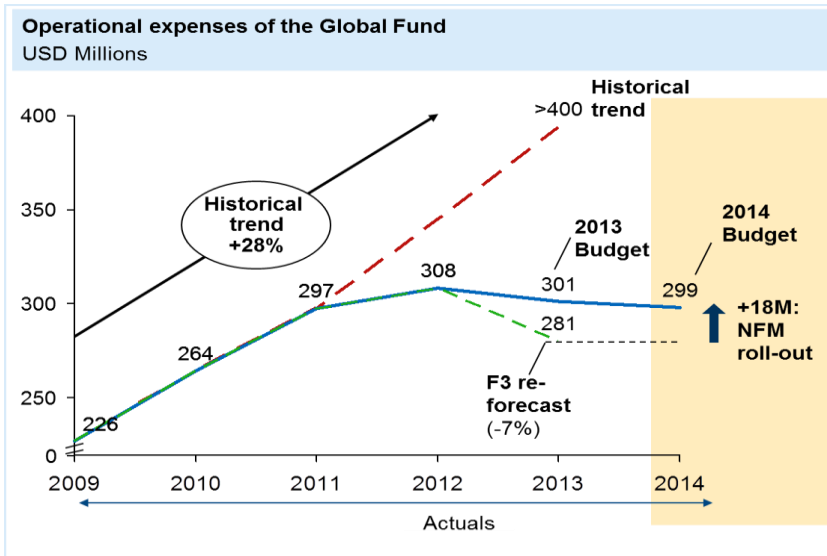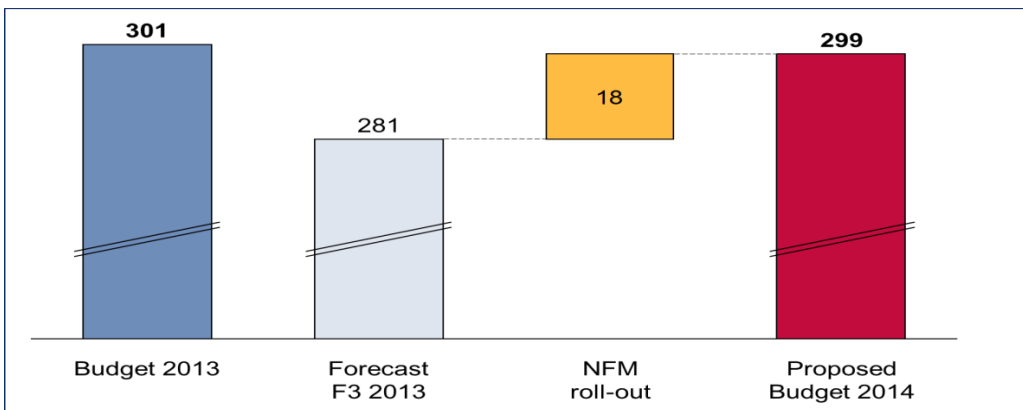
The Global Fund Planning Cycle

PART B: BUDGET SUMMARY

4. Three core objectives form the basis of the 2014 budget:

    a) Achieve value for money by at least maintaining efficiency gains seen in 2013;
    b) Provide resources to fund Global Fund priorities for 2014; and
    c) Ensure resources are prioritized and allocated according to a defined work plan.

5. The first of these objectives is illustrated in the chart below which explains the trajectory of operating costs over the last 4 years. Through appropriate budgetary discipline and prioritization, operating expenditure has been reduced in 2013 to a level below that of 2011. This improvement has been achieved at the same time as realizing the significant progress in implementing the 2012-2016 Strategy outlined in the next section and further increasing disbursement levels, which are expected to exceed the record of USD 3.3 bn reported for 2012. These gains in efficiency provide the solid platform on which the 2014 budget has been built.

6. The baseline 2014 budget, including new funding model costs, will not exceed the 2013 budget. Excluding new funding model costs the baseline budget will maintained at the level of the 2013 forecast:

PART C: STRATEGIC OBJECTIVES

7. The new funding model is the core around which the objectives of the 2012-2016 Strategy will be realized. The overriding priority of the Global Fund in 2013 was to put in place the necessary policies, procedures, systems and finances required for the new funding model. In 2014 the clear priority for the organization is a successful roll out of the new model. Further detail on Secretariat priorities for 2014 is set out in the accompanying Annex.

8. The following table provides an indicative breakdown of the 2014 budget by Strategic Objective and Strategic Enabler. **Note, the information should be interpreted with care.** Strategic Objectives and Enablers are not mutually exclusive categories and the smaller values in the table are likely to be underestimates of the actual time and resources devoted to these activities. For example, much of the activity directly related to supporting more strategic investments and more effective grant implementation is conducted through strong partnerships, even if it may be budgeted as *Invest more strategically* or *Actively support grant implementation success*. For Strategic Objective 4: Promote and protect human rights, it should be noted that these costs reflect the work on policy, procedures and advisory activities only, it does not include work dealing with human rights issues in day to day grant management or the sums invested in human rights interventions in grants.

Strategic Objectives and Enablers	USD m
Strategic Objective 1: Invest more strategically	51 (17%)
Strategic Objective 2: Evolve the funding model	5 (2%)
Strategic Objective 3: Actively support grant implementation success	144 (48%)
Strategic Objective 4: Promote and protect human rights	1 (<1%)
Strategic Objective 5: Sustain the gains, mobilize the resources	8 (3%)
Strategic Enabler: Enhance partnerships to deliver results	6 (2%)
Strategic Enabler: Transform to improve Global Fund governance, operations and fiduciary controls	84 (28%)
Total	**299**

Strategic objective 1: Invest more strategically

Budget (USD millions)

Staff	Professional fees	Travel & meetings	Other (incl. LFA)	Total
25	3	8	15	**51**

9. The first step in ensuring that the investments of the Global Fund are made more strategically has been the shift from a demand to an allocation based model of funding. The design of the Allocation Model was finalized in 2013. It will ensure that available funds are allocated to countries based on their 'need' in terms of disease burden and their 'ability to pay', and it will take into account a country's ability to use the funds effectively.

10. In 2014, focus will shift from policy to implementation, as the USD 12 bn in confirmed pledges announced at the 2013 Replenishment Conference, is converted into allocation envelopes for Board approval and then communication to countries by the end of the first quarter. The Secretariat expects to receive 321 component[1] applications for funding over the 2014-2016 cycle; with 151 components taken through the five stages of the access to funding process in 2014. Additional detail on the flow of expected applications is provided in the 2014 Priorities Annex.

11. The allocation model increases the effectiveness of funding decisions by better aligning funding with need and potential for impact. The second step aims to ensure that the allocated funding is used in the most effective manner. With partner endorsed Strategic Investment guidance for HIV/AIDS, TB and malaria programs agreed in 2013; 2014 will see the implementation of this guidance as concept notes are developed and grants designed during the application process of the new funding model.

12. Additional information on strategic investments for Health and Community System Strengthening; Gender issues; Maternal, Neonatal, and Child Health (MNCH) and Human Rights will be developed ahead of the new funding model rollout at the end of the first quarter of 2014. Development work in 2014 will seek to further the scope of investment decision making to address Allocative Efficiency, and to bring in a more long term development perspective. Further detail is provided in the 2014 Priorities Annex.

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[1] Component refers to the focus of the application on either HIV, TB, Malaria or Health Systems Strengthening

Strategic objective 2: Evolve the funding model

Budget (USD millions)

Staff	Professional fees	Travel & meetings	Other	Total
3	1	1	<1	**5**

13. The policy decisions to enable a shift away from the rounds based system were made in 2012, and in 2013 the focus was to develop and pilot-test the procedures and systems required to implement the new funding model. A USD 1.9 bn grant funding envelope was approved to support this transition process with USD 400 m scheduled for commitment in 2013. The latest forecast is that USD 620 m will be committed by the end of the year, and the remaining funds in 2014.

14. The new funding model was applied in full with six single-country early applicants and three regional programs. Three of these countries went through the new funding model process from allocation decision to grant signing in just over 4 months. The other grants are expected to be signed early in 2014.

15. In 2014, work on evolving the new funding model will reduce as the final elements of Board approved policy are operationalized. Priorities will shift to implementing the model through more strategic investments and more effective grant implementation.

Strategic objective 3: Actively support grant implementation success

Budget (USD millions)

Staff	Professional fees	Travel & meetings	Other (incl. LFA)	Total
61	20	9	54	**144**

16. New performance based funding procedures will be applied in 2014 to better focus grant management on supporting programs to achieve impact. Guided by technical partner input the focus of programmatic performance frameworks have been raised from outputs (number of services delivered) to coverage (share of the population in need reached) and impact (effects on incidence and mortality). These changes will be complemented by further development and learning on Results Based Financing models, particularly for MNCH activities (see Priorities annex for further information).

17. Roll out of the operational risk management framework across the grant portfolio started in 2012 and by the end of 2013 risk assessments will cover approximately 80% of grant funds and around 50% of the more than 400 grants in progress. High impact countries will have undergone an update of their risk assessment by the end of the year, which will inform planned further development of the operational risk management framework in 2014 and increase understanding of how to effectively integrate a risk perspective into routine grant management operations.

18. An important element in mitigating potential financial risk has been the change to a cash management framework for grant financing, which has been integrated into the annual disbursement and commitment decision procedure. 73% of the grant portfolio will be covered by this improved approach in 2013, and this will be further extended to 85-90% in 2014.

19. These changes to procedures have been complemented by tangible improvements in leveraging the Global Fund's considerable purchasing power to achieve savings in commodity procurement. The organization is on track to achieve its 8% annual savings target; and in addition to continuing these major gains in commodity savings, focus in 2014 will extend to improving on-time – in-full delivery rates , currently running at 37% against an industry standard of 97%, and reducing procurement lead time from nine to six months.

20. Experience with the early applicants showed that timely and focused technical support is a critical factor for country dialogue and application development. The Secretariat is currently working with technical partners to develop deliverable-based partnership agreements for technical support. A Special Initiative to cover these activities will be submitted to the Board for approval in 2014. Funding will be sought from existing and potential new sources; the Global Fund will underwrite the initiative acting as a funder of last resort where other funding cannot be secured. Other activities enhance grant level partnerships will focus on assessment and strengthening of CCM capacities.

21. The new funding model roll out will understandably attract attention in 2014, but that does not mean that the organization will neglect management of existing investments in the more than 700[2] ongoing grants. The redeployment of resources described in the 2014 Priorities Annex will enable the Secretariat to manage both these demands on resources.

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[2] This figure includes both grants in progress and grants in closure. The grant closure process represents an important workload for country teams.

Strategic objective 4: Promote and protect human rights

Budget (USD millions)

Staff	Professional fees	Travel & meetings	Other	Total
<1	<1	<1	<1	**1**

22. The addition of a Senior Human Rights Advisor to the Secretariat staff catalyzed the work on this strategic objective. An 18-month work plan, developed with technical support from a newly established Human Rights Reference Group, was approved by the Strategy Investment and Impact Committee in 2013.

23. The work plan will focus in 2014 on safeguards to ensure that the risks of human rights violations are effectively identified and managed. The Global Fund will clarify how it will address specific human rights violations in supported programs, and will develop the policies and tools for implementing the approach. This will include reviewing current policies, contracts and procedures, and working with the Office of the Inspector General (OIG) to develop a reporting and allegation management procedure. Other activities will see the introduction of a tracking system to monitor investments in Human Rights interventions in submitted applications.

Strategic objective 5: Sustain the gains, mobilize resources

Budget (USD millions)

Staff	Professional fees	Travel & meetings	Other	Total
7	<1	1	<1	**8**

24. The Global Fund's Fourth Replenishment was launched in December 2013 at a meeting hosted by the United States Government. Donors pledged USD 12 bn for the 2014-2016 replenishment cycle; the largest amount ever committed to fight against AIDS, tuberculosis and malaria. This represents a 30% increase on the US$9.2 billion in firm pledges secured at the 2010 replenishment conference. The funding secured through this process will drive the implementation of the Global Fund's new funding model in 2014, and define the ambitions of the remaining three years of the strategy. Work will continue in 2014 to secure further pledges and to ensure pledges are turned into contributions delivered to agreed schedules.

25. Policy work conducted in 2013 on incentives to increase domestic investments in the three diseases with the introduction of willingness to pay criteria will be applied in 2014. Sustained advocacy efforts with a number of implementer states are expected to lead to formal announcements on increases in domestic financing during the Replenishment cycle. Another component of the work on sustainability in 2014 focuses on innovations through private sector partnerships, co-investments, innovation coalitions and innovative schemes to support transitioning countries.

Strategic Enablers

Budget (USD millions)

	Staff	Professional fees	Travel & meetings	Other	**Total**
Partnerships	4	1	1	<1	**6**
Governance, operations & fiduciary controls	26	20	5	33	**84**

26. As noted above, the partnership model has been re-invigorated through the work undertaken to bring the Strategy to where it is today. This model will be taken to the next level in 2014 as the focus changes from development to implementation. Emphasis will increasingly shift towards partnerships required to support countries through the new funding model and to ensure that allocated funds are invested strategically.

27. Priority initiatives for governance, operations and fiduciary controls are described in detail in the Annex. To support roll out of the new funding model the Secretariat has identified four areas where further development will be concentrated and a number of these are highlighted above.
    a. Foster operational excellence: establishing the required systems and processes to roll-out the new funding model; strengthening internal controls and risk mitigation; re-focusing the organization on priorities and results; and fostering innovation.
    b. Improve the quality, consistency, access and use of information.
    c. Strengthen governance and partnerships: improving the functioning of the governance model; and developing key strategic and technical partnerships to support countries through the new funding model.
    d. Build a strong global fund culture: strengthening leadership; and creating and retaining motivated employees.

PART D: COST CATEGORY

28. The table below provides a summary of the full 2014 budget by major cost category. Five cost categories make up more than 90% of the total budget.

Budget category (USD millions)

Staff	LFA	Professional fees	Office infrastructure	Travel	**Total**
126	60	46	23	21	
CCM	Meetings	Communication	Board constituencies	Other	**299**
8	4	3	1	7	

29. The Staff budget will see a small reduction from USD 128 m in 2013, even with the additional positions required for the new funding model launch. Salary increases, including cost of living adjustment, have been set at 1.5%.

30. Important efficiencies in the Global Fund's Local Fund Agent costs were seen again in 2013 and further savings are expected in 2014. These savings were driven by the shift to annual disbursement and commitment decisions, which reduced LFA workload, and by making more efficient use of LFA services. This used a risk based approach to better target services to where they were needed most and a more flexible approach for grants with low risk or low value of investments. This approach will be further developed in 2014, and further savings are expected even with the additional demands on LFA services brought in by the new funding model.

LFA expenditures (USD millions)

2010	2011	2012	2013
58	77	76	64

31. Global Fund's investments in Professional Fees show an increase of 13% compared to the 2013 budget. The increase is related to addition technical assistance and IT systems required to support the new funding model roll out. As in past years the majority of professional fee expenditures are on mandatory or compliance issues, for example Trustee and external audit fees, procurement and product testing, and TRP and TERG functions.

Professional fees (USD millions)

Mandatory / Compliance	IT projects	NFM	Strategic & technical	Staff development	Temps / agencies	Other
21.8	10.5	4.7	3.1	1.5	1.3	3.0

32. Office infrastructure is dominated by the rental and service costs for the Global Fund and OIG office space (USD 15m) with IT related infrastructure making up the rest of these costs. The Global Fund is scheduled to move to the new 'Health Campus' by the end of 2016 and this move is expected to generate major savings in office space rental;

33. As a result of the closer partnership between the Secretariat and country actors designed into the concept note and grant making phases of the new funding model, travel costs (USD 21 m) show an important increase in 2014 when compared to previous years.

Travel expenditures (USD millions)

2010	2011	2012	2013
15	17	14	19

PART E: PERFORMANCE

34. Performance against Strategic Objectives will be monitored and assessed against the recently revised Corporate KPI Framework. After a process of extensive consultation with Board Constituencies and Committees a revised Global Fund Corporate KPI Framework 2014-2016 was approved at the 30th Board Meeting in November 2013. The Framework consists of 16 indicators split across Strategic Goals, Targets and Objectives.

Strategic	Strategic goals	Strategic targets	
	KPI 1 Performance against strategic goals	KPI 2 Quality and coverage of services	KPI 3 Performance against strategic service delivery targets

Activity specific	Strategic objective 1 – Invest more strategically		
	KPI 4 Efficiency of Global Fund investment decisions	KPI 5 Health System Strengthening	KPI 6 Alignment of supported programs with national systems
	Strategic objective 2 – Evolve the funding model		
	KPI 7 Access to funding	KPI 8 New Funding Model implementation [Temporary KPI]	
	Strategic objective 3 – Actively support grant implementation success		
	KPI 9 Effective operational risk management	KPI 10 Value for money	KPI 11 Grant expenses forecast
	Strategic objective 4 – Promote and protect human rights		
	KPI 12 Human rights protection		
	Strategic objective 5 – Sustain the gains, mobilize resources		
	KPI 13 Resource mobilization	KPI 14 Domestic financing for AIDS, TB & Malaria	
	Implementing operational excellence		
	KPI 15 Efficiency of grant management operations	KPI 16 Quality of management & leadership	

35. The framework was approved by the Board with the acknowledgement that further work would be required in 2014 to operationalize some of the indicators defined, notably on:

- Attribution: in depth work with partners to develop a common methodology for transparent and rigorous results reporting;

- Cost-effectiveness: methodological work to extend the scope of the Efficiency of investment decisions and Value for Money KPIs;
- Human Rights: procedures and processes to define and monitor human rights standards; and
- Targets: performance targets have been defined for eight KPIs. Targets for the remaining eight will be defined in 2014; some are dependent on the result of the 4th replenishment.

36. The table on the next page provides a summary linking the major activities planned for 2014 under each strategic objective or enabler with allocated budget and corporate KPI. In reading the table it should be noted that the KPI framework is defined at the corporate level and was designed to enable effective governance and high level strategic monitoring. The budget and work plan are by definition pitched at the operational level creating something of a mismatch. The Mid-Term Plan to be developed in 2014 will provide a framework to better link budget and activities with KPIs at the corporate level, and a secretariat level operational KPI framework will be developed in 2014.

37. It should also be noted that Strategic Objectives overlap, which can cause problems linking budget, activity and KPI. For example, *KPI 7 Access to funding* bridges *Strategic Objective 1: Invest more strategically* and *Strategic Objective 2: Evolve the funding model.* In the KPI framework it has been assigned to Strategic Objective 2 but in the budget, costs have been assigned to Strategic Objective 1 as the focus of this work has changed from development to implementation.

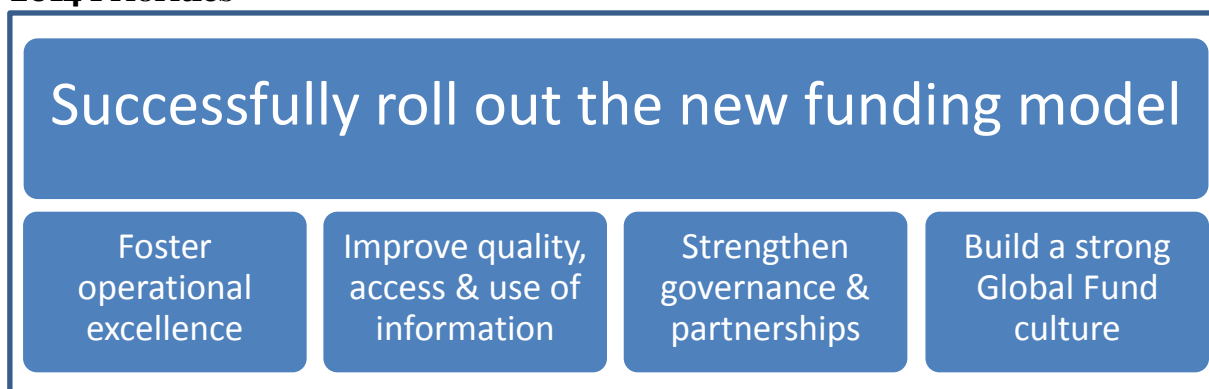| Strategic Objective/Enabler	Major activities	2014 Budget (USD m)	Expected outcomes[1]
Strategic objective 1: Invest more strategically	• Operationalize the allocation model • In collaboration with partners support countries in making strategic investment decisions for allocated resources • Support countries through each stage of the Access to Funding process • Further development of the Strategic Investment concept	51	• KPI 4: Efficiency of Global Fund investment decisions: 22% improvement in alignment between investment decisions and country need over the 2014-2016 period • KPI 5 Health System Strengthening: HIV, TB & Malaria service availability and readiness rating (Performance target to be agreed) • KPI 6 Alignment of supported programs with national systems: Percentage of investments in countries where Global Fund support is reported on National Disease Strategy budgets (Performance target to be agreed) • KPI 7 Access to funding: a) Time from final Concept Note submission to Grant Approval Committee recommendation; b) Time from Grant Approval Committee recommendation to Grant Signing; c) Time from Grant Signing to first disbursement (Performance target to be agreed)
Strategic objective 2: Evolve the funding model	• Operationalize the new funding model • Support countries eligible for transitional funding through each stage of the Access to Funding process	5	• KPI 8 New Funding Model implementation: USD 1.9 bn in grant expenses for the transition to the new funding model committed over the 2013-2014 period
Strategic objective 3: Actively support grant implementation success	• Integrate a risk perspective into routine grant management operations • Increase value for money of invested funds • Develop strategic and technical partnerships to support countries through the new funding model • Management of investments in more than 700 ongoing grants	144	• KPI 9 Effective operational risk management: Portfolio Risk Index (Performance target to be agreed) • KPI 10 Value for money: 8% savings per year gained through leveraging of Global Fund purchasing power for equivalent commodities at equivalent quality and volume • KPI 11 Grant expenses forecast: Actual grant expenses within 10% of forecast

Strategic Objective/Enabler	Major activities	2014 Budget (USD m)	Expected outcomes[1]
Strategic objective 4: Promote and protect human rights	▪ Develop tools and procedures to integrate Human Rights into the grant lifecycle ▪ Develop tools and procedures to ensure Human Rights risks are effectively assessed and reported violations effectively managed	1	▪ KPI 12 Human rights protection: Percentage of human rights complaints against Global Fund supported programs successfully identified through risk assessment tools; and resolved through Secretariat policies and procedures. (Performance target to be agreed)
Strategic objective 5: Sustain the gains, mobilize resources	▪ Engagement with donors to secure additional pledges and ensure contributions made to agreed schedule ▪ Advocacy and operationalizing incentives to increase domestic investments in the three diseases	8	▪ KPI 13 Resource mobilization: USD 15 bn in pledges; 100% of forecast contributions received. ▪ KPI 14 Domestic financing for AIDS, TB & Malaria: 80% of programs accessing funding where government contributions meet minimum counterpart financing thresholds.
Strategic enabler: Enhance partnerships to deliver results	▪ Effective partnerships underpin each of the Global Fund's Strategic Objectives	6	▪ No Corporate KPIs set for this Strategic Enabler
Strategic enabler: Transform to improve Global Fund governance, operations and fiduciary controls	▪ Foster operational excellence ▪ Strengthen the governance model ▪ Improve the quality, consistency, access and use of information ▪ Build a strong Global Fund culture	84	▪ KPI 15 Efficiency of grant management operations: Operating expense budget ceiling up to 3% of grants under management ▪ KPI 16 Quality of management and leadership: Management and leadership index (Performance target to be agreed)
Total		**299**	

[1] GF/B30/DP7: performance targets will be finalized by June 2014; with the potential exception of KPI 12 on Human Rights.

ANNEX: GLOBAL FUND PRIORITIES FOR 2014

38. The clear priority for the Global Fund in 2014 is a successful roll out the new funding model. With the foundations in place the other priorities identified by the Secretariat's Management Executive Committee for 2014 focus on implementation and optimizing performance to ensure that the model is able to deliver the ambitious goals set for the 2012-2016 Strategy.

2014 Priorities

Successfully roll out the new funding model

| Foster operational excellence | Improve quality, access & use of information | Strengthen governance & partnerships | Build a strong Global Fund culture |

39. Part of the cost of these priorities has been funded through cost efficiencies, and part through re-prioritization and re-allocation of resources. The key areas where cost saving and re-prioritization has been undertaken are:

Re-prioritization	USD m
Re-optimization of Local Fund Agent Costs	4
Re-focus of grant management activities	10
Streamlining and re-focusing	2
Reductions in replenishment related expenditure	2
Reduction in restructuring costs	3
Total	**21**

40. **Local Fund Agents**: The work undertaken by Local Fund Agents is continually being re-assessed to ensure that the fund receives value for money for the assurance it requires on grant activity. As a result of a thorough review of grant plans on a country-by-country basis further savings have been identified. These savings will be driven by improved grant planning through NFM as a risk based approach is embedded into the concept note and grant making stages.

41. **Grant Management**: As many Rnd 8 and Rnd 9 grants come to an end and with the launch of the new funding model, the Grant Management division will see a natural shift in workload re-focusing efforts away from ongoing grant management and more towards the portfolio of new grants coming through the new funding model.

42. **Streamlining and re-focusing**: Informed by an analysis of the expected workload and capacity required to deliver the new funding model, the Strategy, Investment and Impact Division and Grant Management Support Department underwent a process of streamlining to better target resources to support country applicants. These changes see the Technical Advisory, Critical Enabler and Monitoring and Evaluation functions strengthened and also resulted in additional resources for Country Teams. This also sees the separate teams previously dealing with grant renewals and grant applications merged into a single Access to Funding Department. Activities within support functions, notably Human Resources, have also been refocused to better align with priority demands for 2014.

43. **Replenishment**: Significant resources and time has been invested in supporting the Replenishment process during 2013. The majority of resources has been used on travel and meeting costs and these have been reduced within the relevant divisional budgets.

44. **Restructuring costs**: Expenses relating to exceptional restructuring costs have been reduced significantly as a result of a more sustainable operating model within the Secretariat. This has released funds to be re-focused on priorities.

45. The table below summarizes the incremental budget allocated to each priority. The next section provides a more detailed narrative on the initiatives identified by the Management Executive Committee as the focus for the Secretariat's work under each of the 2014 Priorities.

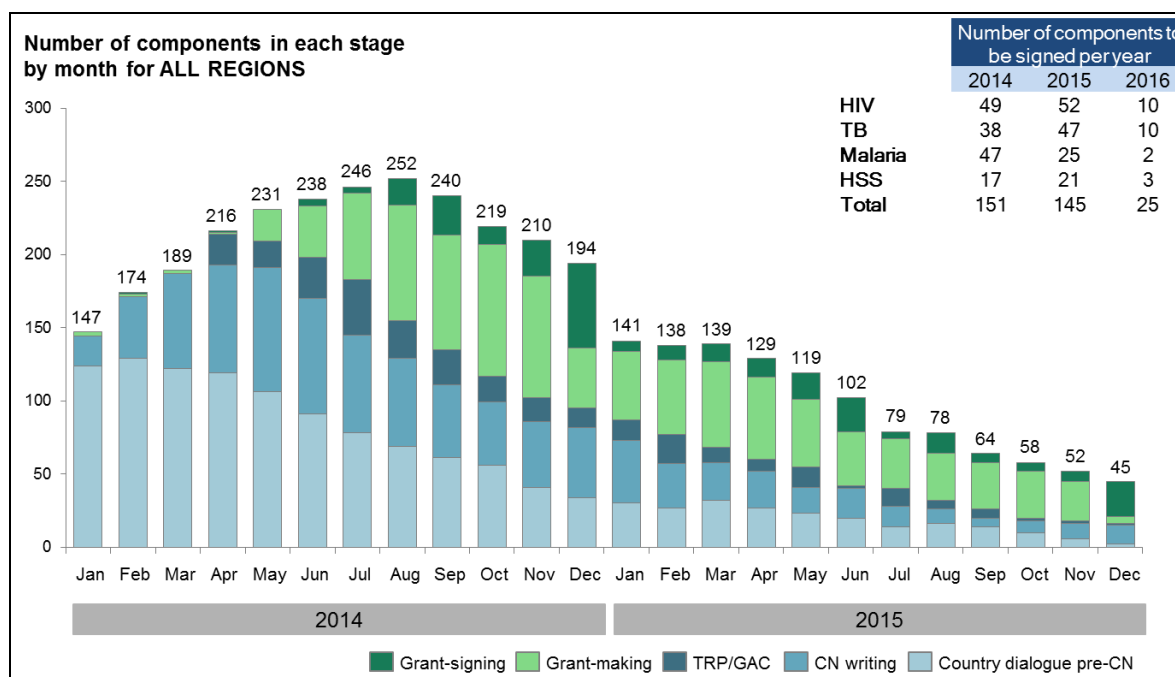| Priority	USD m
1. Successfully roll out the new funding model	18.4
2. Foster Operational Excellence	13.3
3. Improve quality, access and use of information	2.1
4. Strengthen governance & partnerships	3.9
5. Build a strong Global Fund culture	1.8
Total	**39.5**

46. The majority of the resources will be devoted to new staff or secondments, to cover the peak in activity expected in 2014. This will be complemented by additional professional fees to cover technical support for country applicants and improvement to information systems.

Incremental budget (USD millions)

Staff	Professional fees	Travel	Other	Total
8.8	4.7	3.8	1.1	**18.4**

Strengthen cross functional operations and resources to support the new funding model roll-out

47. Based on feedback from country teams the Global Fund expects to receive 321 component[3] applications for funds over the 2014-2016 period, and the flow of components through each stage of the application process is illustrated in the figure below.

48. The schedule shows that 47% of components are expected to be signed in 2014, and there is a peak of activity expected in August 2014. Work will be required to support countries with 252 component applications; the workload then drops off from January 2015 onwards.

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[3] Component refers to the focus of the application on either HIV, TB, Malaria or Health Systems Strengthening

49. A detailed resource requirements analysis was conducted, based on experience to date with the countries going through early and interim applications, and this identified the need for an additional 49 full time equivalent positions. Given the greater role for the Secretariat in supporting the adaptation of Strategic Investment guidance to country contexts as part of concept note development and grant making, a large part of this additional workload falls on the Technical Advisors and Monitoring and Evaluation Officers, but additional positions will also be required for Fund Portfolio Manager, Program Officer and Procurement and Supply Management functions. The new streamlined financial systems introduced by the Step Up initiative mean that just two additional Program Finance Officers will be required.

50. Redeployment of existing staff, notably from the Strategy Investment and Impact Division, and new contracts will cover more than half the additional positions. The redeployment process has already started and will be completed by January 2014. The remaining positions will be filled through secondments from partner organizations (e.g. UNAIDS, WHO, Open Society Foundations, CDC Foundations, PEPFAR or bilaterals) or through consultancies.

51. A comprehensive training plan, to bring all staff involved in supporting countries through the new funding model processes, was started in 2013 and will be intensified in the run up to the March launch. Topics covered include:
   - New financial systems
   - Counterpart financing
   - Investing strategically
   - Communicating country allocations
   - Concept note and modular templates
   - Online tools
   - Grant making and implementation

Operationalize strategic enablers within the new funding model

52. A new team was established in 2013 under the leadership of Kate Thomson, seconded from UNAIDS, to further develop the work of the organization on the cross-cutting critical enablers of Gender, Human Rights and Community System Strengthening. Full implementation of the Gender Equality Strategy will be a priority for 2014 to ensure that interventions aimed at reducing the vulnerability of women and girls are effectively integrated into the grant portfolio.

53. To date activities to take forward the strategic action on improving the impact of investments on maternal, neonatal, and child health (MNCH) have reached the stage of examining opportunities for country level co-financing with partner organizations; focused on settings where there are existing Global Fund supported HIV, TB, or malaria programs. For example, with childhood febrile illness management, the Secretariat is working with UNICEF, Democratic Republic of the Congo and Kenya on re-allocation of unspent funds

from malaria grants to cover integrated community case management. The arrangement would see UNICEF support for non-malaria commodities (e.g. antibiotics to treat pneumonia) complement Global Fund investments for malaria commodities. Discussions on similar initiatives are underway with partners, including UNICEF and UNFPA, to support Prevention of Mother to Child Transmission (PMTCT) programs with complementary funding. In addition to improving the integration of MNCH services into Global Fund supported programs, options to integrate Global Fund investments for HIV, TB and malaria into MNCH programs of broader health platforms such as the World Bank Results-Based Financing initiative are being assessed. The planned addition of a senior position to the Secretariat staff to lead the work on MNCH will bring a more structured approach to turning these opportunities into concrete achievements in 2014.

54. As noted above, an 18 month work plan for operationalizing Human Rights within the grant lifecycle has been agreed. It sets out ambitious goals to firstly develop tools and procedures to integrate human rights considerations into each step of the grant lifecycle; and secondly to ensure human rights risks are effectively assessed and reported violations effectively managed.

Enhance strategic investments and cost effectiveness of funded programs

55. The Global Fund is using a number of complementary approaches to ensure that available funds are invested strategically. As noted above, the Allocation Model and Investment Guidance are key parts of this; and in 2014 this will be further enhanced by supporting additional work at country level to better disaggregate data by geographical regions and key populations, to better inform decisions of where and how funds should be invested

56. An acknowledged gap in the Investment Guidance is an assessment of the allocative efficiency of program funds, addressing the question of whether, given the country context and the best available country evidence on costs and benefits, the mix of interventions and the service modalities through which they will be delivered represents the optimal allocation of resources. A successful pilot of an approach developed by the London School of Economics that seeks to answer this question was conducted in 2013; further development work is scheduled in 2014 before roll out more widely across the portfolio. This will be complemented by the further work on improving procurement efficiency highlighted above.

57. At a higher level, development realities require that long-term strategies for the Global Fund's engagement with countries are put in place, and that these take into account:
   - The objectives of investing in a country;
   - The outcomes expected in 3 years and then further into the future; and
   - The types of investments the Global Fund should be making.

58. Adopting such an approach can better leverage opportunities specific to a given country's stage of development. It can also more effectively take into account factors on which the Global Fund may have limited influence, such as a country's political stability or their pace

of economic development, and identify approaches that realistically address needs within that context. A particular focus will be middle income countries and how the changing role of Global Fund support can be integrated into national sustainability plans. A broad consultation with development partners and other stakeholders will be held in 2014 ahead of submission of the concept to the Strategy, Investment and Impact Committee (SIIC) and Board.

Priority 2: Foster operational excellence at Secretariat and country level

Incremental budget (USD millions)

Staff	Professional fees	Travel	Other	Total
3.3	8.3	1.7	-	**13.3**

Establish the required systems and processes (Step-Up/NFM portal) to roll-out the new funding model

59. The introduction of the new funding model has provided an opportunity for the Global Fund to review and streamline its major systems and processes. Work started on grant management, procurement and financial systems in 2013 and will continue in 2014. This constitutes a significant financial investment on the part of the Secretariat, but these investments are expected to generate considerable returns, freeing up resources through streamlining and automating what have been complex manually intensive processes.

60. The full grant lifecycle from expression of interest to grant closure will be brought together within one online information system for the Secretariat, implementers, LFAs, CCMs and partners. The new system will cover data, documents, decision making, reporting, communication and planning. The 2014 phase of the Finance Step-Up initiative will focus on effective integration with new grant management systems and work with principal recipients on the aligned and simplified annual expenditure reporting requirements.

61. In advance of the new funding model launch there are a few final policy decisions required of the Board Committees and the Board. These will agree changes to the Comprehensive Funding Policy, define the available envelope of funds for allocation and agree the final details on country Bands and 'set asides'. Work within the Secretariat will continue the streamlining of operational policies required for the efficient implementation of the new funding model.

Strengthen internal controls and mitigate risk

62. The importance of strengthening and streamlining internal controls can be seen by the range of activity across the Secretariat. Much ground work started in 2013 will be further developed and realized in 2014.

63. A key weakness of existing financial systems is the number of key processes and control points that rely on manual interventions. The Finance Step-Up initiative will enhance these processes to enable automated control points and will also provide a detailed process description with key control points for all transactions. The controls will be supported by built in system checks and reconciliations, well defined roles and responsibilities, and support procedures. The complete redesign of the financial systems will enhance Secretariat capacity to provide timely, accurate, and consistent financial information for internal and external stakeholder reporting.

64. A significant part of the Legal and Compliance Department's workload on internal controls in 2014 will be to ensure implementation of the new funding model is policy compliant and effectively identifies and addresses operational, financial and reputational risks. This includes providing guidance on the development of operational procedures and monitoring compliance with allocation and access-to-funding policies, the Comprehensive Funding Policy, and other financial management or reporting requirements. With respect to supporting grant operations, the Department's compliance function will see increased collaboration with country teams and the GAC throughout the grant lifecycle (e.g., negotiating and drafting grant agreements, risk assessment and interpreting policy). Significant resources will also be devoted to supporting the changes to procurement strategy highlighted above, prevention of procurement abuses, recovery of misused grant funds, the Sanctions Panel, and the resolution of litigation initiated against the organization by external parties. These activities will be coupled with the Department's advisory role for the OIG. While the overall budget of the department has decreased versus 2013, the department will be strengthened with the addition of three new positions to respond to increasing demand for legal support. Savings have been secured from other parts of the Department's budget, notably professional fees, to cover these costs.

65. For the office of the Inspector General 2013 was a year of transition. An interim Inspector General, Norbert Hauser, served from December 2012 to August 2013. The Director of Investigations left the OIG in June 2013 after a prolonged period of sick leave. The new Inspector General, Martin O'Malley, was appointed to a six-year term beginning August 2013. A new Director of Investigations has been appointed and will take up her position in January 2014. Both individuals were selected after separate and extensive global searches involving over 100 candidates in each case.

66. The 2014 budget for the OIG of USD 21 m has been kept at the same level as the 2013 budget. Actual and budgeted staff levels were both higher in 2013 than in any other year, and have both increased by 37% since 2012. The number of vacant positions is similar to prior

years and reflects the continued growth and investment in the Office as well as the time it takes to find the right individuals. The workload of the Office is carefully managed using temporary resources to mitigate any impact of current vacancies.

67. As noted above, 2013 saw the implementation of the operational risk management framework and the corporate risk register; the aim for 2014 is to further embed consideration of risk in the decision making of the organization. Further development of the operational risk management framework will be informed by a recent review. A key objective is to embed the operational risk management activities into the regular grant making and grant management processes. Another priority will be assessment of all new funding model processes for compliance with the COSO framework (the risk management and internal control standard adopted by the Management Executive Committee for the Secretariat in 2012) compliance.

Re-focus the organization, skills and incentives towards the Global Fund priorities and results

68. As noted above, the new more formal cycle brings greater coherence to the Secretariat's planning processes. With a new Corporate KPI framework approved by the Board in November 2013 to track progress in achieving the objectives and goals of the Strategy, work to implement the framework will continue in 2014 and complement it with a set of aligned Operational KPIs, which are more granular measures of performance to inform management action. These will further guide the performance management objectives of teams and staff to ensure alignment at all levels of the organization.

69. Other important guidance to help the organization focus on priorities are the evaluations overseen by the independent Technical Evaluation Reference Group. Evaluations provide in depth detailed analysis of the more complex issues affecting the Global Fund and its operations. In 2014 the Global Fund will conduct evaluations of the new funding model, the mid-term evaluation of the 2012-2016 Strategy and the ten-year evaluation of the Global Fund.

Foster innovation within the Global Fund

70. Many of the innovations to be further developed in 2014 have been highlighted under other priorities in this section, for example on enhancing the organization's approach to strategic investment, and on co-financing agreements. Other innovations in Secretariat operations will come from work with partners and countries implementing the new funding model. The challenge for the organization will be to provide an environment where the potential benefits of these innovations can be identified and, where appropriate, the innovations can be adapted and applied to other countries or grants.

71. Two innovations that will be directly supported in 2014 are changes to the Global Fund's approach to Performance Based Funding (PBF), and implementation of Results Based Financing. Performance based funding is a founding principle of the Global Fund, but with the shift in perspective for assessing programmatic performance from outputs to coverage, outcomes and impact; and from grant performance to program performance, innovation will be required. Decisions will also have to be made on how to align the new PBF approach with the changes in grant financial management principles, given the shift to a cash management framework, and the risk assessments of the operational risk management framework.

72. One example of a Results Based Financing partnership is Rwanda's HIV program. Work started in 2013 and it will provide a learning opportunity for the Global Fund in 2014. Key features will be:
   - Disbursement decisions: the first disbursement will provide upfront working capital, and subsequent disbursements will be strictly based on performance towards pre-defined sets of indicators;
   - Monitoring and reporting based on a limited set of coverage, outcome and impact indicators that are part of the country's National Strategic Plan (NSP), and agreed upon by technical partners;
   - A shift away from detailed budgets, to allow for the flexible use of grant funds; and
   - Use of national audit and results reporting systems.

73. The design of the program takes the principles of the new funding model, and aid effectiveness more generally, and extends them to their logical conclusion. It is possible to consider this in Rwanda, with its strong externally validated national strategy and its robust results reporting and audit systems, but it is not a model that can be rolled out to the full Global Fund portfolio.

Priority 3: Improve the quality, consistency, access and use of information

Incremental budget (USD millions)

Staff	Professional fees	Travel	Other	Total
-	2.1	-	-	**2.1**

74. The Management Executive Committee of the Global Fund has no consolidated management dashboard of key figures to inform decision making or monitor progress on key activities. A strong demand for such a dashboard covering key financials, corporate and operational KPIs and programmatic results was also made by constituency groups during the extensive consultations on the revised KPI framework.

75. A priority for the organization in 2014 will be the development of a routine dashboard of key figures and other management information. The work developing the Finance Step-Up

system and the new funding model portal will provide important parts of the dashboard, but considerable additional work will be required on implementation of processes, systems and ownership for continuity and consistency of data, and a more formal data governance structure. The launch of an improved intranet will further enhance these developments.

Priority 4: Strengthen governance and partnerships

Incremental budget (USD millions)

Staff	Professional fees	Travel	Other	Total
-	0.1	0.6	3.2	**3.9**

Improve our contribution to the functioning of the governance model towards efficiency and more effective decision-making

76. The Board leadership has undertaken an initiative to improve the way that the Board works and interacts with the Secretariat. To that end, a review of the functioning of the Board, the support provided to it, its leadership and its relationship with the Secretariat is ongoing. The Board leadership will then take action to suggest initiatives in order to improve the overall efficiency of the Board functioning.

Develop key strategic and technical partnerships to support countries through the new funding model

77. As noted above, the Secretariat is developing partnership agreements for technical support on both thematic and geographic issues. The scope of support currently under discussion includes priority issues such as sub-national and sub-population epidemiological information, reviewing national strategic plans and operationalizing new normative guidance. This initiative will also involve support to networks of Key Affected Populations to ensure that those groups play a strong role in country dialogues.

78. Changes to the Eligibility Requirements for Country Coordinating Mechanisms were approved by SIIC in 2013, with particular emphasis on ensuring representation and active engagement of people living with the three diseases as well as Key Affected Populations. As part of the new funding model CCMs will submit an annual Eligibility and Performance Assessment. This will consist of a self-assessment complemented by stakeholder interviews conducted by an approved technical assistance provider; and where necessary an improvement plan jointly developed by the CCM and the technical assistance provider.

Priority 5: Build a strong Global Fund culture

Incremental budget (USD millions)

Staff	Professional fees	Travel	Communications	Total
-	1.8	-	-	**1.8**

Strengthen the Global Fund leadership in action towards more efficient management

79. In 2013 the Secretariat developed a new People Strategy for implementation in 2013 - 2015. The 2012 Staff Engagement survey, a series of 'World Café' focus group consultations and individual interviews conducted in 2013, illustrated again high levels of engagement of staff with the Global Fund's mission, but dissatisfaction with a number of aspects of management and leadership in the Secretariat, in particular related to trust and values.

Create and retain motivated employees as a key element of the People Strategy

80. A major program of management and leadership training will be conducted in 2014 to strengthen mangers' basic skill set in people and team management. Other key components of the training will work on building trust, "living the values" with respect to acceptable and unacceptable behaviors, and ensuring fairness and accountability throughout the practices and processes of Human Resources. Other activities will seek to better identify and develop talent through the roll out of talent management and implementing an updated reward and recognition architecture.

81. The effectiveness of these efforts will be monitored through the regular Staff Engagement surveys (the next survey is scheduled for the second quarter of 2014), additional World Café focus groups, and through a new annual survey that will monitor staff perceptions of management and leadership. The results of this survey will provide the data for a new Corporate KPI on Quality of management and leadership. A baseline survey will be conducted at the end of 2013 and reporting against this KPI will start in 2014.

PERFORMANCE

82. Performance against 2014 Priorities will be monitored and assessed against the deliverables and expected outcomes set out in the table on the next page.

Performance on 2014 Priorities

2014 Priorities	Initiatives	Incremental Budget (USD m)	Expected deliverables & outcomes
1. Successfully roll out the new funding model	- Strengthen cross functional operations and resources to support the new funding model roll-out - Maintain momentum of existing grant activities during new funding model roll-out - Operationalize strategic enablers within the new funding model - Enhance strategic investments and cost effectiveness of funded programs	18.4	- Strong performance on KPI 7 Access to funding and KPI 11 Grant expenses forecast - Gender strategy implemented - Strong performance against Human Rights work plan - Allocative efficiency measure developed and tested - Development approach concept shared with SIIC and the Board
2. Foster Operational Excellence	- Establish the required systems and processes (Step-Up/NFM portal) to roll-out the new funding model - Strengthen internal controls & mitigate risk - Re-focus the organization, skills and incentives towards the Global Fund priorities and results - Foster innovation within the Global Fund	13.3	- New systems developed and implemented to scope, schedule and user satisfaction - Strong performance on KPI 9 Effective operational risk management - Strong performance on AEC approved OIG KPIs - Strong performance on procurement KPIs - Operational KPI framework developed and implemented - New PBF model incorporated into grant decisions - Experience with RBF models further tested
3. Improve quality, access and use of information		2.1	- Key figures dashboard made available to internal and external stakeholders - Formal data governance established
4. Strengthen governance & partnerships	Improve our contribution to the functioning of the governance model towards efficiency	3.9	Board decision on recommendations of Governance review

2014 Priorities	Initiatives	Incremental Budget (USD m)	Expected deliverables & outcomes
	and more effective decision-making ▪ Develop key strategic and technical partnerships to support countries through the new funding model		▪ Special Initiative approved and operational ▪ Strong compliance with CCM Eligibility and Performance assessment
5. Build a strong Global Fund culture	▪ Strengthen the Global Fund leadership in action towards more efficient management ▪ Create and retain motivated employees as a key element of the People Strategy	1.8	▪ Improvement from baseline on KPI 16 Quality of management and leadership ▪ Improved performance on key elements of staff engagement survey ▪ Clear understanding of acceptable and unacceptable behaviors
Total		**39.5**	