

38th Board Meeting

2018 Corporate Work Plan & Budget

Narrative

GF/B38/04B

14-15 November 2017, Geneva, Switzerland

Board Decision

Purpose of the paper: This document presents a corporate work plan and budget narrative as complement to the Global Fund 2018 Operating Expenses Budget (GF/B38/04A – Revision 1). The work plan was reviewed and recommended for approval by the AFC (GF/AFC05/DP05).

Decision

1. The 2018 Corporate Work Plan and Operating Expenses Budget share the same decision point (GF/B38/DPO6), which can be found in the paper presenting the 2018 Operating Expenses (GF/B38/04A – Revision 1).

Executive Summary

2. The Global Fund Corporate Work Plan and Budget Narrative forms a key component of the financial reporting, planning and control structure of the organization. The document identifies key priorities for the year ahead, and provides an overview of operational budget alignment and planning. The work plan focuses on activities funded through the Global Fund's operational expense budget, with a clear acknowledgement that catalytic and grant funds, as well as key contributions of partners, are essential to realizing the objectives of the Strategy.
3. The 2018 budget is designed to continue the direction set for 2017 as the Fund progresses into the second year of implementation for the 2017-2022 Strategy: Investing To End Epidemics (the "Strategy"). The Strategy and its implementation plan are proceeding well, and the aim is to provide stability to the incoming Executive Director in 2018.
4. USD 8m of the operating expense budget has been allocated to "priority" activities for 2018. The remaining USD 292m of the regular budget is devoted to core activities of the Global Fund. In addition, there is an impact of USD 12m in one-off costs related to the Global Health Campus. It should be noted that a range of 2017 priority activities have been embedded into core business and integrated into the recurrent cost base.
5. The Secretariat maintains its commitment to remain within a USD 900m operating expense budget envelope over the 2017 thru 2019 funding cycle. Over the previous funding cycle, the Secretariat clearly demonstrated its ability to implement major reforms at the same time as maintaining budget discipline and the efficiency of its operational expense investments.

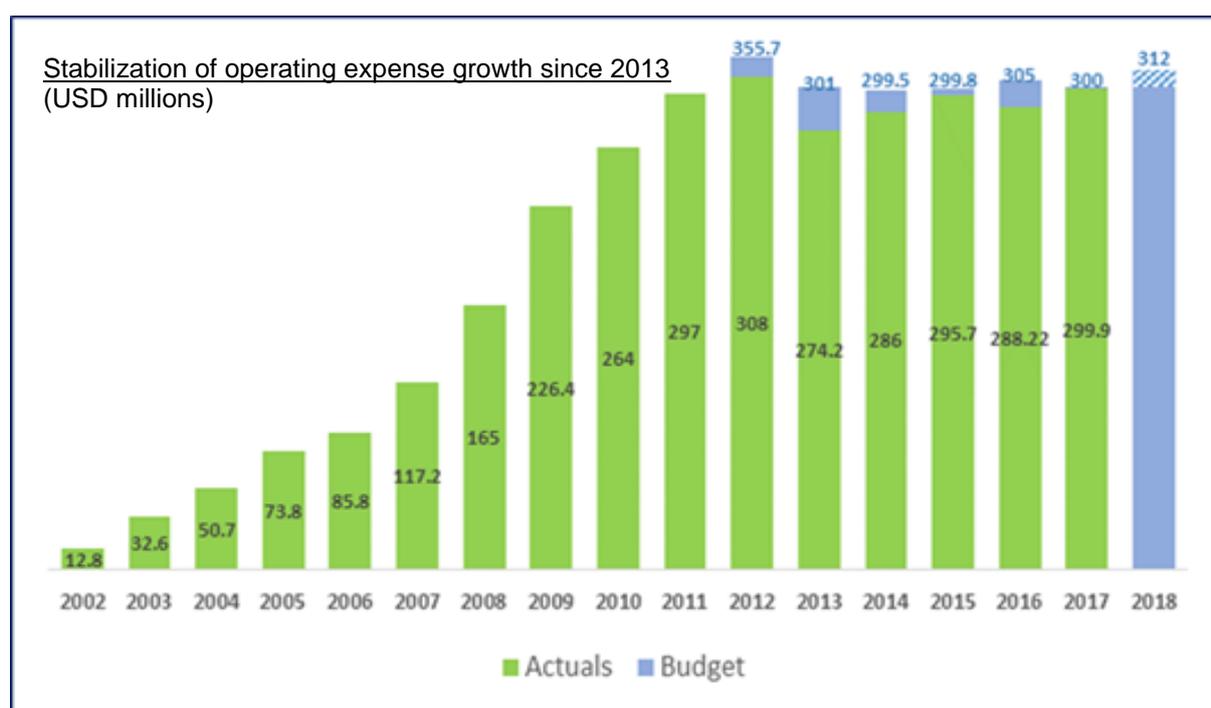
I. Introduction

6. The Global Fund Corporate Work Plan and Budget Narrative forms a key component of the financial reporting, planning and control structure of the organization. The aim of the work plan is to provide a better understanding and more detailed analysis of where operating expenses are invested and how budget decisions align with Strategy. It should be noted that Secretariat operational expenses are just one element of the investments required to achieve the objectives of the Strategy and complement catalytic and grant Funds and the important contributions of partners.

7. The Global Fund operational expense budget for 2018 reflects four core financial objectives: Maintain investment at a stable rate; exercise proper financial discipline; achieve value for money; ensure available resources are invested to achieve the new Strategy, and adhere to the overall resource framework set for the 5th Replenishment.

8. This budget can enable the Global Fund to perform its core work to:

- Deliver tailored funding to implementers to most effectively reduce rates of HIV, TB and malaria, improve human rights, gender equality and health systems, while minimizing financial risks;
- Signing, disbursing, reprogramming and supporting implementation of the most impactful grants;
- Prioritizing sustainability/transition/co-financing; resilient and sustainable systems for health; challenging operating environments; data; supply chains and more;
- Provide the highest quality financial controls for contributions to and uses of Global Fund resources;
- Raise resources for global health from public, private and domestic sources;
- Provide leadership in global health in accordance with our mission, our board and the people and countries we serve;
- Support the delivery of these objectives with strong and efficient support functions including human resources, communications, governance, legal, ethics, policy, performance and IT processes;
- Cultivate a culture of action and care for the people we serve.



9. Responsible and rigorous financial management are key principles for the Global Fund as an international financing institution. The Secretariat maintains its commitment to remain within a USD 900m operating expense budget envelope over the three-year funding cycle. Over the previous funding cycle, the Secretariat demonstrated its ability to implement major reforms at the same time as maintaining budget discipline and the efficiency of its operational expense investments. These successful initiatives driving value for money, including a zero based budgeting exercise, have enabled significant year on year reinvestments in systems, staff and additional areas of work driven by the demands of the successful delivery of the 2012 – 2016 Strategy and the even more ambitious 2017 – 2022 Strategy.

10. These investments have supported the development of key strategic objectives including the successful roll-out of the allocation-based funding model; the expansion of Secretariat capacity to enhance programming on key populations, human rights and gender; and the expansion of market shaping efforts through an enhanced pooled procurement mechanism and the wambo.org platform.

11. Investments have also focused on addressing key risks with the establishment of a dedicated risk management function as well as expansion of risk management capabilities across the Secretariat, in particular significantly reduced portfolio financial risks¹ and more recently the establishment of capacities to better manage supply chain risks. Other investments have established a fully effective treasury function² taking over and expanding on responsibilities previously outsourced to the World Bank; and have redeveloped core business systems transforming financial management capacities through the Step-up initiative, and now grant management capacities through the Accelerated Integration Management (AIM) project.

12. A consequence of these expansions in Secretariat functional capacity has been an increasing share of the operating expense costs base being invested in fixed and non-discretionary items limiting budget flexibility. These costs now represent 88% of the cost base, an increase from 78% in 2012. A review of this cost base will assess alignment and contribution to driving the ambitious goals of the 2017 – 2022 Strategy with the aim to provide the incoming Executive Director with a suite of options for further increasing efficiency.

¹ 2015 OIG audit opinion

² https://www.theglobalfund.org/media/4278/oig_gf-oig-17-001_report_en.pdf

II. Discussion

01 Priority-Setting and Budget Design Process

13. The Global Fund Strategy 2017-2022: Investing To End Epidemics clearly lays out the organization's objectives for the coming six years. Through formal planning for strategy implementation, activities and major initiatives required to deliver these objectives were established within the 2017 budget. The 2018 budget continues investment in this plan.

14. "Priority activities", representing the new work, or work requiring additional focus, to deliver on strategic aims, complement the Secretariat's "Recurrent activities", which represent the underlying core business model of the organization. A range of 2017 priority activities have transitioned to core business in 2018 as strategy implementation has matured.

15. Planning for strategy implementation covered all the activities required for successful delivery of the new Strategy, whether these relate to the work of the Secretariat, resourced from the operating expenditure budget, in-country work resourced through grants, or more cross-cutting activities resourced from Catalytic Investments.

16. The OPEX budget covers "*costs of the Secretariat and agents thereof in the administrative processes surrounding investment decisions, access to funding and grant management, and the coordination of cross-cutting collaborative efforts with partners*". Costs directly related to the development and implementation of individual grants are considered part of grant budgets. Critical activities/approaches not able to be funded through country allocations due to their cross-cutting, innovative or off-allocation cycle nature are funded through Catalytic Investments.

17. This work plan focuses on activities funded through the Global Fund's OPEX budget, and with a clear acknowledgement that catalytic and grant funds, as well as key contributions of partners, are essential to realizing the objectives of the Strategy.

02 Strategic Objectives

18. The following sections provide an overview of the operational expense budget for the Secretariat's planned work in 2018, differentiating between 2018 priority activities and recurrent core business. 2018 investments in priority activities total USD 8 million, which represents a significant drop from the USD 24 million investment in 2017. As flagged in the 2017 work plan, much of this drop was anticipated as new activities required to implement the 2017 – 2022 Strategy have become embedded into the core business of the Secretariat.

Strategic objective 1 – Maximize Impact Against HIV, TB and malaria

19. Every country team at the Global Fund significantly contributes to Strategic Objective 1 – Maximize Impact Against HIV, TB, and malaria. Strategy, Risk, resource mobilization and support functions in the Secretariat all significantly contribute as well. In the 2018 budget, USD 178 million spent on core activities are directly aligned with this Strategic Objective, with USD 6 million for 2018 priorities.

Budget (USD millions)

Activity	Staff	Professional fees	Travel & meetings	Other (incl. External assurance)	Total
New priority	-	4	<1	2	6
Core activity	100	7	14	57	178

Priority activities

20. Efficient investment decisions are key to achieving the ambitious impact goals of the 2017-2022 Strategy, and partner-endorsed disease transmission models provide valuable guidance for program investments in priority countries. The Global Fund will continue collaborative impact modelling workshops with partners and priority countries started in 2017 to inform program design optimization and measure past and future impact in supported programs. Modelling efforts will also form a key component of the preparatory work in 2018 that will inform decisions on further development of the allocation model which will then be applied in 2019 for the 2020-2022 allocation period.

21. Project AIM, launched in late-2015 to evolve the Secretariat's grant management systems and fully integrate the use of up-to-date and robust data and information into core decision making, will move into its second phase in 2018. Building on the grant making and management functionality implemented in 2017, this second phase will focus on delivering enhanced systems for grant closure, CCM performance management and funding, and risk and assurance.

Recurrent activities

22. While 92% of the 2017-2019 allocation is projected to pass through the grant approval process by the end of 2017, the remaining 8 % expected in 2018 represents 107 funding requests expected for submission windows 4 and 5. This means that 2018 will continue to have a significant concept note development and grant making workload for the Secretariat and the Technical Review Panel.

23. Day-to-day management of the portfolio's 400-plus grants forecast to be operational by the start of 2018 is the mainstay of the Secretariat's work, along with focused operational risk management of 54 prioritised countries. Portfolio investments are complemented by a series of Strategic Initiatives managed to catalyse key activities on TB, malaria, prospective country evaluations and the Emergency Fund.

Strategic objective 2: Build Resilient & Sustainable Systems for Health**Budget (USD millions)**

Activity	Staff	Professional fees	Travel & meetings	Other (incl. External assurance)	Total
New priority	-	<1	<1	-	<1
Core activity	6	3	<1	2	11

Priority activities

24. Implementer financial capacity building activities will continue to strengthen routine grant financial management through intensified technical support in 54 high impact and core countries. In

addition, financial capacity building activities focusing on the national financial management systems in 8 priority countries will seek to advance the use of national systems for financially managing Global Fund financing, primarily through development partnerships such as IHP+. In the 2018 budget, USD 11 million is directly tied to this Strategic Objective, with under USD 1 million for 2018 priorities in this area.

25. As part of it's the 2017 – 2022 Strategy the Global Fund seeks to strengthen in country monitoring systems to enhance the role of affected communities in monitoring, evaluation and assurance efforts. Activities in 2018 aim to strengthen the partnership model in this area with a particular focus on expanding the resource base with funding partners.

Recurrent activities

26. Every country team at the Global Fund significantly contributes to Strategic Objective 2 – Build Resilient & Sustainable Systems for Health. Programmatic data plays a central role in the Global Fund's differentiated risk and assurance approach. The Global Fund will continue efforts to address programmatic risks by supporting the quality assurance health facility assessments, spot checks, evaluation of service quality by community based organizations, special studies and data quality reviews, using a differentiated approach. Results of data assessments will be used in high impact and core countries to improve service delivery and program efficiencies, and drive program improvements.

27. The mainstay of the Secretariat's systems for health activities will continue to support, with partners, the design of effective programming into funding requests, and provision and facilitation of technical advice and support during grant implementation. In complement to this portfolio focus, work to manage Strategic Initiatives will see a transition from development activities in 2017 to implementation in 2018, in particular in the areas of sustainability, service delivery and health workforce; data systems; procurement and supply chain management.

Strategic objective 3: Promote and Protect Human Rights & Gender Equality

Budget (USD millions)

Activity	Staff	Professional fees	Travel & meetings	Other	Total
New priority	-	<1	<1	-	<1
Core activity	3	<1	<1	-	4

Priority activities

28. As efforts to address inequities are embedded into the portfolio, additional work will extend focus to develop a youth strategy for the Global Fund, with particular focus on the most impacted youth. The aims of this strategy are to promote demand for and uptake of programs responsive to needs of adolescents and young people, including key populations, and support a strengthened voice from emerging leaders. Strategic Objective 3 – Promote and Protect Human Rights & Gender Equality is an essential aspect of the Global Fund's work.

29. As efforts to strengthen human rights programming in 20 priority countries progresses, further investment will be made in developing the monitoring and evaluation frameworks for these programs. An M&E expert working group will be brought together to review baseline assessment results and implementation strategies. Working with partners this group will support the development of an appropriate approach to monitoring human rights programs.

30. The 2017 – 2022 Strategy commits the Global Fund to ambitious goals on gender equity for the grant portfolio. To ensure these commitment are mirrored in the policies, programs and structures of the Secretariat a Gender Assessment will be conducted in 2018. The assessment will identify critical gaps and challenges to gender equity and recommend more effective procedure and strategies. These efforts do not require significant new spending, and will be under USD 1 million.

Recurrent activities

31. Work on human rights, gender and communities for 2018 will include continuing advice to country teams on inclusion of technically sound interventions in grants going through concept note development and grant signing, mitigating risks in the existing portfolio and managing complaints of violations. Additional efforts will be focused on portfolio analysis of investments, monitoring progress on the implementation of funded interventions and facilitation of technical assistance to implementers. This work on the portfolio will be complemented by cross-cutting activities managed through the Communities, Rights and Gender Strategic Initiative. In the 2018 budget, recurrent spending on this work is USD 4 million.

Strategic objective 4: Mobilize Increased Resources

Budget (USD millions)

Activity	Staff	Professional fees	Travel & meetings	Other	External Co-funding Assumption	Total
New priority	-	<1	<1	-	-	<1
Core activity	16	2	1	<1	(<1)	19

Priority activities

32. 2018 will see the start of the 6th Replenishment process and continued efforts to mobilize additional resources for the current cycle in line with the Action Plan presented to the Board in May 2017. Activities to support Friends Organizations and other advocacy partners in key donor countries and to foster closer engagement with non-traditional and emerging donor markets will be accelerated. A preparatory meeting scheduled for the second half of 2018, will mark the formal launch of the campaign, but work is already well underway to prepare the ground for the 6th Replenishment. An Investment Case analysis, developed in close collaboration with partners, will be a key element in the Replenishment effort. A wide array of work by the Secretariat supports mobilizing increased resources from public and private sources, and in the 2018 budget USD 19 million is directly tied to recurring costs for staffing and funding these efforts in line with Strategic Objective 4 – Mobilize Increase Resources.

Recurrent activities

33. The Secretariat will continue its routine work in 2018 managing relationships with public and private sector donors to ensure that 5th Replenishment pledges are turned in contributions in line with agreed schedules. Activities to secure additional pledges, notably from the private sector which are less driven by the replenishment cycle, will be implemented in line with the resource mobilization action plan. Fundraising activities are complemented by ongoing efforts on Debt to Health and advocacy activities with civil society, parliamentarians and in particular implementer governments focused on continued implementation of the Domestic Financing strategy.

34. Implementation of the market shaping strategy in 2018 will focus on global tenders for ARVs, rapid diagnostic tests, and towards the end of the year LLINs. Management of the long-term agreements for antimalarial drugs and viral load testing supplies and the embedding of wambo.org into the routine business model will continue. In addition, contracts with procurement service agents will be renegotiated and new strategies on freight and logistics developed.

Governance, management, control and support activities

Budget (USD millions)

Activity	Staff	Professional fees	Travel & meetings	Other	External Co-funding Assumption	Total
New priority	-	<1	-	-	-	<1
Core activity	34	11	4	33	(<1)	82

Priority activities

35. The Global Fund recognized through its people strategy 2017-2022 the need to provide a solid methodology for attracting, planning, developing and retaining human resources effectively and to determine an organizational structure that supports best the implementation of the organization's six year strategy. A strategic workforce planning project will be launched to provide an overarching, business framework of organizational structure, guidelines, processes and activities that will enable effective resource planning into the future.

Recurrent activities

36. Governance, communications, human resources, IT and office infrastructure, as well as the control functions in finance, and legal support will continue to enable efficient and effective operations in pursuit of the Global Fund's strategic priorities.

03 Cost categories

37. The table below provides a summary of the full 2017 budget by major cost category.

Budget category (USD millions)

Staff	External Assurance	Professional fees	Office infrastructure	Travel
159	48	27	23	17
CCM	Meetings	Communication	Board constituencies	Other
10	3	2	1	10

38. The allocation of budget across cost categories shows a number of changes when compared to 2016 expenditures. Professional fees, and external assurance show notable decreases, while staff costs continue to increase. Office infrastructure costs decrease as a result of lower rental costs at the Global

Health Campus. Depreciation of AIM and Health Campus assets and a reduction in external co-financing show important increases.

External Assurance expenditures (USD millions) ³

2012	2013	2014	2015	2016	2017 (F2)	2018 budget
76	64	48	48	46	51	48

39. Reductions in external assurance have been driven by revised procedures to fund Health Facility Assessments from grant budgets rather than the operational expense budget.

Travel expenditures (USD millions)

2012	2013	2014	2015	2016	2017 (F2)	2018 budget
14	19	18	20	16	16	17

40. While travel is essential for informed grant oversight and collaboration with in-country partners, the Global Fund has identified opportunities to increase efficiency of travel expenditures. The reduction achieved through the revised travel regulations and procedures is maintained.

Staff expenditures (USD millions)

	2012	2013	2014	2015	2016	2017 (F2)	2018 budget
Staff	133	127	138	140	139	152	159
Prof fees	53	39	45	45	35	35	27

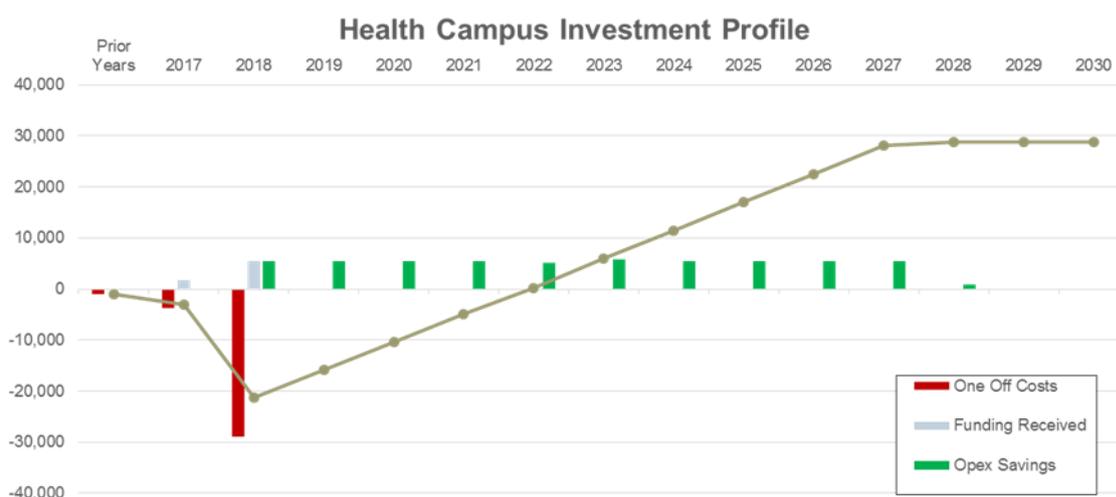
41. As a financing mechanism primarily responsible for grant administration and oversight with no country presence the Global Fund's main budget driver is the cost of staff to ensure effective execution of the partnership model and grant implementation at country-level. The cost increase is driven by the full year impact of 2017 recruitment and expected increases in health insurance costs. This increase in staff costs is partially offset by a continuing reduction in professional fees, which have seen a 60% reduction when compared to 2015 expenditures as a result of effective cost control measures.

³ Up until 2015 this category included only LFA expenditures. In 2017 the expenses include budgeted activities for all external assurance work, including for both LFA and Health Facility Assessments.

04 One-off Global Health Campus costs⁴

Activity	Staff	Professional fees	Travel & meetings	Other	External Co-funding Assumption	Total
One-off investment	-	2	-	13	(<1)	14
Savings	-	-	-	(2)	-	(2)
One-off cost impact	-	2	-	11	(<1)	12

42. At the July AFC/04 meeting, the Committee acknowledged the positive business case for the Global Health Campus and the exceptional value for money it represents, with estimated returns on investment of USD 29m over the 10 year lease period and payback achieved within five years. The exceptional nature of the project was also noted, with a 20 year period covering Board approval in 2009 to the end of the lease in 2028.



43. The Global Health Campus (GHC) is an infrastructure investment and as such the contribution of this investment to the mission of the Global Fund has a long-term horizon. This is the first time the Secretariat has made an infrastructure investment with this form of large “one-off” costs where benefits are returned over a long-term period. The Secretariat therefore has no precedent on how “one-off” costs should be dealt with from a budgetary perspective.

44. One-off infrastructure investments are, however, a common occurrence for many organisations. The following definition of one-off budgetary costs is used by the Organisation for Economic Co-operation and Development: *costs having a transitory budgetary effect that does not lead to sustained change in the inter-temporal budgetary position.*⁵ As a general principle such costs should

⁴ This section has been revised to align with AFC decision GF/AFC05/DP05

⁵ Document from 7th meeting of OECD Parliamentary Budget Officials and Independent Fiscal Institutions, Vienna 16-17 April 2015. The code of conduct published by the European Commission (2012, page 4) on the Stability and Growth Pact and on stability and convergence programmes follows a similar logic, giving the following general definition: “One-off and temporary measures

be presented as an isolated budgetary element to avoid distortion and aid interpretation of budgetary and cost controls trends over time.

45. The GHC investment qualifies as one-off cost and can be differentiated from other organizational initiatives such as Step-up, wambo.org, AIM or Supply Chain, that have been absorbed into the operating costs of the organisation, by the size of the investment, its non-recurrence, and the long-term nature of the returns which are anchored in a legally binding ten year lease.

are measures having a transitory budgetary effect that does not lead to a sustained change in the intertemporal budgetary position.”