
2021 OPEX Budget and Corporate Workplan

44th Board Meeting

GF/B44/02A

Board Decision

Purpose of the paper: This document presents a narrative complement to the Global Fund 2021 Operating Expenses Budget presentation for Board approval of 2021 Operating Expenses Budget.

Document Classification: Internal.

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Decision

Decision Point: GF/B44/DPO3: 2021 Work Plan and Budget Narrative and the 2021 Operating Expenses Budget

- 1. Based on the recommendation of the Audit and Finance Committee, the Board approves the following:**
 - a. 2021 Work Plan and Budget Narrative, as set forth in GF/B44/02A; and**
 - b. The 2021 Operating Expenses Budget in the amount of US\$ 315 million, as set forth in GF/B44/02B (the “2021 OPEX Budget”), which includes US\$ 14.90 million for the Office of the Inspector General’s 2021 operating expenses.**

Executive Summary

Context

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

The current document builds on the prior OPEX Evolution 'case for change' discussion with the AFC (from AFC 12) and the resulting agreement around:

- a growing misalignment between ambition materialized by the 40% increase in pledges over the last 10 years and the stability of Secretariat OPEX resourcing over the same period;
- a willingness to increase transparency around OPEX cost drivers and evolution;
- an enhanced alignment with business/ strategy cycles with the upcoming approval of the new Global Fund strategy.

Despite impact of COVID-19 outbreak on 2020 OPEX Budget execution, OPEX Evolution 'case for change' remains relevant and has been operationalized for the 2021 OPEX Budget proposal recommended to Board.

The strategic shift in the budgeting approach aims at reaching a dual objective: maintain strong cost discipline on Secretariat structural/fixed costs and increase level of strategic/enabler funding related to evolution in in-country investment landscape to deliver maximum programmatic impact.

The 2021 budget is designed to address the demands of a particularly complex year with peaks in activity related to the new business cycle (preparation of new grants and the preparation for the next Global Fund Strategy) and the need to continue and scale up mitigation responses to the COVID-19 outbreak.

Six priorities were identified for 2021 to meet these demands:

- i. Proactively mitigate impact of COVID-19
- ii. Launch next cycle of grants & accelerate support to national programs in COVID-19 context
- iii. Drive efficiency & effectiveness
- iv. Invest in people & build strategic capabilities
- v. Finalize the next Strategy & prepare for implementation
- vi. Build Global Fund brand & prepare for 7th replenishment

The proposed 2021 Budget amounts to \$315m (including \$ 29m for priority funding) or 3.3% above approved 2020 Budget of \$305m with a catch up on spend deferred due to COVID-19 and some specific COVID-19-related spending. More specifically the 2021 Budget will cover:

- COVID-19-related costs. While COVID-19 has delivered some savings, it has also resulted in significant incremental costs, many of which will continue into 2021
- Continued investment in strategic capabilities (e.g. health finance, Human Rights, AGYW, Supply & Operations) including finalization of MLE framework and any associated cost will seek to be incorporated within the forecasting process

- Continued investment in reinforcing financial performance (e.g. absorption, pledge conversion etc.)
- Continued investment in digital transformation and the IT infrastructure and security
- Maintain investments in organizational maturity, risk and assurance management, overall business process improvements initiatives to facilitate simplification and nimble approaches

With the introduction of new budget categories to differentiate resourcing within the OPEX budget, a more balanced and flexible budget structure has been achieved – in line with OPEX Evolution initial targets - with around 80% core operations costs (\$246 M) and 20% of funding related to strategic objectives (\$ 69 M including \$ 29 M for organizational priorities).

The review of the three-year US\$900m cap (“Opex Evolution”) was deferred from July 2020 due to COVID-19 and will be reinstated for March 2021 with AFC, to enable determination of funding available for 2022 OPEX Budget. The underlying rationale for reviewing the cap remains strong. This revised timing will also enable the discussion to be informed by the strategy process.

Input Sought

The Board is hereby requested to approve the 2021 Operating Expenses Budget

Decision Point: GF/44/DPXX: 2021 Work Plan and Budget Narrative and the 2021 Operating Expenses Budget

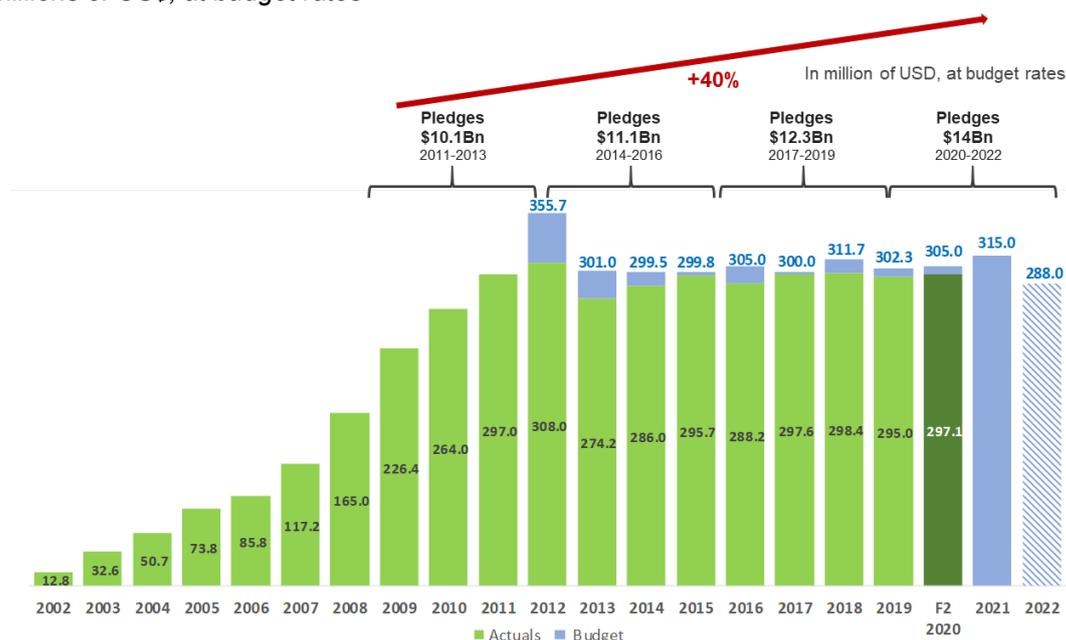
Based on the recommendation of the Audit and Finance Committee, the Board approves the following:

- 2021 Work Plan and Budget Narrative, as set forth in GF/B44/02A; and
- The 2021 Operating Expenses Budget in the amount of US\$315 million, as set forth in GF/B44/02B (the “2021 OPEX Budget”), which includes US\$ [14.90] million for the Office of the Inspector General’s 2021 operating expenses.

I. What is the need or opportunity?

1. The Global Fund Work Plan and Budget Narrative forms a key component of the organization's financial reporting, planning and control structure. This paper explains and analyzes 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 Strategy objectives; they complement catalytic and grant funds, and essential contributions from implementers and partners.
2. Responsible and rigorous financial management remain key principles for the Global Fund. The operational expense budget reflects four core financial objectives: 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 6th Replenishment.
3. Increased commitment from donors to the fight against HIV, TB and malaria has resulted in a near 40% increase in pledges over the past 10 years, enabling ambitious programmatic targets to be achieved. The Secretariat has leveraged robust financial planning discipline to activate cost efficiencies and optimization strategies to remain within the US\$900 million, three-year envelope, while continuously investing in strategic capabilities (Human Rights, Supply & Operations, Prevention, RSSH...), organizational maturity (Risk & Assurance, Treasury, Wambo.org, Ethics...) and delivering financial performance (pledge conversion and absorption).

In millions of US\$, at budget rates



4. With limited opportunities for further cost optimization and high level of OPEX Budget utilization rate, misalignment between Secretariat resourcing and funds under management has created financial constraints on performance and staff well-being. Following an AFC request to present a revised cost baseline to inform the determination of the 2020-2022 OPEX envelope, the Secretariat presented a high-level budgeting framework, "OPEX Evolution", at AFC 12, and collected AFC feedback on key assumptions and guiding principles.
5. 2020 OPEX Budget execution has been significantly impacted by the COVID-19 outbreak. The latest F2 forecast of US\$297.1 M against an approved budget of US\$305 M reflects the challenge of maintaining Secretariat operating capacity, with delays experienced in onboarding new staff,

limited-to-no travel to recipient countries, and the need for swift adaptation to virtual ways of working for all Global Fund stakeholders. US\$33 M of underspend across Secretariat OPEX Budget can be linked to disruptions related to COVID-19.

6. Proactive identification of underspend has enabled US\$25 M fund reallocation, to temporarily fill structural gaps identified pre-COVID and invest in tactical adaptation activities, prioritizing funding request reviews (TRP, Grant Management, Program Finance, TAP, CRG....), resource mobilization activities (pledge conversion & ACT-A), IT enablers/security reinforcements, GHC building security and safety, and virtual ways of working for staff and governance. Resources have also been reassigned to support the launch of C19RM and enforcement of 5% grant flexibilities. These activities are likely to continue in 2021, putting additional pressure on the 2021 OPEX Budget.

II. What do we propose to do and why?

01 Cost rebasing methodology and operationalization

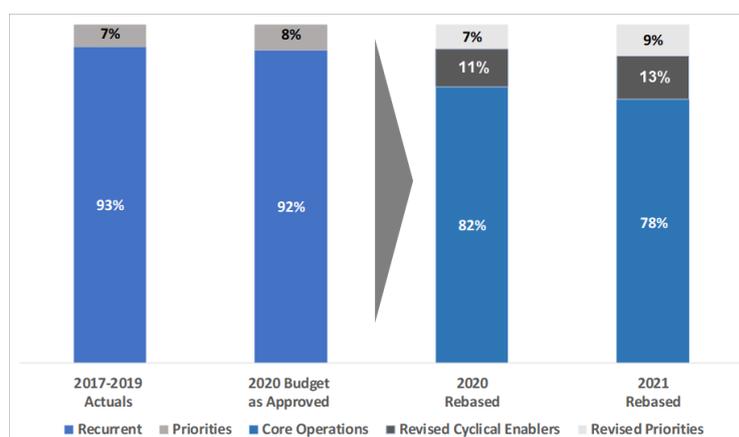
7. The 'OPEX Evolution' budgeting framework presented to the AFC in March 2020 reflects the following key principles:
 - Increased synchronization and linkage with strategy implementation between OPEX Budget and the three-year funding cycle through periodic reassessment.
 - Establishment of minimal baseline resourcing through cost rebasing, to cover statutory obligations and standard level of operational activities, and free up fiscal space for strategic / programmatic enablers.
 - Alignment of resourcing with agreed level of ambition, including a potential shift in programmatic priorities and expected financial performance.
 - While the cost of core operations will be streamlined through an efficiency factor adjustment, there is still a need for a certain level of variability to be embedded in the budget structure, to reflect changes in the in-country investment landscape, progress implementation, and scale up in innovation, inflation factor or mandate expansion.
8. Introduction of new OPEX budget categories brings increased differentiation in Secretariat resourcing and provides transparency on OPEX cost drivers:
 - **Core operations:** structural barebone costs and resourcing needed for the Global Fund to deliver its mandate (including statutory, host country context, and organizational structure) prior to strategic prioritization and investment trade-off decisions.
 - **Cyclical enablers:** investment in strategic capabilities or business enablers to achieve medium (three-year funding period) to long term (six-year strategy cycle) for strategy implementation. Multi-Year transformational initiatives will be considered in this budget category moving forward.
 - **Priorities:** emerging 'one off' or surge activities related to peaks in business cycle with resource requirements during the annual budget cycle.

Secretariat Core Operations – 6-Year Horizon	Cyclical Enablers – 3-Year Horizon	Priorities – 1-Year Horizon
<ul style="list-style-type: none"> Proportion of budgeted staff deemed as permanent (~90%) Core non staff costs (core travel for country facing teams, statutory professional fees, governance...) Contracted liabilities beyond budget horizon related to GF infrastructure and systems (IT run, GHC rent + service charges...) "Fixed" 	<ul style="list-style-type: none"> Contingent workforce: proportion of budgeted staff deemed as temporary/defined duration (~10%) and individual consultants Transformation initiatives, IT enablers, other travel / meetings "Fixed-Variable" 	<ul style="list-style-type: none"> Resourcing required to deliver 'one off' activities in annual workplan Surge resources needed at specific point of the grant life cycle "Variable"

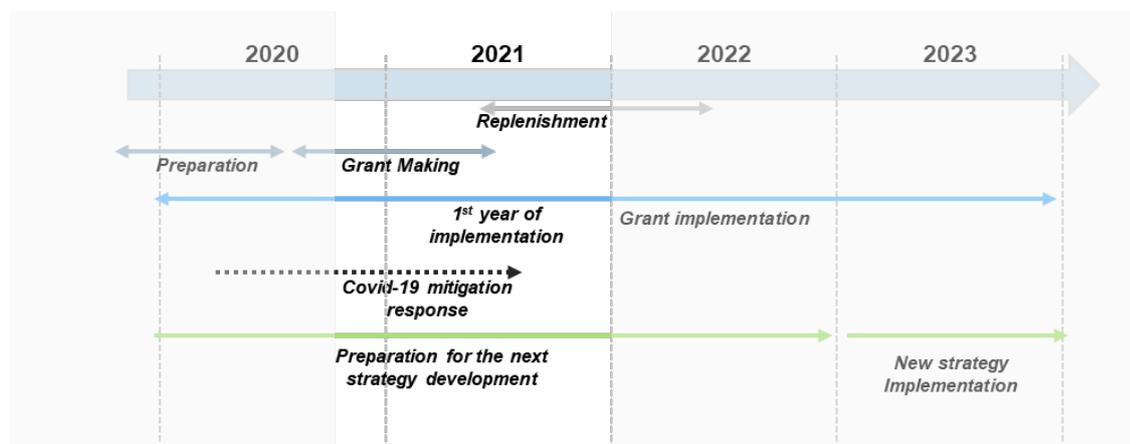
9. Using 2020 OPEX Budget as a starting point, cost rebasing aims at achieving the following targets:

- Maintaining cost discipline on Secretariat recurring core operations representing US\$240/250 M per year (80% of costs) from US\$282 M in 2020 Budget.** To contain evolution in core operations, efficiency factors have been applied on travel and meetings (respectively 15% and 20%) to reflect lessons from COVID-19 and a willingness to develop virtual ways of working. Additional savings have been generated from outsourced IT, HR and Facility Management services and infrastructure.
- Increasing level of funding to support roll-out of strategic/programmatic objectives with >US\$50/60 M per year (20% of costs) from US\$23 M in 2020 Budget.** In addition to annual priority funding required for 2020 prioritized activities continuing in 2021 and implementation of 2021 organizational priorities, a number of tactical investments need to be sustained till the end of the allocation cycle to deliver on the strategy, including key critical competencies (Disease Advisors, Human Rights, Community strengthening, AGYW, Health Financing and Supply & Operations), preparation of cyclical activities such as the next Global Fund Strategy and 7th replenishment conference, or multi-year transformational initiatives and business process improvements. US\$69 M is thus proposed to be invested overall on cyclical enablers (US\$40 M) and organizational priorities (US\$29 M) in the 2021 OPEX Budget.
- Periodic rebasing of cost structure at the start of each strategic cycle to ensure resourcing level and allocation in line with approved strategy.** Funding reassessment will be applied every three years based on the approved strategy, organizational priorities, organizational maturity and performance ambition.

	Staff Cost	Travel	Meeting	Prof Fees	Other	Contractual	2021 Rebased Budget	2020 Rebased Budget		Variance 2021 vs 2020	
								Value	%	Value	%
Core operations	134,488	10,482	1,172	9,059	65,785	24,652	245,638	248,756	-	3,118	-1.3%
Revised Cyclical enablers	24,296	3,185	1,181	10,439	1,218		40,319	34,391	5,928	17.2%	
Revised Priority	8,072	90	308	19,596	977		29,043	21,853	7,190	32.9%	
Total	166,856	13,757	2,661	39,094	67,980	24,652	315,000	305,000	10,000	3.3%	



02. 2021 OPEX Budget organizational priorities



10. 2021 represents a particularly complex year for the Secretariat's business cycle, with peaks in activity related to preparations for the next cycle of investments (first implementation year for 70% of Global Fund grant portfolio) and for the next Global Fund strategy. These peaks will need to be managed in a context where mitigation responses to COVID-19 have to be maintained or even accelerated, resulting in incremental costs to be integrated to the proposed OPEX Budget. Driven by these demands and the need to scale up mitigation actions related to COVID-19, six priorities were identified for the Secretariat in 2021:

2021 priorities reflect the new implementation context

Organizational Priority	Examples of Areas of Focus
1 Proactively mitigate the impact of COVID-19	CRM19; ACT-A; supply operations for diagnostics, treatment & PPE, meaningful engagement of communities; resource mobilization & pledge conversion
2 Launch the next cycle of grants & accelerate support to national programs in the COVID-19 context	Malaria campaigns & case mgmt.; TB missing cases; HIV prevention incl. AGYW; human rights-related barriers; in-country supply chain strengthening; community based-led-implementation; systems strengthening & measurement of RSSH investments; private sector implementation arrangements
3 Drive efficiency & effectiveness	Grant life-cycle launches incl. new grant rating methodology; data accessibility & management; data analytics, visualization & use; OPEX evolution; organizational configuration; integrating lessons learned from COVID; updating risk mgmt. practices; performance & accountability; process optimization
4 Invest in people & build strategic capabilities	Organizational culture; diversity & inclusion; workforce planning incl. position mgmt.; employee value proposition; learning & leadership development
5 Finalize the next Strategy & prepare for its implementation	Evidence basis for decision-making; Strategy consultations; Global Fund role in health systems, global health security & enviro sustainability; KPI Framework; M&E Framework; eligibility & allocation; supply chain & quality assurance
6 Build Global Fund brand & prepare for the 7th replenishment	Global Fund branding strategy; 20th Global Fund Anniversary Campaign; Investment Case; Replenishment strategy & campaign; civil society advocacy ecosystem

Priority 1: Proactively mitigate the impact of COVID-19

11. Priority 1 seeks to contain the impact of COVID-19 on the Global Fund mission. The organization will continue active engagement on the broader response to COVID-19 through the Access to COVID-19 Tools Accelerator and other global collaborations, and will strive to ensure meaningful engagement of communities. At the country-level, efforts will focus on supporting countries to leverage grant flexibilities and C19RM, and with partners, ensuring availability of diagnostics, PPE

and treatment for Global Fund implementing countries. Given the shifting implementation landscape, Secretariat priorities and resources will need to be managed dynamically.

Priority 2: Launch the next cycle of grants and accelerate support to national programs in the context of COVID-19

12. Priority 2 focuses on scaling up quality programs (particularly in mission-critical countries) and will require close collaboration with technical partners to respond to the impact of COVID-19 on interventions and enable re-programming as needed. Work on funding request reviews and grant-making will continue in 2021. Given COVID-related disruptions, considerable focus will be on ensuring timely implementation of malaria campaigns (ITN, IRS, SMC) and access to quality case management. On TB, efforts will be made to expand progress on finding and treating missing cases to additional high-burden countries. HIV interventions will be optimized to support prevention and strengthen systems, including scale-up of impactful investments for key populations and in AGYW-priority countries. As countries respond to COVID, the changing domestic financing context in countries will require intensified support on domestic resource mobilization.

Activities within Priority 2, complemented by the launch of the new cycle of Strategic Initiatives, will also seek to enable systems strengthening to support scale-up of quality programs. This will require improved measurement of RSSH investments and the impact of those investments. In 2021, there will be significant focus on strengthening implementer capacities, including scaling up community-based/-led implementation and enhancing implementation arrangements with the private sector for service delivery. Efforts will leverage partnerships, technical assistance, and expanded in-country IT capabilities. In 2021, work will also continue on existing initiatives for assessing and strengthening programming to reduce human rights-related barriers to services, and for supporting countries to strengthen supply chains.

Priority 3: Drive efficiency and effectiveness

13. The drive for efficiency and effectiveness will continue in 2021, specifically on integrating learnings from COVID-19 into the Global Fund business model, maturing organizational management processes and optimizing structures, and strengthening data-driven decision making. COVID-19 context has provided valuable insights and lessons which will be leveraged to evolve the employee experience, find innovative ways of working (including by leveraging IT and adapting travel practices), explore potential changes to the use of the Global Health Campus via increased teleworking, review and revise the approach to risk management, and simplify core processes, systems and tools. The process of organizational maturity will continue with embedding the business process model, evolution of the OPEX budgeting process, and refining the organizational configuration to respond to priorities. The drive for data driven decision-making will be supported through initiatives that aim to improve data accessibility, management and timeliness and expand data analytics, visualization and use. Roll-out of grant life-cycle launches, including the new grant rating methodology, will also continue.

Priority 4: Invest in people and build strategic capabilities

14. Work will continue in 2021 to implement the remaining components of the People Strategy. In 2021, the focus will be on developing and embedding an inclusive culture of collaboration, trust and adaptability and strengthening the strategic capabilities and agility of the organization. On culture, work will be undertaken to monitor the state of organizational culture and continue implementation of engagement action plans. A diversity and inclusion strategy will be developed and embedded into existing processes. Activities will also be undertaken to increase a people-oriented management approach through continued learning and leadership development, and to embed the rewards and recognition framework. On strengthening strategic capabilities and

organizational agility, the focus will be on increasing workforce planning capabilities, particularly through position management, and building capabilities in key areas to support the Global Fund's catalytic role, e.g. health financing, evaluation, human resources for health, key populations, human rights, global health security, and market-shaping.

Priority 5: Finalize the next Strategy and prepare for its implementation

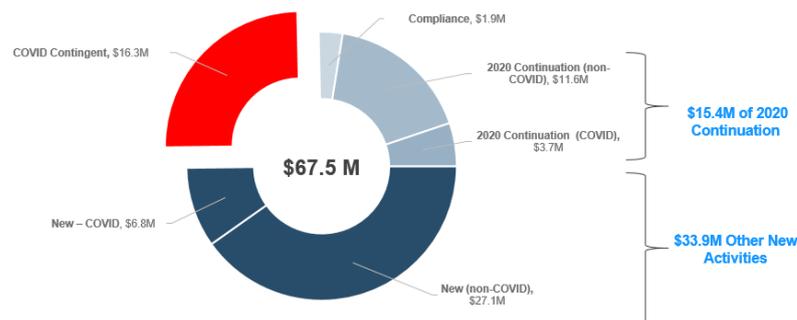
15. Activities within Priority 5 will focus on securing approval for the next Global Fund Strategy and preparing for its implementation, including through the development and updating of key strategies and policies. The Secretariat will work to ensure that Strategy development discussions and decision-making are evidence-based and clarify the Global Fund's role in health systems, global health security and environmental sustainability. The Strategy development process itself has been adapted to COVID-19 realities, and efforts will continue to ensure engagement of diverse partners, particularly communities and implementers. In parallel, the Secretariat will articulate an approach to its in-country work on supply chain strengthening and implement the quality assurance strategy currently under development. Work on eligibility and allocation will ramp up, with preparations to revise the eligibility policy, review the disease split and revise the allocation methodology. The Secretariat will also aim to develop a comprehensive approach to addressing its impact on climate change and the environment. Preparations for implementation of the Strategy will include drafting of a new KPI Framework, development of an M&E Framework, and other activities to ensure that the organization is implementation-ready by January 2023.

Priority 6: Build the Global Fund brand and prepare for the 7th Replenishment

16. Priority 6 will focus on increasing the strength and visibility of the Global Fund brand and on laying the foundation for the 7th Replenishment. Brand building will include roll-out of the refreshed branding strategy and preparing and launching the 20th anniversary campaign. This work will support efforts on preparing for the 7th Replenishment, incorporating lessons learned from the previous Replenishment. Activities include articulating a new Global Fund Investment Case, elaborating a Replenishment strategy and campaign, and securing Replenishment hosts. Focus will also be placed on strengthening the Global Fund civil society advocacy ecosystem, which was instrumental to the success of the 6th Replenishment.

17. At US\$67.5 M, initial requests submitted for priority funding were about twice the amount expected to be available, requiring stringent prioritization criteria to be applied:

- 2020 prioritized activities continuing into 2021: reinvestment decisions were based on implementation status, continued relevance in 2021 from a strategic or compliance standpoint, and value for money, as well as potential programmatic impact consideration.
- 2021 organizational priorities: resourcing decisions based on considerations for overall resource requested vs. available, review of priority workforce needs through the workforce planning process, expected benefits to the organization, criticality and specificity of activity to 2021, balance across organizational priorities and teams, as well as historical ability to deliver.
- A list of prioritized unfunded OPEX items has been developed for further consideration at quarterly reforecasting time.
- A total amount of US\$16.3 M of COVID-19 related request has been carved out and will be contingent of on scale up of C19RM and availability of additional funding.



*After initial submission of requests, and additional \$0.7M of requests were added and approved for a total in scope amount of \$52M

18. US\$32 M (including US\$3 M as cyclical enablers) has been awarded to the 6 priorities as follows:

19. ~~Details for 2020-2021 Allocation to COVID-19 and the 2021 OPEX Budget (50 per cent of 2020)~~



III. Cost Categories

19. The table below provides a summary of budget by major cost category.

Budget category (US\$ millions)

Staff	External Assurance	Professional fees	Office infrastructure	Travel	CCM
161.2	48.3	43.0	21.5	13.8	9.5
Meetings	Communication	Board constituencies	Other	Non-recurring costs	Total
2.7	1.6	1.6	5.6	6.3	315

20. Budget allocation across cost categories has changed compared to previous years. Increases in staff costs and professional fees reflect strategic investment decisions made in critical competencies and transformational initiatives, as well as the need to step up COVID-19 mitigation responses. Changes in ways of working in a post COVID-19 environment have led to a significant decrease in the travel and meetings budget.

External Assurance expenditure (US\$ millions)

2015	2016	2017	2018	2019	2020 (F2)	2021 Budget
51	47	49	44	47	46	48

21. External assurance costs (LFA) maintain the flat trend seen over the past five years. Additional services related to COVID-19 will be managed within the current envelope, with funding to be potentially added once the LFA workplan is confirmed.

Travel expenditure (USD millions)

2015	2016	2017	2018	2019	2020 (F2)	2021 Budget
20	17	16	16	16	5	14

22. While travel is essential for informed grant oversight and collaboration with in-country partners, the Global Fund has decided to voluntarily decrease volume of travel in light of COVID-19 but also in an effort to promote more environmental-friendly, virtual ways of working.

Staff expenditure (US\$ millions)

2015	2016	2017	2018	2019	2020 (F2)	2021 Budget
137	140	147	145	147	150	161

23. As a financing mechanism primarily responsible for grant administration and oversight, and with no country presence, the Global Fund's main budget driver is staff costs. The Secretariat staff

budget has seen an increasing trend. The COVID-19 outbreak resulted in significant underspend on F2 2020 staff costs, with delays experienced in recruiting and onboarding new staff. While maintaining strong controls over core operation staff, the Secretariat will see an increase in workforce costs due to surge resources required for the coming year for grant making and scaling up COVID-19 responses, or for investment in strategic capabilities to be maintained till the end of the allocation cycle. Workforce planning will help ensure that increased alignment is achieved between budget resourcing categories and contract duration through fixed term assignments.

IV. Recommendation

The Audit and Finance Committee recommends the Decision Point presented on page 2 to the Board.