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# OPEX EVOLUTION 2020-2022 OPEX CAP

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**45<sup>TH</sup> BOARD MEETING**

11-12 MAY 2021, *Virtual*

*AFC recommendation to the Board*

GF/B45/02 Annex 2

# A \$ 930 M funding need for the 2020-2022 period to sustain achievements and transition to the new strategy cycle

## The new OPEX Evolution framework has enabled:

1. to bring transparency around the structure of the OPEX cost base and evolution drivers
2. to continue the organizational approach of leveraging value for money / cost efficiency and tactical investing in key priority areas to strengthen strategic capabilities

As requested by the Board and AFC, an analytical view of the evolution of the OPEX cost base since 2015 is provided with a focus on the delivery model. The analysis establishes clear linkages between structural changes in OPEX Evolution with strategic orientations and trade-offs discussed with the Board and AFC.

## The Secretariat proposes an increase of the 3-year OPEX envelope to \$ 930 M (3.3% increase in line with 2021 Budget increase level) to:

- Continue investment in
  - strategic capabilities (e.g. health finance, Human Rights, AGYW, Supply & Operations ...)
  - reinforcing financial performance (e.g. absorption, pledge conversion, ...)
  - digital transformation and the IT infrastructure and security...
  - effective responses to challenges related to Covid-19 in terms of emergency preparedness and business continuity
  - organizational maturity, risk and assurance management, overall business process improvements initiatives to facilitate simplification and nimble approaches
- Address 2022 business cycle priorities (7<sup>th</sup> replenishment and strategy development)

## Maintaining the \$900 M cap for the 2020-2022 would require:

- **unsustainable trade-offs** and the risk of backsliding on achieved gains and missing critical enablers/capabilities as GF will transition to the new strategy cycle
- **the proactive revision of the 2021 workplan and related ambitions** as scale back in resourcing would have to be anticipated and costed

# OPEX Rebasing: Enhances transparency for optimal management and governance oversight

	Staff Cost	Travel	Meeting	Prof Fees	Other	Contractual	2021 Rebased Budget	2020 Rebased Budget		Variance 2021 vs 2020	
								Value	%	Value	%
Core operations	134,488	10,206	1,161	9,431	65,699	24,652	<b>245,638</b>	248,756	-	3,118	-1.3%
Revised Cyclical enablers	24,296	3,185	1,181	10,439	1,218		<b>40,319</b>	34,391		5,928	17.2%
Revised Priority	8,072	90	308	19,596	977		<b>29,043</b>	21,853		7,190	32.9%
<b>Total</b>	<b>166,856</b>	<b>13,482</b>	<b>2,650</b>	<b>39,466</b>	<b>67,894</b>	<b>24,652</b>	<b>315,000</b>	<b>305,000</b>		<b>10,000</b>	<b>3.3%</b>

## Core Operations: US\$ 245.64 million

Includes a lean permanent workforce; travel for in-country oversight, resource mobilization and statutory costs required for assurance and security and facility management

### Value-for Money and Efficiency considerations:

- Outsourced services for IT services/maintenance, occupational health, HR and facility management generates optimization and efficiency opportunities
- 15% reduction in Travel and 20% meeting costs (COVID adaptation)
- 5% reduction of non-statutory professional fees through procurement approaches for goods and services

## Cyclical Enablers: US\$ 40.32 million

Tactical investments required per year over the 2020-22 period to:

- **Enhance strategic capabilities** (Disease Advisors, Human Rights, Community strengthening, AGYW, Health Financing and Supply & Operations)
- **Enable successful delivery of cyclical activities** (e.g. replenishment conference, strategy development)
- Support **optimal planning and delivery of multi-year transformational and business process improvement initiatives**

**Assess funding** required every 3-years based on the approved strategy, replenishment outcome, org. priorities, org. maturity and Performance Ambition

## 2021 Priority: US\$ 29.04 million

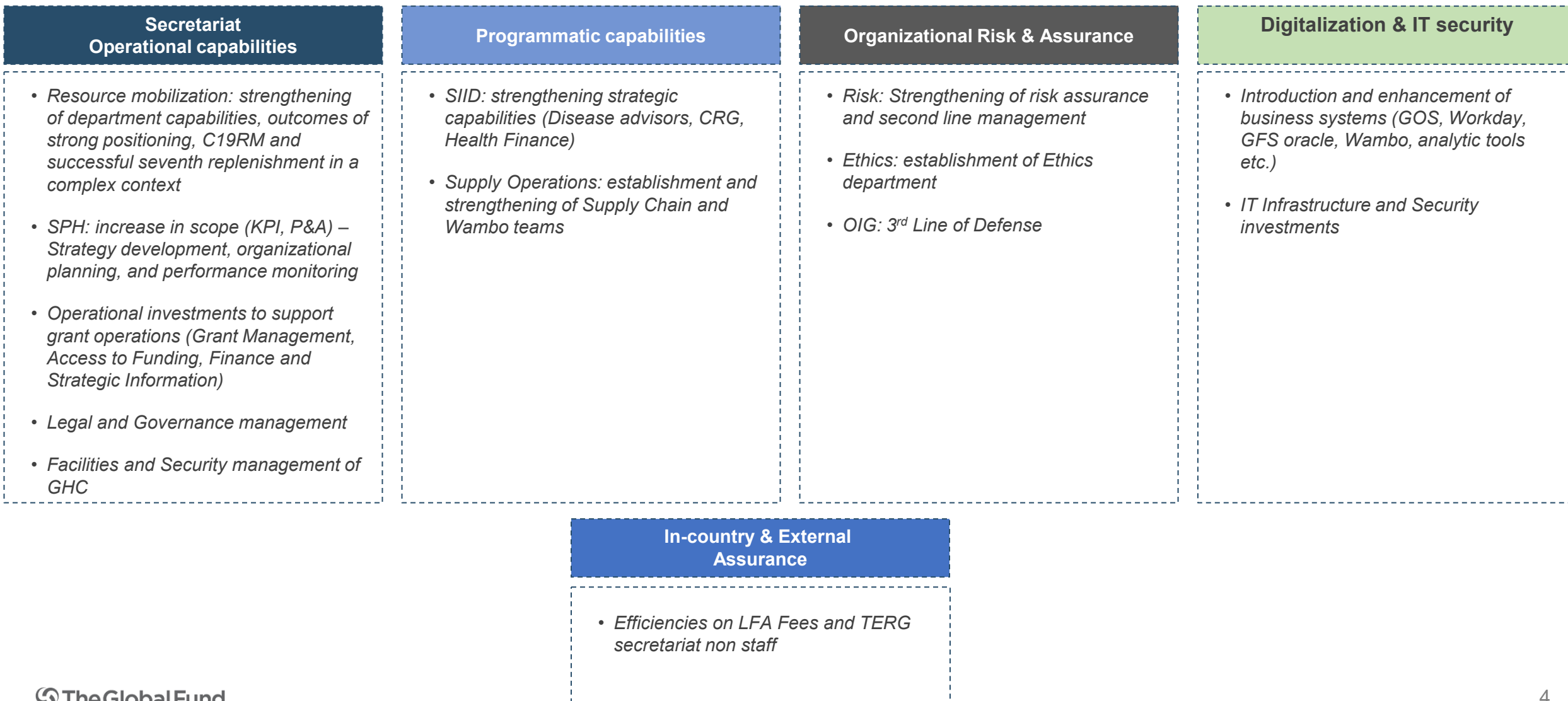
Annual Priority funding required to fund:

- **2020 prioritized activities continuing into 2021:** go/no go decision depending on implementation status, continued relevance in 2021 and value for money & potential impact consideration. Includes adjustments for compliance activities
- **Organizational priorities:** resourcing based on considerations for overall resource requested vs. available, review of priority workforce needs (temp, consultants), expected benefit to the organization, criticality & specificity of activity to 2021, balance across organizational Priorities & teams

Allocate resources in the **OPEX ceiling** to fund **emerging needs** for annual priority investments

The strategic shift to ensure optimal balancing of OPEX required for Core operations and Cyclical Enabler will be a dynamic process of 2021/22 for the next strategy cycle.

# Operational categories to link OPEX investments to the delivery model and performance ambition – Finance Proposal to respond to AFC and Board needs



# Positive outlook of Corporate KPIs linked to GF core operations in line with structural OPEX reinvestments

## Secretariat Operational capabilities

### Grant Operations

- KPI 2 (service delivery) with currently 6 indicators off-track (out of 17)
- KPI 3 (alignment needs-funding) currently at 0.318 deviation against target of 0.32 (low is good)
- KPI 4 (program efficiency) currently at 88%
- KPI 6c (Finance systems) with currently 5/6 and 23/26 countries meeting standards
- KPI 7a (allocation utilization) currently at 98%
- KPI 7b (absorptive capacity, 3-year value) currently at 88%

### Resource Mobilization

- KPI 10a (amount pledged): currently at 101% of Replenishment Target
- KPI 10b (pledge conversion): 100% of initial forecast

## Programmatic capabilities

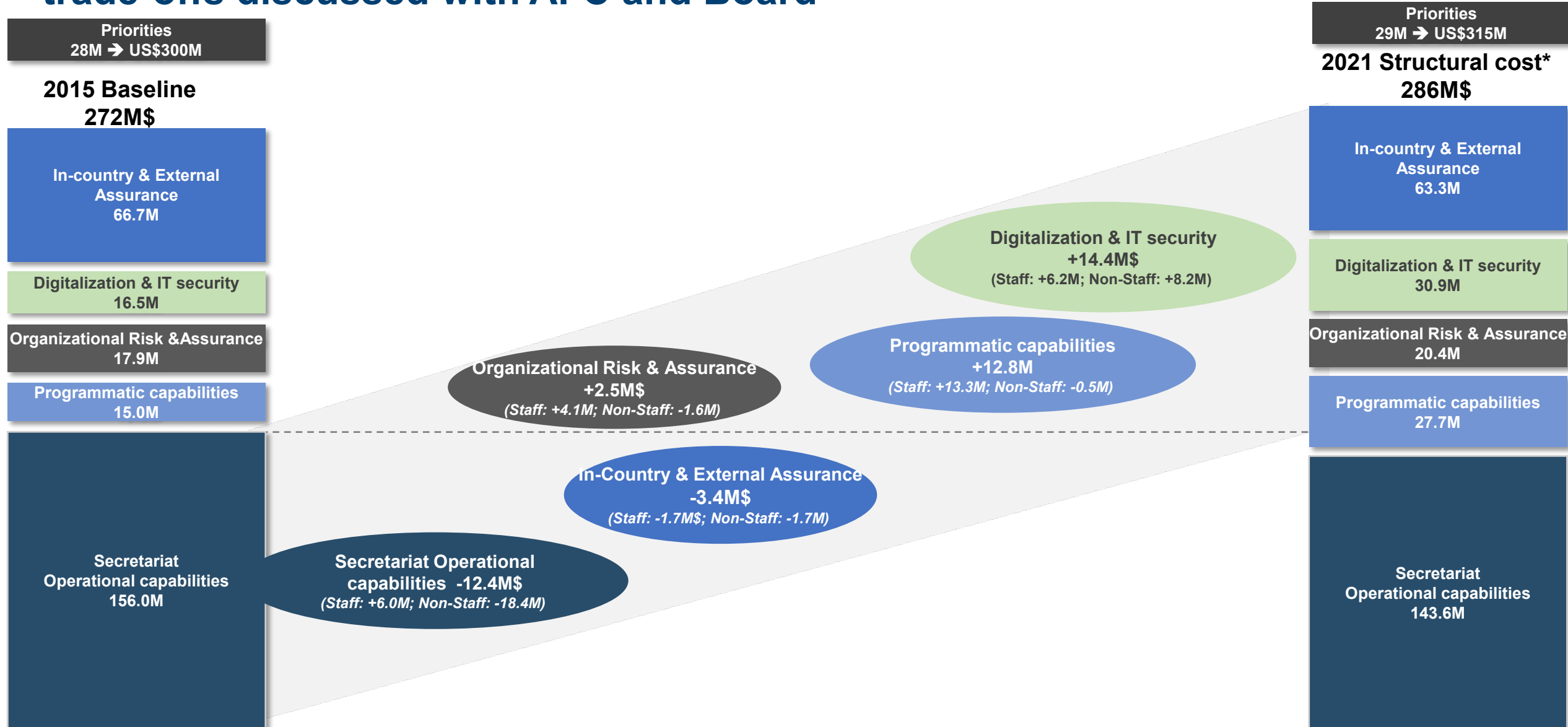
### Supply Operations

- KPI 6b (supply chains) currently on track with 5 products/diagnostics out of 6 on target (and the last one close)
- KPI 12a (number of PPM suppliers) currently at +90% of requested number of suppliers per volume category
- KPI 12b (PPM savings) currently at \$174m against \$115m target

### Strategy Investment & Impact

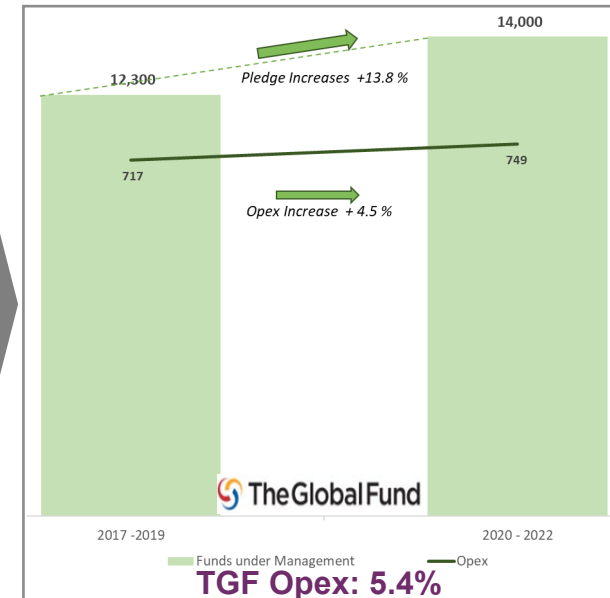
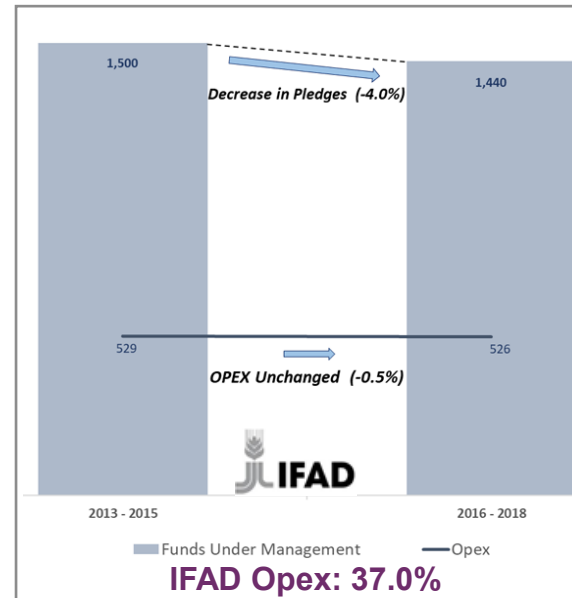
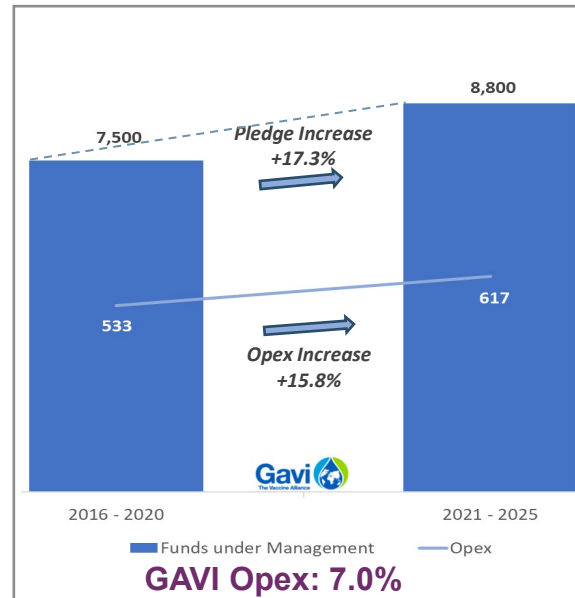
- KPI 5 (key pop coverage) at 64% of countries able to report
- KPI 6d (HMIS coverage) currently at 43% countries meeting standards against 50% target
- KPI 6e (data disaggregation) currently at 65% of countries meeting standards against 50% target
- KPI 9a (Human Rights programs) currently on track with milestones
- KPI 9b (grant funding for Human Rights and Key populations) currently slightly off-track (depending on sub-indicator)
- KPI 11 (domestic funding) on track with 120% of requirements realized

# Evolution of OPEX structural baseline in line with strategic orientations and trade-offs discussed with AFC and Board



**Excluding priority**  
\* Structural cost includes core and cyclical

# Operational efficiency peer benchmark: management fee range from 7 to 37% in comparison to 5.4% for Global Fund.



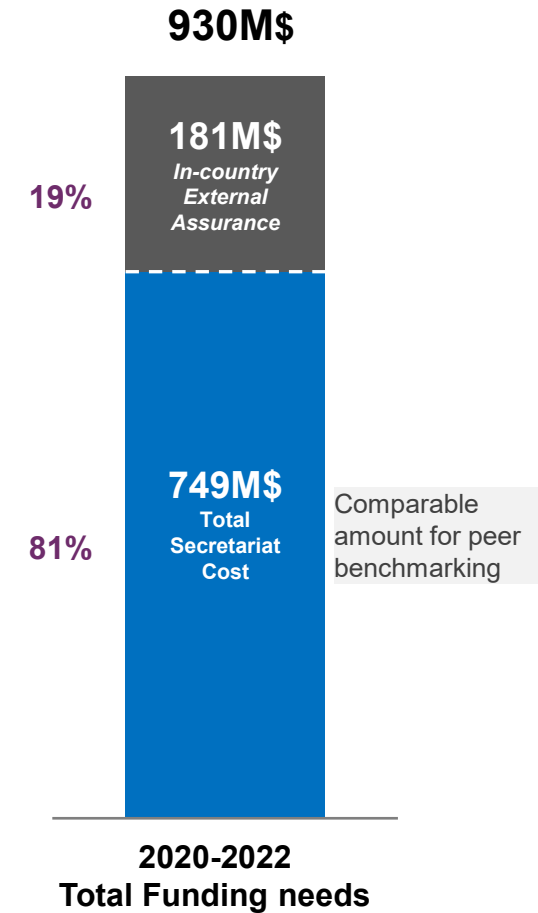
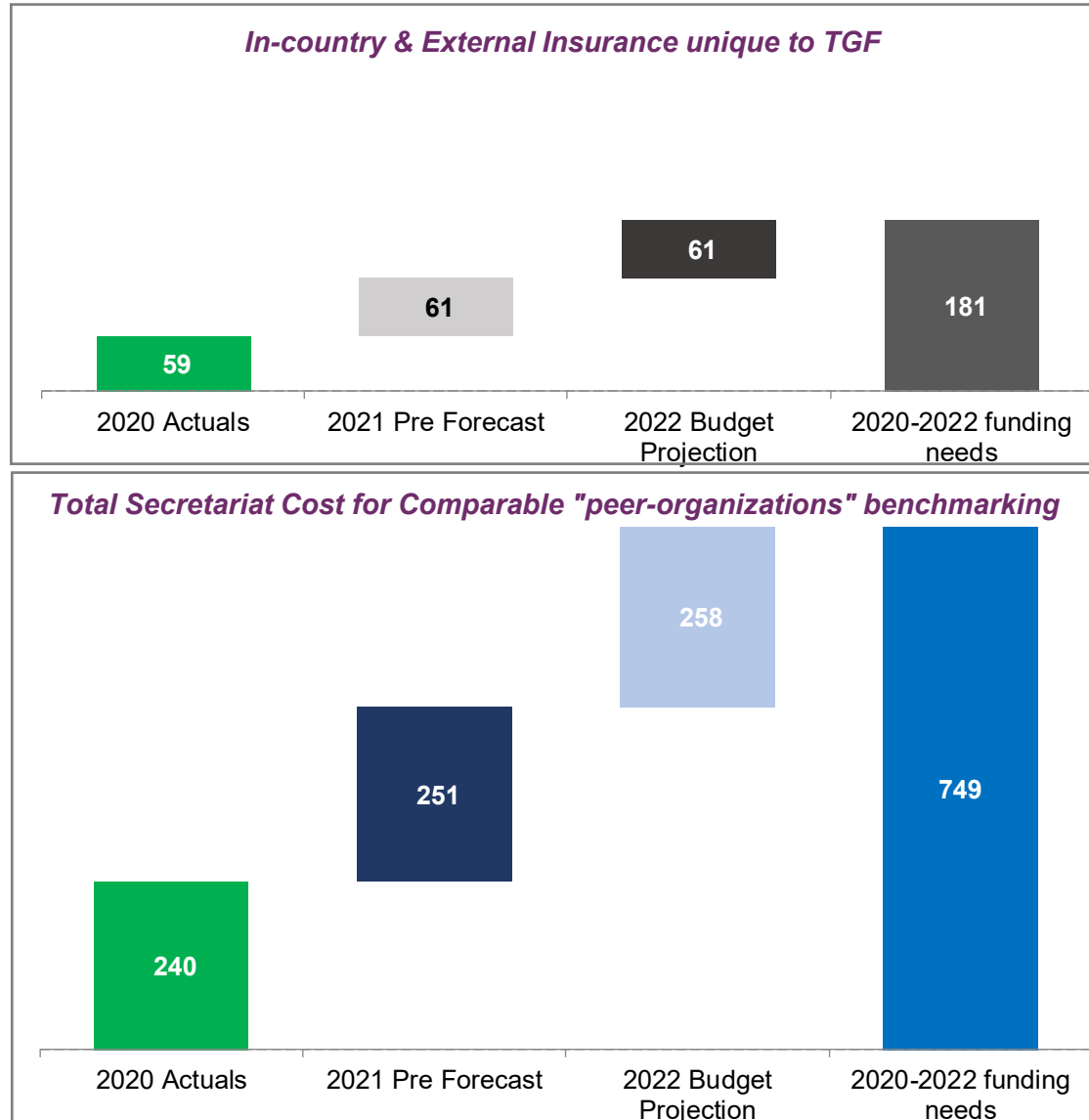
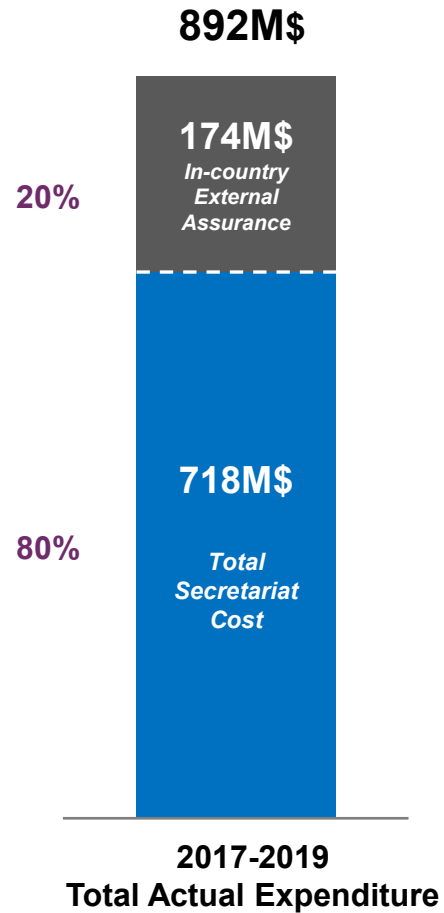
- **Gavi:** even after excluding one offs, Gavi ‘Secretariat OPEX’ 5-year envelope has increased by 15.8% compared to the previous, **keeping pace with the increase in pledges** (+17.3%)
  - GAVI ‘Secretariat OPEX’ excludes external assurance cost. This reflects favourably in their ratios of OPEX as a % of pledges. Similar in-country external assurance cost (LFA & PDQA, TERG and CCM) represent approximately 20% of Global Fund overall cost base. **Adjusting external assurance cost to enable a ‘like for like’ comparison’, Global Fund “Secretariat OPEX” would amount to US\$ 749M or 5.4% level of management fee.**
  - Alignment on Gavi’s performance of 7.0% would entail a **3-year OPEX envelope (including in-country external assurance) of US\$1,160 M (US\$ 980M of Secretariat OPEX and US\$ 180M of external assurance costs).**
- **IFAD:** on other end of the spectrum, with a reduction in OPEX in their previous 2 cycles, OPEX has remained stable. Management fee in excess of 30%
- Other organizations such as Unitaid & Stop TB are within a 7-15% range

# To avoid falling off the cliff and maintain investments in strategic capabilities, a revised cap of US\$ 930M for the 2020-2022 period is needed

	2017-2019 Actuals	2020 Actuals	2021 Pre-Forecast	2022 Ambition	2020-2022 Ambition
	<b>US\$ 892M</b>	<b>US\$ 299M</b>	<b>US\$ 312M</b>	<b>US\$ 319M</b>	<b>US\$ 930M</b>
Secretariat Operational capabilities	US\$ 486.5M	US\$ 163.7M	US\$ 161.8M	US\$ 165.3M	US\$ 490.8M
Programmatic capabilities	US\$ 75.6M	US\$ 23.9M	US\$ 29.0M	US\$ 31.4M	US\$ 84.4M
Organizational Risk & Assurance	US\$ 57.5M	US\$ 15.7M	US\$ 20.6M	US\$ 20.6M	US\$ 56.9M
Digitalization & IT security	US\$ 98.7M	US\$ 36.5M	US\$ 39.8M	US\$ 41.1M	US\$ 117.4M
In-country & External Assurance	US\$ 173.6M	US\$ 59M	US\$ 60.6M	US\$ 61.0M	US\$ 180.6M



# US\$930M budget cap represents +3.3% (vs 900M), and would enable acceleration and oversight to effectively manage the partnership and its performance ambitions



# US\$ 930M cap will be needed to fund critical business activities for 2022 and to continue strengthening strategic capabilities

**US\$ 930M**

**2020-2022 ambitions**

<p><b>Secretariat Operational Capabilities</b></p>	<p><b>US\$ 490.8M</b></p>	<ul style="list-style-type: none"> <li>• Resource Mobilization: 7th replenishment, advocacy, positioning and pledge conversion -<b>NEW</b></li> <li>• Next GF strategy &amp; KPI development and operationalization</li> <li>• Maintain COVID disruption adaptation to enable effective grant implementation at country-level</li> <li>• Mainstream operational oversight interventions to enhance financial (in-country absorption) and programmatic performance</li> <li>• Continue adaptation of ways of working as part of the “Future of Work”</li> <li>• Continue transformation of financial processes and systems with increased capabilities (reporting, planning, analytics, controls)</li> </ul>
<p><b>Programmatic Capabilities</b></p>	<p><b>US\$ 84.4M</b></p>	<ul style="list-style-type: none"> <li>• Maintain tactical investments in strategic capabilities to accelerate program quality and better health outcomes               <ul style="list-style-type: none"> <li>○ Disease Advisor capacity to support in-country operations</li> <li>○ RSSH capabilities and oversight model</li> <li>○ Human Rights and AGYW</li> <li>○ Market shaping strategy, supply chain and quality assurance- <b>NEW</b></li> <li>○ Procurement systems and processes to address gaps identified during Covid-19</li> <li>○ Health Financing Department - <b>NEW</b></li> </ul> </li> <li>• Develop and fund implementation of the new M&amp;E framework – <b>NEW</b></li> <li>• Expand support to countries on domestic health financing</li> </ul>
<p><b>Organizational Risk &amp; Assurance</b></p>	<p><b>US\$ 56.9M</b></p>	<ul style="list-style-type: none"> <li>• Reinforce in-country code of conduct and due diligence on key hiring/appointments</li> <li>• Increase the maturity and application of the Ethics &amp; Integrity Framework to our grant-funded activities</li> <li>• Manage specific ethics risks within the ‘in-country conduct and ethics’ risk framework - <b>NEW</b></li> <li>• Adapt Risk Appetite and Management Frameworks to the new COVID-19 context</li> <li>• Effectively manage emerging and significantly increased risks</li> </ul>
<p><b>Digitalization &amp; IT Security</b></p>	<p><b>US\$ 117.4M</b></p>	<ul style="list-style-type: none"> <li>• Ensure IT resilience for emergency preparedness and security, roll-out a new operating model (“future of work”) - <b>NEW</b></li> <li>• Efficient and effective data integration and data analytics, improved data frequency and availability</li> <li>• Provide in-country technology and digital services - <b>NEW</b></li> <li>• Strengthen IT Governance to foster IT efficiency and effectiveness</li> </ul>
<p><b>In-country &amp; External Assurance</b></p>	<p><b>US\$ 180.6M</b></p>	<ul style="list-style-type: none"> <li>• Adapt and adjust LFA model as part of ‘Future of Work’</li> <li>• Increase LFA’s focus on implementation effectiveness and programmatic assurance to support implementation oversight and highlight bottlenecks - <b>NEW</b></li> <li>• Strengthen CCM in-country oversight of grants</li> <li>• Potential increase in TERG’s role as part of the new M&amp;E framework - <b>NEW</b></li> </ul>

# Unsustainable tradeoffs under a US\$ 900M 3-year cap scenario

US\$ 900M		Fiscal Gap / Trade-offs
Secretariat Operational Capabilities	US\$ 479.0M	<ul style="list-style-type: none"> <li>Maintain appropriate resourcing on critical 2022 deliverables (7th replenishment, strategy and KPI operationalization)</li> <li>Reduce support for Covid-19 adaptation to enable grant implementation at country level</li> <li>Scale back 2022 ambition for financial and programmatic performance oversight</li> <li>Delay adaptation in ways of working</li> <li>Potentially reduce current resourcing baseline for enabling functions (Financial Management, Legal &amp; Governance, HR and Communications)</li> </ul>
Programmatic Capabilities	US\$ 82.0M	<ul style="list-style-type: none"> <li>Scale back implementation of the next five-year Market Shaping Strategy and postpone implementation of the Supply Chain Roadmap and Quality Assurance Strategy</li> <li>Significantly scale back on supply operations-related critical systems / tools upgrades</li> <li>Scale back 2022 ambitions on:               <ul style="list-style-type: none"> <li>Implementation of enhanced Health Financing strategic approach</li> <li>Implementation of M&amp;E framework</li> <li>RSSH improvement and oversight model</li> <li>Achievement of KPI targets for CRG</li> </ul> </li> </ul>
Organizational Risk & Assurance	US\$ 56.1M	<ul style="list-style-type: none"> <li>Reduce current resourcing baseline on Secretariat Risk and Assurance</li> <li>Postpone mainstreaming of the Ethics Code of Conduct</li> <li>Revert to more limited and reactive advice provision in relation to Ethics matters</li> </ul>
Digitalization & IT Security	US\$ 106.9M	<ul style="list-style-type: none"> <li>Scale down on innovative technology and security investments, which would result in vulnerabilities including emergency preparedness</li> <li>Postpone implementation of in-country technology and digital services</li> <li>Postpone implementation of adaptation to ways of working (“future of work”)</li> <li>Eliminate capacity to further integrate country data, support data interoperability and other integration needs</li> </ul>
In-country & External Assurance	US\$ 176.0M	<ul style="list-style-type: none"> <li>Reduce current resourcing baseline of external assurance (LFA, CCM) set up and related costs</li> </ul>

## Next steps and Decision

- As the Secretariat will commence the internal integrated organizational planning process (prioritization / budgeting / workforce planning for 2022) in May 2021, a decision by the Board on whether or not to accept an increase in the US\$900M cap for 2020-2022, is requested to be made in this 45<sup>th</sup> Board Meeting. **A decision by the Board in May 2021 would facilitate the organizational planning process which is aligned to the governance timelines relating to annual OPEX budget approval.**
- **A US\$ 900M scenario, would create a challenging operational context where the Secretariat would need to cost and rapidly scale-down or even halt implementation of budgeted 2021 activities to ensure sufficient budgetary resources remained available for a small set of prioritized activities in 2022.**