

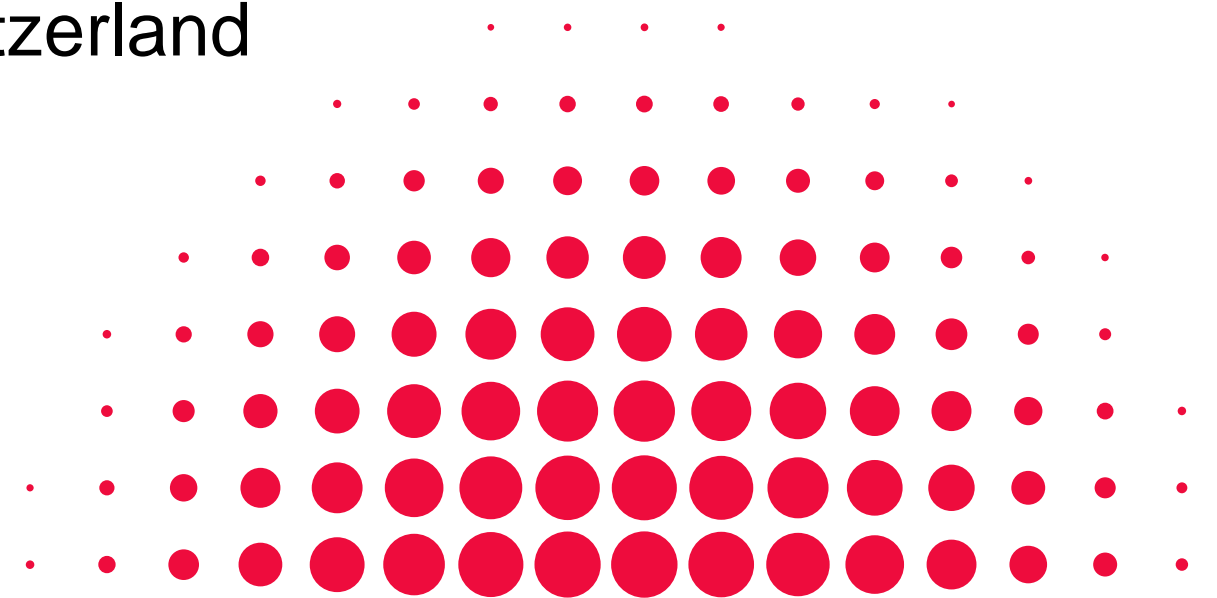
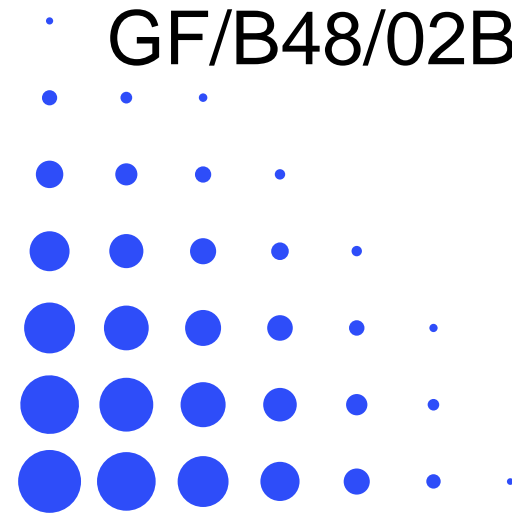
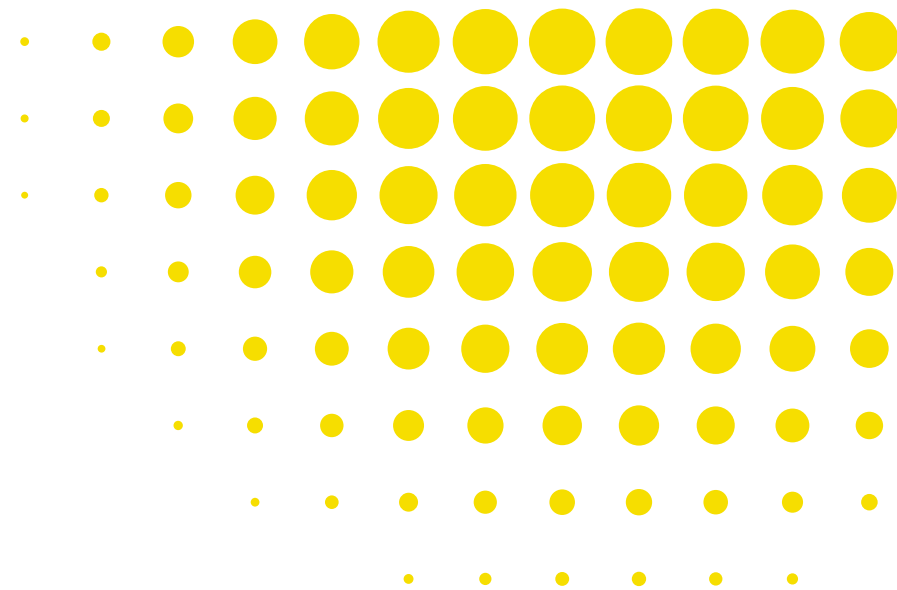


Operating Expenses Budget OPEX

48th Board Meeting

15-17 November 2022, Geneva, Switzerland

GF/B48/02B_Revision 1



Executive summary (1/2)

Overall Opex

- I. The Secretariat elaborated the SoF in a difficult context with the need to strike the right balance between country allocations, catalytic funding, and OPEX, to best deliver impact on strategy implementation.
- II. At its November meeting, when SoF with additional pledges outstanding, the AFC recommended a 2023 OPEX Budget of US\$ 335.4 M, while acknowledging the flat-lined budget included gaps for the secretariat to deliver.
- III. With the **final replenishment outcome** enabling an increase of the overall 3-year OPEX by US\$30M (to US\$1025M), the Secretariat recommends to supplement the AFC's recommendation with an increase of US\$5M for 2023.
- IV. The 2023 OPEX Budget for Board approval of **US\$ 340M** is broken-down as follows
 - **PART A** – Secretariat OPEX of **US\$ 272 M** (including US\$16.5 M for OIG)
 - **PART B** – In-Country Assurance & Independent Bodies of **US\$ 68 M**
- V. 2023 Budget is designed to accelerate and launch the strategy delivery of core programs for 70% of The Global Fund portfolio in an evolving pandemic and resource constrained context.
- VI. The Secretariat will also be accelerating the monitoring and oversight to achieve the expected results for the 6th repl. cycle with 70% of grants ending by Dec 2023.

Executive summary (2/2)

2023 Budget

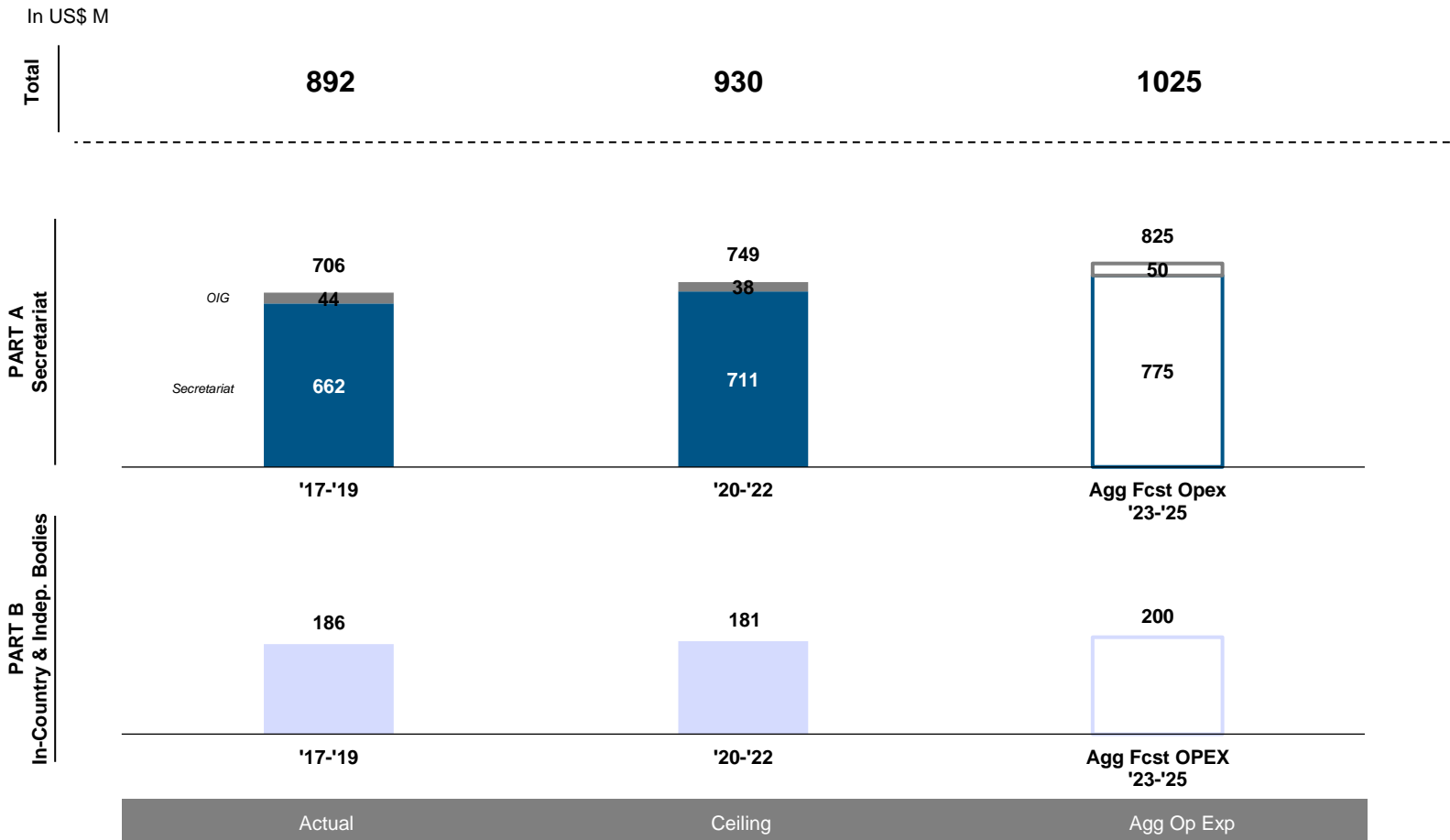
VII. Acknowledging gaps still exist in the budget allocation when compared to needs, the 2023 Budget recommendation focuses on:

- Integrated PSEAH, CCM Evolution and Evaluation (IEP) functions with increased resources for PSEAH and IEP.
- Scale-up in workforce tactically prioritized on key strategic areas and workload hotspots within the secretariat including CRG, country teams, NextGen market shaping, RSSH/PPR etc.
- Increased funding for assurance due to the evolving risk landscape.
- Travel & meeting to focused on new cycle of grants and assurance activities but remains below pre-pandemic levels.
- Net reductions in strategy and resource mobilization are limited to the cyclical elements (i.e., strategy development and replenishment conference event) while ensuring funds availability for continuous mobilization of resources.
- Limited investments in professional fees & support functions for 2023 may not fully compensate the inflationary impact and service level costs required for operational activities.
- The overall budget flexibility for emerging and priority needs is significantly reduced in a context of increasing workload, burnout, and other statutory factors.

VIII. The Secretariat will continue to leverage robust financial planning discipline to activate cost efficiencies and optimization approaches to balance resource allocation for operating expenses vs. catalytic and country allocation in a transparent manner.

3-year aggregate operating expenses of US\$ 1.025 Bn for Secretariat (PART A) & In-Country & Independent Bodies (PART B)

2023-25 aggregate forecasted operating expenses after prioritization and calibration



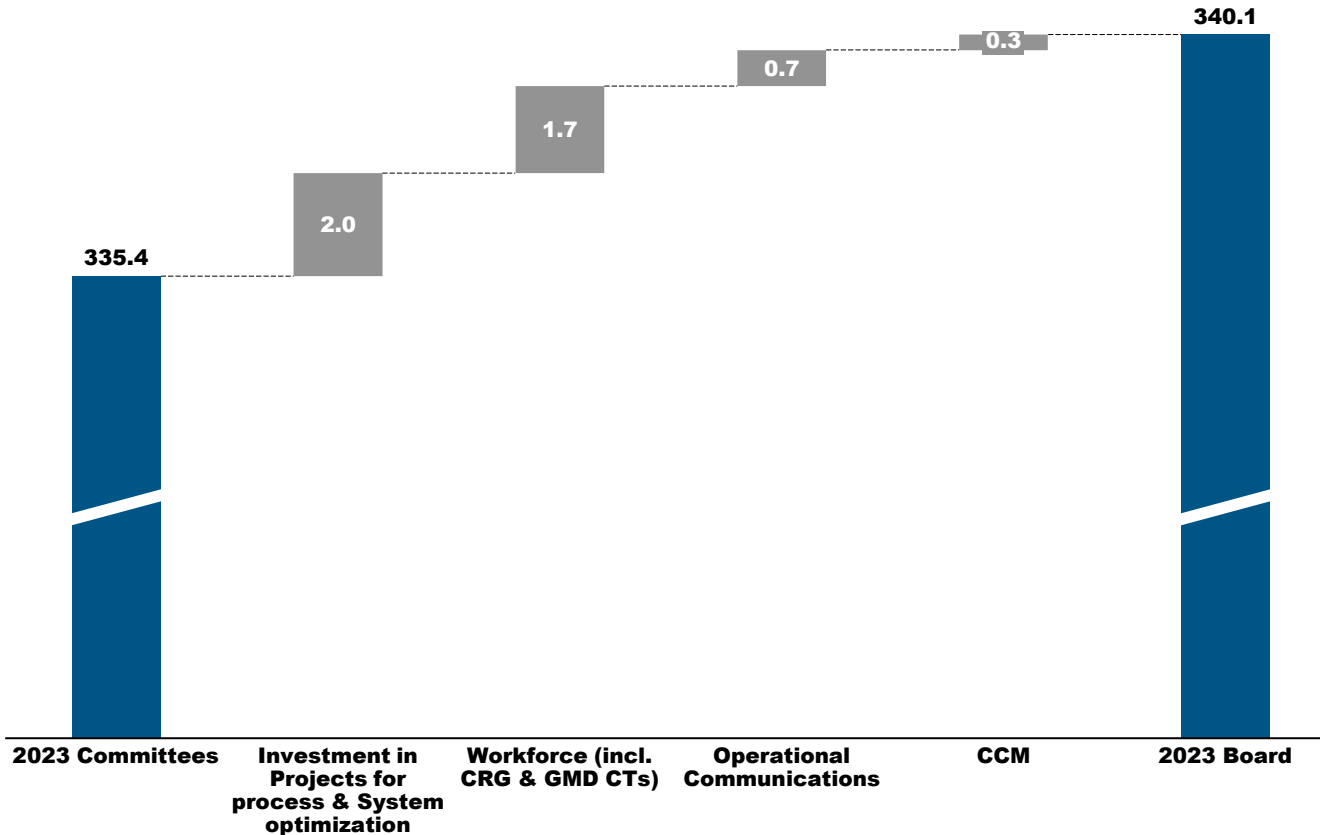
Rationale

3-year aggregate forecasted operating expenses for 2023-2025 and Budget 2023 is defined separately for Secretariat (80%) and In-country & Independent Bodies (20%)

Segregation of OPEX (Secretariat) from the uniqueness of the In-Country & Independent Bodies to enhance cross-organization benchmarking and visibility on the unique model.

- **US\$ 825 M – Secretariat:** OPEX funding under PART A focuses on secretariat operational capabilities, monitoring and oversight activities and independent oversight of the OIG.
- **US\$ 200 M – In-Country & Independent Bodies:** In-Country & Independent Bodies under PART B is a requirement for which dedicated funding needs to be set aside. It provides comfort on adequacy between resourcing and risk appetite/mandate, and capacity to mitigate operational risks. This includes new evaluation function, TRP, LFA among others.

Updated OPEX budget of US\$340M is US\$5M (1.5%) above the AFC recommendation to address critical areas



- Integrating feedback received from committees and constituencies, adjustment to 2023 OPEX Budget by US\$5M to US\$340M.
- The main impact of the incremental US\$5M will allow the Secretariat to fund critical strategic priorities as follows:
 - **Increase CCM funding to enable support to CCMs funding** representing an overall increase of 8% compared to 2022 Budget, as requirement of the new strategy will have to be reflected in the 2023-2025 grant making process that will be initiated next year
 - **Targeted workforce increases** to enhance Communities and Gender related capabilities in CRG and Country Teams to deliver on strategic priorities.
 - **Partial reduction in level of cutbacks in processes & systems optimization** projects to continue innovation, simplification and efficient execution of services
 - **Reinforcing Operational Communications** to enhance publication and advocacy communication (including guidelines, translations, etc..)

Holistic 2023 Operating Budget across funding sources shows a stable landscape when compared to 2022

in \$USM	Budget		2023				2022				Total	2023 vs 2022 %	
	Requests	(AFC20)	OPEX Budget	OPEX - C19RM*	OPEX - SI	OPEX - Gates	OPEX Budget	OPEX - C19RM*	OPEX - SI	OPEX - Gates			
1. Strategy & Resource Mobilisation	42	35	34	2	-	1	37	37	2	-	1	40	-6%
Resource Mobilisation	30	24	24	2	-	1	26	26	2	-	1	28	-7%
Strategy	12	11	11	0	-	-	11	11	0	-	-	12	-5%
2. Operational Delivery	162	131	123	12	7	3	146	114	13	12	3	141	3%
Grant Mgt Country Teams	97	84	79	7	-	1	87	73	7	-	1	81	7%
Technical Delivery	65	47	45	5	7	2	58	41	5	12	2	60	-2%
4. Secretariat Support / Enabler	105	87	81	8	-	0	90	79	12	-	0	91	-1%
5. Assurance	38	30	28	2	-	-	30	24	2	-	-	25	19%
Structural and Technical adjustments	9	9	5	-	-	-	5	3	-	-	-	3	72%
Total Delivery Approach Part A	356	293	272	25	7	4	308	257	28	12	4	300	3%
2. Operational Delivery	13	12	12	1	1	-	14	11	0	1	-	13	7%
CCM & CCM Evolution	13	12	12	1	1	-	14	11	0	1	-	13	7%
5. Assurance	60	60	56	14	1	-	71	54	18	1	-	73	-2%
Structural and Technical adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Delivery Approach Part B	73	73	68	15	2	-	85	66	18	2	-	85	-1%
Grand Total	430	365	340	40	9	4	393	322	46	13	4	385	2%

Note: Some totals may not add up due to rounding.

The Secretariat 2023 Budget recommendation prioritizes investment in critical strategic delivery areas and tactical compensating reductions. While it does not fully address workload and inflation impacts as demonstrated by the “flat holistic” view, the Secretariat will be able to cover critical areas with:

- Increased funding (+US \$6 M) for **operational delivery** (including CRG) to successfully launch the next cycle of grants, NextGen market shaping, Communities and RSSH/PPR resourcing
- Increased funding for **assurance** due to the evolving risk landscape and new investment profile (e.g., C19RM, RSSH, PPR etc.)
- Integrated **PSEAH, CCM Evolution** and **Evaluation (IEP)** functions with increased resources for PSEAH and IEP under assurance
- Overall **net reductions** in strategy, resource mobilization (cyclical impact), **professional fees** and **support functions** (Finance, HR, IT etc.) may trigger changes in the operational scope, impact and timeliness of certain activities/initiatives
- For C19RM Opex¹, the Secretariat has an unallocated budget of US\$17m that will be leveraged as part of the 2-year extension request in addition to the incremental costs required in 2024-25 for the Secretariat, in-country stakeholders (e.g., LFA, CCM etc.).

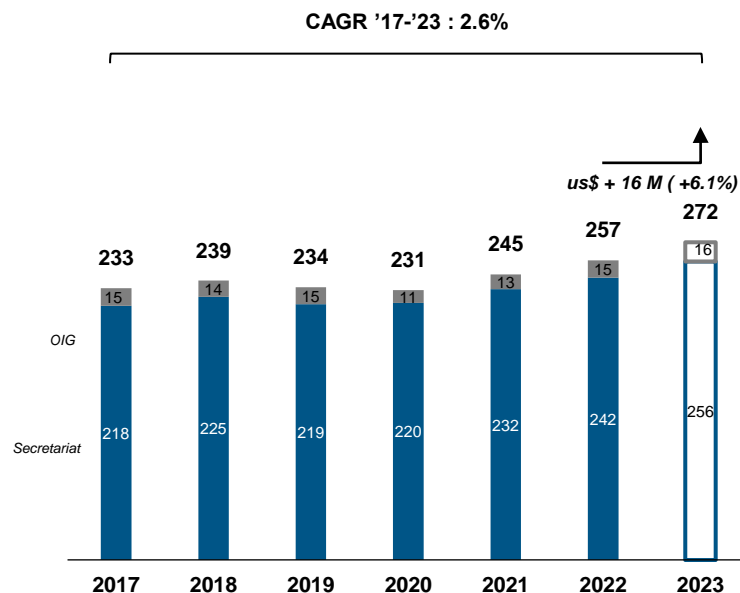
Note: Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

Budget 2023 - a stable growth path considering the 7th Replenishment outcome with prioritized investments

Budget 2023 – Proposal for Secretariat & In-Country & Independent Bodies

A Secretariat

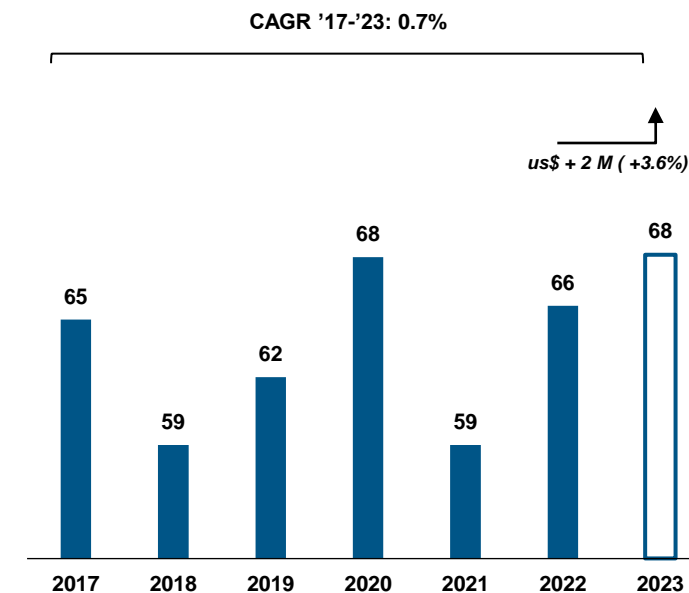
in US\$ M



- Build-up of Secretariat capabilities, focused on Operational delivery, including Country Teams, results in an operating costs increase of + 16 M (+6.1%) versus 2022
- Long-term evolution from 2017 until 2023 indicates stable growth of + 2.6%

B In-country & Independent Bodies

in US\$ M



- Extended focus on In-Country & Independent Bodies is reflected in OPEX increase of + 2 M (+3.6%) versus 2022
- Long-term evolution from 2017 until 2023 indicates stable growth of + 0.7%

Key considerations

Secretariat

- Proposed 2023 Secretariat OPEX budget of US\$ 272 M, in an economically challenging context, with inflationary pressures.
- Noting global consumer price inflation of 7.9% and Swiss market labour cost growth of 1.9% in 2022, with the expectation these will be absorbed through continued efficiencies.
- 69% of OPEX funding towards workforce to ensure continuity of operations and enable tactical scale up of organizational capabilities to deliver on new strategy, right from 2023.
- Secretariat 2023 budget includes OIG funding of US\$ 16.5 M.

In-Country & Independent Bodies

- Proposed 2023 In-Country & Independent Bodies budget of US\$ 68 M, representing a 3.6% increase from 2022, with a stable CAGR of 0.7% since 2017.
- In-Country & Independent Bodies includes investments in: (i) LFA; (ii) TRP; (iii) PDQA; (v) Independent Evaluation Function among others.
- Re-balanced request that enables investments towards assurance functions, in a context of rising risks (procurement, fraud, implementation risks among others) and uncertainties of donors fragile and unstable economic environment.

Note:

Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

2022 Budget and prior year Actuals contains reclass between divisions to reflect latest reorganization impact and to allow a like for like comparison with 2023 Budget.

Budget 2023 by Delivery View - Tactical re-prioritization of investments on Operational delivery & assurance

PART A : Secretariat - Budget 2023 – Delivery View

in US\$ M	OPEX		change		% of total		FTEs			% of total	
	2022	2023	abs	%	2022	2023	2022* Workforce Capacity	2023 New	Total 2023	2022	2023
Strategy & Resource Mobilization	37.2	34.3	-2.9	-7.7%	14.5%	12.6%	127	0	127	13%	13%
<i>Strategy</i>	11.3	10.8	-0.5	-4.7%	4.4%	4.0%	32	0	32	3%	3%
<i>Resource Mobilization</i>	25.9	23.5	-2.4	-9.0%	10.1%	8.6%	95	0	95	10%	10%
Operational Delivery	113.7	123.3	9.6	8.4%	44.3%	45.3%	524	35	559	56%	56%
<i>Grant Mmgt Country Teams</i>	73.0	78.7	5.7	7.8%	28.4%	28.9%	357	12	369	38%	37%
<i>Technical Delivery</i>	40.7	44.6	3.9	9.5%	15.9%	16.4%	167	23	190	18%	19%
Secretariat Support / Enabler	79.0	81.5	2.5	3.2%	30.8%	29.9%	189	6	195	20%	20%
Assurance	23.9	28.1	4.2	17.7%	9.3%	10.3%	104	6	110	11%	11%
Structural & Technical Adjustment	2.9	5.0	2.1	72.5%	1.1%	1.9%	0	0	0	0%	0%
PART A- Total Secretariat	256.7	272.2	15.5	6.1%	100.0%	100.0%	944	47	991	100%	100%

Note: Some totals may not add up due to rounding.

*Workforce capacity includes: FTEs of 2022 budget; workforce liabilities of previous decision with impact in 2023; impact of reorgs & conversions.

Note:

Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

Investment focused on critical programmatic workforce with reductions in non-workforce, consultant and support functions

Part A: Secretariat Budget 2023 – Cost by Nature view

By cost nature

in US\$ M	OPEX		change		% of total	
	2022	2023	abs	%	2022	2023
Workforce	176.4	190.5	14.1	8%	69%	70%
Total Salaries	168.5	186.3	17.8	11%	66%	68%
Consultants	7.9	4.2	-3.7	-47%	3%	2%
Non Workforce	77.4	76.7	-0.7	-1%	30%	28%
Professional Fees	32.0	29.6	-2.4	-7%	12%	11%
Travel	10.5	13.3	2.8	27%	4%	5%
Meetings	3.0	2.1	-0.9	-32%	1%	1%
Communication	1.4	2.3	0.9	68%	1%	1%
Office Infrastructure	23.2	23.0	-0.3	-1%	9%	8%
Board Constituency	1.6	1.6	0.0	-1%	1%	1%
Depreciation	5.6	4.8	-0.8	-15%	2%	2%
Non-recurring cost	2.9	5.0	2.1	72%	1%	2%
PART A - Total Secretariat	256.7	272.2	15.5	6%	100%	100%

Note: Some totals may not add up due to rounding.

Note: Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

Workforce

- Prioritized increase in 2023 budget to fund critical workforce requirements to resource grant management country teams and technical delivery teams to kick start implementation of the new strategy, deliver on quality grant making in 2023, & support closure of the current cycle of grants, complemented by a reduction in consultants.
- The increase in total salaries includes the full impact of staffing adjustments from 2022 with a compensating reduction in consultants to stabilize the workforce for the next cycle. Contracting modalities for workforce remains differentiated to avoid any long-term liabilities beyond for cyclical roles
- Prioritization of new positions focused on key areas to enable workload hotspots, strategy delivery and launch of the next cycle with a focus on:
 - Community Rights and Gender capabilities with CRG and Country teams
 - Next Gen Market Shaping and Quality Assurance
 - RSSH and Pandemic Preparedness
 - Critical support functions

Non - Workforce

- Overall decrease of 1% in non-workforce with:
 - 7% reduction in Professional fees will focus on the completions of process improvement projects from 2022 with restrictive prioritization for new initiatives and further optimization of IT investments
 - Travel represents 17% reductions compared to pre-pandemic levels, limiting the ability of the Secretariat to actively engage and solve challenging issues. Virtual interactions will be leveraged with some connectivity limitations
 - Office infrastructure costs with a limited increase of 3% within the inflationary context and increasing impact on utilities and services

Budget 2023 by Delivery View - Tactical re-prioritization of investments on Operational delivery & assurance

PART B : In-Country Assurance & Independent Bodies - Budget 2023 – Delivery View

in US\$ M	OPEX		change		% of total		FTEs			% of total	
	2022	2023	abs	%	2022	2023	2022* Workforce Capacity	2023 New	2023 Total	2022	2023
Operational Delivery	11.4	11.8	0.4	2.6%	17.5%	17.3%	5	1	6	19%	22%
<i>CCM & CCM Evolution</i>	11.4	11.8	0.4	2.6%	17.5%	17.3%	5	1	6	19%	22%
Assurance	54.1	56.1	2.0	3.8%	82.5%	82.7%	21	0	21	81%	78%
Part B - In-Country & Independent bodies	65.5	67.9	2.4	3.6%	100.0%	100.0%	26	1	27	100%	100%

Note: Some totals may not add up due to rounding.

Workforce capacity includes: FTEs of 2022 budget; workforce liabilities of previous decision with impact in 2023; impact of reorgs & conversions.

Note:-

Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

* No increase in 2023 as CCM evolution SI goes up to the end of 2023

Budget 2023 proposal by cost nature & function – investments geared towards new evaluation function

Part B: Secretariat - Budget 2023 – Cost of Nature View

By cost nature

in US\$ M	OPEX		change		% of total	
	2022	2023	abs	%	2022	2023
Workforce	3.2	4.8	1.6	50%	5%	7%
Total Salaries	3.1	4.5	1.4	45%	5%	7%
Consultants	0.1	0.3	0.2	++	0%	0%
Non Workforce	62.3	63.1	0.8	1%	95%	93%
Professional Fees	3.0	5.6	2.6	84%	5%	8%
LFA Fees	48.7	45.9	(2.8)	-6%	74%	68%
CCM Funding	9.8	10.6	0.8	8%	15%	16%
Travel	0.5	0.4	(0.1)	-21%	1%	1%
Meetings	0.2	0.3	0.1	42%	0%	0%
Communication	0.1	0.3	0.2	++	0%	0%
Office Infrastructure	-	0.0	0.0	-	0%	0%
Part B - In-Country & independent bodies	65.5	67.9	2.4	4%	100%	100%

Note: Some totals may not add up due to rounding.

Note:-

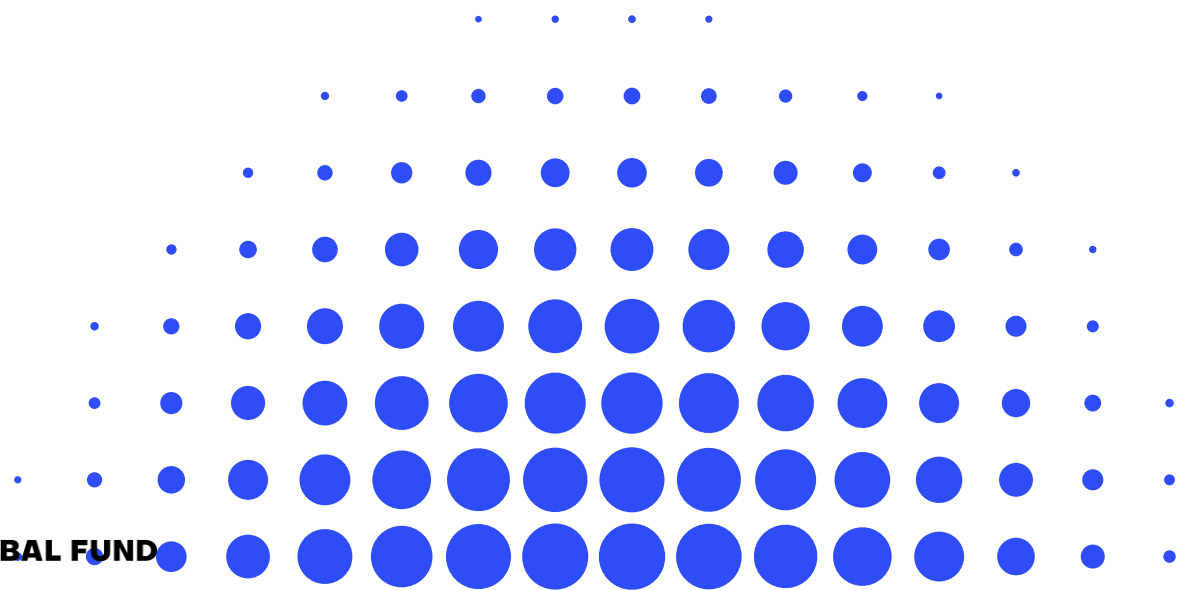
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Key highlights

- Increase in salaries and consultants is to enable the new Independent Evaluation unit and also support the optimal functioning of TRP and CCM.
- The LFA budget represents 68% of the total budget for this area and represents a 6% reduction compared to 2022. Given the impact of C19RM in the overall implementation landscape, the increasing risk profile due to C19RM will complement this assurance budget.
- CCM Funding is the second largest investment area for 2023 with the CCM evolution funded through the SI for 2023.
- TRP and the Independent Evaluation Function are the main drivers for professional fees, travel, meetings and communication.



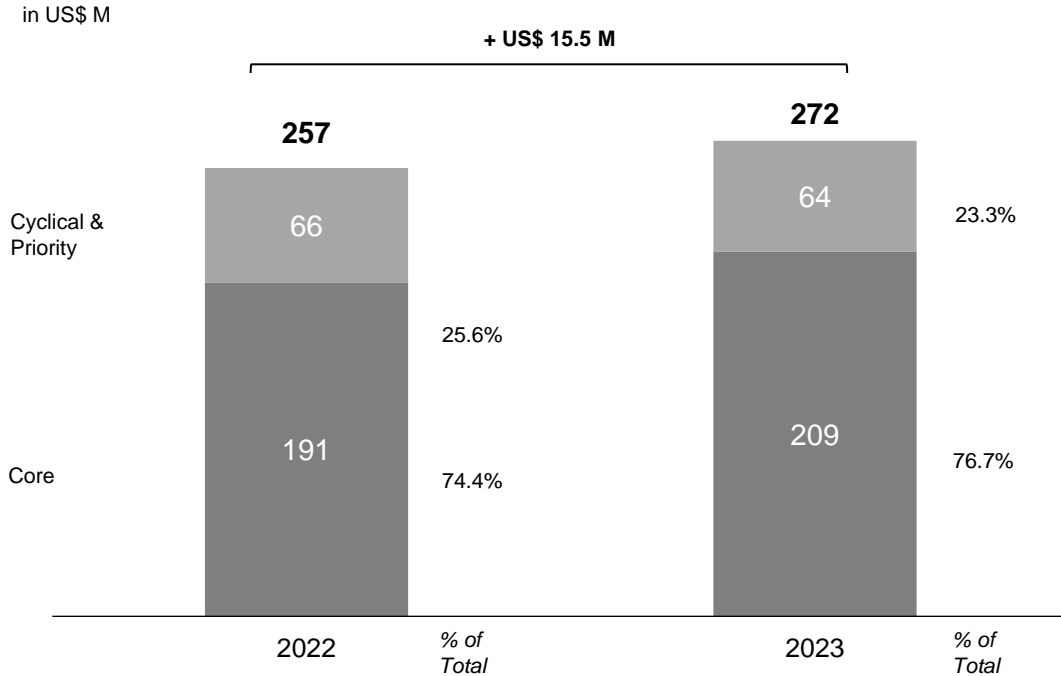
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Budget 2023 by Category View with core budget within the 80% target

Budget 2023 – Category View

PART A Secretariat Budget 2023 – Category View

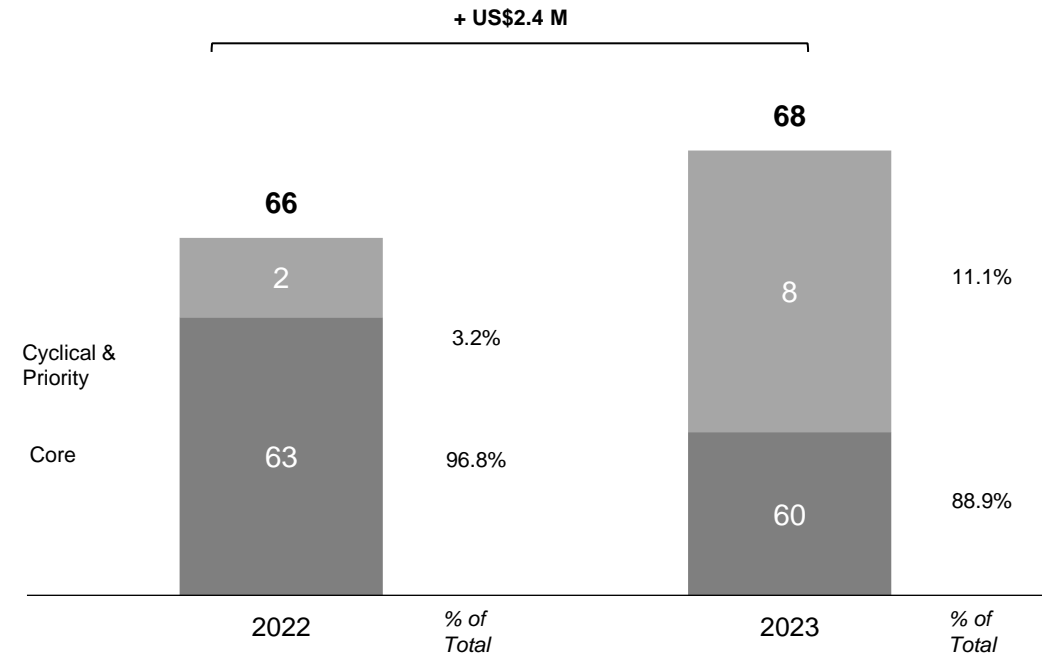


Core capabilities (from 74.4 % up to 76.7%)

- Reorganizations and creation of new teams embedded into baseline of Secretariat (PMD, PSEAH, increase in SO)
- Projected increase of GHC Run cost driven by challenging economic environment affected by inflation, compliance with Swiss standards and adaptation to a new hybrid way of working in post-covid context
- **IT run costs** driven by expanded user base, maintenance of growing technology landscape, **more complex IT security risk environment** & IT projects to deliver on new IT Strategy

Note: Between last AFC and communication to Board, PSEAH was moved from PART B to PART A

PART B - Budget 2023 – Category View



- Increase in cyclical & priorities funding the creation of new functions, namely New Evaluation Function.

Delivery Approach & Thematic Areas Mapping Guide

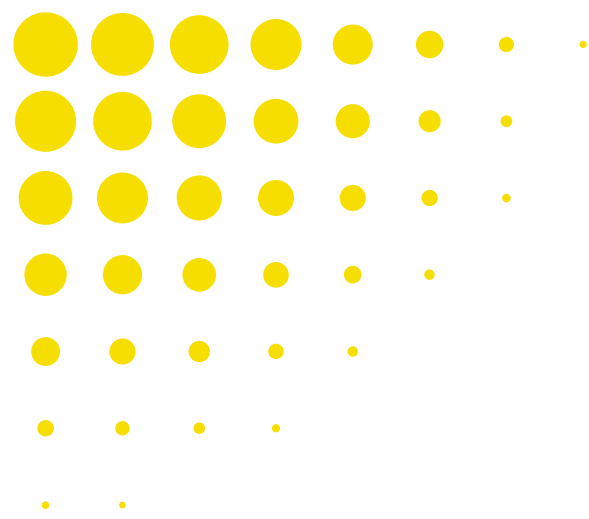
Delivery Approach Mapping

Delivery Approach	Division
Strategy & Resource Mobilization	ERCD, OED, SPH, Governance
Grant Mgmt Country Teams & CCM & CCM Evolution	F&A (CT Finance Specialist), GMD (CT & CCM)
Technical Delivery	Programmatic Monitoring, SIID, SO
Secretariat Support / Enabler	F&A (Corporate Finance & Admin), HR, IT, Legal, SO Indirect Sourcing, GMD (GPS)
Assurance	Ethics (incl. PSEAH), OIG, Risk, GMD (LFA) + PDQA, SO QA, Evaluation function, TERG, TRP
Structural & Technical adjustments	Central Reserves & Priority 2024-2025

Thematic Areas Mapping

Thematic Area	Sub Thematic Area	Division
Secretariat Operational Capabilities	Resource Mobilization	ERCD
	Grant Operations	FA (Grant Finance), GMD, SIID (A2F, SI)
	Oversight & Support Functions	FA, HR, LGD, SO (Indirect) + QA, OED (excl Eval)
Programmatic Capabilities	Strategic Investment & Impact	SIID (excl A2F, TRP), SPH
	Supply Operations	SO
	Programmatic Monitoring	Prog. Monitoring
Digitalization & IT Security	Digitalization & IT Security	IT
Organizational Risk & Assurance	OIG (independent)	OIG
	Second Line Oversight	Ethics (incl. PSEAH), Risk
In-Country & Independent Bodies	External Assurance	GMD (LFA & CCM) + PDQA
	Independent Bodies	TRP, TERG reclass, Eval,
Structural & Technical adjustments	Structural & Technical adjustments	Central Reserves & Priority 2024-2025

Operational Delivery



Thank you

