



**The Global Fund to Fight AIDS, Tuberculosis and Malaria**  
**Fourth Board Meeting**  
**Geneva, 29- 31 of January 2003**

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**GF/B4/11**

**GLOBAL FUND WORK-PLAN AND BUDGET FOR 2003**

**Outline:** During the 3<sup>rd</sup> Board meeting, in October 2002, the Secretariat presented the Global Fund's 2002 and 2003 budget. The Board approved the 2002 budget as well as the revised 2003 budget. It also requested the Secretariat present a detailed work-plan to substantiate the 2003 budget and potential changes. The Monitoring and Evaluation, Finance and Audit Committee (MEFA) has examined the proposed 2003 work plan and budget and recommends the following report be approved by the Board.

**The Board is asked to**

1. **Approve the Global Fund work plan and budget for 2003 with the proposed changes** as presented in Part 2 of this report, with the understanding that some degree of flexibility is required in the specific allocation of resources during the year.
2. **Request the MEFA Committee to continuously work with the Secretariat** to monitor budget implementation in relation to priority and end product accomplishment and report to the Board on budget performance semi-annually.
3. **Request the Secretariat, with MEFA Committee approval, to adjust** this approved 2003 budget to reflect decisions made at the January 2003 Board meeting if those decisions impact the 2003 budget.

## Introduction and findings

- 1) This report summarizes the Global Fund's budget for 2003 and the underlying details on the work-plan, as requested by the Board. The work plan and budget were prepared according to the following principles:
  - a) The Global Fund priorities set by the Transitional Work Group and the Board would drive the Secretariat work plan, activities and end products
  - b) A disciplined focus on implementing a best practice in fiduciary oversight would define work plan boundaries and prevent inappropriate resources for an expanded scope of work
  - c) Partnerships with regional, national and international stakeholders would be formed wherever prudent and possible to fulfil work not directly related to the Fund's fiduciary mission
  - d) Relevant and current experience with Fund implementation would inform and improve previous plans and resource estimates and be the basis for further adjustments
  - e) Given the early nature of the Fund's implementation, flexibility would be planned in the budget (e.g. temporary staffing, short-term contracts) to allow for increases and decreases in resources to meet priorities and work demands
  
- 2) The report is divided into four main parts, with an Annex.
  - a) **Part 1** of this report compares the forecast of actual expenditures in 2002 against the October 2002 budget. It concludes that expenditures for 2002 will be USD 7.6 million less than budgeted.
  
  - b) **Part 2** presents the 2003 budget with changes, based on the Global Fund's key priorities for the year 2003 and associated work-plans. It totals USD 38,747,000. The budget is shown in three different ways, including details:
    - By business priority (2.1.),
    - By Secretariat teams (2.2.),
    - By expenditure item (2.3.).
  
  - c) **Part 3** further explains the underlying assumptions for expenditure items that exceed 5% of the total budget. These include LFA costs (42%), staff (28%), professional services (13%) and travel (6%).
  
  - d) **Part 4** explains the need and means by which to remain appropriately flexible on budget allocations due to the continual definition and implementation of Global Fund policies and partnerships, the implementation rate for Round 2 proposals and other evolutionary developments.
  
- 3) **Annex I** (Global Fund Budget by Priority, Team and Expenditure Category) shows the 2003 budget sorted by Secretariat teams, sub-teams and expenditure categories.

### Part 1: 2002 Budget

- 4) Expenditures in 2002 are forecasted to be USD 7.6 million less than previously budgeted, due principally to the timing of hiring staff, LFA activities and the

installation of IT equipment being deferred to 2003, as shown in the table below. The forecast anticipates (an estimate of) expenditures through the end of 2002.

<b>Budget 2002</b> (USD millions)	<b>Budget</b> (As estimated in Oct 2002)	<b>Forecast</b> (As estimated in Dec 2002)	<b>Change</b>	<b>Principal reason for change</b>
Staff	6.7	3.8	-2.9	Hirings deferred to 2003 LFA activities deferred to 2003 Saving on consultants' services Installation of IT equipment deferred to 2003 Budgetary underestimate
Trustee, Service Provider and Partners	7.2	3.5	-3.6	
External services	3.3	2.9	-0.4	
Office and administration	2.5	1.7	-0.8	
Travel	0.4	0.8	0.4	
TRP	0.3	0.4	0.1	
Meetings	0.4	0.2	-0.2	
Communication and public information	0.1	0.0	-0.1	
Miscellaneous	0.1	0.1	0.0	
<b>Total Operating Cost for 2002</b>	<b>20.9</b>	<b>13.3</b>	<b>-7.6</b>	

## **Part 2: 2003 Budget**

- 5) The total 2003 budget amounts to **USD 38,747,000**, for a fiscal year running from January to December 2003.
- 6) While the overall budget is similar to the original revised budget of USD 40,900,000 presented in October, a number of items have changed, taking into account the Board's input as well as better insights into the Global Fund's operations and the timing of expenditures. The budget has also been reformatted to include breakdowns by the key Secretariat teams that will be accountable for performance on the priorities for 2003.
- 7) The proposed 2003 budget reflects a reduction in total expenditure of USD 2.2 million in comparison with the original October 2002 version, as shown by the following table. (To facilitate comparison, this table follows the format of the October version of the budget.)

<b>Budget 2003</b> (USD millions)	<b>Original Budget</b> (As estimated in Oct 2002) USD millions	<b>Proposed Budget</b> (As estimated in Dec2002) USD millions	<b>Change</b> USD millions	<b>Principal reasons for change</b> USD millions
Staff	8.2	10.8	2.6	1.5 Additional portfolio staff 0.3 Additional operations & external relations staff 0.6 Transfer of ASU costs (see below also) 0.2 Training costs
Trustee, Service Provider and Partners	25.0	19.2	-5.8	-4.7 Revision of estimate for LFA fees, covering rounds 1 & 2 -0.6 Transfer of ASU costs (see above also) -0.5 Potential reduction of Trustee fee
External services	1.6	1.8	0.2	0.3 Transferred from 'miscellaneous' -0.1 Revision of estimates
Office and administration	1.2	3.0	1.8	0.8 IT expenditure deferred from 2002 0.4 Utilities and office supplies 0.3 Adaptation of office premises 0.3 Transferred from 'miscellaneous'
Travel	1.5	2.1	0.6	Revision of estimated volume of travel, reflecting: - Increased number of countries (from 70 to 85) - Additional resource mobilization and external relations activity
TRP	0.5	0.4	-0.1	Revision of estimates
Meetings	1.1	0.6	-0.5	Revision of estimates for venue and translation costs and to reflect one less Board meeting
Communication and public information	0.7	0.8	0.1	Revision of estimates
Miscellaneous	1.1	0.0	-1.1	-0.6 Transferred to other lines -0.5 Revision of estimates
<b>Total Operating Cost for 2003</b>	<b>40.9</b>	<b>38.7</b>	<b>-2.2</b>	

## 2.1. Breakdown by major business priorities

8) The 2003 budget for the Global Fund has been built on 5 major priorities. Leading from those, each Secretariat Team has set specific activities, end-products/targets, timelines and resource requirements, which have been aggregated into the 2003 budget. The 5 major priorities and planned end-products are broadly described below, with details on resource requirements for those priorities further presented in Annex 1:

**a) Managing the proposal process, grant agreements and follow-up on implementation:** While a large part of this work is contracted out to the Local Fund Agents, the Global Fund Regional Portfolio Teams have a critical role in supervising the whole fund portfolio process as they liaise with CCMs, prepare for the grant negotiations, select LFAs, finalize grant agreements, monitor the LFA work and manage disbursements and track performance for all Round 1 and 2 successful components. In addition, preparatory work for Round 3 proposals will be necessary towards the end of the year. (Part 3, Sections 16-21 of this report discuss in more detail the activities and expense assumptions for LFAs, a major part of the portfolio management process).

### **End products/targets:**

- Rounds 1 and 2 agreements signed, disbursements made and first implementation progress reports reviewed
- Round 3 launched with a TRP session held and approved components in the process of being funded by end of year
- Proposal Manual complete and training provided to all Portfolio managers
- Mechanism implemented for best practice sharing amongst grantees

**b) Mobilizing resources and communicating to all GF stakeholders:**

The need for additional resources is evident and urgent, and the target for year-end has been set at USD 2 billion. Along with this massive resource mobilization effort, communication with GF constituencies, stakeholder and the public at large needs to greatly increase, both with global and local audiences.

### **End products/targets:**

- Acquisition of an estimated USD 2 billion in contributions for 2003 as forecasted in the Financial Prospectus
- Implementation of a resource mobilization plan tailored to different donor sources (e.g. donor governments, private sector, foundations, individuals)
- Implementation of a comprehensive communication plan, including press releases, spokesperson training and content preparation, event calendar and plans, website development, general and targeted publications and donor and recipient site visits.
- A published report to constituents regarding the Fund's progress to date, including an audited statement on financials
- Implementation of a networking plan with civil society to assure the Fund is continually interacting and responsive to the constituents they represent

**c) Further stabilizing the Global Fund's architecture and policies:**

Although the Fund is still in a learning phase, the Fund's architecture and policies need to be further stabilized. Work is particularly required on issues such as assuring that financial accountability is monitored at the recipient level, linking results-based disbursements to Principal Recipients as well as sub-recipients reporting; improving the portfolio management cycle from the call for proposals to CCM performance during the implementation phase; refining the monitoring and evaluation tools and standards for all Global Fund grant recipients while assuring flexibility to meet in country needs; and finalizing procurement guidelines.

**End products/targets:**

- Completion of all outstanding policy questions and procedures related to fiduciary arrangements (e.g. results-based disbursement, M&E requirements and processes, procurement guidelines, portfolio management process)
- Approval and implementation of umbrella LFA contracts for Rounds 1 and 2, including a competitive tender for LFA candidates in Round 2
- Establishment of a mechanism by which to track and report on the implementation and performance of CCMs and LFAs
- Approval and implementation of a comprehensive M&E Plan for country and global level performance
- Completion of 3 Board meetings and at least 12 Committee meetings, including planning, staff support and post-meeting follow up

**d) Working with partners at all levels to ensure that countries in greatest need have access to Global Fund resources:**

The Global Fund is a financing mechanism and as such, does not plan to build internal resources to manage in country development or capacity building. It must, therefore, rely heavily on development and technical partners to offer grantees this kind of assistance so that they have the best possible chance of accessing Global Fund resources and the adequate capacity to implement their programs. A major learning from 2002 operations is that building productive partnerships on global, regional and local levels requires much greater effort than originally anticipated. While partners' interests to support the Fund at all levels are high, the Secretariat must, in 2003, agree with partners on specific contributions from both sides. Efforts are already in progress to develop such partnerships with UNAIDS, Roll-Back Malaria and Stop TB. Other discussions are also starting with the private sector as well.

**End products/targets:**

- At least 10 important strategic partnerships completed, including partnerships for technical, communications, operational and resource mobilization assistance
- Implementation of a mechanism for best practice sharing amongst partners to support proposal preparation, TRP review, grant work plan development, implementation and monitoring and evaluation
- Implementation of TRP related decisions associated with TRP renewal and the appeals process for unsuccessful applicants, in collaboration with technical partners and to assure a equitable distribution of Fund's resources

**e) Managing an effective and efficient Secretariat:**

The Secretariat is still in its formative state. While new recruits are joining the Fund, there is an urgent need to orient and assimilate these new staff into their new roles, teams and assignments. Induction, development and supervision become the new priorities added to recruitment for the remaining 50% of the Secretariat. Further, essential administrative support and oversight functions need to be put in place such as sound financial and accounting systems, state-of-the-art IT infrastructure and databases, legal counsel and effective monitoring and evaluation standards and systems.

**End products/targets:**

- All Secretariat positions filled, with inductees oriented to their roles, goals and performance expectations
- Training and development program initiated for all Secretariat
- ASU established with connectivity to WHO systems and processes and service levels established and tracked
- IT infrastructure established including equipment, financial and grant management applications and web communications
- Financial accounting and reporting mechanism implemented with an audited financial statement completed
- Contract templates for LFAs and grant agreements implemented with ongoing support by the legal department for customized addendums as needed
- Conflict of interest declaration process implemented for Secretariat and Board

9) The table below shows the budget breakdown by the five priorities just mentioned. The priorities are achieved across multiple Global Fund teams and have budgets built from multiple expense categories: staffing, travel, meetings, vendor fees, premises, etc.

	<b>TOTAL (USD 000)</b>	<b>Total as % of Secretariat budget</b>
<b>5 overriding priorities for 2003</b>		
Managing the proposal process, grant agreements and follow-up on implementation	20,175*	52.1%
Mobilizing resources and communicating to all GF stakeholders	3,860	10.0%
Stabilizing the Global Fund's architecture and policies	3,694	9.5%
Working with partners at all levels to ensure countries in greatest need have access to Global Fund resources	1,692	4.4%
Managing an effective and efficient Secretariat	9,326**	24.0%
<b>TOTAL</b>	<b>38,747</b>	<b>100.0%</b>

\* Includes USD 16.4 million in LFA fees

\*\* Includes USD 3.5 million in Professional Service fees

**2.2. Breakdown by Secretariat Team**

10) The Secretariat is the key day-to-day driver of the Fund's major priorities. To operationalize them according to highest professional standards, the Secretariat is built around a matrix organization where portfolio and functional teams reinforce each other. Five core teams make up the Secretariat, each with clearly defined roles and responsibilities:

- **The Office of the Chairman and the Executive Director** is providing overall guidance and leadership to the Global Fund and the Secretariat. . Both the Chairman and the ED serve as the key leadership setting direction and priorities, interpreting and reinforcing the Fund’s guiding principles, assuring critical problems are resolved and acting as spokespersons for the Fund. They represent the Fund with all key stakeholders and serve as integrators of the Fund’s mission with the missions of other leadership involved in fighting the three diseases. The Office also serves as the main focal point and support to the Board.
- **The Portfolio Management** teams are the central pillars of the Fund, with core activities revolving around supporting the proposal process, the negotiating and signing of grant agreements, following-up on grant implementation with the LFAs and assuring fiduciary arrangements are effective. They also need to work closely with partners to strengthen in-country processes in accordance to Global Fund principles and country priorities.
- **The Operations team** is the supportive backbone of the Secretariat. It provides services to Global Fund constituencies through four main areas: Finance and Administration, Human Resources, Legal and Information Technology. These areas provide strategy, advisory and direct services associated with accounting, contracting, staff recruitment and development, travel and expense processing, facility and office management and IT development and services.
- **The External Relations** team focuses on mobilizing additional resources, communicating with key stakeholders and the public at large about the mission, issues and progress of the Fund and building global partnerships to leverage rather than duplicate finite resources.
- **The Strategy and Evaluation** team is providing critical guidance on the Fund’s strategic directions, including key areas such as Monitoring & Evaluation at national and global levels.

11) The table below shows the budget breakdown by Secretariat Teams:

<b>Secretariat Teams</b>	<b>TOTAL (USD 000)</b>	<b>Total as % of Secretariat budget</b>
Office of the Chairman and the ED	2,309	6.0%
Portfolio Management (including LFAs)	22,085*	57.0%
Operations	9,130**	23.6%
External Relations	3,308	8.5%
Strategy and Evaluation	1,915	4.9%
<b>TOTAL</b>	<b>38,747</b>	<b>100.0%</b>

\* Includes USD 16.4 million in LFA fees

\*\* Includes USD 3.5 million in Professional Service fees

## 2.3. Breakdown by Expenditure Item

12) In terms of specific budget items, nine expenditure categories have been defined:

- **Staff** - Appointed staff, temporary staff, recruitment and staff training/development
- **Meetings** - All costs relating to the organization and logistics of a meeting (e.g., hiring of venue, catering, interpretation, etc.)
- **Travel** - Transport costs (airfares based on WHO travel regulations) and per diems
- **Professional Services** - Trustee fee, administrative services fee, audits, consultants, legal fees,
- **LFA fees** – Technically part of professional services, it is separated out for purposes of greater transparency
- **IT Infrastructure** - Software license, maintenance and IT support
- **Communications Material** - Documentation for internal or external use produced by the Fund
- **Facilities and Administration** - Office rental and maintenance of infrastructure, utilities, telecommunications, electricity, insurances,
- **Fixed Assets** - Computer hardware, office furniture and equipment

13) The table below shows the budget breakdown by Teams and Expenditure Items. The black shaded boxes, representing the major expenditure items, will be detailed in the following section.

Teams and Expenditure items	Staff	Meeting	Travel	Prof. Serv.	LFA costs	IT Infra-structure	Communi-cation Material	Facilities & Admin.	Fixed Assets	TOTAL (USD 000)	Total as % of Secretariat budget
Office of the Chairman and the ED	860	308	862	10	0	0	239	29	0	2,309	6.0%
Portfolio Management	4,068	106	762	575	16,425	0	150	0	0	22,085	57.0%
Operations	3,099	5	54	3,567	0	640	15	1,188	563	9,130	23.6%
External Relations	1,630	198	261	413	0	12	793	0	0	3,308	8.5%
Strategy and Evaluation	1,304	12	182	418	0	0	0	0	0	1,915	4.9%
<b>TOTAL</b>	<b>10,960</b>	<b>629</b>	<b>2,120</b>	<b>4,983</b>	<b>16,425</b>	<b>652</b>	<b>1,197</b>	<b>1,217</b>	<b>563</b>	<b>38,747</b>	<b>100%</b>
<b>Total as % of GF budget</b>	<b>28.3%</b>	<b>1.6%</b>	<b>5.5%</b>	<b>12.9%</b>	<b>42.3%</b>	<b>1.7%</b>	<b>3.1%</b>	<b>3.1%</b>	<b>1.5%</b>	<b>100%</b>	

### Part 3: Details of major cost items

14) The requested budget for 2003 is derived from a careful analysis of each functional area's requirements to fulfil critical Global Fund priorities. It follows the principles of remaining administratively lean, country responsive, partner inter-dependent and capable and accountable for the acquisition, management and programmatic return for billions of dollars in donor investments in our global community.



15) Information follows on the areas of the budget that represent greater than 5% of the 2003 budget.

**(In order of proportion of budget):**

**3.1. Local Fund Agents (LFAs) – USD 16,425,000 or 42% of the budget**

16) The Global Fund is a financing mechanism, ultimately accountable for the assuring the proper and most productive use of donors' investments to fight the three diseases. As such, the method by which the Global Fund accomplishes this mission is critical. The Local Fund Agent (LFA) is the primary tool for the Fund to assure that in country, this goal is achieved. Normally, LFAs are selected among entities with which the Global Fund has concluded a Framework Contract, taking into account potential conflicts of interest, country preferences as exercised through their Country Coordinating Mechanisms (CCMs), the quality of local presence, cost proposals, and other aspects related to the specific country context. In the case where the program to be funded by the Global Fund is a scale-up of activities already funded by another major donor with in country presence, arrangements may be concluded with that donor to ensure accountability also for the Global Fund grant, if deemed appropriate by the CCM. In case a CCM has an alternative suggestion for a more suitable local entity to assume the LFA role, this suggestion will be evaluated by the Secretariat based on the LFA selection criteria.

17) The potential arrangements listed above are incorporated into the assumptions used to build the proposed budget for LFA fees in 2003. These fee projections have also been revisited based on the experience of negotiating 6 contracts with KPMG, Price Waterhouse and Coopers and UNOPS for the following countries in Round 1:

- China
- Ghana
- Haiti
- Sri Lanka
- Tanzania
- Ukraine

18) Clarifications to the scope of work, greater pressure on fees through rate caps and growing knowledge from both LFAs and the Global Fund on the real work associated with PR assessments and annual oversight have yielded a projection of USD 16,425,000 for 2003, a reduction from the USD 21,000,000 previously projected.

19) The detailed assumptions supporting this 2003 projection are as follows:

- All approved components (component = a grant) for Round 1 (58) and recommended components for Round 2 (98) are included
- Scope of work includes PR assessments and annual oversight for 2003 and will vary by the complexity of the grant and specific country capabilities. Given the difference between PR capacities and track records, country contexts and

the complexity of proposals, LFA costs are expected to differ between grant receiving countries.

- Average fees per country are a blend of all LFA solutions that we have or are gaining experience with
- Based on the Secretariat's preliminary estimates of the required professional staff and time needed to fulfil the LFA responsibilities, as well as the limited number of cost proposals from LFA candidates received to-date, the assessment of the PRs is expected to cost about *USD 75,000 per PR*, and the oversight work of the LFA is expected to cost about *USD 100,000 per component per year* for most countries.
- Oversight for Round 1 grants will commence, on average, on 1 April 2003 and for Round 2 grants on 1 July 2003.
- It is estimated that the cost of oversight for an additional component will be lower than the cost of the initial component. An incremental fee has thus been factored in for cases where several components will be monitored in one country.

20) As greater experience with multiple LFA solutions is acquired, the fee assumptions and subsequent budget forecasts will be modified to reflect this.

21) In 2003, the Secretariat intends to advertise an open competitive process to expand the choice of LFAs with which to conclude global LFA Framework Contracts. Additional LFA candidates will be expected to present their qualifications based on the selection criteria, including the possibility for more than one entity to form a consortium and jointly offer the full range of expertise required to successfully fulfil the LFA role.

### **3.2. Staffing - USD 10,960,000 or 28% of the budget**

22) The staffing budget is based on a rigorous zero-based budget analysis for each functional area in the Global Fund organization based on Global Fund priorities.

23) An outcome of this rigorous analysis is an increase in budget for human resources between the October 2002 and January 2003 Board meetings, primarily reflecting an increase in the staffing for portfolio management. The requested increase for portfolio management amounts to USD 1,500,000. A detailed description of the reason for this increase is present below, supported by a worksheet of activities and projected time requirements reported in Section 28.

24) The other increases in human resource budget are partially offset by a reduction in the professional fee budget as explained further. These increases include adding a contract specialist, an IT officer, an external relations leader focused on governments, training resources for all Secretariat staff and the transfer from WHO of the processing of administrative tasks to the Secretariat (e.g. Administrative Services Unit or ASU). This transfer increases the human resource budget by approximately USD 600,000, however, it is offset by a commensurate decrease in the Professional Fees category of the budget by the same amount. An explanation of the ASU is provided in Sections 30-34.

25) **Portfolio Management.** Of the total USD 4,068,000 allocated to portfolio management for 2003, USD 425,000 is allocated to the Fiduciary Architecture sub-team. This sub-team is accountable for the design and continual improvement of the fiduciary structure to assure the appropriate use of Fund

resources in country. The three Regional Portfolio teams account for USD 3,580,000 of the portfolio management budget and are primarily involved with the implementation of the fiduciary architecture and requirements and the management of their regional grant portfolios.

- 26) As we accumulate more experience with the demands of portfolio management (e.g. completion of Round 2 processing, the negotiation and signing of 7 grant agreements, the negotiation of 6 LFA contracts, the design of a results based disbursement management and reporting system), it is apparent that a degree of supervision of grants beyond the LFAs and by the Regional Portfolio teams is necessary.
- 27) An incremental USD 1,500,000 is added to the budget presented in October to account for our new, more informed assumptions on the portfolio team workload. This will cover 7.5 additional professional positions and 3 assistants. It is, however, acknowledged that resource requirements in 2003 will continue to be impacted as strategies are refined, policies are approved, new leadership is engaged, work routines are refined and further implementation occurs. For instance, assuming that effectiveness will rise with LFAs either through gaining more experience or the selection of new LFAs for Round 2, temporary staffing will fill a portion of the positions to allow for downsizing later in 2003 as needed.
- 28) We have identified specific activities that Portfolio Managers will be undertaking, with resource estimates. It should be emphasized that careful consideration has been given to separating the duties of the LFA and in country partners from those of the regional portfolio teams. A review of the specific descriptions of regional portfolio team activities listed below helps to demonstrate this. It is also acknowledged that the core activities of negotiating, signing and supervising the implementation of grant agreements are variable activities, dependent on the number of grants approved and signed. Should the number of grants rise or fall, the resource requirements will change commensurately. The current requested staffing budget reflects the Secretariat's best estimate of grant volume and the work required with each variable activity. Other activities, such as supporting the TRP, improving the portfolio management process, working with partners to strengthen in-country processes are non-variable or fixed. These activities and the resources they require do not generally change unless the need for the activity disappears. The following table shows a breakdown of these activities and the amount of time they require.

Core priorities (variable)	Description	Time required per year
<b>Sign grant agreements</b>		
TRP clarification	Follow-up TRP clarifications with countries and TRP	0.2 weeks (1 day) per component
Background work on each component	Detailed review of components to ensure all necessary information is available for the grant negotiation phase (e.g., work-plans, detailed budgets, etc.)	0.4 weeks (2 days) per component
LFA selection	Assess and select appropriate LFA for each country, in collaboration with CCMs	0.5 weeks (2,5 days per country)
PR assessment	Support LFA in PR assessment by making available previous assessments on particular PRs and briefing LFA on background of specific grant, CCM and country dynamics	0.5 weeks (2.5 days) per assessment
Grant negotiation	Supervise the grant negotiation phase and outcome; review grant agreement	1 week (5 days) per component

<b>Follow-up grant implementation</b>		
Follow-up disbursement to PR	Follow-up disbursements and ensure implementation gets under way	0.3 weeks (1.5 days) per component
Monitor implementation (PR as well as LFA)	Monitor throughout the year the work of the LFA; review reports provided by the LFA and monitor problematic areas if present; site visits may be necessary, especially in first year of implementation	2 weeks (10 days) per country
<b>Other priorities (non-variable)</b>		
<b>Improve portfolio cycle/mechanisms</b>	Work with partners to strengthen in-country processes as well as broader issues (e.g. call for proposals, guidelines, influencing country capacity building etc.)	2-3 hours each week per professional staff per year
<b>Special Projects</b>	Perform ad hoc projects that arise during the year to address pressing issues	2 weeks per year per professional staff
<b>Board Support</b>	Support Committees and Board in document preparation relating to the portfolio management process	1-2 weeks per year per professional staff
<b>TRP support</b>	Receive and screen proposals; respond to countries after Board decisions	25% of professional staff for 4 weeks, twice
<b>Management</b>	Build an efficient and functioning team; regular staff meetings; training	1-2 hours each week per professional staff per year

29) Based on these assumptions, we can extrapolate the staffing needs for the Regional Portfolio teams. They will vary somewhat depending on the number of components approved by the Board and growing experience levels as the year progresses. Under current assumptions that all Round 1 approvals are signed and that all Round 2 recommended components are approved by the Board, a total of 15 professional staff are required (excluding assistants). With 85 countries covered with Rounds 1 and 2, one portfolio manager will be covering about 6 countries, which may include more than one component. This compares with similar organizations such as IFAD (International Fund for Agricultural Development), where the ratio ranges from 5 to 6 projects per manager.

30) **Administrative Services Unit (ASU).** The Global Fund was founded as an independent Swiss foundation, tasked to create an innovative and effective financing mechanism, which would enable and speed country responses to three diseases raging out of control. Strong directions were given by the Board to act independently as it relates to the core business of the Fund, fiduciary and portfolio management, while using the competencies of regional, national and international partners to supplement those activities not considered the Fund's core mission. An Administrative Service Agreement (ASA) was signed between the Global Fund and WHO to provide the Global Fund with immediate administrative capacity to begin operations and allow the Fund to focus on developing its core capacities.

31) The Administrative Service Agreement has been in existence since May 2002. The results of the agreement, as measured by speed, flexibility and client satisfaction have been unsatisfactory. Numerous attempts have been made to improve the results **by both parties**. **And both parties** have contributed to the delays and complications still being experienced. These delays and complications are not inconsequential and have been reported previously to the Board.

- 32) For several important reasons, the Secretariat and WHO have agreed to transfer the processing of administrative transactions (e.g. travel, administrative expenses and personnel) to the Global Fund. The solution of creating an independent MSU or ASU, linked to WHO central systems is not unique. It occurs in organizations such as UNAIDS and UNHCR. This transfer of activities is expected to improve administrative speed and flexibility for the Global Fund by separating the Global Fund transactions from the larger number of transactions of WHO, while still benefiting from the established systems and economies of scale provided by WHO.
- 33) WHO has indicated that it will adjust its fee under the Administrative Services Agreement (currently USD 1,295,000 per annum) to reflect the transfer of ASU functions from the WHO to the Secretariat. Preliminary calculations by the WHO calculate the adjustment at USD 570,000, comprised primarily of staff costs. Negotiations are in process to establish the exact amount of fee reductions and the timing of the ASU implementation. The net result of the transfer of administrative duties will be at least cost neutral.
- 34) The following administrative functions will be integrated in the Finance & Administration and Human Resources teams of the Global Fund:
- Purchasing and Accounting
  - Travel Coordination and Claims
  - Contract Management
  - Financial and Administrative Reporting
  - Human Resources

### **3.3. Professional Fees – USD 4,983,000 or 13% of the budget**

- 35) The primary expenses in this budget category are fees associated with the Global Fund trustee, the World Bank at USD 2,000,000 and fees paid to the WHO for administrative services at USD 725,000. As mentioned in Sections 25 and 26 above, the administrative fee paid to the WHO is in the process of renegotiation. The trustee fee will also be evaluated for renegotiation or tender in 2003, based on new terms of reference.
- 36) Other costs in the Professional Fee category relate to technical advisory, IT, communication and strategic advisory fees, serving multiple teams and totalling USD 1,800,000. Consultants and advisors will be used to support specific activities, such as supporting the resource mobilisation strategy, defining the Global Fund's long-term strategic plan, working with the Secretariat to strengthen in-country processes, and providing services and advice to Board Committees. Their fees are variable and were calculated on a case-by-case basis depending on the activity, the end product and the area and level of expertise required.

### **3.4. Travel – USD 2,120,000 or 6% of the budget**

- 37) These costs include travel by the Secretariat, the Board and TRP members and cover airfare and per diems. Staff costs are derived from projecting in country travel for portfolio management, global travel for leadership to build donor and recipient country relations and attendance at key international conferences and meetings. Board and TRP travel is derived from attendance at meetings and

global travel for the Chair. WHO travel and per diem policies and Board guidance on delegate funding are used to project levels of travel support.

- 38) Travel costs reflect an increase of USD 593,000 from the October 2002 version of the 2003 budget due to an increased estimate of the volume of travel, arising from the scope of grants being increased from 70 to 85 countries (if TRP recommendations are implemented), a better understanding of the travel needed to complete each grant agreement, and additional resource mobilization and external relations activity.
- 39) The Board at its October 2002 meeting requested a review of travel costs with regard to: (i) the funding of additional delegates at Board and Committee meetings, and (ii) the use of economy class, instead of business class, for long distance flights. The Monitoring, Evaluation, Finance and Evaluation (MEFA) Committee reviewed an analysis of travel costs at its December 2002 meeting and recommended that no change be made to the existing travel policy, but that Board members and Secretariat personnel be encouraged to economise on travel costs to the greatest extent possible. A separate report on the analysis is provided in the MEFA Committee Report GF/B4/8.

#### **Part 4: Requirement for Flexible Budgeting**

- 40) The Secretariat has made significant strides in defining its priorities and the specific activities and resources required to accomplish them. It has done so with increased insight from experience, greater attention by new leadership and candid and productive discussions with its partners. Despite this heightened rigor, it is acknowledged that resource requirements in 2003 will continue to be impacted as strategies are refined, policies are approved, new leadership is engaged, work routines are refined and further implementation occurs.
- 41) An example of changing resource requirements based on the implementation of new policies and/or Board decisions is the necessary change in LFA fees and staffing costs should the number of components approved by the Board be different from the assumptions built into the enclosed budget. As explained in the previous section, it is estimated that one component generates USD 175,000 in LFA fees for one year (including the PR assessment and annual oversight) and about 5 weeks of a manager's time throughout the year (about USD 19,000 in staff costs). Thus, if the number of components approved by the Board differs from our assumptions, the budget will need to change as well.
- 42) Similarly, should the Board decide to fully renew the TRP, the associated Secretariat staff costs of (USD 60,000) would need to be added to this budget. The Secretariat estimates that Round 1 selections required 6 Secretariat staff working full time over three weeks, a task force of about 20 WHO and UNAIDS staff working over a period of a week, as well as a Committee meeting. The estimated unbudgeted cost of these activities to the Secretariat is USD 60,000, excluding WHO/UNAIDS time.
- 43) It is imperative that the budget be continually reviewed for its relevance to current priorities by the Secretariat and that the newly formed MEFA Committee assist the Secretariat in this process.

## **Conclusion**

- 44) The 2003 Work Plan and Budget reflect the Secretariat's most current experience with operationalizing the purpose of the Global Fund. It is derived from ongoing guidance from the Board and other Global Fund constituents and contains the Secretariat's best thinking on Global Fund priorities, activities, end products, time-lines and resource requirements. The Plan and Budget now benefits from the input of important new permanent Global Fund leadership in Strategy and Evaluation, External Relations, Portfolio Management and Operations.
- 45) Throughout 2002, Secretariat resources have consistently lagged behind rapidly growing workload demands. While efforts by the interim Secretariat have been no less than heroic, and significant progress has been made in implementing the Fund's vision, the current gap between resources and demands is sub-optimal and has resulted in staff burn-out, missed opportunities and inefficiencies resulting from reaction versus pro-action. The 2003 work plan and budget presented in this report strives to close this gap by, as accurately as possible, matching future workload with available resources. The tactics by which the work plan is carried out include measures to allow for adjusting expenditures as current experience and work levels dictate.
- 46) Based on the information provided, we ask the Board to approve the actions listed at the beginning of this report

## **Annex**

Annex 1: Global Fund Budget by Priority, Team and Expenditure Category