



Investing in our future

The Global Fund

To Fight AIDS, Tuberculosis and Malaria

Operating Expense Budget 2006

2006 recommendation (FAC consensus)

and Secretariat's indicative numbers for 2007 & 2008

2006 Unknowns:

- Longer-term strategy is still being developed
- Mid-term replenishment review is awaited
- Transition of administrative services is pending

FAC Concerns:

- Important to maintain flexibility (and not over-commit to structures that may change)
- Conscious of Board-mandated activities and other immediate needs that cannot wait for the outcomes

Immediate Needs in 2006

- **Greater grant management capacity**
 - Increased grant volume and complexity
e.g. Round 5, Phase 2, enhanced M&E, better documenting of performance, EARS
- **Staffing to sustain workload**
 - Retain skills and experience, avoid burn-out, enable appropriate oversight and control
- **Organizational development and training**
 - Adequate training, efficient systems and processes, clearer performance management

Review by FAC

- FAC reviewed the Secretariat's proposal, with 2 videoconferences and numerous email exchanges, over a two-month period
- The intensive review took account of supplementary information and oral presentations by the Secretariat in response to FAC queries
- Included analysis of various budget scenarios and evolution of Secretariat proposal

Consensus Recommendation

- Reached consensus to recommend a budget of \$83.2m* for 2006
- This incorporates envisaged savings on LFA fees and other costs, based on assumptions regarding activity levels in 2006
- FAC will review actual costs after the first half of 2006 and, if necessary, will make further recommendations then

* This does not include a provision for new rounds (in accordance with Board policy) ◆

Needs Addressed in the Budget

Budget increase of 25% (\$16.9m):

76% of this is for:

- Grant management and M&E (41%)
- Secretariat systems and support services (mainly serving grant activities) (35%)

14% is for training, enhanced recruitment and HR processes, organizational development, etc.

10% is for, resource mobilization on new initiatives, OIG, Partnership Forum, etc.

Budget reflects a major increase in staffing

- 63% of the budget increase is for staff costs
- Provides for a workforce of 252*
(with 21% of these on short-term contracts; all others on 2-year contracts)
- 72% of staff are allocated to grant management and monitoring and evaluation**

*Excluding Office of the Inspector General (OIG staffing and overall budgetary needs to be assessed by the IG and presented to Board in 2006)

**Including share of support staff

Allocation of Resources in 2006

Activity	Direct Costs	Spread of Support Costs	Cost of Activity	
			US\$m	%
Grant management, monitoring & evaluation, and LFA oversight	48.4	13.9	62.3	75%
Board relations, resource mobilization and communications	10.0	5.3	15.4	18%
Executive Office (ED & DED), corporate strategy and policy	3.9	2.1	6.1	7%
Office infrastructure and support services*	21.3	-21.3		
Office of the Inspector General and Office of the Chair of the Board	1.0		1.0	1%
Contingency (\$1m), less savings/efficiency target (-\$2.5m)	-1.5		-1.5	-2%
Total budget 2006	83.2	0.0	83.2	100%



* Includes rent, equipment, telecommunications, office services and supplies, and administration, contracting, finance, HR & training, information management & IT and legal teams

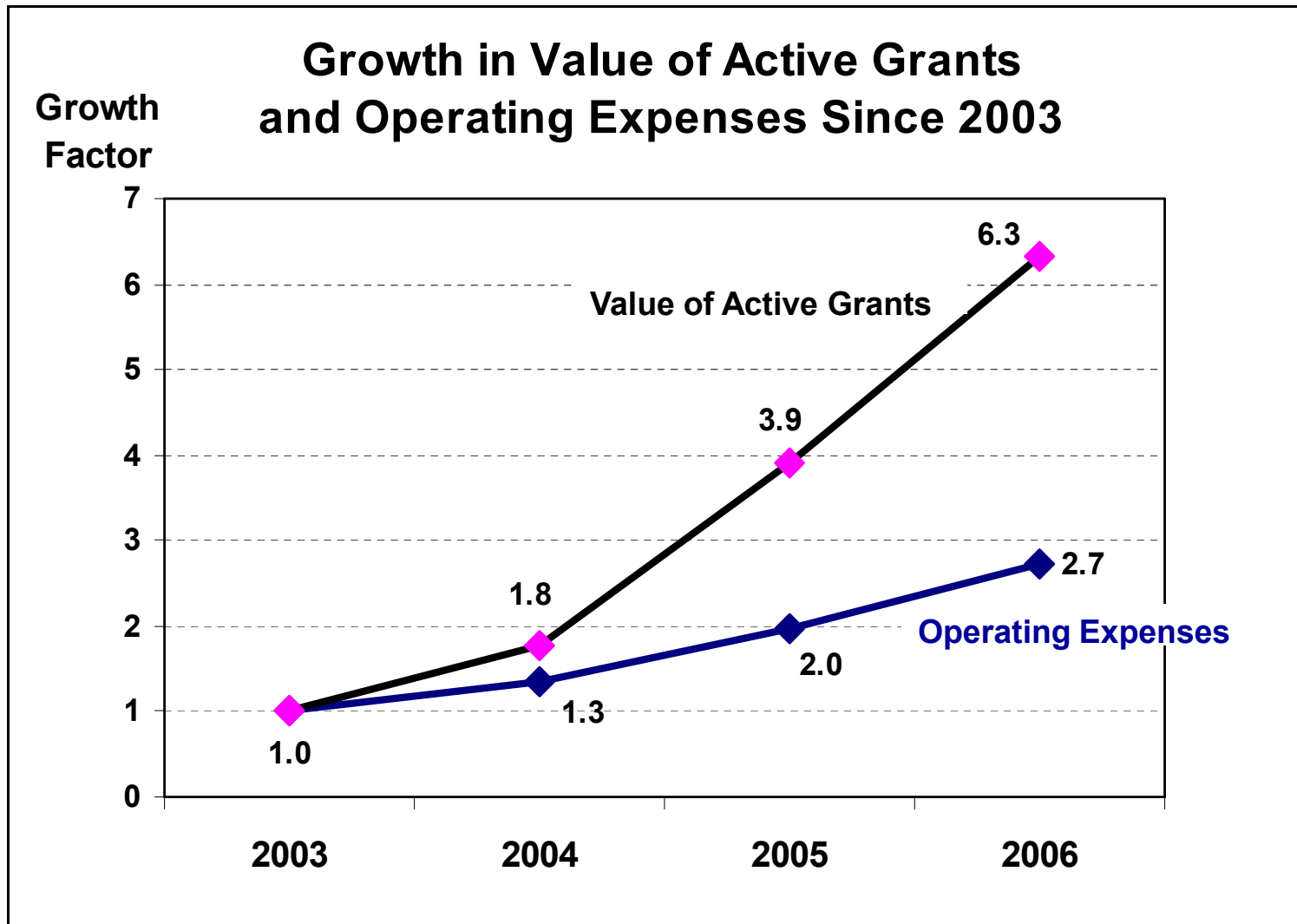
Key Ratios

Key Ratios	2005	2006	2007	2008
	Forecast	Proposed	Indicative	
Operating Expenses as:				
As % of Disbursements	5.3%	4.7%	4.5%	3.8%
As % of Expenditure	2.5%	3.0%	3.9%	3.2%
As % of Value of Active Grants	1.4%	1.2%	1.1%	1.0%
Operating Expenses per Active Grant	\$210k	\$228k	\$221k	\$222k

Assumes one new round per year

Operating expenses in 2006 represent:
 3% of total expenditure (in the year), and
 1.2% of funds committed to active grants

Growth in Grants and Expenses



Twelfth Board Meeting
Marrakech, 15-16 December 2005

2006 Budget Summary

US\$ millions	2005	2005	2006	2007	2008
	Budget	Forecast	Proposed	Indicative	
Secretariat Expenses	44.5	44.3	63.6	71.0	74.9
LFA Services	23.4	18.8	22.1	20.4	15.9
Total Operating Expenses (before new Rounds after Round 5)	67.9	63.1	85.7	91.4	90.8
less: Efficiency/savings Target	-1.6		-2.5		
Net of Efficiency/Savings Target	66.3	63.1	83.2	91.4	90.8

1. The above does not include a provision for new rounds (in accordance with Board policy). Costs associated with each new round will be presented for approval as an addition to the budget as and when the Board decides to launch the round.
2. Includes a provision of US\$797,000 for Office of the Inspector General, who will present his proposed workplan and budget to the Board during 2006.
3. The indicative amounts for 2007 & 2008 are Secretariat estimates, not reviewed by FAC.

Recommended Decision Point

- ***The Board approves the 2006 operating expense budget in the amount of US\$83,200,000 as set out in Annex 1 to the Report of the Finance and Audit Committee (GF/B12/7) and as recommended by the Finance and Audit Committee (FAC) and proposed by the Secretariat.***
- ***The Board notes that the budget includes envisaged cost savings and requests FAC to review actual expenditure and budgetary needs after the first half of 2006 and, if necessary, make further recommendations to the Board at that time.***

Back-up Slides



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Back-up Slides

*Twelfth Board Meeting
Marrakech, 15-16 December 2005*

Composition of Budget Increase

	\$m
Grant management and M&E	6.9
Office infrastructure and support services ^(b)	5.8 (a)
Organizational development (mainly training)	1.2 (a)
Enhanced HR & recruitment; strategy development	1.1 (a)
New resource mobilization initiatives	1.0
Partnership Forum and Board meetings	0.7
Additional financial management capacity	0.6 (a)
Office of the Inspector General	0.5
Increase in savings target	-0.9
	<hr/>
	16.9

(a) Mainly serving grant management

(b) Rent, equipment, telecoms, IT/IM systems, and administrative and contracting services

Savings anticipated in the budget



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<u>Assumed savings:</u>	US\$m
LFA services: defer special work and/or assume savings	4.0
Staff: assume later starts on new hirings (across all units)	1.8
Assume fewer EARS interventions and fewer quality assurance applications for limited and single source pharmaceutical products	0.6
Defer phase 2 of transition study, pending Board approval	0.3
General savings target	<u>2.5</u>
	9.2
 <u>Scale-back services:</u>	
Scale back multidisciplinary missions to PRs, in-country workshops and regional meetings	0.6
Scale-back new fundraising initiatives and linkages to key conferences	0.7
Scale-back Partnership Forum and site visits at Mexico board meeting	0.4
Scale-back staff training, executive search and candidate travel	0.3
Scale-back support to civil society and CCMs, and to TERG and M&E activities	0.3
Total assumed savings and reductions	<u>11.5</u>

Budget 2006, by Unit and Expense

Budget 2006		Budget 2006 (US\$'000)						
Before new Rounds		TOTAL	Professional				Office	Communications
			Staff	Fees	Travel	Meetings	Infrastructure	Materials
Operations	25%	21,184	14,517	1,728	3,557	1,019	-	363
Strategic Information & Evaluation	6%	5,146	3,507	933	313	270	34	89
External Relations	12%	10,038	4,336	984	2,237	1,492	38	951
Executive Director's Office	3%	2,257	1,543	178	389	118	15	15
Deputy Executive Director	2%	1,692	999	545	99	33	3	13
Business Services	21%	17,394	5,911	3,221	556	80	7,617	10
Finance	5%	3,945	1,317	2,590	11	3	25	-
Office of the Inspector General	1%	797	462	125	150	-	60	-
Office of the Chair of the Board	0%	193	-	109	52	-	32	-
Sub-total, before Contingency	75%	62,647	32,592	10,412	7,363	3,015	7,824	1,441
Contingency	1%	1,000	39%	13%	9%	4%	9%	2%
Total Secretariat Expenses	76%	63,647						
LFA Services	27%	22,053						
Efficiency Target	-3%	(2,500)						
Total Operating Expenses	100%	83,200	\$83.2m					

Staff Numbers

Staff Numbers	2005			Increase (2005 to 2006)				2006				2007	2008
	Term per Budget '05	add: Short Term (as at Sep 05)	Total	Fixed Term	Short Term	Total	% of total	Fixed Term	Short Term	Total		Indicative Total	
Fund Portfolio Operations	77	12	89	15	10	25	47%	92	22	114	45%	125	134
Strategic Information & Evaluation	14	5	19	8	1	9	17%	22	6	28	11%	30	31
External Relations	15	12	27	9	-2	7	13%	24	10	34	13%	35	35
Executive Directors' Office	8	2	10	1		1	2%	9	2	11	4%	11	11
Deputy Executive Director	4	2	6	2	-1	1	2%	6	1	7	3%	8	8
Business Services	25	16	41	11	-4	7	13%	36	12	48	19%	48	47
Finance	7		7	2	1	3	6%	9	1	10	4%	11	11
Total	150	49	199	48	5	53	100%	198	54	252	100%	268	277
	75%	25%	100%					79%	21%	100%			
Budget				\$22m*				\$33m				\$38m	\$40m

*Some short term staff were funded from consultancy budgets