

**FINANCE AND OPERATIONAL PERFORMANCE COMMITTEE
DECISIONS AND RECOMMENDATIONS TO THE BOARD**

PURPOSE:

1. This report serves to inform the Board about the decisions taken by the Finance and Operational Performance Committee (FOPC) since the Twenty-Seventh Board Meeting (September 2012).

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

PART 1: INTRODUCTION

- 2.1 On 2 November 2012, the Finance and Operational Performance Committee (FOPC) held its 5th Meeting. This meeting was held via conference call. The FOPC agenda included the following: i) 2013 Operating Expenses Budget for recommendation to the Board, ii) Ethical Liability for committee discussion; iii) Forecast of Uncommitted Assets for submission to the Board on an information basis; and iv) anticipated role of the FOPC in relation to the New Funding Model.
- 2.2 Based on a standing procedure adopted by the Audit and Ethics Committee (AEC), the Chair asked all members to declare any conflicts of interest, or potential conflicts of interest, for the record. There was no disclosure of conflicts or potential conflicts of interest arising from the topics discussed. The FOPC Chair welcomed Mr. Reinhard Tittel-Gronefeld, representing Germany, as new member to the FOPC.

- 2.3 The paper is divided as follows:

Part 2: Decisions taken by FOPC

- i. *2013 Operating Expenses Budget*

PART 2: DECISIONS TAKEN BY THE FOPC

- 2.4 The Chief Financial Officer (CFO) presented the 2013 Operating Expenses budget, including trends, risks and future plans to strengthen key operational areas [GF/FOPC05/02]. In view of the numerous disruptions associated with implementation of the reforms in 2012, the CFO recommends to base comparisons on a “normalized” year that recognizes and adjusts for underspends due to less travel, delays in IT projects and filling vacant positions during the Secretariat’s reorganization in 2012. Based on such a ‘normalized view’ the recent forecast for actual expenditures in 2012 show a potential 12% reduction in recurring costs compared to the Board approved budget for 2012.
- 2.5 The proposal for the 2013 Operating Expenses budget to the FOPC shows a further 5% reduction in recurring costs compared to ‘normalised’ actual costs in 2012.
- 2.6 Committee members registered their support for the CFO’s proposal, commending the clarity of the presentation and the robust analysis. However, some committee members raised concerns that the proposed 2013 Operating Expenses budget was yet again higher than actual expenditure in any of the previous years, notably fiscal year 2011, the last year prior to the Secretariat’s reorganization, and suggested cost optimization of the Global Fund should be further enhanced.

2.7 The CFO was asked whether 623 Full Time Equivalents (FTEs) was the right level of staff for the Global Fund, given that it would increase actual staff numbers to a new all-time high. The CFO noted that he would conduct an analysis, also comparing Global Fund staffing levels to other comparable institutions. He added that he may find that some support functions such as IT and finance may need to be strengthened, and that the effort to overhaul systems might call for more resources in some areas in the short term.

2.8 Other subjects of clarification were the CCM budget at \$4.4m (an increase of 10% over the expected 2012 actual expenditures), the detail of the IT projects (the current proposed list will be adjusted as financial systems are re-designed in a project starting Q4 2012).

For action:

- The Secretariat to carry out an annual review IT investments to monitor processes
- Further information to be provided to FOPC on the distribution of FTEs
- The Secretariat to provide analysis on entities that provide assurance and oversight on the grant programs
- The 2013 OPEX budget to be submitted for electronic voting after the November Board Meeting

FOPCo5/DPo1: 2013 Operating Expenses Budget

The Finance and Operational Performance Committee (the “FOPC”) endorses the Audit and Ethics Committee’s (the “AEC”) recommendation on the Office of the Inspector General’s (the “OIG”) 2013 budget for operating expenses in the amount of USD 21.1 million.

The FOPC decides to recommend the combined Secretariat and OIG 2013 Operating Expenses Budget (the “2013 Operating Expenses Budget”) in the amount of USD 301.2 million (USD 297.2 million recurring plus USD 4.0 million non-recurring costs), as set forth in GF/B28/o6-Annex 1, to the Board for approval.

The FOPC acknowledges the Secretariat may enter into a forward contract to manage the currency risk exposure of the 2013 Operating Expenses Budget following the Board’s approval in accordance with GF/B22/DP18 (Management of foreign exchange in the Budget). If the exchange rate on the date of signature of the forward contract results in a foreign-exchange adjustment to the amount presented to the Board, the adjusted amount shall be communicated to the Board and deemed the approved 2013 Operating Expenses Budget. In the absence of hedging, monitoring of the 2013 Operating Expenses Budget will be measured at the exchange rate used to prepare the budget.

Based on the discussions and decisions above, the FOPC decides to recommend the following Decision Point to the Board to be adopted by electronic vote after the Twenty-Eighth Board Meeting:

Recommended Board Decision

GF/B28/EDPXX: 2013 Operating Expenses Budget

The Board approves the 2013 Operating Expenses Budget in the amount of USD 301.2 million (USD 297.2 million recurring plus USD 4.0 million non-recurring costs), which includes USD 21.1 million budgeted for the Office of the Inspector General, as set forth in GF/EDPXX.

Following approval of this decision, the Secretariat may enter into a forward contract to manage the 2013 Operating Expenses Budget's exposure to currency risk in accordance with GF/B22/DP18. If the exchange rate determined on the date of signature of the forward contract results in a foreign-exchange adjustment to the budget amount approved by the Board, the adjusted amount shall be communicated to the Board and deemed the approved 2013 Operating Expenses Budget. In the absence of hedging, monitoring of the 2013 Operating Expenses Budget will be measured at the exchange rate used to prepare the budget.

The budgetary implication of this decision is USD 301.2 million in the 2013 operating expenses budget.

2.9 Upon Board approval, and in accordance with Board decision [GF/B22/DP18], the Secretariat will manage the currency risk exposure of the 2013 OPEX budget.

2.10 Here below is the 2013 Operating Expenses budget document [GF/B28/06-Annex 1], as recommended by the FOPC.

<p>This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.</p>
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Operating Expenses Budget 2013

Pre-Board Meeting Day

13 November 2012

2013 Global Fund Operating Expenses

- Three major objectives:
 - Ensure progressive alignment with transformation steps and new strategy;
 - Invest in / Strengthen areas of significant weakness in the organization and processes of the Global Fund;
 - Create for the first time an inflection in continuously increasing Opex since the Global Fund's creation.

Key considerations of the planning process

- Numerous parameter changes create difficult comparability in most Opex and headcount developments over the period;
- Disruptions created during the 2012 restructuring effects have led to significant delays in staffing, projects, in particular IT and travel;
- Process aimed at establishing tighter monitoring of operating expenses vs budget as opposed to loose framework in past years;
- Interactive steps of preparations have led to significant adjustments compared to preliminary submissions ; some will require major action plans for completion:

Opex Budget Development 2011 - 2013

Key considerations of the planning process contd.

- Outline by key functions: governance, operations, support functions and OIG;
- Focus on recurring operating expenses (vs one time costs: \$30,9 mio in 2012, \$4,0 mio in 2013 budget);
- Finance Division will initiate before year end and in following years a full grant budget review representing 90% of the Fund's financial flows!
- Budget rate 2013 of CHF 1 = US\$ 1,06 : data in real terms

Budget highlights

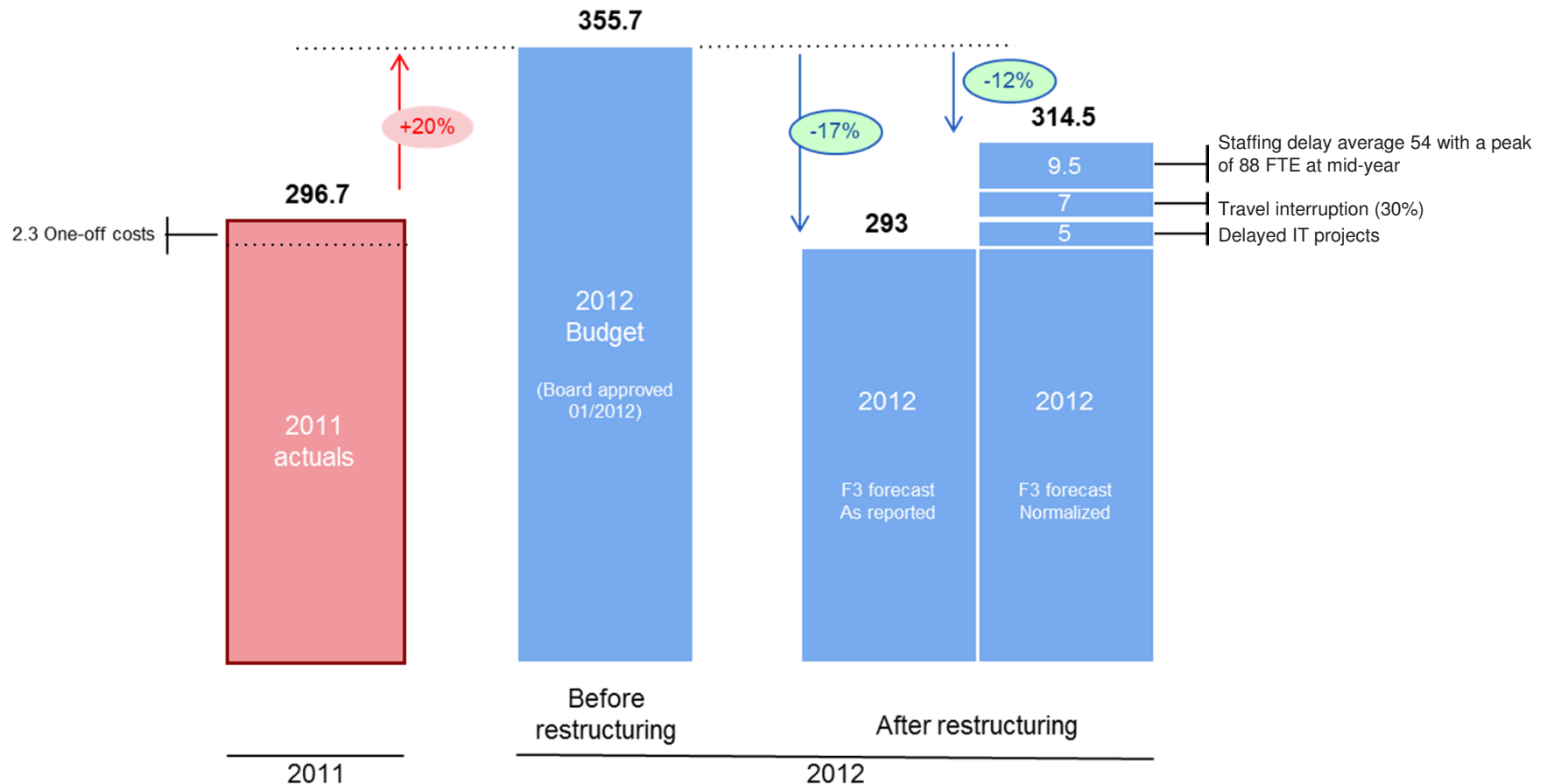
1. TGF will generate 2012 Opex (F3 forecast) clearly below (-12%) the approved 2012 budget;
2. Numerous restructuring “disruptions” in 2012, require a view of a “normalized” year for comparative purposes;
3. After a compound increase of 28% p.a. since the Fund’s creation and of 11% over the past 3 years, the 2013 budget for the first time targets a reduction of 5% vs. 2012 normalized;

Budget highlights contd.

4. Some initial proactive steps will lead to reconsidering of management mandates and interactions with local teams:
 - LFA's budget require an action plan to materialize a reduction of US\$ 20 mio in 2013 vs. 2012
 - Professional fees reduced by more than US\$ 6 mio vs. original submissions
 - Intensity of presence in countries = CCM, travel....
5. Framework ratios to reach:
 - Total Opex/Total expenditure:
(F3 2012 normalized) = 10% Budget 2013 = 7,9%
 - Grant Commitments/Secretariat employees:
(F3 2012 normalized)=US\$ 5 mio, Budget 2013=US\$ 6 mio
6. Finance will initiate structured benchmarking of the Global Fund's cost base in 2013

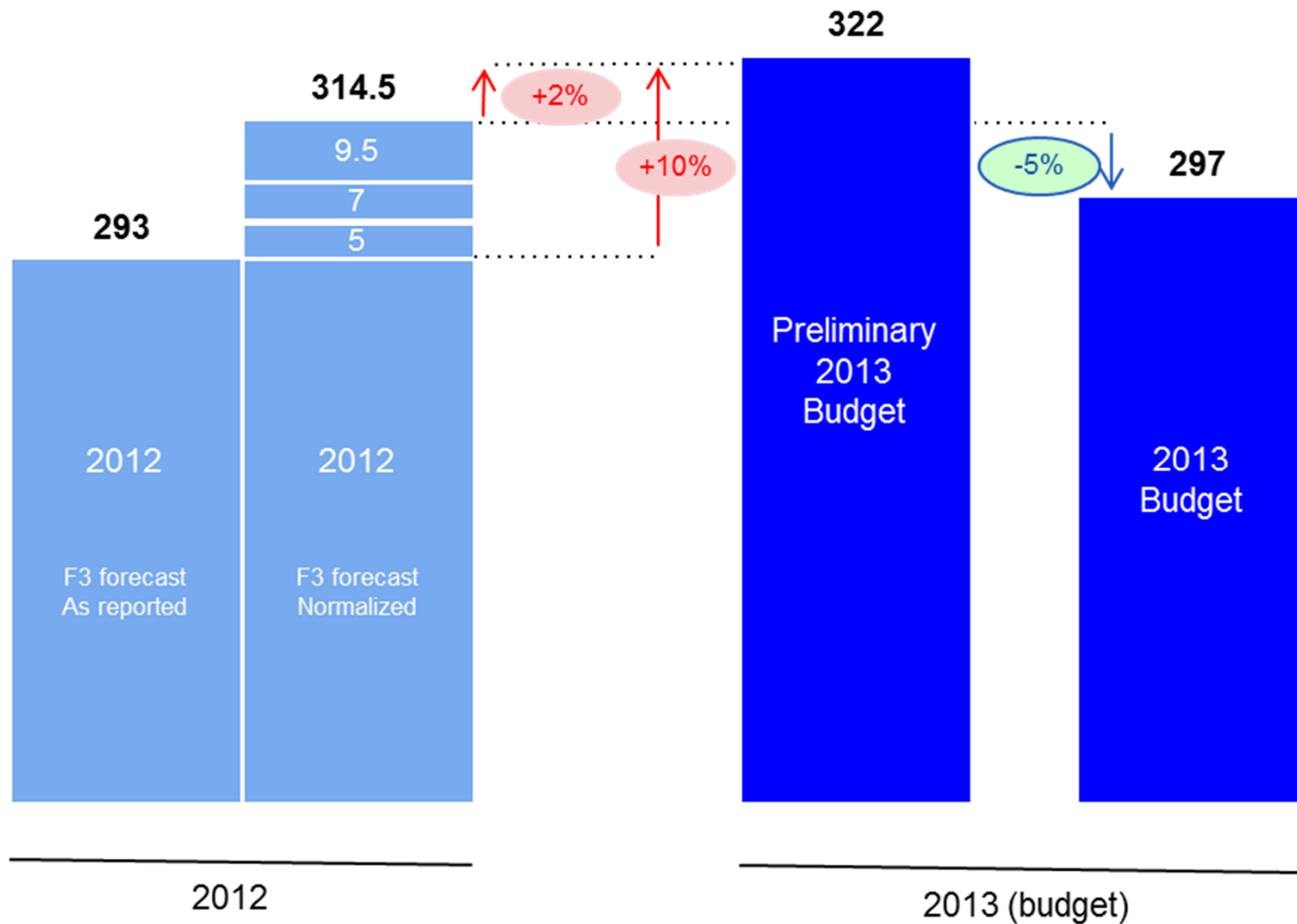
Opex Budget Development 2011 - 2013

Operating Expenses Development 2011-2012



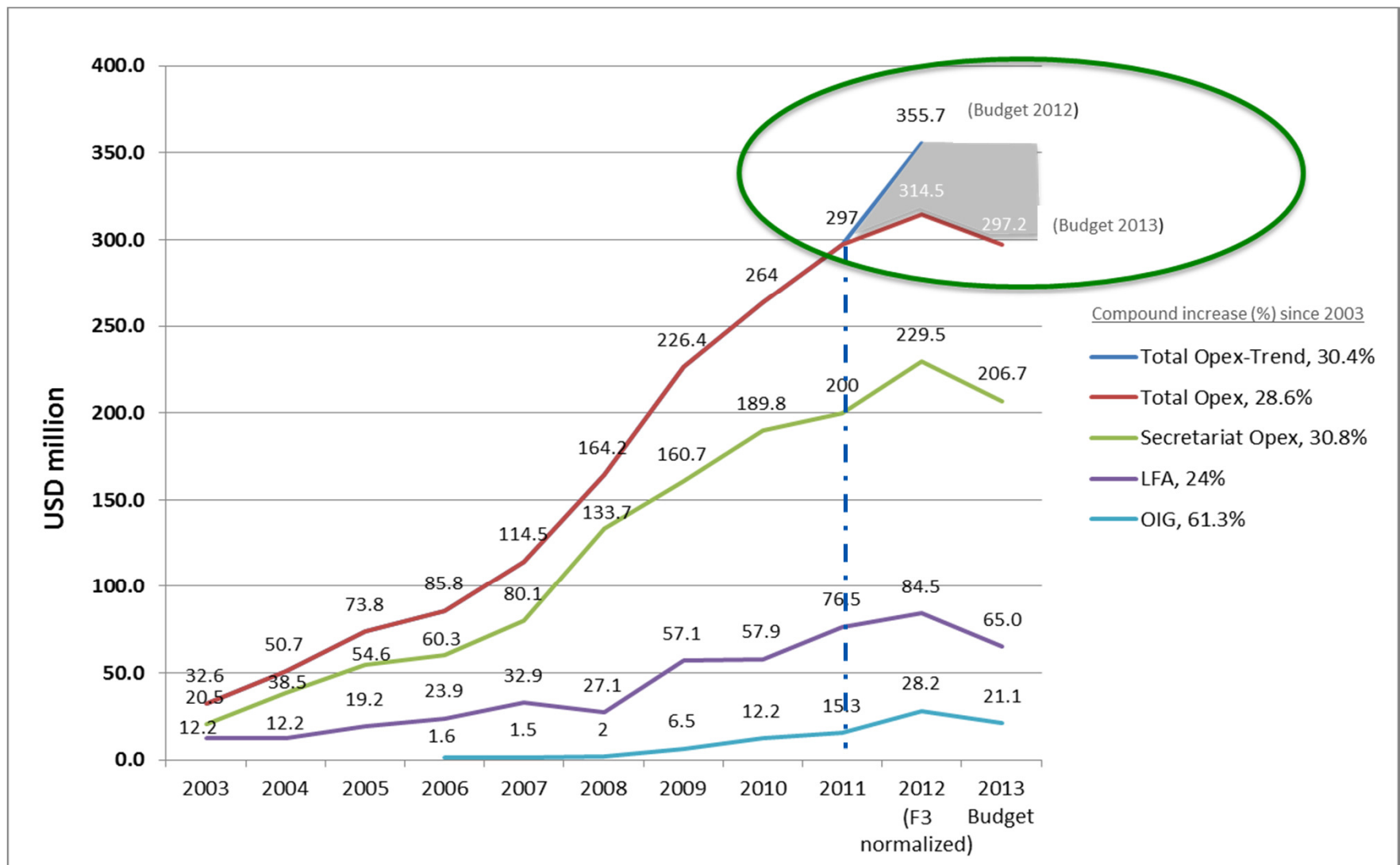
Opex Budget Development 2011 - 2013

Operating Expenses Development 2011-2012



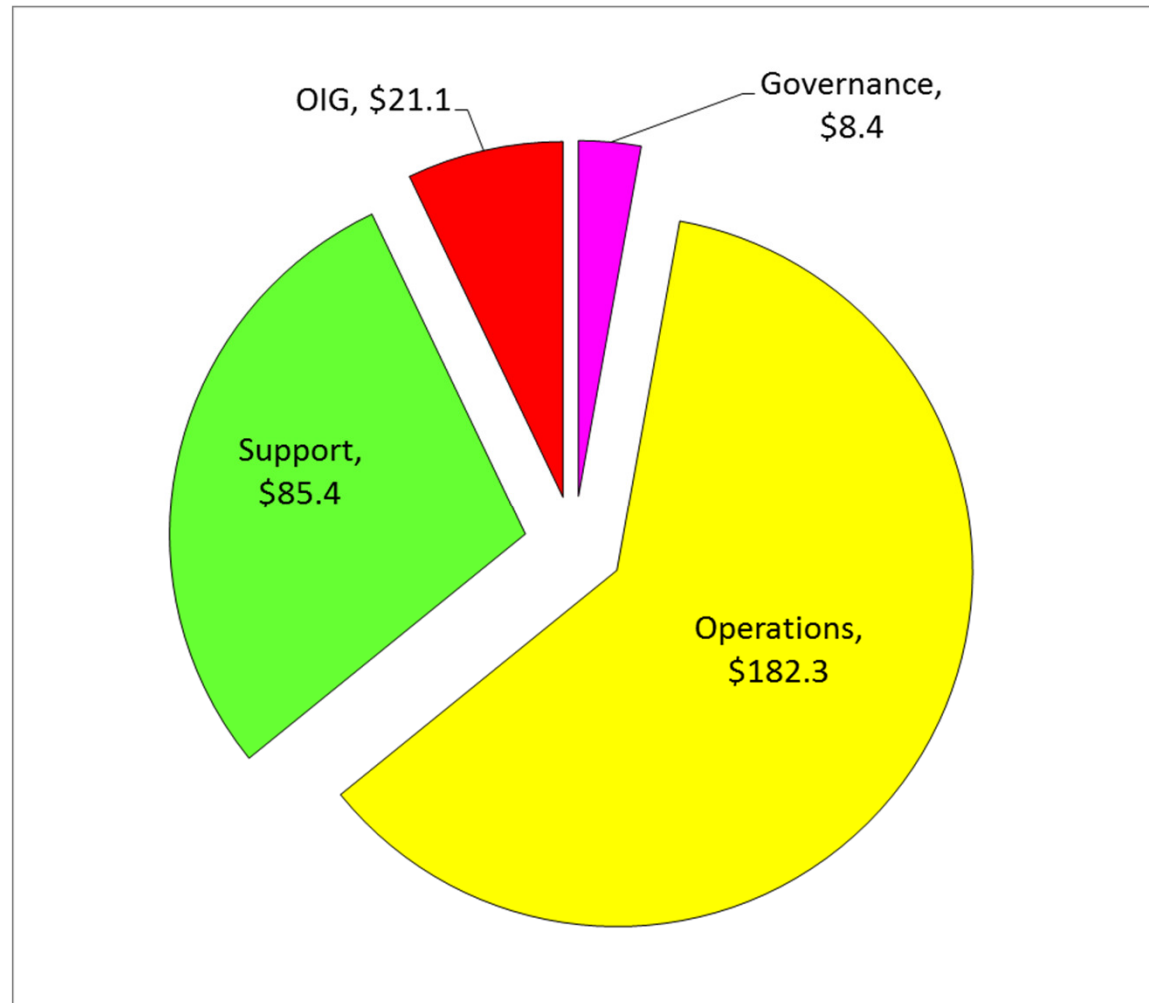
Opex Budget Development 2011 - 2013

Actuals 2003 to 2012 plus Budget 2013



Opex Budget Structure 2013

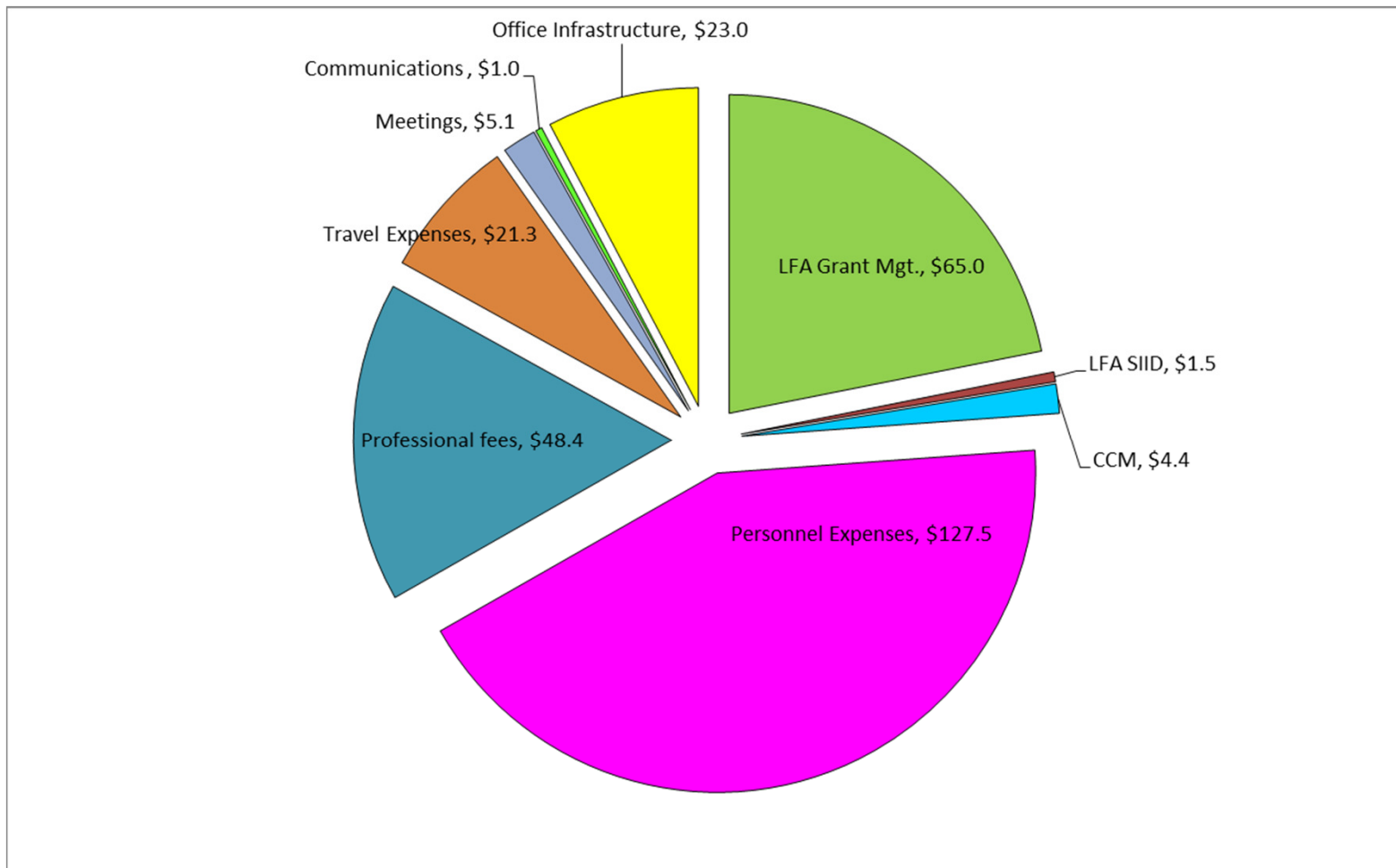
Overview Recurring Costs by Division in USD million



Total Recurring costs Budget 2013 US\$ 297.2m

Opex Budget Structure 2013

Overview Recurring Costs by Expense type in USD million



Total Recurring costs Budget 2013 US\$ 297.2m

Opex Budget Development 2011 - 2013

Overview All Costs

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
<u>USD millions</u>						
Governance	8.3	9.7	10.2	8.4	1%	-18%
Operations	188.3	217.2	197.4	182.3	-3%	-8%
Support	82.6	85.9	78.6	85.4	3%	9%
OIG	15.1	28.2	28.2	21.1	40%	-25%
Recurring costs Total	294.4	341.0	314.4	297.2	1%	-5%
Total non-recurring Costs:	2.3	14.8	30.9	4.0	74%	-87%
Total Costs	296.7	355.8	345.3	301.2	2%	-13%

Opex Budget Development 2011 - 2013

Operations

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
<u>USD millions</u>						
SIID	31.2	30.3	31.9	32.5	4%	2%
Resource Mobilization	18.7	16.5	10.2	9.6	-48%	-6%
Grant Management	58.2	73.7	69.4	70.7	21%	2%
LFA	75.1	83.1	81.9	65.0	-13%	-21%
CCM	5.2	13.5	4.0	4.4	-16%	10%
Operations Total	188.3	217.2	197.4	182.3	-3%	-8%

Opex Budget Development 2011 - 2013

Governance

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
<u>USD millions</u>						
Office of ED/DED	4.2	4.7	2.9	2.6	-39%	-13%
Governance Team	3.4	4.1	5.9	4.5	32%	-25%
Chair & Vice Chair of the Board	0.7	0.9	1.4	1.4	85%	0%
Governance Total	8.3	9.7	10.2	8.4	1%	-18%

Opex Budget Development 2011 - 2013

Support Functions

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
USD millions						
Communications	9.3	9.7	9.1	9.0	-3%	-1%
HR	8.9	9.0	7.4	7.7	-14%	4%
Legal & Compliance	4.6	5.2	4.9	5.0	9%	2%
Risk	0.0	0.0	0.3	1.0	n/a	n/a
Finance, IT	39.1	42.1	39.1	43.0	10%	10%
Administration & Procurement	20.8	19.9	17.8	19.8	-5%	11%
Support Functions Total	82.6	85.9	78.6	85.4	3%	9%

Opex Budget Development 2011 - 2013

Non-recurring Costs

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
USD millions						
Group	0.6	13.0	0.0	0.0	n/a	n/a
Discontinued	1.7	1.8	0.2	0.0	n/a	n/a
One-off costs	0.0	0.0	30.7	4.0	n/a	-87%
Non-recurring costs Total	2.3	14.8	30.9	4.0	74%	-87%

Opex Budget Development 2011 - 2013

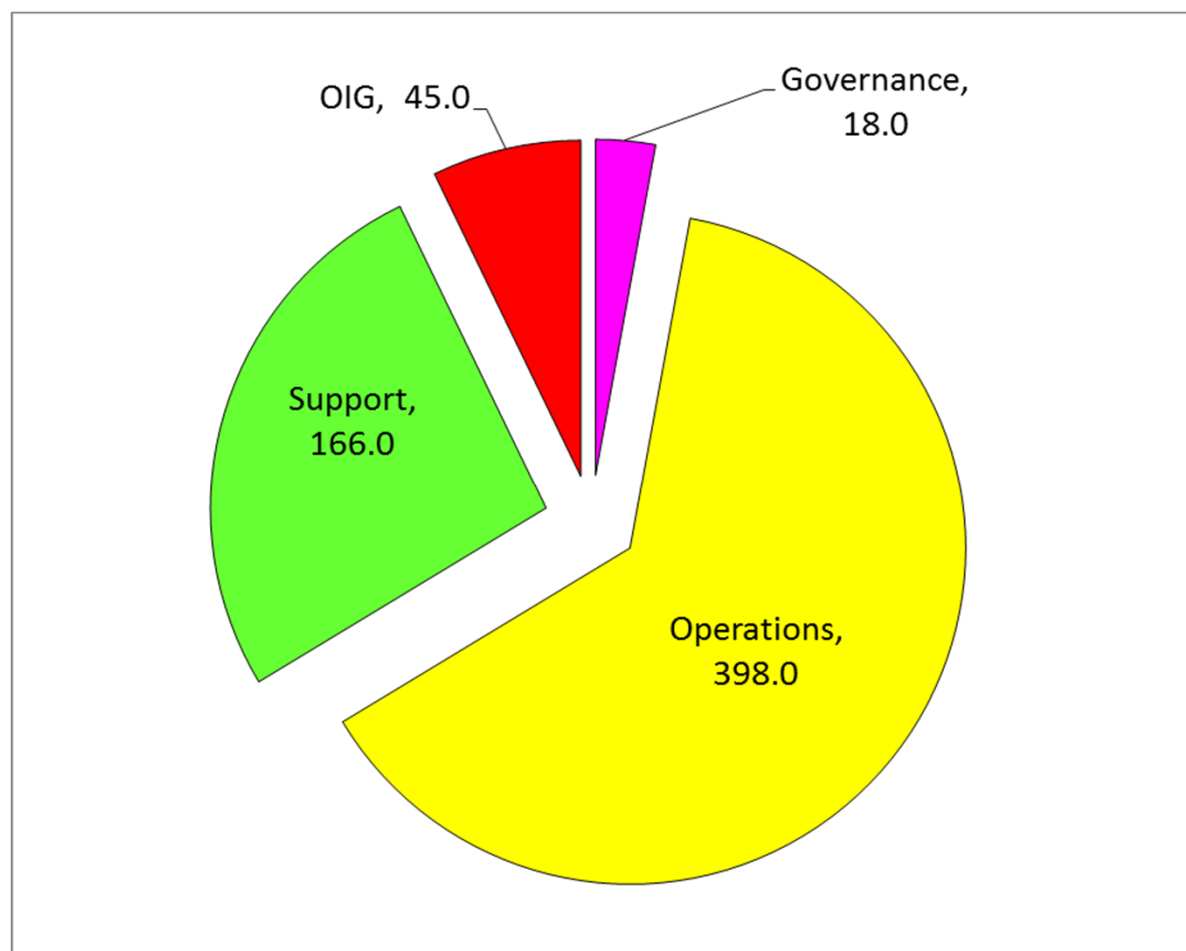
OIG

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
USD millions						
OIG Total	15.1	28.2	28.2	21.1	40%	-25%

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
USD millions						
OIG						
Staff costs	4.2	7.0	7.0	9.6	128%	37%
Professional fees	8.8	16.8	16.8	7.3	-17%	-57%
Travel & Meetings	2.0	3.0	3.0	2.9	48%	-3%
Office Infrastructure	0.1	1.4	1.4	1.3	1162%	-5%
Total OIG	15.1	28.2	28.2	21.1	40%	-25%

Opex Budget Structure 2013

Overview Recurring FTEs by Division / Department



Total FTEs Budget 2013: 627

Opex Budget Structure 2013

Overview Recurring FTEs by Division / Department

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
<u>FTE numbers</u>						
Governance	28.0	25.0	21.0	18.0	-36%	-14%
Operations	370.0	395.0	393.0	398.0	8%	1%
Support Functions	172.5	186.0	158.0	166.0	-4%	5%
OIG	24.0	35.0	35.0	45.0	88%	29%
FTE Total numbers	594.5	641.0	607.0	627.0	5%	3%

Opex Budget Structure 2013

Overview Recurring FTEs for Operations

Division / Department	Actual 2011	Budget 2012	Normalized Forecast F3 2012	Budget 2013	% Variance 2013 vs 2011	% Variance 2013 vs 2012
<u>FTE numbers</u>						
Operations						
SIID	139.0	140.0	74.0	79.5	-43%	7%
Resource Mobilization	51.0	52.0	35.0	34.5	-32%	-1%
Grant Management	180.0	203.0	284.0	284.0	58%	0%
FTE Total numbers	370.0	395.0	393.0	398.0	8%	1%

Opex Budget Structure 2013

2013 Budget uncertainties/risks

- Magnitude (under preliminary assessment) of process/system redesign behind the new funding model!;
- Ability to fully align missions and interactions with LFAs with a full year of expected impact;
- Ability to strengthen budget discipline and solidarity with related required efforts:
 - Culture change – management change – business model change – core process changes.

Opex Budget Structure 2013

Decision Point

FOPC05/DP01: 2013 Operating Expenses Budget

- The Finance and Operational Performance Committee (the “FOPC”) endorses the Audit and Ethics Committee’s (the “AEC”) recommendation on the Office of the Inspector General’s (the “OIG”) 2013 budget for operating expenses in the amount of USD 21.1 million.
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- Based on the discussions and decisions above, the FOPC decides to recommend the following decision point to the Board to be adopted by electronic vote after the Twenty-Eighth Board Meeting:

Opex Budget Structure 2013

Decision Point

Recommended Board Decision

GF/B28/EDPXX: 2013 Operating Expenses Budget

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- Following approval of this decision, the Secretariat may enter into a forward contract to manage the 2013 Operating Expenses Budget's exposure to currency risk in accordance with GF/B22/DP18. If the exchange rate determined on the date of signature of the forward contract results in a foreign-exchange adjustment to the budget amount approved by the Board, the adjusted amount shall be communicated to the Board and deemed the approved 2013 Operating Expenses Budget. In the absence of hedging, monitoring of the 2013 Operating Expenses Budget will be measured at the exchange rate used to prepare the budget.