

GF/B30/10

Board Decision

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 June 2013 Board Meeting in accordance with its charter.
2. This report presents, for Board decision, the FOPC's request for delegation of authority to approve an interim operating expenses budget for the first quarter of the 2014.

INTRODUCTION

This report compiles decisions recommended to the Board by the Finance and Operational Performance Committee (“FOPC”), decisions taken by the committee under its delegated authority according to its Charter, and an overview of items discussed under the committee’s oversight. For an exhaustive account of committee deliberations, governance officials are invited to read the Chair and Vice Chair’s Summaries of the FOPC meetings.

Since the Twenty-Ninth Board Meeting in June 2013, the FOPC members met in person at its 8th Meeting which took place from 2-3 October 2013 at the Global Fund’s Secretariat in Geneva. In addition, the Committee held two teleconferences to discuss Human Resources and Risk Management related matters. In all three occasions Viorel Soltan and John Monahan served as Chair and Vice-Chair of the Committee respectively.

This report is divided as follows:

- Part 1: Decisions recommended to the Board in between its in-person meetings.
- Part 2: Decisions taken by the FOPC pursuant to its delegated authority.
- Part 3: Matters addressed by the FOPC as part of its oversight and advisory functions in accordance with its charter.

PART 1: DECISIONS RECOMMENDED TO THE BOARD

2014 Operating Expenses Budget Approval Process

1.1 In order to facilitate timely discussions and decisions related to the full implementation of the new funding model, the Thirtieth Board Meeting was moved forward by five weeks from its original dates (scheduled in early December).

1.2 The Secretariat had been working towards budgeting timelines on the basis of the original dates in November to complete a proposal for the 2014 operating expenses budget for review, discussion and approval, with modifications, if any. Given the sequencing of multiple interrelated processes and information systems that need to be implemented for the new, robust budgeting process, the change to the timelines impacted the Secretariat's ability to carry out the full process with its resultant benefits in terms of clarity and robustness of underlying priorities and assumptions. Consequently, the 2014 Operating Expenses Budget (OPEX) was not prepared in time for the FOPC's in-person meeting in early October. This therefore meant that onward transmittal to the Board for its scheduled meeting in early November was not possible.

1.3 A number of proposals on how to proceed were considered. The options considered focused on i) providing adequate time for robust preparation of the budget and prioritized workplan linking activities to the Strategy of the Global Fund, ii) ensuring appropriate time for the FOPC to review the Secretariat's proposal and iii) timing approval of the full 2014 OPEX budget to an in-person meeting of the Board to allow time for a robust discussion and approval. On this basis, the possibility of an email approval of the 2014 OPEX budget by the Board in December was discarded as not good governance practice nor desirable in terms of maintaining the Board's confidence in the proper functioning, resourcing and prioritization of activities of the Secretariat and OIG.

1.4 In this context, at its 8th meeting the FOPC endorsed the Secretariat's proposal to modify the approval process for the 2014 operating expenses budget. The proposal was based on the knowledge that the Board must have an opportunity to review, comment on and discuss the budget in an in-person meeting, while enabling the organization to enter the 2014 fiscal year with appropriate resources to conduct its activities.

1.5 Accordingly, the FOPC is requesting the Board for a delegation of authority to approve an interim OPEX budget for the first quarter of the 2014 fiscal year that will not exceed the first-quarter amount of the 2013 operating expenses budget. At its 9th Meeting in December 2013, the FOPC will a) review and approve the operating expenses budget for Q1 2014; and b) review the final full-year 2014 operating expenses budget and workplan that will be recommended to the Board for approval at the Thirty-First Board Meeting in February 2014.

1.6 The 2014 budget process is well under way towards completion by its initial deadline. Preparation will involve first and foremost intense preparations to launch the new funding model. In this respect, the Secretariat has engaged internal and external sources to assess the operational impact and resources needed. The Secretariat's assessment has focused on: i) ensuring the country teams are properly staffed, with the right level of resources and skills; ii) engaging a strong multilateral and bilateral presence and commitment; iii) assessing the capacity of global stakeholders (e.g., key affected populations, civil society, technical partners) to engage in the country dialogue processes for a series of countries in 2014. At the writing of this report, the assessments were being finalized.

1.7 At the same time the Secretariat is also developing a cross-divisional strategy/policy function. It is also working to optimize the working relationships between two core divisions within the Secretariat: the Strategy, Investment and Impact Division and Grant Management Division. This exercise will be completed prior to the new funding model roll-out.

1.8 Because the assessments and exercises described are aimed to align the organization to deliver and implement the new funding model, they are essential pieces of work that warrant proper diligence, analysis and validation, particularly to accurately feed into the 2014 operating expenses budget.

1.9 The Finance Division is currently leading a new, robust organization-wide budgeting exercise that started in September and will continue until the end of November 2013. It includes close monitoring of all budgeting assumptions, as well as a detailed review and inquiry into each department and division's budget. The aim of this exercise is: (i) to streamline the budget as much as possible for maximum efficiency; and (ii) to focus for the first time operational activities towards strategic objectives and priorities through an aggregated workplan which will facilitate greater linkage between the budget and tasks or activities. The budgeting exercise has been aided by a new comprehensive budgeting tool "Hyperion" - a first module of the "Step-up project" launched mid-October after the completion of data migration and training for 30 key budget coordinators across divisions and departments. This tool will enhance the utility, coherence and level of detail of budget information. This transition has created a heavy workload for the Secretariat and demands a tight management of deadlines on all workstreams.

1.10 In summary, the resulting sequence of deliberations and decisions is proposed as follows:

- i. At the Thirtieth Board Meeting in November 2013, the FOPC shall request a delegation of authority from the Board to approve an interim operating expenses budget for the first quarter of 2014, subject to a subsequent recommendation to the Board in February 2014 to approve the final full-year 2014 operating expenses budget.
- ii. At its 9th Meeting in early December 2013, the FOPC, as per the requested Board delegation of authority, shall be entitled to approve an interim operating expenses budget for the first quarter of 2014 provided such amount does not exceed the first-quarter amount of the 2013 operating expenses budget (i.e., US \$77.4 million). The FOPC shall also finalize and vote to recommend the full 2014 operating expenses budget to the Board for approval at the Thirty-First Board Meeting in February 2014.
- iii. At the Thirty-First Board Meeting in February 2014, the Board shall have an opportunity to review, discuss and vote to approve the 2014 operating expenses budget.

1.11 By way of reminder to the Board, it is noted that the OPEX Budget includes the following budgets i) Secretariat, ii) OIG (as per AEC review and recommendation), iii) CCMs iv) LFAs, v) governance support functions, including for the proper functioning of the Technical Review Panel (TRP), the Technical Evaluations Reference Group (TERG) and, board/committee support).

1.12 As such, the FOPC adopted the following decision point at its 8th Meeting:

GF/FOPCo8/DPo2: 2014 Operating Expenses Budget Approval Process

1. The Finance and Operational Performance Committee (the "FOPC"):
 - a. Endorses the Secretariat's recommendation to present the full 2014 operating expenses budget to the Board for approval at its Thirty-First Meeting in February 2014; and
 - b. Agrees to seek a delegation of authority from the Board to approve an interim

operating expenses budget for the first quarter of the 2014 fiscal year that will not exceed the first-quarter amount of the 2013 operating expenses budget.

2. Accordingly, the FOPC decides to recommend the following decision point to the Board for approval at its Thirtieth Meeting in November 2013:

GF/B30/DP*: 2014 Operating Expenses Budget Approval Process

1. The Board delegates to the Finance and Operational Performance Committee (the “FOPC”) authority to approve an interim operating expenses budget for the first quarter of the 2014 fiscal year (the “Q1 2014 Budget”), subject to the following:

“a. The Q1 2014 Budget will not exceed the first-quarter amount of the 2013 operating expenses budget; and

“b. The full 2014 operating expenses budget will be presented to the Board for approval at the Thirty-First Board Meeting in February 2014.

2. This decision’s impact on the 2014 operating expenses budget will not exceed USD 77.4 million.

PART 2: DECISIONS TAKEN BY THE FOPC PURSUANT TO ITS DELEGATED AUTHORITY

GF/FOPCo8/DPo1: The Global Fund Provident Fund Investment Policy

2.1 At the 8th FOPC Meeting on 2 October 2013, the Committee discussed the modification of the Strategic Asset Allocation (SAA) of the Global Fund’s Provident Fund (GFPPF) as proposed in the document (GF/FOPCo8/o6).

2.2 The Secretariat recommended the FOPC to review the current SAA as expectations for returns and market volatilities had significantly evolved since the last Asset Liability Modelling study carried out by Mercer consultants in 2009. In particular, the Secretariat informed the Committee that under the current market outlook the existing asset allocation has an expected rate of return of 2.4% per year, which is significantly lower than the guaranteed minimum return rate of the GFPPF set at 3.7% per year.

2.3 On 2 October 2013, Decision Point GF/FOPCo8/DP1 was approved by the Committee. Details of the Decision Point are given below.

GF/FOPCo8/DPo1: The Global Fund Provident Fund Investment Policy

1. The Finance and Operational Performance Committee (the “FOPC”) approves the strategic asset allocation recommended by the Provident Fund Management Board, based on the analysis of Mercer, the Global Fund Provident Fund’s external investment advisor, as set forth in GF/FOPCo8/o6.

2. Accordingly, the FOPC requests the Provident Fund Management Board to incorporate the strategic asset allocation in an amended and restated Provident Fund Investment Policy and regularly report to the FOPC on the transition to this strategic asset allocation and its performance.

GF/FOPCo8/DPo2: 2014 Operating Expenses Budget Approval Process

2.4 As stated under “PART 1: DECISIONS RECOMMENDED TO THE BOARD/2014 Operating Expenses Budget Approval Process”, at its 8th meeting the FOPC agreed to seek delegation of authority from the Board to approve an interim OPEX budget for the first quarter of 2014, subject to a subsequent recommendation to the Board in February 2014 to approve the final full-year 2014 OPEX budget.

PART 3: MATTERS ADDRESSED BY FOPC AS PART OF ITS OVERSIGHT AND ADVISORY FUNCTIONS IN ACCORDANCE WITH ITS CHARTER.

3.1 Since the Twenty-Ninth Board Meeting in June 2013 the FOPC deliberated and received updates from the Secretariat on the following issues:

Financial Oversight

3.2 At its 8th Meeting, received an update on the following financial related matters:

- i. Comprehensive 2013 half year review of the Global Fund’s Interim Accounts (unaudited) including: consolidated financial statements; pledges and contributions; grant financials; and operational expenditures;
- ii. The second 2013 Forecast (“F2” January-June 2013 actuals and Full year 2013 “F2” forecast) and update about the transition to the NFM including: grants; review of committed and uncommitted asset position, liability position and cash balance; assumptions and scenarios; and cash liquidity test;
- iii. Evolution of the Local Fund Agents’ engagement and services ahead of 2014 LFA budget approval;
- iv. Timeline and results of on-going analysis to review the Comprehensive Funding Policy.

Resource Mobilization Strategies

3.3 Also at its 8th Meeting, the FOPC received an update on the Fourth Replenishment Strategy including confirmed pledges and milestones until the pledging conference hosted by the US on 3 December 2013.

Operational and Performance Oversight

3.4 A standard presentation on the development of the Corporate Key Performance Indicators was presented to each of the three Board Committees (SIIC, FOPC and AEC) at their respective October meetings. The presentation included feedback received from the Implementer Bloc via teleconference on 26 August, and from the Donor Bloc at an in-person meeting in Geneva on 4 September. Final input provided at the three October Committee Meetings will be incorporated into a final presentation to be submitted for Board approval at its Thirtieth Meeting in November 2013.

3.5 At the 8th FOPC Meeting Committee members received an update on the Secretariat’s procurement work-streams and the “Procurement for Impact Project”.

Risk Oversight

3.6 During a call held on 13 September 2013, the FOPC received an overview of the reviewed Corporate Risk Register focusing on specific risks related to the oversight work of the Committee.

Corporate Administrative Policies and Activities of the Secretariat

3.7 During a call held on 8 July 2013 and at its 8th meeting, the FOPC received an update on the status of Human Resources related activities including: overview of the overall HR operating model, progress made on the Global Fund's People Strategy, well being of the workforce and options for areas/metrics for FOPC oversight purposes.