

**2013 OPERATING EXPENSES BUDGET****PURPOSE**

This report summarizes the deliberations of the Finance and Operational Performance Committee (FOPC) in relation to the 2013 Operating Expenses Budget and proposes one (1) decision point as follows:

**GF/B28/EDP03: 2013 Operating Expenses Budget**

*The Board approves the 2013 Operating Expenses Budget, as set forth in GF/B28/ER03-Annex 1, 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.*

*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.**

## BACKGROUND

At its Fifth meeting, the Finance and Operational Performance Committee (FOPC) reviewed the Global Fund 2013 Operating Expenses (OPEX) budget. The Chief Financial Officer (CFO) presented the OPEX budget for 2013 which showed a reduction in comparison with the F3 forecast normalized expenses of 2012. The CFO noted the initial budget submissions from each division or department of the Secretariat resulted in a “preliminary budget” for 2013 of USD 322 million. Following interviews with each department / division head, and in accordance with budget decisions by the Management Executive Committee, the OPEX budget was reduced to USD 301.2 million (USD 297.2 million recurring plus USD 4.0 million non-recurring costs).

The CFO explained that strengthening was needed in support functions such as Finance and Treasury, as well as IT, and that this might call for more resources in the short term. The CFO provided further clarification regarding the CCM budget, IT projects and the KPIs for the results-based management framework. In response to requests, the CFO agreed to present at a future date, information on the division of tasks between LFAs, the OIG, Program Finance, and Grant Management.

To facilitate a more meaningful comparison between the 2013 OPEX budget and 2012 actual expenditures, the F3 forecast of 2012 expenditures was normalized to adjust for disruptions to IT projects, staff travel, staffing levels and other business operations due to the 2012 re-organization.

The FOPC endorsed the Audit and Ethics Committee’s recommendation to approve a budget for the OIG in the amount of USD 21.1 million that does not contain a contingency amount.

Although additional information was requested on disbursement data and on the evolution of the framework measures over the same period, overall the FOPC supported the budget with the view that the proposed 2013 OPEX budget reflected the direction of the reforms engaged.

### **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.***

***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/FOPC05/02.A, 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. 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/EDPo3: 2013 Operating Expenses Budget**

***The Board approves the 2013 Operating Expenses Budget, as set forth in GF/B28/ER03-Annex 1, 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.***

***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.**

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.

The 2013 Operating Expenses budget document presented at the Twenty-Eighth Board Meeting (GF/B28/06-Annex 1) is attached as Annex 1 to this Electronic Report.