

40th Board Meeting

2019 Work Plan & Budget Narrative

GF/B40/02 Part A
14-15 November 2018, Geneva

Board Decision

Purpose of the paper: This document presents a narrative complement to the Global Fund 2019 Operating Expenses Budget presentation [GF/B40/02 Part B]

Decision

Decision Point GF/B40/DP03: 2019 Work Plan and Budget Narrative and the 2019 Operating Expenses Budget

Based on the recommendation of the Audit and Finance Committee, the Board approves the following:

1. 2019 Work Plan and Budget Narrative, as set forth in GF/B40/02A; and
2. The 2019 Operating Expenses Budget in the amount of USD 302 million, as set forth in GF/B40/02B (the “2019 OPEX Budget”), which:
 - i. includes USD 15.59 million for the Office of the Inspector General’s 2019 operating expenses; and
 - ii. remains within the total amount of USD 900 million available for operating expenses over the 2017-2019 period.

I. Executive Summary

1. The Global Fund Work Plan and Budget Narrative forms a key component of the financial reporting, planning and control structure of the organisation. The document sets out key priorities for the year ahead, and provides an overview of operational budget alignment and planning. The work plan and budget narrative focuses on activities funded through the Global Fund's operational expense budget, which complement activities supported by catalytic and grant funds, and the contributions of implementers and partners, to drive the objectives of the 2017-2022 Strategy: Investing To End Epidemics (the "Strategy").

2. The 2019 budget is designed to meet the demands of a particularly complex year in the business cycle with peaks in activity related to the upcoming replenishment effort, preparation for the next cycle of investments and the crucial period of full implementation for the current cycle of grants. Five priorities were identified for 2019 to meet these demands:

- i. **Supporting a successful sixth replenishment** – continue the work to make the case for investment in the Global Fund; culminating in the October 2019 replenishment conference;
- ii. **Driving impact from the current grant cycle** – focus on optimising investment decisions and improving fund absorption to maximise impact of supported programs;
- iii. **Preparing for the next cycle of grants** – ensure timely Board decisions and engagement with implementers and partners to increase the efficiency of program design;
- iv. **Enhancing efficiency & effectiveness** – focused on efforts at country, secretariat and governance levels, and with Sustainable Development Goal (SDG) 3 partners;
- v. **Investing in people** – ensure a highly motivated high performing workforce; essential to delivery of the Global Fund's mission.

3. The major part of the organisation's OPEX investments covers the Secretariat's recurrent activities and these see a reduction from USD 292m in 2018 to USD 286.7m in 2019.¹ This budget discipline has enabled an increase (from USD 8m to USD 15.7m) in investments across the five priorities in areas of work in need of development, or work to enhance performance above the costs of recurrent operations.

4. The 2019 budget maintains the Secretariat commitment to remain within the USD 900m operating expense budget envelope of the 2017- 2019 5th Replenishment. The potential risk to this commitment caused by the one-off Global Health Campus (GHC) costs was mitigated in 2018, and the full impact absorbed into the 2018 operational expenditure. The Secretariat continues to demonstrate its ability to maintain budget discipline and drive value for money from its operational expense investments.

¹ Excluding one-off GHC costs

II. Introduction

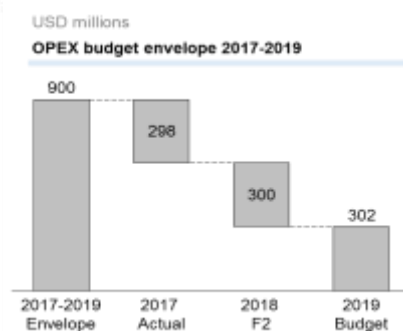
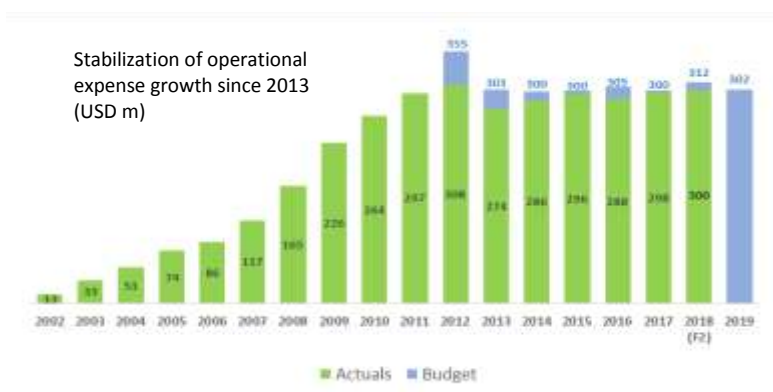
5. The Global Fund Work Plan and Budget Narrative forms a key component of the financial reporting, planning and control structure of the organization. The aim of the narrative is to provide a better understanding and more detailed analysis of where operating expenses are invested and how budget decisions align with Strategy. It should be noted that Secretariat operational expenses are just one element of the investments required to achieve the objectives of the Strategy; they complement catalytic and grant funds and the essential contributions of implementers and partners.

6. Responsible and rigorous financial management remain key principles for the Global Fund as an international financing institution. The operational expense budget reflects four core financial objectives: Exercise proper financial discipline; achieve value for money; ensure available resources are invested to achieve the new Strategy; and adhere to the overall resource framework set for the 5th Replenishment.

7. The Secretariat maintains its commitment to remain within the USD 900m operating expense budget envelope over the 2017-2019 funding cycle. The potential risk to this commitment caused by the one-off Global Health Campus (GHC) costs was mitigated in 2018 and the full impact absorbed into the 2018 operational expenditure.

8. Two factors enabled the Secretariat to absorb the estimated impact in a single year. Firstly, a large share of the estimated one-off costs were risk based provisions to cover dilapidation of the previous premises and the risk of double rent for the Secretariat and GHC sub-tenants. These risks were effectively managed by the Secretariat and resulted in a lower real cost to the organisation. Secondly, other costs were covered by stretching resources to generate savings, primarily through stringent controls on staff recruitment, and travel. From 2019 onwards the savings generated by the move to the GHC will be reinvested in the operational cost base.

9. With the F2 forecast projecting a USD 300m operational expenditure for 2018 (see Annex), the flat trend and high budget utilisation rate of recent years continues. The proposed 2019 budget of USD 302m will see the organisation allocate the full USD 900m OPEX envelope agreed for the 5th replenishment period.



III. Discussion

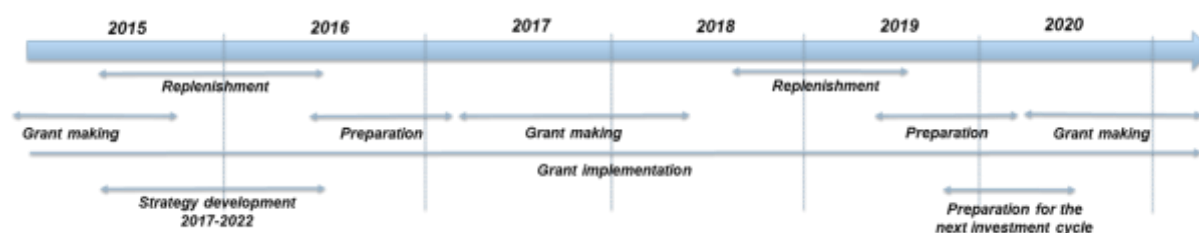
01 Priority-Setting and Budget Design

10. The Global Fund Strategy: Investing To End Epidemics clearly lays out the organisation’s objectives for 2017 to 2022. Through the planning process for strategy implementation, the core business activities and the major new initiatives required to deliver these objectives were established and built into operational plans for the first funding cycle of the strategy.

11. These plans cover the three funding streams managed by the Global Fund:

- i. **Grants:** funds allocated to implementers to support programs for the fight against the three diseases
- ii. **Catalytic investments:** critical activities not able to be funded through grant allocations due to their cross-cutting, innovative or off-allocation cycle nature
- iii. **Operational expenses (OPEX):** costs of the Secretariat and contractors in the administration and management support to grants and catalytic initiatives.

12. Activities funded through OPEX are the basis that underpin grant and catalytic investments, supporting work that ensures that these funds are used optimally to achieve impact in implementing countries. 2019 investments in the recurrent core business of the organization see a reduction to USD 286.7m, from USD 292m in 2018.² This budget discipline has enabled an increase (from USD 8m to USD 15.7m) in investments to areas of work in need of development, or activities to enhance performance above the costs of recurrent operations.



13. 2019 represents a particularly complex year for the Secretariat’s business cycle with peaks in activity related to the upcoming replenishment effort, preparation for the next cycle of investments and the crucial period of full implementation for the current cycle of grants. Driven by these demands, five priorities were identified for the Secretariat in 2019, and the USD 16m in above recurrent funds allocated as follows:

Priority	Above recurrent budget (USD m)
i. Supporting a successful sixth replenishment	2.5
ii. Driving impact from the current grant cycle	1.4
iii. Preparing for the next cycle of grants	1.4
iv. Enhancing efficiency & effectiveness:	
- Core IT business systems	4.9
- Capabilities & structures (incl. S&SC)	2.0
v. Investing in people	3.5

² Excluding one-off GHC costs

i. **Supporting a successful sixth replenishment**

Planning for the replenishment effort is already well underway, with the decisions by the French government to host the replenishment conference announced in May 2018,³ and the Indian government to host the preparatory meeting announced in September 2018.⁴ Activities will continue to ramp up after the Private Sector event and launch of the Global Fund Results Report in Paris in September; with the UN High-Level Meeting on TB and Berlin World Health Summit in October 2018; and the February 2019 replenishment preparatory meeting where the Global Fund Investment Case will be launched. The schedule of engagement will maintain this pace through the year with a series of global events including the G20 and G7 meetings, and the AU Summit, culminating with the replenishment conference in October 2019, in Lyon, France.

The Investment Case, developed closely with technical partners and external expert modelling institutions, will form the basis for the replenishment campaign making this analysis of the funding requirements and the impact on the three diseases accessible to stakeholders and the wider public. Outreach to implementer, donor, civil society and private sector stakeholders will be a major part of the effort and will draw significantly on the support of the full Global Fund partnership and coordination across SDG3 actors.

An additional USD 2.5m will be invested in the replenishment effort above the recurrent budget, to cover human resources, meeting and logistics costs, additional travel and the communications campaign.

ii. **Driving impact from the current grant cycle**

While 73% of the grant allocation was approved in 2017, a total of 98 submissions for funding were received in 2018, which makes 2019 the main year of implementation for the portfolio. Disbursements across the 358 grant portfolio are forecast to reach USD 7.1bn of the USD 10.9bn Grant, Matching Fund and Multi-country allocations. Grant facing and grant support staff will be fully focused on optimising investment decisions, improving fund absorption and driving impact.

This will be enabled through increased availability of data from revamped business systems, updated impact modelling, and the opportunity provided by the Country Portfolio Review (CPR) process to bring implementation challenges to management attention. In addition to assessing progress and risks to impact, this process enables programming focused on key and vulnerable populations, gender and human rights related barriers, and progress on strengthening systems for health to be reviewed. It also provides an opportunity to assess the effectiveness of implementation arrangements to address the specific needs of grants in complex environments, and plans for sustainability and transition to be assessed. It is expected that up to 30 countries will undergo CPR in 2019, and that around 80 grants will go through reprogramming.

Above recurrent funds of USD 1.4m will be allocated to further embed COE and STC activities in grant management operations, to support updated impact analysis, planning for human rights programming and strengthening of financial management systems.

iii. **Preparing for the next cycle of grants**

The majority of funding for the high impact portfolio was approved in 2017, which means that these grants are scheduled for renewal in 2020. Preparatory activities with countries,

³ <https://www.theglobalfund.org/en/news/2018-05-16-france-to-host-global-fund-replenishment-conference/>

⁴ <https://www.theglobalfund.org/en/news/2018-09-05-india-supports-global-fund-efforts-to-mobilize-funds/>

Country Coordinating Mechanisms and partners to ensure the effective design of the new cycle of grants will begin in 2019.

Assessing progress towards impact goals and other strategic objectives will be key to ensure that the next round of grants course correct implementation where necessary, as will better use of partner guidance to increase the efficiency of the program design and the selection of treatment regimens. Early dialogue and planning will be required for key population, human rights, adolescent girls and young women (AGYW), and resilient and sustainable systems for health (RSSH) programming to be integrated into grants from the start.

A key decision for the Board will be the revision of the allocation methodology, and work will focus on refining the model and integrating the latest financial and epidemiological data. Improved design and planning of for Catalytic Investments will be key to ensuring these funds are utilized effectively and better integrated into grants and wider disease programs, drawing on the lessons learned from the 2017-2019 allocation cycle.

These activities will benefit from additional investments of USD 1.4m in 2019 to cover modelling expertise and consultation.

iv. **Enhancing efficiency & effectiveness**

Increased efficiency and effectiveness will be a major focus for 2019 at country, secretariat and governance level, and with SDG3 partners. In country, in addition to increasing the efficiency of the next round of grants noted above, rollout of the District Health Information System (DHIS)-2 and Co-link initiatives to strengthen programmatic and financial data systems will be continued. Feeding off this work other opportunities to better leverage technology to support program implementation will be actively sought out.

A key focus for the Secretariat will be to shift internal operations to a business process model with the aim to increase visibility on the performance and value for money of the main streams of work undertaken by the organisation. Improved internal capabilities and revised organisational structures around IT and Sourcing and Supply Chain will also be fully rolled out. This will be complemented by the next stage in the development of core internal business systems as the Accelerated Integration Management (AIM) project finishes and the next round of investments address Sourcing and Supply Chain systems.

At the governance level the Secretariat will be looking to more effectively manage engagement with the Board, its Committees and constituencies, and improve coordination with its SDG3 partners.

The majority of the above recurrent investments in efficiency and effectiveness (USD 4.9m) will be allocated to further develop core IT business systems; with the remaining USD 2m invested in upgrading capabilities and organisational structures, including for Sourcing and Supply Chain.

v. **Investing in people**

Optimal deployment of the Global Fund workforce will be required to drive the increases in efficiency and effectiveness highlighted above; workforce planning around the business process model and the talent management process will be the basis on which these changes will be made.

The Global Fund will continue its program of investments in staff to maintain the highly motivated high performing workforce essential to delivery of the Global Fund's mission. This will be informed by a range of inputs including the next round of the Employee Engagement

Survey, and further rollout of the leadership development program. 2019 will also see implementation of revisions to the staff performance management process and the compensation and benefits framework based on reviews undertaken in 2018.

The additional allocation of USD 3.5m will be used to push forward changes to workforce planning and performance management, as well as support talent development.

02 Strategic Objectives

14. The following section provides an overview of the Secretariat's planned work in 2019 through the lens of the four objectives of the Global Fund 2017 – 2022 Strategy.

Strategic objective 1 – Maximise Impact Against HIV, TB and malaria

15. As outlined above, the objective to maximise impact against the three diseases will see staff in 2019 focus on ensuring that the current portfolio of grants deliver against their performance targets; and that the next cycle of grants are designed to maximise the efficiency of the interventions and regimens supported, the service delivery models employed, the system strengthening prioritised and the implementation arrangements negotiated.

16. Successful programs are driven by strong program management and high quality service delivery in country. At this stage of the grant lifecycle the Secretariat plays an essential oversight role supporting implementers, where necessary, to overcome barriers to implementation. Improved data systems and the CPR process will provide additional support to better understand and facilitate responses to the most complex challenges to achieving expected portfolio impact. Enhanced coordination and support for countries in complex operating environments and for those focusing on sustainability and transition will ensure that these portfolios receive the expert support required.

17. More than 90% of the High Impact portfolio allocation of USD 6.8 bn was approved in 2017, and the next round of grants for these countries is scheduled for renewal in 2020. The second half of 2019 will see strong in-country engagement with CCMs, technical partners, implementers and other funders on the design of the next round of funding requests in these countries. These funding requests will be informed by an assessment of progress towards impact targets; driving decisions where necessary to course correct and increase the cost-effectiveness of program investments.

18. Planning for the next cycle will also focus on Board and Secretariat activities to ensure that key decisions, for example on allocation, funding submissions or grant modalities are approved and operationalised in time for implementers and the Secretariat to prepare for rollout in the next round of grants or catalytic investments.

Strategic objective 2: Build Resilient & Sustainable Systems for Health

19. RSSH investments make up 25% of the grant portfolio. OPEX resources to support RSSH activities are closely tied to investments in national systems made through Grants, Matching Funds and the USD 88m allocation to Strategic Initiatives. Activities will focus on ensuring in-country strengthening activities are effectively implemented and facilitating technical support where problems are encountered.

20. The internal transformation of the Global Fund's Sourcing and Supply Chain function will bring an end-to-end perspective to the management of this key area. This will bring further impetus to the activities to diagnose country supply chain deficiencies, and the development and implementation with

key partners of best practice solutions. It will also be supported by efforts to improve procurement data visibility currently being planned with roll out in 2019.

21. Implementer financial capacity building will continue to strengthen routine grant financial management through enhanced technical support in 54 high impact and core countries. In addition, financial capacity building activities focusing on the national financial management systems in 8 priority countries will seek to advance the use of national systems for managing Global Fund financing, primarily through development partnerships such as UHC2030.

22. To improve the quality and availability of programmatic data, system strengthening will continue with the roll out of DHIS-2 and efforts to build up systems to safely track service provision to key populations. Programmatic data also plays a central role in the Global Fund's differentiated risk and assurance approach. The Global Fund will continue efforts to address programmatic risks by supporting the quality assurance health facility assessments, spot checks, evaluation of service quality by community based organisations, special studies and data quality reviews.

Strategic objective 3: Promote and Protect Human Rights & Gender Equality

23. As the grant portfolio, including Matching Fund allocations, moves in 2019 to focus on implementation human rights, gender and community focused activities will shift to dealing with implementation bottlenecks and facilitation of technical assistance to implementers.

24. Using the baseline assessments conducted in 2017 and 2018 the focus for the 20 Human Rights priority countries will move to the development of 5 year action plans. A key element of this work with partners will be to build support in country to enable successful implementation of these programs. Given that many of these countries will renew grants in 2020, early engagement in the development of funding requests will be key.

25. Work to support the 13 priority countries for AGYW will continue across a number of critical initiatives. Work with disease modelers will seek to address weaknesses in the models used to estimate the reduction in incidence from improved AGYW programming; regular monitoring of program and outcome data will enable active performance management; and the HER Voice fund will be used to more effectively engage AGYW groups in Global Fund related processes.

26. Additional efforts will be focused on portfolio analysis of investments, monitoring progress on the implementation of funded interventions and managing complaints of violations. This work on the portfolio will be complemented by cross-cutting activities managed through the Communities, Rights and Gender Strategic Initiative.

Strategic objective 4: Mobilise Increased Resources

27. *Supporting a successful 6th Replenishment* will be the key priority under Strategic Objective 4 in 2019 and the Secretariat will draw on the backing of the full Global Fund Partnership in making the case to the donor base. Underpinned by a rigorous analysis conducted by independent expert disease modellers the case for further investment in the Global Fund will be made at a series of high level meetings, targeted outreach events and early pledging platforms, feeding off a major campaign making the Investment Case accessible to a general audience. Efforts will also seek to expand the donor base to non-traditional donors.

28. Although dominated by the replenishment effort the recurrent work of resource mobilisation will continue in 2019 to ensure that 5th Replenishment pledges are turned in contributions. Other activities less driven by the replenishment cycle, on innovative financing and engaging the private sector will be implemented in line with the resource mobilisation action plan. Complementing the health financing

activities funded through Strategic Initiatives, advocacy activities for increased domestic investments in health will target civil society, parliamentarians and implementer governments as set out in the Domestic Financing strategy.

29. In addition to resource mobilisation efforts Strategic Objective 4 also covers strategic sourcing activities, which will see new tender negotiations for LLINs and essential medicines with a focus on local production and freight logistics. The long term framework agreements negotiated with suppliers in 2018 on ARVs and procurement service agents will be operationalised in 2019, and the ongoing performance management of the antimalarial and viral load tenders will continue to drive value for money as the Global Fund leverages the commodity volumes of grants and partners.

Governance, management, control and support activities

30. The governance and management functions of the Secretariat underpin effective operations of the Global Fund and the wider partnership. Beyond the additional demands of the replenishment and support to the portfolio at these key stages of their business cycles, senior management attention will be particularly focused on efficiency and performance management priorities in 2019.

31. The new leadership of Sourcing and Supply Chain and IT functions will take up position in the second half of 2018, and the transformation effort to improve internal capabilities and revise organisational structures will continue into 2019. The core business systems underpinning the work of Sourcing and Supply Chain are next in line for redevelopment, and this will be a major focus for the new IT leadership as the AIM project that upgraded the organisation's grant management systems comes to an end.

32. The shift to a business process model of operations across the Secretariat is a logical next step as the core financial and grant management business systems mature. It will enable a more formal structure to be established around key areas of work and will underpin efforts to increase the value for money of Secretariat operations by strengthening the links between budget, staffing and performance management. It will also support efforts to increase effectiveness by identifying capacity gaps, opportunities for upskilling staff (including the leadership development program), and the deployment of high potential individuals.

33. Value for money efforts will also focus on governance and partnership activities, with a drive to make more effective use of the time made available to the Global Fund by constituency, committee and board members. The Global Fund actively participates in discussions among global health organisations to intensify collaboration in order to make faster progress towards SDG3 targets. An initial report will be presented at the October 2018 World Health Summit; the Global Fund plans to play an active role in this agenda as any agreement is taken forward in 2019.

03 Cost categories

34. The table below provides a summary of the full 2019 budget by major cost category.

Budget category (USD millions)

Staff	External Assurance	Professional fees	Office infrastructure	Travel	CCM
154	48	24	23	17	10
Meetings	Communication	Board constituencies	Other	Non-recurring costs	Total
3	1	1	7	13	302

35. The allocation of budget across cost categories is mostly stable when compared to previous years, but staff costs show an important increase. Office infrastructure costs maintain the lower rate seen since the move to the Global Health Campus.

External Assurance expenditures (USD millions)

2014	2015	2016	2017	2018 (F2)	2019 budget
48	48	46	48	47	48

36. External assurance costs maintain the flat trend seen over the past five years.

Travel expenditures (USD millions)

2014	2015	2016	2017	2018 (F2)	2019 budget
17	20	16	16	17	17

37. While travel is essential for informed grant oversight and collaboration with in-country partners, the Global Fund has identified opportunities to increase efficiency of travel expenditures. The discipline achieved through enhanced controls to enforce travel regulations and procedures is maintained.

Staff expenditures (USD millions)

	2014	2015	2016	2017	2018 (F2)	2019 budget
Staff	129	137	140	147	146	154

38. As a financing mechanism primarily responsible for grant administration and oversight, and with no country presence, the Global Fund's main budget driver is staff costs. The Secretariat staff budget was underspent in 2017 and this pattern continued in 2018 with a freeze on recruitment as the Secretariat sought to absorb the one-off costs of the move to the GHC. Maintaining strong controls over recurrent staffing, the Secretariat plans to draw on the development of the business process model to ensure missing skills and capabilities are addressed and allocation of staff resources is optimised. This process will be complemented by efforts to increase the agility of the workforce and attract high potential individuals to the organisation for fixed term assignments.

Annex – F2 Operating Expenses (OPEX) reforecast

All partner organizations (the Global Fund, Stop TB and Roll back Malaria) have now moved to the GHC according to the agreed timeline. A governance of the partnership has been structured to manage day-to-day GHC building operations. There was effective mitigation of the main financial risks: 1. Contractual obligations on BIBC dilapidation; and 2. Double rent which would have needed to be paid due to either a delayed move by the Global Fund to the GHC from the BIBC building or in connection with the vacancy risk in the GHC posed by the other building tenants. Mitigation of the main financial risks through the continuous mobilization of more than 50 Global Fund staff on the GHC project has allowed to significantly reduce the expected GHC one off impact from a budgeted USD 12m to a reforecast amount of USD 4.7m. The in depth verification of actual construction costs is still ongoing as invoices are gradually submitted.

In parallel of managing the GHC project, the Secretariat's efforts have focused on stretching OPEX savings on its recurring costs to maximize absorption of the GHC one off impact in 2018, ensuring OPEX stays within the Board approved envelop of USD 900m over the 2017-2019 period including the GHC one off impact and maintaining appropriate OPEX flexibility in 2019 for replenishment and other key upcoming challenges. The Secretariat has been thus proactive in activating levers on workforce costs (including cancellation of salary increase for 2018, direct review by HR director of all hiring requests, non-renewal of temp contract) and other cost categories (including enforcement of early booking and planning to contain travel costs, and savings on capex resulting in lower depreciation).

The 2018 OPEX July year-to-date actuals amount to USD 158.3m, or -1% compared to the same period last year. Including the GHC one-off impact, the year-end OPEX landing is currently projected to be at USD 300m (-USD 11.8m or -4% vs. budget).