

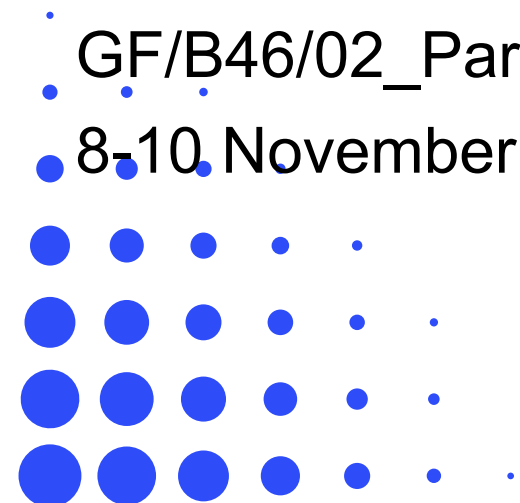
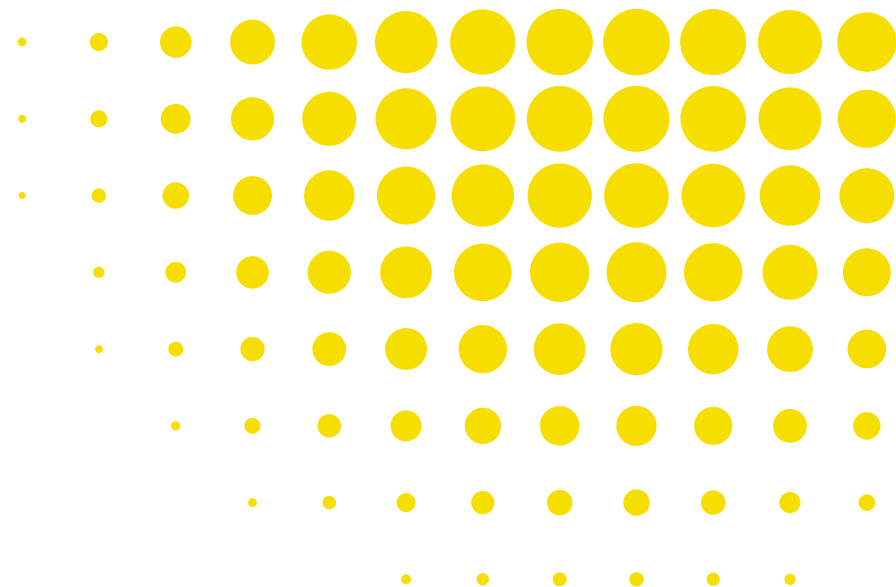
OPEX EVOLUTION

Budget 2022

46th Board Meeting

GF/B46/02_Part B

8-10 November 2021, *Virtual*

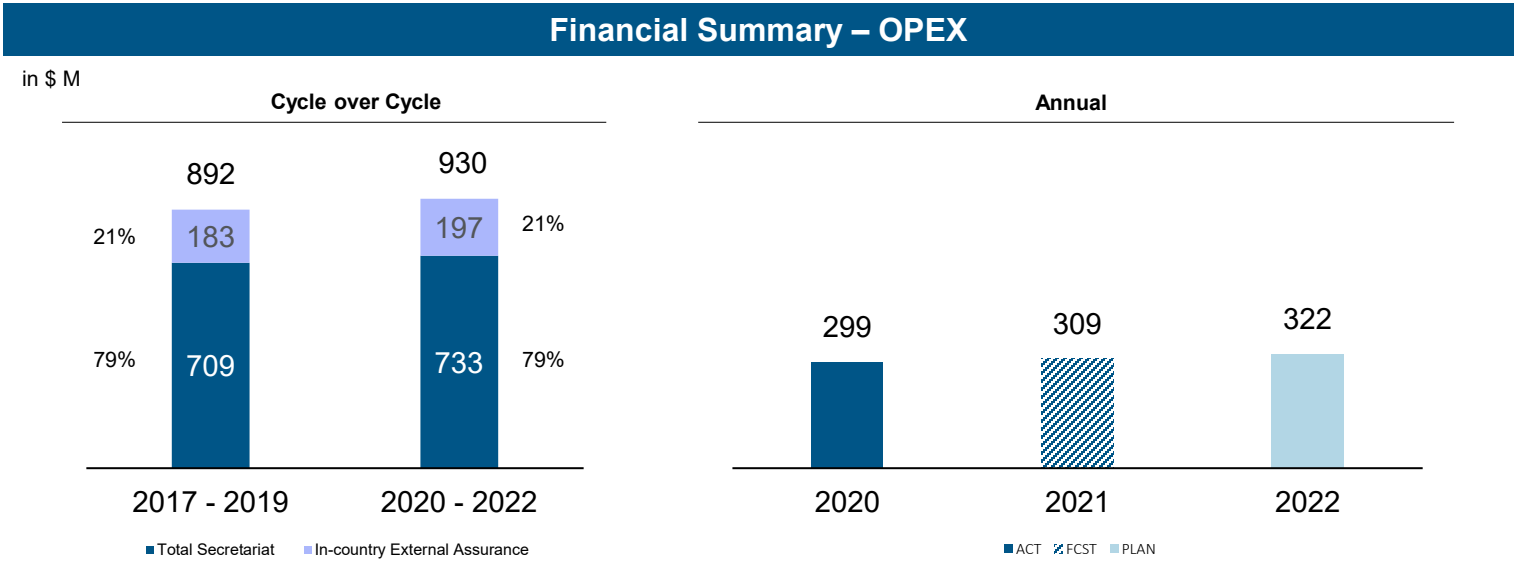


Agenda

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Planned OPEX investment of \$ 930M for 2020-22 cycle to sustain achievements and transition to new strategy cycle

Executive Summary



- Plan ceiling for 2020-2022 cycle has been **increased by \$ +30 M bringing OPEX cap to \$ 930 M**, allowing continued investments into strategic capabilities and execution of priority initiatives
- **Budget 2022 at \$ 322 M** reflects changes in latest Forecast for 2021 of \$ 309M
- **Balance between Secretariat and In-country & External Assurance Secretariat remains at ca. 80%/20%**, in line with the previous cycle
- Agile & rigorous allocation of resources along strategic need into Core Operations, Cyclical Enablers and Priorities

Highlights

- **Budget 2022** is aligned with ambition on OPEX **rebasings and optimal rebalancing**.
- **Continued investment required to:**
 - Accelerate strategic capabilities
 - Mainstream resources to reinforce and drive financial performance (e.g. absorption, pledge conversion)
 - Enable digital transformation
 - Maintain organizational maturity, risk and assurance management and business process improvements
- COVID-19 expected to have ongoing disruptive impact on core programs, contributing to **higher cost of operation** (e.g. TRP, LFA)

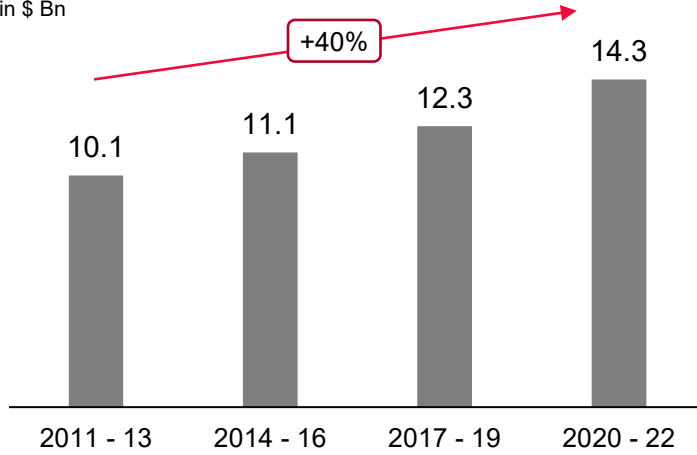
- Topics for today's discussion**
- Present cost structure of OPEX Budget 2022 and evolution drivers, **within \$ 930 M Plan ceiling**
 - Confirm the priorities included in **Budget 2022**

Pledge* value increased by + 40% - Active cost management resulted in continuous reduction of OPEX/Pledge ratio

OPEX - Evolution 2011-2022

Pledges increase to \$ 14.3 Bn (+40%)

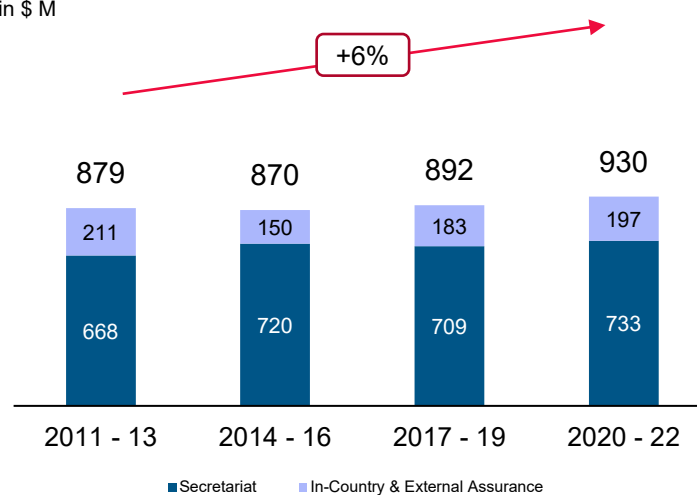
in \$ Bn



- Increased commitment from donors to fight HIV, TB and Malaria
- Pledges (funds under management) increased by +40% over four cycles to \$ 14 Bn

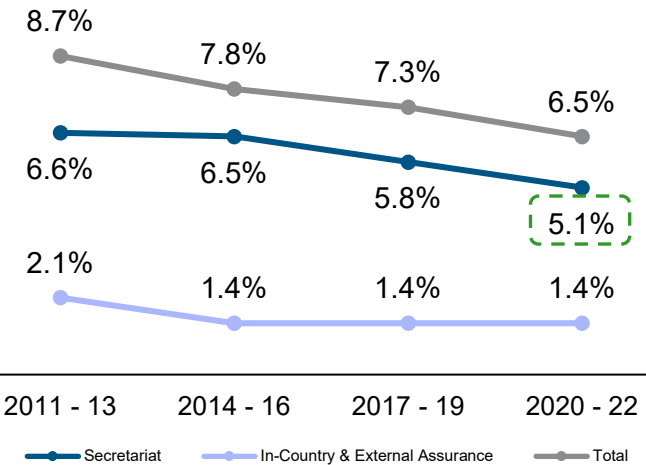
OPEX increase to \$ 930M (+6%)

in \$ M



- Continuous investment into strategic capabilities (e.g. HR, RSSH, Prevention & Health Financing) and financial performance (pledge conversion & absorption)
- Robust financial planning and dynamic resource optimization kept OPEX increase at bay

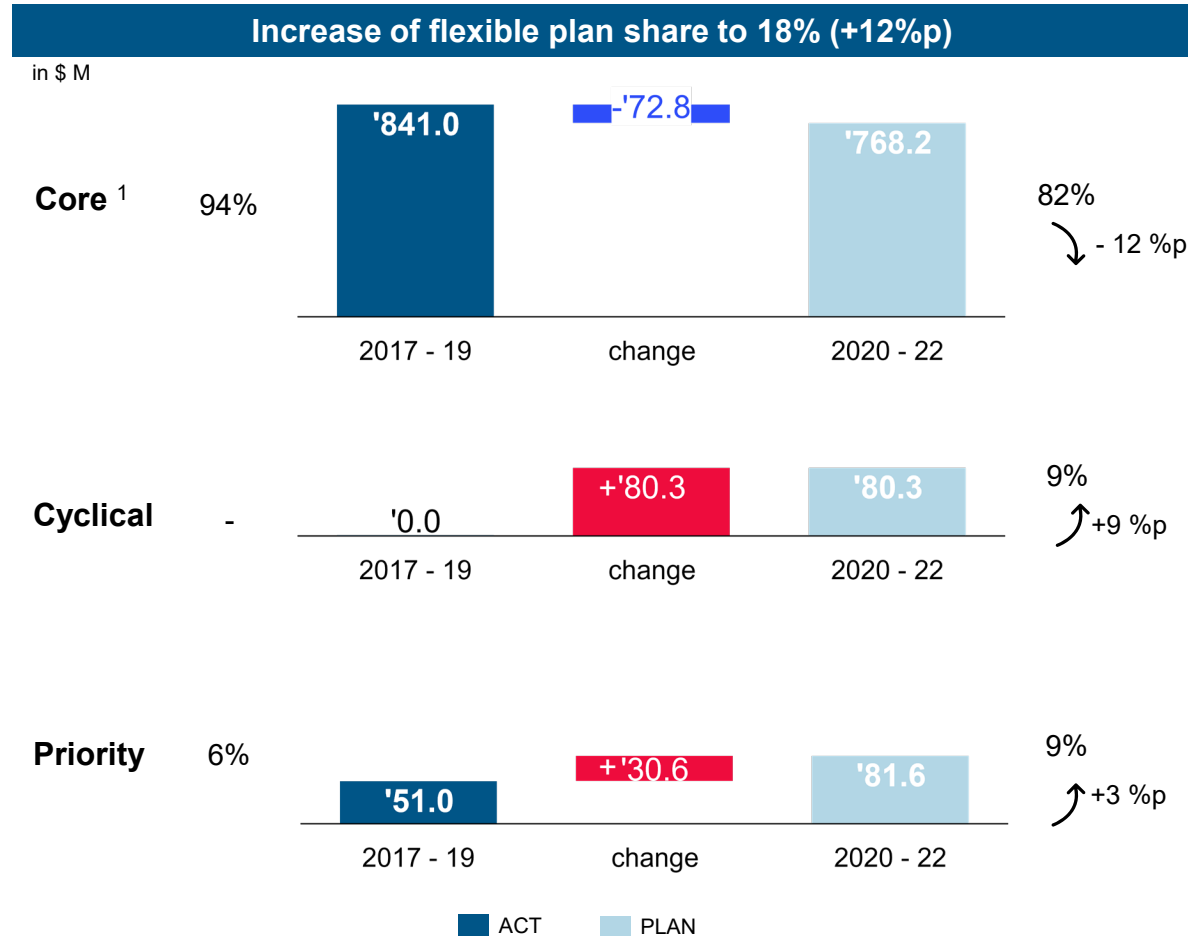
Continuous reduction in OPEX/Pledge ratio



- Operational efficiencies and rigorous, priority-based resource allocation applied
- OPEX/Pledge ratios improve for both Secretariat and In-Country & External Assurance costs
- Peer benchmark: management fee range from 7 to 37% in comparison to 5.1% for Global Fund

Increase of OPEX flexibility within Plan ceiling of 2020 - 2022 through agile resource allocation in cost categories

OPEX by Category



Highlights

Core Operation – Value for Money and Efficiency considerations

- Maintain lean Secretariat Operation and strive for continued operational efficiencies
- Reduced allocation share increases fiscal flexibility for cyclical and priority initiatives

Cyclical Enabler – Tactical investments to enhance capabilities and deliver cyclical activities

- Assessment of cyclical priorities and repurposing funds in 3 year cycles
- Supports targeted development of programmatic capabilities

Priority Investments – Flexible investments to make an impact within Strategic Priorities

- Accelerate TGF's mission to fight HIV, TB and Malaria through impact in communities
- Continuous assessment and prioritization of incoming requests along TGF's strategic priorities
- Priority funding increased by + \$ 30.6 M compared to prior cycle

Extended plan ceiling of \$ 930M supports investments into Programmatic Capabilities, Digitalization and External Assurance

OPEX by Thematic Area

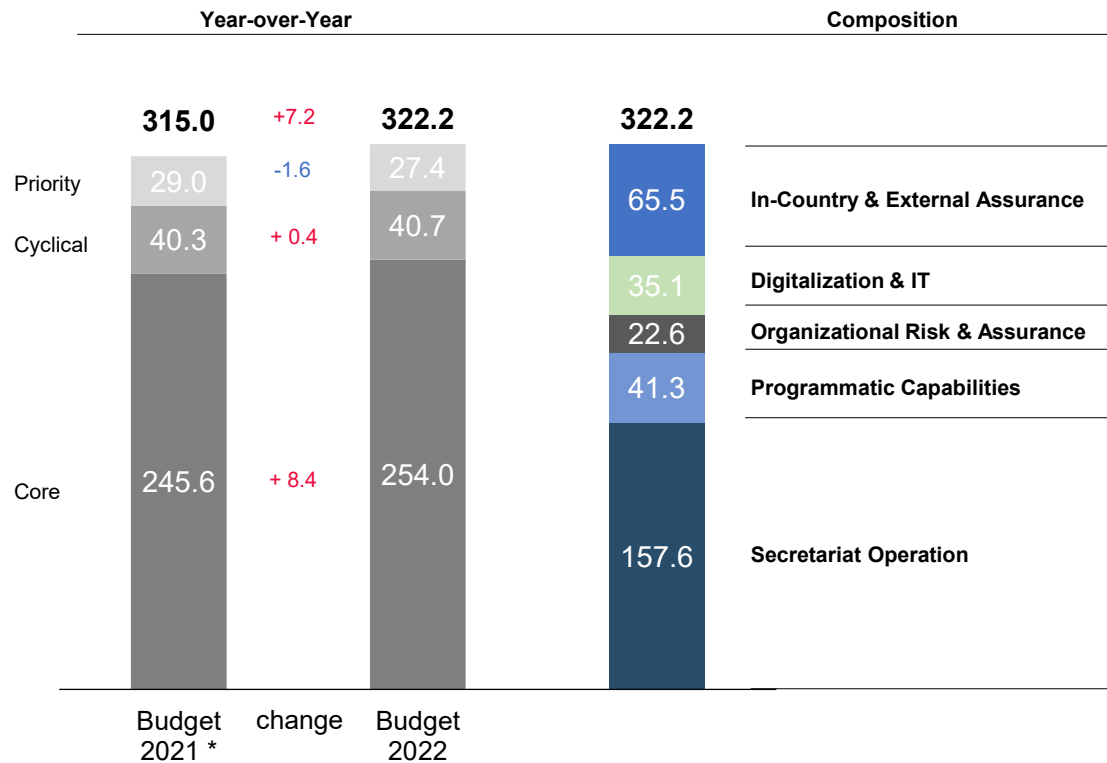
Thematic Area	Funding: Cycle over Cycle +\$ 38.1M			Key Impacts
Secretariat Operational Capabilities	'463.7	-9.8	'453.9	<ul style="list-style-type: none"> Lean operations through active resource management and operational efficiencies <ul style="list-style-type: none"> Savings/efficiencies from GHC move and travel/meetings have freed up funding for increased resource mobilization, advocacy, positioning & pledge conversion. Savings have also been reprogrammed into other thematic areas
Programmatic Capabilities	'80.6	-23.3	'103.9	<ul style="list-style-type: none"> Extension of programmatic capabilities through <ul style="list-style-type: none"> Strengthening Supply Operations (Quality & Assurance, Market shaping Strategy) SIID: Building capabilities in Disease advisory, CRG or Health Finance Development and implementation of new M&E framework
Organizational Risk & Assurance	'57.5	-1.2	'56.3	<ul style="list-style-type: none"> Effective assurance of management of risks: <ul style="list-style-type: none"> Risk management framework and overall risk culture Address ethics risks within “in-country conduct and ethics” risk framework Reinforced due-diligence and accelerated organizational maturity Increased efficiency and savings in OIG
Digitalization & IT	'107.0	-12.3	'119.3	<ul style="list-style-type: none"> Digital transformation, Modernization of IT Infrastructure and IT security: <ul style="list-style-type: none"> GOS(AIM), Workday, GFS oracle IT resilience & security and roll-out of new operating model (“future of work”) In-Country technology and digital services
In-Country & External Assurance*	'183.1	-13.4	'196.5	<ul style="list-style-type: none"> Effective assurance & independent oversight mechanisms: <ul style="list-style-type: none"> Increase implementation effectiveness and assurance for CCM and LFAs Incorporate TRP and TERG’s role as part of independent assurance bodies
	2017 – 19	change	2020 - 22	

Budget proposal considers activity shift from cyclical to core – Priority funding of \$ 27.4M to accelerate strategic impact

Budget 2022

in \$ M

Budget 2022 – Category & Thematic View



Highlights per Category

Core Adjustments (\$ 254.0M, + \$ 8.4M vs 2021)

- Core Travel & Meeting cost efficiencies, reflecting a further 19% reduction to reflect the impact of Covid-19
- Operationalization of 2021 Reorganizations and shift of new functions to core activities

Cyclical Adjustments (\$ 40.7M, + \$ 0.4M vs 2021)

- Increased in country and external assurance (LFA, CCM in-country oversight of grants, Ethics and Integrity activities (PSEAH) as well as TERG activities in a Covid-19
- Incremental Advocacy funding, PSA partnerships
- Cyclical Travel & Meeting cost efficiencies, reflecting a further 19% reduction to reflect the impact of Covid-19
- IT costs reflecting ongoing system investments/enhancements

Priority Adjustments (\$ 27.4M, - \$ 1.6M vs 2021)

- Deep-dive provided in Slide 8-9 and 2022 Budget Narrative (Part A)

Deep dive

Proposed 2022 OPEX Budget by Cost Nature

Budget 2022

in \$ M

OPEX by Nature

	Budget * 2021	Budget 2022	Variance	
			abs	in %
LFA Fees	48.3	48.7	0.4	0.8%
CCM Funding	9.5	9.8	0.3	3.2%
Secretariat Costs & OIG	250.9	260.7	9.8	3.9%
Workforce	171.1	177.6	6.5	3.8%
Staff	161.2	171.5	10.3	6.4%
Individual Consultants	9.9	6.0	-3.8	-38.7%
Professional Fees	33.5	36.9	3.4	10.2%
Travel	13.5	11.1	-2.4	-18.0%
Meeting	2.6	3.2	0.6	22.3%
Communications	1.5	1.5	-0.1	-4.4%
Office Infrastructure	21.5	23.2	1.8	8.3%
Board Constituency	1.6	1.6	0.0	0.0%
Depreciation	5.6	5.6	0.0	0.0%
External Co-Funding	-	-	-	-
OPEX before non-recurring costs	308.7	319.2	10.5	3.4%
Non-recurring costs	6.3	2.9	-3.3	-53.4%
OPEX	315.0	322.2	7.2	2.3%

Key Insights

- Increased in-country and external assurance (**LFA, CCM** in-country oversight of grants, Ethics and Integrity activities (PSEAH) as well as TERG activities in a Covid-19 environment, portion held in Prof Fees
- Staff cost** increase by +\$ 10.3 M to \$ 171.5M in line with strategic direction:
 - Staff increases in Oversight & Support Functions and Organizational Risk & Assurance, partially compensated by reductions in Grant Operations.
 - Staffing increase in Supply and Strategic Investments & Impacts Full year impact resulting from operationalization of re-organizations is partially offset by reduction in **non-recurring costs**, indicating the reclass of budget to core & cyclical activities at team level
 - Reduction of employed individual contractors
- Professional Fees** increases take into account cyclical replenishment investments and additional expertise required for annual workplan
- Travel and meeting expenses** -\$ 1.8M below Budget 2021 considering new ways of working and ongoing impact of Covid-19
- Office Infrastructure:** Increase investment into IT resilience & security giving emerging risks & context

Request for Board approval of the 2022 OPEX Budget proposal of \$ 322.2M in line with the US\$930 M 3-year OPEX envelope

Budget 2022 - Summary & Decision

in \$ M, Updated Functional Structure

Financial Summary – OPEX Budget 2022

	Budget 2021	Budget 2022	Variance	
			abs	in %
General Management	6.3	7.6	1.2	19.5%
Office of ED	4.1	4.7	0.6	14.2%
Ethics Office	2.2	2.9	0.6	29.3%
Business Operations	133.1	138.0	4.9	3.7%
External Relation & Communication	17.7	21.1	3.4	19.2%
Grant Mgmt. & Country Team Op.	70.1	69.2	-0.9	-1.3%
Strategy Investment & Impact	29.0	31.6	2.6	9.0%
SIID	25.1	27.5	2.4	9.7%
Strategy & Policy Hub	3.9	4.0	0.2	3.9%
Supply Operations	16.3	16.0	-0.2	-1.4%
Governance & Support Functions	88.6	93.2	4.7	5.3%
Human Resources	8.6	10.6	2.0	22.8%
Risk Management	4.1	4.8	0.7	17.4%
Finance & Administration	30.8	32.7	1.9	6.3%
Information Technology	32.8	32.9	0.2	0.5%
Legal & Governance	12.3	12.2	-0.1	-0.8%
OIG (Independent)	14.9	14.9	0.0	0.0%
Ext. Assurance & Oth. Independent	65.8	65.5	-0.3	-0.4%
LFA & PDQA	49.4	50.3	0.8	1.7%
CCM	11.3	11.5	0.2	1.6%
Independent Bodies (TRP & TERG)	5.1	3.8	-1.3	-24.9%
OPEX before non-recurring costs	308.7	319.2	10.5	3.4%
Non-recurring costs	6.3	2.9	-3.3	-53.4%
OPEX	315.0	322.2	7.2	2.3%

Decision Point: GF/B46/DP07: 2022 Work Plan and Budget Narrative and the 2022 Operating Expenses Budget

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

1. 2022 Work Plan and Budget Narrative, as set forth in GF/B46/02; and
2. 2022 Operating Expenses Budget in the amount of US\$ 322.2 million, as set forth in GF/B46/02 (the “2022 OPEX Budget”), which includes (i) US\$ 65.5 million for in-country and external assurance activities, as described in GF/B46/02, and (ii) US\$ 14.9 million for the Office of the Inspector General’s 2022 operating expenses.

* Restated Budget refers to the 2021 Budget and includes: Budget Transfers from Divisions to Health Finance

Restated budget does NOT include: Priority budget transfers from Divisions to IT, Priority transfers from Central Reserves to Divisions for reorgs



Appendix



The Global Fund to Fight
AIDS, Tuberculosis and Malaria

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theglobalfund.org

Budget proposal strengthens Strategic Investments and Oversight, reductions in Grant Operation, Digital & Assurance

Budget 2022

Budget 2022 – Total OPEX by Thematic View				
in \$ M	Budget *	Budget	Variance	
	2021	2022	abs	in %
Secretariat Operational Capabilities	155.1	157.6	2.5	1.6%
Resource Mobilization	17.7	21.1	3.4	19.2%
Grant Operations	86.2	83.3	-2.9	-3.4%
Oversight & Support Functions	51.2	53.2	2.0	4.0%
Programmatic Capabilities	37.2	41.3	4.1	11.0%
Supply Operations	16.3	16.0	-0.2	-1.4%
Strategic Investment & Impact	21.0	25.3	4.3	20.5%
Organizational Risk & Assurance	21.2	22.6	1.4	6.4%
Second Line Oversight	6.3	7.7	1.4	21.5%
OIG (Independent)	14.9	14.9	0.0	0.0%
Digitalization and IT security	35.7	35.1	-0.6	-1.6%
In-Country & External Assurance	65.8	65.5	-0.3	-0.4%
Independent Bodies (TRP & TERG)	5.1	3.8	-1.3	-24.9%
External Assurance	60.7	61.7	1.0	1.6%
OPEX	315.0	322.2	7.2	2.3%

* Restated Budget refers to the 2021 Budget and includes: Budget Transfers from Divisions to Health Finance
Restated budget does NOT include: Priority budget transfers from Divisions to IT, Priority transfers from Central Reserves to Divisions for reorgs

OPEX Budget & C19 Management and operating costs Forecast

Budget 2022

Management & Operating Costs by Nature	OPEX	C19 RM
in kUSD	Budget Full Year 2022	Forecast 2021 - 2023
LFA Fees	48,700	25,000
CCM Funding	9,800	3,000
Secretariat Costs & OIG	260,723	77,240
Workforce	177,565	48,103
Professional Fees	36,938	16,212
Travel	11,057	-
Meeting	3,241	-
Communications	1,462	-
Office Infrastructure	23,240	-
Board Constituency	1,600	-
Depreciation	5,620	-
External Co-Funding	-	-
Unallocated C19 Funds	-	12,925
Total Opex before non-recurring	319,223	105,240
Non-recurring costs	2,927	-
Total Operating Expenses	322,150	105,240

Management & Operating Costs by Nature	OPEX	C19 RM
in kUSD	Budget Full Year 2022	Forecast 2021 - 2023
Secretariat Operational Capabilities	157,611	34,992
Programmatic Capabilities	41,314	25,040
Organizational Risk & Assurance	22,568	1,349
Digitalization and IT security	35,110	1,733
In-Country & External Assurance	65,546	29,200
<i>Unallocated Amount</i>	-	12,925
Total Operating Expenses	322,150	105,240

C19 Average cost per year (divided by 2.5) would be \$ 42.1M - there will be a dynamic management of C19 management fee.

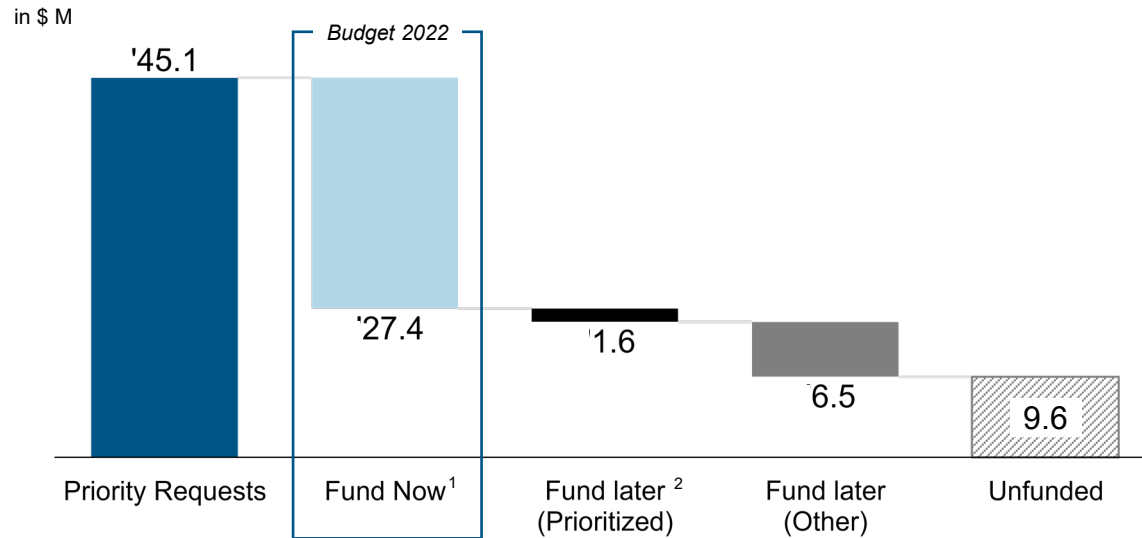
The unallocated funds is earmarked to fund emerging needs on risk and assurance activities and interventions to remove operational and execution barriers.

The Secretariat will continue to update the AFC through the Financial Performance oversight

Prioritization of fund requests is performed consistently along prioritization principles – as agreed previously by MEC

Deep Dive: Priority Investments – Budget 2022

Priority requests exceeded funding limit of \$ 27.4 M



- **Fund Now:** Funding in current Budget 2022
- **Fund later (prioritized):** Commitment to fund (at least in part) through the reforecast process
- **Fund later (other):** Revisit for reforecast or fund from team budget
- **Unfunded:** Unfunded portion of requests funded partially

¹ Post ED Review: Addition of \$ 2.0 M to initial WG/LG receipts

² Post ED Review: Addition of \$ 0.2 M to initial WG/LG receipts

Priority requests are assessed along a set of criteria



- Funding recommendations are based on a **robust assessment by cross-functional team** of SPH, FIN, HR and IT
- **Prioritization principles**, agreed with MEC, have been applied:
 - Full resourcing of compliance & regulatory activities
 - Carry-forward budgets from already started activities in prior year
 - Priority-based assignment of funding to new initiatives

Priority OPEX funding investments complements investments made through other funding modalities (core grants, C19RM, Strategic Initiatives)

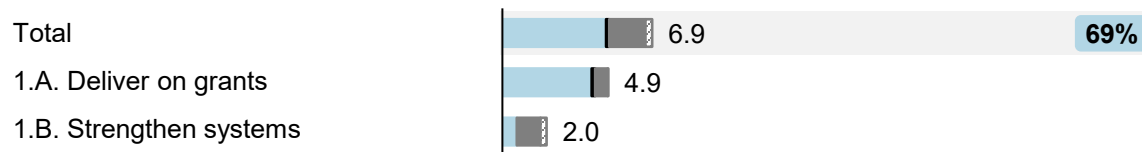
Deep Dive: Priority Investments – Budget 2022

Strategic Priority	Funding in \$ M	Key Impacts
1. Achieve results in HIV, TB & Malaria	4.8	<ul style="list-style-type: none"> Deliver on grant targets, particularly in mission-critical countries Enable systems strengthening & remove barriers to access
2. Mitigate the impact of COVID-19	0.0	<ul style="list-style-type: none"> Deliver rapid deployment & effective implementation of C19RM funds Lead & collaborate with ACT-A to shape a more effective global response to COVID-19
3. Drive efficiency & effectiveness	13.9	<ul style="list-style-type: none"> Simplify organizational processes & optimize systems & structures Strengthen data-driven decision-making by Secretariat teams Enhance dynamic management of OPEX
4. Invest in people & build strategic capabilities	1.5	<ul style="list-style-type: none"> Leverage diversity & embed an inclusive culture of collaboration, trust & adaptability Align strategic capabilities to the new Strategy & increase organizational agility Roll-out the 'Future of Work'
5. Prepare to implement next strategy	2.8	<ul style="list-style-type: none"> Develop & update key plans, strategies & policies Establish a holistic approach to organizational performance management Prepare for the 2023-2025 allocation cycle
6. Deliver 7 th Replenishment	3.9	<ul style="list-style-type: none"> Implement the 7th Global Fund Replenishment Campaign Strengthen the foundation for on-going resource mobilization efforts
7. Not aligned to priority	0.5	

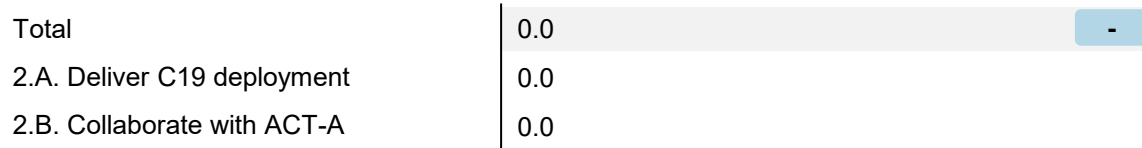
Priority Initiatives: Total funding of \$ 27.4M is assigned to initiatives based on strategic priorities – 61% of requests to Fund Now

Deep Dive: Priority Investments – Budget 2022

1. Achieve results in HIV, TB & Malaria



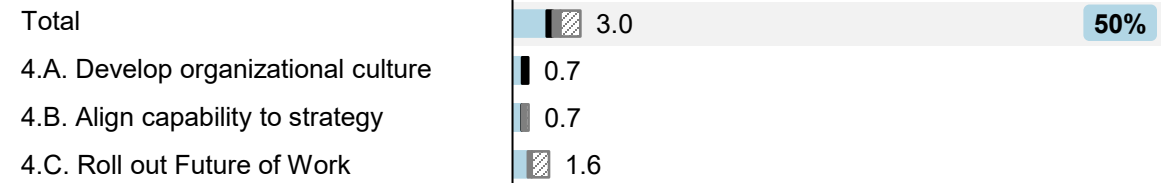
2. Mitigate the impact of COVID-19



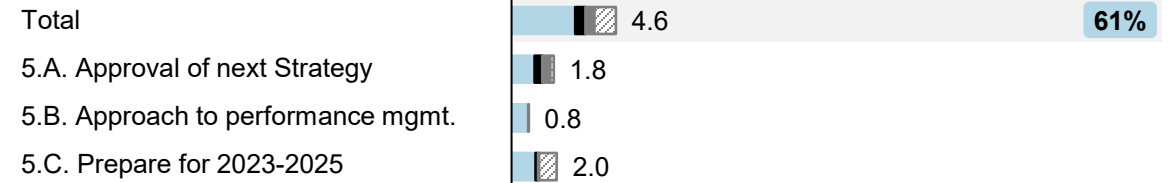
3. Drive efficiency & effectiveness



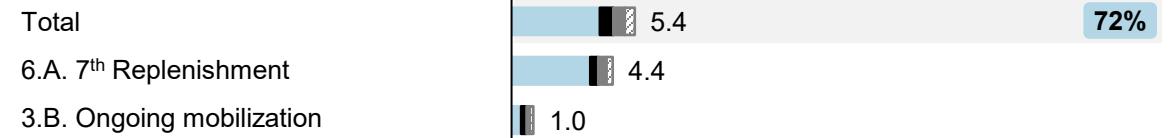
4. Invest in people & build strategic capabilities



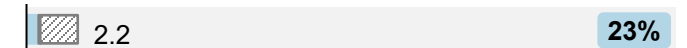
5. Prepare to implement next strategy



6. Deliver 7th Replenishment



7. Not aligned to priority



Periodic re-assessment of funding is governed by cost categories of Core Operations, Cyclical Enablers and Priority Initiatives



Core Operations

Includes a lean permanent workforce; travel for in-country oversight, resource mobilization and statutory costs required for assurance and security and facility management

Value-for Money and Efficiency considerations:

- Outsourced services for IT services/maintenance, occupational health, HR and facility management generates optimization and efficiency opportunities
- 19% reduction in Travel and meeting costs (COVID adaptation)



Cyclical Enablers

Tactical investments required per year over the 3-year cycle period to:

- Enhance strategic capabilities (Disease Advisors, Human Rights, Community strengthening, AGYW, Health Financing and Supply & Operations)
- Enable successful delivery of cyclical activities (e.g. replenishment conference, strategy development)
- Support optimal planning and delivery of multi-year transformational and business process improvement initiatives
- Assessment every 3-years against:
 - approved strategy,
 - replenishment outcomes,
 - organizational priority and maturity and
 - Performance ambition.



Priority

Annual Priority funding required to support:

- Prioritized activities to be continued in consecutive year: go/no go decision depending on implementation status, continued relevance in 2021 and value for money & potential impact consideration. Includes adjustments for compliance activities.
- Organizational priorities: resourcing based on considerations for overall resource requested vs. available, review of priority workforce needs (temp, consultants), expected benefit to the organization, criticality & specificity of activity, balance across organizational Priorities & teams
- Resource allocation within OPEX ceiling to fund emerging needs for annual priority investments