
2020 Work Plan & Budget Narrative

42nd Board Meeting

GF/B42/03A

14-15 November 2019, Geneva, Switzerland

Board Decision

Purpose of the paper: This document presents a narrative and workplan as complement to the Global Fund 2020 Operating Expenses Budget presentation and presents the Audit and Finance Committee's recommendation to the Board to approve the 2020 Work Plan and Budget Narrative and the 2020 Operating Expenses Budget.

Decision

Decision Point: GF/B42/DPO4: 2020 Work Plan and Budget Narrative and the 2020 Operating Expenses Budget

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

- 1. 2020 Work Plan and Budget Narrative, as set forth in GF/B42/03A; and***
- 2. the 2020 Operating Expenses Budget in the amount of US\$ 305 million, as set forth in GF/B42/03B (the “2020 OPEX Budget”), which includes US\$ 15.24 million for the Office of the Inspector General’s 2020 operating expenses.***

Executive Summary

Context

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 focus on activities funded through the Global Fund's operational expense (OPEX) budget, which complements 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 2020 budget is designed to address the demands of a particularly complex first year in the new business cycle with peaks in activity related to the preparation of new grants, implementation for grants in their final phase of the current cycle and preparation for the next Global Fund Strategy. There remains a challenge to implement the increase in available resources for the 6th replenishment of US\$ 14 billion and the step change in the composition of new grants.
3. Six priorities were identified for 2020 to meet these demands:
 - i. Actively support countries to develop high impact grants for the next 3-year period
 - ii. Drive impact from current grants in their final stage
 - iii. Begin planning and consultations for the next Global Fund Strategy
 - iv. Reinforce capabilities and impact on key strategic priorities
 - v. Improve efficiency and effectiveness
 - vi. Invest in people
4. The major part of the organization's OPEX investments in 2020 at US\$ 282 million covers recurrent activities largely covering fixed or non-discretionary costs. This includes structural increases in the OPEX recurring cost base made in previous years to strengthen existing or develop new assurance and compliance or support functions such as OIG, Risk, Treasury, Ethics, Supply Chain, Community Rights and Gender (CRG). US\$ 23 million of funding has been made available for 2020 priorities.
5. The 2020 budget maintains the Secretariat commitment to budgetary discipline covering demands for surge capacity related to 2020 grant making and strategy development. Other budget demands for strategic priorities, for example Resilient and Sustainable Systems for Health (RSSH), Gender and Diversity, Supply Operations (SO) and Domestic Resource Mobilisation (DRM) and will be funded with the additional US\$ 5 million to enable the Secretariat to meet the ambitious goals and accelerate programmatic performance in these areas.

Conclusions

6. The Secretariat continues to demonstrate its ability to maintain budget discipline and drive value for money from its operational expense investments. The proposed US\$ 305 M, will enable the Secretariat to manage the surge in activity due to the launch of the new cycle and to invest in longer-term capacity investments in critical areas including RSSH, AGYW, Human Rights, Supply Operations, Domestic Resource Mobilisation. Hence, the Secretariat recommends the 2020 OPEX Budget, Work Plan and Budget Narrative to the Board for approval.

Input Sought

Board approval is requested for:

- Decision Point: GF/B42/DPXX: 2020 Work Plan and Budget Narrative and the 2020 Operating Expenses Budget

Input Received

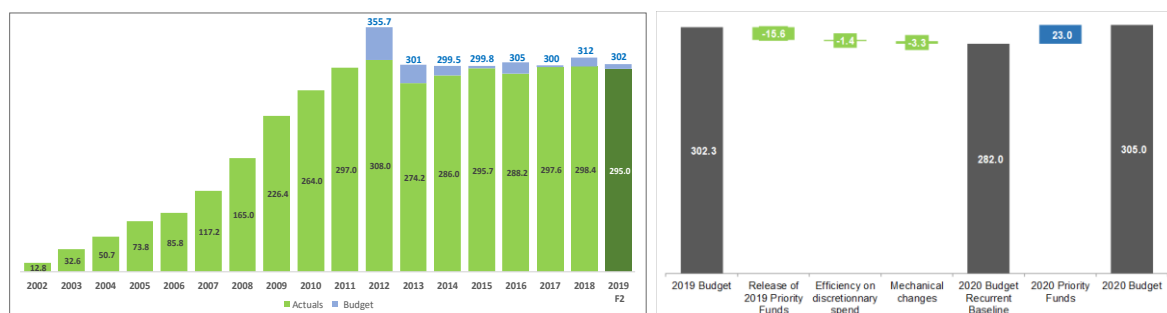
The AFC discussed the 2020 OPEX proposal by the Secretariat and the challenges the Secretariat could face in light of the initially proposed US\$ 300 million for 2020. The AFC acknowledged the need for further programmatic progress in critical areas during 2020-2022, that among others required strategic investment in RSSH, AGYW, Human Rights, Supply Operations and Domestic Resource Mobilisation. Therefore, the AFC agreed with the Secretariat's proposal to increase the US\$ 300 million annual OPEX budget by US\$ 5 million.

The AFC, following the approval of the OIG OPEX budget for 2020 (GF/AFC11/DPO3), approved the Secretariat OPEX budget for 2020 in the amount of US\$ 305 million, which includes the OIG OPEX budget referenced above.

Finally, AFC noted the need for review of the US\$ 900 limit for OPEX Budget for 2020-2022.

What is the need or opportunity?

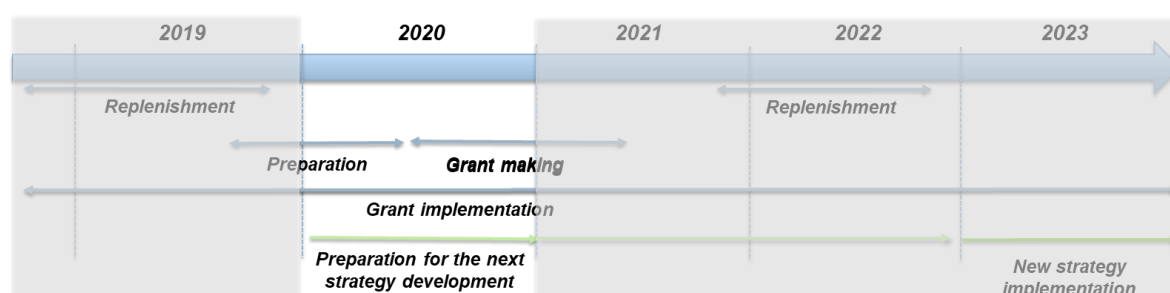
- The Global Fund Work Plan and Budget Narrative forms a key component of the financial reporting, planning and control structure of the organization. The aim of the narrative is to provide a better understanding and more detailed analysis of where operating expenses are invested and how budget decisions 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.
- 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 6th Replenishment.
- The Secretariat is proposing a 2020 budget of US\$ 305 million with a US\$ 900 million OPEX budget envelope for the 2020-2022 funding cycle, to be reviewed in subsequent committee meetings.
- With the 2019 F2 forecast projecting a US\$ 295 million operational expenditure for 2019, the trend of strong fiscal discipline continues. The proposed 2020 budget of US\$ 305 million will see the organisation allocate a reduced amount to funding recurring baseline costs and a higher amount to priorities to attempt to meet demands as we move into the new funding cycle.



What do we propose to do and why?

Priority-Setting and Budget Design

11. 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 existing strategy.
12. 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.



13. Activities funded through OPEX are the basis that underpins grant and catalytic investments; supporting work that ensures that these funds are used optimally to achieve impact in implementing countries. This includes structural costs with limited flexibility such as governance, compliance and external assurance. 2020 investments in the recurrent core business of the organization see a reduction to US\$ 282 million, from US\$ 287 million in 2019. This budget discipline has enabled an increase (from US\$ 15 million to US\$ 23 million) in investments to areas of work in need of development, or activities to enhance performance above the costs of recurrent operations. For 2020 the challenge to the Secretariat is to balance resource allocation between cyclical surge requirements and structural change to the investment approach to allow the Global Fund to play a more catalytic role beyond simply providing grants. Cyclical surge requirements primarily focus on grant making, grant implementation and development of the new strategy, whereas structural investment changes shift the grant investment approach, to increase focus on prevention, RSSH, Human rights programming, DRM and Supply Operations which require additional Secretariat resources.

What are the considerations?

Key Priorities for 2020

14. 2020 represents a particularly complex year for the Secretariat's business cycle with peaks in activity related to the preparation for the next cycle of investments, the crucial period of full implementation for the current cycle of grants and preparation for the next Global Fund strategy.

Driven by these demands, six priorities were identified for the Secretariat in 2020, and the US\$ 23 million in above recurrent funds were allocated primarily to the priorities as follows:

Activity	Budget (US\$ million) ¹
Recurring 2020 Baseline	282
1. Drive impact from current grants in their final stage; &	8
2. Actively support countries to develop high impact grants for the next three-year period	
3. Begin planning and consultations for the next Global Fund Strategy	3
4. Reinforce capabilities and impact on key strategic priorities	6
5. Improve efficiency and effectiveness	3
6. Invest in people	3
Total Budget Proposal	305

Priority 1: Actively support countries to develop high impact grants for the next 3-year period

15. More than two-thirds of Global Fund grants end in 2020 and countries will be supported to submit their new funding requests in time to avoid any gaps in program funding. These new grants need to be prepared for approval and signing by the end of 2020. This highlights the critical importance of an efficient process to review and sign new grants in 2020 as these grants will determine whether the ambitious goals of this strategy cycle will be met. Approximately 165 funding requests are expected in 2020 with an anticipated 10% to 15% increase in value. Close coordination and additional support will be required to ensure that new grants are implementation ready and that they start on time to minimize the risk of in country gaps in service.
16. The Secretariat will better leverage partner guidance and technical assistance to increase the efficiency of program design and treatment regimens. To manage the expected surge related to grant making, additional resources will be required to ensure the benefits of improvements in grant design and the access to funding process will result in “better grants faster” and maximize the likelihood of high programmatic and financial performance. Some resources will also be set aside to fund recruitment of new independent experts part of the Technical Review Panel to evaluate the technical focus and strategic merit of new grants.
17. These new grants will require the Secretariat to upskill in key competencies to ensure funds are invested for maximum impact. Part of the challenge of adapting to a structural shift in grant design with a likely increased focus of grant composition on prevention, RSSH, and Human Rights would require additional Secretariat resources. With the expected increased resources, there is also a greater requirement for monitoring the performance of grants, implementers and partners.
18. Improvements in the planning, focus and design of Catalytic Investments will drive increased value for money from these investments. Effective implementation of the operational modalities in 2020 will be needed to manage the expected increase in the allocation to Strategic Initiatives.
19. Priority funding in this area will focus on providing surge resources for teams engaged with countries in grant making with the goal to better inform the development of new grants. For new and existing grants, this includes monitoring and closing absorption gaps identified in countries e.g. through advisory reports in Western and Central Africa.

Priority 2: Drive impact from current grants in their final stage

20. To ensure maximum levels of quality and efficiency close coordination will be needed to minimize the risk of funding gaps for grants ending in 2020. Intense monitoring of current programs will be

¹ Figures rounded to the nearest million

required as more than 70% of grant portfolio will be in their third year of implementation, which has historically proven to be a critical year for fund absorption.

21. For grants in their final stages of this cycle, disbursements across the 324 grant portfolios² are forecast for 2020 to reach US\$ 3.9 billion. Grant-facing and grant support staff will be fully focused on optimising investment decisions, improving fund absorption and driving impact.
22. A key focus for country facing teams will also see them engage with technical partners and implementers to address the challenges countries face to resolve identified problems to improve implementation and effectiveness as these grants reach their final stages. Improvements in systems and processes will be used to sharpen focus on impact primarily using the portfolio review process with enhanced analytics and input from technical expertise to inform grant reprogramming where this proves necessary.
23. Focused engagement with implementers and other in-country partners, technical support to address implementation challenges and monitoring will absorb majority of this priority funding. This will also require close coordination with the grant development process for the new year.

Priority 3: Begin planning and consultations for the next Global Fund (GF) Strategy

24. While the coming year will have a high focus on grant making and implementation, there is a need to allocate additional resources to start work with stakeholders across the Global Fund partnership to develop the post-2022 strategy. This strategy will need to anticipate new trends and technologies and plan how the Global Fund's role and contribution will evolve as the fight to achieve the SDG3 2030 targets of ending the three epidemics and building resilient and sustainable systems for health moves into the final stretch.
25. Broad based consultations will be started in 2020, including the partnership fora which will provide input into the development and implementation of the GF Strategy and provide a visible platform for debate, advocacy, continued fundraising, and for the inclusion of new partners for the development of the strategy. A wide range of evidence and independent input will be commissioned, including input from experienced GF front line staff, to inform Strategy Committee and Board deliberations on the next Strategy's focus. Significant partnership engagement will be required to ensure that the Strategy's development accounts for the evolving nature of health and development landscapes.
26. The development process will also leverage a review of the disease split, the TERG mid-term strategic review of the 2017-2022 Strategy, which will provide lessons and recommendation for the new Strategy's development on the road to 2030.
27. In parallel to the organization of the Partnership Fora and support to the TERG review, the commissioning and generation of evidence, as well as solicitation of wide-ranging input to support the Strategy's development will require some additional resources to be allocated to ensure a robust, inclusive and consultative basis for the post-2022 Strategy.

Priority 4: Reinforce capabilities and impact on key strategic priorities

28. From the existing strategy and the key strategic priorities defined for the coming year, there is a need to scale up on internal capacity in key areas to provide enhanced support to country teams and countries. In the coming cycle there will be an increased emphasis on the Global Fund playing a catalytic role beyond simply providing grants, for example in areas such as domestic resource mobilisation, human rights and gender, adolescent girls and young women (AGYW), market shaping / access to drugs, and innovation).
29. Increased investment to be made in SO management, staff and Principal Recipient capabilities in 2020 to roll out supply chain improvement projects with key partners such as developing updated category strategies for Viral Load/Early Infant Diagnosis of HIV, lab products and essential medicines and condoms. This will be complemented by continued monitoring and implementation

² Including 21 grants that remain to be signed

of in-country supply chain plans. This should have the effect to drive efficiencies in country both from a grant performance and absorption perspective.

30. As a key lever in the Global Fund's DRM efforts, the successful approach to co-financing will be maintained, with enhanced efforts to leverage the co-financing policy to support specific strategic portfolio objectives in the 2020-2022 funding cycle. Success in stimulating domestic health financing is key to achieving the long-term objectives of making countries self-sustainable and ending the epidemics by 2030.
31. Critical areas for future programmatic progress will require greater staff expertise including RSSH, AGYW, key populations, epidemics, HIV prevention, finding missing cases, private sector engagement for TB, and rollout of new malaria technologies. Proper design of these programs is critical if they are to be scaled and fully deliver results.
32. US\$ 6.1 million of resources have been allocated to provide a boost to enable delivery on these objectives. While some budgetary trade-offs have been made resulting in decisions to limit investments in some strategic priorities in favour of surge grant making activities, we expect to maintain alignment to our strategic goals in RSSH, AGYW, Human Rights, Supply Operations and DRM.

Priority 5: Improve efficiency and effectiveness

33. We continue to focus on improving our efficiency and effectiveness within the organisation. Results of the Strategic Workforce Planning (SWP) have contributed to the budget allocation process and will be further embedded in the coming year.
34. Investments in surge resources are being made to drive greater efficiency to support increased flows through our grant management monitoring and processing tools. Improved quality and availability of data will inform better decision making e.g. though operationalization of project AIM (developments to the Grant Operating System (GOS)) the Portfolio Optimisation process will be better informed. Additional improvements could also be made to the IT infrastructure and systems to embed second line risk management and controls in business as usual processes and develop sustainable data platforms.
35. Also included in the improvements are processes and systems to improve travel security coordination and planning. Investments are also being made to continue to drive technology platforms to be better leveraged and support programmatic implementation.

Priority 6: Invest in people

36. With the anticipated peak in grant focused workload, it is important that staff morale and satisfaction are well addressed. Following the staff engagement survey, a number of focus groups and actions will be undertaken to respond to concerns raised. Continued investment is made in human resources (HR) with an ongoing focus on the optimal deployment of the Global Fund's human resources through improved workforce planning, leveraging the Performance and Accountability framework and talent management processes. Further improvements are also being sought from the performance management framework.
37. Embedding these process driven activities will continue in anticipation of the next strategic cycle when resource planning, aligned to the organisation functions and business cycles, will be a key element of strategic planning.
38. Priority funding has also been allocated to leadership training and key elements of the HR roadmap, continuing initiatives started in 2019. This aims to ensure a stream of new talent coming into the organisation as well as development of talent and leadership within the organisation. In addition, the implementation of the Total Rewards Review will continue through 2020 with implementation of the second phase on January 1, 2021.

Strategic Objectives

The following section provides an overview of the Secretariat's planned work in 2020 through the lens of the four objectives of the Global Fund 2017 – 2022 Strategy.

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

39. As outlined above, the objective to maximise impact against the three diseases will see staff in 2020 focus as a priority on both ensuring the current portfolio of grants deliver their impact and performance targets; and that the next cycle of grants is designed to maximise impact. This will be achieved by ensuring the efficiency of the interventions and regimens supported, the cost-effectiveness of service delivery models employed, the targeting of support to resilient and sustainable systems for and the development of effective implementation arrangements.
40. 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. Additional support to better understand processes and eliminate blockages to complex challenges is key to achieving expected portfolio impact and will be supported by additional resources. Continued 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.
41. More than 70% of grants were approved in 2017, and the next round of grants for these countries are scheduled for renewal in 2020. The start of 2020 will see strong in-country engagement with CCMs, technical partners, implementers and other funders on the design of the next round of funding requests. 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 and a potential shift in the mix of grants to include more investment on prevention, RSSH and Human rights.

Strategic objective 2: Build Resilient & Sustainable Systems for Health

42. OPEX resources to support RSSH activities are closely tied to investments in national systems made through Grants and Catalytic Investments. Activities will be needed to focus on ensuring in-country strengthening activities are effectively implemented and facilitating technical support where problems are encountered.
43. The transformation of the Global Fund's Supply Operations function will continue in 2020 to enhance capabilities and 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.
44. 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.
45. To improve the quality and availability of programmatic data, system strengthening will continue with the roll out of the second and third enhancements planned for the GOS as well as developments to data sharing and advanced analytics planned to build up systems to safely track different metrics including from 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, and data quality reviews.

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

46. As the grant portfolio and catalytic funds allocations shift in 2020 to an anticipated greater focus on human rights, gender and community programs some additional resources will be allocated to focus activities on identifying differentiated and community centered approaches for key and vulnerable populations where it matters most to end the epidemics.
47. A transformation in the CRG team implemented in 2019 will drive a more focused and coordinated approach in 2020. This will be achieved via shifting resources towards high impact countries, aligning to grant making priorities, driving transparency on data for decision-making and steering the Breaking Down Barriers (BDB) project and the AGYW strategy to a broader Secretariat focus.
48. Greater management oversight on BDB will provide an increased steer for the 20 Human Rights priority countries implementing their 5-year action plans. A key element of this work with partners will be to build support in-country including multi-stakeholder meetings, technical advisor support and follow-up assessments. Given that many of these countries will renew grants in 2020, country teams will be provided with concentrated capability building support during grant making.
49. Support to 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.
50. 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 CRG Strategic Initiative.

Strategic objective 4: Mobilise Increased Resources

51. With 2019 efforts culminating with the 6th replenishment, the focus of resource mobilisation efforts will shift in 2020 to ensuring that pledges made are turned in contributions. Several donor visibility programs and communications are planned through the year. Other activities less driven by the replenishment cycle, on innovative financing and engaging the private sector will continue to be implemented in line with the resource mobilisation plan. Complementing the health financing activities, funded through Strategic Initiatives, advocacy, technical support and partner engagement activities for increased domestic investments in health, will continue to target civil society, parliamentarians and implementer governments as set out in the domestic resource mobilisation work plan.
52. In addition to resource mobilisation efforts Strategic Objective 4 also covers strategic sourcing activities, which will focus on driving value from the new framework agreements with procurement service agents, from managed relationships with suppliers and introducing cost stability by maintaining a diverse supplier base of key drugs. The long-term framework agreements and the implementation of Rapid Diagnostic Tests for malaria and HIV as well as the new Long-lasting insecticidal nets (LLIN) will continue to drive value for money as the Global Fund leverages the commodity volumes of grants and partners.
53. The Secretariat will also continue efforts to increase value for money and support access to health products, through the pooled procurement mechanism, further development of the Wambo platform, and strengthened early planning. In addition, leveraging available tools, guidance, and partnerships to address country specific procurement and health product challenges will continue as an important focus.

Governance, management, control and support activities

54. The governance and management functions of the Secretariat underpin effective operations of the Global Fund and the wider partnership. The Global Fund has increased resource allocation to the areas of risk management and governance (e.g. LFA, OIG, Risk, Ethics, Constituency funding, CCMs etc.) over the past seven years. Beyond the additional demands of the new cycle and support to the portfolio in the final stages of their business cycles, senior management attention will be particularly focused on efficiency and performance management priorities in 2020.
55. The shift to a business process model of operations across the Secretariat has enabled a more formal structure to be established around key areas of work. Key metrics are reported and monitored against Secretariat processes and plans are in place to further embed ownership and develop automated reporting systems.
56. Enhanced focus on governance and partnership activities will be made with increased resources allocated to constituencies and due diligence in the recruitment process for the next Global Fund Inspector General. The Global Fund will continue to play an active role in global health governance as collaboration intensifies to make faster progress towards SDG3 targets.

Cost Categories

The table below provides a summary of the full 2020 budget by major cost category.

Budget category (US\$ millions)

Staff	External Assurance	Professional fees	Office infrastructure	Travel	CCM
155.5	48.3	32.5	21.5	16.6	9.5
Meetings	Communication	Board constituencies	Other	Non-recurring costs	Total
3.7	1.3	1.6	6.5	7.9	305

57. The allocation of budget across cost categories is mostly stable when compared to previous years. The increase in staff costs and professional fees are aligned to the business cycle and surge requirements. Non-recurrent costs were reduced to allow focus on priority areas. Office infrastructure costs maintain the lower rate seen since the move to the Global Health Campus.

External Assurance expenditures (US\$ millions)

2015	2016	2017	2018	2019 (F2)	2020 budget
51	47	49	44	47	48

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

Travel expenditures (US\$ millions)

2015	2016	2017	2018	2019 (F2)	2020 budget
20	17	16	16	17	17

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

Staff expenditures (US\$ millions)

2015	2016	2017	2018	2019 (F2)	2020 budget
137	140	147	145	149	156

60. 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 has seen an increasing trend, although in 2018 a freeze on salaries was implemented to help absorb the one-off costs of the move to the GHC. While maintaining strong controls over recurrent staffing, the Secretariat will see an increase in costs due to surge resources required for the coming year. With the business process model and strategic workforce planning being embedded in the coming year, it will help ensure the 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.

Recommendation

The Audit and Finance Committee recommends the Decision Point presented on page 2 to the Board for approval.