

FORECAST OF UNCOMMITTED ASSETS

PURPOSE:

This report provides a forecast of the level of uncommitted assets that may potentially be available to finance new funding opportunities over the period 2012 – 2014. This report is provided for information.

Note:

The Board will be provided with an updated version of the forecast at the time that it will consider the approval of funding for successful Transitional Funding Mechanism (TFM) applications.

The revision concerns a minor typographical error in Annex 2. This revision has no impact on the closing balance of uncommitted assets reported.

PART 1: BACKGROUND

1.1 At the second meeting of the Financial and Operational Performance Committee (FOPC) held on the 27-28 March 2012, the Secretariat provided the FOPC with a paper (GF/FOPCo2/01) outlining a new proposed format for the forecast of uncommitted assets and described the process that will be followed to update this forecast on a regular basis. GF/FOPCo2/01 is now included as Attachment 1 to this paper.

1.2 This current forecast of uncommitted assets included in Annex 2 has been prepared in the new format and the key assumptions underpinning the forecast are included in Annex 1.

1.3 As disclosed to the FOPC, the forecast of uncommitted assets will be updated on a monthly basis, and the actual figures will be compared against the forecast and analyzed for the FOPC on a regular basis.

1.4 While the forecast shown in Annex 2 contains summary information, there is a significantly higher level of detail supporting these numbers.

1.5 It is important to note that the forecast is a projection of future events and is therefore subject to significant change that can both positively and negatively affect the forecast. With the move to monthly updates of the forecast and adopting a bottom up approach to forecasting as outlined in Attachment 1, it is expected that the accuracy of the forecast will improve over time.

PART 2: OVERVIEW

2.1 In reading the forecast of available resources, please focus on the “bottom line” of uncommitted assets. The current forecast reflects an encouraging trend, with uncommitted assets of US\$1,055 million at the end of 2014. All of the gain in uncommitted assets comes by the end of 2012 (US\$1,184 million), with a dip in the balance in 2013 (to US\$827 million) and a rebound in 2014 to US\$1,055 million. This line shows a cumulative total after three years, and does not reflect an increase in uncommitted assets each year. In other words, every dollar committed to new grants or other funding opportunities between now and the end of 2014 will correspondingly reduce the figure of US\$1,055 million by one dollar.

2.2 The Board should note that the three-year, cumulative figure of uncommitted assets in the amount of US\$1,055 million reflects many assumptions in the timing of contributions, and accounts for expected commitments in 2012, 2013 and 2014 to grants already approved by the Board. The number also assumes the Board will commit the maximum possible amount to the Transitional Funding Mechanism (TFM) over the three-year period (US\$615 million), although not yet approved.

2.3 Finally, to arrive at the calculation of uncommitted assets, the Secretariat has made a provision for volatility by setting aside a contingency of US\$500 million, which gives some leeway for shortfalls in expected funding from donors, provides an allowance for potential exchange-rate losses, and offers flexibility to cover unanticipated grant commitments.

2.4 The preparations for developing options to allocate the US\$1,055 million in forecasted funds available at the end of 2014 can begin shortly after the May Board Meeting. These preparations will need to consider the strategic and operational implications of replacing the rounds system with a more flexible and effective model involving a more iterative, dialogue-based application, earlier preparation of implementation and more flexible and predictable funding opportunities that is envisaged by the Global Fund Strategy 2012-2016.

2.5 During the remainder of calendar year 2012, more information will become available to refine the forecast now presented, which the Secretariat intends to do on a rolling basis each month.

PART 3: NEXT STEPS

3.1 When considering the amount of available funds for approval of TFM, the forecast must exclude projected contributions from donors (i.e. donors that have not formally pledged but are expected to contribute are excluded from the calculation) for the next 12 months. At present, the value of projections in the forecast for 2012 is US\$59 million and for 2013 is US\$70 million. However even with this exclusion of projected contributions, if the current forecast and preliminary TFM numbers are maintained, the Board will be in a position to approve all of the successful TFM applications.

3.2 The forecast will be updated and submitted to FOPC and the Board in advance of the Board's decision on the approval of any successful TFM applications. This will ensure that the Board has the most up to date information available at the time of making this decision.

This document is part of an internal deliberative process of the Global Fund and as such cannot be made public until after the Board meeting.

Explanatory Notes

Opening Balance

1. The opening balance includes cash, promissory notes (convertible to cash) and the unqualified portion of multi-year contribution agreements (convertible to cash).

Figures Marked (A)

2. The closing balance is calculated by adding the opening balance to the sources of funds (receipts) and deducting the uses of funds (payments).

Figures Marked (B)

3. The closing balance of committed funds (obligations) is calculated by taking the opening balance of committed funds (existing obligations) and deducting the uses of funds (i.e. payments reduce the level obligations) before adding on the commitments (new obligations).

Figures Marked (C)

4. The unanticipated risk provision will not move. The closing balance less the closing balance of both the committed funds and the unanticipated risk provision will equal the closing balance of uncommitted assets.

Sources of Funds

5. The sources of funds for public and private sector donors are based on the best available estimates of the timing and amount of contributions to be received from the Resource Mobilization & Donor Relations Division of the Secretariat at the time the forecast is prepared. These amounts therefore may be different from publicly reported pledges based on the assessment of the Secretariat.
6. Exchange rates for expected contributions in non USD currencies are set at 31 March 2012 rates.
7. Investment returns on cash held in the trust fund and invested by the Trustee (World Bank) are forecast to be in line with 2011 returns.
8. The vast majority of donor pledges cover the period of the third replenishment period (2011-2013), therefore the vast majority of 2014 figures are based on projections of contributions rather than pledges from donors.

Grant Commitments and Disbursements

9. Grant commitments are obligations entered into by the Global Fund Secretariat for the provision of financial resources to grant recipients over a predetermined period of time not exceeding two years at a time. Commitments do not represent cash movements for the purpose of this forecast.

10. Grant commitments include forecasted amounts for remaining Round 10 grants, and grant renewals of existing grants based on available information from the Grant Management Division of the Secretariat and the Finance, Performance and Treasury Department.
11. The forecast for commitment needs under TFM is based on an assessment of the start date of any grant and the maximum amount requested in the application. These amounts are subject to change based on Technical Review Panel (TRP) review and Board approval.
12. Remaining round 10 grants are forecast to be signed at 90% of the Board approved Phase 1 amount.
13. Grant Renewals are forecast to be signed net of funding limitations and a provision for performance based funding reductions. The combined effect is that Grant Renewals are expected to be signed for the portfolio (individual grant amounts will change significantly based on performance based funding, income classification, and actual needs) at 67.5% of the value of TRP Phase 2 approved amounts.
14. A provision for de-commitment of undisbursed funds from expiring grants is included in the forecast at US\$100 million in 2012 and US\$100 million in 2013.
15. The Grant Disbursement projections are based on an estimate from the Grant Management Division of expected disbursement amounts that have been adjusted upwards by Finance to reflect the projected impact of TFM. It should be noted that the disbursement projections will be subject to change as the Secretariat adopts performance based funding. This results in actual disbursement being based on both the projected cash needs of the implementers and an assessment of grant performance, rather than disbursements amounts being set in advance and disbursed on a pre-arranged schedule.

Operating Expenses Commitments and Payments

16. Operating expenses commitments are typically made in two equal tranches equivalent to 6 months of the operating expenses budget. The forecast of actual payments are also equivalent to the operating expenses budget.
17. The current forecast for operating expenses in 2013 and 2014 has been maintained at 2012 approved budget levels but will be updated as information becomes available through the 2013 budget process. It is the intention of the Secretariat to reduce the operating expenses budget in subsequent years.

Unanticipated Risk Provision

18. The unanticipated risk provision has the effect of reducing the level of uncommitted assets. The provision is included to cater for unanticipated risk. These risks may include but are not limited to:
 - Unexpected reductions in contributions.
 - Higher than forecast commitment needs.
 - Lower than expected investment returns.
 - Significant depreciation of contributions in currencies other than USD against the dollar.

FORECAST OF UNCOMMITTED ASSETS
This document should only be read in conjunction with the accompanying explanatory notes in Annex 1
GF/B26/05
Annex 2

USD Millions	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Q1 2013	Q2 2013	Q3 2013	Q4 2013		2012	2013	2014
Opening Balance (Cash and Convertible to Cash)	5,961	5,912	5,718	6,594	6,092	5,865	6,846	6,793	6,620	6,390	6,344	6,229	6,612	6,412	6,856	6,491	A	5,961	6,612	6,166
Committed	4,330	4,606	4,426	4,366	4,440	4,544	4,438	4,653	4,803	4,465	5,025	5,006	4,928	5,186	5,103	5,036	B	4,330	4,928	4,839
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	C	500	500	500
Uncommitted	1,131	806	792	1,729	1,151	821	1,908	1,640	1,317	1,425	818	723	1,184	726	1,254	955		1,131	1,184	827
Sources of Funds	33	55	1,044	9	61	1,354	205	76	302	111	75	809	392	1,307	453	884	A	4,133	3,035	2,877
Public Sector	15	49	284	1	53	1,347	196	68	294	104	67	791	365	1,283	430	850		3,269	2,927	2,780
Private Sector	9	1	754	3	2	1	3	2	2	1	2	12	9	7	6	16		793	38	27
Investment Returns	8	5	6	6	6	6	6	6	6	6	6	6	18	18	18	18		71	70	70
Uses of Funds	(82)	(249)	(168)	(512)	(287)	(373)	(258)	(249)	(533)	(157)	(189)	(426)	(592)	(863)	(819)	(1,209)	(A), (B)	(3,482)	(3,482)	(3,131)
Grant Disbursements	(56)	(226)	(139)	(481)	(256)	(342)	(227)	(218)	(502)	(127)	(158)	(395)	(503)	(774)	(730)	(1,120)		(3,126)	(3,126)	(2,775)
Operating Expense Payments	(26)	(23)	(29)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(31)	(89)	(89)	(89)	(89)		(356)	(356)	(356)
Commitments	358	69	108	586	391	267	472	399	195	718	170	347	850	779	752	1,011	B	4,080	3,392	2,649
Grant Commitments	180	69	108	586	391	267	294	303	189	718	170	223	650	675	522	812		3,498	2,659	2,281
Transitional Funding Mechanism	-	-	-	-	-	-	-	96	6	-	-	124	22	104	52	199		226	377	12
Operating Expenses Commitments	178	-	-	-	-	-	178	-	-	-	-	-	178	-	178	-		356	356	356
Closing Balance (Cash and Convertible to Cash)	5,912	5,718	6,594	6,092	5,865	6,846	6,793	6,620	6,390	6,344	6,229	6,612	6,412	6,856	6,491	6,166	A	6,612	6,166	5,912
Committed	4,606	4,426	4,366	4,440	4,544	4,438	4,653	4,803	4,465	5,025	5,006	4,928	5,186	5,103	5,036	4,839	B	4,928	4,839	4,357
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	500	C	500	500	500
Uncommitted	806	792	1,729	1,151	821	1,908	1,640	1,317	1,425	818	723	1,184	726	1,254	955	827		1,184	827	1,055

GUIDANCE ON LOCATION OF FURTHER INFORMATION

The below table indicates where further information on items dealt with in this report can be found:

Where indicated documents are available on the Governance Extranet:
<http://extranet.theglobalfund.org/cme/default.aspx>

Item:	Further information available:
1. Format of the Forecast Presented to FOPC	GF/B26/05 Attachment 1