

**FORECAST OF ASSETS**  
**CALENDAR YEAR 2012 (F4) AND Q1, 2013 - Q2, 2015**

**PURPOSE:**

This paper updates the forecast of asset figures published in GF/27/03 to the Twenty-Seventh Board Meeting and outlines possible areas of improvement.

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.

November 7, 2012

## **Letter to the Board from the FOPC Chair and Vice Chair**

As Chair and Vice Chair of the Finance and Operational Performance Committee (FOPC), we are pleased to provide the Board with our perspective regarding the Secretariat's Forecast of Assets ("Forecast"), for the period from October 1, 2012 through June 30, 2015, prepared by the Secretariat and reviewed by the FOPC at its 5<sup>th</sup> meeting on November 2, 2012.

The updated forecast maintains a relatively healthy financial picture over the next several years. Nevertheless, the forecast continues to warrant cautious optimism. Please recall that the Forecast relies on a number of critical assumptions. First, donor contributions for 2014 and later are conservative estimates which are yet to be formalized for the 2014-2016 replenishment period. Second, the Forecast is based only on grant commitments that stem from Board-approved proposals and relevant Board funding decisions. Therefore, it does not include continuing funding for expiring grants or other potential funding opportunities that may be approved by the Board. Third, the forecast is subject to significant timing and other shifts for both donor contributions and grant commitments.

Importantly, the Forecast continues to reflect the current grant funding architecture. Following the Board's deliberations and decision on the New Funding Model (NFM) at its upcoming Twenty-Eighth Meeting this November, FOPC will meet to deliberate on the practical ways to implement the NFM, including required changes to forecasting approach and presentation. Outcomes of the 2011-2013 Mid-Term Replenishment review and preparations for the 2014-2016 replenishment conference will likely further strengthen the financial planning approach.

We feel reassured by Secretariat's efforts and plans to take forecasting to the next level with the future rollout of an integrated automated financial and grant management system and processes. We expect that a strengthened approach to financial planning, combined with disciplined grant management and predictable donor inflows, will ultimately lead to a decrease in the need, and possibly elimination, of the US\$ 500 million unanticipated risk provision.

We commend the Secretariat for the work well done. We look forward to continuing to oversee the Secretariat's financial planning processes and outcomes as part of our mandate to provide assurance to the Board.

Sincerely,

(signed)  
Dr. Viorel Soltan  
Chair of the FOPC

(signed)  
John Monahan  
Vice-Chair of the FOPC

## INTRODUCTION

- 1 This report introduces the last forecast update for the calendar year 2012 (F4) and incorporates several changes to the planning figures for January 1, 2013 to June 30, 2015 as published in GF/B27/03 *Note 1*.
- 2 The main forecast updates affecting uncommitted assets balances for 2012-2014 period are summarized in Table 1. It reconciles the updated end-period balances versus those presented at the Twenty-Seventh Board Meeting in September 2012 (GF/B27/03).

**Table 1. 2012-2014 uncommitted asset end-period balances reconciliation**

<i>in million US Dollars (rounded)</i>		<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>September 2012 Board, uncommitted assets ending balance (GF/B27/03) *</b>	<b>[A]</b>	<b>2,035</b>	<b>1,309</b>	<b>1,428</b>
Changes in timing of grant commitments		565	(188)	(361)
Changes in amount of commitments for grants and operating expenses, including foreign exchange impact		42	(58)	(31)
Changes in donor contributions, including foreign exchange impact		(33)	(82)	43
<b>November 2012 Board, uncommitted assets ending balance (GF/B28/04) *</b>	<b>[B]</b>	<b>2,609</b>	<b>1,556</b>	<b>1,326</b>
<b>Net Change</b>	<b>=[B]-[A]</b>	<b>574</b>	<b>246</b>	<b>(102)</b>

(\* ) Net of the unanticipated risk provision of US\$ 500 million

*Technical Note: Individual amounts for itemized changes above are specific to the year concerned, while the updated uncommitted asset balances include their combined impact cumulated over prior years and the year concerned.*

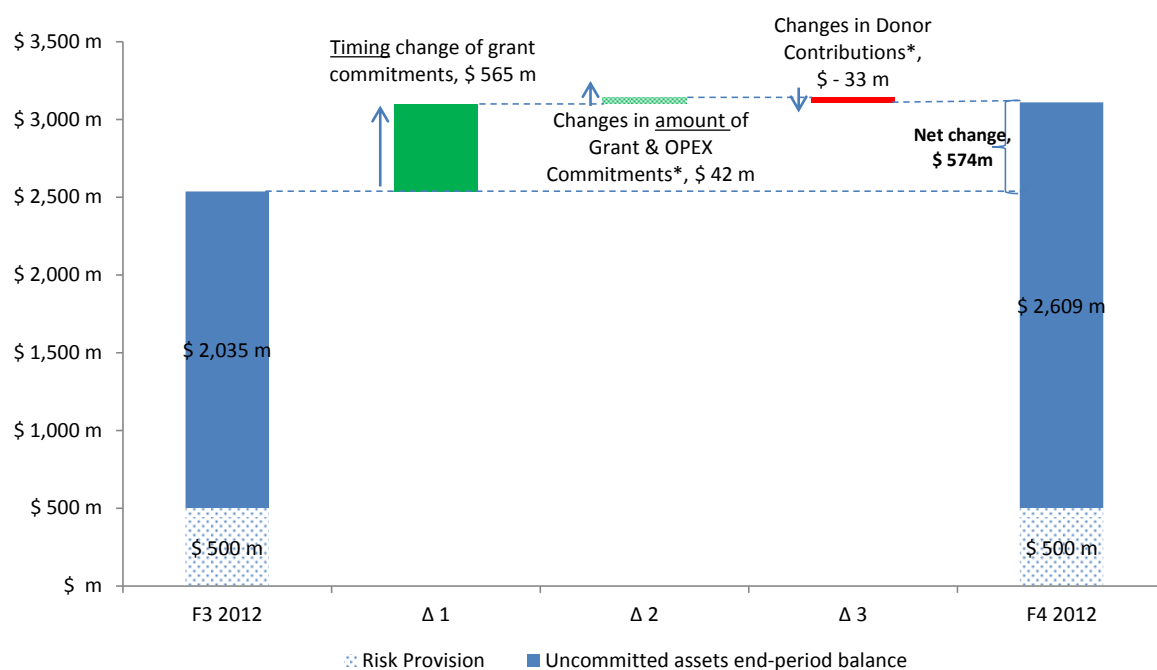
- 3 The forecast relies on assumptions presented in the September 2012 Board paper (GF/B27/03, Annex 4), except for the following key updates:
  - Exchange rates are as of September 30, 2012.
  - Financial commitments under grant renewals are forecasted based on maximum amounts approved by the Board up to October 2012, unless already signed into grant agreements.
  - Grant commitments and disbursements sections of the forecast continue to include the Transitional Funding Mechanism (TFM), which was previously shown in the forecast as a separate line item.
  - Grant commitments in 2013 include US\$ 10 million to fund strategic investment in country data systems (GF/SIIC05/Paper 05) in anticipation of the Board approval in November 2012 at its Twenty-Eighth Meeting.

**Note 1:** It is important to note that the financial forecast is a projection of future events and may therefore be subject to significant permanent changes that can both positively and negatively affect the forecast. Moreover, the financial forecast may also be subject to significant temporary variations due to timing considerations.

## FORECAST OF ASSETS FOR CALENDAR YEAR 2012

- 4 The Secretariat has prepared the last forecast for 2012, hereinafter referred to as F4, to account for new developments since the forecast update F3 from the September 2012 Board meeting (GF/B27/03). For ease of reference, the F3 forecast for 2012 is reproduced in Annex 1 of this paper.
- 5 The main updates that have been built into the F4 forecast for 2012 are illustrated in Figure 1.

**Figure 1. Summary of Forecast Changes F4 versus F3 of 2012**

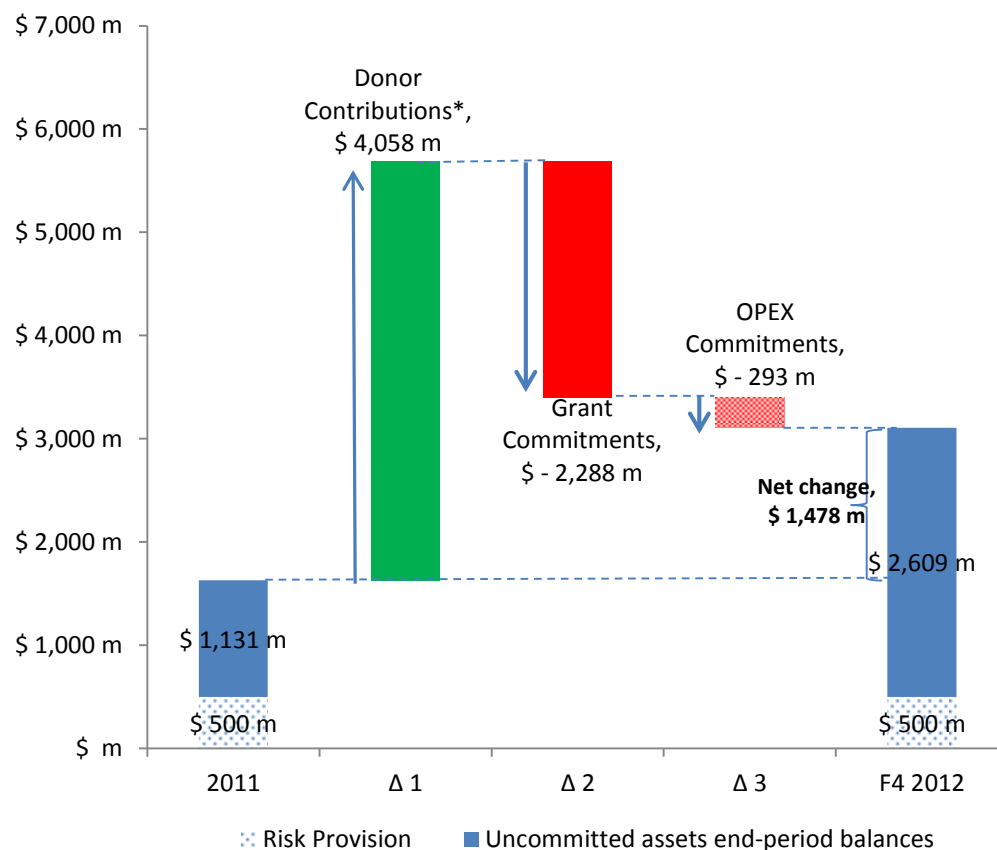


(\*) Changes in donor contributions and grant commitments include foreign exchange impact. Changes in timing and amount of commitments represent the breakdown of US\$ 607m shown in Annex 3 of this paper as total change in commitments.

- 6 The most significant change in 2012 relates to the timing shift in grant commitments from 2012 to 2013. The postponement of grant commitments is related to principal recipient absorption constraints, prolonged grant negotiations and signing of grant renewals and TFM commitments.
- 7 Figure 2 summarizes the changes in the uncommitted assets balance during calendar year 2012. As presented on the graph, the uncommitted assets balance at the end of 2012 is expected to increase by US\$ 1,478 million as compared to the end of 2011. This increase is temporary and is mainly the result of an acceleration of certain donor contributions coupled with the postponement of grant commitments following the Board-mandated deferral of commitments on grant renewals<sup>1</sup> (e.g. committing in annual versus bi-annual tranches).

<sup>1</sup> Annex 1 to GF/B25/DP16 adopted in Accra at the Twenty-Fifth Board Meeting.

**Figure 2. Changes to Uncommitted Asset Balance During 2012 (F4 basis)**



(\*) Donor contributions of US\$ 4,058m include receipts from both private and public donors, as well as investment returns of \$70m and foreign exchange revaluations. About a quarter of 2012 donor contributions were received in a form other than cash.

- 8 An analysis of Q3 2012 actual results versus forecast (F3 basis) in Annex 2 suggests that the main reason for variances is the revised timing of underlying transactions (e.g, timing of donor contributions, grant disbursements and commitments). It is expected that such variances will cancel each other out over subsequent periods.
- 9 A comparison of F3 and F4 forecasts for 2012 is presented in Annex 3, which also includes explanatory notes to significant changes. Annex 4 compares the updated F4 2012 forecast with actuals for the first three quarters of 2012 and analyzes the remaining Q4 forecast.

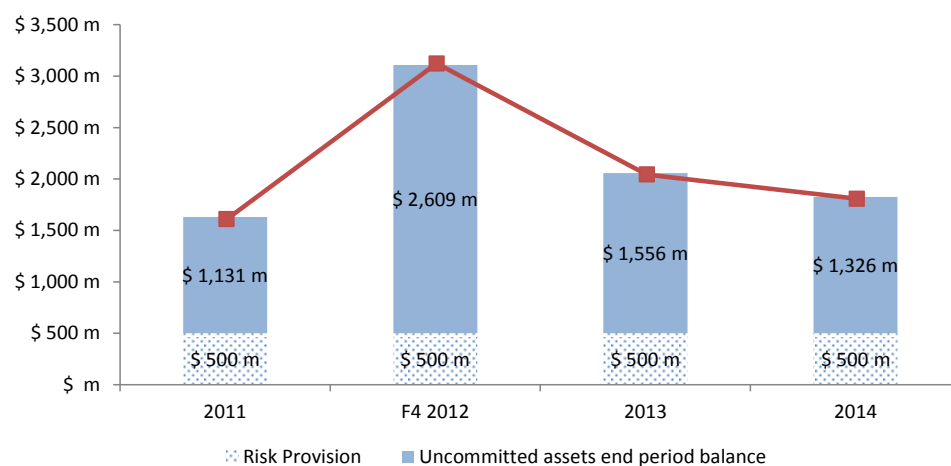
**FORECAST OF ASSETS FOR 2013 AND LATER**

- 10 Similar to 2012, a timing shift in grant commitments to later periods, coupled with changes in forecasted savings in operating expenses and net positive impact from currently observed exchange rates (foreign exchange rates of September 30, 2012), is expected to temporarily increase the uncommitted assets in 2013. As shown in Table 1, the cumulative impact of changes during the 2012-2014 period is a net reduction of US\$ 102 million in the forecasted uncommitted assets by the end of 2014.
- 11 As a result, after accounting for grant commitments under all Board-approved proposals and relevant Board decisions, including those for the Transitional Funding Mechanism (TFM),

the uncommitted assets at the end of calendar year 2014 are forecasted at US\$ 1,326 million (Annex 5 of this paper).

- 12 For illustration purposes, a multi-year perspective showing an overview of the uncommitted asset balances at the end of the respective periods is presented in Figure 3.

**Figure 3. Overview of Uncommitted Assets End-Period Balances for 2011 to 2014**



### Important Notes

- 13 *The Forecast reflects only grant commitments that stem from Board-approved proposals and relevant Board decisions. Consequently, funding requirements linked to expiring grants and other needs during the forecast period are not reflected in the Forecast.*
- 14 *At the same time, projected donor contributions for 2014 and 2015 are unconfirmed as they are yet to be formally supported by donor pledges. However, these projections are included in the present forecast at levels based on adjusted conservative historical payment patterns. Should the projected donor contributions beyond the current 2011-2013 replenishment period be excluded from the forecast, the donor contributions from the current replenishment period as included in the present paper may not be sufficient to cover all commitments under the existing Board-approved proposals and relevant Board decisions.*
- 15 *Additionally, items that may have an impact on the forecast are provided in a non-exhaustive list below:*
- *New Funding Model*
  - *Ethical liability*
  - *Scale-up funding for grants at renewal for greater impact*
  - *Other changes in timing and amount of grant commitments/de-commitments*
  - *Changes in timing, amount and conditionality of donor contributions*
  - *Further review of the Secretariat's operating expenses budget*
  - *AMFm funding in 2013 and beyond (pending Board decision in November 2012)*
  - *Revolving Fund for emergency grant procurements, one-time*
  - *Optimization of risk provision*

## **IMPROVEMENT OF THE FORECAST: WORK IN PROCESS**

- 16 The Secretariat continues to work on strengthening its financial and grant management processes and systems. As part of this effort, the Secretariat intends to improve the forecast accuracy, continue assessing the need and level of the US\$ 500 million unanticipated risk provision as well as conduct “what-if” analyses, as appropriate.
- 17 At this point in time, the Secretariat proposes to maintain the unanticipated risk provision which is currently set at US\$ 500 million on a forecast basis. The relevant analysis has been previously shared with the Board (GF/B27/03 and September 12, 2012 pre-Board session).
- 18 From a process point of view, in the future the Finance Division will prepare four in-depth forecasts a year to be referred to as F1 to F4 respectively (for a particular year). Forecast updates in between the regular forecasts will be provided in case of significant developments since the previous forecast.
- 19 The Secretariat is planning to conduct a thorough revision of the mid- to long-term financials in the coming months. This revision will result in the production of a 2013 budget, which, alongside with operating expenses of the Secretariat, will also feature for the first time a best financial estimate for donor and grant activities. The 2013 budget will serve as a reference point for quarterly forecast updates and variance analyses, this being a new approach that was not followed previously. Linked to the 2013 budgeting exercise will also be the production of a Mid-Term Plan which will likely cover the period of 2014-2017.
- 20 In addition, as the newly chartered Treasury Team starts gaining momentum in its work, due consideration will be given to the size and liquidity of assets in the Trust Fund as well as those on hand with Global Fund principal recipients, with a view of optimizing their location, flow and other characteristics.

## ANNEX 1. Calendar Year 2012 Forecast (F3), GF/B27/03

*in million US Dollars (rounded)*

	2012				
	Actual	Actual	Forecast	Forecast	
	Q1	Q2	Q3	Q4	
<b>Opening Balance (Cash and Convertible to Cash)</b>	<b>5,961</b>	<b>6,622</b>	<b>5,931</b>	<b>7,107</b>	A
Committed	4,330	4,374	3,861	3,813	B
Unanticipated Risk Provision	500	500	500	500	C
Uncommitted	1,131	1,749	1,570	2,794	
<b>Sources of Funds</b>	<b>1,160</b>	<b>59</b>	<b>1,804</b>	<b>1,068</b>	A
Public Sector	376	43	1,770	1,037	
Private Sector	765	5	11	14	
Investment Returns	19	12	23	17	
<b>Uses of Funds</b>	<b>(499)</b>	<b>(751)</b>	<b>(627)</b>	<b>(1,621)</b>	A, B
Grant Disbursements	(421)	(667)	(536)	(1,519)	
Operating Expense Payments	(78)	(84)	(91)	(103)	
<b>Commitments</b>	<b>542</b>	<b>238</b>	<b>580</b>	<b>1,827</b>	B
Grant Commitments	364	238	402	1,827	
Operating Expense Commitments	178	-	178	-	
<b>Closing Balance (Cash and Convertible to Cash)</b>	<b>6,622</b>	<b>5,931</b>	<b>7,107</b>	<b>6,554</b>	A
Committed	4,374	3,861	3,813	4,019	B
Unanticipated Risk Provision	500	500	500	500	C
<b>Uncommitted Assets, after Board-approved proposal needs</b>	<b>1,749</b>	<b>1,570</b>	<b>2,794</b>	<b>2,035</b>	

*As presented to the  
Twenty Seventh Board  
Meeting in September  
2012*



## ANNEX 2. Q3 2012, Actuals vs Forecast (F3)

in million US Dollars (rounded)

	2012		Variance		
	Forecast F3 (GF/B27/03)	Actuals	million USD	%	
<b>Opening Balance (Cash and Convertible to Cash)</b>	<b>5,931</b>	<b>5,931</b>	-	<b>0.0%</b>	<b>A</b>
Committed	3,861	3,861	-	0.0%	<b>B</b>
Unanticipated Risk Provision	500	500	-	0.0%	<b>C</b>
Uncommitted	1,570	1,570	-	0.0%	
		-			
<b>Sources of Funds</b>	<b>1,804</b>	<b>1,646</b>	<b>(158)</b>	<b>-8.8%</b>	<b>A</b>
Public Sector	1,770	1,616	(154)	-8.7%	
Private Sector	11	6	(5)	-42.1%	
Investment Returns	23	23	0	0.9%	
		-			
<b>Uses of Funds</b>	<b>(627)</b>	<b>(661)</b>	<b>(34)</b>	<b>5.4%</b>	<b>A, B</b>
Grant Disbursements	(536)	(583)	(47)	8.8%	
Operating Expense Payments	(91)	(78)	14	-14.9%	
		-			
<b>Commitments</b>	<b>580</b>	<b>999</b>	<b>419</b>	<b>72.3%</b>	<b>B</b>
Grant Commitments	402	822	419	104.3%	
Operating Expense Commitments	178	178	-	0.0%	
		-			
<b>Closing Balance (Cash and Convertible to Cash)</b>	<b>7,107</b>	<b>6,915</b>	<b>(192)</b>	<b>-2.7%</b>	<b>A</b>
Committed	3,813	4,199	386	10.1%	<b>B</b>
Unanticipated Risk Provision	500	500	-	0.0%	<b>C</b>
<b>Uncommitted Assets, after Board-approved proposal needs</b>	<b>2,794</b>	<b>2,216</b>	<b>(578)</b>	<b>-20.7%</b>	

Timing shift of some donor contributions from Q3 to Q4 of 2012.

Faster than anticipated processing of large commitments for selected countries.

The observed decrease in uncommitted assets in Q3 2012 is temporary and is judged not to have a material long-term impact on the forecast.

### ANNEX 3. Updated 2012 Forecast F4 vs F3

in million US Dollars (rounded)

	<b>2012</b>	<b>Changes</b>	<b>2012</b>	
	<b>Forecast F3</b>		<b>F4</b>	
	<b>(GF/B27/03)</b>			
	<b>Q1-Q4</b>	<b>Q1-Q4</b>	<b>Q1-Q4</b>	
<b>Opening Balance (Cash and Convertible to Cash)</b>	<b>5,961</b>	-	<b>5,961</b>	<b>A</b>
Committed	4,330	-	4,330	<b>B</b>
Unanticipated Risk Provision	500	-	500	<b>C</b>
Uncommitted	1,131	-	1,131	
<b>Sources of Funds</b>	<b>4,091</b>	<b>(33)</b>	<b>4,058</b>	<b>A</b>
Public Sector	3,227	(30)	3,197	
Private Sector	794	(4)	791	
Investment Returns	70	1	71	
<b>Uses of Funds</b>	<b>(3,498)</b>	<b>163</b>	<b>(3,335)</b>	<b>A, B</b>
Grant Disbursements	(3,142)	100	(3,042)	
Operating Expense Payments	(356)	63	(293)	
<b>Commitments</b>	<b>3,187</b>	<b>(607)</b>	<b>2,581</b>	<b>B</b>
Grant Commitments	2,594	(544)	2,288	
Operating Expense Commitments	356	(63)	293	
<b>Closing Balance (Cash and Convertible to Cash)</b>	<b>6,554</b>	<b>130</b>	<b>6,685</b>	<b>A</b>
Committed	4,019	(444)	3,576	<b>B</b>
Unanticipated Risk Provision	500	-	500	<b>C</b>
<b>Uncommitted Assets, after Board-approved proposal needs</b>	<b>2,035</b>	<b>574</b>	<b>2,609</b>	

Some grant disbursements, mostly for TFM, postponed to 2013.

Delay in grant commitments, signing of renewal and TFM grant commitments.

Optimization of operating expenses

The observed increase in uncommitted assets in 2012 is temporary and is judged not to have a material long-term impact on the forecast.

## ANNEX 4. Calendar Year 2012, Balance to Year-End (F4)

in million US Dollars (rounded)

	2012				
	F4	Actuals	Balance to Year-End	Q4 as % of Full Year	
	Q1-Q4	Q1-Q3	Q4	%	
<b>Opening Balance (Cash and Convertible to Cash)</b>	<b>5,961</b>	<b>5,961</b>	<b>6,915</b>	<b>116.0%</b>	A
Committed	4,330	4,330	4,199	97.0%	B
Unanticipated Risk Provision	500	500	500	100.0%	C
Uncommitted	1,131	1,131	2,216	195.9%	
<b>Sources of Funds</b>	<b>4,058</b>	<b>2,864</b>	<b>1,194</b>	<b>29.4%</b>	A
Public Sector	3,197	2,035	1,162	36.3%	
Private Sector	791	776	15	1.9%	
Investment Returns	71	53	17	24.3%	
<b>Uses of Funds</b>	<b>(3,335)</b>	<b>(1,911)</b>	<b>(1,425)</b>	<b>42.7%</b>	A, B
Grant Disbursements	(3,042)	(1,671)	(1,371)	45.1%	
Operating Expense Payments	(293)	(240)	(53)	18.2%	
<b>Commitments</b>	<b>2,581</b>	<b>1,779</b>	<b>801</b>	<b>31.0%</b>	B
Grant Commitments	2,288	1,424	864	37.8%	
Operating Expense Commitments	293	356	(63)	-21.5%	
<b>Closing Balance (Cash and Convertible to Cash)</b>	<b>6,685</b>	<b>6,915</b>	<b>6,685</b>	<b>100.0%</b>	A
Committed	3,576	4,199	3,576	100.0%	B
Unanticipated Risk Provision	500	500	500	100.0%	C
<b>Uncommitted Assets, after Board-approved proposal needs</b>	<b>2,609</b>	<b>2,216</b>	<b>2,609</b>	<b>100.0%</b>	

This is in line or better when compared to donor payment patterns from previous years.

This is somewhat behind previous years' disbursement rates.

Grant commitments are in line with the expected disbursement levels.

Savings on Secretariat expenses to be de-committed.

The observed increase in uncommitted assets in Q4 vs Q3 of 2012 is temporary and is judged not to have a material long-term impact on the forecast.

## ANNEX 5. Q1 2013 to Q2 2015 (\*) <sup>2</sup>

in million US Dollars (rounded)

	2013				2014				2015		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
<b>Opening Balance (Cash and Convertible to Cash)</b>	<b>6,685</b>	<b>6,516</b>	<b>6,990</b>	<b>6,581</b>	<b>6,239</b>	<b>6,085</b>	<b>6,556</b>	<b>5,830</b>	<b>5,540</b>	<b>5,366</b>	A
Committed	3,576	3,967	3,991	4,331	4,183	4,430	4,172	4,063	3,714	3,449	B
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	C
Uncommitted	2,609	2,049	2,499	1,751	1,556	1,155	1,883	1,267	1,326	1,417	
<b>Sources of Funds</b>	<b>516</b>	<b>1,231</b>	<b>369</b>	<b>875</b>	<b>415</b>	<b>1,198</b>	<b>221</b>	<b>1,013</b>	<b>396</b>	<b>1,026</b>	A
Public Sector	495	1,209	348	840	394	1,176	200	988	375	1,004	
Private Sector	3	4	3	18	3	4	3	7	3	4	
Investment Returns	18	18	18	18	18	18	18	18	18	18	
<b>Uses of Funds</b>	<b>(684)</b>	<b>(757)</b>	<b>(777)</b>	<b>(1,218)</b>	<b>(568)</b>	<b>(727)</b>	<b>(946)</b>	<b>(1,303)</b>	<b>(569)</b>	<b>(779)</b>	A, B
Grant Disbursements	(610)	(683)	(703)	(1,143)	(494)	(653)	(872)	(1,229)	(495)	(705)	
Operating Expense Payments	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	(74)	
<b>Commitments</b>	<b>1,075</b>	<b>781</b>	<b>1,117</b>	<b>1,070</b>	<b>815</b>	<b>470</b>	<b>837</b>	<b>954</b>	<b>304</b>	<b>380</b>	B
Grant Commitments	927	781	968	1,070	667	470	689	954	155	380	
Operating Expense Commitments	149		149		149		149		149		
<b>Closing Balance (Cash and Convertible to Cash)</b>	<b>6,516</b>	<b>6,990</b>	<b>6,581</b>	<b>6,239</b>	<b>6,085</b>	<b>6,556</b>	<b>5,830</b>	<b>5,540</b>	<b>5,366</b>	<b>5,613</b>	A
Committed	3,967	3,991	4,331	4,183	4,430	4,172	4,063	3,714	3,449	3,049	B
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	C
<b>Uncommitted Assets, after Board-approved proposal needs</b>	<b>2,049</b>	<b>2,499</b>	<b>1,751</b>	<b>1,556</b>	<b>1,155</b>	<b>1,883</b>	<b>1,267</b>	<b>1,326</b>	<b>1,417</b>	<b>2,064</b>	

(\*) This document should only be read in conjunction with selected assumptions listed in the Introduction section of this paper, paragraph 3, and the explanatory notes in Annexes 3 and 4 from GF/B27/03.

<sup>2</sup> **Important note:** The forecast reflects only grant commitments that stem from Board-approved proposals and relevant Board decisions, including commitments under Transitional Funding Mechanism (TFM). The forecast of uncommitted assets does not consider any funding for grants expiring in the forecast period (also refer to Annex 3 from GF/B27/03).