34th Board Meeting

2015 F3 forecast/Mid Term Plan (pledges & contributions, grant expenses & disbursements), ALM

For Board Information

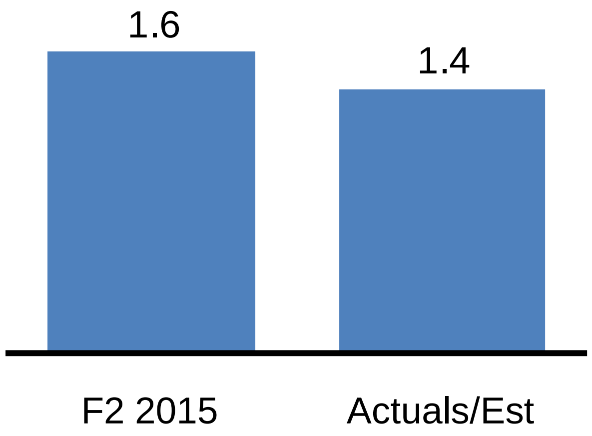
GF/B34/15
Geneva, Switzerland
16-17 November 2015

Contents

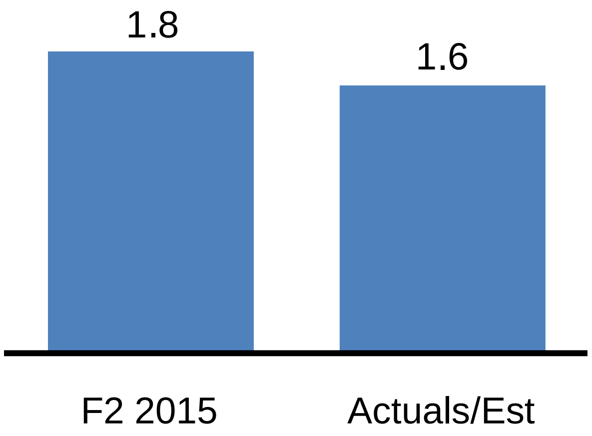
September 2015 Year-to-date Contributions & Cash Receipts from Donors: F2 2015 vs actuals

Billion US Dollars, rounded

Contributions



Cash Receipts

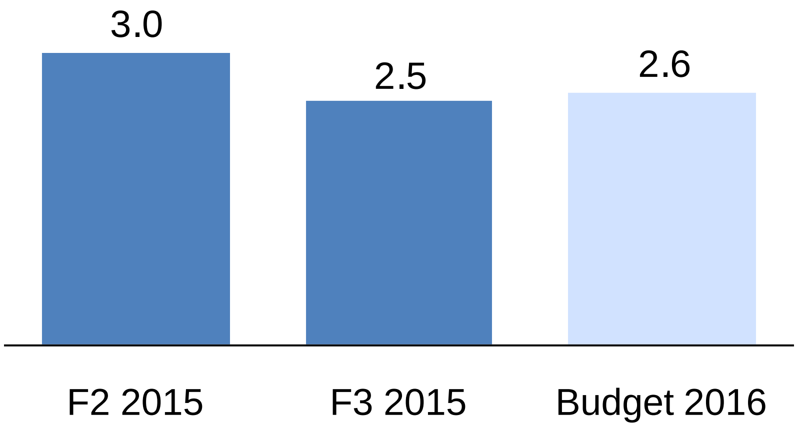


Some contributions and cash receipts slipped into later periods

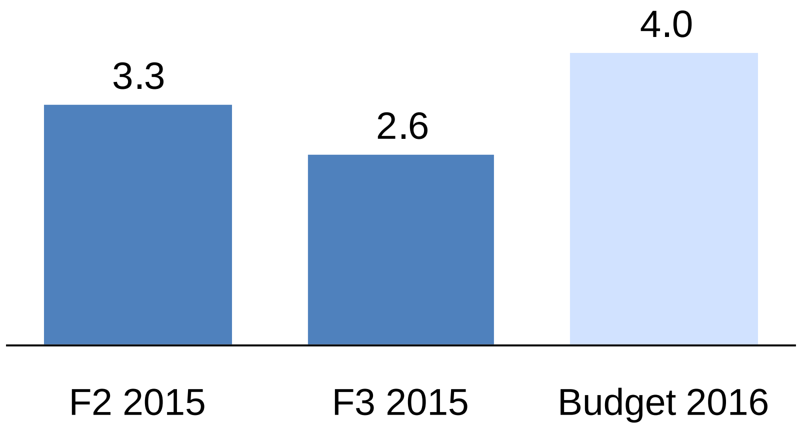
Full Year 2015 Contributions & Cash Receipts from Donors: F3 and 2016 Budget

Billion US Dollars, rounded

Contributions



Cash Receipts



Approximately **US$ 0.2** in donor pledges are at risk of not materializing

In agreement with the Secretariat, some cash payments from donors have been delayed and as a result are aligned with grant disbursement pattern

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Grant financials summary

> **2015 Year To date actuals** highlight a continued reduction in commitments ($ 320M) and disbursements ($ 320M) against previous F2 forecasts.

> Latest 2015 F3 forecast indicates 40 % of allocation will be disbursed at the end of 2015. Scale-up of $1 Bn or over 35% in 2016 and 2017 compared to 2015 disbursement.

> Requirements for additional funds to meet 2017 gaps caused by Shortened Grant Durations has fallen to $0.7 Bn (F2: $0.8 Bn).

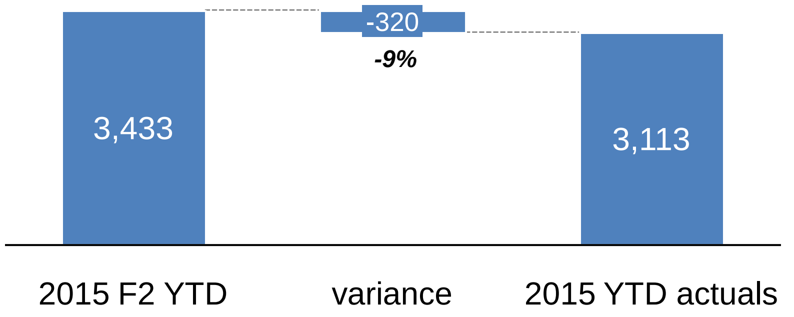
> The planned scale-up in 2016 and 2017 will be largely driven by the Top-20 countries ($ 0.7 Bn) and PPM commodity requirements ($ 0.6 Bn). The full operationalization of the Implementation Through Partnership project is therefore essential to delivering on the forecast and operational challenges, which as of today could appear "stretching"

> Use of the undisbursed allocation to fund shortened grants in 2017 will require the application of portfolio optimization principles (FOPC to be informed) in the first semester of 2016

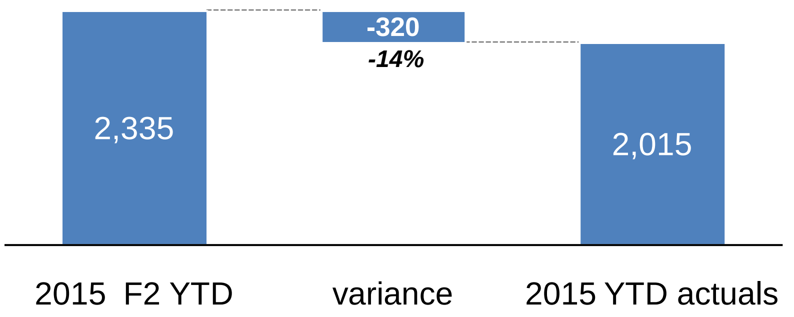
Grant expenses and disbursements
Sep 2015 YTD Actuals versus F2 forecast

Data in Millions USD equivalent

Grant expenses



Disbursement



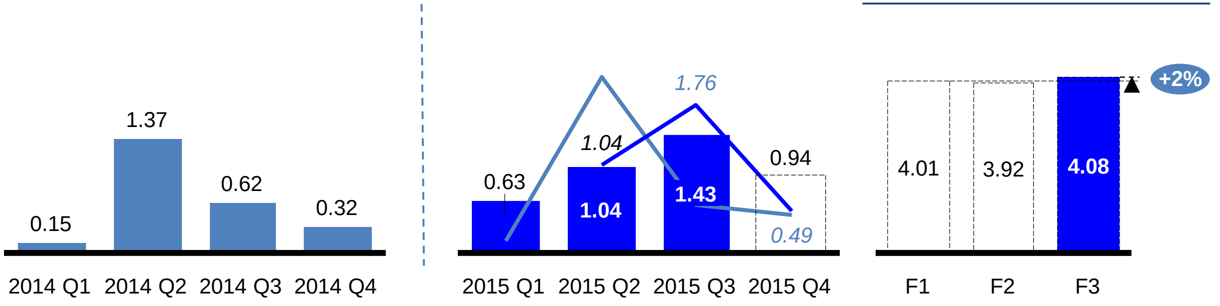
1. **Grant-making:** the process for grant-making and approval has taken longer than forecasted. This is partly from over-optimism in forecasting process but also reflective of issues such as CCM / PR capacity, Framework Agreement negotiations and country contexts (e.g. elections, security situations etc..)
2. **Pooled Procurement Mechanism:** 37% of overall variance ($118 M). However $100 M worth of commodities have been purchased but not invoiced.
3. **Non-PPM:** continuous low absorption levels on key grants translates into a reduced level of financial commitments and disbursements.
4. **Disbursement variances**: critical countries are Nigeria $61 M, DRC $37 M, India $29 M and Tanzania $35 M

However **2015 F3 Full Year forecasts** remain broadly in line with previous F1/F2 forecasts

Actuals F2 forecast F3 forecast

Billions USD equivalent

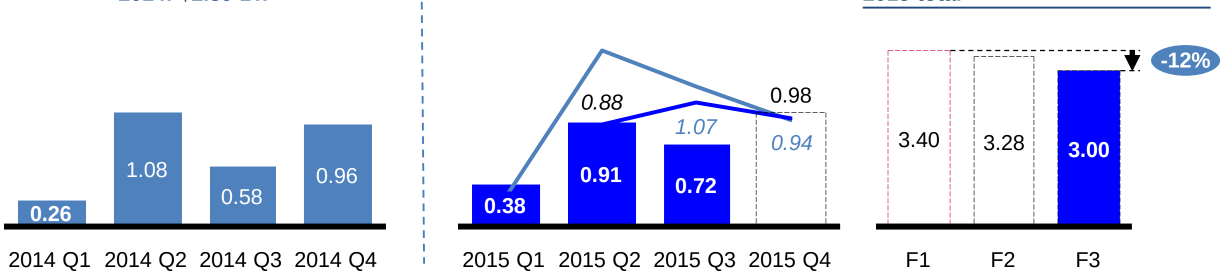
Grant expenses



Budget 2015 target: $3.91 Bn

High number of new commitments in Q3 resulting from new grants although further delays have resulted in a number of new commitments moving to Q4

Disbursements



Budget 2015 target: $4.01 Bn

Delay in new commitments has had a resultant effect on 2015 disbursement levels. Only 39% of concept notes submitted have reached first disbursement stage. Reduction in expectations for Q3 has had the same resultant effect on the year-end number

In-country cash balance optimization: start of phase 2

$ 1.2 Bn at end of Q2 2015

ILLUSTRATIVE

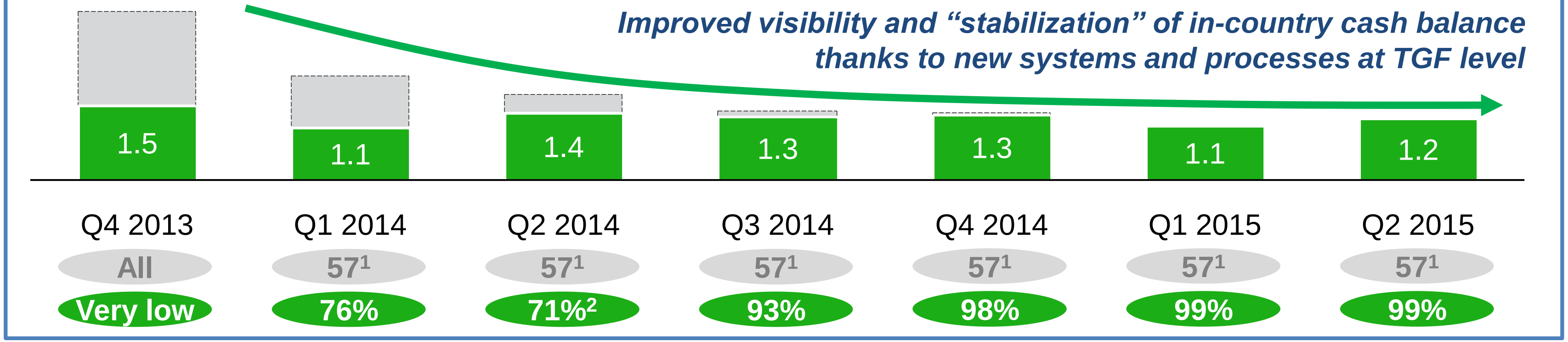
USD billions

Beyond scope of review

Reported

x% Reporting compliance, % of PRs addressed responding

Dynamics of cash balance in countries



> **The stabilization of cash balances in-country highlights that the slowdown in disbursement levels is not a result of tighter cash controls from the Secretariat.**

> **Further measures to improve cash management are on track in future quarters that will have a "one-off" impact on the level of cash to be disbursed. These measures will include the improvement in credit/collateral requirements of INGO's and some major governmental implementers**

1 57 countries with over $50 mln total allocation, representing the overwhelming majority of the portfolio

2 Higher compliance in Q1 2014 than in Q2 2014 due to revision of requirements in Q2, leading to a temporary "drop out" of some PRs

End of Q2 2015 - Top 20 in country cash balances

USD million [x] = equivalent number of months worth of cash flow based on 2014 actual disbursements
: 1 year or more; : 3 months to 1 year; : up to 3 months

Top-10 countries represent

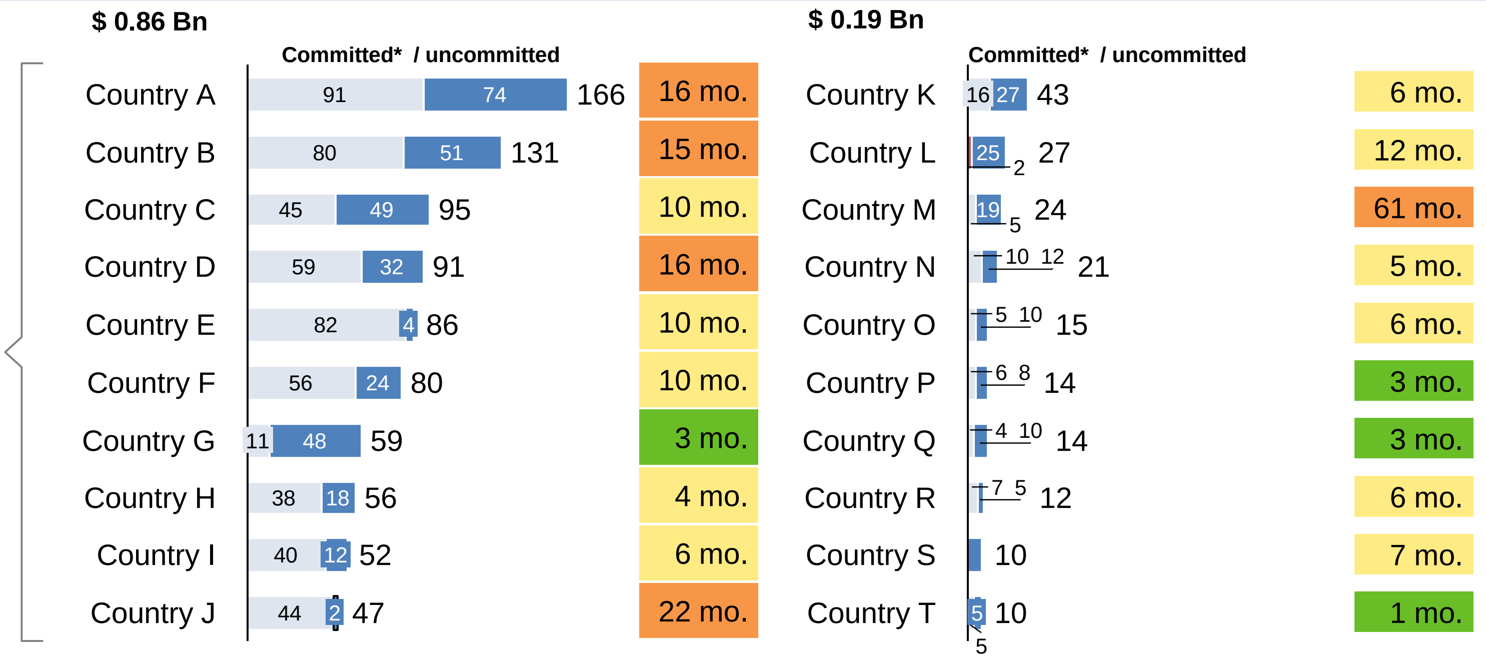
69%

of the in-country cash balance and

63%

of it is made of committed cash

(respectively 85% and 58% for Top 20)



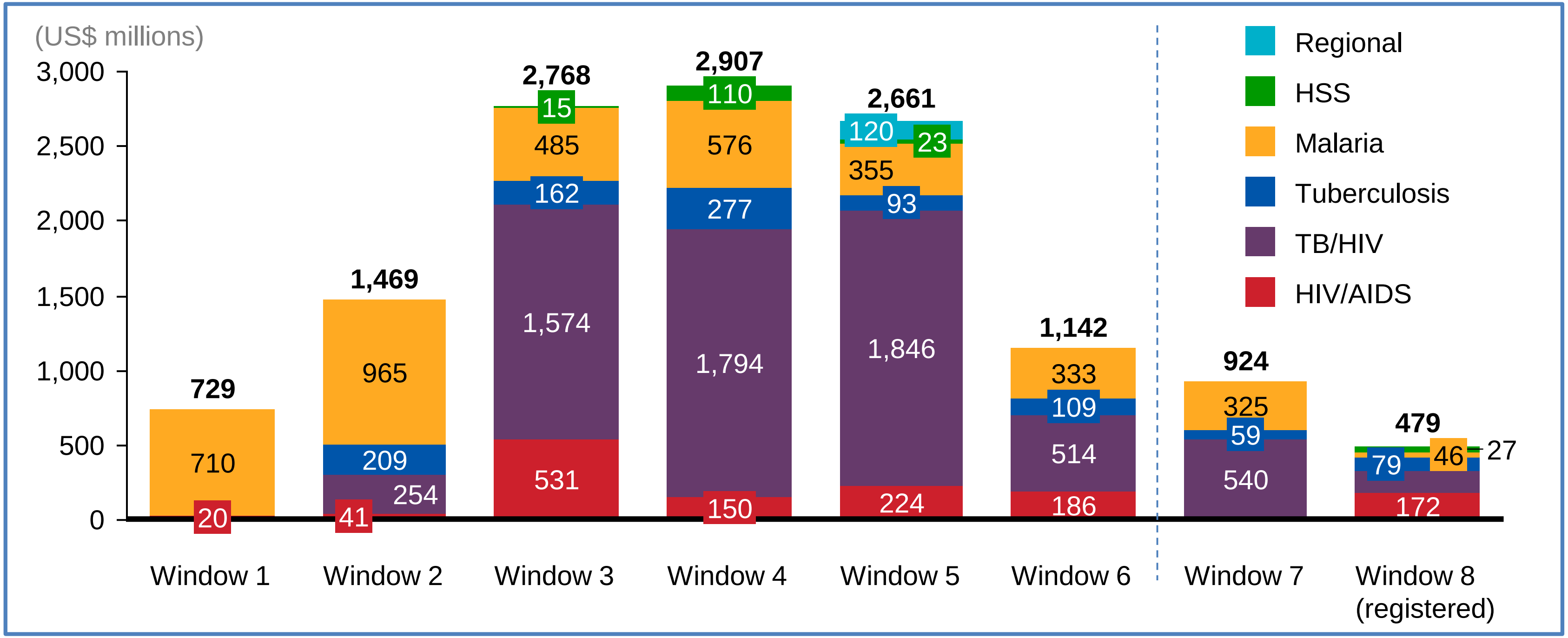
Total cash balance[1]: USD ~1.2 billion (inc $ 1.05 Bn for top 20)

**Committed cash: cash earmarked for payment of Principal Recipients outstanding liabilities related to goods and services ordered (procurement)*

The MTP 2016-2018 reflects the latest view of financials for the next 3 years based off funding from the current allocation

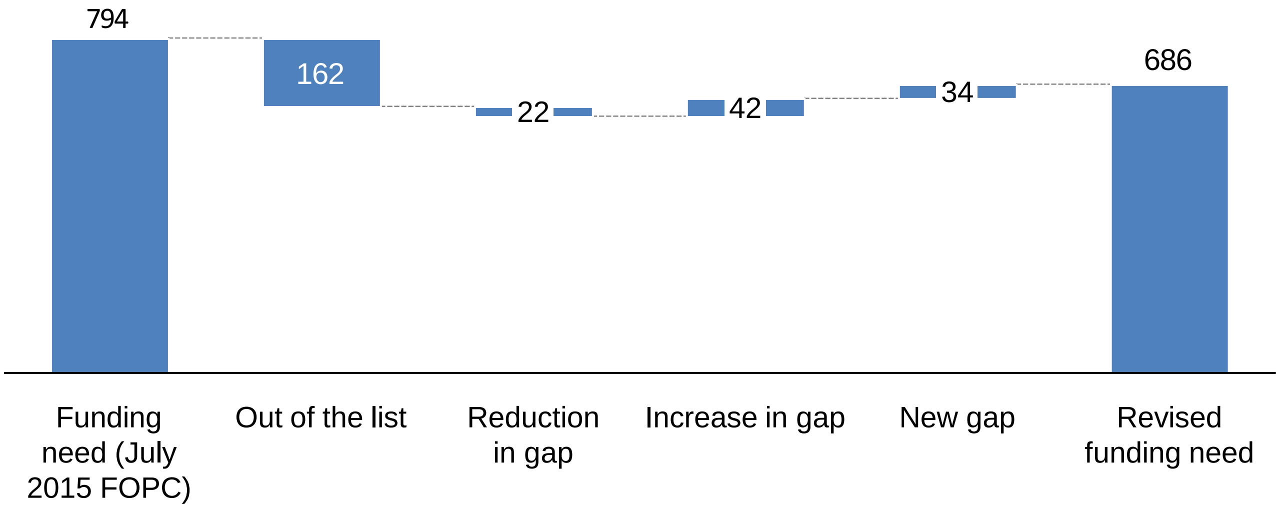
Underlying Assumptions	> 79% of the allocation has now been through the TRP/GAC review, with 59% approved by the board. > Country teams have generated forecasts based off an expectation of absorption rates on the budgets approved. Historic absorption rates against approved budgets have been at 71%
2016-2017 scale up	> Key areas of scale-up vs. 2015 are in High Impact Africa (+$488M) and AME (+$213 M)
Shortened grants	> Lower absorption in countries with a shortened grant is leading to reduction in funding gap: an increasing number of countries should generate enough ‘savings’ (lower absorption) to fully or partially cover 2017 initial funding gap > The MTP assumes portfolio optimization principles will be concretely applied to fulfill the 2017 funding requirements

TRP/GAC will approve $ 13.1 Bn of allocation funding across all windows in allocation period 2014-2016



Note: One Integrated concept note counted as multiple components
SOURCE: Access to Funding database
As of : 03 September 2015

End of 2017 situation: shortened grant funding gap

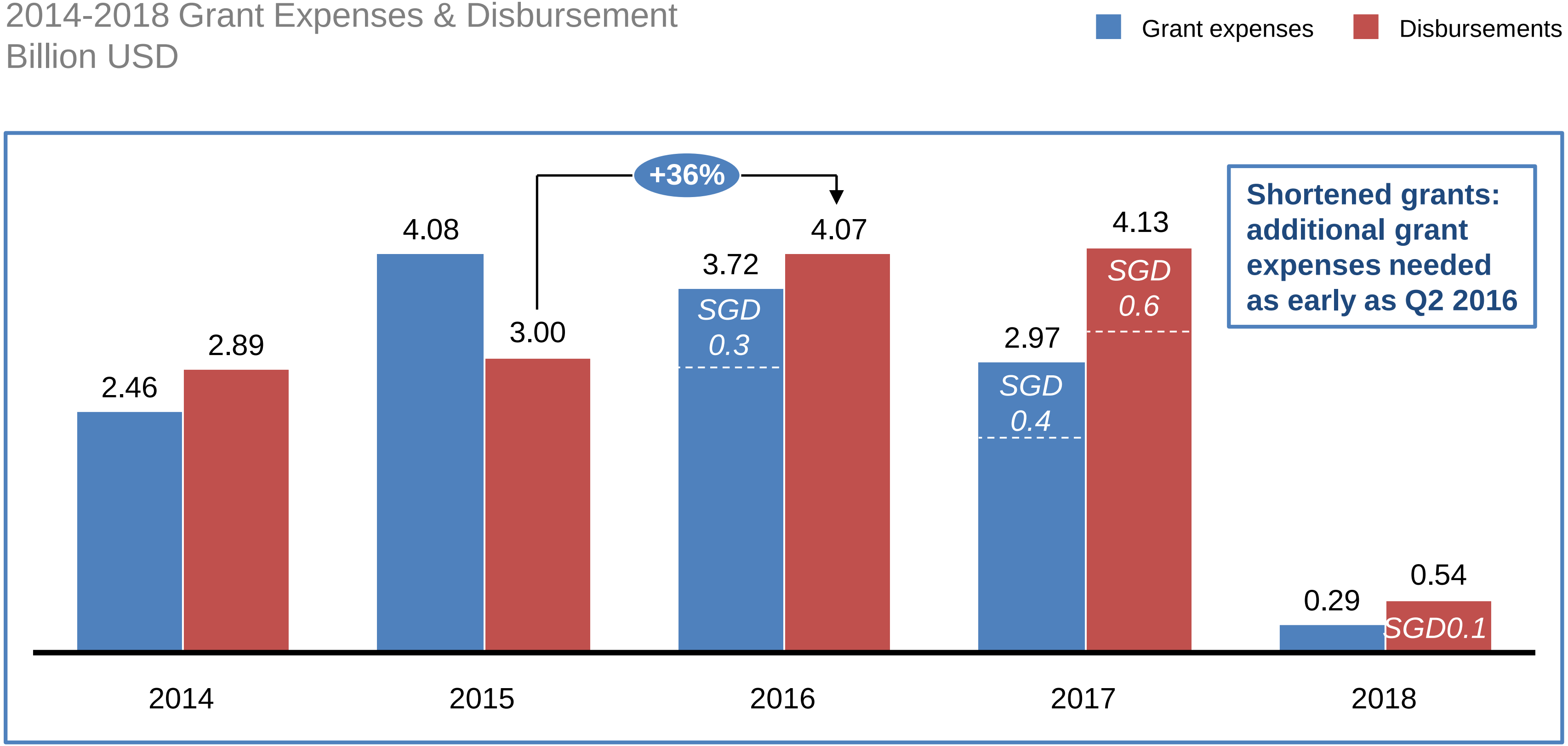


Since first estimate provided to FOPC in September 2014, SGD funding need has decreased from $1.8 Bn to $ 0.7 Bn

Caveat: because A2F disease split as recorded in Salesforce may be different from country team disease splits (allocation of HSS funds to other disease components, funds transfers between HIV, TB and HIV/TB…) funding gap may differ in a non material way.

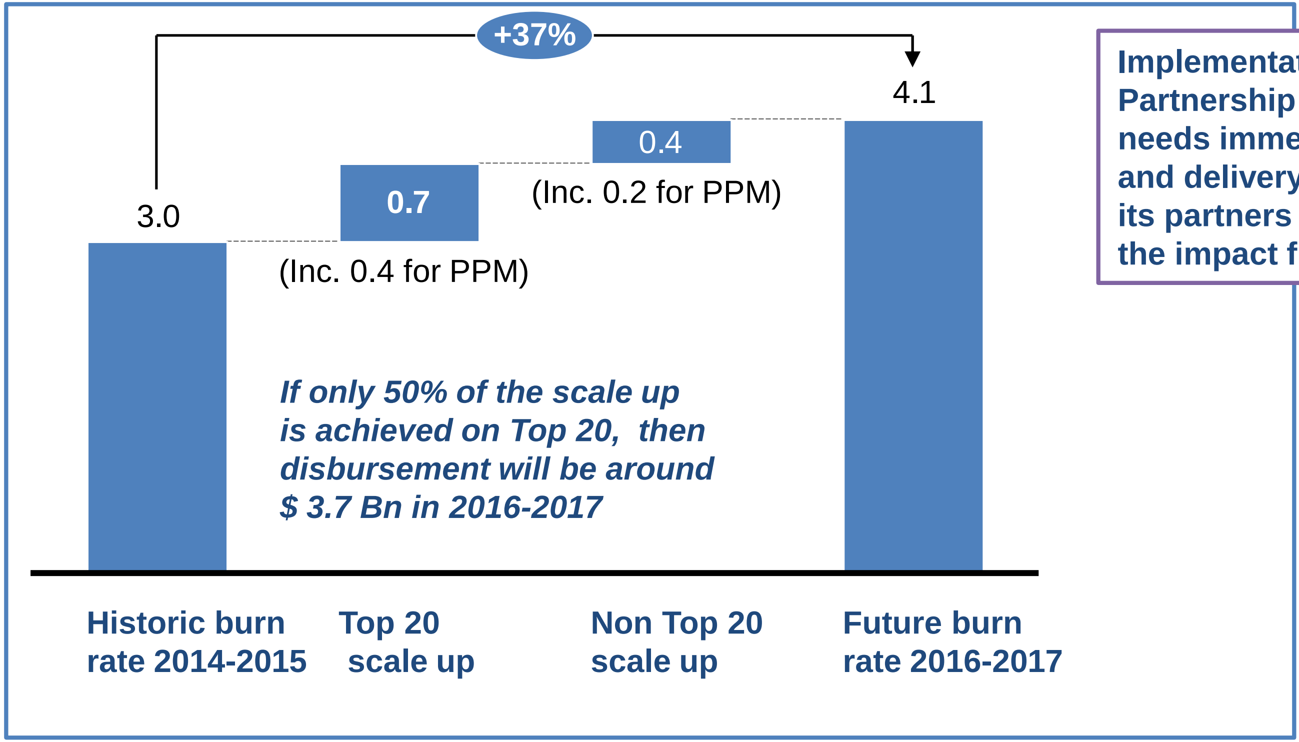
2014-2018: allocation transformation

2014-2018 Grant Expenses & Disbursement
Billion USD



The level of scale-up to deliver required impact in 2016 and 2017 will demand an increased focus on the use of funds in key countries.

USD billions



Implementation Through Partnership program needs immediate support and delivery from GF and its partners to maximize the impact from allocation

Implementation Through Partnership– Proposed engagement plan

With guidance & leadership of "Partner Action Group", leverage existing platforms for diagnostics and action.

Managing for Results
- Preliminary Analysis of issues
- Engagement with in-country partners (CCM)
- Monitoring of progress at country level

Leadership Engagement
- Political and diplomatic engagement with countries
- Leveraging in-country organizational presence
- Global monitoring of progress

Operational Support & Technical Cooperation with Partners and Countries
- Further joint diagnostic and action
- Alignment/reprogramming of existing resources
- Mobilizing additional resources (Human/Financial) to the Country Level

20 Identified Countries

Grant Management as Lead

Partner Action Group & Steering Committee

Convened quarterly by Global Fund

"Implementation Committee"

To be refined with partners and countries, but proposed "Post GAC" structure to build upon joint diagnostics for action in country

HIV Situation Room

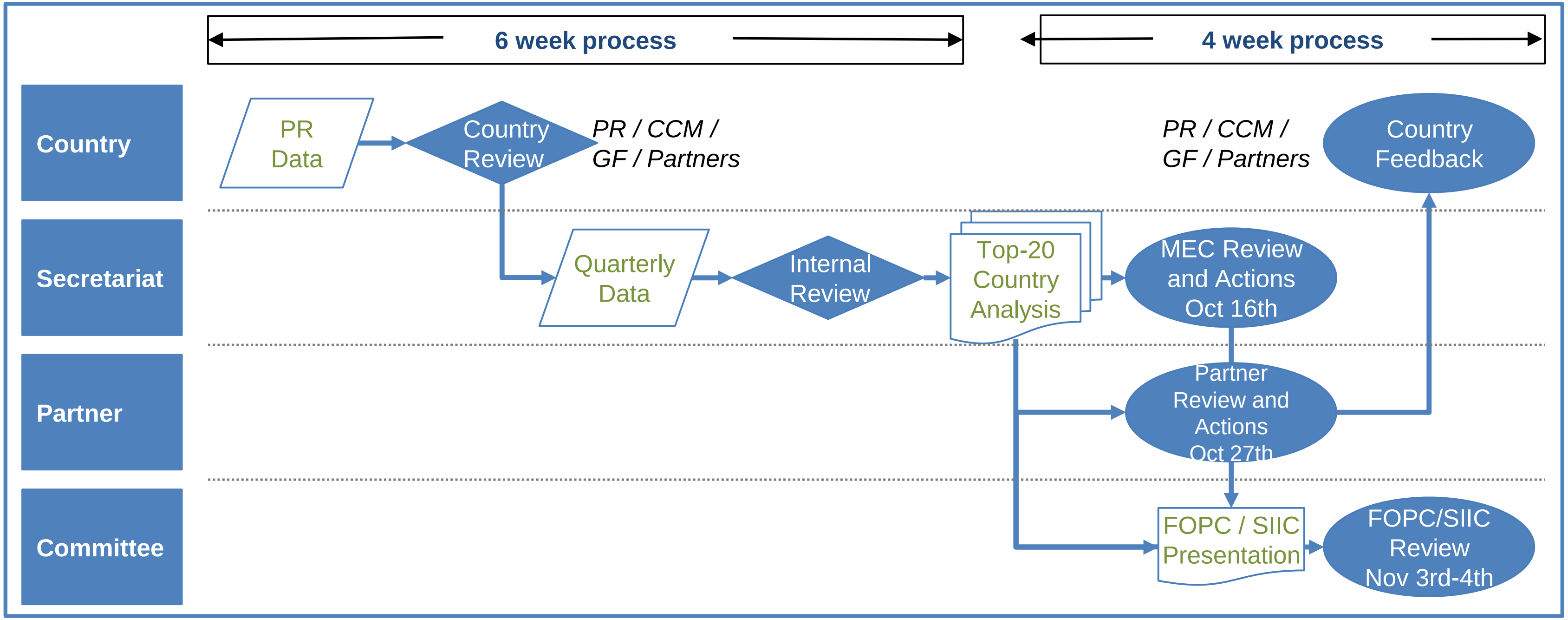
TB Situation Room

Malaria Key Stakeholders Discussion

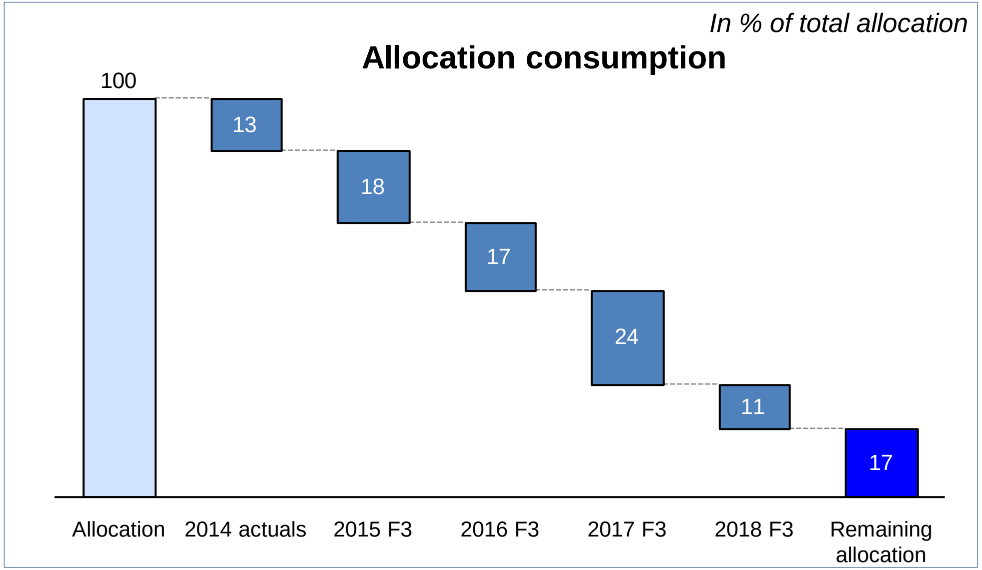
Expanded Core Group

Implementation and scale up for impact – Internal and Board Committee Processes

The plan for increased focus on implementation and scale up will align with internal and Board Committee reporting processes



Key country analyses – Country 1



1. Grant context:

- Strong scale up planned: HIV +31% in number of patients on ART since 2013 and an additional +21% expected by 2017. + 61% on TB case notified by 2017. Scale up factor of 2
- $ 42 M of incentive funding awarded
- Historic absorption: 83% with issues on malaria and TB (around 50%)

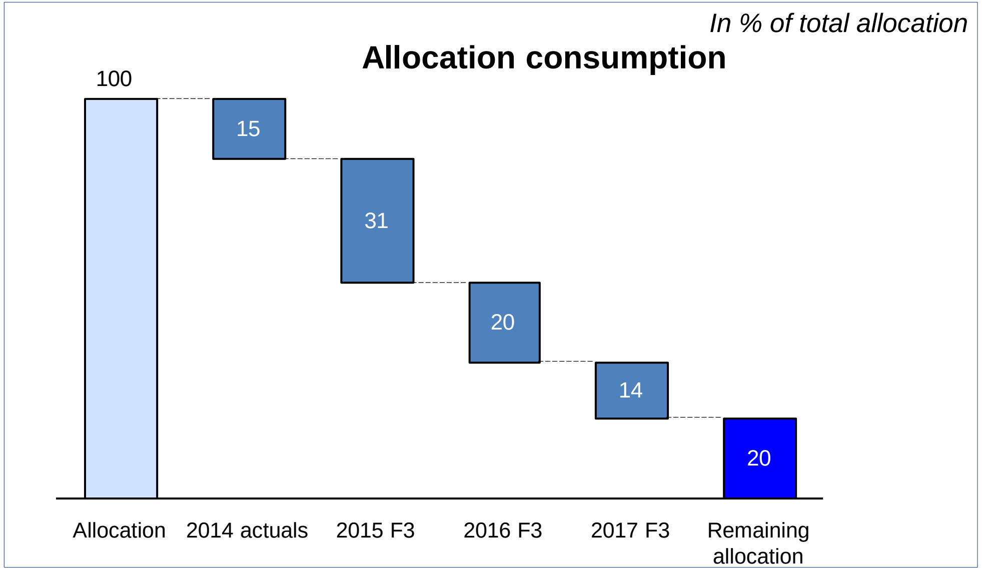
2. **Main bottlenecks:**

- Recruitment of 1,200 new health workers frozen by Country 1 government (budgetary constraints) compromising the planned scale up on HIV and TB
- Potential delay in setting up the Program Implementation Unit (PIU)
- Delay in release of willingness to pay with a risk of decrease in GF funding
- Lack of adequate program implementation follow up

3. Action plan to ensure successful scale up

- **Identification of alternative sources of funds:** high level discussion planned with MOH/MOF on available funding options and related conditions to cover unfunded HR costs
- **PIU set up**: Country Teams to maintain engagement with MOH and GMS to ensure key positions are recruited by Jan 1st 2016. Mobilization of partners to support PIU start through temporary technical assistance
- **Willingness To Pay**: high level discussion planned with country 1 government and partners to ensure timely WTP release
- **Program monitoring**: monthly detailed workplan required from PRs/SRs listing activities, corresponding budget and implementers/persons/department in charge of implementation

Key country analyses – Country 2



1. Grant context:

- Fragile state with challenging operating environment
- Significant scale up across all grants. $ 20 M of incentive funding awarded. Scale up factor of 1.8
- Historic absorption rates of 60% achieved through extensive use of UN agencies/INGOs

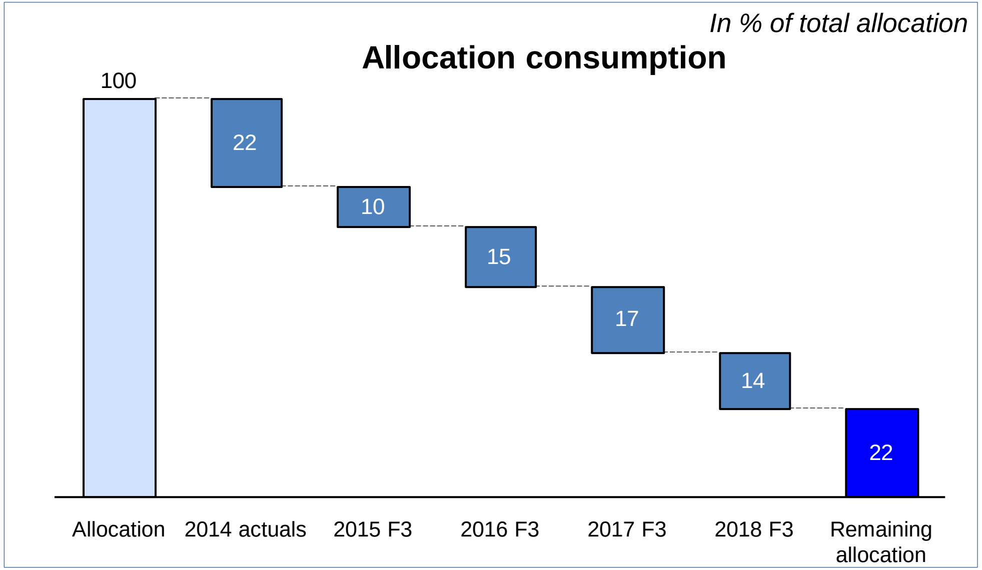
2. **Main bottlenecks:**

- Feeble national institutions and capacity, security concerns and inaccessibility in certain regions of the country
- Unsteady economic environment & foreign currency rationing led to a parallel market for foreign exchange and high inflation: inconsistent remuneration support for national programme staff
- High turnover at PR and SR (INGO) level and weak capacity national programmes
- Key positions vacant at PMU level

3. Action plan to ensure successful scale

- **Increased responsiveness to changes in grant environment:** regular review / check in of annual implementation plans and development of contingency plans
- **Stabilization of country 2 economic framework**: partners (IMF, WB…) advised authorities to adopt appropriate policies to deal with economic instability (grant budgets dollarized to mitigate against exchange risk, MOH to provide a plan to improve remuneration harmonization)
- **Close monitoring of grant activities** through bi-weekly calls with PR and regular contact with SRs (INGOs) and national programmes. Additional capacity building provided
- **Prioritization of support to recruitment processes for key PMU positions**

Key country analyses – Country 3



1. Grant context:

- Elections in February 2016 and volatile security environment (e.g. Boko Haram, AQMI)
- Country under Additional Safeguard Policies
- Significant scale up across all grants. Scale up factor of 9
- Historic absorption rates around 60%

2. **Main bottlenecks:**

- Challenging operating environment
- Weak PR and SR capacities linked to potentially considerable un-disbursed funds by the end of 2016
- Duplication of fiduciary controls due to high risk environment slows down program implementation

3. Action plan to ensure successful scale

- **Increased responsiveness**: Country Team to analyze impact and consider re-programming where needed. CT to work with CCM to critically review program activities and re-program portfolio-wide savings
- **Streamlining financial risk mitigation measures at PR and SR level**: review of Fiscal Agent TOR to strengthen capacity building component; removal of fiscal Agent at INGO PR level; agreement on budget flexibilities; adjustment to zero-cash policy to be discussed; quarterly LFA/FA review of expenditures and development of PR absorption dashboard

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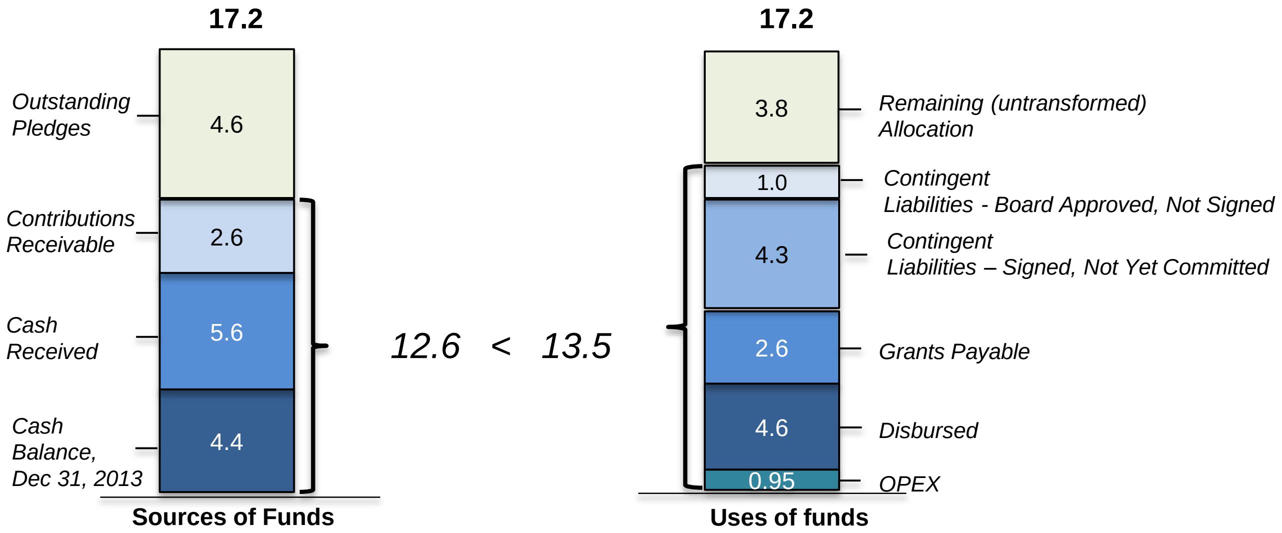
ALM : Pipeline Transformation Status for Sources and Uses of Funds **as at August 31, 2015 ***



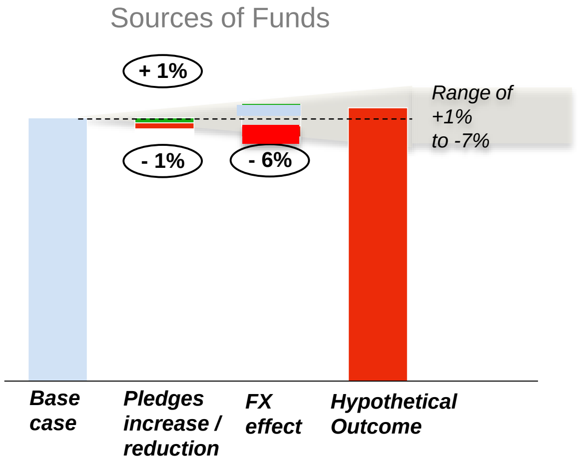
- Consolidated ALM is balanced as measured at comparable replenishment rates
- Compared to the previous quarter, the pace of conversion of allocations overtook that of pledges

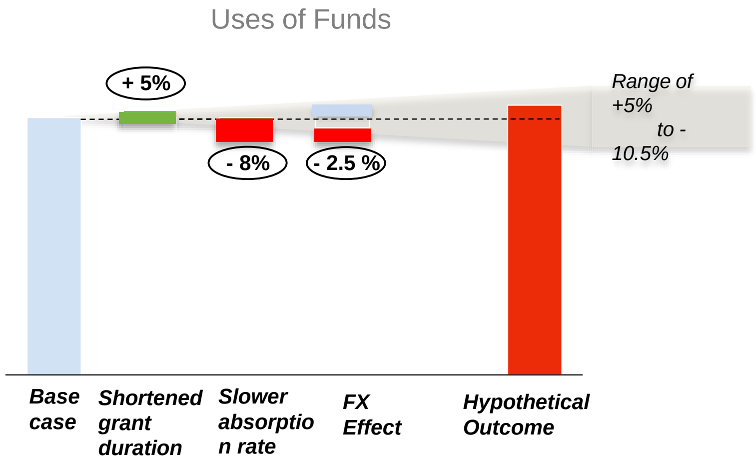
* billion US Dollars, at 4th **replenishment exchange rates**, rounded, not to scale

Factors that could impact Sources and Uses of Funds
As at 30 Sept 2015

As presented to the July 2015 FOPC

FOR ILLUSTRATIVE PURPOSES



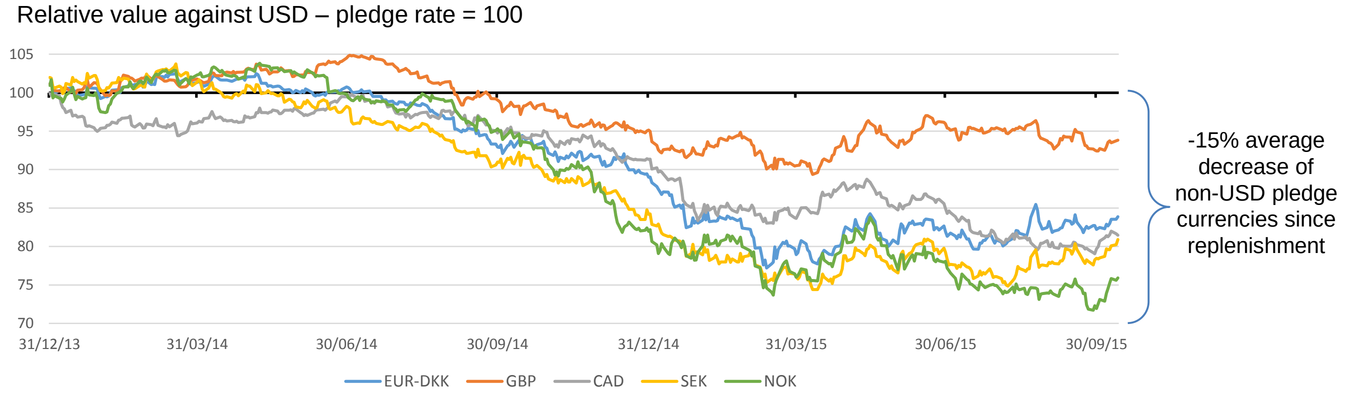


At this advanced point in the 4th replenishment Sources of Funds are more likely to decrease (e.g., due to FX impact) than to increase

Uses of Funds may increase due to shortened grant duration capped at 0.8bn, with higher probability of a decrease due to slower absorption rate (under review)

FX effects on Sources of Funds

Economic and financial impacts: definition



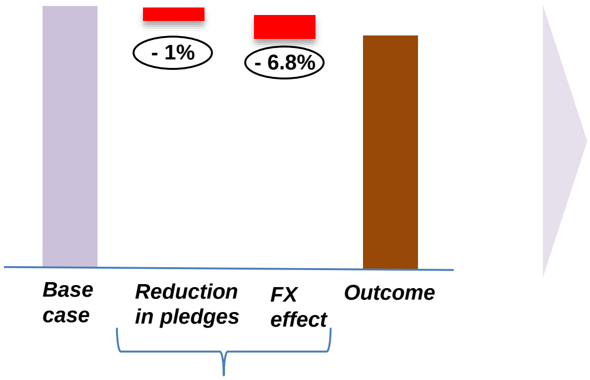
The global currency impact is the result of the difference in foreign exchange rate between the time of the pledge (replenishment rate) and the time that an encashment is received. As a counterpart, there is also a currency impact on Uses of Funds. The FX impact can be split as follows:

- **FX impact from economic exposure**:
  - **“realized” economic impact**: arises from the difference in valuation between the rate at which the pledge was signed and the rate at which the contribution was booked on the Global Fund’s balance sheet;
  - **“unrealized” economic impact**: arises from the difference in valuation between the rate at which the pledge was signed and the current rate, for pledges that are not yet converted into contribution (total of $1.6bn of non-USD pledges still outstanding).

- **FX impact from financial exposure**:
  - **realized financial FX result**: arises from the difference in valuation between the rate at which the contribution was booked and the rate at which it was encashed;
  - **unrealized financial FX result**: arises from the difference in valuation between the rate at which the contribution was booked and the current rate, for contributions that are still not encashed.

Risk Factors that impact **Sources of Funds**: Focus on FX Impact, as at 30 Sept 2015

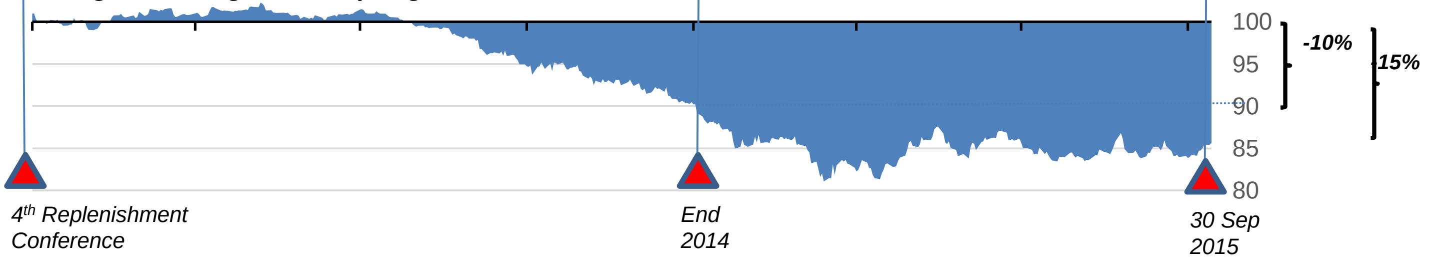
rounded, not to scale



Estimated Risk at -7.8%

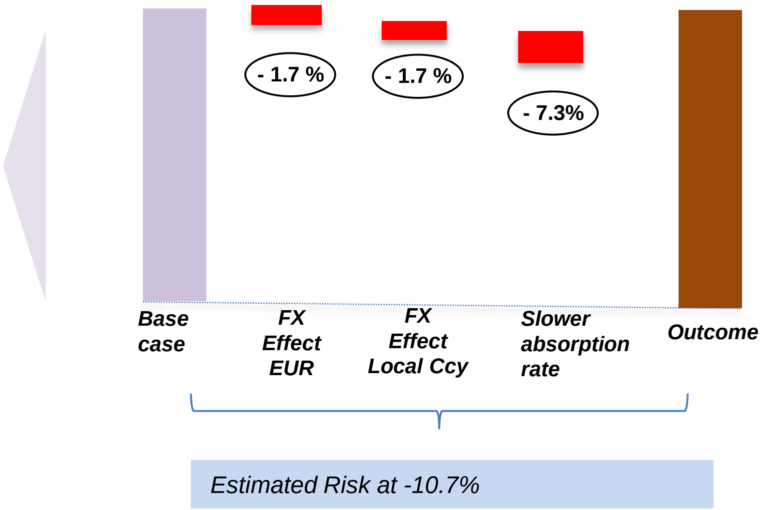
realized: 1.0% *unrealized: 1.5%*	*Financial exposure* *(booking of contributions and encashment)*
realized: 3.3% *unrealized: 1.0%*	*Economic exposure* *(Off balance sheet exposure – timelag between pledges and booking contributions)*
Total FX Risks:6.8%	

Weighted average trend of pledge currencies vs. USD:



Risk Factors that impact **Uses of Funds**: Focus on FX Impact, as at 30 Sept 2015

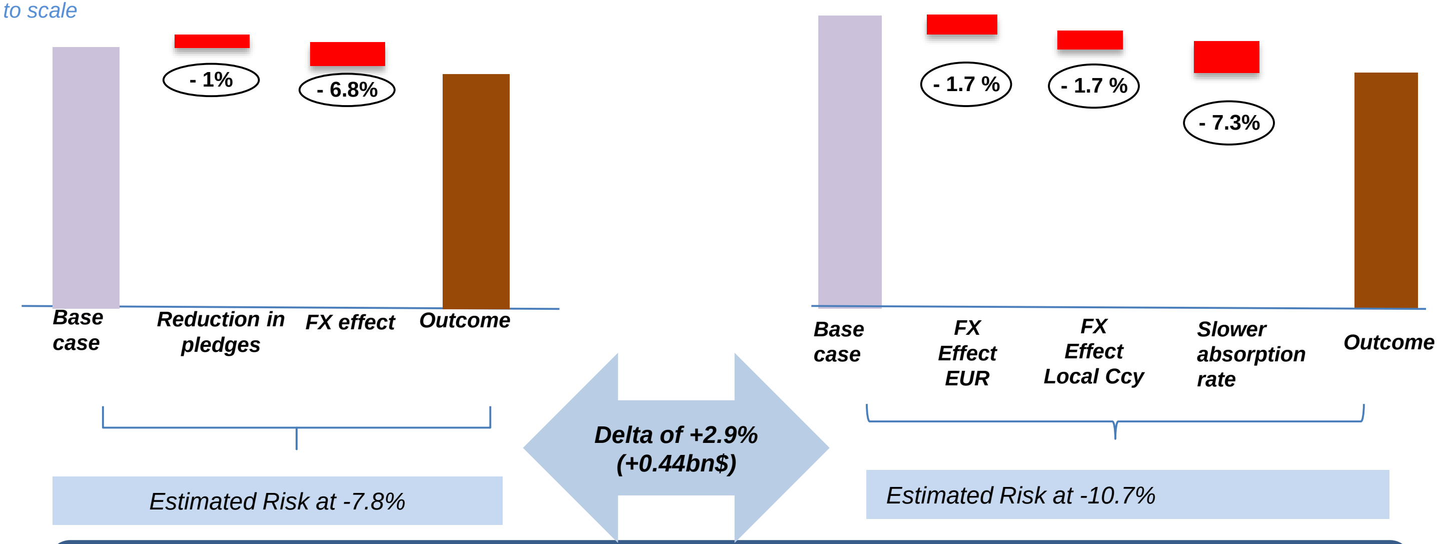
EUR grants	1.7%
Local ccy in USD grants	1.7%
FX Effect	**3.4%**



- FX impact on uses of funds is a “technical” driver for under-absorption ie strictly not related to grant implementation
- It naturally offsets the FX impact on the Sources of Funds
- Thus the need for a centralized portfolio management of the overall FX position

Overall positive ALM balance with source of funds exceeding uses of funds requiring portfolio optimization steps with impact on 2016 and 2017

rounded, not to scale



- Significant influence of macroeconomic factors such as foreign exchange
- Positive balance of funds are to be monitored for allocation through portfolio optimization
- Shortened grant estimated funding requirement $ 0.7 bn

The forecast is a "point in time" picture of the expected ALM position and therefore it is important that risks are considered before funds are re-optimized. The Secretariat will monitor and present these risks and opportunities to the FOPC on an ongoing basis to highlight the funds available for re-optimisation, this will be formally presented to FOPC in Q1. The calculation of the funds will consider uncertainty in the forecast and the measures available to the Secretariat for managing subsequent changes in assumptions.

Portfolio Optimization Core Principles

Optimization is performed at a **portfolio** level, this diversifies the risks and ensures flexibility in approach.

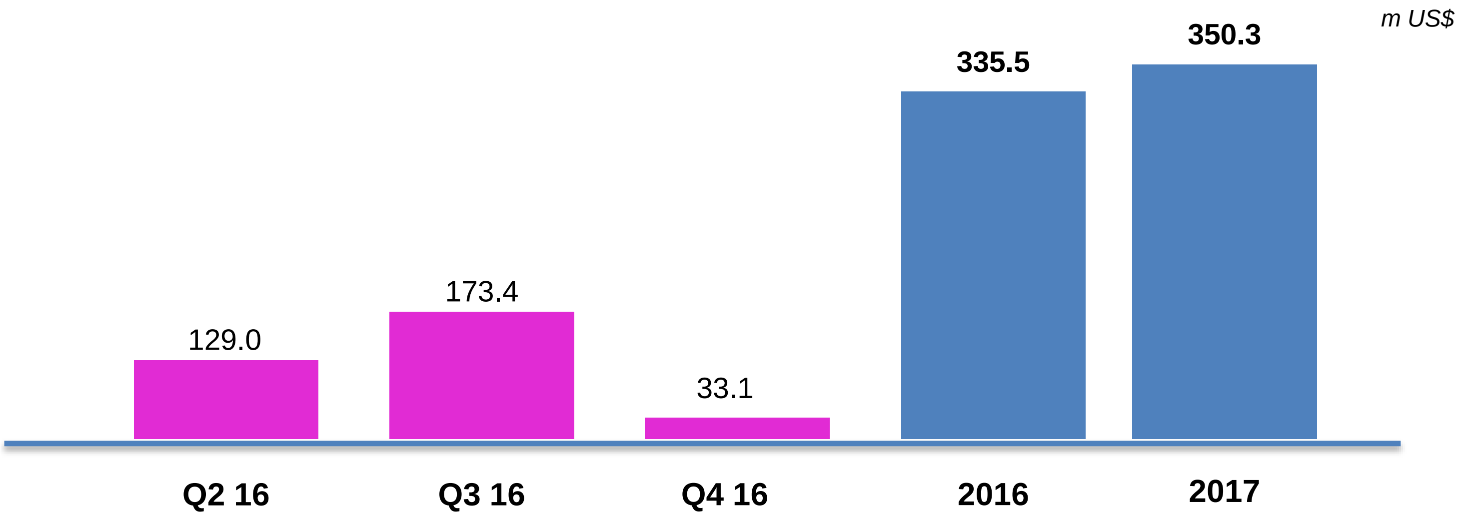
No individual countries will **be obligated** to reduce their activities – normal grant management processes will ensure resources are utilized effectively on the grant.

The re-optimization of funds for the current allocation will not affect the next allocation.

New allocations provided for the next period will consider the continued need for funds on the existing programs after adjusting for **capacity to deliver.**

Portfolio management underpinned by regular financial monitoring of grants and discipline in the ongoing utilization of funds

The prioritization for additional funding is grants with shortened end dates that require funds to continue services in 2017. These funds will need to be accessed as early as Q2 2016 for some countries.



Initial requirement of $129.0m commitment in Q2 2016 required to fulfil commodity requirements in 2017. Funds will be made available from re-optimisation of portfolio based on the latest available forecast of sources and uses of funds.

Portfolio Optimization Principles: The timelines for optimization activity will be aligned with forecast updates and commitment requirements.