

**FINANCIAL AND BUDGETARY MATTERS – UPDATE ON THE FORMAT OF THE  
FORECAST OF UNCOMMITTED ASSETS**

**Purpose:**

This cover note presented the FOPC with information on the proposed format and process to prepare the forecast of uncommitted assets and to regularly update the FOPC and the Board on monthly revisions to the forecast over a rolling three year period. The FOPC was requested to review the information provided, and provide guidance on the approach.

## 1. BACKGROUND

1.1 In order to ensure that the forecast of uncommitted assets shared with the FOPC and the Board can be used to launch funding opportunities and subsequently approve successful applications for funding, the information and assumptions must be presented in a transparent and understandable way.

1.2 The new format for the forecast of uncommitted assets is outlined in Annex 2 of this document. The numbers contained in this sample are for illustrative purposes only.

1.3 The proposed process and key assumptions that will be used to prepare the forecast and to update the FOPC and the Board are outlined in this paper.

1.4 As with any forecast, the forecast of uncommitted assets is subject to change over time as new information becomes available and circumstances change. The main objective of the forecast of uncommitted assets is therefore to inform relevant stakeholders in their decision-making while recognizing the limitations of a forecast. The forecast will be updated on a monthly basis.

## 2. THE LIMITATIONS OF A FORECAST

2.1 As the forecast is a projection of future events, it is subject to significant variations. The uncommitted asset balance in a forecast should always contain a sufficient balance to absorb either unexpected shortfalls in the amount and delays in the timing of contributions, or an unexpected increase in commitments.

2.2 In order to ensure that the FOPC and Board is always provided with the current financial picture of the Global Fund, we propose to move to a rolling three-year forecast. The forecast will show monthly details for the next 12 months, quarterly for the second year, and annual for the third year. It will be updated on a monthly basis to reflect what has actually happened in the month and any changes to the forecast over the remaining period.

## 3 NEXT STEPS

### The main elements of the forecast

3.1 It is recommended to read this section and refer to the sample format of the forecast of uncommitted assets as outlined in Annex 2, and the summary of movements between committed and uncommitted assets in Annex 1 at the same time.

### Opening Balance

3.2 The forecast of uncommitted assets shows the **opening balance** of funds, or financial assets, held by the Trustee and at the Secretariat at the start of the forecast (January 1 2012 in this illustrative case). This figure is further broken down into committed funds and uncommitted funds. The opening balance is an actual amount that can be reconciled to the Trustee reports and the Secretariat's accounts with the Credit Suisse bank in Geneva

3.3 Funds, or financial assets, can be denominated in US dollars or Euros and take the form of cash, short-term and long-term promissory notes issued by donor governments or private entities as well as unqualified portions of multi-year contribution agreements.

3.4 **Committed funds** are those funds that are already committed to grants through signed grant agreements but not yet disbursed to Principal Recipients (PR), or funds committed to finance the operating expenses of the Secretariat but that are not yet paid. If the FOPC requires additional details on the breakdown of committed funds by region, country, disease, or grant, this can be provided.

3.5 **Uncommitted funds** are those funds that are available to finance new grant commitments either through renewals of existing grant agreements such as Phase 2 staggered commitments or through new funding opportunities such as the Transitional Funding Mechanism (TFM). They can also be used for any amounts that remain to be committed for the operating expenses of the Secretariat based on the already approved budget for a given year.

### **Sources of Funds**

3.6 **Sources of funds** is a forecast of the donor contributions expected to be received over a rolling three year period (i.e., 2012, 2013, and 2014 for the current example) broken down by the major categories of contributions, i.e. public sector donors, private sector contributions, and investment returns generated by the Trustee.

3.7 The forecast of expected contributions from public and private sector sources is made by the Resource Mobilization & Donor Relations Division of the Secretariat and reviewed and approved by the Funding and Finance Executive Committee, chaired by the General Manager. The forecast will take into account the best estimates of the timing, amount, currency, and asset type of each expected contribution based on current pledges as well as projections for donors that did not make a pledge.

3.8 A detailed breakdown of the forecasted contributions by individual donors can be provided to the FOPC if required. The FOPC will need to determine the appropriateness of making this information publicly available given that it may place individual donors in a difficult position if the Secretariat has projected a reduced amount or delayed timing of that individual donor's pledge.

### **Uses of Funds**

3.9 The **uses of funds** is the projected grant disbursements (provided by the Grant Management Division) and the projected payments of the operating expenses of the Global Fund (prepared by the Finance, Performance & Treasury Department). The majority of grant disbursements are made in US dollars, with the remainder in Euros. The projection of grant disbursements is a bottom-up exercise that takes into account the expectations of disbursements provided by the Fund Portfolio Managers. The forecast of disbursements will factor in the grant budget, current expenditure rates, the performance of the grant and any major known issues that could affect the projected disbursements (e.g. grant suspension). If the FOPC requires additional details on the breakdown of projected disbursements for the current year by region, country, disease, or grant, this can be provided.

3.10 Disbursements to PRs/payment of operating expenses can only be made if a commitment is already in place (i.e. signed grant agreement or approved operating expenses budget). Therefore, while disbursements and payments reduce the overall balance of funds as it is an outflow of cash from the bank account, they do not affect the level of uncommitted funds. Instead, such payments decrease the balance of already committed funds.

## Commitments

3.11 The forecast of **commitments** covers the projected commitments for grants (provided by the Grant Management Division in conjunction with Finance, Performance & Treasury Department) and the budgeted operating expenses (provided by the Finance, Performance & Treasury Department). The operating expenses commitments will typically be made in two separate commitment installments covering 6 months each of the Board-approved annual operating expenses budget. The forecasting of grant commitments is more complex than forecasting sources of funds as it involves projecting the timing and amount of commitments for several hundred grants at different stages of a grant's lifecycle and approved proposal components over a three year or longer period.

3.12 The grant commitments forecast will take into account:

- Funding limitations put in place by the Board to satisfy Board decision GF/B25/DP16.
- Projected performance based funding targets on grant renewals.
- An estimate of efficiency gains on the signing of new grants.
- The timing of commitments which follow the Board-mandated staggering rules (e.g. initially committing 90% of a Phase 1 grant followed by an additional 10% at a later date, splitting a 3-year phase 2 amount into three annual tranches, known as the "1+1+1" rule)
- The projected amount of the commitment based on either approved budgets or TRP clarified and approved amounts per year.
- An estimate of funds that may be de-committed from expiring grants (i.e. funds that have been committed but not physically disbursed may be freed up and released back to the pool of uncommitted funds if they are not required).

3.13 Importantly, the grant commitments figure has the potential to fluctuate significantly from month to month, depending on the timing and outcome of the grant negotiation process. In addition, the level of commitments actually made will be heavily influenced by the actual needs of the grant. For example: we would expect poor performing grants to be implementing less than planned, and therefore spend less than budgeted, resulting in lower disbursements from the Global Fund, and therefore a reduced need for an additional commitment of funds. The projected commitments can be provided to FOPC if required, by type of commitment, region, country, and disease.

3.14 The **Closing Balance** will reflect the movement in funds over the period and the change in the level of committed and uncommitted funds. Essentially, sources of funds (contributions) increase the overall balance of funds and the level of uncommitted funds. Commitments reduce the level of uncommitted funds and increase the level of committed funds by the same amount but do not affect the overall balance of funds as funds do not physically leave the bank. Uses of funds (disbursements/payments) have the effect of reducing the level of committed funds and the overall balance of funds as they represent a physical outflow of funds from the bank.

3.15 A sample for illustrative purposes of a summary of how the sources of funds, uses of funds, and commitments affect the fund balance and in particular the uncommitted funds balance is outlined in Annex 1.

3.16 As the forecast covers a three-year period, every quarter, an additional quarter will be added to the forecast and the quarter that has just passed will be removed. Essentially this will result in an update around May 2012 to remove January - March 2012 from the forecast and to bring in quarter 1 of 2015 into year 3 of the forecast. This process will then continue every quarter to ensure that the FOPC and Board has information for the next three years.

3.17 The process for adjusting the forecast on a monthly basis is proposed as follows:

- First week of the month – The Treasury management team will prepare an analysis of actuals versus the forecast.
- Second week – The analysis of the variance and proposed adjustments to the forecast will be provided by the relevant functions (Resource Mobilization & Donor Relations, Grant Management, and Finance, Performance and Treasury) and the forecast will be updated.
- Third Week – the Funding & Finance Executive Committee will review the variance analysis and material adjustments to the forecast and approve the changes.
- Fourth Week – The information will be published in a private zone of the FOPC/Board website (requires input from FOPC), and a conference call will be scheduled for the relevant FOPC focal points and FOPC leadership as required to discuss the adjustments and request clarification if required.

#### **4 NEXT STEPS**

4.1 The Secretariat will continue to refine the forecasting methodology and format. If the FOPC has specific comments in that regard, we look forward to hearing your suggestions.

4.2 The Secretariat will be in a position to prepare the formal forecast of uncommitted assets by the third week of April 2012 at which point, it can be submitted for FOPC review and deliberation before being submitted to the Board at the end of April 2012.

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.

<b>Summary of Fund Movement - 2012 (SAMPLE ONLY)</b>			
<i>USD Millions</i>	Uncommitted	Committed	Total
<b>Opening Balance</b>	100	500	600
<b>Sources of Funds</b>			
	2,590		2,590
Public Sector Donors	2,350		2,350
Private Sector Contribution	120		120
Investment Returns	120		120
<b>Uses of Funds</b>			
		-2,160	-2,160
Grant Disbursements		-2,000	-2,000
Operating Expense Payments		-160	-160
<b>Commitments</b>			
	-1,880	1,880	0
Grant Commitments	-1,680	1,680	0
Operating Expenses	-200	200	0
<b>Closing Balance</b>	810	220	1,030
<b>NOTE: THESE AMOUNTS ARE NOT REAL AND ARE INCLUDED FOR ILLUSTRATIVE PURPOSES ONLY</b>			

Reconciled to Trustee Account

Contribution and Investment Returns are received as uncommitted assets

Disbursements and opex payments are cash payments which reduced committed funds

Signing a grant agreement or approving the annual opex budget are non cash transactions which transfer uncommitted assets to committed assets at the Trustee

**SAMPLE ONLY: Forecast of Uncommitted Assets**

*in million US Dollars*

	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
<b>Opening Balance</b>	600	620	720	680	940	640	595	515	665	580	1,510	1,370	1,030	945	940	975	600	1,030	850
<u>Committed</u>	500	590	570	670	620	350	440	480	510	460	460	380	220	520	650	680	500	220	570
Uncommitted	100	30	150	10	320	290		35	155	120	1,050	990	810	425	290	295	100	810	280
<b>Sources of Funds</b>	120	210	160	510	20		130	220	15	1,010	60	120	295	265	435	505	2,590	1,500	1,580
<u>Public Sector</u>	100	200	100	500			100	200	-	1,000	50	100	250	200	400	450	2,350	1,300	1,250
<u>Private Sector</u>	10	-	50	-		5	20	10	5	-	-	10	20	40	10	30	120	100	220
Investment Returns	10	10	10		10	10	10	10	10	10	10	10	25	25	25	25	120	100	110
<b>Uses of Funds</b>	(100)	(110)		(250)	(320)	(60)	(210)	(70)	(100)	(80)	(200)	(460)	(380)	(270)	(400)	(630)	(2,160)	(1,680)	(1,220)
<u>Grant Disbursements</u>	(90)	(90)	(90)	(240)	(290)	(50)	(200)	(50)	(90)	(70)	(190)	(450)	(330)	(240)	(370)	(600)	(2,000)	(1,540)	(1,100)
Operating Expense Payments	(10)	(20)	(10)	(10)	(30)	(10)	(10)	(20)	(10)	(10)	(10)	(10)	(50)	(30)	(30)	(30)	(160)	(140)	(120)
<b>Commitments</b>	190	90	300	200	50	150	250	100	50	80	120	300	680	400	430	520	1,880	2,030	1,640
<u>Grant Commitments</u>	90	90	300	200	50	50	250	100	50	80	120	300	600	400	350	520	1,680	1,870	1,500
Operating Expenses	100	-	-	-	-	100	-	-	-	-	-	-	80	-	80	-	200	160	140
<b>Closing Balance</b>	620	720	680	940	640	595	515	665	580	1,510	1,370	1,030	945	940	975	850	1,030	850	1,210
Committed	590	570	670	620	350	440	480	510	460	460	380	220	520	650	680	570	220	570	990
Uncommitted	30	150	10	320	290	155	35	155	120	1,050	990	810	425	290	295	280	810	280	220

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