

# 39<sup>th</sup> Board Meeting

## Executive Summary of the Global Fund Financial Performance (complement to the 2017 Financial Statements)

GF/B39/20

09-10 May 2018, Skopje

### **Board Information**

Purpose of the paper: This document provides an executive summary of the 2017 financial performance. It covers pledges and contributions, grant management financials, asset and liability management, as well as 2017 operating expenses and strategic initiatives. As such, this summary serves as a complement to the 2017 audited financial statements, presented for Board approval pursuant to GF/B39/20.

This paper is for information purposes and does not propose any decision point.

## Part 1 - Executive Summary

The Global Fund's financial performance continues to be anchored around an operational strategy to strengthen financial management practices through enhanced analysis, policies, procedures and systems that are critical catalysts for achieving health outcomes for strategy implementation. In 2017, while close to 70% of the 4th replenishment grant portfolio was coming to an end, the Global Fund undertook a dual challenge - ensuring timely grant making for 165 new 5th replenishment country applications, while maintaining strong emphasis on absorption in the last year of implementation. The following summarizes the key financial highlights for 2017:

- a. Total sources of funds (within the meaning of the Comprehensive Funding Policy<sup>1</sup>) arising from pledges and contributions are unchanged for the 5th replenishment. Under the 5th replenishment, the conversion of pledges continues, with contributions of US\$ 3.44 bn recorded in 2017.
- b. Actual 2017 disbursements for the grant portfolio amounted to US\$ 4.26 bn, representing an increase of 21% compared to 2016. Pending the final reconciliation and closure of NFM grants under the 4th replenishment and implementation of the remaining 215 grants (approx. 30% in value), the current allocation utilization stands at 89%. This can be attributed to the accelerated pace in implementation achieved through reprogramming as well as disbursements processed (US\$ 0.9 bn) to ensure the effective launch of the grants related to the 2017-2019 allocation cycle.
- c. Out of the Strategic Initiatives (SI)<sup>2</sup> envelope of US\$ 174 m (excl. Emergency Fund of US\$20 m), US\$ 153 m of SI budget have been reviewed and approved by GAC.
- d. Actual operating expenditures (OPEX) at budget rate amounted to US\$297.6 m, representing a US\$ 2.4 m or 0.8% budgetary savings compared to the approved budget of US\$300 m.
- e. Asset-liability management (ALM) balances are unchanged for both the 4th and 5th replenishments.

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<sup>1</sup> The Board approved the Comprehensive Funding Policy as set forth in Annex 1 to GF/B36/02 - Revision 1 pursuant to GF/B36/DPO4 (November 2016).

<sup>2</sup> The Board decided, pursuant to GF/B36/DPO6 (November 2016), to make available US\$ 800 million for catalytic investments over the 2017 - 2019 allocation period for the priorities and associated costs presented in Table 1 of GF/B36/04 - Revision 2, of which no portion will be moved to further balance scale up, impact and paced reductions through country allocations.

## Part 2 – Sources and Uses of Funds

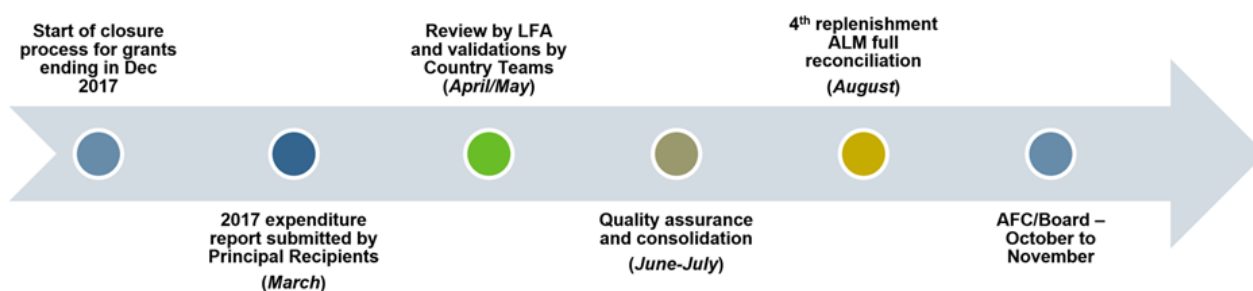
### 1. Pledges and Contributions

Under the 5th replenishment, total sources of funds arising from pledges are unchanged, since the update to the 38th Board meeting, at US\$ 10.9 bn<sup>3</sup>. Contributions of US\$ 3.44 bn have been made in 2017, as well as cash receipts of US\$ 2.56 bn. These amounts, in addition to contributions already made in 2016 under the 5th replenishment, bring the conversion of 5th replenishment balances to US\$ 2.7 bn total cash received, as well as contributions receivable of US\$ 3.2bn.

### 2. Grant Management financials

The 2017 actual disbursements made for grant investments amounted to US\$ 4.26 bn representing an increase of US\$ 740 m (+21%) when compared to 2016. This is the result of continued efforts on implementation with reprogramming of activities performed in the last year of the grant. These factors are positive signals of improved absorption and stabilization of the operational trends of the new funding model. The Secretariat will triangulate and validate the corporate absorption trend (disbursement/allocation) against the in-country absorption (expenditure/disbursement and expenditure/grant budget)<sup>4</sup> through a formalized allocation closure and reconciliation process later this year<sup>5</sup>. The F1 forecast for the 5th replenishment (financial projections for the next 3 years) indicates a 98% utilization of the 2017-2019 allocation.

The planned reconciliation timeline is provided below:



Portfolio optimization may occur from Q3 2018. It will determine potential additional funding from 4th replenishment available for portfolio optimization to be approved by the AFC in the fall of 2018. The process will take into account:

- Grant closure process for approximately 70% of the grant portfolio for grants funded from 2014-2016 allocation and ended as at 31 December 2017.
- Full impact of transition cut off on 2014-2016 allocation absorption to be finalized during second half of 2018.

<sup>3</sup> GF/AFC05/12 – Part A and Part B.

<sup>4</sup> Progress updates with final expenditure data will be submitted by the Principal Recipients and verified by the Local Fund Agent (LFA) or program auditors during Q2, and the Secretariat will ensure liquidation of any open in-country commitments and final validation in Q3/Q4.

<sup>5</sup> As outlined in the report of the 5<sup>th</sup> meeting, GF/AFC05/23 - Revision 1 (October 2017), “the first forecasts of available funds at Secretariat level [has been] compiled in Q1 2018, but the full reconciliation won’t be available until Q3 2018.”

In July 2017, the AFC approved US\$ 50 m as available sources of funds for financing prioritized and costed areas of need on the register of unfunded quality demand for the 2017-2019 allocation period<sup>6</sup>.

### **3. Strategic Initiatives (SI)**

The SI overall envelope amounts to US\$ 194 m including US\$ 20 m for the Emergency Fund. Out of the remaining US\$ 174 m, 88% or US\$ 152.9 m of funding has been reviewed and approved by the Secretariat by the end of 2017 and 11% or US\$ 18 m has been utilized. A SI Coordination Office has been established to monitor and provide strategic/operational oversight of all SI activities. The implementation period for SI is aligned with the majority of grants for the 2017-2019 allocation period. The 2017 utilization reflects the setting up and structuring phase of the different initiatives. Absorption will be monitored similarly to the grants during the period 2018 to the end of 2020 with the application of the Allocation Utilization Period (AUP) principles.

### **4. 2017 Operating Expenses actuals**

2017 OPEX actuals amounts to US\$ 297.6 m, representing the highest absorption rate (99.2%) reached since the budget is capped at US\$ 300 m<sup>7</sup>. This actual amount corresponds to a variance of -US\$2.4 m (or -0.8%) vs the budget, at budget rate. This favourable variance between OPEX actuals and the budget is driven by:

- External assurance (-US\$ 1.1 m): External assurance efficiencies (US\$ 3.0 m savings) are mainly due to delays in switching funding modality for the Health Facility Assessment (HFA) and reprogramming of grant funds, as well as LFA underspend, due to cost efficiencies and service delivery delays. These efficiencies have been partly offset by additional funding in the amount of US\$1.9 m for CCMs, representing an overspend of 21%, versus the 2017 CCM budget of US\$8.9 m.
- Operational efficiencies in relation to staff costs and other non-recurring costs (-US\$ 6.3 m)
- Operational investments (+US\$ 5.0 m), mainly driven by:
  - Professional fees for the acceleration of the Global Health Campus (GHC) project, and reinvestment on key IT projects; and
  - The 'Fit for the Future' (FFF) initiative.

The US\$ 2.4 m of savings achieved in 2017 will be directed toward the absorption of the 2018 GHC one-off OPEX impact, to ensure Secretariat OPEX over the 2017-2019 period stays within the Board approved envelope of US\$ 900 m<sup>8</sup>.

### **5. Asset & Liability Management (ALM)**

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<sup>6</sup> The Strategy Committee approved the framework for portfolio optimization pursuant to GF/SCo4/DPO2 (July 2017) and the AFC approved funds for such uses pursuant to GF/AFCo4/DPO1 (July 2017).

<sup>7</sup> The Board approved the 2017 operating expenses budget pursuant to GF/B36/DPO8 (November 2016).

<sup>8</sup> In approving the 2018 operating expenses budget pursuant to GF/B38/DPO6 (November 2017), the Board reaffirmed agreement that the total operating expenses over the 2017-2019 period will remain within US\$ 900 million and directed the Secretariat to undertake a comprehensive review of both the operating expense budget for 2019 and the operating expenses required to meet the Global Fund's strategic objectives, in connection with the presentation of the 2019 operating expenses budget.

At its 38th meeting in November 2017, the Board was presented a balanced ALM for each of the 4th and the 5th replenishment<sup>9</sup>.

Under the 4th replenishment, ALM balances are unchanged and also remains balanced. A reconciliation of the 4<sup>th</sup> replenishment ALM will be made in Q3 2018, following the reconciliation of uncommitted grant related cash balances, as part of the transition to the current allocation period.

Under the 5th replenishment, ALM balances are also unchanged.

### **Part 3 – Financial Statements** (cf. document GF/B39/xx)

Based on the audit procedures performed by KPMG SA, as external auditor for the period ended 31 December 2017, the auditor confirmed it is in a position to issue unqualified audit opinions for the 2017 Annual Consolidated Financial Statements and 2017 Statutory Financial Statements, also confirming:

- a. no matters regarding fraud or illegal acts;
- b. no new findings or audit adjustments during this period; and
- c. no open management letter points on material weaknesses.

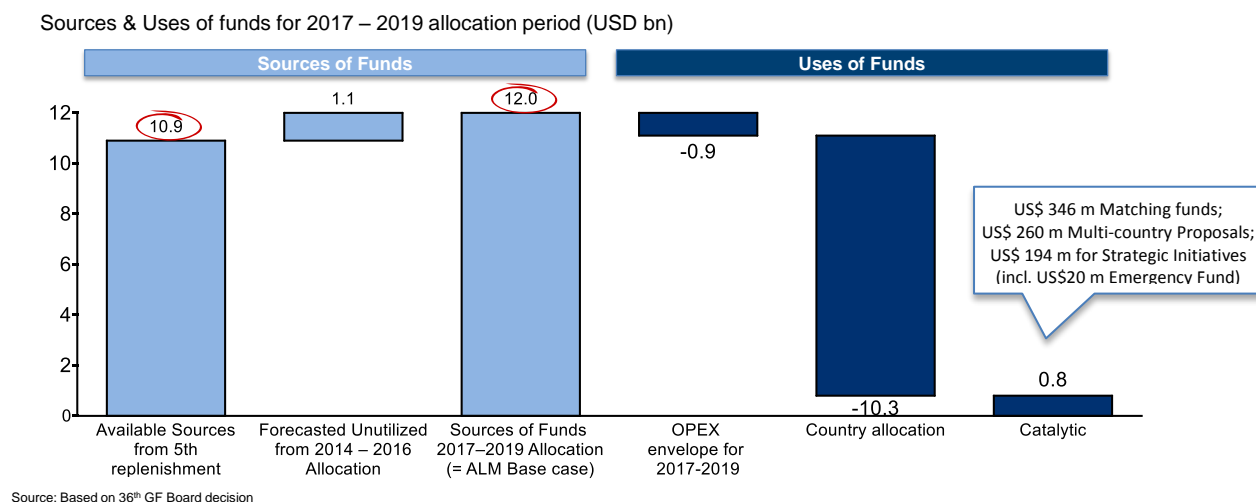
Following review and discussion of the presentation by the Secretariat and the External Auditor at the AFC's 6th meeting in March 2018, the AFC agreed to recommend the 2017 Annual Financial Report and the 2017 Statutory Financial Statements to the Board for approval.

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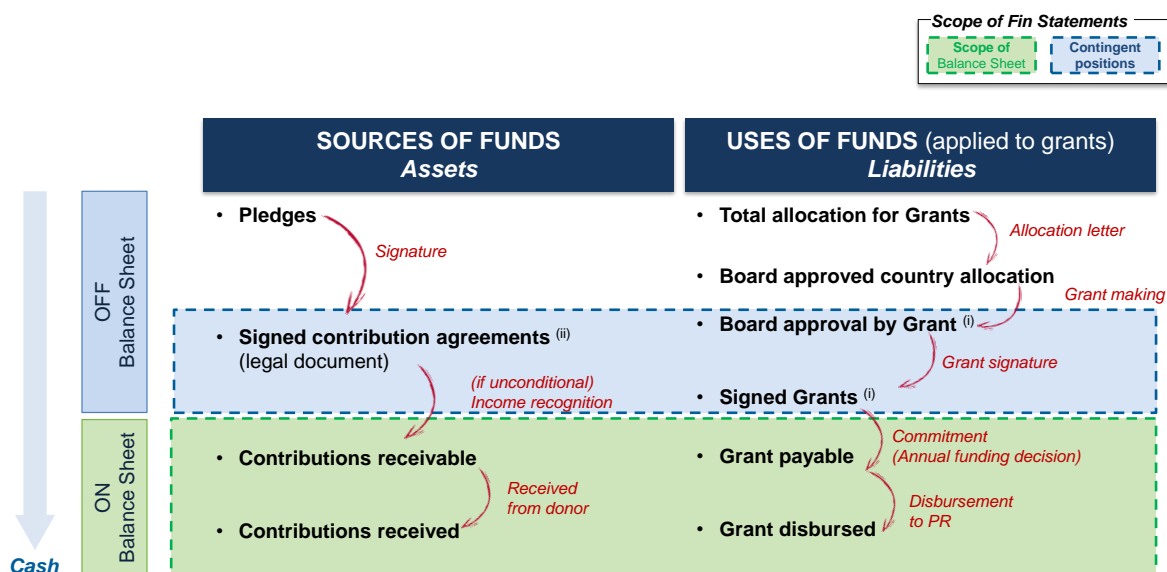
<sup>9</sup> The Strategy Committee approved the framework for portfolio optimization pursuant to GF/SCo4/DPO2 (July 2017) and the AFC approved funds for such uses pursuant to GF/AFCo4/DPO1 (July 2017).

## Annex 1: Reminder on the 2017-2019 Allocation

For the 2017-2019 allocation period, the Global Fund Board has designated US\$ 10.3 bn in allocation funding and US\$ 800 m for catalytic funding (GF/B36/DPO5). Of this catalytic funding US\$ 346 m has been designated for Matching Funds and US\$ 260 m for Multi-country Proposals. The remaining amount of US\$ 194 m is for Strategic Initiatives (including US\$20 m for the Emergency Fund), which are managed by the Secretariat.

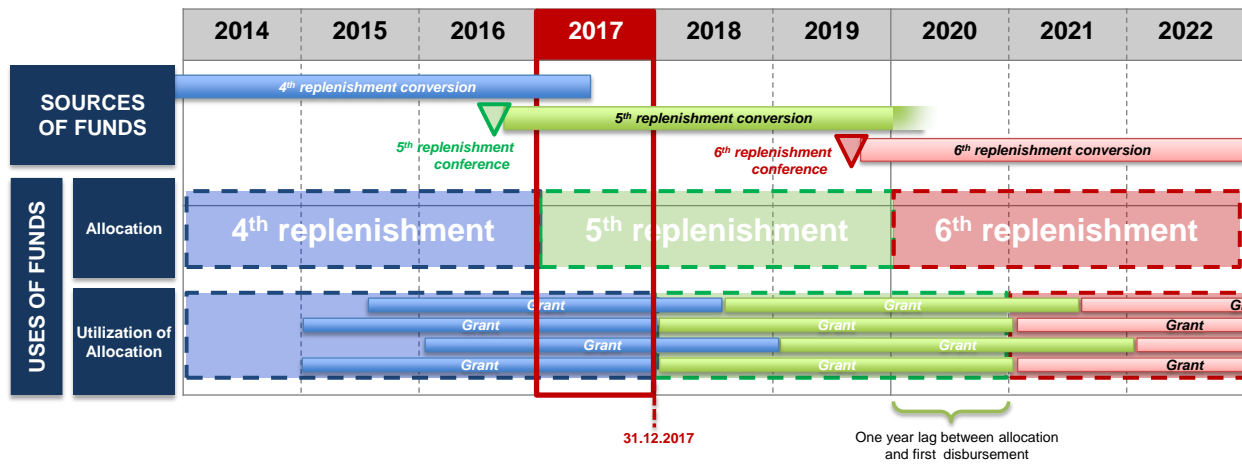


## Annex 2: Illustrative reminder on the scope of the financial statements, within the GF Asset & Liability Management



Note: Simplified view on uses of funds, depicting only the grant component; (i) The grant is Board approved but not committed (refer to note 3.1, in 2017 Annual Financial Report); (ii) "Conditional Contributions" are subject to performance obligations or factors beyond the control of the GF (refer to note 4.3)

### Annex 3: Illustration - Sources and uses of funds follow distinct cycles, impacting interpretation of 2017 Financial Statements



The Financial Statements reflect the cyclical nature of the GF. 2017 has seen a reduction of contribution income, following the peak driven by the 2016 replenishment, as well as a reduction in grant expenditure, 2017 being the final commitment year in the 4th allocation.