

The Global Fund to Fight AIDS, Tuberculosis and Malaria
Interim Financial Report

INTERIM FINANCIAL REPORT



30 June 2015

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2015 KEY OPERATIONAL ACTIVITIES

1. Progress on the Funding Model

The Global Fund implemented an allocation-based funding model in March 2014. USD 14.8 billion was available for allocation funding (including existing funds already committed) as of 1 January 2014.¹ As at 30 June 2015, the Board had approved 44 percent of total allocation funding (see figure 1.1).

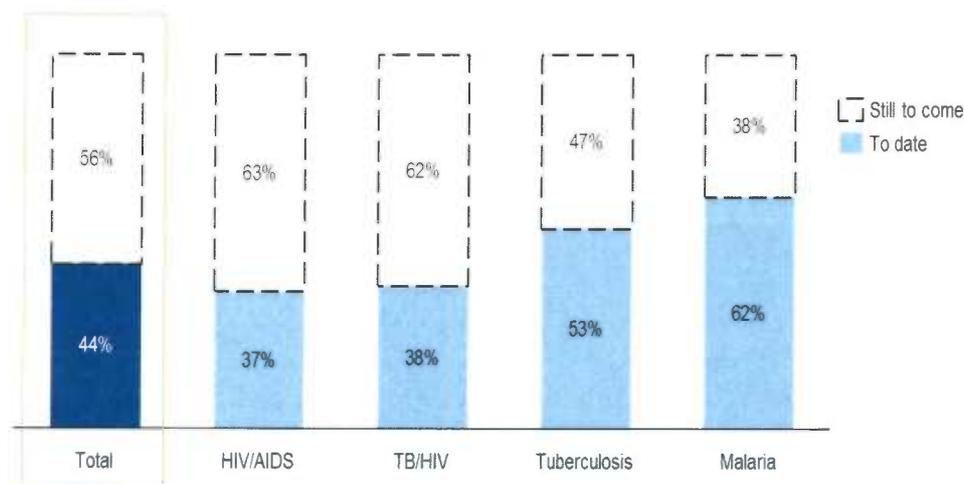


Figure 1.1: Current Board approval of 2014-2016 allocation funding

To use their allocation, countries submit concept notes during a window of their choice. Two submission windows occurred between January and June 2015. These were the fifth and sixth windows of the allocation model, with submission dates of 30 January and 20 April, respectively.

Applicants submitted 73 new single or multi-country concept notes and 17 iterations of previous submissions in these windows.² The Global Fund's independent Technical Review Panel and Grant Approvals Committee reviewed the concept notes. Seventy-one concept notes were approved for grant-making, representing USD 3.9 billion or 26 percent of the 2014-2016 allocation funding.

The regional applications follow a two-step process:

1. Applicants first submit an expression of interest; and
2. Eligible and strategically-focused applicants are invited to submit a concept note.

Fifteen regional concept notes – which originated from expressions of interest submitted in 2014 – were submitted and reviewed in 2015. Thirteen were approved for grant-making. Thirty-five expressions of interest were considered in 2015 and were under review at the time of this publication.

Due to the need to sustain continuity in programming, 74 grant extensions were also reviewed and approved, representing USD 205 million in additional incremental funding within the allocation envelope.

The Board approved 93 grants during the period, totaling USD 2.5 billion in incremental funding. These grants originated from concept notes submitted from the beginning of the allocation model. A new web page listing all grants approved by the Board to date under the allocation model was published in May 2015.³

¹ For a list of allocations by country and the detailed allocation methodology, refer to the [allocation section](#) of the Global Fund website.

² The list of concept notes submitted in each window is on the [registrations and submissions page](#).

³ Grants approved by the Board to date are listed on the [funding decisions page](#).

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In summary, since the beginning of the allocation model through June 2015:

- The Technical Review Panel and Grant Approvals Committee have recommended USD 11.6 billion of allocation funds for grant-making, representing 79 percent of total allocated funding (see figure 1.2).
- The Grant Approvals Committee has awarded USD 0.7 billion in incentive funding.⁴
- The Board has approved 138 grants, totaling USD 3.9 billion in incremental funding and representing 68 percent of incremental funding.
- USD 2.5 billion is on the Register of Unfunded Quality Demand.⁵

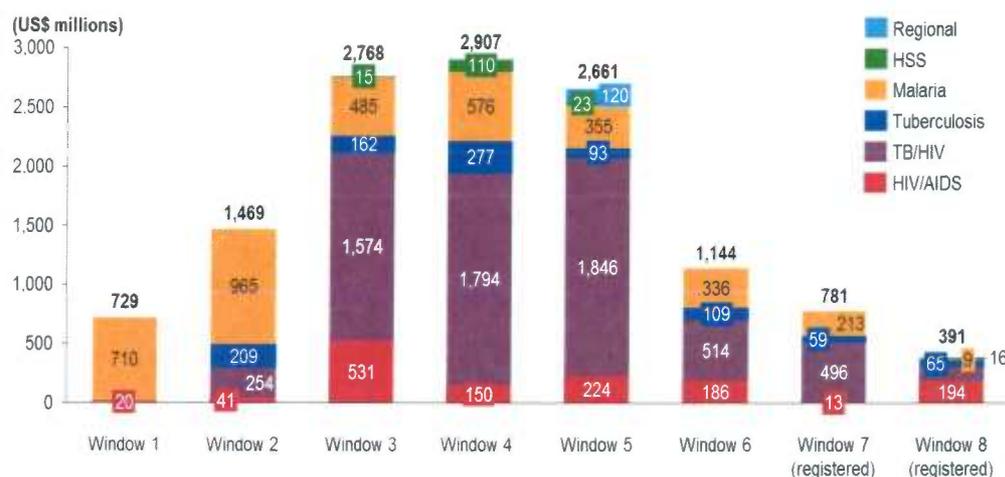


Figure 1.2: Value of concept notes recommended for grant-making by component by window

2. Strategy Development Process

The Secretariat is developing the Global Fund's next strategy for the period starting in 2017, under direction from the Board's Strategy, Investment and Impact Committee. A strategic framework with strategic objectives and associated sub-objectives will be presented for further discussion and endorsement by the Strategy, Investment and Impact Committee and the Board of the Global Fund in 2015.

The strategy development process includes a series of Partnership Forum events during 2015. Recommendations from each Partnership Forum will guide and provide input to the Board through its Strategy, Investment and Impact Committee directly contributing to the Global Fund's strategic direction and implementation framework. Other in-person and electronic forms of consultation are also an integral part of this extensive consultation process.

FINANCIAL COMMENTARY

The interim condensed consolidated statement of financial position shows total assets of USD 7,469 million as at 30 June 2015 (USD 7,706 million as at 31 December 2014). Current assets accounted for USD 6,094 million (31 December 2014: USD 5,601 million) of which USD 4,259 million (31 December 2014: USD 4,403 million) was held as cash and cash equivalents.

⁴ Incentive funding awarded by the GAC is listed on the [incentive funding page](#).

⁵ The register is available for download on the [Register of Unfunded Quality Demand page](#). An updated register was published in July.

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Contributions receivable reduced by USD 245 million to reach USD 2,927 million (31 December 2014: 3,172 million) during the first six months in 2015.

Total liabilities as at 30 June 2015 amounted to USD 2,145 million (31 December 2014: USD 1,796 million) which included USD 1,926 million of grants payable under current liabilities (31 December 2014: USD 1,555 million). In addition to the grants payable recorded in the interim condensed consolidated statement of financial position, the total contingent liability for future grant expenditure stands at USD 5,611 million (31 December 2014: USD 4,601 million).

Key progress on the following core financial components achieved during the first half year of 2015 has been analyzed below:

1. Financial management framework
2. Donor pledges and contributions
3. Grant commitments and disbursements
4. Secretariat's operating expenditure
5. The Global Fund Provident Fund

1. Financial management framework

During the first six months of 2015, the Global Fund has operationalized certain treasury management policies approved by its Finance and Operational Performance Committee (FOPC) during 2014.

Foreign exchange management

In May 2015, the Global Fund signed forward exchange hedging contracts under the Swiss Master Agreement regulated by the International Swaps and Derivatives Association, commonly known as the ISDA-SMA. These agreements have been entered into with three commercial banks which enable the Secretariat to hedge its key foreign currency exposure through appropriate hedging instruments with commercial banks that have the minimum long-term credit rating in accordance with the foreign-exchange management policy approved by FOPC in 2014.

All new contribution agreements signed effective May 2015 which do not bear any conditionality on the future payments and hence are recognized on the Global Fund balance sheet are fully hedged. For the ongoing open positions, specific hedging strategies have been executed by the Treasury department.

Cash management

Effective May 2015 and following the opening of commercial bank accounts with top tier financial institutions, the Global Fund is now autonomous for most of its direct grant disbursements which were previously handled by the World Bank.

During 2015, the Global Fund has also implemented a formal working capital advance mechanism with the two major Procurement Service Agents (PSAs) - The Partnership for Supply Chain Management (PFSCM) and the International Dispensary Association Foundation (IDA) for undertaking procurement services under the pooled procurement mechanism (PPM). This is a major step forward in the implementation of the liquidity-risk management principles set forth in the Amended Comprehensive Funding Policy that authorizes the Secretariat to make cash advances as required for the successful running of its operations. The creation of a working capital advance mechanism for the PSAs has enabled improved cash and credit risk management.

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Trustee relationship

The donor contributions from most sovereign donor countries continue to be received at the World Bank. The Secretariat has implemented an active cash management process including autonomous grant disbursements.

2. Donor pledges and contributions

The contributions received during the first half of 2015 were USD 189 million less when compared to the first half of 2014, a reduction of 13 percent. This is a result of increased contribution agreements having been signed during 2013-2014, immediately following the Fourth Replenishment conference.

During the first half of 2015, USD 1,296 million was recognized as income from donor governments; of which USD 1,098 million was recognized as income following the signing of new contribution agreements. The key donors for incremental contribution during 2015 were the United States, Canada, Japan, European Commission and Italy. In addition, USD 167 million was recognized as contribution income from donor governments that had signed conditional agreements in 2014. Lastly, USD 26 million was recognized as revenue upon utilization of AMFm funds.

No major changes were reported to the pledges made under the Fourth Replenishment during the first six months of 2015.

3. Grant commitments and disbursements

During the first half of 2015, the Secretariat made new grant commitments in the amount of USD 1,706 million, 8 percent above grant commitments made during the same period in 2014. This increase reflects new grants coming through the funding model process, together with the continued scale-up of activities in key countries. This includes USD 8 million (2014: NIL) on Special Initiatives projects. Such projects are cross-cutting activities that largely facilitate grant implementation capacity and are implemented through project partners like local government agencies, international organizations and private foundations.

The value of grant disbursements during the first half-year 2015 was USD 1,423 million as compared to USD 1,337 million disbursed during the first half-year in 2014, an increase of 6 percent.

The grant disbursements can be analyzed as follows:

- USD 1,122 million was paid to Principal Recipients and the third-party suppliers contracted by them (2014: USD 1,272 million);
- USD 288 million was paid as advances to the PSAs for grant pharmaceutical products to be delivered to the Principal Recipients under PPM (2014: USD 65 million); of which USD 131 million paid to the PSAs remained outstanding as at 30 June 2015 (2014: NIL);
- USD 7 million was paid towards grant-funded AMFm drugs delivered to Principal Recipients (2014: NIL); and
- USD 6 million was paid for Special Initiatives project partners (2014: NIL).

The overall contingent liability for grants increased by USD 1,010 million following an increase in the volume of grants approved by the Board upon successful approval of the concept notes.

During 2015 the Secretariat has undertaken an active management of grants during the grant closure process. This has brought down the number of grants awaiting administrative closure from over 190 as at 31 December 2014 to 104 as at 30 June 2015. These grants had no open liability. During administrative closure any in-country cash balance that is determined as refundable is subject to

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standard grant management processes. In addition, an on-going monitoring mechanism has been established for grants that are awaiting administrative closure pending the conclusion of an OIG audit or investigation or pending the settlement of agreed recoverable funds.

4. Operating expenditure

During the first half year of 2015 the Secretariat spent USD 136 million (2014: USD 132 million) on operating expenditure, a marginal increase of 3 percent over the 2014 half-year.

5. Global Fund Provident Fund

As at 30 June 2015, when measured in the administration currency Swiss Francs (CHF), the Provident Fund assets fully cover the underlying employee benefit liability.

USD 106 million (31 December 2014: USD 92 million) was held as investments for the Global Fund Provident Fund for funding the future employee benefit obligations. During the first half of 2015, the Provident Fund continued the investment selection process to achieve the strategic asset allocation approved by the Provident Fund Management Board during 2014. In addition USD 3.9 million (31 December 2014: USD 3.6 million) was held as cash and cash equivalents in commercial banks. For the six months ended 30 June 2015 a net valuation loss of USD 1.4 million was recognized based on mark to market valuations of the Provident Fund investments undertaken by the institutional fund managers.

As of 30 June 2015 the employee benefit obligation is USD 112 million (31 December 2014: USD 99 million).

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Responsibility for the interim condensed consolidated financial statements

The Secretariat is responsible for the preparation of the interim condensed consolidated financial statements and related information that is presented in this report. The consolidated financial statements are prepared in accordance with International Accounting Standard (IAS) 34 “Interim Financial Reporting.”

The interim condensed consolidated financial statements include amounts based on estimates and judgments made by the Secretariat. Ernst & Young SA was appointed as the statutory auditors by the Global Fund Board upon the recommendation of its Audit and Ethics Committee to review the interim condensed consolidated financial statements of the Global Fund.

The Secretariat designs and maintains accounting and internal control systems to provide reasonable assurance at reasonable cost that assets are safeguarded against loss from unauthorised use or disposition, and that the financial records are reliable for preparing financial statements and maintaining accountability for assets. These systems are augmented by written policies, an organisational structure providing division of responsibilities, careful selection and training of qualified personnel, and a program of external reviews.

The Board, through its Audit and Ethics Committee, meets periodically with the Secretariat and Ernst & Young to ensure that each is meeting its responsibilities, and to discuss matters concerning internal controls and financial reporting.

These interim condensed consolidated financial statements were approved by the Global Fund Audit and Ethics Committee (“the AEC”) on 14 September 2015.

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REPORT OF THE INDEPENDENT AUDITOR

with the interim condensed consolidated financial statements (unaudited) as of 30 June 2015
of The Global Fund to fight AIDS, Tuberculosis and Malaria, Vernier

To the Global Fund Board of

The Global Fund to Fight AIDS, Tuberculosis and Malaria, Vernier

Geneva, 14 September 2015

Report on review of the independent auditor on the interim condensed consolidated financial statements

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of The Global Fund to Fight AIDS, Tuberculosis and Malaria as of 30 June 2015 and the related interim condensed consolidated statements of statement of income, statement of comprehensive income, statement of financial position, statement of cash flows and statement of changes in funds on pages 11 to 21 for the six-month period then ended, and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34 Interim Financial Reporting (IAS 34). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

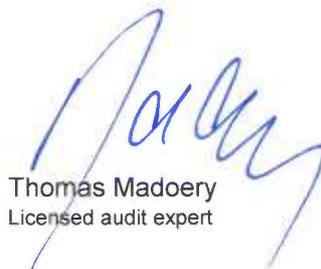
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Ernst & Young Ltd



Laurent Bludzien
Licensed audit expert
(Auditor in charge)



Thomas Madoery
Licensed audit expert

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Interim condensed consolidated statement of income

For the six months ended 30 June	<u>Notes</u>	<u>2015</u>	<u>2014</u>
In millions of USD			
Income			
Contributions	4	1,320	1,509
Expenditure			
Grants	5	1,706	1,586
Operating expenses	6	<u>136</u>	<u>132</u>
Net operating loss		<u>(522)</u>	<u>(209)</u>
Net foreign currency (losses)/ gains	7	(77)	16
Trust Fund income		14	28
Net Provident Fund investment valuation (loss)/ gain		(1)	4
Decrease in funds/ comprehensive loss		<u>(586)</u>	<u>(161)</u>

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Interim condensed consolidated statement of financial position

As at	<u>Notes</u>	<u>30.06.2015</u>	<u>31.12.2014</u>
In millions of USD			
Assets			
Current assets			
Cash and cash equivalents	8	4,259	4,403
Contributions receivable	9	1,564	1,076
Advances for Pooled Procurement Mechanism	10	131	-
Provident Fund investments		106	92
Prepayments and other receivables		33	30
Forward currency contracts at fair value	11	1	-
		<u>6,094</u>	<u>5,601</u>
Non-current assets			
Contributions receivable	9	1,363	2,096
Plant, property and equipment		2	2
Intangible assets		10	7
		<u>1,375</u>	<u>2,105</u>
Total Assets		<u>7,469</u>	<u>7,706</u>
Liabilities and funds			
Liabilities			
Current liabilities			
Grants payable	12	1,926	1,555
Accrued expenses		37	45
Accounts payable		10	11
Deferred contributions		60	86
		<u>2,033</u>	<u>1,697</u>
Non-current liabilities			
Employee benefit liability		112	99
Total Liabilities		<u>2,145</u>	<u>1,796</u>
Funds			
Foundation capital		-	-
Temporarily restricted funds		14	14
Unrestricted funds		5,310	5,896
Total Funds		<u>5,324</u>	<u>5,910</u>
Total liabilities and funds		<u>7,469</u>	<u>7,706</u>

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Interim condensed consolidated statement of cash flow

For the six months ended 30 June	<u>Notes</u>	<u>2015</u>	<u>2014</u>
In millions of USD			
Operating activities			
Cash receipts from donors		1,454	1,179
Trust Fund income		14	29
		<u>1,468</u>	<u>1,208</u>
Cash paid for grants		(1,423)	(1,337)
AMFm co-payments disbursed		(34)	(61)
Payments to suppliers and personnel		(135)	(132)
		<u>(1,592)</u>	<u>(1,530)</u>
Net cash flow used in operating activities		<u>(124)</u>	<u>(322)</u>
Investing activities			
Purchase of Provident Fund investments		(28)	-
Sale of Provident Fund investments		18	-
Purchase of fixed assets and intangible assets		(2)	(4)
Net cash flow used in investing activities		<u>(12)</u>	<u>(4)</u>
Effect of exchange rate changes on cash and cash equivalents		(8)	(7)
Net (decrease) in cash and cash equivalents		<u>(144)</u>	<u>(333)</u>
Cash and cash equivalents			
at beginning of the period	8	4,403	4,397
at end of the period	8	<u>4,259</u>	<u>4,064</u>

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Interim condensed consolidated statement of changes in funds

For the six months ended 30 June

In millions of USD

	Foundation capital	Temporarily restricted funds	Unrestricted funds	Total
As at 1 January 2014	-	20	5,533	5,553
Decrease in funds/ comprehensive loss	-	(7)	(154)	(161)
At 30 June 2014	-	13	5,379	5,392
As at 1 January 2015	-	14	5,896	5,910
Decrease in funds/ comprehensive loss	-	-	(586)	(586)
At 30 June 2015	-	14	5,310	5,324

The Global Fund has nominated and maintains a foundation capital of CHF 50,000 by virtue of being registered as a non-profit foundation under the laws of Switzerland.