

FORECAST OF ASSETS,
JULY 1, 2012 – JUNE 30, 2015

PURPOSE:

1. This report presents the Forecast of Assets for the three year period from July 1, 2012 through June 30, 2015. This Forecast was reviewed by the Finance and Operational Performance Committee (FOPC) at its 4th meeting. A letter to the Board from the Chair and Vice-Chair of the FOPC accompanies this Forecast.

4 September, 2012

Letter to the Board from the FOPC Chair and the 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 three-year period from July 1, 2012 through June 30, 2015, and to reflect some of the dialogue within the FOPC regarding development of this Forecast.

As a general matter, we believe this Forecast warrants cautious optimism as it shows continuing improvement in uncommitted assets that are projected to be available over the next three years. This is a positive development.

However, there are important considerations to bear in mind when looking at the Forecast. First, it is important to recall that the Forecast reflects only grant commitments that stem from Board-approved proposals and relevant Board decisions. Therefore, it does not include continuing funding for expiring grants or other potential funding opportunities that may be approved by the Board. Second, the Forecast projects on a conservative basis donor contributions for the years 2014 and 2015, which extend beyond formal pledges that have been made for the current replenishment period that ends in 2013. Third, in the near term, experience has shown that the Forecast is subject to significant timing shifts for both donations and commitments.

We also note that the Secretariat has recommended that the unanticipated risk provision remain at US\$ 500 million based upon current analysis and assumptions. While the FOPC agreed with the Secretariat's recommendation, the Committee also called for continuing research and analysis to clarify more precisely the nature of the risks facing the Fund and to determine the proper basis for establishing the appropriate level for the unanticipated risk provision.

In order to better understand the forecasting methodology and process, as well as to assess the reliability of the forecasting tool, the FOPC leadership and two focal points - one each from the donor and implementer bloc - assigned to follow financial matters were closely involved in overseeing monthly forecast updates for April, May, June, and July 2012. During these reviews conducted via conference call, forecast techniques and methodology were discussed, forecast processes were clarified and monthly variances were analyzed. Secretariat staff from different departments involved in forecasting was available during the meetings to clarify and answer questions. This approach was indeed very useful in understanding the details of the new forecasting methodology that was rebuilt from scratch over the last several months. Overall, we are confident that the forecasting process and related tools have significantly improved in 2012.

At its 4th Meeting, FOPC members received this Forecast and expressed their overall satisfaction with the approach, assumptions and accuracy of the forecasting methodology currently employed by the Secretariat. However, we join our colleagues on the FOPC in looking forward to future and continuing improvements in the Forecast, particularly inclusion of long-term ethical obligations, increased accuracy in projecting timing and level of commitments, and better coordination with demand forecasting.

As noted above, we would encourage our Board colleagues to approach this Forecast with cautious optimism as the full Board enters its deliberations about future funding opportunities. Although the present forecast shows some positive developments, it is crucial to remember that economic and financial volatility remain pervasive, that forecasting model does not include significant potential future expenditures that the Board is likely to consider, and that a substantial portion of projected donations are not yet based upon formal pledges.

As a main part of our mandate, the FOPC will continue to regularly oversee the Secretariat's Forecast of Assets to provide assurance to the Board.

Sincerely,

(signed)
Dr. Viorel Soltan
Chair of the FOPC

(signed)
John Monahan
Vice-Chair of the FOPC

BACKGROUND

- 1 The forecasted uncommitted assets are projected to increase by US\$ 373 million to reach US\$ 1,428 million by December 2014, as compared to US\$ 1,055 million presented at the Twenty-Sixth Board Meeting in May 2012. The projected increase is primarily driven by the following positive developments (see the reconciliation in Annex 1):
 - Additional anticipated donor contributions
 - Reduction in funding ceiling for grant commitments under the Transitional Funding Mechanism (TFM)
 - Additional anticipated grant de-commitments and other grant reductions
 - Net impact of exchange rate changes
 - 2013 and 2014 operating budget adjustments
- 2 After accounting for grant commitments under all Board-approved proposals and relevant Board decisions, including TFM, the uncommitted assets at June 30, 2015 are forecasted to be US\$ 2,112 million (Annex 2). Explanatory notes, methodology and key assumptions for the Forecast of Assets are presented in Annex 4.
- 3 Considering that the forecast only accounts for grant commitments that stem from Board-approved proposals and relevant Board decisions, expiring grants during the forecast period must be considered. In Annex 3, disclosure is provided on expiring grants during the forecast period and other matters that the Board should consider while determining the use of uncommitted assets.
- 4 The forecast builds on the information generated through monthly variance analyses reviewed by FOPC leadership for the months of April, May, June, and July 2012.
- 5 In consultation with the FOPC, the Global Fund Secretariat has conducted a review of the unanticipated risk provision currently set at US\$ 500 million. In view of the large possible variations in the uncommitted assets, the Secretariat recommends that the reserve be maintained at its current amount of US\$ 500 million.
- 6 It is important to note that the forecast is a projection of future events and is therefore subject to significant change that can both positively and negatively affect the forecast.

ANNEX 1. Reconciliation versus Forecast of Assets Presented at the Twenty-Sixth Board Meeting

in million US Dollars (rounded), as at December 31, 2014

Uncommitted Assets*, Twenty-Sixth Board Meeting (GF/B26/05), December 31, 2014	1,055
- Additional anticipated donor contributions	225
- Reduction in funding ceiling for grant commitments under TFM	104
- Additional anticipated grant de-commitments and other grant reductions	135
- Net impact of exchange rate changes	-153
- 2013 and 2014 operating budget adjustments	62
Total Change	373
Uncommitted Assets*, Twenty-Seventh Board Meeting (GF/B27/03), December 31, 2014	1,428

**) After accounting for grants under Board-approved proposals and relevant Board decisions.*

ANNEX 2. Forecast of Assets, Q3 2012 to Q2 2015*

in million US Dollars (rounded)

	2012				2013				2014				2015			2012	2013	2014	2015
	Actual	Actual	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast		Forecast	Forecast	Forecast	Forecast
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2		Q1-Q4	Q1-Q4	Q1-Q4	Q1-Q2
Opening Balance (Cash and Convertible to Cash)	5,961	6,622	5,931	7,108	6,554	6,345	6,909	6,520	6,168	6,013	6,477	5,758	5,442	5,256	A	5,961	6,554	6,168	5,442
Committed	4,330	4,374	3,861	3,813	4,019	4,063	3,903	4,478	4,359	4,584	4,335	3,884	3,515	3,260	B	4,330	4,019	4,359	3,515
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	500	500	500	500	C	500	500	500	500
Uncommitted	1,131	1,749	1,570	2,794	2,035	1,782	2,506	1,542	1,309	929	1,643	1,373	1,428	1,496		1,131	2,035	1,309	1,428
Sources of Funds	1,160	59	1,805	1,068	514	1,355	363	852	403	1,186	218	987	384	1,013	A	4,091	3,083	2,794	1,397
Public Sector	376	43	1,770	1,037	491	1,330	340	819	380	1,161	195	964	361	989		3,227	2,981	2,702	1,351
Private Sector	765	5	11	14	5	7	5	16	5	7	5	5	5	6		795	33	22	11
Investment Returns	19	12	23	16	18	18	18	18	18	18	18	18	18	18		70	70	70	35
Uses of Funds	(499)	(751)	(627)	(1,621)	(723)	(791)	(751)	(1,204)	(558)	(722)	(938)	(1,302)	(570)	(780)	A, B	(3,498)	(3,470)	(3,519)	(1,350)
Grant Disbursements, including TFM	(421)	(667)	(536)	(1,519)	(642)	(710)	(670)	(1,123)	(476)	(641)	(856)	(1,221)	(489)	(699)		(3,142)	(3,145)	(3,194)	(1,188)
Operating Expense Payments	(78)	(84)	(91)	(103)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)	(81)		(356)	(325)	(325)	(163)
Commitments	542	238	580	1,827	767	631	1,327	1,085	783	472	487	933	316	397	B	3,187	3,809	2,675	713
Grant Commitments	364	238	402	1,590	600	549	1,134	975	621	472	325	885	153	397		2,595	3,257	2,303	550
Transitional Funding Mechanism (TFM)	-	-	-	237	5	82	30	110	-	-	-	47	-	-		237	227	47	-
Operating Expense Commitments	178	-	178	-	163	-	163	-	163	-	163	-	163	-		356	325	325	163
Closing Balance (Cash and Convertible to Cash)	6,622	5,931	7,108	6,554	6,345	6,909	6,520	6,168	6,013	6,477	5,758	5,442	5,256	5,489	A	6,554	6,168	5,442	5,489
Committed	4,374	3,861	3,813	4,019	4,063	3,903	4,478	4,359	4,584	4,335	3,884	3,515	3,260	2,877	B	4,019	4,359	3,515	2,877
Unanticipated Risk Provision	500	500	500	500	500	500	500	500	500	500	500	500	500	500	C	500	500	500	500
Uncommitted Assets, after Board-approved proposal needs	1,749	1,570	2,794	2,035	1,782	2,506	1,542	1,309	929	1,643	1,373	1,428	1,496	2,112		2,035	1,309	1,428	2,112

This document should only be read in conjunction with the accompanying explanatory notes in Annex 3 and 4.

* **Important note:** The forecast reflects only grant commitments that stem from Board-approved proposals and relevant Board decisions, including TFM. The forecast of uncommitted assets of US\$ 2,112 million as at June 30, 2015 does not consider any funding for grants expiring between April 1, 2014 and June 30, 2015 (see Annex 3).

ANNEX 3. Matters to Be Considered in Reading the Schedule of Uncommitted Assets presented in Annex 2

Expiring Grants

The Forecast of Assets reflects commitments for all grants under Board-approved proposals and relevant Board decisions, including TFM. TFM was approved by the Board in August 2012 for grants expiring between January 1, 2012 and March 31, 2014. The Forecast of Assets covers the period ending June 30, 2015. Grants expiring after March 31, 2014 currently have no safety net.

Annual funding for grants expiring between April 1, 2014 and June 30, 2015 with no current safety net, is approximately	US\$1 billion
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Affordable Medicines Facility – malaria (AMFm)

Currently AMFm funding is managed by the Global Fund; however, donor contributions for this program are AMFm-specific and are not commingled with regular grant funding. The current donors will complete their AMFm Phase 1 funding by December 31, 2012. No determination has been made as to who will assume this funding if the program is to continue. The Strategy, Investment and Impact Committee (SIIC) has proposed a decision point to extend the Global Fund's hosting mandate for the AMFm to 31 December 2013.

Global Fund Secretariat has estimated the cost of continuing this program and subsidizing Artemisinin-based Combination Therapy (ACT) drugs for distribution through private sector (including supporting interventions) during a transitional 12-month period ending in December 2013. This is based upon estimated ACT demand in AMFm Phase 1 countries and considering that public sector ACT needs are provided for in existing grants. If the program is extended beyond December 2013, the estimated amount would increase accordingly.	US\$ 171 million annually
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Donor Contributions 2014 and 2015

Considering that donor contributions for 2014 and 2015 are beyond the current replenishment period, which ends in 2013, Resource Mobilization and Donor Relations Division of the Secretariat has forecasted these contributions based on conservative assumptions. Consequently, the Forecast of Assets in Annex 2 shows a decrease in donor contributions for 2014 and 2015 relative to the 2013 contributions.

If the forecasted donor contribution amount for 2013 is used as a proxy, the forecasted uncommitted assets as at June 30, 2015 would increase by:	US\$ 420 million
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ANNEX 4. Explanatory Notes, Methodology and Key Assumptions for the Forecast of Assets presented in Annex 2

Opening Balance

1. The opening balance includes cash, promissory notes (convertible to cash) and the unqualified portion of multi-year contribution agreements as applicable (convertible to cash).

Figures Marked (A)

2. The closing balance is calculated by adding the opening balance to the sources of funds (receipts) and deducting the uses of funds (payments).

Figures Marked (B)

3. The closing balance of committed funds (obligations) is calculated by taking the opening balance of committed funds (existing obligations) and deducting the uses of funds (i.e. payments reduce the level of obligations) before adding on the commitments (new obligations).

Figures Marked (C)

4. The unanticipated risk provision will not move. The closing balance less the closing balance of both the committed funds and the unanticipated risk provision will equal the closing balance of uncommitted assets.

Sources of Funds

5. The sources of funds for public and private sector donors are based on the best available estimates of the timing and amount of anticipated contributions provided by the Resource Mobilization and Donor Relations Division of the Secretariat at the time the forecast is prepared. These amounts, therefore, may be different from publicly reported pledges based on the assessment of the Secretariat.
6. Exchange rates for expected contributions in non-USD currencies are as of June 30, 2012.
7. Investment returns on cash held in the trust fund and invested by the Trustee (World Bank) are forecast to be in line with 2011 returns.
8. The vast majority of donor pledges cover the period of the third replenishment period (2011-2013), therefore the 2014 and 2015 figures are based on Secretariat's own estimates of contributions rather than pledges from donors.

Grant Commitments and Disbursements

9. Grant commitments are obligations entered into by the Global Fund Secretariat for the provision of financial resources to grant recipients over a predetermined period of time not exceeding two years at a time. Included in the forecast are only grant commitments that stem from Board-approved proposals and relevant Board decisions.

10. Grant commitments are based on available information from the Grant Management Division of the Secretariat and the Finance, Performance and Treasury Department.
11. The forecast for grant commitment needs under the TFM is based on an assessment of the earliest disruption date of a relevant grant and the maximum amount as reviewed by the Technical Review Panel (TRP). These amounts are subject to further change based on TRP clarification process and Board approval.
12. For approved and unsigned grants an estimate has been made as to the timing and amount of pending grant financial commitments.
13. Grant Renewals are forecast to be signed net of funding limitations and a provision for performance based funding reductions. The combined effect is that Grant Renewals are expected to be signed for the portfolio (individual grant amounts will change significantly based on performance based funding, income classification, and actual needs) at 67.5% of the value of TRP Phase 2 clarified amounts.
14. Grant renewals approved by the Board up to June 2012 are forecasted at Board-approved amounts.
15. The forecast also includes an estimate of anticipated reductions in already committed or signed amounts of US\$ 335 million as proposed by the Grant Management Division.
16. The Grant Disbursement projections are based on an estimate from the Grant Management Division of expected disbursement amounts that have been adjusted by Finance to include the projected impact of TFM. It should be noted that the disbursement projections are subject to change as the Secretariat applies performance based funding. This implies that actual disbursements are based on both the projected cash needs of the implementers and an assessment of grant performance, rather than disbursements amounts being set in advance and disbursed on a pre-arranged schedule.
17. Exchange rates for expected euro-denominated grant commitments and grant disbursements are as of June 30, 2012.
18. Other relevant Board decisions affecting the timing and amount of future grant commitments, as well as the requirements of the Comprehensive Funding Policy in effect are taken into account in the forecast.

Operating Expenses Commitments and Payments

19. Operating expenses commitments are typically made in two equal tranches equivalent to 6 months of the operating expenses budget. The forecast of operating expense payments are also equivalent to the prorated balance of unspent operating expenses budget for the year.
20. During 2013, 2014 and 2015 operating expenses are assumed to stay at US\$ 325 million (US\$ 31 million reduction versus 2012 approved budget). The operating budget for 2013 will be updated once the 2013 budgeting process is finalized.

Unanticipated Risk Provision

21. The unanticipated risk provision has the effect of reducing the level of uncommitted assets. The provision is included to consider unanticipated future risks and timing differences on a forward-looking basis. These risks may include but are not limited to:

- Unexpected reductions in contributions
- Higher than forecast commitment needs
- Lower than expected investment returns
- Significant depreciation of contributions in currencies other than US dollar against the US dollar.

Other notes

22. The impact of actual exchange rate revaluations carried out by the Trustee on a monthly basis is being tracked separately and included into the opening asset balances at the beginning of each subsequent quarter.