37th Board Meeting

Executive Summary:

Global Fund Financial Performance

and Financial Statements

GF/B37/29

03-04 May 2017, Kigali, Rwanda

Board Information

Purpose of the paper: This document provides an executive summary of the 2016 Financial Performance. It covers Pledges & Contributions, Grant Management financials, Asset & liability management, as well as 2016 Operating Expenses. As such, this summary serves as a complement to the 2016 audited Financial Statements, presented for Board approval. This paper is for information purposes and does not propose any decision points.

The Global Fund

Over the course of 2016, the Global Fund continued to strengthen its financial management practices through improved policies, procedures and systems that are critically important to the implementation of core operations, while delivering strong financial performance. The following summarizes the key financial highlights for 2016:

- Actual Disbursements for grant portfolio amounted to US$ 3.55 Bn, representing an increase of 11% compared to 2015. This can be attributed to the accelerated pace in implementation, the impact of differentiated resource allocation and execution of ITP measures at country level.
- Total announced pledges for the fourth replenishment amount to US$ 12.4 Bn at the end of 2016 compared to an initial announced amount of US$ 12 Bn.
- Actual operating expenditures (OPEX) at budget rate amounted to US$288.2 Mn, representing a 5.5% budgetary savings compared to the approved budget of US$305 million. Timing shifts and exceptional adjustment of one-off items (liquidation of provisions) have been key drivers of this variance, suggesting that these items can not be considered recurrent factors in the assessment of future funding needs. The Secretariat has put in place systemic management measures on the allocation, reprioritization and overall use of OPEX budget, anchored in the culture of discipline and value-for-money that allowed the stabilization of operating expenditure since 2012, after a 10 year period of continuous growth.

1. Grant Management financials

The 2016 actual disbursement made for grant investments amounted to US$3.55 Bn representing an increase of US$360 Mn (+11%) when compared to 2015. The Principal Recipient Cash balance update for year ended 2016 shows a stability in the level of the in-country cash balance, despite the disbursement increase. This is the result of continued efforts for robust cash optimization and disbursement based on in-country cash needs. These factors are positive signals in demonstrating that measures put in place in the last 24 months including ITP will translate into higher in-country absorption (to be confirmed in June 2017 upon receipt of 2016 in-country progress update and expenditure report). Currently, 90% allocation absorption is forecasted to be the achieved level due to dynamic optimization of grant resources including funding of shortened grants. As financial forecasts have improved over the 2014 – 2016 allocation period, additional consideration of absorption and funds utilization have been factored in as part of the refinements to the allocation methodology for the 2017 – 2019 allocation period.

In the most recent 2017 reforecast, aggregated disbursement streams are stable over the 2014-2016 allocation period with year on year disbursement increases of over 10%.

2. Pledges & Contributions (Including ALM)

The actual contribution for 2016 of US$ 2.88 Bn and cash receipts US$ 4.28 Bn are above budget by respectively +12% and 8% due to additional contributions from donors and shifts in timing.

The 4th replenishment Asset Liability Management (ALM) forecast is currently balanced, taking into account the US$ 1.1 Bn of sources of funds forecasted to remain unutilized by the end of grants originating from the 2014 – 2016 allocation period that have been included in the sources of funds for allocation for the 2017 – 2019 allocation period. Currently, the only residual uncertainty on the 4th replenishment ALM is the actual in-country absorption as compared to the allocation utilization ratio of 90% projected at Secretariat level. This uncertainty, however, is decreasing as the forecast quality increases and the implementation period is coming to an end.

3. 2016 Operating Expenses

The variance between OPEX actuals and Budget of US$16.8 million is driven by:

Amount in million	**Items Impacted**	**Remarks**
-US$13.9	Health Facility Assessment (HFA) & LFA (-US$7.7)	The launch of HFA encountered operational challenges and delays in the selection of the service providers and on-boarding at country level in 2016. The program is expected to be fully operational in 2017, resulting in an anticipated budget shift from 2016 to 2017. Other reductions in LFA due to cost efficiencies and delays in delivery of certain services (for examples PR delays in submitting grant documents, reports for LFA verification and review)
	Travel (-US$3.7)	This is due to the increased utilization of special travel rates due to early bookings and early activation of certain ZBB savings on travel, which were both integrated in the new budgetary framework for 2017 and imbedded in the budget baseline.
	Other (-US$2.5)	Across the board actuals below budget. Various immaterial variances of diverse nature.
-US$8.8	Unused provisions (-US$5.6)	Actual costs for financial provisions associated with litigation cases (ILOAT 2012-2013) and other accrued staff

		liabilities were lower than prior year provisions. This covered the period 2012-2015.
	Reclassification of expenses (-US$3.2)	Technical transfer /reclassification according to IFRS standards (OPEX & CAPEX movements).
+US$2.2	CCM	The introduction of performance based funding agreements for CCM led to increased volume in 2016 and should be seen as the impact of the change and transition to the new modality
+US$3.8	Projects	Dynamic forecast model allowed for the initiation of special projects included in the prioritized action plan and strategic implementation roadmap (Supply chain, Program Quality, differentiation for impact etc…)

The HFA timing shifts and exceptional adjustment of one-off items (liquidation of provisions) have been significant drivers of the variance between 2016 OPEX actuals and budget. By nature, these items can not be considered recurrent factors in the assessment of future funding needs. While the overall negative variance did not adversely impact operations, had these savings been identified earlier during 2016, they could have been utilized to further accelerate the planning phase for the 2017-2022 strategy implementation. Management measures have been put in place for a more proactive optimization.

In addition, and as part of the overall financial improvement and optimization strategy, the Secretariat established a new budget management framework and launched "Zero-Based Budgeting (ZBB)" approach which was the basis for the elaboration of the 2017 OPEX budget. This new approach enabled the optimization of budgetary resources as an integral part of the Strategy Implementation Plan.

4. **Financial statements** – GF/B37/02

The 2016 external audit resulted in an unqualified audit opinion with no management letter points and audit adjustments.