

Frequently Asked Questions – Finances of the Global Fund

Who are the main donors to the Global Fund?

Funding from donor governments represents the largest source of income for the Global Fund. The United States has been the largest contributor to the Global Fund since its inception in 2002. As of 31 December 2012, the United States has contributed a cumulative total of US\$7.3 billion to the Global Fund. France has contributed US\$3.3 billion, United Kingdom US\$1.9 billion, Germany US\$1.8 billion and Japan US\$1.7 billion. The European Union has contributed US\$1.5 billion. As of May 2013, the total amount of pledges to the Global Fund made by all donors amount to over US\$30 billion, of which over US\$25 billion have already been received.

What is the share of private sector contributions to the Global Fund?

As of 31 December 2012, contributions from the private sector and from innovative financing initiatives constituted 5 percent.

What is the Global Fund's target for 2014-2016?

Donors will be invited to a once-every-three-years conference, known as the Global Fund's Fourth Replenishment conference, in late 2013. The Global Fund has set a target of raising US\$15 billion in pledges so that it can effectively support countries in fighting AIDS, TB and malaria for the 2014-2016 period.

Global resources needed to fight the three diseases are forecast to total US\$87 billion for 2014-2016. Based on consultations with key partners at the national and international levels, US\$37 billion will be raised by domestic governments in countries implementing programs to fight the three diseases, while other international sources are estimated to spend US\$24 billion. A US\$15 billion contribution to the Global Fund would allow the collective work to address close to 90 percent of the global resource needs.

How much was raised at the previous replenishment conference?

Donor pledges made during the Third Replenishment conference for 2011-2013, held in October 2010, have amounted to US\$10.4 billion, an increase over an earlier tabulation of

\$US9.2 billion, after a number of donors who did not or could not pledge at the time of the conference subsequently announced their pledges.

How much funding is available for the transition to the new funding model?

Up to US\$1.9 billion may be available for countries to transition to the new funding model for 2013-2014. This amount may be adjusted up or down, based on the Secretariat's quarterly forecast updates to the Finance and Operational Performance Committee of the Global Fund Board.

The new funding model will be fully implemented in 2014. At that time, the Global Fund will identify the total amount of available funding for the 2014-2016 period, after the replenishment campaign establishes pledges from governments and other donors.

What are “uncommitted assets”?

Uncommitted assets are assets that are not committed to approved proposals and grant renewals and other Board funding decisions, and that could be applied to new funding opportunities or to any new funding commitments that the Board decides to make, such as extending expiring grants. At the end of 2012, the Global Fund's uncommitted assets stood at US\$3.8 billion.

Are “uncommitted assets” and available funding for the transition to the new funding model part of the US\$ 15 billion target?

No. The US\$3.8 billion in “uncommitted assets” are expected to be entirely utilized to fund grants already approved by the Board under the old Rounds-based system as well as operational expenditures of the Global Fund for 2013-16, so they should not be seen as part of the US\$15 billion target and by consequence not deducted from that amount when determining the Global Fund's “final ask” of donors.

Regarding the US\$1.9 billion being made available for countries to transition to the new funding model, the major part of it (US\$1.5 billion) relates to 2014 and therefore is to be sourced from within the US\$15 billion ask. In other words, part of the US\$15 billion has been pre-allocated to support the transition to the new funding model.

Does the Global Fund have any cash balance available?

Yes. As of 31 December 2012, the amount of cash and cash equivalents was US\$ 5.4 billion, compared with US\$5.5 billion at the beginning of calendar year 2012. The amount on 31 December 2012 was at the time unaudited.

On a comparable basis, the 2012 cash balance decreased by 9 percent year on year. The decrease was due to higher rates of grant disbursements in 2012 compared with 2011 and the timing of certain donor contributions during the year.

Several factors can affect trends in “uncommitted assets”.

The most important ones are:

- i. Governance: the speed at which the Board can approve grant funding and launch new funding opportunities can affect the long-term availability of uncommitted assets;
- ii. Secretariat capacity: the speed at which the Secretariat (including Local Fund Agent support) can sign and commit new grant funding can affect the immediate availability of uncommitted assets;
- iii. Implementer capacity: the speed and efficiency with which implementers spend funding as a proportion of approved budgets (e.g. absorption rate) can affect the amounts of uncommitted assets over time.

The above factors, and the launch of the transition to the new funding model, will reduce significantly over time the level of uncommitted assets, and in particular that of uncommitted cash. The amount of the reduction will depend in part on the three factors above as well as final grant amounts utilized under the transition to the new funding model.

How much of that cash balance is already committed?

At the end of 2012, approximately half of the cash balance had been financially committed, or earmarked for grant activities in specific countries.

What are the modalities of donor contributions?

Cash

Cash is the main form in which donors make contributions to the Global Fund, accounting for 72 percent of the 2011-2013 adjusted portfolio of donor pledges. Upfront donor cash contributions provide the Global Fund with increased flexibility in matching them to the timing and amount of cash payments to grant recipients. Such upfront donor cash payments are made through regular, payment-specific contribution agreements that are usually entered into in conjunction with the transfer of the funds.

Promissory Notes

About a fifth of the adjusted pledged amounts for the 2011-2013 period are expected to be received in the form of promissory notes.

Multi-year contribution agreements

At present, the Global Fund has signed MYCAs with five government donors.

The principal advantage of a MYCA for the Global Fund is that it provides a confirmed donor commitment with a clear payment schedule. It therefore enables a more reliable pre-allocation of funding to recipient countries under the new funding model and results in a lower cash balance at the Global Fund over a given timeframe. From a donor perspective, an MYCA enables better planning of cash outflows leading to a just-in-time approach to providing cash.

How is the Global Fund's budget approved?

Annual operating budgets are approved by the Board, which includes representatives from donor and recipient governments, non-governmental organizations, the private sector and affected communities. The Board's Finance and Operational Performance Committee (FOPC) makes recommendations to the Board on the approval of the annual operating budget. The FOPC also reviews its ongoing execution and advises on any cash-flow projections prepared by the Secretariat.

What do Global Fund budgets look like?

The Global Fund's operating expenses budget is a comprehensive and detailed document. It lists all expenses by cost type and by budget center in a "bottom up" approach. The operating expenses budget breaks down budget estimates by categories. The document is available on the Global Fund's website.

How are Global Fund operating expenses listed in the budget?

The total operational expenses budget includes the Secretariat, the Local Fund Agents and the Office of the Inspector General.

In the Secretariat budget, *Operations* include the Grant Management Division, the External Relations Division, the Strategy, Impact and Investments Divisions and Country Coordinating Mechanism costs. *Support* includes Communications, Human Resources, Legal and Compliance, Risk Finance, IT, Administration and Procurement. *Other* includes Governance (the Governance department of the Secretariat as well as the Office of the Board Chair/Vice-Chair) and non-recurring costs, such as restructuring costs incurred in 2012.

Are budgets linked to results or objectives?

Operating expense budgets are linked to the strategic objectives set by senior management at the start of the annual budget cycle.

Budgets for core operating activities, such as grants and donors, are linked to specific budgets at country/disease level and ultimately the achievement of specific outcome and impact results. The budgeting exercise is flexible enough to allow the Board to launch new funding opportunities. The new funding model, which allows more flexible timelines for eligible countries to apply for funding and more predictability, is an example.

In 2014, the Global Fund expects to be able to provide specific detail on the exact operational budget amounts spent in comparison to the size of each country portfolio.

How does the Global Fund ensure expenditures do not exceed the budget threshold approved by the Board?

Operating expense budgets are compared to actual expenditure on a monthly basis at a team level within the Secretariat. Each quarter, budget holders sign a “budget versus actual expenditures” report including justification for the variance, which is kept for external auditors. Each quarter, expenditures are reviewed against budget by the Controller and his team, and forecasts are made for the rest of the year to estimate actual spending compared to the estimated budget amount. Those results are presented at the Management Executive Committee of the Global Fund for information and decisions when required. Any deviation of the budget is tracked for rationale and explanation. Any substantial deviation is brought to the Management Executive Committee.

What are the financial oversight mechanisms of the Global Fund?

The Board’s Audit and Ethics Committee (AEC) and the Finance and Operational Performance Committee (FOPC) both exercise internal controls over Global Fund budgets.

The AEC provides oversight of the internal and external audit and investigation functions of the Global Fund and adherence by the Global Fund and programs financed by it to appropriate standards of ethical behavior. The AEC membership includes representatives of donor and implementer countries. The Secretariat provides regular updates to the AEC and as requested by the committee leadership.

The FOPC provides oversight of the financial management of the Global Fund’s resources and ensures the optimal performance of the operations and corporate management of the Secretariat. The Secretariat provides regular updates to the FOPC as requested by the committee leadership.

What measures does the Global Fund take to ensure audit recommendations are enforced?

The external auditors issue recommendations on an annual basis and these are reported annually to the Audit and Ethics Committee. The Office of the Inspector General (OIG) reports directly to the Board on an ongoing basis whenever it concludes an audit or investigation. The findings from both sets of reports are followed up point by point by the AEC to ensure there is appropriate resolution. The external auditors are invited to talk directly to the AEC and OIG on a regular basis.

Recommendations made by the OIG concerning country-specific audits are routinely monitored and followed up by the Grant Management Support Department and the Office of the Chief Risk Officer. There is currently one full-time staff person working in the Grant Management Support Department dedicated to ensuring OIG recommendations are implemented, cleared and reported on to the AEC.

What are the operational costs of the Global Fund as a comparison with the amount of funds managed in the portfolio of grants?

The average share of Operational Expenses budget over total amount of grants under management is 2.1 percent.

Have operational costs decreased in 2013?

The 2013 Operational Expenses budget decreased by 15 percent compared with the 2012 budget, reaching 2011 expense levels. Major cost reductions include budget reductions of US\$18.1 million in Local Fund Agent costs and better control of CCM costs, budgeted at US\$9.1 million.

How has reform at the Global Fund improved financial flexibility in management of the portfolio of grants?

The Global Fund has launched a new dynamic assets and liabilities forecast based on continuously updated assumptions and is also assessing the Comprehensive Funding Policy to align with the new funding model. To deal with the challenge of “idle cash” immobilized in countries, the Treasury has tightened the cash management system. The Secretariat is also more proactively monitoring the managing of de-commitments mostly linked to expired grants. In 2012, US\$230 million have been de-committed and made available for use by other grants, while providing a more accurate forecast of assets and liabilities. Ongoing monitoring of future de-commitments is now in place.