

# 2017 Financial Summary

## 1. Overview

GGGI received an unqualified 2017 audited financial statement from the external auditors. The report is currently being circulated for Council's approval.

This summary of the audited financial statement provides an overarching view of the components affecting GGGI's financial position in 2017 and beyond. They include:

- Operating income
- Operating expenditure
- Treasury management
- Reserves

The highlights for 2017 are:

- GGGI's core funding declined to USD 23.17 million in 2017, projected to stabilize at USD 25 million per annum from 2018 and onwards.
- GGGI recognized a lower earmarked income of USD 6.86 million in 2017, projecting a rise in its earmarked income to USD 14 million in 2018.
- GGGI's core expenditure increased to USD 37.26 million<sup>1</sup> in 2017, financed through USD 34 million retained surplus<sup>2</sup> and USD 23.16 million core contribution.
- GGGI's retained surplus reduced to USD 21.31 million in 2017, sufficient to fully fund the 2018 work program which is greater than projected 2018 core contributions.

## 2. Operating income

Despite the audited financial statement showing a decrease in GGGI's core contributions<sup>3</sup> in 2017, if the core contribution is analyzed by the year in which the contributions should have been received, GGGI's core contribution is trending at an average of USD 30 million over the last 5 years.

The peak<sup>4</sup> for core in 2015 was primarily due to GGGI receiving two additional payments from DFID 1) 2014 contribution of USD 4.95 million; and 2) performance bonus of USD 4.49 million for adding three new LDC countries.

In 2017, GGGI's operating core income decreased by USD 19.56 million (46%) to USD 23.16 million. The reduction is predominantly due to

- deferral of USD 2 million of USD 5 million contribution to 2019 by the Government of Australia (DFAT).
- reduction of USD 2 million from the USD 5 million annual contribution by the Government of Denmark.
- one-off payment (USD 5 million) made by the State of Qatar in 2016 for 2013/14 funding agreement.
- deferral of USD 5 million contribution to 2018 by the Government of United Kingdom (DFID), in accordance with the contribution schedule in the signed funding agreement.

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<sup>1</sup> GGGI's total expenditure is USD 44.11 million (Core – USD 35.26 million and Earmarked – USD 6.86 million).

<sup>2</sup> Council approved the utilization of 2016 retained surplus to fully fund the 2017/18 Work Program and Budget.

<sup>3</sup> Core contribution is recognized in the year which GGGI's receives the contribution – Note 3(k) 2017 audited financial statement.

<sup>4</sup> The trend includes actual contribution for 2013-2017 and projections for 2018.

- reduction of USD 5 million contribution in 2017 by the Government of Indonesia compared to USD 10 million paid in 2016 for 2 years.
- non-continuity of USD 0.5 million contributions in 2017 by the Mexican Government.

The earmarked income<sup>5</sup> has gradually declined to a low of USD 6.86 million in 2017. The reduction of USD 2.10 million (2017) compared to USD 8.96 million in 2016 is predominantly due to

- non-continuity of Norway earmarked funding for Ethiopia
- completion of Korea International Cooperation Agency (KOICA) grant for Knowledge Sharing and Capacity Development for Global Green Partnership through South-South Cooperation; and,
- completion of Swiss Agency for Development and Cooperation (SDC) grant to promote programs, research and joint activities in support of capacity building and development of green economic growth options for developing countries.

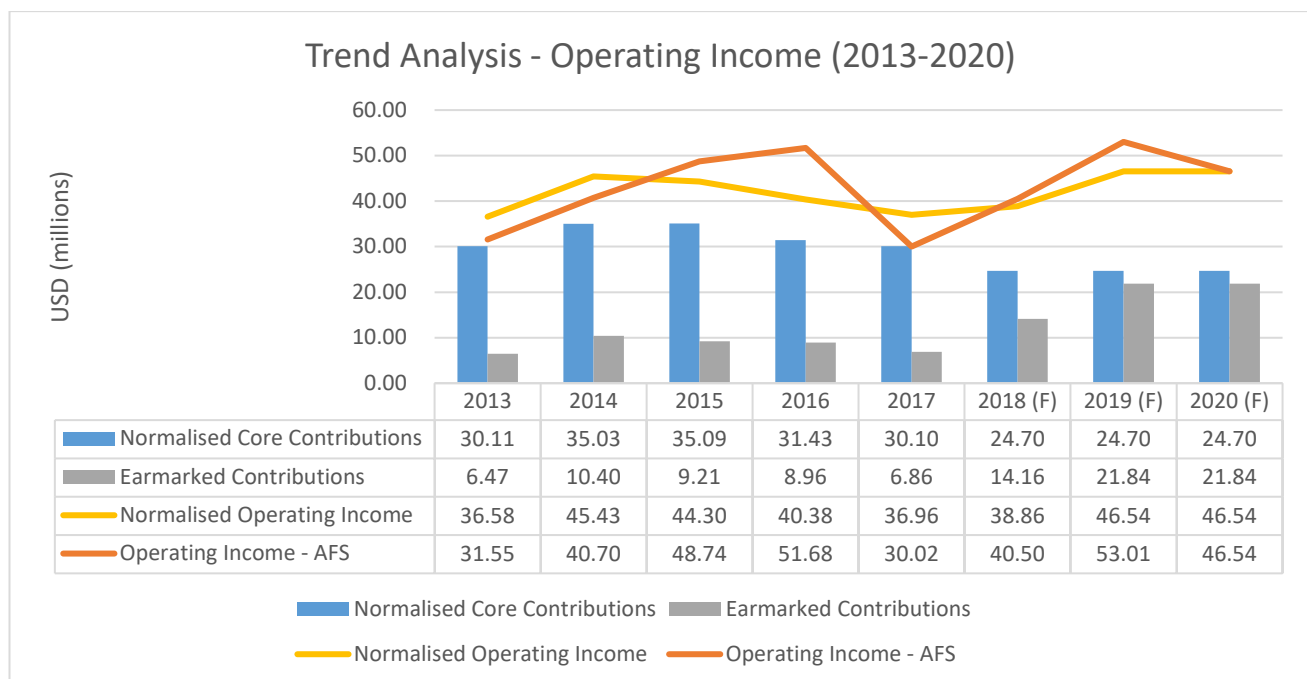


Figure 1 – GGGI’s normalized operating income (core and earmarked)

### 3. Operating expenditures

The implementation of “ONE GGGI” delivery model which fully aligns service offerings from GGGI’s Green Growth Planning and Implementation, Investment and Policy Solutions Division and the newly formed Office of Thought Leadership in 2017 has created an enabling environment for GGGI to successfully deliver more for less.

GGGI’s operating expenses of USD 44.11 million in 2017 has increased by USD 3.13 million (8%) over 2016 (USD 40.98 million) and remained within the approved budget of USD 56.88 million<sup>6</sup> for 2017. The net increase (USD 3.13 million) was predominantly driven by:

<sup>5</sup> For earmarked funds, GGGI recognizes an asset (cash or receivables) and liability (deferred income) on receipt of the firm commitment of the contribution to be provided (unless the agreement specifies a later contribution start date). The liability is reduced, and operating income is recognized in proportion to the stage of completion of the transaction at the reporting date.

<sup>6</sup> Total 2017 revised budget USD 58.11 million less 2017 deferred commitments of USD 1.23 million.

- Increase in personnel costs<sup>7</sup> (USD 5.49 million) and reduction in out-sourcing (USD 3.60 million) to implement 49 regular projects and an additional 13 projects from envelope<sup>8</sup> funding under the WPB 2017-2018.
- At least 6 (USD 2.05 million) of the 49 projects is an expansion of GGGI’s programme to 6<sup>9</sup> new countries, Costa Rica, Kiribati, Hungary, Laos, Myanmar and Mozambique.

Over the years, GGGI has managed to improve its expenditure rate from 67% in 2013 to 78% in 2017 despite the increase in the size of the approved budget from USD 48.74 million in 2013 to USD 56.88 million in 2017. The increased expenditure rate in 2017 was largely driven by GGGI’s initiatives to pool personnel budget which enhanced the budget flexibility for the Director-General to allocate and reallocate resources based on programme priorities and new initiatives. The personnel pooling initiative complemented the “ONE GGGI” model by allowing project managers to develop projects which comprise of primarily GGGI’s own staff and internal talent.

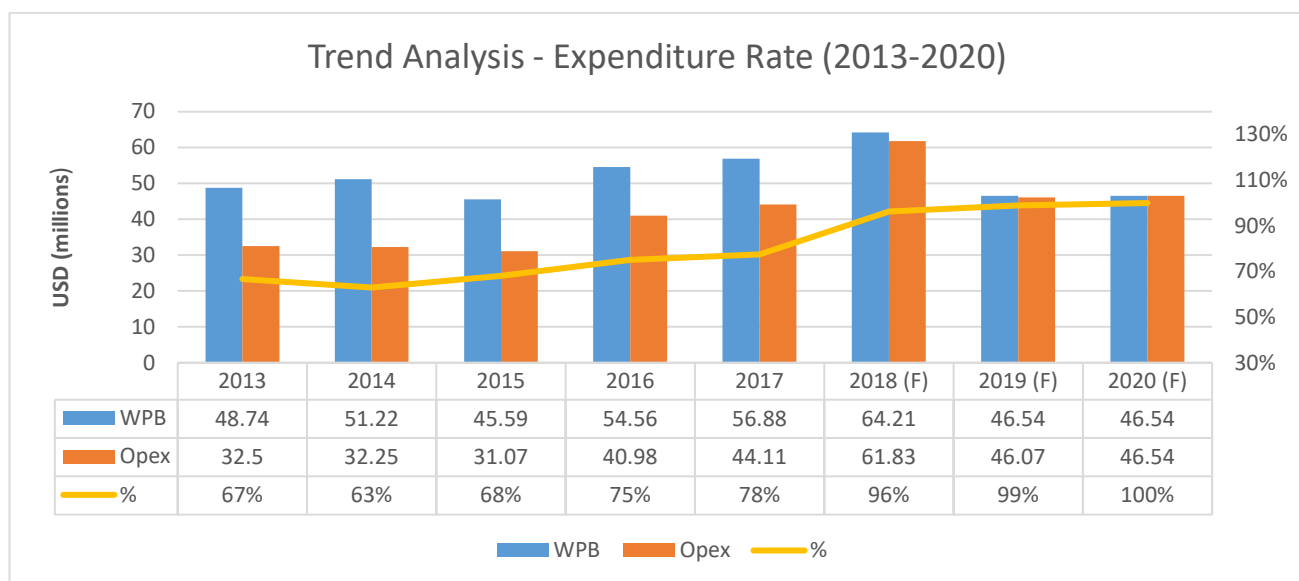


Figure 2 – GGGI’s normalized expenditure rate (core and earmarked)

#### 4. Treasury Management

GGGI’s treasury management is governed by the mandate provided by Council to the Director-General through its financial regulations.

#### Investment Management

Since early 2015, to ensure the stability of cashflow, GGGI has established the working capital guidelines, investment guidelines, investment criteria and the establishment of investment committee. The overarching objectives of GGGI’s investment management activities are to ensure

- GGGI holds sufficient liquid resources to enable it to meet all probable cash flow needs to meet its normal and predictable obligations;
- The principal value of GGGI’s liquid resources is adequately protected while GGGI is able to earn a stable and reasonable return;

<sup>7</sup> Increased from 165 staff end of 2016 to 271 staff in 2017 (verified by Human Resources on April 5, 2018)

<sup>8</sup> Envelope funding refers to the additional USD 4.5 million approved by Council for bankable projects in 2017.

<sup>9</sup> Note 12 – 2017 Audited Financial Statement

- The currency composition of GGGI's resources is managed to reduce the risk of currency translation adjustments that could lead to adverse changes in GGGI's available resources; and
- In evaluating the risks arising from GGGI's investment management activities, the possible non-financial consequences (reputational) will be considered in addition to the potential financial losses

During 2017, GGGI invested up to a maximum USD 34 million (including USD 10 million working capital reserves) and managed to increase its investments returns to USD 0.35 million, an increase of USD 0.12 million (53%) from USD 0.23 million reported in 2016.

#### Foreign Exchange Management

GGGI uses USD dollars as its functional and reporting currency. GGGI receives its contributions in various currencies and to minimize the foreign exchange exposure, GGGI converts its contributions receivable in other currencies immediately to USD upon the receipt of contribution.

For the year ended 31 December 2017, GGGI recorded a net foreign exchange<sup>10</sup> gain of USD 0.03 million compared to a net gain of USD 0.02 million in 2016.

#### 5. Reserves

In the 5<sup>th</sup> session of the Council, a discussion paper was presented to demonstrate the business need for a working capital reserve to reduce GGGI's vulnerability to variability in the timing of the core contributions, maintain program continuity, reduce reputational risk and safeguard the organization as going concern by ensuring continuity of operations in the event of short-term liquidity problems pending receipt of non-restricted contributions.

Consequent to this paper and the establishment of working capital reserves guidelines, the Council approved a 2015 and 2016 biennium budget with USD 10 million to be set-aside for reserves. The first USD 5 million was set-aside at the beginning of 2015 and for the year ended 31 December 2016 GGGI has successfully set-aside a further USD 5 million to make up the projected USD 10 million reserves<sup>11</sup>. GGGI has retained the same level of reserves throughout 2017. The present level of reserves is sufficient to cover at least 2.5 months of GGGI's current operational expenditure.

#### Retained Surplus

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<sup>10</sup> Note 13 – 2017 audited financial statement

<sup>11</sup> Note 10 – 2017 audited financial statement

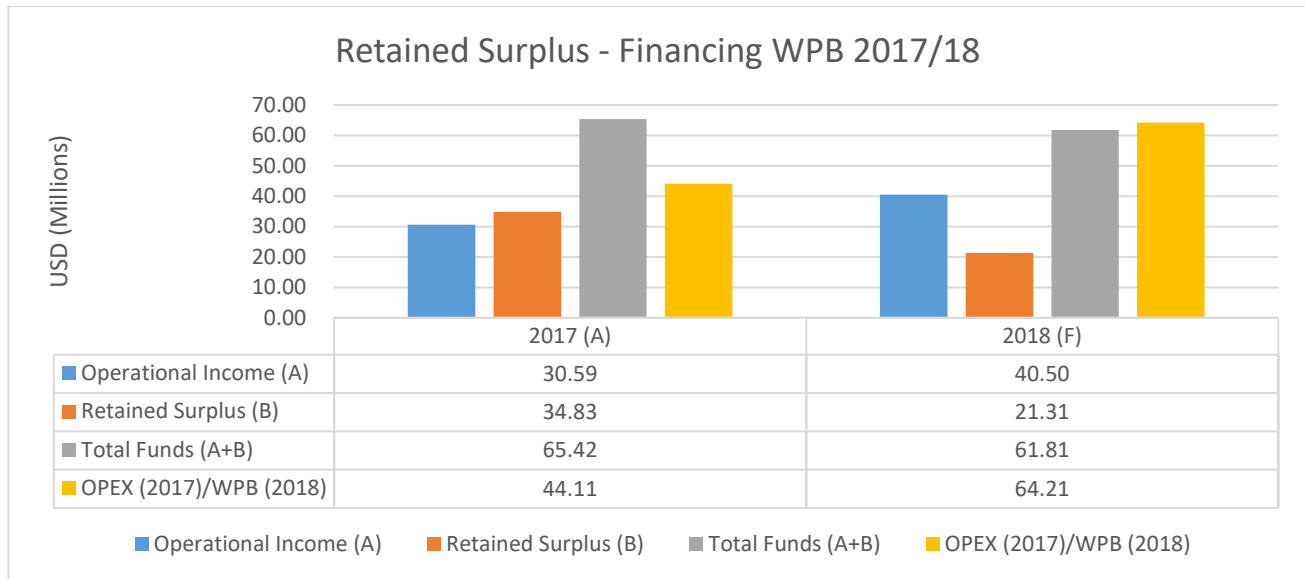


Figure 3 – Utilization of 2017/18 retained surplus to fully fund WPB2017/18

At the ninth session of the Council, GGGI presented a forecast of retained surplus of USD 24 million to finance the budget deficit of WPB 2017 and 2018. However, for the year ended 31 December 2016, GGGI’s retained surplus increased to USD 34.83 million<sup>12</sup>, an increase of USD 10.83 million against the forecast. The increase was primarily due to 1) USD 5 million contribution from Qatar not projected for in 2016 2) deferral of USD 3.54 million legal commitments 3) a lower 2016 operating expenditure versus projections.

For the year ended 31 December 2017, after accounting for the USD 13.51 million operating deficit, the retained surplus reduced to USD 21.31 million. The reduction in the retained surplus is largely in line with the projection presented to the Council at the beginning of the biennium to fund the level of activities approved by the Council for the 2017 and 2018 work program that is considerably greater than the expected level of contributions for this period.

## 6. Conclusion

Overall, GGGI’s financial position remain stable for 2017 and on course to fully fund its 2017/18 biennial work program approved by the Council in October 2016. Despite a reduction in core operational income in 2017, GGGI has taken significant effort to compensate the reduction through an increase in its earmarked income from 2018 and onwards.

The increase in GGGI’s expenditure in 2017 and projected increase in its expenditure in 2018 is in line with the mandate<sup>13</sup> given by the Council to the Director-General to utilize the underspending and approve new projects that can be accomplished within the approved Budget for the biennium.

The reduction in GGGI’s retained surplus in 2017 and the projected full utilization of the retained surplus to fund the WPB 2017/18 is largely in line with the approval received from the Council to fully utilize the core funding during the year in which it was received.

<sup>12</sup> Note 10 – 2017 audited financial statement

<sup>13</sup> Financial Regulation - Regulation 3.3 - Additional Projects - Program Countries and Scoping