

Narrative Report for 2017 Financial Management Report

Stop TB Partnership Secretariat (STBP) has been hosted by UNOPS since 1 January 2015. The transition from WHO to UNOPS has now been completed and the final balance of STBP funds with WHO of US\$ 2,140,682 transferred to UNOPS.

The 2017 financial management report has been prepared following “Accruals” principles under the International Public Sector Accounting Standards (IPSAS). As per the accruals principles, the recognition of economic events happens by matching revenues to expenses (the matching principle) at the time the transaction occurs rather than when cash is transferred (or received). This approach provides a more accurate picture of the entity’s real financial status.

As previous years, in accordance with its Financial Policy approved by the Coordinating Board in 2004 and the new Financial Management Policy Outline reviewed by the Finance Committee in December 2016, STBP accumulates cost elements and prepares the financial management report on activity based costing and IPSAS principles.

The preparation of the 2017 financial management report was still complex due to UNOPS financial system still not yet fully stabilized after the UNOPS transition to a new ERP system as of 1 January 2016. The 2017 financial management report is an interim report given that the 2017 UNOPS financial closure is ongoing at the time of the report preparation. In addition, few financial adjustments have been reflected in the STBP 2017 financial management report that relate to prior periods, specifically to the amounts carried forward from WHO and the revenue recorded in 2015 that was based on estimates at that time.

Under UNOPS processes, financial liabilities are managed through establishing encumbrances in its financial system. Thus, for any order placed or contract entered into by UNOPS on behalf of STBP, an encumbrance is established in UNOPS system. No encumbrance is established unless funds are available. Expenditures are incurred against previously established encumbrances as per UNOPS rules. This approach prevents liabilities being entered into or expenditure incurred unless funds are available, ensuring a tight control and good financial management of the STBP funds.

Based on this approach, UNOPS financial system and STBP Order Management System (OMS) were accessed and financial data was extracted to prepare the annual financial management report for 2017. The objective was to maintain the consistency with prior years and to illustrate the manner in which the cost elements related to the Partnership’s key functional entities evolve over time.

The balance brought forward from prior years was US\$ 88.5, and this amount included 100% of the funds transferred by WHO, with no further amounts due. Out of the US\$ 88.5 balance brought forward, a total of US\$31.8 million corresponded to funds encumbered prior to the reporting period and shall have been disbursed after 1 January 2017.

The income in 2017 of US\$164.6 million shows a significant increase of 118% vs 2016 income of US\$75.4 million, mainly due to the considerable increase in the income received from countries for In-House Procurement orders placed through GDF (from US\$45.3 million in 2016 to US\$103.6 million in 2017).

The overall expenditure in 2017 of US\$145.3 million shows an increase of 138% versus the expenditure incurred in 2016 of US\$61.1million. This increase in the overall expenditure is mainly explained by an increase of the expenditure incurred under the Strategic Goal 3 (GDF), but also due to the overall expenditure across all Strategic Goals. GDF expenditure showed a 168% increase from 2016 to 2017, from US\$44.5 million in 2016 to US\$119.2 million in 2017, mainly explained by the outstanding

increase in orders for the In-House procurement of diagnostics and drugs with an expenditure in of US\$87.8million in 2017, and also by the build-up of the new Strategic Rotating Stockpile for drugs a nonrecurring cost of US\$ 19.1million. The forecasted value of orders for In-House procurement through GDF in 2018 is estimated at US\$ 39million.

The sharp increase in the number and value of diagnostic orders placed with GDF in 2017 coincided with the Global Fund's (GF) grant cycle ending in December 2017. Due to the GF's transition to the allocation-based funding model, GF principal recipients lose any unspent funds at the end of a grant cycle, and therefore at the end of 2017, many GDF client countries were aiming to use up as much of their allocated funds as possible, including reprogramming of unspent funds on the procurement of commodities. This situation is similar to what occurred in 2014 when high value and volume orders were placed with GDF towards the end of the previous GF grant cycle. However, back then Xpert was not used globally at large scale, and GDF procurements were limited to grants; therefore the impact of the increase in 2014 was mostly visible for medicines. It should be also noted that the global trend is currently moving towards increasing TB laboratory capacity, including access to rapid molecular TB testing in countries. More clients learnt about GDF's extensive diagnostics product catalogue and procurement services and consequently, GDF receives additional requests for supply of diagnostic products.

The overall expenditure increase was also boosted by a 71% increase of the expenditure incurred under Strategic Goal 2 (TB REACH), from US\$5.5 million in 2016 to US\$9.4 million in 2017, explained by the launch of the Wave 5 of TB REACH grants' program in Q1 2017. The 2017 expenditure incurred under the Strategic Goal 1 (Partnership Building and Advocacy, Communication and Resource Mobilization) also increased significantly by 48% from US\$ 5.3 million in 2016 to US\$ 7.9 million in 2017.

The balance brought forward to 2018 is US\$ 107.8million. Out of the US\$ 107.8million balance brought forward, a total of US\$36.7 million corresponds to funds encumbered and shall be disbursed after 1 January 2018. The balance brought forward to 2018 is high due to considerable funding for In-House procurement through GDF that was received in the second half of the year 2017 (US\$29.7million received in Q3 2017 and US\$40.4million received in Q4 2017) for which activities will be implemented beyond the reporting period, for the reasons explained above.

The funds flow statement for the year 2017 was also prepared to reflect the Partnership's cash position. This is particularly important as the free cash resources can be used to generate additional income. The Partnership's idle funds were invested during 2017 as part of the UNOPS corporate invested pool of funds, investments that proved to be quite successful. The returns through the first three quarters of 2017 for STBP idle funds invested reached US\$ 674K, the same as the entire year 2016. Q4 2017 interest/investment income is not posted in the system at the time of the report preparation.

In addition, as of 31 December 2017, bearing in mind that the 2017 financial closure has yet to be completed, there is income of approximately US\$ 129,983 from a reduced UNOPS management fee applied. This is in line with the sliding fee scale presented in the UNOPS hosting proposal and approved by the STBP Board in July 2014, under which UNOPS would apply a reduced management fee (PSC) should the annual expenditure surpass certain thresholds. Since the 2017 expenditure surpassed US\$ 100million, the PSC was reduced to 6.5%, instead of 7%, on expenditures related to STBP activities.

Overall STBP has shown great progress in 2017 comparatively with 2016, in particular with regards to:

- Considerable increase in the overall Partnership cost efficiency from 2016 to 2017, thanks to the increase of expenditure in all the core strategic goals while keeping functional costs

(Crosscutting HR, admin, office costs, CMDC, etc.) at a stable level. The operational costs as a percentage of total annual expenditure decreased from 9.4% in 2016 to 6.1% in 2017.

- Increased income earned during the year coming from funding contributions for In-House procurement and funds from donors.
- Increased activities implemented during the year, including the 93% of total value of the new Drugs Strategic Rotating Stockpile was built-up during the reporting year.

The goal is to continue identify new income generating sources with a focus on un-earmarked funding that will allow the Partnership to meet its strategic goal targets and be able to face any unforeseen activities or other activities related to the role of the Stop TB Partnership in leading the way to a world without tuberculosis, such as the upcoming UN High Level Meeting on TB.