Summary of financial statements

GGGI received an unqualified 2016 audited financial statement from its external auditors. The following summary of the audited financial statement provides an overview of the components affecting GGGI’s financial position in 2016. The complete, audited financial statement can be found on the 2016 Annual Report webpage - report.gggi.org/2016.

Operating income

GGGI’s operating income increased by USD 8.01 million (20%) and USD 3.30 million (7%) for 2015 and 2016 respectively. The increase in 2015 was due to USD 15.11 million contributions from DFID which include USD 4.95 million for 2014, USD 5.67 million for 2015 and one-off performance bonus of USD 4.49 million. The increase in 2016 was predominantly due to the Government of Indonesia’s USD 10 million contribution which include USD 5 million for 2015 and USD 5 million for 2016, State of Qatar’s USD 5 million contribution for 2014, Mexico’s contribution of USD 0.5 million for 2016 and one-off performance bonus of USD 1.29 million from DFID.

The earmarked contributions reduced by USD 1.19 million and USD 0.30 million to USD 9.20 million and USD 8.95 million for 2015 and 2016 respectively. The reduction of USD 1.19 million in 2015 was predominantly due to completion of grant agreement with World Resources Institute (WRI) and Climate and Development Knowledge Network (CDKN).

Operating expenditures

The implementation of key systems and process in 2015 has created an enabling environment for GGGI to increase its disbursements. GGGI’s operating expenses of USD 40.98 million in 2016 has increased by USD 9.91 million (32%) over 2015 (USD 31.07 million) and remained within the 2016 approved budget of USD 54.56 million. The increase was predominantly driven by personnel costs (USD 4.01 million) and out-sourcing (USD 3.51 million) as result of 1) implementation of full country programs in China, Nepal, Rwanda, Senegal and Uganda 2) implementation of scoping programs in India, Laos, Peru, Philippines, Mozambique and Myanmar 3) two new scoping initiatives by GIS; developing and implementing national financing mechanisms for green growth, and implementation of the INDCs.

<table>
<thead>
<tr>
<th>Operating Expenditures</th>
<th>USD (millions)</th>
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<tbody>
<tr>
<td>2015</td>
<td>31.07</td>
</tr>
<tr>
<td>2016</td>
<td>40.98</td>
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Operating Income

<table>
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<th>USD (millions)</th>
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<tr>
<td>2015 (Core Income)</td>
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<tr>
<td>2015 (Earmarked)</td>
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<tr>
<td>2016 (Core Income)</td>
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<td>2016 (Earmarked)</td>
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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 working capital guidelines, investment guidelines, investment criteria and an 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;
- 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 2016, GGGI’s total investment portfolio increased to USD 24.91 million from USD 17 million in 2015. For 2016 GGGI accounted USD 0.22 million as net investment income.

*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.

2015 and 2016 has been a challenging year with USD appreciating against currencies in which a few GGGI’s donor contributions are denominated. For the year ended 31 December 2016, GGGI recorded a net foreign exchange gain of USD 0.02 million compared to a net loss of USD 0.28 million in 2015.

Reserves

Consequent to the establishment of working capital reserves guidelines and the approval from Council through the 2015 and 2015 biennium to set-aside USD 10 million 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.

*Retained Surplus*

For the year ended 31 December 2016, GGGI’s retained surplus increased to USD 34.83 million, 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.

The increase in the retained surplus will be used 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. With this level of retained surplus, the 2017-18 WPB is fully funded at the currently projected level of contributions.