

Summary of Financial Statements

Overview

GGGI received an unqualified 2017 audited financial statement from the external auditors. The following summary of the audited financial statement provides an overview of the components affecting GGGI's financial

position in 2017. The complete audited financial statements can be found on the 2017 Annual Report website: www.report.gggi.org/2017

Operating income

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 1) deferral of USD 2 million of USD 5 million contribution to 2019 by the Government of Australia (DFAT), 2) reduction of USD 2 million from the USD 5 million annual contribution by the Government of Denmark, 3) one-off payment (USD 5 million) made by the State of Qatar in 2016 for 2013/14 funding agreement, 4) deferral of USD 5 million contribution from 2017 to 2018 by the Government of United Kingdom (DFID), in accordance with the contribution schedule in the signed funding agreement, 5) reduction of USD 5 million contribution in 2017 by the Government of Indonesia compared to USD 10 million paid in 2016 for 2 years, 6) non-continuity of USD 0.5 million contributions in 2017 by the Mexican Government.

The earmarked income 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 several projects ending while no new commitments (other than a phase 2 for Indonesia) were signed in 2016. New earmarked commitments were signed in 2017, but these will primarily impact revenue in 2018 and beyond. Projects that ended, or were not continued, in 2017 were 1) non-continuity of Norway earmarked funding for Ethiopia 2) completion of Korea International Cooperation Agency (KOICA) grant, 3) completion of Swiss Agency for Development and Cooperation (SDC) grant.

Operating expenditures

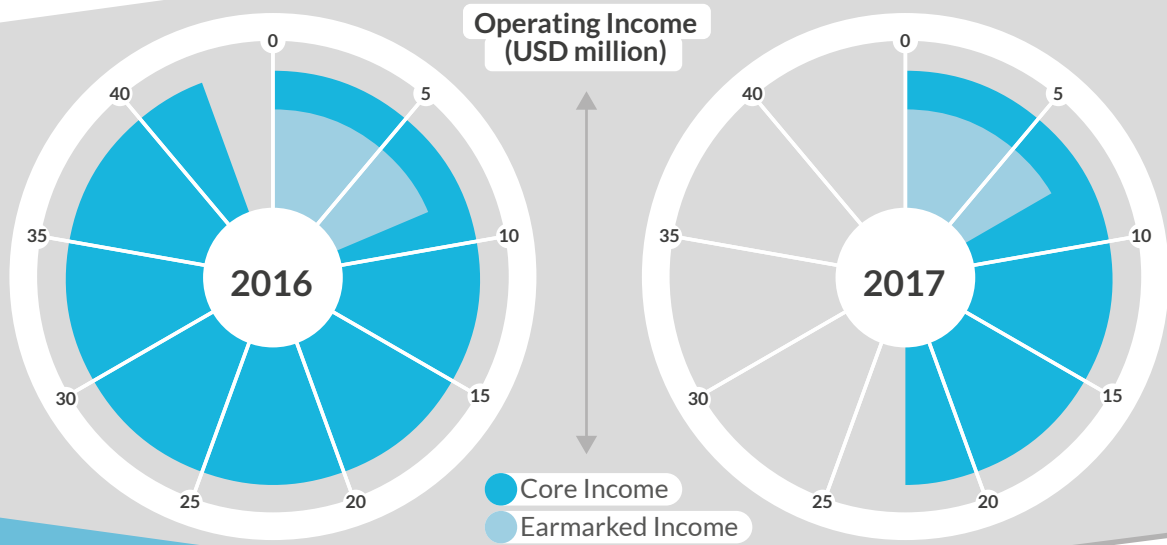
GGGI's operating expenses of USD 44.11 million in 2017 has increased by USD 3.13 million (8%) over 2016 (USD 40.98 million) and remained well within the approved budget of USD 56.88 million for 2017. The net increase (USD 3.13 million) was predominantly driven by 1) Increase in personnel costs (USD 5.49 million) and reduction in out-sourcing (USD 3.60 million) to implement 49 regular projects and an additional 13 projects from envelope¹ funding under the WPB 2017-2018, 2) at

least 6 (USD 2.05 million) of the 49 projects is an expansion of GGGI's program to 6 new countries, Costa Rica, Kiribati, Hungary, Lao PDR, Myanmar and Mozambique.

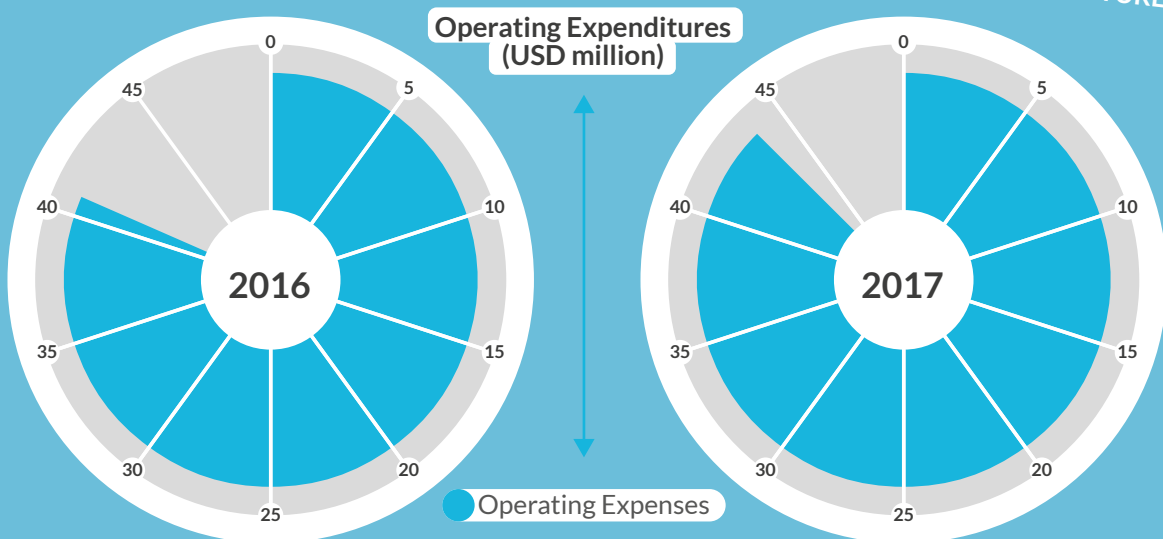
Over the years, GGGI has managed to improve its expenditure over budget rate from 67% in 2013 to 78% in 2017 despite the increase in the size of the approved budget from USD 48.74 million in 2013 to USD 56.88 million in 2017.

¹ Envelope funding refers to the additional USD 4.5 million approved by Council for bankable projects in 2017.

OPERATING INCOME



OPERATING EXPENDITURES



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;
- 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.

Reserves

In the 5th 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.

Retained Surplus

At the ninth session of the Council in September 2016, GGGI presented a forecast of retained surplus of USD 24 million to finance the budget deficit of WPB 2017-2018. However, 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; and 3) a lower 2016 operating expenditure versus projections.

Conclusion

Overall, GGGI's financial position remains stable for 2017 and on course to fully fund its 2017/18 biennial work program approved by the Council in October

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 gain of USD 0.03 million compared to a net gain of USD 0.02 million in 2016.

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. 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.

Council approved WPB 2017-2018 that aims to spend the retained surplus down to zero during the biennium. 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. This 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. Current projections are that the retained surplus will indeed be spend down during 2018.

2016. To balance the reduction in core operational income, GGGI has undertaken significant efforts in 2017 to ramp up its earmarked resource mobilization.