

Summary of Financial Statements

Overview

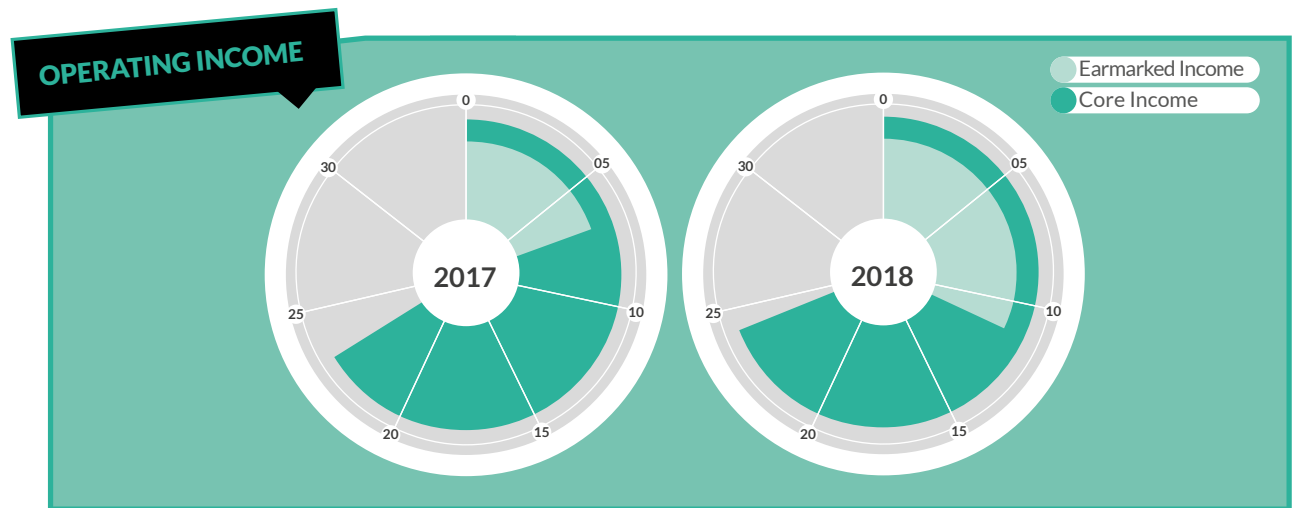
GGGI received an unqualified 2018 audited financial statement from the external auditors. The following summary of the audited financial statement provides an overview of the components affecting GGGI’s financial position in 2018. The complete audited financial statements can be found on the 2018 Annual Report website: <http://report.gggi.org/2018/>

Operating income

GGGI’s operating income increased by USD 5.4 million, or 18%, to USD 35.4 million in 2018. This comprised of an increase of USD 1 million, or 4%, in core funding and USD 4.4 million, or 64% in earmarked funding.

The increase of USD 1 million in core funding was due to the increase of DFAT’s contribution from USD 3 million in 2017 to USD 4 million in 2018 in accordance with its 2017-2019 contribution agreement.

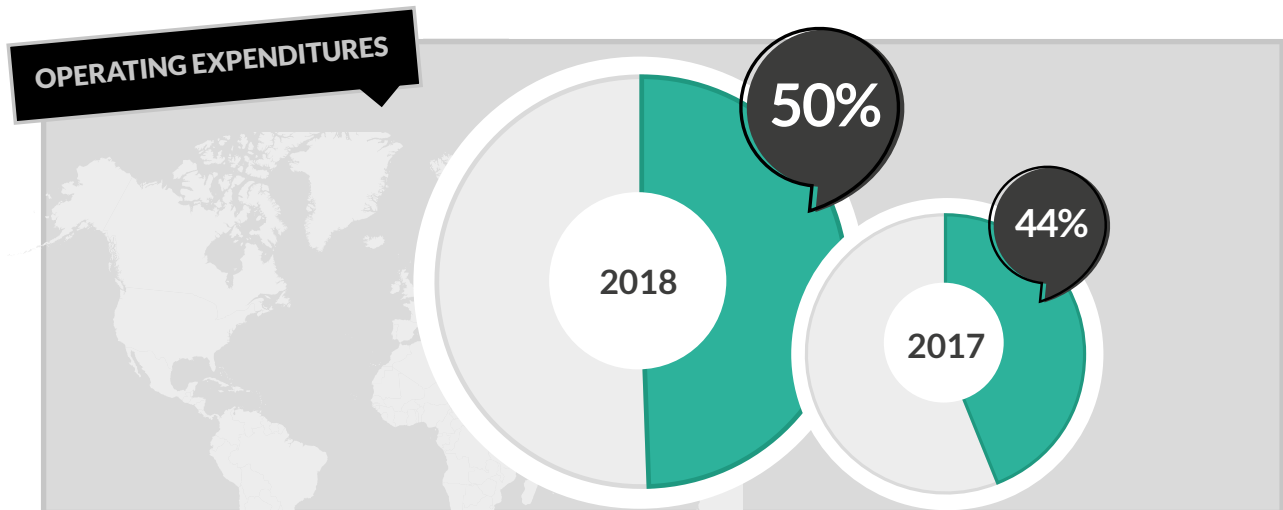
The increase of USD 4.4 million in earmarked funding is primarily due to recognition of higher income 1) USD 1.9 million from Norway’s earmarked contribution to Indonesia 2) USD 1.1 million in Colombia 3) USD 1.4 million from GCF’s Readiness program to multiple countries¹.



¹ Vanuatu, Mongolia, Indonesia, PNG, Rwanda, Thailand, Laos, Jordan, SAP project and Adaptation workshop.

Operating expenditures

GGGI's operating expenses increased by USD 5.7million, or 13% from USD 44.1 million in 2017 to USD 49.7 million in 2018. The increase was predominantly driven by increase in personnel costs by USD 4.3 million, or 23% to implement 75 regular projects under the WPB 2017-2018 and also reflects the expansion of GGGI's program to 4 new countries, Burkina Faso, Caribbean, Guyana, and Papua New Guinea.



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 2018, GGGI invested up to a maximum USD 20 million (including USD 10 million working capital reserves) and managed to recognize an investment returns of USD 0.25 million, a reduction of USD 0.10 million from USD 0.35 million reported in 2017 due to utilization of retained surplus to meet 2018 obligations as planned in the 2017/18 work program.

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 2018, due to increase in earmarked contributions in various currencies, GGGI recorded a net foreign exchange loss of USD 0.11 million compared to a net gain of USD 0.03 million in 2017.

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, Council instructed management to spend down the retained surplus (estimated at USD 34 million, down to the approved level of working capital of USD 10 million. For the year ended 31 December 2018, after accounting for

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 working capital. The first USD 5 million was set-aside at the beginning of 2015 and for the year ended 31 December 2016 GGGI has set-aside a further USD 5 million to make up the projected USD 10 million in working capital. GGGI has retained the same level of working capital throughout 2018.

the USD 13.9 million operating deficit, the retained surplus reduced to USD 7.4 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.

Conclusion

Overall, GGGI's financial position remain stable for 2018 and on course to fully fund its 2019/20 biennial work program approved by the Council in October 2018.