

Narrative Report for 2018 Financial Management Report

Stop TB Partnership Secretariat (STBP) 2018 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.

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 (oneUNOPS) and STBP Order Management System (OMS) were used and financial data was extracted to prepare the annual financial management report for 2018. 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.

In addition, few financial adjustments have been reflected in the STBP 2018 financial management report that relate to prior periods.

The balance brought forward from prior years was US\$107.5 million. Out of this balance brought forward, a total of US\$14.85 million corresponded to funds encumbered prior to the reporting period and shall have been disbursed after 1 January 2018.

The income in 2018 of US\$106.9 million shows a decrease of 35% vs 2017 income of US\$164.8 million, mainly due to the decrease in the income received from countries for In-House Procurement orders placed through GDF (from US\$103.6 million in 2017 to US\$37.6 million in 2018). This sharp decrease in the number and value of In-House procurement orders placed through GDF in 2018, coincided with the Global Fund’s (GF) new grant funding cycle starting in January 2018. Due to the GF’s transition between 2 funding/grant cycles and the risk of losing any unspent funds at the end of a grant cycle, 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 explains the unusual high expenditure incurred in 2017 vs. 2018 for the same cost category.

The overall expenditure in 2018 of US\$100.1 million shows a decrease of 31% versus the expenditure incurred in 2017 of US\$145.8 million. This decrease in the overall expenditure is mainly explained by the decrease in expenditure incurred under the Strategic Goal 3 (GDF). GDF expenditure showed a 44% decrease from 2017 to 2018, from US\$119.8 million in 2017 to US\$66.6 million in 2018, explained by the significant decrease in the value of the In-House procurement of TB diagnostics and drugs done through GDF vs. previous year, as explained above (from US\$88.5 million in 2017 to US\$54 million in 2018), and also by the build-up of the new Strategic Rotating Stockpile for drugs (nonrecurring cost of US\$19.1million) that took place in 2017.

The overall expenditure reduction was offset by a 32% increase of the expenditure incurred under Strategic Goal 1 (Partnership Building and Advocacy, Communications and Resource Mobilization), from US\$8 million in 2017 to US\$10.5 million in 2018. Strategic Goal 2 (TB REACH) also showed a 55% increase in the expenditure, from US\$9.1 million in 2017 to US\$14.2 million in 2018, explained by the launch of the Wave 5 Scale Up and Wave 6 TB REACH grants in 2018.

The balance brought forward to 2019 is US\$114.4million. Out of the US\$114.4 million balance brought forward, a total of US\$36.8 million corresponds to funds encumbered and shall be disbursed after 1 January 2019.

The funds flow statement for the year 2018 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. Same as in 2017, the Partnership's idle funds were invested again during 2018 as part of the UNOPS corporate invested pool of funds, investments that proved to rather successful. The returns through 2018 for STBP idle funds reached US\$1.36 million, being 33% higher than in year 2017, also explained by the additional interest of US\$165 earned in 2017 which was only accounted for in 2018 (US\$857K of interest earned in 2017 before prior year adjustment and US\$1.02 million after prior year adjustment).

In addition, as of 31 December 2018, there is income of US\$132,208 from a reduced UNOPS management fee applied to expenditure incurred in 2017 but accounted for 2018 fiscal year. Additionally, there is US\$184,578 of savings from UNOPS PSC sliding fee for 2018 but will be accounted for in UNOPS financial books in the fiscal year 2019 and consequently appear in the next year financial management report. 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 and 2018 expenditure surpassed US\$100million, the PSC was reduced to 6.5%, instead of 7%, on expenditures related to STBP activities.

Overall STBP has shown good progress in 2018 comparatively with 2017, in particular with regards to:

- Increase in Advocacy, Communications and Partnership Building activities implemented during the year with the first ever UN High Level Meeting on TB that took place in September 2018 in New York.
- The UNHLM activities and campaigns picked up already during World TB day 2018, followed by a Civil Society Hearing at the UN HQ in April 2018 as preparations for the UNHLM.
- Increased activities related to TB REACH with a scale up and a new wave of grants (Wave 5 Scale Up and Wave 6) awarded to grantees during the year
- Consolidation of GDF activities implemented during the year and volume of procurement done through GDF, in line with the GF's funding cycle.

The aim is to continue to 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.