

Annex III: Administrative Budget and Accounting Framework

I. Objective

1. The objective of the administrative budget and accounting framework is to set out:
 - (a) The accounting policy of GCF; and
 - (b) Requirements related to the preparation and execution of the GCF administrative budget to enable the efficient allocation and management of financial resources for the administrative operations of the Fund and to support its mission and goals.

II. Definitions

2. Key concepts used in this document are defined as per International Financial Reporting Standards (IFRS).

III. Accounting policy

3.1 Accounting policy

3. The Secretariat shall select and apply appropriate accounting policies to comply with International Financial Reporting Standards (IFRS) as per decision B.08/18. Where an IFRS standard specifically applies to a transaction, GCF shall determine the accounting policy by applying the relevant standard. Without a specific standard that applies to the transaction at hand, consideration shall be given to other IFRS standards that deal with similar or related matters. If there is neither a specific standard applicable to the transaction nor a standard dealing with similar or related matters, the appropriate accounting policy and guideline shall be developed in line with the principles outlined in the IFRS Conceptual Framework for Financial Reporting.

3.2 Axioms of GCF accounting

4. The IFRS are based on major axioms relating to the environment where transactions occur. These axioms provide the underlying basis for GCF accounting, as follows:
 - (a) **Economic and legal entity:** this assumes that an economic activity (financial transaction) can be identified with a particular accountability unit. The economic and legal entity is GCF;
 - (b) **Monetary unit:** this assumes that money is the common denominator by which economic activity is conducted, and that the monetary unit provides an appropriate basis for measurement and analysis. The unit of account for GCF is the United States dollar;
 - (c) **Periodicity:** this assumes that the activities and, therefore, the financial flows of an entity, can be divided into any chosen time period. The financial statements of GCF are prepared on the basis of a full calendar year; and
 - (d) **Elements of financial statements:** financial statements group transactions and other events into broad classes according to their economic characteristics, which IFRS terms the “elements of financial statements”. For GCF, the elements directly related to the

statement of financial position are assets, liabilities and net assets. For GCF, the elements directly related to the statement of activities are income and expenditures.

3.3 Tangible and intangible assets

5. The Secretariat shall determine the capitalization thresholds for tangible and intangible assets. Items meeting the capitalization threshold shall be capitalized and tracked as appropriate, while those not meeting the capitalization threshold shall be expensed.

6. For capitalized items, the Secretariat shall assign custodians for the assets, determine the appropriate useful life and the appropriate depreciation and amortization method in compliance with IFRS and appropriate procedures for disposal of the assets.

7. Procedures shall be established to identify custodial responsibility and physical security measures that are consistent with the value and vulnerability of the asset, including insurance where appropriate.

8. As necessary to meet evolving needs, assets and any other items related to capital expenditure may be presented in a separate capital budget prepared in accordance with best market practices and standards.

3.4 Banks and cash for the execution of the GCF administrative budget

9. Bank accounts shall only be opened in the name of the Fund with the approval of the Executive Director or their delegate. Banks must be rated by a recognized international or national agency (e.g. Standard & Poor's, Moody's, Fitch). The justification for opening a new account shall be documented.

10. Closure of GCF bank accounts requires the approval of the Executive Director or their delegate.

11. The Executive Director or their delegate shall develop and implement appropriate controls over bank accounts and bank transactions.

3.5 Expenses, payables and accruals

12. All expenses shall be classified according to the approaches acceptable under the relevant IFRS. The Secretariat shall determine which of the acceptable approaches are most suitable for GCF.

13. All expense items shall be approved in accordance with the delegation of authority; and

14. Supporting documentation shall be retained in accordance with the GCF retention policy.

15. The Secretariat is responsible for ensuring that all processes pertaining to expenses provide adequate internal control commensurate with the nature of the expenditure and timely settlement of dues to vendors, employees and other stakeholders.

3.6 Administrative budget framework

Objective

16. The objective of the GCF administrative budget framework seeks to promote accountability and transparency while maintaining flexibility to re-assign resources to strategic objectives that may be at risk.

Scope

17. The administrative budget framework applies to the administrative budgets for:
- (a) The Board, including Board panels (e.g. the Accreditation Panel (AP), the independent Technical Advisory Panel (TAP)) and other groups set up to advise or support the Board (e.g. the Indigenous Peoples Advisory Group (IPAG));
 - (b) The Secretariat;
 - (c) The Independent Units (i.e., the Independent Evaluation Unit, the Independent Integrity Unit and the Independent Redress Mechanism); and
 - (d) The Trustee.

Administrative budget responsibilities

18. The table below summarizes the responsibilities for the administrative budget:

Component of the administrative budget and workplan	Preparation	Workplan review	Budget review	Budget approval	Budget implementation and management
Board (Including Board panels)	Secretariat	Board	Budget Committee	Board	Secretariat
Secretariat	Secretariat	Board	Budget Committee	Board	Secretariat
Independent Evaluation Unit (IEU)	Head of IEU	Board	Budget Committee	Board	Head of IEU
Independent Integrity Unit (IIU)	Head of IIU	Ethics and Audit Committee	Budget Committee	Board	Head of IIU
Independent Redress Mechanism (IRM)	Head of IRM	Ethics and Audit Committee	Budget Committee	Board	Head of IRM
Trustee	Trustee	Board	Budget Committee	Board	Trustee

Administrative budget principles

19. The key principles established under the Administrative Budget and Accounting Framework are set out below.

Multi-annual rolling budgets

20. GCF shall operate on the basis of a multi-annual rolling budget. Consequently, GCF will propose a preliminary estimate of overall administrative costs each year for the relevant period, taking into account the volume of committed and projected resources and the programming directions agreed upon by the Board.
21. The approved budget for the first year of each multi-annual period for the Secretariat and IUs shall be fixed, while the approved provisional budgets for subsequent years shall be subject to annual reviews by the Budget Committee and re-approval by the Board. Subsequent reviews will focus on major changes to the provisional budgets and evaluation of utilization compared with the agreed cap.
22. To ensure continuity, should a decision on the administrative budget not be reached in any year, the provisional budget for the applicable year shall be applied unless and until a decision is reached on the actual budget figures.
23. In accordance with the rolling nature of the budget, signed contracts can be fulfilled and related funds used over multiple years to meet contract objectives.
24. Unexecuted budget should be released to the commitment authority as appropriate.

Budgetary cap

25. The annual administrative budget of the Secretariat and IU will be capped at the level of the budget approved by the Board for that year.

Contingency budget

26. Accessing the emergency contingency will be at the discretion of the Executive Director or their delegate. In addition, a second Board contingency budget shall be created to fund unanticipated workplan requirements or initiatives directed by the Board that are beyond the ability of the budgeted units to accommodate through adaptive management. This Board contingency would also be set as a percentage of the combined annual budget of the Secretariat and IUs. The use of this contingency will be proposed to the Board in related requests. Any unused portion of these contingency budgets will be released when the subsequent budget is approved with new contingencies.

Cost allocation plan for shared costs

27. For each planning cycle, the Secretariat shall analyze the pool of costs paid for by the Secretariat but also utilized by the Independent Units. The basis for allocating the costs will be determined by the Secretariat in consultation with the Independent Units.
28. The Independent Units will continue to budget for specific items that are not part of what the Secretariat pays for and allocates to the Independent Units.

Budget documentation and budget-related policies

29. GCF shall standardize the presentation of the budget documents across the different GCF bodies by adopting common templates and cost classifications where possible to enhance the comparability of the budgets and facilitate seamless reviews. Budget presentation documents will include forecast metrics such as forecasted actuals to plans and plan-to-plan comparisons.
30. The Secretariat will include a section in relevant documents submitted to the Board for consideration and approval containing information on any administrative budgetary implications of proposed decisions, for example, methodology and key assumptions used and any material impact on the commitment authority of GCF.

IV. Implementation arrangements

31. The Secretariat shall develop and maintain internal procedures to give effect to and ensure compliance with the requirements of this budget and accounting framework.

V. Monitoring and review

32. The Secretariat shall monitor the implementation of the policy against the objectives and expected benefits.

33. The Secretariat shall keep the implementation of the policy under review and, if it assesses that changes are needed, will recommend the required changes to the Budget Committee for consideration of any action required by the Board.