

**GREEN  
CLIMATE  
FUND**

**Meeting of the Board**  
17– 20 October 2018  
Manama, Bahrain  
Provisional agenda item 16(e)

**GCF/B.21/33/Rev.01**  
4 October 2018

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# Analysis of options for the financial planning of the commitment authority of the Green Climate Fund for the remainder of the initial resource mobilization period, 2019, and 2020

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## **Summary**

This document presents an analysis of options for financial management of the commitment authority of GCF for the remainder of the initial resource mobilization period, 2019 and 2020. It incorporates a forward-looking analysis of the implications of the options for pipeline management to guide the GCF replenishment process. It also includes information on the Secretariat's experience in applying decision B.20/07 in managing the pipeline for the twenty-first meeting of the Board. A draft decision is presented for the Board's consideration in annex I and a detailed analysis of options in annex II.

## I. Background

1. At its twentieth meeting, the Board took note that the remaining commitment authority for the GCF initial resource mobilization (IRM) period was projected at USD 2.8 billion. Recognizing the high level of demand in the GCF pipeline from developing countries, the Board confirmed that an approach to managing the GCF commitment authority and resources was required to guide developing countries and accredited entities (AEs) in engaging with GCF.

2. In view of the above-mentioned situation, the Board, by decision B.20/07, requested the Secretariat to “prepare an analysis of options for the financial planning of the GCF commitment authority for the initial resource mobilization with a view to managing the GCF pipeline to balance commitments and diversity among accredited entities and across the initial results areas of the GCF based on confirmed contributions in accordance with decision B.06/06<sup>1</sup> on resource allocation, and present this to the Board for consideration and adoption at its twenty-first meeting”. By the same decision the Board confirmed that “the financial planning exercise should also contain a forward-looking analysis on pipeline management to guide the GCF replenishment process”.

3. The analysis presented in this paper takes account of the Secretariat’s experience in implementing the Board’s request through decision B.20/07 to “consider the Board’s comments on the need for financial management of the commitment authority in preparing for the twenty-first meeting of the Board, with a view to ensuring resources for the operation of the GCF for the remainder of the initial resource mobilization period”, in line with the Board’s guidance referred to in paragraph 2 above.

## II. Possible action by the Board

4. The Board is invited to consider and approve the draft decision set out in annex I.

## III. Status of commitment authority

5. **Current commitment authority:** commitment authority, or the level of resources currently available for funding decisions, typically refers to the total amount of actual cash in the GCF Trust Fund plus the promissory notes deposited in a designated custody account, minus net funding commitments (cumulative funding approvals minus cash disbursed). As at 31 August 2018, the commitment authority of GCF was approximately **USD 2.3 billion**.<sup>2</sup> This information is presented in table 1 below. An updated current commitment authority figure will be presented to the Board at its twenty-first meeting (B.21).

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<sup>1</sup> In decision B.06/06 the Board adopted the following initial parameters and guidelines for allocation of resources, during the initial phase of GCF: (i) decision to aim for a 50:50 balance between mitigation and adaptation over time; (ii) decision to aim for a floor of 50 per cent of the adaptation allocation for particularly vulnerable countries, including least developed countries, small island developing States and African States; (iii) decision to manage access to resources with a view to seeking geographic balance and a reasonable and fair allocation across a broad range of countries, while maximizing the scale and transformational impact of the mitigation and adaptation activities of GCF; (iv) decision to maximize engagement with the private sector, including through a significant allocation to the Private Sector Facility; (v) decision that sufficient resources should be provided for readiness and preparatory support; and (vi) decision that all allocation parameters should be determined in grant equivalents.

<sup>2</sup> Calculated on the basis of cash and promissory note figures in United States dollars based on the Interim Trustee’s GCF Trust Fund Report as at 30 June 2018.

**Table 1: Commitment authority as at 31 August 2018 (in USD billion)**

	Cash	Promissory notes <sup>a</sup>	Net funding commitments <sup>b</sup>	Total available
<b>Commitment authority</b>	3.7	2.4	-3.8	<b>2.3</b>

<sup>a</sup> Amount is in United States dollars equivalent based on the Interim Trustee's GCF Trust Fund Report as at 30 June 2018.

<sup>b</sup> Funding decisions include Board decisions on funding proposals, the Readiness and Preparatory Support Programme, the Project Preparation Facility, accredited entity management fees and the administrative budget (including for the independent units), minus the disbursed amounts and the amount of two lapsed projects (FP020 and FP030) totalling approximately USD 210 million.

6. **Projected commitment authority:** the projected commitment authority for the remainder of the IRM is calculated based on the current level of commitment authority, plus additional projected receipts for the remainder of the IRM. The total projected commitment authority for the remainder of the IRM is calculated to be approximately **USD 3.0 billion**. This information is presented in table 2 below.

**Table 2: Projected commitment authority for the remainder of the IRM (in USD billion)**

	Cash	Promissory notes <sup>a</sup>	Forecasted additional cash and promissory	Net funding commitments <sup>b</sup>	Total available
<b>Commitment authority</b>	3.7	2.4	0.7	-3.8	<b>3.0</b>

<sup>a</sup> Amount is in United States dollars equivalent based on the Interim Trustee's GCF Trust Fund Report as at 30 June 2018.

<sup>b</sup> Funding decisions include Board decisions on funding proposals, the Readiness and Preparatory Support Programme, the Project Preparation Facility, accredited entity management fees and the administrative budget (including for the independent units), minus the disbursed amounts and the amount of two lapsed projects (FP020 and FP030) totaling approximately USD 210 million.

7. Further information on the status of the GCF commitment authority is included in document GCF/B.21/Inf.05 on the status of the IRM process.

#### **IV. Resources for the operation of GCF**

8. Through decision B.20/07, the Board requested the Secretariat to prepare for B.21 with a view to ensuring resources for the operation of GCF for the remainder of the IRM period.

9. Noting that the timing of the first replenishment process of GCF is still to be decided, it would be prudent for the Board to make provision for the operation of GCF through 2019 and into early 2020 out of the GCF remaining commitment authority for the IRM. This will provide assurance to the GCF stakeholders that critical functions, such as the ongoing work of the Board, Secretariat, independent units and Trustee, delivery of the Readiness and Preparatory Support Programme, and implementation of the Project Preparation Facility (PPF) will continue uninterrupted.

10. Based on current projections, the Secretariat estimates this may require provisioning an indicative amount of **USD 0.4–0.5 billion** (subject to change) for non-funding proposal related approvals. This would include (for 2019 and part of 2020):

- (a) **USD 120 million:** administration of Board, the Secretariat, the independent units and the Trustee;<sup>3</sup>
  - (b) **USD 190–275 million:** Readiness and Preparatory Support Programme;<sup>4</sup>
  - (c) **USD 25 million:** for the operation of the PPF; and
  - (d) **USD 100 million:** foreign exchange commitment risk buffer for solvency risk.<sup>5</sup>
11. Taking into consideration the above, the projected amount of remaining commitment authority available for funding proposals for the IRM, including B.21, is in the range of **USD 2.5–2.6 billion**.

## V. Pipeline management for the twenty-first meeting of the Board and 2019

12. The Board in decision B.20/07 requested the Secretariat to consider the Board's comments on the need for financial management of the commitment authority in preparing for B.21, with a view to ensuring resources for the operation of GCF for the remainder of the initial resource mobilization period in line with paragraph (f) of decision B.20/07.<sup>6</sup>

13. Eleven funding proposals seeking funding of USD 988.5 million were submitted for Board approval at its twentieth meeting (B.20) but were not considered. Consistent with the GCF proposal approval process, on 20 July 2018 the Secretariat advised AEs that funding proposals presented at B.20 would have the opportunity to be re-presented to the Board for approval at B.21. The message from the Secretariat encouraged AEs to take account of the Board's comments on the need for financial management of the commitment authority, and since then, the Secretariat has progressed discussions with AEs to better align the proposals originally submitted to B.20 with the Board's guidance on financial planning. This has included reducing the amount of funding requested for approval at B.21, in parallel with an indication that the AE may apply for approval at a subsequent Board meeting for additional tranches of funding, such that the sum of approvals equals the amount initially requested at B.20. Of the B.20 funding proposals, 10 are being re-submitted by AEs seeking total GCF funding of USD 779.5 million, of which USD 615.2 million is proposed for Board approval at B.21 with USD 164.3 million identified for possible future tranches.

14. Also, in response to the Board's request, the Secretariat developed an approach to screen pipeline funding proposals based on (i) alignment with investment criteria, (ii) completeness of the funding proposals and (iii) set of parameters based on balancing commitments in line with the decisions of the Board. Through this process, the Secretariat identified funding proposals with a high assessment against the six GCF investment criteria. In the completeness check, the Secretariat looked at the completeness of documentation as well as

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<sup>3</sup> The Board will consider the administrative budgets for 2019 at B.21, with USD 79 million in new administrative funding proposed for approval. Commitment authority will be accordingly reduced by the amount approved. The Board may in addition wish to provision for 2020 administrative costs covering the operation of the Board, trustee, Secretariat non-staff costs and the independent units, estimated to be in the range of USD 40 million.

<sup>4</sup> Lower range represents a business as usual projection based on current rates of country demand and approvals. Upper range would provide some flexibility to deliver readiness programme reforms, such as the piloting of multi-year programming or increasing demand in response to efficiency improvements.

<sup>5</sup> Subject to change according to future foreign exchange variations

<sup>6</sup> Namely, "managing the GCF pipeline to balance commitments and diversity among accredited entities and across the initial results areas of the GCF based on confirmed contributions in accordance with decision B.06/06 on resource allocation".

availability of no-objection letters and accreditation master agreement signing.<sup>7</sup> After assessing alignment with investment criteria and completeness, the Secretariat also considered alignment with the Board's guidance on balancing commitments, diversity and the resource allocation parameters set out in decision B.06/06. Following this approach, the Secretariat is submitting to the Board at B.21, from an original B.21/twenty-second meeting of the Board (B.22) pipeline of around USD 3 billion, a further 10 funding proposals to bring the total to 20. These seek total GCF funding of USD 1,677.4 million, of which USD 1,148.4 million is proposed for Board approval at B.21 with USD 529 million identified for potential future tranches.

15. The total GCF funding proposal pipeline for 2019 currently stands at over USD 5 billion. New submissions of funding proposals are still expected for B.22 and later in 2019. While many of these pipeline funding proposals are not yet ready for Board submission, the Secretariat's experience in managing the pipeline for B.21 shows that there is a growing number of funding proposals that are complete and fully satisfy both the investment criteria and the Board's guidance from decision B.20/07. The Secretariat notes that as the current portfolio is already broadly in line with decision B.06/06, further guidance on resource allocation parameters would be required to actively influence pipeline management.

16. From a Secretariat perspective, future pipeline management would be assisted, and improved transparency for stakeholders achieved, through further guidance around both the volume of funding proposals to be considered by the Board at future meetings and the basis for progressing funding proposals out of a growing high-quality pipeline. Absent this, sufficient funding proposals are likely to be ready for submission to B.22 and/or the twenty-third meeting of the Board to substantially exhaust the GCF commitment authority. This reflects an expected longer-term trend of a growing number of quality funding proposals from AEs exceeding available resources.

## VI. Analysis of options for financial planning

17. A full analysis of options for financial planning of the GCF commitment authority is set out in annex II. The options considered are:

- (i) Establishing a funding allocation schedule;
- (ii) Further clarifying resource allocation parameters and/or prioritization criteria;
- (iii) Establishing set-asides for requests for proposals or other programmes;
- (iv) Establishing programming allocations; and
- (v) Elaborating the eligibility criteria for funding proposal submission.

18. In addition, the Secretariat will continue its work to develop and refine internal tools for pipeline management, as discussed in annex II, section 1.9.

19. The above-mentioned options for Board consideration are not mutually exclusive, and could be applied in combination to execute financial planning for both the remainder of the IRM period and to guide the GCF first replenishment process. The Secretariat suggests that establishing an indicative funding allocation schedule, along with some further clarification of resource allocation parameters (e.g. to emphasize the GCF focus on maximizing paradigm shift and transformational climate impact, enhancing direct access and delivering strategic programmes such as the simplified approval process and requests for proposal), could help to

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<sup>7</sup> One funding proposal is expected to be submitted to the Board without a signed accreditation master agreement (AMA). This AMA has material deviations from the template for AMAs as approved by Board, and this AMA would need Board approval before it can be signed. Therefore, the AMA and the funding proposal will both be submitted for Board approval at B.21.

establish a more predictable and transparent basis for pipeline management, manage expectations created by prior GCF decisions and commitments, and provide a basis for evolving a sustainable financial planning approach for the first replenishment period. The Secretariat could develop additional tools to operationalize this approach in practice. The clarification of resource allocation parameters could be done in combination with further evolving eligibility criteria for funding proposal submission and more active management of parts of the portfolio not progressing to implementation.

## Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.21/33/Rev.01 titled “Analysis of options for the financial planning of the commitment authority of the Green Climate Fund for the remainder of the initial resource mobilization period, 2019, and 2020”:

### ***[Status of commitment authority and options for financial planning<sup>1</sup>]***

- (a) *Takes note* that the GCF cumulative funding approvals as at the twenty-first meeting of the Board amount to USD X billion<sup>2</sup>, and the remaining commitment authority for the initial resource mobilization period is currently projected at USD X billion;
- (b) *Also takes note* of the analysis on the options for financial management of the commitment authority contained in annex II to document GCF/B.21/33/Rev.01;

### ***[Provision for the ongoing operation of the Fund]***

- (c) *Reiterates* its request to the Secretariat to consider the Board’s comments on the need for financial management of commitment authority in preparing for future Board meetings, with a view to ensuring resources for the operation of the GCF for the remainder of the initial resource mobilization period, 2019 and 2020 as required;
- (d) *Notes* that the Board will, as part of its 2019 workplan, consider the budget of the Readiness and Preparatory Support Programme and the Project Preparation Facility with a view to ensuring the continued operation of these programmes;

### ***[Allocation to funding proposals]***

- (e) *Intends*, subject to future changes in the level of the GCF commitment authority, to consider in 2019, over the course of its meetings, funding proposals totalling in the range of USD [1.3<sup>3</sup>] billion;
- (f) *Requests* the Secretariat, in preparing funding proposals for the Board’s consideration under paragraph (e), to bring forward in the range of [400m] of funding proposals submitted in response to requests for proposals;

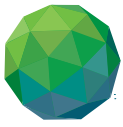
### ***[Guidance on resource allocation]***

- (g) *Requests* the Secretariat, in managing the GCF pipeline, to continue to balance commitments and diversity among accredited entities and across the initial results areas of GCF based on confirmed contributions in accordance with decision B.06/06 on resource allocation, and to implement to the fullest extent the commitments of GCF to:
  - (i) Maximizing paradigm shift and the transformational climate impact of the mitigation and adaptation activities of GCF;
  - (ii) Enhancing direct access;
  - (iii) Delivering adaptation funding to particularly vulnerable countries, including least developed countries, small island developing States and African states; and
  - (iv) Delivering on requests for proposals initiated during the initial resource mobilization and the Simplified Approval Process pilot scheme;

<sup>1</sup> Subheadings have been inserted to improve readability and would be deleted from a final decision.

<sup>2</sup> This number will be the total of: (1) cumulative funding approvals prior to B.21 **plus** (2) the amount of new funding proposals and AE fees approved at B.21 **plus** (3) administrative budget amounts approved at B.21.

<sup>3</sup> This number has been calculated as: (1) projected remaining commitment authority (3.0bn) **minus** (2) estimated funding approvals at B.21 (funding proposals + AE fees + administrative budgets = 1.3bn) **minus** (3) provisioned amount for other operating requirements (readiness programme + PPF + administrative budgets for 2020 + FX commitment risk buffer = 0.4 bn).



- (h) Requests the Secretariat to prepare for the Board's consideration at its twenty-third meeting a paper elaborating project and programme eligibility and selection criteria, building on the mapping exercise in document GCF/B.21/Inf.02 and other relevant materials;
- (i) Notes the actions described in annex II, section 1.9, of document GCF/B.21/33/Rev.01, which the Secretariat will take to assist in the management of the GCF pipeline and portfolio; and
- (j) Decides to review guidance on financial planning and pipeline management as part of the first replenishment process of GCF.



## Annex II: Options for financial planning of commitment authority

### I. Detailed analysis of options

#### 1.1 Introduction

1. This analysis considers a number of options for financial planning of the GCF commitment authority, which the Board could decide to apply for the remainder of the initial resource mobilization (IRM) and also guide planning for the first replenishment of GCF. Options are not mutually exclusive, and in some cases may operate most effectively in combination. In the section below, each option will be explained in detail with consideration of how it may be implemented both during the IRM period and over a longer-term horizon, and potential advantages and disadvantages.

2. The options examined are:

- (a) Establishing a funding allocation schedule (e.g. per Board meeting or per year);
- (b) Further clarifying resources allocation parameters and/or prioritization criteria (e.g. by funding area, results area, accredited entity (AE) type, multi-criteria scoring, etc.);
- (c) Establishing set-asides for requests for proposal (RFPs) or other programmes (e.g. mobilizing funds at scale, REDD-plus, simplified approval process (SAP));
- (d) Establishing programming allocations;
- (e) Elaborating funding proposal selection and eligibility criteria; and
- (f) Management of projects not progressing to implementation.

3. In addition, based on current Board decisions and guidance, the Secretariat can continue to implement and strengthen a number of other approaches to assist with the financial management of the GCF commitment authority. The Secretariat notes, however, that these alone may be insufficient to predictably manage the GCF commitment authority in the light of the high level of demand for GCF resources and growing GCF pipeline. The approaches are:

- (a) Continuing to negotiate the amount of funding requested and identify where it might be possible for an AE to apply for approval at a subsequent Board meeting for additional tranches of funding for a project;
- (b) Strengthening the Secretariat's review of funding proposals against the investment criteria and tools for funding proposal evaluation; and
- (c) Working to establish a strong pipeline of projects for replenishment.

#### 1.2 Establishing a funding allocation schedule

4. **Description of option:** the Board could decide to establish either a strict or an indicative schedule for the allocation of funding, for example:

- (a) A specified amount or percentage of available funding to be allocated each year; or
- (b) A specified amount or percentage of funding to be allocated by Board meeting.

5. **Potential application for the IRM:** on the basis that there will be three Board meetings held in 2019, and the Board does not intend to make provision for funding approvals from the IRM into 2020, the Board could:

- (a) Set an indicative total volume of funding proposal approvals to be considered in 2019. Calculated on the basis of projected commitment authority for the IRM, this would be in the range of 1.3 billion, assuming approval of all twenty-first meeting of the Board (B.21) funding proposals;
- (b) Decide to allocate a proportionate amount (e.g. one third) of projected remaining commitment authority to each Board meeting in 2019. This would be in the range of USD 400-500 million per Board meeting, assuming approval of all B.21 funding proposals; and
- (c) Decide on specific allocation amounts for each Board meeting, for example:
- (i) Twenty-second meeting of the Board: USD 450 million;
  - (ii) Twenty-third meeting of the Board: USD 450 million; and
  - (iii) Twenty-fourth meeting of the Board: USD 400 million.
6. If GCF received additional contributions, the additional commitment authority could be allocated by the Board proportionately or to one or more Board meetings.
7. **Potential application for replenishment:** once the total amount of funding available for replenishment is known, this option could also be applied during the GCF first replenishment period. Given that GCF is now fully operational and able to programme at scale, a straightforward way to establish a funding allocation schedule could be to set an annual resource allocation target calculated by spreading the total available replenishment funding proportionately over each year of the replenishment.
8. **Implementation:** to operationalize this approach, the Board would also need to decide on how to manage the pipeline to fit within the ceiling amounts of the funding allocation schedule. In the absence of a transparent and implementable approach for managing and prioritizing the pipeline, the risk is that either the amount of funding proposals ready to be presented to the Board will exceed the ceiling, or projects that otherwise meet the criteria for submission to the Board will be held up in the pipeline, creating implementation delay risks for projects and reputational risks for GCF.

<b>Summary: Establishing a funding allocation schedule</b>	
<b>Advantages</b>	<b>Drawbacks</b>
Predictable schedule for funding allocation, helps Secretariat allocate capacity	Requires a parallel resource allocation/prioritization approach for transparent pipeline management
Helps manage stakeholder expectations on approval volumes	Deferring approval of ready projects may jeopardize implementation/co-financing
Helps bring focus to funding proposals of highest quality	Could be seen as artificially slowing approvals
Can be used to assure paced continuation of funding approvals over rest of initial resource mobilization	May delay 60% replenishment trigger

### 1.3 Further elaborating resource allocation and/or prioritization criteria

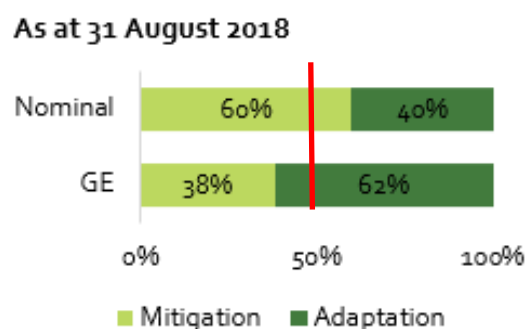
9. **Description of option:** the Board could further elaborate resource allocation parameters or establish prioritization criteria to guide the Secretariat in screening and organizing the pipeline. This would allow the Secretariat to transparently manage the pipeline and bring forward funding proposals that best fit the strategic directions set by the Board. The effectiveness of this option in managing the GCF remaining commitment authority would depend on the parameters or criteria established and how strictly these impact the pipeline. Parameters/criteria could be reviewed and updated periodically and could include:

- (a) The resource allocation parameters set out in decision B.06/06;
- (b) Geographical balance – for example, countries that have not yet had a project funded;
- (c) Diversification of AEs – for example, to promote representation of direct access entities (DAEs) in the portfolio, or entities with a lower volume of approved proposals;
- (d) Diversification of results areas – for example, prioritizing the least represented results areas;
- (e) Funding area – for example, prioritizing adaptation funding for the most vulnerable countries, or designed to protect lives or livelihood in imminent danger of climate impacts; and
- (f) A multi-criteria approach – for example, elaboration of a scorecard based on the investment criteria, resource allocation parameters and/or other criteria.

10. **Resource allocation parameters in decision B.06/06:** decision B.06/06 set the parameters for allocation of resources to funding proposals shown in the figure below (analysis shows portfolio progress against parameters as at 31 August 2018 in both nominal and grant equivalent term):

- (a) **50:50 balance between mitigation and adaptation over time:** according to the analysis shown in figure 1 below, in nominal terms, the mitigation funding area currently represents 60 per cent of allocated funding, but in grant equivalent terms (the basis for calculation required under decision B.06/06), the numbers are reversed with adaptation making up 62 per cent of funding:

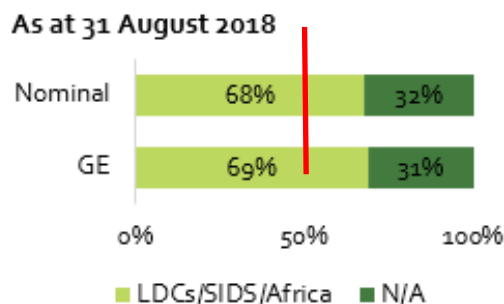
**Figure 1: Balance between mitigation and adaptation funding**



Abbreviations: GE = grant equivalent.

- (b) **A floor of 50 per cent of the adaptation allocation for particularly vulnerable countries, including least developed countries, small island developing States and African States:** according to the analysis shown in figure 2 below, the current portfolio is well beyond the 50 per cent floor target in both nominal and grant equivalent terms:

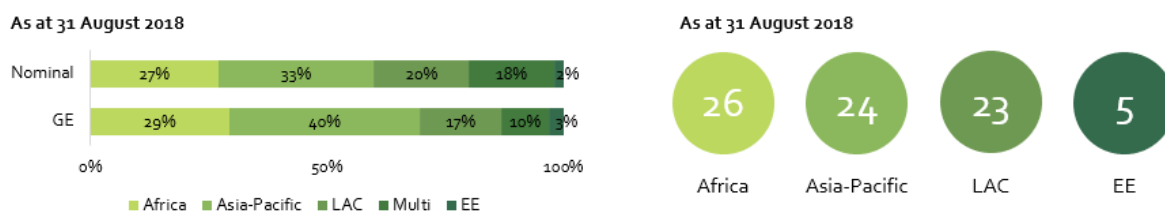
**Figure 2: Adaptation allocation for particularly vulnerable countries**



Abbreviations: GE = grant equivalent, LDCs = least developed countries, SIDS = small island developing States, N/A = not applicable.

- (c) **Geographic balance and a reasonable and fair allocation across a broad range of countries:** the analysis in figure 3 below shows that the current portfolio is broadly spread across the regions in both nominal and grant equivalent terms. Asia-Pacific has the highest share of funding in grant-equivalent terms, and Eastern Europe the least total share, with a smaller number of countries:

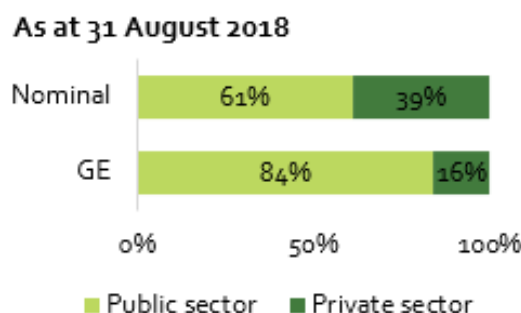
**Figure 3: Geographic balance and a reasonable and fair allocation across a broad range of countries**



Abbreviations: GE = grant equivalent, LAC = Latin America and the Caribbean, EE = Eastern Europe.

- (d) **Maximize engagement with the private sector, including through a significant allocation to the Private Sector Facility:** the analysis in figure 4 below shows that the private sector weight in the current portfolio is reasonably balanced in nominal terms. In grant equivalent terms the private sector represents a significantly smaller share of the portfolio given that the majority of private sector projects are funded through non-grant instruments:

**Figure 4: Private sector weight in the current portfolio**



Abbreviations: GE = grant equivalent.

- (e) **Conclusion:** from the analysis shown above it can be concluded that, to date, the portfolio is broadly in line with the IRM funding objectives. This means that the resource

allocation parameters set out in decision B.06/06 are not 'binding' in influencing pipeline management, unless the Board decides to further elaborate the parameters more specifically.

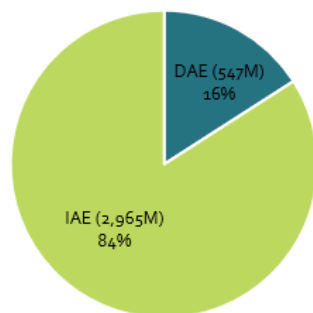
11. **Geographical balance:** although the analysis shown in paragraph 10(c) above shows that the current portfolio is broadly spread across the regions with the majority of the funding being allocated to the Asia-Pacific, Africa and Latin America and the Caribbean regions, there are still a number of countries that have not yet had funding proposals funded by GCF. The Board could decide to elaborate the geographic balance criteria in decision B.06/06, for example, to prioritize funding for countries that have not yet had funding proposals approved by GCF.

12. **Diversification of AEs:** decision B.20/07 requested the Secretariat to develop the analysis for pipeline management with regard to "balancing... diversity among accredited entities". At present, this parameter is not further elaborated in the GCF resource allocation framework:

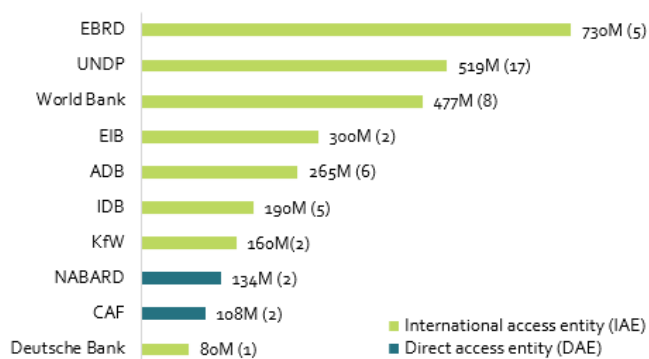
(a) **Current AE distribution in the portfolio:** the current GCF portfolio of 74 approved projects is being implemented by 29 AEs, of which international AEs are implementing 84 per cent of the portfolio and DAEs 16 per cent of the portfolio by value. The European Bank for Reconstruction and Development accounts for the largest volume of GCF-approved funding (21 per cent of the total GCF funding of USD 3.5 billion), followed by the United Nations Development Programme (15 per cent), the World Bank (14 per cent) and the European Investment Bank (9 per cent). The information is presented in figure 5 below;

**Figure 5: Current AE distribution in the portfolio**

**GCF funding by type of accredited entity**



**GCF funding and number of projects by accredited entity (Top 10, USD Million, number of projects)**



*Abbreviations:* M = million, EBRD = European Bank for Reconstruction and Development, UNDP = United Nations Development Programme, EIB = European Investment Bank, ADB = Asian Development Bank, IDB = Inter-American Development Bank, KfW = Kreditanstalt für Wiederaufbau, NABARD = National Bank for Agriculture and Rural Development, CAF = Corporación Andina de Fomento.

(b) **Representation of DAEs:** currently DAEs represent 25.7 per cent of the portfolio by number of proposals and 15.7 per cent by value, as presented in table 1 below. The Secretariat is seeing a reasonably strong pipeline of direct access funding proposals and concept notes, but notes that these often require additional support through the review process to become ready for Board submission. The Secretariat is planning to direct additional capacity to support an increase in high-quality funding proposals from DAEs, but further Board guidance would be influential in driving DAE representation in the portfolio and guide the Secretariat's internal capacity allocation; and

**Table 1: Representation of direct access entities**

	Number of proposals	Percentage (of portfolio/pipeline)	Requested GCF funding amount (million USD)	Percentage (in relation to total investment)
Approved Funding proposals	19 (out of 74)	25.7%	551M	15.7%
Pipeline FP	27	26.5%	1,742M	27.8%
Pipeline CN	41	21.9%	1,251M	12.3%

Abbreviations: FP = funding proposal, CN = concept note, M = million.

(c) **Conclusion:** the Board may consider elaborating a resource allocation parameter related to diversification of AEs to supplement the criteria in decision B.06/06. For example, a decision to promote the representation of DAEs in the portfolio, either in general terms or with a specific target, would complement prior Board decisions on direct access, advance the implementation of guidance from the Conference of the Parties on direct access, and help to guide the Secretariat’s allocation of review capacity. Alternately, the Board could consider other options to promote diversification of AEs, including encouraging funding proposals from AEs with no approved proposals or prioritizing AEs with lower overall volumes of GCF-approved funding; however, this may involve making trade-offs against project readiness and quality.

13. **Diversification of results areas:** the portfolio analysis shown in figure 6 below, as at 31 August 2018, shows the distribution of funding proposals against the eight GCF results areas. The least represented results areas are low-emission transport, forestry and land use, ecosystems and ecosystem services, and health and wellbeing and food and water security. Past Secretariat analysis has shown that this distribution broadly reflects the priorities identified by countries, as expressed through nationally determined contributions and other national strategies. The Board could consider establishing a prioritization for the least represented results areas; however, this may involve making trade-offs against project impact and country priorities.

**Figure 6: GCF Funding and number of projects by results area**



Abbreviations: M = million.

14. **Multi-criteria approach:** as an alternative to specific prioritization criteria, the Board could use a multi-criteria approach that combines assessment against the six GCF investment criteria, as well as against strategic resource allocation priorities, to identify the pipeline funding proposals that best deliver GCF objectives. This could build on the approach used by the Secretariat to implement decision B.20/07 (as described in chapter V of this document), evolved to become more sophisticated over time, including through the development of tools such as scorecards and weighting approaches. An external consultant is currently working with the Secretariat to develop an Investment Criteria Scorecard, which will help to bring greater transparency and consistency to the Secretariat’s internal review of funding proposals against the investment criteria. The Secretariat could continue to evolve a multi-criteria approach to calibrate it to Board decisions on resource allocation and programming.
15. **Potential application for the IRM:** in summary, the Board could deploy an elaborated resource allocation and/or prioritization approach to help to manage the IRM pipeline by:
- (a) Confirming and extending for 2019 the approach taken under decision B.20/07;
  - (b) Elaborating certain strategic resource allocation parameters, including, for example, to promote direct access; and
  - (c) Endorsing the application of a multi-criteria approach to identify funding proposals that best deliver the GCF investment criteria and strategic objectives, with details of the approach to be further developed by the Secretariat.
16. **Potential application for replenishment:** the imperative for a transparent and implementable basis for resource allocation and prioritization of funding proposals is likely to become more pressing into replenishment, as the GCF pipeline grows. The above criteria-based approaches for resource allocation during the IRM period could be further evolved into an approach for pipeline management during the first replenishment period. The Board might also, as part of replenishment, or periodically thereafter, wish to review and update the resource allocation objectives set out in decision B.06/06 and subsequent decisions to match evolving strategic priorities and global context for the work of GCF.

<b>Summary: Elaborating resource allocation/prioritization criteria</b>	
<b>Advantages</b>	<b>Drawbacks</b>
A transparent basis for organizing the pipeline if criteria are clear and ‘binding’	If criteria are not limiting (e.g. decision B.06/06), may still result in funding proposal pipeline exceeding supply
Helps the Secretariat identify and put capacity into funding proposals that best deliver GCF strategic objectives	Disappoint AEs and countries whose funding proposals fall outside an updated resource allocation/prioritization approach
Provides guidance to accredited entities and countries to focus funding proposal development	Some criteria (e.g. accredited entities diversity, results area diversity) might results in trade-offs on quality and impact
A multi-criteria approach could create incentives to maximize overall quality and strategic fit	Complex to develop and apply a multi-criteria approach that compares ‘unlike’ proposals

## 1.4 Establishing set-asides for requests for proposals and/or other pilot programmes

17. **Description of option:** the Board could decide to set-aside an amount of the remaining IRM funding for requests for proposals (RFPs) and/or pilot programmes. Alternately it could provide more general guidance to the Secretariat to prioritize these funding proposals. The RFPs and pilot programmes currently include the following (reference decision and initial funding envelope are set out in parentheses):

- (a) Enhanced direct access (decision B.10/04, USD 200 million);
- (b) Pilot programme to support micro-, small and medium-sized enterprises (decision B.10/11, up to USD 200 million);
- (c) Mobilizing funds at scale (decision B.10/11, up to USD 500 million);
- (d) REDD-plus results based payments (RBP) (decision B.18/07, up to USD 500 million); and
- (e) Simplified approvals process pilot scheme (decision B.18/06, review at USD 80 million).

18. Based on the total envelopes identified above and presented in table 2 below, there would be insufficient commitment authority remaining in the IRM to fully fund the above-mentioned RFPs as well as the pipeline for the SAP in addition to delivering a pipeline of regular funding proposals. However, the Board could identify a more limited set-aside amount, either as a percentage of the total envelope, or informed by the current size of the RFP and pilot programme pipeline.

**Table 2: The current size of the requests for proposal and pilot programme pipeline**

	Approved		FP		CN		Grand Total	
	Project#	Budget	Project #	Budget	Project#	Budget	Project #	Budget
Enhancing Direct Access (EDA)	2	30M	3	52M	8	155M	13	237M
Mobilizing Funds at Scale			6	454M	24	2,286M	30	2,741M
MSME 1 - 2016/PSF/001	2	40M	1	20M	21	457M	24	517M
REDD+			2	123M	1	29M	3	152M
Simplified Approval Process	1	9M	7	63M	17	155M	25	227M

*Abbreviations:* MSME = micro, small, and medium-sized enterprises, M = million, FP = funding proposal, CN = concept note.

19. From the total pipeline shown above, the Secretariat estimates that for 2019 the mature pipeline for mobilizing funds at scale is currently in the range of USD 200 million and for REDD-plus RBP in the range of USD 220 million. but noting that these numbers are likely to be variable over the next 12 months based on the readiness of funding proposals, AE inputs and the Secretariat's review capacity. As at 31 August 2018 there was no active pipeline for enhanced direct access or micro-, small and medium-sized enterprises. The Secretariat anticipates a SAP pipeline for 2019 in the range of USD 80–130 million.

20. **Potential application for the IRM:** based on the indicative pipeline shown above, the Board could decide to:

- (a) Set aside a total of up to USD 400 million for RFPs in 2019 – this would allow flexibility to manage funding proposals under different RFPs within the overall set-aside;
- (b) Specifically set aside USD 200 million for mobilizing funds at scale, USD 220 million for REDD-plus RBP, and/or USD 130 million for funding proposals submitted through the SAP; and



(c) Request the Secretariat to manage the pipeline with a view to delivering, to the fullest extent practicable, requests for proposals and pilot programmes initiated during the IRM period.

21. The Board could keep the set-aside amount under review, and if a lower volume than expected of RFP and SAP funding proposals are submitted, the remainder could be returned to the pool for regular funding proposals.

22. **Potential application for replenishment:** given that part of the original RFP envelopes will remain unfunded following the IRM, the Board could also decide whether or not to set aside funds for such RFPs as part of the GCF replenishment programming. This would be weighed against other funding priorities for replenishment. The Board may also wish to consider in the context of future RFPs whether to establish firm set-aside amounts at the outset to inform the GCF programming, or whether to continue on an indicative envelope basis.

<b>Summary: Set-aside for requests for proposals and/or pilot programmes</b>	
<b>Advantages</b>	<b>Drawbacks</b>
Deliver on commitments made under prior Board decisions and manage reputational risk to GCF	Residual reputational risk as GCF will not have sufficient commitment authority available to fully fund the request for proposal envelopes
Manage expectations for request for proposal proponents who have invested in preparing proposals	Potential trade-off between impact/quality of request for proposal /pilot proposals and ordinary funding proposals

## 1.5 Establishing programming allocations

23. **Description of option:** the Board could consider adopting a strategic programming approach that allocates specific volumes of funding either by funding area, by results area, by country, by public or private sector, or on another basis.

24. **Potential application for the IRM:** this approach is unlikely to be feasible for the IRM given the substantial discussions that would be required around establishing programming allocations.

25. **Potential application for replenishment:** over the longer term, a programming approach could be utilized by GCF to both maximize impact in target results areas and promote the transparent and equitable distribution of resources. For example, an RFP-style 'envelope' approach could be evolved for the replenishment period into a programming strategy targeting specific volumes of funding for certain types of high-impact, transformative proposals that are also identified as country priorities. For example, GCF could allocate a set volume of funding for the highest impact proposals in particular strategic results areas (e.g. green cities, REDD-plus, water resilience), incentivizing AEs to bring forward the most transformative proposals in that area, and also ensuring there is balance in the number and volume of proposals and/or programmes that come forward within any one strategic area. This kind of approach may make the most sense for mitigation results areas, where GCF seeks to maximize the global mitigation impact of its activities. For adaptation, a country-oriented programming approach that takes account of equity, needs and vulnerabilities might be considered.

Summary: Establishing programming allocations	
Advantages	Drawbacks
Allow GCF to target maximum impact in strategic results areas, and incentivize accredited entities to come forward with best-in-class proposals	Requires detailed consideration of basis for allocations – not likely to be resolved for the initial resource mobilization
Can be used to establish a transparent, predictable and equitable allocation of funding, and guide country and entity work programming	Critical to strike a balance with country ownership and drivenness

## 1.6 Elaborating funding proposal selection and eligibility criteria

26. **Description of option:** either separately or in parallel to deciding on resource allocation parameters, the Board could decide to elaborate the threshold criteria for funding proposal selection and eligibility. This work could build on the mapping exercise contained in document GCF/B.21/Inf.02 and other relevant documents.

27. **Potential application for the IRM:** in the short term, the Board could consider elaborating funding proposals eligibility criteria, such as requiring the accreditation master agreement (AMA) of an AE to be effective (as opposed to just signed) before an AE can submit a funding proposal for approval.

28. **Potential application for replenishment:** over the longer term, the Board could give more detailed consideration to funding proposal selection and eligibility criteria in the context of continuing to evolve the GCF programming and review cycles. The Board could decide, for example, that in order to be eligible for consideration, a funding proposal must:

- (a) Have passed an initial stage of concept note approval; and
- (b) Be identified in a country and/or entity work programme.

29. The Board could consider requesting the Secretariat, at B.21, to do further work to elaborate potential funding proposal selection and eligibility criteria.

## 1.7 Management of portfolio not progressing to implementation

30. **Description of option:** in managing the GCF existing portfolio, and informed by the work and reporting of the Secretariat, the Board could review projects that are not progressing to implementation. This type of portfolio management review would serve to ensure that the portfolio consists of active projects, and identify where “idle” commitment authority is not being deployed and/or Board approvals may lapse.

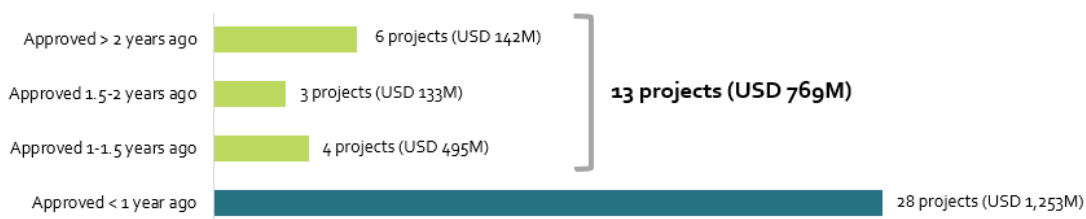
31. The Secretariat notes that there has been a substantial increase in the number of projects that have moved to implementation over the last year, with 33 of the GCF 74 approved projects currently at the implementation phase. The majority of those remaining (28) were approved by the Board in the last 12 months and are progressing to implementation at a normal pace.

32. An additional 13 represent projects approved more than one year ago which have still not reached implementation stage. Of these, 7 are at funded activity agreement (FAA) stage and

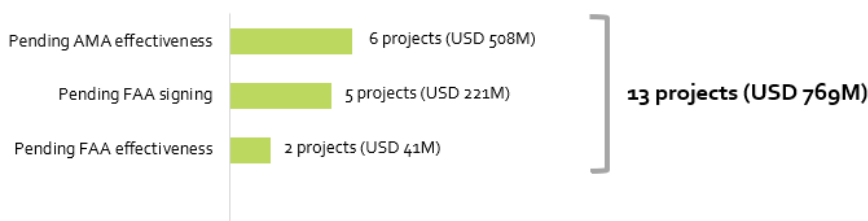
expected to move towards implementation through the regular post-approval cycle. The remaining six projects (USD 508 million) are still without effective AMAs and will remain at this stage until AMA effectiveness is triggered. Figure 7 below provides a breakdown of approved projects that have not started implementation, and their current status:

**Figure 7: Breakdown of approved projects that have not started implementation**

**Number of approved projects that have not started implementation by time duration elapsed since the respective Board approval**



**Current status of the 13 projects approved over 1 years ago, that haven't yet started implementation**



*Abbreviations:* M = million, AMA = accreditation master agreement, FAA = funded activity agreement.

33. The Secretariat notes that a case by case analysis, informed by dialogue with AEs, is undertaken to assess whether projects are still progressing to implementation and performing effectively, regardless of which stage of the post-approval cycle they have reached. Reasons for delays in implementation vary widely, and include for example AEs not having signed their AMAs or triggered AMA effectiveness pending conclusion of open FAA negotiation issues, or changes in market conditions which require project restructuring.

34. Progress in reaching critical milestones, such as FAA signing, FAA effectiveness and first disbursement are constantly monitored by the Secretariat. The status of projects in post-approval is part of the periodic reporting on the status and performance of the portfolio. Informed by this reporting, the Board could as part of its regular consideration of the status of the portfolio consider cases of projects not progressing to implementation, or not progressing as foreseen on approval, and any action that might need to be taken with respect to these.

## 1.8 Other options

35. Other options which the Board could consider for financial planning, but which have not been explored in detail owing to lower feasibility of implementation, include:

- (a) Amending the Policies for Contributions to approve projects subject to future commitment authority (i.e. pre-allocating funding in the expectation of a future replenishment);
- (b) Suspending new funding proposal submissions; and
- (c) Convening policy-focused Board meetings (i.e. with no funding proposal approvals).

36. Another option which also could be considered based on a combination of accounting practices and the progress of the projects is to link the timing of the allocation of commitment authority for a project to the approved funding proposals' progress. The present procedure is to allocate commitment authority as soon as the funding proposal is approved by the Board. On the other hand, in document GCF/B.17/07 titled "Audited financial statements of the Green Climate Fund for the year ended 31 December 2016", it is mentioned that under the principles of IAS 37, "the recognition of grants payable is determined to be the point at which the conditions are met and the disbursement request is made by the principal recipient. At this point the Fund has a constructive obligation to the principal recipient and the valid amount requested for disbursement is therefore recognized as a grant payable and recorded as expenditure within the statement of comprehensive income". Although this accounting principle may not exactly fit the existing commitment authority process, it could be used as a basis to allocate commitment authority for the full amount of the funding proposal only when the AE has signed an FAA for all forms of GCF funding. This procedure could free up commitment authority which could have been allocated without the certainty that the approved funding proposal will be implemented. This option would also require Board approval.

## 1.9 Actions that can be implemented by the Secretariat

37. In addition to the financial planning options for Board consideration described above, the Secretariat can build on its experience implementing decision B.20/07 by continuing to take a range of measures to assist with financial planning and pipeline management in line with existing Board decisions and guidance. These include:

- (a) **Strengthening assessment and benchmarking of funding proposals against the investment criteria:** the Secretariat is working internally and with consultants to develop a number of tools, including an Investment Criteria Scorecard and Project Success Rating, that will strengthen the Secretariat's review of funding proposals. These tools will be designed to help the Secretariat to identify the most impactful funding proposals against the GCF investment criteria, and also bring a higher degree of consistency, transparency and efficiency to the review process. These tools will be aligned with guidance from the Board. The Secretariat will also continue to evolve its analysis of the portfolio and pipeline, including appropriate benchmarking, to assess funding proposal impact;
- (b) **Tranching funding:** as described above, the Secretariat will continue working with AEs to reduce the amount of funding requested under individual proposals, in line with considerations of efficiency and effectiveness. This may include indicating where the AE may apply for approval at a subsequent Board meeting for additional tranches of funding, such that the sum of approvals would total the amount initially requested. This approach will typically be applied where funding proposals are programmes with (i) a long-term implementation period (e.g. five years or longer) and (ii) legal/financial ability to separate sub-projects to be allocated GCF funding over the period. This approach can be used to prevent locking up funds that may not be used for years into the future and to incentivize AEs to accelerate implementation. Anticipated additional tranches of funding will be tracked as part of the GCF pipeline;
- (c) **Allocation of commitment authority against reflows:** in monitoring the commitment authority of GCF, the Secretariat will also prepare an analysis of reflows based on the repayment schedules of the funding proposals being implemented and the option to allocate funding requests against these reflows. Reflows are not, however, likely to have a material impact on commitment authority for at least the period of the GCF first replenishment. According to the Secretariat's forecast, the GCF may receive repayments

between USD 14 million and USD 66 million annually from 2020 to 2024 and over USD 90 million annually only from 2025; and

- (d) ***Working to establish a high-quality pipeline of projects for replenishment:*** the Secretariat will continue to work on pipeline development to ensure that a high-quality pipeline of funding proposals will be ready for approval once the replenishment process is complete and the contributions are received by GCF.

## II. Practices of management of funds by other institutions

### 2.1 Approaches in other funds

38. In other established institutions, such as the Global Alliance for Vaccine and Immunization (Gavi), the Global Environment Facility (GEF) and the Global Fund, each has its own unique allocation system to allocate resources to its member countries for greater impact. In the following sections, approaches of Gavi, GEF and the Global Fund are introduced as reference for GCF consideration of the management of commitment authority in the future.

#### 2.1.1. Global Alliance for Vaccine and Immunization

- (a) Health System Strengthening (HSS) Resource Allocation Formula:<sup>1</sup> at Gavi, Health System and Immunisation Strengthening (HSIS) support contributes to improve equity in immunization coverage in Gavi-eligible countries. Within HSIS support, one major component is the HSS grants, which are the foundation of Gavi HSIS support. For the allocation of HSS grants, Gavi established the HSS Resource Allocation Formula, which determines the allocation of available resources for a strategic period among the eligible countries;
- (b) Methodology: the HSS Resource Allocation Formula determines the HSS ceiling which is the maximum amount of HSS funding for which a country is eligible in a five-year Gavi strategic period. To calculate each country's HSS ceiling, the total amount of available funding is divided into three "funding pools", where a country's ceiling is the total of funding it receives from the following three funding pools:
- (i) Population in need: allocation based on birth cohort size. All eligible countries receive a fixed amount of funding per birth, where the amount is determined by the size of birth cohort size of pool, divided by the sum of the birth cohorts in all eligible countries;
  - (ii) Strength of immunization system: allocation based on the number of under-immunized children. The amount of funding per under-immunized child is determined by the size of the pool divided by the total number of under-immunized children in all eligible countries; and
  - (iii) Ability to pay: allocation based on a three-year average of gross national income per capita (GNI p.c.), weighted by birth cohort. Countries with a GNI p.c. above the eligibility threshold will not receive funding from this pool;

Allocation from each funding pool is calculated without restriction, but as a final step, a cap of USD 100 million and a floor of USD 3 million are applied to the total HSS ceiling for the period; and

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<sup>1</sup> For further information, see <<https://www.gavi.org/about/programme-policies/health-system-and-immunisation-strengthening-support-framework/>>.

- (c) Complementary allocation: performance payment: for countries that implemented HSS grants in the previous year, additional performance payments are awarded based on national immunization performance in the previous year, using indicators for diphtheria tetanus toxoid and pertussis immunization coverage percentage. In a given year, the performance payment may total up to 50 per cent of the country's HSS ceiling amount.

### 2.1.2. Global Environment Facility

- (a) The System for Transparent Allocation of Resources (STAR):<sup>2</sup> STAR is a performance-based framework for the allocation of resources to member countries over a replenishment period. The objective of STAR is to allocate resources to member countries in a transparent and consistent manner based on global environmental priorities, country capacity, policies and practices. STAR specifically applies to allocation of a share of the biodiversity, climate change and land degradation focal area allocations to member countries;

- (b) Methodology:

(i) Indices and index weights

- (1) Higher-level indices and sub-indices are the following:

- Global Benefits Index (weight: 0.8), including sub-indices for biodiversity, climate change and land degradation;
- Country Performance Index (weight: 1.0), including sub-indices for GEF portfolio performance and institutional assessment; and
- Gross Domestic Product Index (-0.12);

(ii) Calculation

- (1) Country score: based on each country's value for each STAR indices, STAR assigns a country score for each country:

$$\text{Country Score} = \text{CPI}^{1.0} * \text{GBI}^{0.8} * \text{GDP}^{-0.12}$$

- (2) Country share: based on each country's country score, a country share is calculated:

$$\text{Country Share} = \text{Country Score} / \text{Sum of Country Scores for all STAR Recipient Countries}$$

- (3) Preliminary STAR allocation: country share is multiplied by the amount of STAR resources in each STAR focal area:

$$\text{Preliminary STAR Country Allocation} = \text{Country Share} * \text{STAR Resources}$$

- (4) Initial STAR country allocation: floors and ceilings are applied iteratively until all STAR resources in each STAR focal area have been allocated:

$$\text{Initial STAR Country Allocation} = \text{Preliminary STAR Country Allocation adjusted for Floors and Ceilings}$$

- (5) Floors and ceilings:

<sup>2</sup> For further information, see <<http://www.thegef.org/documents/system-transparent-allocation-resources-star>>.

- Floors for countries that are not least developed countries are USD 2 million for biodiversity, USD 1 million for climate change and USD 1 million for land degradation;
- Floors for least developed countries are USD 3 million for biodiversity, USD 1.5 million for climate change and USD 1.5 million for land degradation; and
- Ceilings are 10 per cent of the total focal area allocation in each STAR focal area.

### 2.1.3. The Global Fund

- (a) 2017–2019 Allocation Methodology<sup>3</sup>: the allocation methodology is established in two parts: country allocations and catalytic investments. Country allocations are the Global Fund’s main source of funding to drive impact, and this comprises almost 93 per cent of overall resources. On the other hand, catalytic investments aim to catalyse the use of country allocations to achieve the aims of the Global Fund’s 2017–2022 strategy and global partner plans. The aim of the allocation-based funding approach is to increase the impact of programmes to prevent, treat and care for people affected by HIV (human immunodeficiency virus), tuberculosis and malaria, and build resilient and sustainable systems for health; and
- (b) Methodology: the formula for allocation to country programmes is based on each country’s disease burden (as recommended by technical partners) and economic capacity (measured by GNI p.c.). The formula also takes into account maximum and minimum shares, adjustments for other external financing, and needs for scaled up and paced reductions;
- (c) In addition, the Global Fund adjusts allocations during from a qualitative perspective in order to address specific country situations insufficiently addressed in the formula, such as the needs of populations disproportionately affected by the diseases. The qualitative adjustment process for 2017–2019 was conducted under the oversight of the Global Fund Strategy Committee and Board; and
- (d) The applicants have flexibility in deciding how to allocate financing among their individual component programmes, but prior to the initial allocation of available sources of funds for each allocation period, the Secretariat will apportion the funds among the three diseases based on the following distribution:
- (i) HIV/AIDS (acquired immunodeficiency syndrome): 50 per cent;
  - (ii) Tuberculosis: 18 per cent; and
  - (iii) Malaria: 32 per cent.

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<sup>3</sup> For further information, see <<https://www.theglobalfund.org/en/funding-model/funding-process-steps/allocations/#related-resources>>.