

**GREEN
CLIMATE
FUND**

Meeting of the Board
28 June – 1 July 2021
Virtual meeting
Provisional agenda item 5

GCF/B.29/Inf.07/Add.02

7 June 2021

Financial plan to manage commitment authority for GCF-1

Summary

This document presents a comprehensive financial plan to manage the commitment authority for the entire GCF-1 period, as requested by the Board through decision B.27/07.

I. Introduction

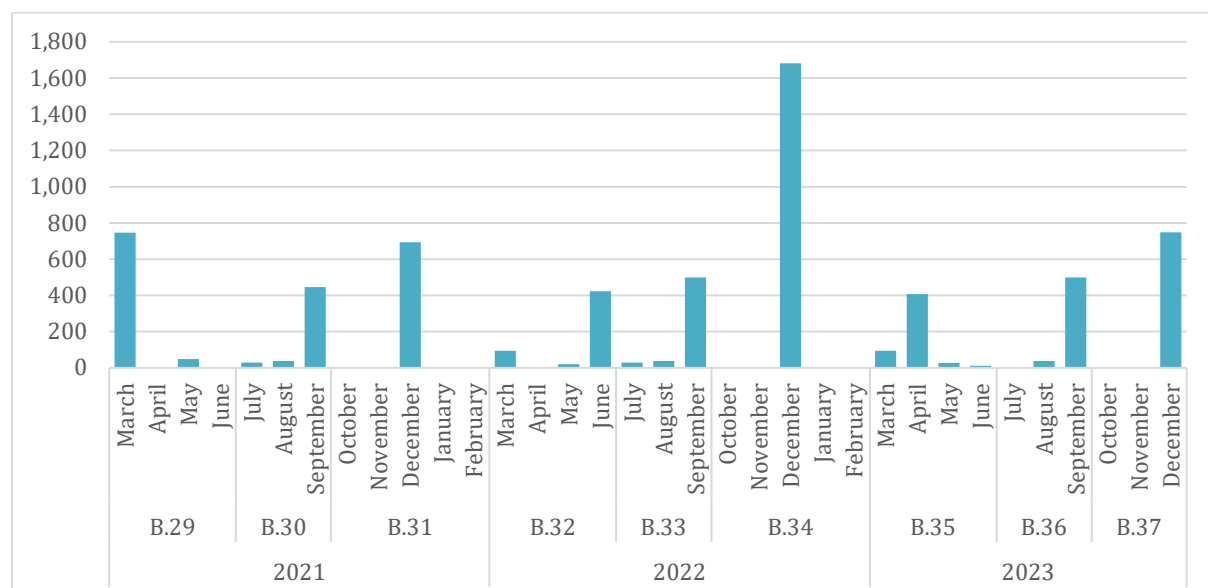
1. In approving the 2021 work programme and administrative budget of the Secretariat through decision B.27/07, the Board requested the Secretariat to “present a comprehensive financial plan to manage the commitment authority for the entire GCF first replenishment programming period for consideration by the Board at its twenty-ninth meeting.”
2. As part of its endorsement of the adopted the *Updated Strategic Plan for the Green Climate Fund: 2020-2023* through B.27/06, the Board stated the aim “to programme 40 per cent of available resources by the midpoint of the GCF first replenishment and 95 per cent by end 2023.” The Board also encouraged contributing countries “to confirm their pledges to GCF in the form of fully executed contribution agreements/arrangements as soon as possible.”
3. Paragraph 32(b) of the Updated Strategic Plan also contains a provision to:
 - (i) **“Ensure predictable management of commitment authority**, by the Board setting at the last meeting of each year annual programming and disbursement targets for the following year, and Secretariat business planning in line with the above operational objectives.”
4. In response to this mandate, the Secretariat has developed a model that includes projections of contributions, reflows and investment income and compares them against the projected commitments for funding proposals, accredited entity fees, the Readiness and Preparatory Support Programme, the Project Preparation Facility, the forex commitment risk buffer and administrative expenses.

II. Projected commitment authority

2.1 Anticipated contributions

5. As shown in Figure 1 below, the timings of payments of contributions are not evenly distributed over the remainder of the GCF-1 period, with many contributions scheduled to be provided in December of each year.

Figure 1: Schedule of payments of confirmed pledges, 2021-2023



6. The uneven contribution payment schedule presents a challenge for managing commitment authority, which could vary widely from one Board meeting to another. For the purposes of this exercise, it is assumed that Board meetings will occur in March, July and October of each year. The first meeting of each year will likely have the largest available commitment authority due to the large cluster of December contributions, while the last meeting of each year will typically have the lowest. It should also be noted that approximately USD \$750 million in contribution payments is not expected to arrive until after the last Board meeting of the GCF-1 period in October 2023. To account for this, the financial plan has been extended one additional Board meeting to B.37 in 2024.

7. In the past, some contributors have agreed to bring forward their contributions to GCF a few months ahead of their original schedule. While it may not be possible for every contributor to change the timing of contributions due to national budget cycles, doing so would increase GCF's programming flexibility.

2.2 Other potential income

8. GCF expects to receive reflows from funded activities currently under implementation, which will increase the commitment authority. In 2020, GCF received USD \$10.9 million in reflows and expects to receive \$15.2 million by the end of 2021. The amounts of these reflows are expected to grow to USD \$47.7 million in 2022 and \$57.3 million in 2023.

9. GCF also expects to receive investment income from the trustee account over time. Although it is difficult to predict the size of this investment income, it was USD \$42.2 million in 2020. For the purposes of this exercise, it is assumed to be around USD \$40 million per year throughout the GCF-1 period.

10. In the past, funded activities whose approval have lapsed have increased the commitment authority available for future meetings. These unfortunate lapses are difficult to predict, so no additional lapses have been projected for GCF-1, aside from those that have already occurred.

11. It is possible that additional contributions will also be received during the GCF-1 period. The timing and size of these contributions clearly would affect the commitment authority and programming flexibility of the GCF.

III. Projected commitments

12. Although funding proposal approvals receive the bulk of commitments at each Board meeting, there are a few other items that draw upon GCF commitment authority on a regular basis. For example, the dollar amounts for funding proposals are committed at the time of Board approval. However, the accredited entity fees for those proposals are committed at the time of FAA execution, based on the fee percentage approved by the Board in the term sheet, up to 180 days following approval or longer if an extension is granted. In 2020, GCF committed approximately USD \$61.7 million in AE fees.

13. The Readiness and Preparatory Support Programme and the Project Preparation Facility also require periodic commitments, which were projected by the USP to total USD \$480 million during the GCF-1 period.

14. Administrative expenses are subtracted from the available commitment authority upon Board decision, typically at the last Board meeting of each year. At the twenty-seventh meeting of the Board, USD \$93.6 million was committed for the 2021 administrative budgets of the Secretariat, Board, trustee and independent units.

15. From time to time, the Board also sets aside funds to protect the GCF from solvency risk resulting from currency fluctuations. During the IRM period, the Board committed a total of USD \$170 million to this “forex commitment risk buffer.” Thus far, there have not been any additions to this risk buffer during the GCF-1 period, but additional funds will need to be committed to the risk buffer as more funding proposals are approved.

3.1 GCF-1 to date

16. The first Board meeting of GCF-1 (B.25) committed USD \$169.7 million in funding proposals, due to a lag in contributions and commitment authority immediately after the IRM period. Another USD \$27.6 million in AE fees was committed prior to the next Board meeting.

17. Between twenty-sixth (B.26) and twenty-eighth (B.28) meetings of the Board, GCF averaged more than USD \$1 billion in funding proposal commitments per Board meeting. Another batch of funding proposals totalling USD \$501.1 million is being presented for Board consideration at the current meeting (B.29).

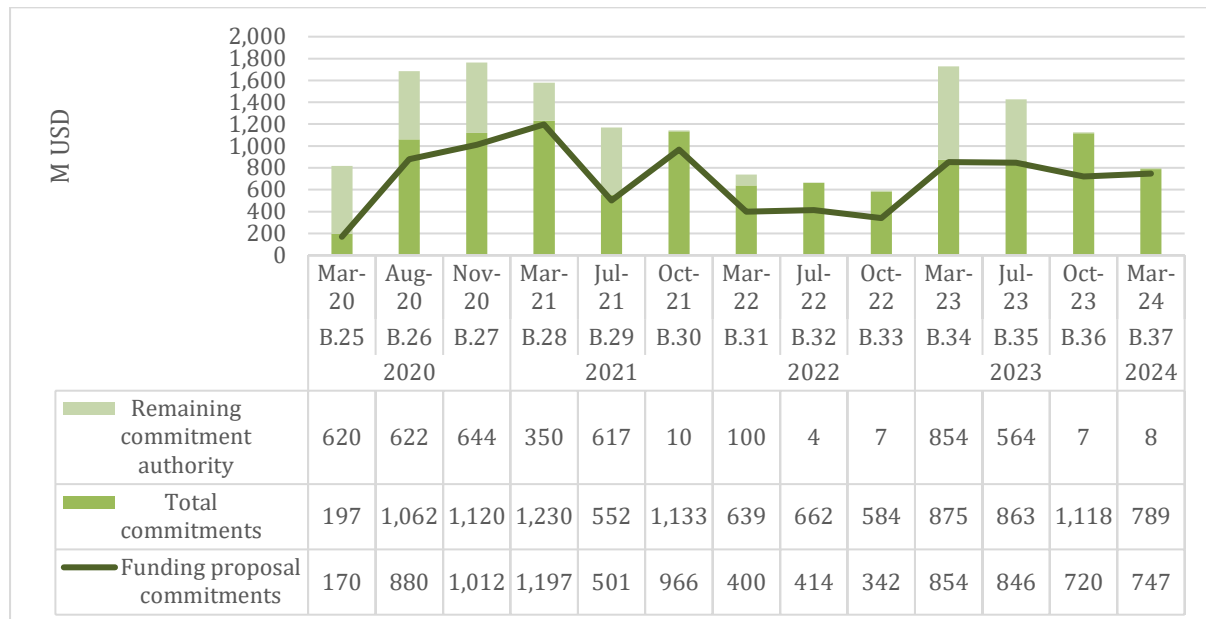
18. At B.26 an additional USD \$162.39 million was committed for the Readiness and Preparatory Support Programme through decision B.26/05. The 2021 administrative budget of USD \$83.5 million was approved through decision B.27/07.

3.2 Current projection

19. The projected commitment authority and funding proposal amounts under the Current Scenario are illustrated in Figure 2 below. If contributions and expenditures continue their current course, under the Current Scenario, the available commitment authority is expected to fall to an average of USD \$665 million between B.31 and B.33. With the reduced commitment authority, the volume of the funding proposal pipeline will also need to be reduced to an average of USD \$385 million per each of those three Board meetings, after deducting commitments for administrative expenses, AE fees, Readiness, PPF and the forex commitment risk buffer.

20. Following the receipt of contributions anticipated primarily in December 2022, the available commitment authority will rise again to a level of approximately USD \$1.27 billion between B.34 and B.37. This would allow GCF to commit an average of USD \$911 million for these four Board meetings, including USD \$792 million for funding proposals.

Figure 2: GCF-1 estimated commitment authority and programming, current projection



21. In addition to the funding proposal commitments, total commitments for the Readiness and Preparatory Support Programme are projected to be approximately USD \$200 million in 2022 and USD \$120 million in 2023. These estimates are consistent with an overall GCF-1 estimate of USD \$480 million noted in the Updated Strategic Plan 2020-23. A further commitment of \$50 million for the Project Preparation Facility is anticipated in 2022, with increased demand due to the newly operational technical assistance from a roster of firms.

22. Accredited entity fees are estimated at 5% across the existing GCF portfolio, which is roughly in line with the current portfolio average of 4.7%. To account for the time between Board approval and FAA execution, these commitments have been lagged by two Board meetings relative to the projected approval of the funding proposal. The average AE fees committed between each Board meeting is projected to be around \$35 million throughout the remainder of the GCF-1 period.

23. Commitments for administrative expenses under this scenario are estimated based on current resources and headcount. The current projected amounts are USD \$107 million in 2021, \$122 million in 2022 and \$135 million in 2023. However, changes to the size or structure of the Secretariat or independent units could have a significant impact on these estimates.

24. It is expected that around additional \$157.5 million will be requested at the thirty-first meeting of the Board to top up the forex commitment risk buffer. Beyond that, USD \$100 million per year is projected to be committed at the end of 2022 and 2023. However, this is a placeholder, as the actual amount and need for the buffer will be determined by global market conditions.

IV. Alternative scenarios

25. As described above, the current timing and levels of contribution payments present a challenge for programming throughout 2022. This situation could be partially mitigated by adjusting the timing of some of the contribution payments that are currently scheduled for December of each year. An alternative scenario, titled the Adjusted Timing Scenario, has been developed to illustrate the impact of moving 50% of the contribution payments expected in December 2022 to September 2022.

26. A second scenario, titled the Additional Contributions Scenario, has been developed to illustrate the potential impact if additional contributions were to be received in 2022-23. For example, in May 2021 the administration of President Joe Biden submitted a request to the United States Congress for USD \$1.25 billion for the 2022 fiscal year. For the purposes of this exercise, a USD \$1.25 billion contribution has been projected for this scenario in February 2022, just before the thirty-first meeting of the Board, and another contribution of USD \$1.25 billion in February 2023.

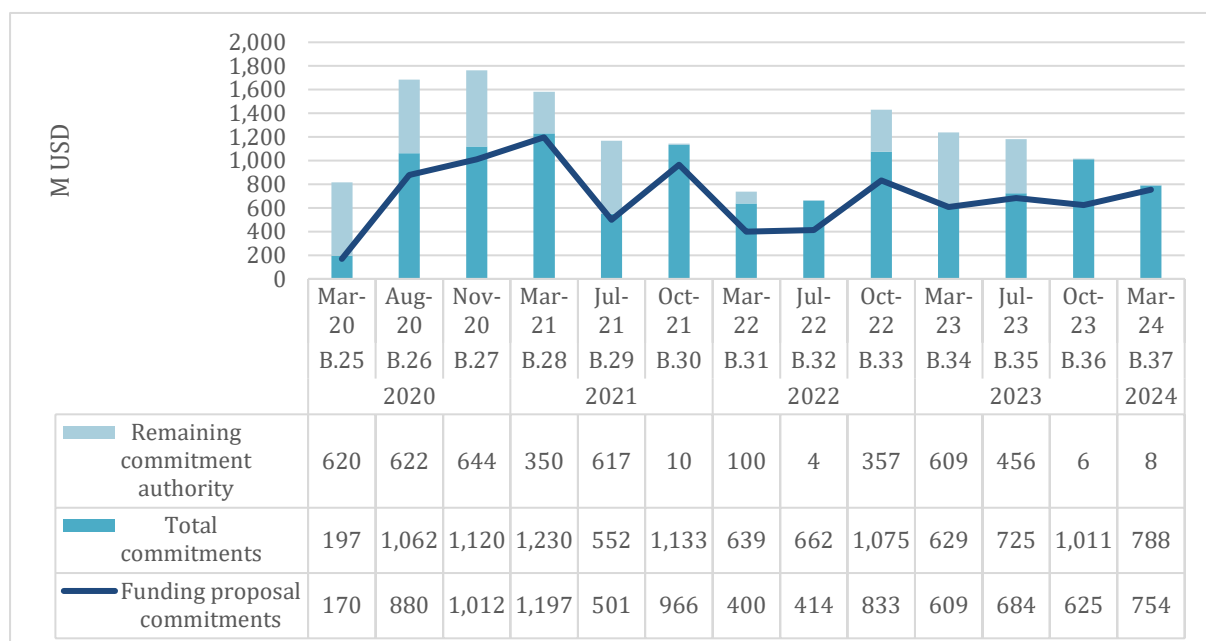
4.1 Adjusted timing scenario

27. The projected commitment authority and funding proposal amounts under the Adjusted Timing Scenario are listed below. By moving 50% of contribution payments from December 2022 to September 2022, the available commitment authority is increased for B.33, leading an average of \$701 million in funding proposal commitments per Board meeting through B.37.

28. However, the projected funding proposal commitments for B.31 and B.32 are still low relative to other Board meetings, averaging USD \$407 million, because of the comparatively lower amounts of contributions expected between December 2021 and December 2022.

29. For the sake of simplicity and consistency, the assumptions for AE fees in the Adjusted Timing Scenario are the same as in the Current Scenario, although the dollar amounts differ due to the different volumes of funding proposals. The estimated amounts for Readiness, PPF, administrative expenses, and the forex commitment risk buffer are the same in both scenarios.

Figure 3: GCF-1 estimated commitment authority and programming, Adjusted Timing Scenario

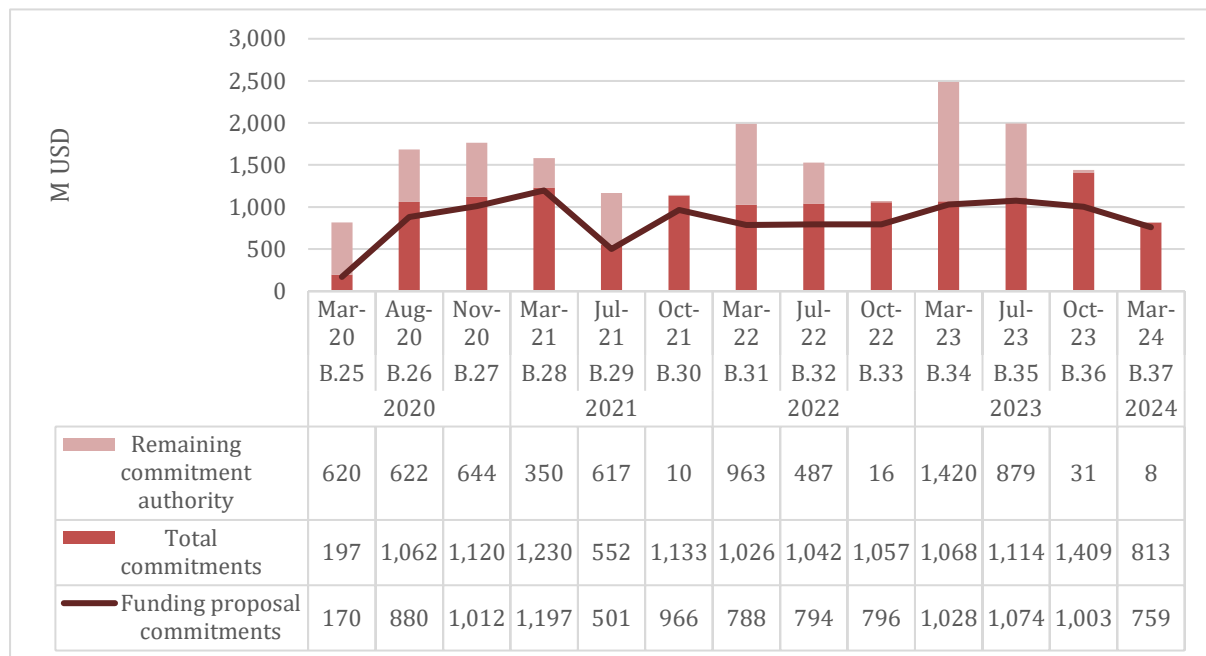


4.2 Additional contributions scenario

30. The projected commitment authority and funding proposal amounts under the Additional Contributions Scenario are illustrated in Figure 4 below. With an additional USD \$1.25 billion assumed to be delivered in February 2022 and another USD \$1.25 billion in February 2023, the average commitment authority per Board meeting for B.31 through B.37 would be USD \$1.62 billion. The projected average volume for funding proposal commitments

risers accordingly to USD \$892 million over the same period, with more than USD \$1 billion per each Board meeting in 2023.

Figure 4: GCF-1 estimated commitment authority and programming, Additional Contributions Scenario



31. The assumptions for AE fees in the Additional Contributions Scenario are the same as in the first two scenarios, although the dollar amounts differ due to the different volumes of funding proposals. The estimated amounts for Readiness, PPF, administrative expenses, and the forex commitment risk buffer are the same in all three scenarios.

V. Conclusions

32. The detailed projections for each scenario are shown in Figure 5, Figure 6 and Figure 7 in Annex I.

33. If current trends continue, the clustering of contributions at the end of each calendar year will result in lower commitment authority and programming volumes from B.30 to B.33 before rising again in 2023. This would present challenges managing staff resources with a period of less programming followed by a surge in new commitments. Due to the volume of expected contributions in December 2023, the full GCF-1 resources cannot be exhausted until B.37 in 2024 at the earliest.

34. The programming pipeline could be smoothed by adjusting the timing of some contributions to better align with the GCF's schedule of Board meetings, such as moving December payments to September. Any additional contributions received by early 2022 would also help smooth funding proposal commitments over time.

Annex I: Detailed projections

Figure 5: Current projection scenario

| Current scenario: | 2020 | | | 2021 | | | 2022 | | | 2023 | | | 2024 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | B.25 Mar-20 | B.26 Aug-20 | B.27 Nov-20 | B.28 Mar-21 | B.29 Jul-21 | B.30 Oct-21 | B.31 Mar-22 | B.32 Jul-22 | B.33 Oct-22 | B.34 Mar-23 | B.35 Jul-23 | B.36 Oct-23 | B.37 Mar-24 |
| No change in amount or timing of contributions | | | | | | | | | | | | | |
| Projected commitment authority | | | | | | | | | | | | | |
| Remaining commitment authority from previous Board meeting | 453.8 | 620.0 | 622.2 | 643.5 | 350.4 | 616.6 | 9.8 | 100.1 | 4.2 | 7.0 | 854.1 | 563.9 | 7.3 |
| Contributions received prior to the beginning of the Board meeting | 335.9 | 1,048.6 | 636.2 | 929.3 | 798.4 | 511.7 | 692.6 | 536.9 | 565.0 | 1,681.4 | 540.2 | 536.8 | 749.0 |
| Reflows from projects | 4.3 | 1.9 | 4.7 | 4.4 | 6.2 | 4.6 | 19.9 | 15.9 | 11.9 | 23.9 | 19.1 | 14.3 | 23.9 |
| Investment income ¹ | 23.4 | 13.5 | 5.3 | 3.4 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 |
| Lapsed projects | | | 495.0 | | | | | | | | | | |
| Total commitment authority available for Board meeting | 817.3 | 1,684.0 | 1,763.3 | 1,580.6 | 1,168.3 | 1,142.9 | 738.9 | 666.2 | 591.1 | 1,728.9 | 1,426.8 | 1,125.0 | 796.8 |
| Projected commitments | | | | | | | | | | | | | |
| Funding proposals | 169.7 | 879.9 | 1,011.7 | 1,197.1 | 501.1 | 966.3 | 400.3 | 413.7 | 342.1 | 854.1 | 845.8 | 720.0 | 746.9 |
| AE fees ² | 27.6 | 19.5 | 14.5 | 33.1 | 50.6 | 59.9 | 25.1 | 48.3 | 20.0 | 20.7 | 17.1 | 42.7 | 42.3 |
| Readiness and Preparatory Support | | 162.4 | | | | | | 200.0 | | | | 120.0 | |
| Project Preparation Facility | | | | | | | 56.0 | | | | | | |
| Forex risk buffer ³ | | | | | | | 157.5 | | 100.0 | | | 100.0 | |
| Administrative expenses ⁴ | | | 93.6 | | | 107.0 | | | 122.0 | | | 135.0 | |
| Total commitments | 197.3 | 1,061.8 | 1,119.8 | 1,230.2 | 551.7 | 1,133.2 | 638.8 | 662.0 | 584.1 | 874.8 | 862.9 | 1,117.7 | 789.2 |
| Percentage of available commitment authority committed | 24% | 63% | 64% | 78% | 47% | 99% | 86% | 99% | 99% | 51% | 60% | 99% | 99% |

Figure 6: Adjusted Timing Scenario

| Adjusted Timing Scenario: 50% of contributions scheduled for Dec. 2022 moved to Sept. 2022 | 2020 | | | 2021 | | | 2022 | | | 2023 | | | 2024 |
|--|--------------|----------------|----------------|----------------|----------------|----------------|--------------|--------------|----------------|----------------|----------------|----------------|--------------|
| | B.25 | B.26 | B.27 | B.28 | B.29 | B.30 | B.31 | B.32 | B.33 | B.34 | B.35 | B.36 | B.37 |
| | Mar-20 | Aug-20 | Nov-20 | Mar-21 | Jul-21 | Oct-21 | Mar-22 | Jul-22 | Oct-22 | Mar-23 | Jul-23 | Oct-23 | Mar-24 |
| <u>Commitment authority</u> | | | | | | | | | | | | | |
| Remaining commitment authority from previous Board meeting | 453.8 | 620.0 | 622.2 | 643.5 | 350.4 | 616.6 | 9.8 | 100.1 | 4.2 | 356.9 | 608.7 | 455.9 | 6.3 |
| Contributions received prior to the beginning of the Board meeting | 335.9 | 1,048.6 | 636.2 | 929.3 | 798.4 | 511.7 | 692.6 | 536.9 | 1,405.7 | 840.7 | 540.2 | 536.8 | 749.0 |
| Reflows from projects | 4.3 | 1.9 | 4.7 | 4.4 | 6.2 | 4.6 | 19.9 | 15.9 | 11.9 | 23.9 | 19.1 | 14.3 | 23.9 |
| Investment income | 23.4 | 13.5 | 5.3 | 3.4 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 |
| Lapsed projects | | | 495.0 | | | | | | | | | | |
| Total commitment authority available for Board meeting | 817.3 | 1,684.0 | 1,763.3 | 1,580.6 | 1,168.3 | 1,142.9 | 738.9 | 666.2 | 1,431.8 | 1,238.1 | 1,181.4 | 1,017.1 | 795.8 |
| <u>Approved commitments</u> | | | | | | | | | | | | | |
| Funding proposals | 169.7 | 879.9 | 1,011.7 | 1,197.1 | 501.1 | 966.3 | 400.3 | 413.7 | 832.8 | 608.7 | 683.9 | 625.3 | 754.0 |
| AE fees | 27.6 | 19.5 | 14.5 | 33.1 | 50.6 | 59.9 | 25.1 | 48.3 | 20.0 | 20.7 | 41.6 | 30.4 | 34.2 |
| Readiness and Preparatory Support | | 162.4 | | | | | | | | | | 120.0 | |
| Project Preparation Facility | | | | | | | 56.0 | | | | | | |
| Forex risk buffer | | | | | | | 157.5 | | 100.0 | | | 100.0 | |
| Administrative expenses | | | 93.6 | | | 107.0 | | | 122.0 | | | 135.0 | |
| Total commitments | 197.3 | 1,061.8 | 1,119.8 | 1,230.2 | 551.7 | 1,133.2 | 638.8 | 662.0 | 1,074.8 | 629.4 | 725.5 | 1,010.7 | 788.2 |
| Percentage of available commitment authority committed | 24% | 63% | 64% | 78% | 47% | 99% | 86% | 99% | 75% | 51% | 61% | 99% | 99% |

Figure 7: Additional Contributions Scenario

| Additional Contributions Scenario: | 2020 | | | 2021 | | | 2022 | | | 2023 | | | 2024 |
|--|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | B.25 Mar-20 | B.26 Aug-20 | B.27 Nov-20 | B.28 Mar-21 | B.29 Jul-21 | B.30 Oct-21 | B.31 Mar-22 | B.32 Jul-22 | B.33 Oct-22 | B.34 Mar-23 | B.35 Jul-23 | B.36 Oct-23 | B.37 Mar-24 |
| Additional contributions of USD \$1.25 billion in 2022 and 2023 | | | | | | | | | | | | | |
| Projected commitment authority | | | | | | | | | | | | | |
| Remaining commitment authority from previous Board meeting | 453.8 | 620.0 | 622.2 | 643.5 | 350.4 | 616.6 | 9.8 | 962.7 | 486.6 | 16.2 | 1,420.1 | 878.8 | 31.0 |
| Contributions received prior to the beginning of the Board meeting | | 1,048.6 | 636.2 | 929.3 | 798.4 | 511.7 | 1,942.6 | 536.9 | 565.0 | 2,431.4 | 540.2 | 536.8 | 749.0 |
| Reflows from projects | 4.3 | 1.9 | 4.7 | 4.4 | 6.2 | 4.6 | 19.9 | 15.9 | 11.9 | 23.9 | 19.1 | 14.3 | 23.9 |
| Investment income ¹ | 23.4 | 13.5 | 5.3 | 3.4 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 | 13.3 | 10.0 | 16.7 |
| Lapsed projects | | | 495.0 | | | | | | | | | | |
| Total commitment authority available for Board meeting | 817.3 | 1,684.0 | 1,763.3 | 1,580.6 | 1,168.3 | 1,142.9 | 1,988.9 | 1,528.8 | 1,073.5 | 2,488.1 | 1,992.8 | 1,440.0 | 820.5 |
| Funding proposals | | | | | | | | | | | | | |
| AE fees ² | 169.7 | 879.9 | 1,011.7 | 1,197.1 | 501.1 | 966.3 | 787.7 | 793.9 | 795.9 | 1,028.3 | 1,074.1 | 1,002.6 | 759.1 |
| Readiness and Preparatory Support | 27.6 | 19.5 | 14.5 | 33.1 | 50.6 | 59.9 | 25.1 | 48.3 | 39.4 | 39.7 | 39.8 | 51.4 | 53.7 |
| Project Preparation Facility | | 162.4 | | | | | | 200.0 | | | | 120.0 | |
| Forex risk buffer ³ | | | | | | | 56.0 | | | | | | |
| Administrative expenses ⁴ | | | | | | | 157.5 | | 100.0 | | | 100.0 | |
| Total commitments | | | 93.6 | | | 107.0 | | | 122.0 | | | 135.0 | |
| Percentage of available commitment authority committed | 197.3 | 1,061.8 | 1,119.8 | 1,230.2 | 551.7 | 1,133.2 | 1,026.2 | 1,042.2 | 1,057.3 | 1,068.0 | 1,113.9 | 1,409.0 | 812.9 |
| Remaining commitment authority from previous Board meeting | 24% | 63% | 64% | 78% | 47% | 99% | 52% | 68% | 98% | 43% | 56% | 98% | 99% |

Notes:

1. Investment income will vary depending on market conditions.
 2. AE fees are estimated based on assumed 5% average across all proposals.
 3. The actual amount and need for the forex commitment risk buffer will be determined by global market conditions.
 4. Changes in the size or structure of the Secretariat or independent units could have a significant impact on estimates of administrative expenses.
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