



**GREEN
CLIMATE
FUND**

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GCF/B.34/19
9 October 2022

Matters related to the Trustee

Summary

Based on decision B.31/05, this document provides information on the result of the review of the performance of the Trustee and the value for money of the services provided by the Trustee. The document includes Annex I, a draft decision on the renewal of Trustee arrangements, and Annex II, a report on the review of the performance of the Trustee.

I. Background

1. In decision B.21/07, the Board selected and appointed the International Bank for Reconstruction and Development as the Trustee of the Green Climate Fund (GCF).
2. Pursuant to the above-mentioned decision, on 12 April 2019, the International Bank for Reconstruction and Development and GCF entered into the Amended and Restated Agreement for the Administration of the Green Climate Fund Trust Fund to provide Trustee services for an additional period of four years until 11 April 2023.
3. The Board having previously decided term of the permanent trustee, in decision B.19/03 annex 1 para 24, as a period of four years, which term shall be renewable subject to a satisfactory review, as determined by the Board".
4. Noting that the agreement with the Trustee will expire in April 2023, in decision B.31/05, the Board requested the Secretariat to undertake a performance review of the Trustee and to notify the Board upon its completion for the Board to approve the renewal of the trustee arrangements with the International Bank for Reconstruction and Development.
5. Also, pursuant to decision B.31/05 para (e), for the subsequent renewals of the Trustee arrangement, the Board has authorized the Secretariat to implement the performance review for the relevant period and to further renew the term of Trustee arrangement unless the Trustee's performance was considered unsatisfactory.
6. This document presents the result of the requested performance review of the Trustee and includes a draft decision in Annex 1 for the Board's consideration on the approval of the renewal of the trustee arrangements with the International Bank for Reconstruction and Development.

II. Performance review of the Trustee

2.1 Review methodology and approach

2.1.1 Methodology

7. To assess the performance and the value for money of the Trustee, considering the previous review of the Interim Trustee,¹ the review focused on the five key areas listed below and developed a set of indicators and questions:

- (a) Management of investments and costs;
- (b) Contribution management;
- (c) Cash transfers;
- (d) Financial reporting to the Board and the Secretariat; and
- (e) Overall relationship with the Board and the Secretariat.

¹ Document GCF/B.14/11

2.1.2 Review approach

8. The Secretariat commissioned an independent third party, Dalberg, to implement the review of the Trustee. As Dalberg implemented the previous review of the Interim Trustee, its experience and knowledge allowed for a speedy and efficient review. The report of the review submitted by Dalberg is contained in annex 2.

2.2 Overview of findings

9. Overall, the review indicates that the Trustee has been fulfilling its roles and obligations as specified in its contract with GCF.

10. The review also shows that GCF is generally satisfied with the performance of the Trustee in its four functions, (1) management of investments and costs, (2) contribution management, (3) cash transfers, and (4) financial reporting. While the coronavirus disease 2019 (COVID-19) situation has decreased the in-person interaction with the Trustee, it continues to engage with the Board and the Secretariat in a manner sufficient to maintain the strong relationship.

11. Although, there are areas which the Trustee and GCF could discuss and explore to further elevate the relationship and strengthen GCF's position in the climate finance arena: (1) stronger strategic collaboration, (2) potential system integration, and (3) consideration of additional financial services such as improved environmental, social and governance (ESG) investment and foreign exchange hedging of GCF funds. These areas are being discussed, and it could be an excellent opportunity for both sides to include this in the consultation for the renewal of the Trustee arrangements, if approved.

III. Conclusions

12. The review of the performance of the Trustee revealed that it is fulfilling its roles and obligations, and stakeholders are in general happy with its performance across all its functions and the relationship it has maintained.

13. There are areas which would improve the relationship between the two organizations and strengthen GCF as a climate finance institution. GCF will benefit from further exploring these areas with the Trustee during its arrangement renewal process, if approved.

14. It is recommended that the Board approves the renewal of the Trustee arrangements.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.34/19 titled “Matters related to the Trustee” and recalling decision B.31/05:

- (a) Takes note of the review of the performance of the Trustee and the value for money of the services provided by the Trustee;
- (b) Approves the renewal of the Trustee arrangements with the International Bank for Reconstruction and Development for a further four-year period, where the subsequent performance reviews and renewals of the terms of the Trustee are authorized to be decided and executed by the Secretariat;
- (c) Requests the Secretariat and the Trustee to prepare, for Board’s consideration and approval, options for the sustainable and responsible investment of the funds held in the GCF Trust Fund, based on the existing International Bank for Reconstruction and Development’s sustainable and responsible investment strategies for the management of other Financial Intermediary Funds; and
- (d) Authorizes the Executive Director to finalize the renewal of the terms of the Trustee and to execute the necessary legal and administrative arrangements with the International Bank for Reconstruction and Development before the end of 2022.

Annex II: Review of the Trustee of the Green Climate Fund

The Review of the Trustee of the Green Climate Fund is contained below.

Review of the Trustee of the Green Climate Fund

Final Report

September 26, 2022

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EXECUTIVE SUMMARY

Upon the establishment of the Green Climate Fund (GCF) in December 2010, the Conference of the Parties to the UNFCCC decided that GCF would have a Trustee with relevant competence to manage GCF's financial assets. The International Bank for Reconstruction and Development (IBRD) was appointed as the Interim Trustee, and, from 12 April 2019 until 11 April 2023, as the Permanent Trustee. According to Board decision B.19.03/01, the Trustee agreement lasts four years and is renewable subject to a satisfactory review of the Trustee's performance, as determined by the Board.

The GCF Secretariat commissioned Dalberg Advisors to carry out, between 15 August and 23 September 2022, the review of the performance of the Trustee and assess the value for money of the services provided by the Trustee.

The objective of this evaluation was to assess the Trustee's services and performance since it became permanent against agreed qualitative and quantitative indicators and provide considerations for the renewal of the trusteeship agreement. The review focused on five areas of the Trustee's roles and responsibilities, with a set of key questions for each:

1. Management of investments and costs
2. Contribution management
3. Cash transfers
4. Financial reporting to the Board and the Secretariat
5. Overall relationship with the Board and the Secretariat

The review of the Trustee's performance since 2019 indicated that the Trustee has been fulfilling its functions and obligations as stated in the Agreement and as per GCF instructions and that the GCF is satisfied with the Trustee's services across the five areas under review. The specific findings in the areas of review are as follows:

- **Management of investments and costs:** The Trustee invests GCF funds according to the investment management strategy agreed upon with GCF, with its primary objective being capital preservation. Since 2019, GCF funds have seen returns at least on par with those of the Trustee's internal benchmarks of comparable trust funds administered by the Trustee. There is, however, room to realign with the Trustee on the investment horizon applied to the GCF Trust Fund, especially considering that GCF Board decision B.31/05 reduces limitations as to the investment horizon, and to seek ways to invest it with an advanced sustainability lens. Despite a year-on-year increase of 18% in Trustee costs since 2019 (due to the increased size and activity of the GCF Trust Fund and a one-off Trustee price adjustment), the Trustee costs represented 0.07% of the average GCF Trust Fund balances in 2021, which is on par or lower than for other trust funds administered by the Trustee.
- **Contributions management:** Interviewed Board members and the Secretariat reported a high level of satisfaction with the Trustee's work related to contributions management. The Trustee has provided quality legal and technical advice, has been responsive to contributors' and the Secretariat's requests and questions, and has been effective in drafting contribution agreements. Some interviewees highlighted opportunities for the Trustee to play a stronger advisory role in the preparation of GCF-2, especially related to determining reference rates.
- **Cash transfers:** The Trustee also makes cash transfers to the Secretariat to cover GCF's administrative costs, and to any one of the GCF's 113 Accredited Entities (as of September 2022). Since April 2019, The Trustee has transferred funds in a timely and satisfactory manner: it completed 90% of transfers made to accredited entities within 7 business days, and it disbursed

USD-denominated funds in 3.4 business days on average. Communications on cash transfers could be made more efficient by integrating the systems of the Secretariat and the Trustee to replace email exchanges, increase the timeliness of communications and decrease operational risk caused by human error.

- **Financial reporting:** The Trustee has been submitting monthly cash statements and quarterly investment portfolio reports in line with the Agreement and GCF requests. Interviewed Board members and Secretariat staff expressed a positive view regarding the reports' accuracy and completeness. They have also stated that the Trustee usually submits quarterly reports in by 3 weeks—or less when requested – after the end of the quarter. At the same time, they noted volatility in quarterly report submissions. They also wish to have greater visibility over the exchange rates applied to non-USD transactions, the list of investment portfolio holdings, and a discussion on the investment management decisions made during the reporting period.
- **Overall relationship with the Board and Secretariat:** The GCF Board and Secretariat find that the Trustee has shown a high degree of responsiveness, quality, and goodwill in its relationship with the GCF, demonstrating a willingness to function as a partner and provide additional assistance when/ if needed. There is a desire to further deepen the strategic partnership and elevate the Trustee's role to a genuine advisor.

In addition to highlighting GCF's satisfaction with the Trustee, the review revealed three cross-cutting opportunities to continue deepening the strategic relationship between the Trustee and GCF and ensure that the role of the Trustee will fully support GCF's growing operational and strategic needs.

- **A deeper strategic partnership:** There is a desire among GCF Board members and Secretariat staff to continue developing their relationship with the Trustee as a partner for strategic collaboration. It would be a valuable investment for the two organizations to collaborate to develop a more strategic approach to the Trustee – GCF relationship by opening and maintaining dialogue and encouraging more frequent and in-depth interactions between both their staff and their leadership.
- **Systems integration:** The Secretariat has requested to explore the feasibility, implications, and modalities of integrating the IT systems of the GCF and the Trustee. This would enhance the efficiency and effectiveness of communications between GCF and the Trustee, liberate capacity from both sides and reduce human errors. Additionally, this would allow the GCF Secretariat to have real-time visibility over services provided by the Trustee and on GCF financial data.
- **Services upgrade:** The renewal of the contract between GCF and the Trustee presents a valuable opportunity to review additional or enhanced services that the Trustee can provide to GCF across various areas under the current set-up, and if necessary, with contractual changes. GCF and the Trustee can, for instance, revisit the investment strategy of GCF funds, review the possibility to conduct FX hedging, and provide an expanded advisory role to ensure the Trustee's services match GCF's coming needs.

I. CONTEXT

A – History of the Green Climate Fund and its Trustee

The Green Climate Fund (“GCF”) was established in December 2010 at the Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in Cancun, Mexico (COP16) with the purpose of making a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change. GCF has been providing support to developing countries to limit or reduce their greenhouse gas emissions and adapt to the impacts of climate change.

GCF is governed and supervised by a Board that has responsibility for funding decisions. It is supported by an Independent Secretariat, which is accountable to the Board and has management capabilities to execute day-to-day operations of the GCF, providing administrative, legal, and financial expertise. In UNFCCC decision 1/CP.16, paragraphs 104–107, the Conference of the Parties to the UNFCCC decided that the GCF would have a Trustee with relevant competence to manage the financial assets of GCF. According to the Governing Instrument, paragraphs 24-27, the trustee is accountable to the Board for the performance of its responsibilities, as follows: maintain appropriate financial records and prepare financial reports required by the Board, administer the Fund’s assets in line with Board decisions, hold the assets of the Fund separate from the Trustee’s assets but may commingle them with other assets maintained by the Trustee, establish and maintain separate records and account.

Since GCF’s establishment, the World Bank has been serving as the Trustee of the Fund. It was first appointed as Interim Trustee in 2012, as per the Interim Trustee Arrangements for the GCF (GCF/B.02-12/05/Rev.01). The Amended and Restated Agreement on the Terms and Conditions for the Administration of the GCF Trust Fund, dated 2015, renewed the interim trusteeship until 30 April 2018. On 1 March 2018, the World Bank was appointed as Permanent Trustee (hereafter referred to as the “Trustee”) of the GCF under Decision B.21/07 from 12 April 2019 until 11 April 2023. The term of the trusteeship services lasts for a period of four years. It used to be renewable subject to a satisfactory review as determined by the Board, but Board Decision B.31/05 authorized the Secretariat to review the performance of the Trustee for renewals following April 2023.

B – The Permanent Trustee’s scope of work

The Trustee’s roles and responsibilities are described in the Amended and Restated Agreement on Terms and Conditions for the Administration of the GCF Trust Fund¹. The Trustee provides services to GCF which can be categorized into four areas: (i) contribution management, (ii) investment management, (iii) cash transfers², and (iv) financial reporting.

¹ Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund Trust Fund between the Green Climate Fund (the “GCF” or the “Fund”) and the International Bank for Reconstruction and Development (the “World Bank”), serving as the Trustee (the “Trustee”) of the Green Climate Fund Trust Fund, dated 12 April 2019 (the “Trust Fund Administration Agreement”)

² In addition, the Trustee also records and reports commitments made by the GCF Board.

- i) **Contribution management:** The Trustee engages in contribution management by entering contribution agreements/arrangements with GCF contributors and GCF and receiving and administering contributions entrusted to GCF by the contributors in the form of grants, capital, loans and/or cushions. According to the GCF Resource Mobilization portal³, as of 19 August 2022, 34 contributors have confirmed their pledges made during its First Replenishment (GCF-1) period and signed contribution agreements/arrangements for a total of USD 9.87 billion equivalent in nominal terms. The Trustee interacts with the contributors, is present during the negotiations of the contribution agreements, offers legal and technical support to the GCF, and leads the drafting of contribution agreements and arrangements by leveraging its in-house legal team.
- ii) **Investment management:** The Trustee is responsible for the investment management of GCF's liquid balances; it administers all received contributions within a single trust fund. GCF funds held in trust by the Trustee are maintained in a commingled investment portfolio for all trust funds administered by the Trustee and are kept separate from the funds of the World Bank. The Trustee is responsible for investing and reinvesting the contributions by the Trustee's policies and procedures. All income generated through such investment activities is credited to GCF.
- iii) **Cash transfers:** Upon instruction from the Secretariat, the Trustee is responsible for transferring funds to the GCF Secretariat to cover administrative expenses and to any one of the GCF's 113 Accredited Entities (as of September 2022). Since the beginning of the permanent trusteeship to date, the Trustee has made USD 2.05 billion and EUR 144 million in cash transfers to Accredited Entities⁴.
- iv) **Financial reporting:** The Trustee maintains separate records and ledger accounts of contributions deposited in the GCF Trust Fund and administers any cash transfers made from GCF through the Trust Fund. The Trustee provides quarterly reports on the status of contributions, transfers, expected contributions for the next year, the asset allocation of the Trust Fund, and liquid GCF Trust Fund balances – the Trustee has provided 13 quarterly reports since the permanent trusteeship. Additionally, the Trustee provides to the Secretariat detailed monthly cash statements and quarterly investment portfolio reports.

C – Objectives of this review

Following Decision B.31/05, the Board requested that the Secretariat undertake a review of the performance and the value for money⁵ of the services provided by the Trustee. The Secretariat has commissioned an independent third party to conduct the review and issued the Terms of Reference (ToR) of the engagement, which laid out the contents, approach, and methodology for the review. The objective of this evaluation is to provide an assessment of the Trustee's services and performance to date against agreed qualitative and quantitative indicators and provide recommendations for the renewal of the agreement.

³ GCF Resource Mobilization portal - <https://www.greenclimate.fund/about/resource-mobilisation/gcf-2>

⁴ Data retrieved from the FP Disbursement list shared by the GCF, including Accredited Entities' fees.

⁵ We define 'value for money' as the extent to which the Trustee is providing the services expected by and agreed upon with GCF in relation to the costs they charge. Following discussions held with the GCF Secretariat during the kickoff of the review, we did not carry out a comparative assessment of the scope of services and related costs of the Trustee to the ones of other potential trust fund Trustees.

Dalberg Advisors (hereafter “Dalberg” or “we”), the independent third party, conducted the review between 15 August and 23 September 2022. The members of the GCF Secretariat provided day-to-day guidance during the project.

The present document constitutes the main deliverable of the review conducted by Dalberg and serves to inform the Board of the performance of the Trustee since it was appointed permanently (i.e., 12 April 2019) to date, ahead of the renewal of its term planned for April 2023. It contains both a review of the Trustee’s performance and its value for money, as well as considerations for the renewal of the term of the trusteeship services.

II. METHODOLOGY AND APPROACH

A – Review methodology

As agreed in the ToR and following consultations with the GCF Secretariat Resource Mobilization and Finance teams, Dalberg focused its review of the Trustee across the following five areas:

1. Management of investments and costs
2. Contribution management
3. Cash transfers
4. Financial reporting to the Board and the Secretariat
5. Overall relationship with the Board and the Secretariat

To assess the performance and the value for money of the Trustee across all five areas, Dalberg developed key questions for each review area. These questions build on those in the Secretariat's ToR and reflect revisions and additions based on Dalberg's experience, as well as inputs from the RM and Finance team during the review kick-off call, weekly check-ins, and online exchanges.

Table 1: Permanent Trustee Review - Key Questions

Area of review	Key questions
Management of investments and costs	<ul style="list-style-type: none">• What has been the annual and annualized return on investments on liquid GCF Trust Fund balances (since the inception of GCF, and within the last 5-, 2- and 1-year period)?• What returns have equivalent trust funds' investment portfolios managed by the Trustee (with similar objectives, disbursement profiles, and risk tolerances) seen?• How has the GCF Trust Fund's investment portfolio performed concerning this benchmark?• How do the Trustee's investments for the GCF Trust Fund compare in its asset mix to GCF's expectations?• How have the Trustee's costs as % of assets under management evolved?• How have the Trustee's actual costs and expenses compared against the budget? If there is a significant difference, what explains this difference?• How has the Trustee adjusted their overall approach to providing for GCF investment strategy shift such as ESG?
Contribution management	<ul style="list-style-type: none">• How was the quality of the Trustee's interventions during these meetings and conference calls?• How responsive and timely was the Trustee in responding to inquiries from the Secretariat and contributors?• What has the quality of the Trustee's interaction with contributors and the Secretariat been, in its execution of legal contracts?• Is there any room for improvement in the Trustee's execution of legal contracts?• To what extent can the Trustee advise GCF on the reference rates it applies to contributions?
Cash transfers	<ul style="list-style-type: none">• How many technical issues have there been in receiving or transferring cash, caused by technical and human issues by the Trustee?• How timely were the cash transfers processed by the Trustee on behalf of GCF?

Area of review	Key questions
Financial reporting to the Board and the Secretariat	<ul style="list-style-type: none"> • Were the financial reports handed in promptly to GCF? • How many reports were deemed by the Secretariat as needing revision due to inaccuracies? • How useful and complete were the Trustee's financial and other (e.g., audit) reports? • How responsive has the Trustee been in responding to requests for changes from the Board or the Secretariat?
Overall relationship with the Board and Secretariat	<ul style="list-style-type: none"> • What has been the participation rate of the Trustee in Board meetings? • How high has the quality of the Trustee's interaction with the GCF Board and Secretariat been? • Is there any room for improvement in the Trustee's customer service, within the existing scope of services agreed upon between GCF and the Trustee? • What are additional services that stakeholders would like to see GCF's Trustee provide (outside of the current scope of services agreed between GCF and the Trustee)?

Dalberg answered these questions and assessed the Trustee's performance by analyzing data pulled from documentation publicly available and shared by the GCF Secretariat and the Trustee, respectively. The following table includes the key sources and methodologies Dalberg used to assess performance for each of the focus areas.

Table 2: Permanent Trustee Review - Sources and analysis

Area of review	Key Sources	Analyses
Management of investments and costs	<u>Interviews with:</u> <ul style="list-style-type: none"> • Secretariat • Trustee staff • Board members <u>Data:</u> <ul style="list-style-type: none"> • Trustee financial reports (quarterly Trustee Reports and annual single audit reports) • Trustee financial reports for other Trust Funds 	<ul style="list-style-type: none"> • Synthesis of interviews with GCF and Trustee staff • Review of previous reviews of Trustee by GCF • Review of financial reports (for GCF and other Trust Funds) • Quantitative analysis of costs charged by the Trustee (in absolute terms) • Analysis of Trustee costs and expenditures budget vs. actual and reasons behind the difference
Contribution management	<u>Interviews with:</u> <ul style="list-style-type: none"> • GCF Board/contributors and Secretariat • Trustee staff <u>Data:</u> <ul style="list-style-type: none"> • n/a 	<ul style="list-style-type: none"> • Synthesis of interviews with GCF and Trustee staff
Cash Transfers	<u>Interviews with:</u> <ul style="list-style-type: none"> • Secretariat • Trustee staff <u>Data:</u> <ul style="list-style-type: none"> • Timing and amounts of Trust Fund receipts and disbursements • Cash transfers to Accredited Entities 	<ul style="list-style-type: none"> • Quantitative comparison of the timing of requests made vs. Trust Fund financial activities actioned • Qualitative estimates of inaccurate cash transfers

Area of review	Key Sources	Analyses
Financial reporting to the Board and the Secretariat	<u>Interviews with:</u> <ul style="list-style-type: none"> • GCF Board and Secretariat • Trustee staff <u>Data:</u> <ul style="list-style-type: none"> • Trustee financial reports (quarterly Trustee Reports, sample monthly cash report) • Correspondence between the Secretariat and Trustee regarding the financial reports 	<ul style="list-style-type: none"> • Analysis of the usefulness and completeness of reports from the Trustee • Evaluation of Trustee reports to GCF for quality of content, timeliness, and accuracy
Overall relationship with the Board and Secretariat	<u>Interviews with:</u> <ul style="list-style-type: none"> • GCF Board and Secretariat • Trustee staff • Data: n/a 	<ul style="list-style-type: none"> • Evaluation of the Trustee's 'customer service' quality (e.g., through representation at Board meetings and availability in between Board meetings) • Evaluation of how 'customer service' can be improved (e.g., through additional services)

B – Review approach

Dalberg conducted a review of the Trustee using the three phases described below.

1. Build a fact base for the performance of the Trustee

To conduct a comprehensive review of the Trustee, Dalberg developed specific and measurable indicators across each of the five review areas. Like the key review questions, these indicators also build on those in the Secretariat's ToR, discussions held with the GCF Secretariat during the kickoff call and weekly check-ins, and reflect revisions and additions based on Dalberg's experience. During this phase, Dalberg also reviewed all documents listed in Annex A of this document to assess performance against these indicators, before commencing stakeholder interviews.

Table 3: Permanent Trustee Review - Key Indicators

Area of Review	Key indicators
Management of investments and costs	<ul style="list-style-type: none"> • Returns since the inception of GCF and in the last 5-, 1- and 2-year period • Returns compared to the benchmarks used (by Trustee) • Returns in equivalent trust funds' investment portfolios managed by the World Bank with similar objectives, disbursement profiles and risk tolerances • Qualitative assessment of the Trustee's investments compared to GCF expectations (including asset mix) • Evolution of costs as a % of assets under management • Trustee's actual costs and expenses against budget
Contribution management	<ul style="list-style-type: none"> • Qualitative assessment of the quality and timeliness of responses to inquiries from the Secretariat and contributors • Qualitative assessment of the Trustee's interventions at joint meetings and conferences
Transfer of funds	<ul style="list-style-type: none"> • Average time between a request for transfers issued and funds received# of technical issues receiving or disbursing money caused by technical and human issues by the Trustee

Area of Review	Key indicators
Financial reporting to the Board and the Secretariat	<ul style="list-style-type: none"> • Number of reports that were deemed by the Secretariat as needing revision due to inaccuracies • Qualitative assessment of the usefulness and completeness of report content • Qualitative assessment of responsiveness to requests from the Board or the Secretariat, by procedures agreed between GCF and the Trustee
Overall relationship with the Board and Secretariat	<ul style="list-style-type: none"> • Qualitative assessment of Board members and the Secretariat's interaction with Trustee and their interventions

2. Interview stakeholders

In this phase, Dalberg conducted a total of nine interviews with the following three groups of stakeholders, whose names and contact details were shared by the RM team:

- **GCF Board members**
- **GCF Secretariat** – Members of the GCF Secretariat within the Resource Mobilization and the Finance teams, including the CFO, as well as members of the Office of the General Counsel
- **Trustee** – Responsible staff at the Trustee, including the Representative of the Treasury Department.

Dalberg developed interview questions that sought to assess the performance of the work that the Trustee did as well as the value for money of the services provided. The questions were tailored for each stakeholder group to reflect the type of interaction each stakeholder would have had with the Trustee. The interview questions were guided by performance against indicators included in table 3. These questions focused on two high-level objectives: (i) to assess both the quantitative and qualitative performance of the Trustee and (ii) to identify areas of feedback on the services provided, and (iii) to gather stakeholders' expectations concerning the Trustee going forward.

3. Develop and validate findings and recommendations

In this phase, the Dalberg team reviewed the initial list of indicators in light of learnings from interviews and updated them accordingly (adding new indicators, removing those seen as less relevant, in consultation with the GCF Secretariat and the Trustee). Dalberg refined the fact base through document review and stakeholder interviews (including multiple consultations with the Trustee) to develop and synthesize findings and recommendations in a draft report.

Dalberg employed both a backward and a forward-looking lens to the findings and recommendations. We analyzed the past performance of the Trustee since it was made permanent in 2019 and elaborated considerations for the future, which recommend ways to deepen the relationship and enhance collaborative modalities between GCF and the Trustee.

We subsequently held a remote workshop with the GCF Secretariat RM and Finance teams and the General Counsel to present and discuss findings and recommendations, and work through the implications of our findings and recommendations on the next Permanent Trustee appointment period.

III. DETAILED FINDINGS BY REVIEW AREA

A – Management of investments and costs

The Trustee has invested GCF funds in accordance with the investment management strategy that prioritizes capital preservation as agreed upon between GCF and the Trustee. Since 2019, GCF returns have been at least on par with the returns of the Trustee's internal benchmarks (for Model Portfolios 0 and 1 in which they are invested), and with the returns of comparable trust funds having a similar objective of capital preservation and risk tolerance. In line with the investment management strategy developed for the GCF Trust Fund, the liquid GCF Trust Fund balances are invested through a strategy that combines ESG (Environmental, Social and Governance) and financial assessment. From a cost perspective, the Trustee costs rose by an average of 18.4% per year between 2019 and 2022⁶ due to the combination of higher liquid GCF Trust Fund balances, increased GCF Trust Fund activity and Trustee price adjustments. However, Trustee costs have been on par with those of other trust funds managed by the Trustee.

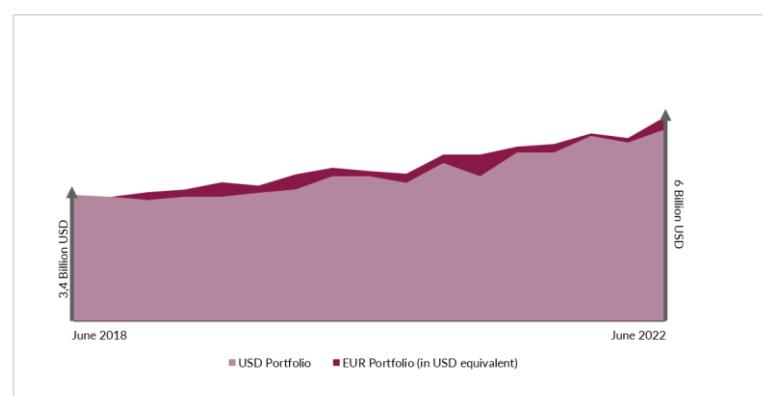
Going forward, the Secretariat could explore with the Trustee the possibility to lengthen the investment horizon of the GCF Trust Fund and if that is possible, explore more advanced Socially Responsible Investment (SRI) strategies that could be applied to the GCF Trust Fund

A.1 Assessment of the Trustee's investments compared to GCF's expectations (including its asset mix)

Review of past performance of the Trustee: The Trustee has been investing the GCF Trust Fund's liquid balances⁷ in line with both the investment management strategy developed between the Trustee and the Secretariat at the beginning of the Permanent Trustee agreement and further GCF guidance received.

Liquid GCF Trust Fund balances have historically been held by the Trustee in USD. Per GCF's instruction, the Trustee also maintains EUR loan contribution proceeds in EUR. The GCF Trust Fund had a liquid balance of USD5.7 billion as of 30 June 2022, 94% of which denominated in USD and 6% of which in EUR, respectively (see *Figure 1*).

Figure 1: Evolution of the liquid GCF Trust Fund balances in USD and EUR in the last 5 years⁸



⁶ Based on actual 2019 Trustee costs (USD2.2 million) and budgeted 2022 Trustee costs (USD3.6 million)

⁷ Defined as cash and investments held in Trust with no restrictions, excluding promissory notes.

⁸ Data on cash and investments held in trust found in [GCF Trustee Reports](#) from June 2018 – June 2022

According to the 2019 Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund (hereafter the “Agreement”), the Trustee agreed to develop an investment management strategy for the GCF Trust Fund within twelve (12) months from the date of effectiveness of the Agreement; the investment management strategy was finalized on July 19th, 2019. The investment management strategy lays out that the GCF Trust Fund’s primary objective is capital preservation, with a secondary objective of maximizing investment returns.

The liquid GCF Trust Fund balances held in USD have been pooled together with other trust funds administered by the Trustee. The Trustee allocates GCF liquidity in accordance with the approved investment management strategy across Model Portfolios, having each specific investment horizons and risk tolerances. The trust funds whose liquid balances are pooled together and allocated across the Model Portfolios do not have a specific set of individual investment holdings (e.g., USD10 million of a 1-year US Treasury Bill), but own a percentage of each investment the relevant Model Portfolio holds (as an illustrative example, 0.7% of the USD1 billion of a 1-year US Treasury Bill).

In line with the GCF Trust Fund’s primary objective of capital preservation, GCF Trust Fund balances are invested as part of the Trustee’s default investment strategy (“REST class investment strategy”). This strategy consists of allocating pooled Trust Fund assets (including those of the GCF Trust Fund) across two Model Portfolios having the same objective and a maximum investment horizon of 1 year, namely Model Portfolio 0 (consisting of overnight cash) and Model Portfolio 1 (allowing to invest in various asset classes with a rolling 1-year investment horizon). The Trustee defined an allocation of 15% of the USD-denominated GCF Trust Funds to Model Portfolio 0 and 85% to Model Portfolio 1, respectively. According to the Trustee, the 15%/85% allocation is commonly used for trust funds with similar primary capital preservation objectives and investment horizons that do not have specific liquidity requirements. During our review period, the Trustee has kept the allocation between Model Portfolios 0 and 1 unchanged.

Assets of some trust funds administered by the Trustee are also allocated to Model Portfolio 2, which has a similar investment universe (e.g., eligible types of financial instruments and securities) to Model Portfolio 1, but a longer investment horizon (rolling 3-year compared to Model Portfolio 1’s rolling 1-year investment horizon). Considering the (i) fixed-term nature⁹ of the Agreement between the Trustee and the GCF and the resulting constantly shortening time horizon, (ii) the Trustee’s internal policy upon termination of a trust fund management mandate to transfer liquid trust fund balances in cash – and not a portfolio of holdings – to the next trustee, and (iii) the fact that converting holdings into cash by selling them may result in investment losses and costs borne by the relevant trust fund which may jeopardize the capital preservation objective, the Trustee determined an allocation for the GCF Trust Fund’s liquid balance between Model Portfolios 0 and 1 only, i.e., with a maximum rolling investment horizon of 1 year. GCF has indicated a desire to agree with the Trustee on a longer investment horizon, however, the Secretariat and the Trustee have not yet found a way to address the above-mentioned limitations. With GCF Board Decision B.31/05 in place, which, among others authorized the GCF Secretariat to review the performance of the Trustee for subsequent renewals, these limitations should no longer apply.

The key characteristics of the two Model Portfolios in which the USD-denominated liquid GCF Trust Fund balances have been invested, as well as those of Model Portfolio 2 that could be suitable for the GCF Trust Fund in terms of investment horizon, are summarized in [Table 4](#) below.

⁹ According to the amendment to the amended and restated agreement on the terms and conditions for the administration of the GCF Trust Fund, the Agreement can be extended for 4 years, subject to a satisfactory review and by mutual agreement

Table 4: Key characteristics of Model Portfolios 0, 1 and 2 that could be suitable for the investment of the liquid GCF Trust Fund balances according to their investment objective¹⁰

	Model Portfolio 0	Model Portfolio 1	Model Portfolio 2
Allocation of GCF Trust Fund (%)	15%	85%	N/A (see discussion above)
Investment objective	Enhance returns subject to ensuring availability of cash when needed	Enhance returns while preserving capital to a high degree of confidence over a 1-year horizon	Enhance returns while preserving capital to a high degree of confidence over a 3-year horizon
Investment horizon	Up to 3 months	1 year	3 years
Investment universe	Time deposits, certificates of deposit, reverse repurchase agreements and other obligations issued or unconditionally guaranteed by a bank or other financial institution domiciled in an eligible country, whose senior debt securities are rated at least A- and maturing in 3 months or less	Obligations of local currency Sovereigns, foreign currency Sovereigns, Agencies, other official entities, and Multilaterals rated at least AA-; Corporates and Asset-Backed Securities rated at least AAA; deposits with banks rated at least A-; and a broad range of derivatives	Obligations of local currency Sovereigns; obligations of foreign currency Sovereigns, Agencies, other official entities and Multilaterals rated at least AA-; Corporates and Asset Backed Securities rated at least AAA; deposits with banks rated at least A-; and a broad range of derivatives.

The GCF Trust Fund's USD-denominated portfolio has been invested in government bonds, mortgage-backed securities, asset-backed securities, agencies, covered bonds, sovereign guaranteed/supranational, money market instruments, swaps/ Foreign Exchange (FX) swaps and corporates.

EUR-denominated GCF Trust Fund balances have been managed with a capital preservation objective and a short duration. As of June 2022, EUR-denominated funds are invested in cash deposits and money market instruments. Historically, EUR funds were also invested in short-term European government, supranational and sovereign agency bills.

In preparation for the GCF's Second replenishment (GCF-2) period and considering the recent foreign exchange volatility, the Secretariat has been exploring options to minimize the effects of currency exchange rate fluctuations on the commitment authority, namely, to implement FX hedging solutions covering the promissory notes denominated in non-USD currencies¹¹. While we understand that the Trustee does not currently provide FX hedging as a regular service to trust funds, the Secretariat is planning to discuss the possibility of the Trustee providing this service to the GCF Trust Fund¹².

Considerations going forward: The renewal of the Trustee agreement presents the opportunity for the GCF to rediscuss with the Trustee the investment horizon of the USD-denominated liquid GCF

¹⁰ [Investment Management of Trust Funds and FIFs - World Bank, 2021](#)

¹¹ GCF/B.27/18 - Initial analysis of options to minimize the effects of currency fluctuations on the commitment authority of the GCF

¹² The Trustee indicated that it was developing an FX hedging program for one of the trust funds it administers, on a pilot basis. We understand that the roll-out of developing FX hedging programs as a standard service for trust funds under administration depends on the pilot's performance in time and is subject to the approval of the World Bank's internal governance approvals.

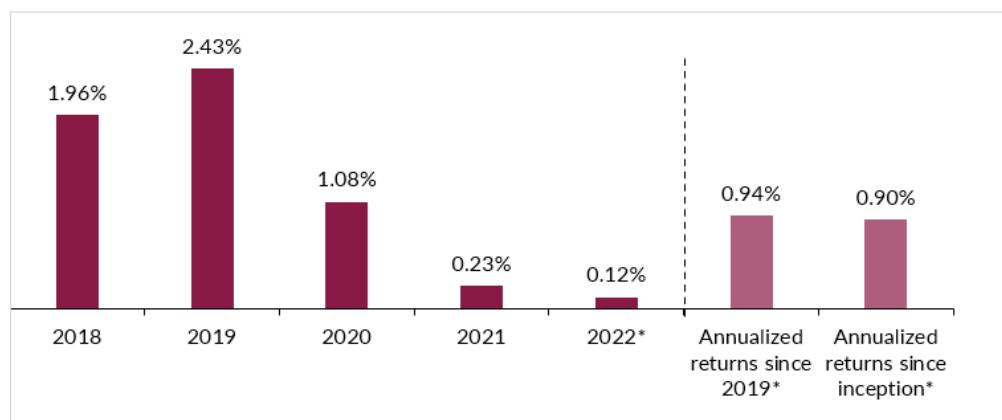
Trust Fund balances and seek ways in which some of the current limitations to a longer time horizon could be addressed, especially considering GCF Board Decision B.31/05. Provided that the Trustee can deliver FX hedging services by the time the Trustee agreement is renegotiated, and subject to the GCF's final hedging policy, a comparative cost-benefit-risk assessment would need to be carried out to ascertain whether the GCF should request FX hedging from the Trustee as an additional service or seek an alternative service provider.

A.2 Historical returns on investments of liquid GCF trust fund balances since the inception of GCF, and in the past 5 years

Review of the past performance of the Trustee: Since the Trustee became permanent in 2019, the USD-denominated GCF portfolio has seen an annualized return of 0.94%. This is slightly higher than the annualized returns since inception (0.90%), despite diminishing annual returns between 2019 and 2022.

Annual returns of the USD-denominated portfolio (presented in [Figure 2](#) below) increased between 2018 and 2019 and have seen a decreasing trend since 2019 to date. Since the inception of GCF until 30 June 2022, the GCF Trust Fund has achieved an annualized return of 0.9%. In the following pages, we present the comparison of the annual returns to the returns of the Trustee's relevant Model Portfolios, their benchmarks, and other comparable trust funds managed by the Trustee.

Figure 2: Annual returns on USD-denominated GCF Trust Fund investments for CY 2018 – CY2021, the annualized returns for 2022 between January – June 2022¹³, and annualized returns since 2019 and since inception (%)¹⁴¹⁵



Annual returns on the EUR-denominated GCF Trust Fund holdings were 0.36% (annualized) in June 2022 after a period of negative annual returns between 2019-2021, as depicted in [Figure 3](#) below.

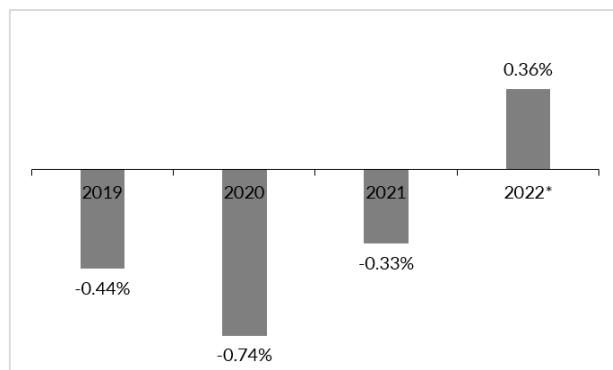
¹³ Annualized for the CY2022 to provide a comparable estimate with annual returns between 2018 and 2021

¹⁴ Calendar Year (CY) examines the period between January – December of the given year

*Annualized returns examining the geometric average amount of money earned by the GCF investment portfolio each year over a given period

¹⁵ Data on annual returns (USD) found in [GCF Trustee Reports](#) from June 2018 – June 2022

Figure 3: Annual returns on EUR-denominated GCF Trust Fund investments for CY2019 – CY2021, and the annualized returns for January – June 2022 (%)¹⁶¹⁷



As the EUR-denominated GCF Trust Fund balances represent a small portion of the GCF Trust Fund (i.e., an average of 6% in 2022) and the specific nature of this portfolio (i.e., not invested in a Model Portfolio), we have not carried out a comparison of these returns against any Trustee-managed Model Portfolio or any other trust funds managed by the Trustee.

A.3 Historical returns on investments of liquid GCF Trust Fund¹⁸ balances compared to investment benchmarks used by the Trustee

Review of past performance of the Trustee: Since 2019, GCF Trust Fund returns have been in line with both the actual returns and the Trustee's internal benchmark returns for the Trustee's Model Portfolio (15% Model Portfolio 0 and 85% Model Portfolio 1 as per GCF investment criteria). GCF exceeded Model Portfolio benchmark returns in 2019, 2020 and 2021.

As the USD-denominated GCF Trust Fund balances have been invested in 15% Model Portfolio 0 and 85% Model Portfolio 1, we compared the GCF Trust Fund's annual returns to the Model Portfolio returns consisting of 15% Model Portfolio 0 return and 85% of Model Portfolio 1 return, as well as the relevant Model Portfolio' benchmark returns calculated with the same weighting.

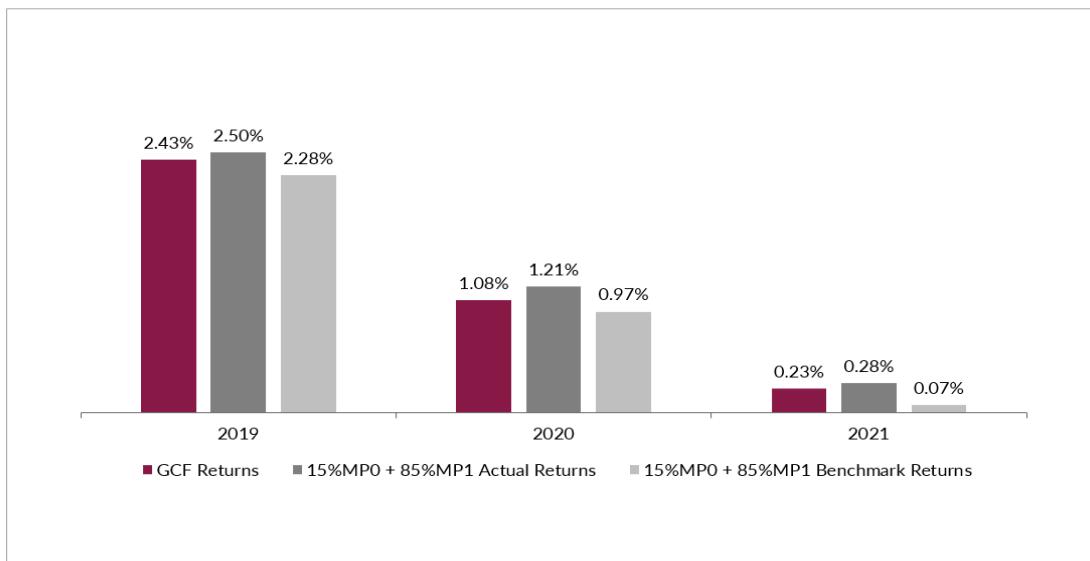
Although the annual investment returns across the USD-denominated GCF portfolio have decreased since 2019, they were in line with the weighted annual returns of the Model Portfolios 0 and 1, and higher than the weighted annual returns of the Model Portfolios' benchmarks, as shown in *Figure 4* below.

¹⁶ Data on annual returns (EUR) found in [GCF Trustee Reports](#) from June 2018 – June 2022

¹⁷ CY stands for Calendar Year and covers the period between January – December of the given year. The EUR-denominated account was introduced in 2018 thus EUR returns were analyzed from 2019 onwards.

¹⁸ Only examining USD-denominated portfolio returns

Figure 4: Returns on USD denominated GCF Investment Portfolio in comparison with actual and benchmark returns¹⁹ for 15%MPO + 85% MP1 for CY2019 – CY2021 (%)^{20,21}



A.4 Historical returns on investments of liquid GCF Trust Fund²² balances compared to equivalent trust funds' investment portfolios

Review of past performance of the Trustee: The returns of the GCF Trust Fund returns were in line with the returns of Trustee-managed trust funds with the same risk tolerance, and higher than the returns of the trust funds with a higher risk tolerance.

As benchmarks, we have selected six trust funds managed by the Trustee whose activities and objectives are similar to GCF and who have a similar risk tolerance to the GCF Trust Fund. These trust funds are the Clean Technology Fund (CTF), Strategic Climate Fund (SCF), Special Climate Change Fund (SCCF), the Adaptation Fund (AF), the Global Partnership for Education (GPE) and the Global Environment Facility (GEF). Both CTF and SCF are part of the Climate Investment Funds.

The Adaptation Fund and the SCCF have the same risk tolerance as the GCF Trust Funds (i.e., funds that are managed such that the expected maximum loss, as measured by the CVaR²³, in the worst 1% of cases will not exceed 0.25% at the portfolio's investment horizon), while the other funds have a slightly higher risk tolerance (i.e., where the expected maximum loss, as measured by the CvaR, in the worst 1% of cases will not exceed 0.99% at the portfolio's investment horizon).

We conducted a comparison of the annual returns of the GCF Trust Fund with the returns of the benchmark trust funds for CY2019 – CY2021. During this period, GCF Trust Fund returns were in line with the returns of trust funds having the same risk tolerance. Trust funds with a higher risk tolerance and a longer investment horizon saw higher returns in CY2019 and CY2020 and lower returns in CY2021 compared to the GCF Trust Fund returns. However, it should be noted that a few of the

¹⁹ Figures on actual and benchmark returns are based on figures in World [Bank's Investment Management of Trust Funds and Financial Intermediaries](#) and, thus, numbers are not exact

²⁰ Weighted average of Model Portfolio 0 (15%) and Model Portfolio 1 (85%)

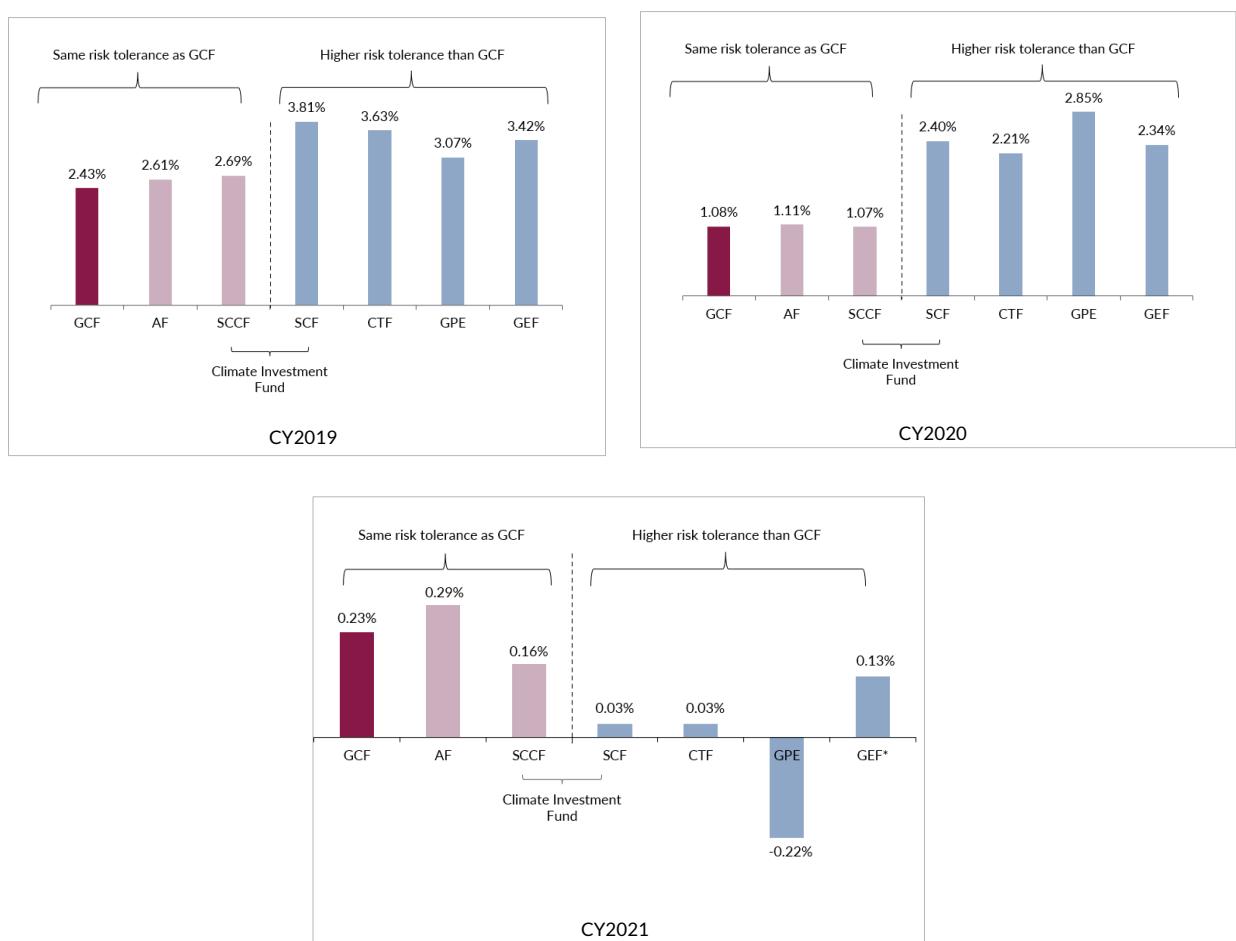
²¹ Data on annual returns (USD) found in [GCF Trustee Reports](#) from June 2018 – June 2022 while data on actual and benchmark returns for MPO and MP1 available [Investment Management of Trust Funds and FIFs, World Bank, 2021](#)

²² Only examining GCF's USD denominated investment portfolio

²³ Conditional Value-at-Risk - also known as the expected shortfall – is a measure that quantifies the amount of tail risk an investment portfolio has

figures may not be directly comparable (e.g., GEF, CTF), as each trust fund's allocation among Model Portfolios is different. The CTF and the SCCF funds, for example, are invested across Model Portfolios 0,1 and 2 with Model Portfolio 2 providing a broader investment universe and a 3-year rolling investment horizon (i.e., longer than the ones of Model Portfolios 0 and 1). Similarly, GEF's assets are invested across Model Portfolios 0, 1, 2 and a customized Model Portfolio where investments in the customized Model Portfolio are managed according to a Sustainable Bond Strategy, which only applies to this Model Portfolio.²⁴ Given the variation in investment profiles, this comparison (presented in *Figure 5*) serves to illustrate how the GCF Trust Fund's returns could potentially (but not necessarily) evolve in the future if different investment strategies are pursued, rather than providing external benchmarks for direct comparison.

Figure 5: Annual returns on investment portfolios of other selected funds managed by the Trustee for CY2019, CY2020, and CY2021²⁵ (%)²⁶



²⁴ Refer to A.5. ESG Integration for a description of the Sustainable Bond Strategy

²⁵ January – December 2021

²⁶ Data on annual returns found in Trustee Reports for December 2021 (or September 2021 in the case of GEF)

*For GEF, data on returns for 2021 only available until September 2021 and annualized for the full year

A.5 Evolution of Trustee costs and comparison of Trustee's actual costs and expenses against budget

Review of past performance of the Trustee: Trustee costs have increased since 2019 as a result of a restructuring of Trustee pricing and an increase in GCF Trust Fund size and level of activity. At the same time, Trustee costs as a proportion of GCF funds under management (0.07% of USD 5.5 billion in 2021) are at the lowest end of those paid by other trust funds managed by the Trustee. Actual Trustee costs were generally in line with budgeted costs.

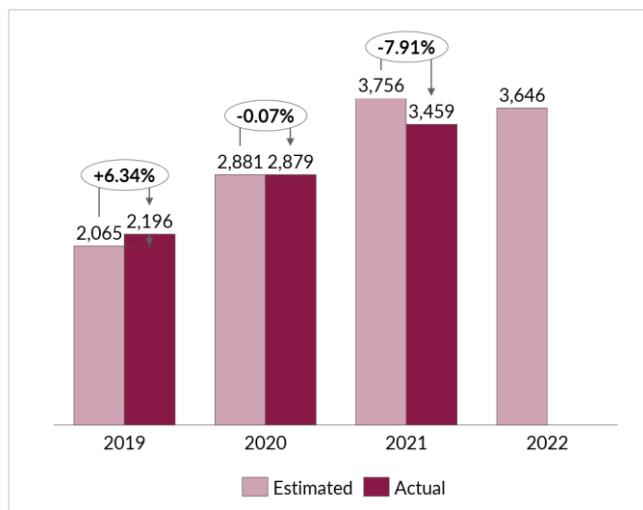
Costs charged by the Trustee to the GCF Trust Fund have the following four components and are consistent with the standard cost components of other Trustee-administered trust funds:

- *Investment management costs:* calculated as a percentage of average cash and asset balances held in the Trust Fund;
- *Legal costs:* fees for legal support provided, calculated as a flat fee dependent on the size of the trust fund and the level of activity;
- *Accounting and reporting costs:* fees for accounting and reporting services, calculated as a flat fee dependent on the size of the trust fund, the level of activity and the level of complexity of reporting requirements;
- *Financial administration and programming costs:* fees for administering the Trust Fund, calculated as a flat fee dependent on the size of the trust fund and the level of activity (i.e., contributions managed, cash transfers executed).

Overall evolution of Trustee costs: The Trustee costs saw an increase of 18.4% per year between 2019 (USD 2.1 million) and 2022 (USD 3.5 million – estimated). The increase was due to (i) an increase in both GCF Trust Fund assets and activity (i.e., contribution management, cash transfer), increasing the investment management and the financial administration and programming costs, respectively; and (ii) a general upward revision of Trustee costs that came into effect starting from 2021. According to the Trustee, the upward revision had been decided by its management to ensure full cost recovery on trusteeship services and impacted all cost components. Budgeted costs for 2022 are slightly higher than actual costs in 2021; according to the Trustee, this is due to a higher estimated average fund balance resulting in an increase in Investment Management costs.

Comparison of actual Trustee costs against budgeted: Actual Trustee costs were in line with the budget: actual costs were 6% higher than budget in 2019 due to higher-than-forecast GCF Trust Fund balances and resulting investment management costs; in line with the budget in 2020; and 8% lower than budgeted in 2021 due to lower-than-forecast GCF Trust Fund balances and resulting Investment Management costs. The evolution of the annual Trustee costs, both in terms of budget and actuals for the year, are presented in [Figure 6](#).

Figure 6: Evolution of total estimated budget²⁷ versus actual Trustee costs between CY2019 – CY2021 (in thousands of USD)²⁸



We understand that the Trustee submits the actual Trustee costs by budget line, as well as explanations for under- or over-runs upon request by the GCF Secretariat (e.g., as they prepare their budget execution documents for Board submission). The final, audited breakdown of Trustee costs is presented later in the year when the Trustee has completed its annual audit at the end of its financial year (June 30).

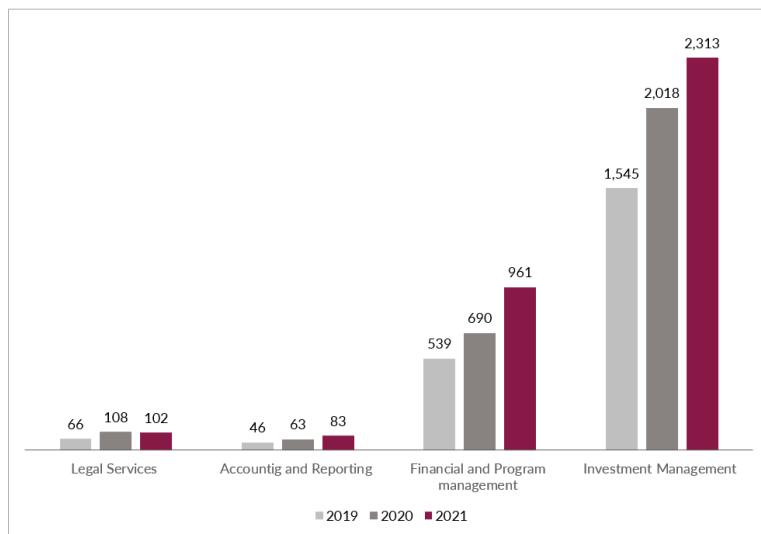
Evolution of Trustee cost components: *Figure 7* shows the evolution of each Trustee cost component by year between 2019 and 2021. The most important cost item is the *investment management cost* which represented on average 70% of the total Trustee costs between 2019 and 2021. The Trustee currently charges 4.5 basis points (i.e., 0.045%) on the average annual cash balances (both in USD and in EUR) for investment management services. Investment management costs increased from USD 1.55 million in 2019 to USD 2.52 million in 2021 for two reasons: (i) the liquid GCF Trust Fund balances increased during the same period and (ii) starting from 2021, the Trustee increased the fee rate from 3.5 basis points to 4.5 basis points.

Apart from investment management costs, financial and program management, representing on average 25% of total Trustee costs between 2019 and 2021, saw the second highest increase due to a combination of the increased activity in the GCF Trust Fund, including costs for reporting enhancements requested by the GCF Secretariat, and the above-mentioned revision of Trustee fees. Accounting costs and legal costs together made up on average 5% of the Trustee costs between 2019 and 2021. They also experienced an increase due to Trustee fee adjustments and increased GCF Trust Fund activities.

²⁷ Estimated budget refers to the budget that is approved by the GCF Board before the beginning of the year, while actual budget refers to the actual realized costs of Trustee services at the end of the year

²⁸ Estimated and actual costs available in GCF's Administrative and Executed Budgets for 2029, 2020, and 2021

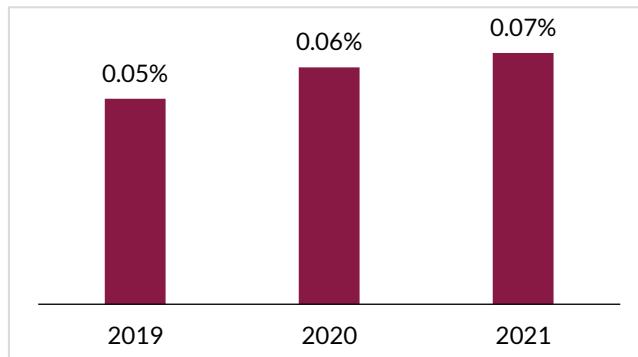
Figure 7: Evolution of actual Trustee costs by component for CY2019 – CY2021²⁹ (thousands of USD)³⁰



The GCF's total Trustee costs as a proportion of investment and cash held in trust in 2021 were between 0.05% in 2019 and 0.07% in 2021 as shown in

Figure 8³¹. This increase is in alignment with the 2019 costing adjustment that came into effect in 2021.

Figure 8: Evolution of GCF's actual Trustee costs as a proportion of investment and cash held in trust from CY2019 – CY2021 (%)



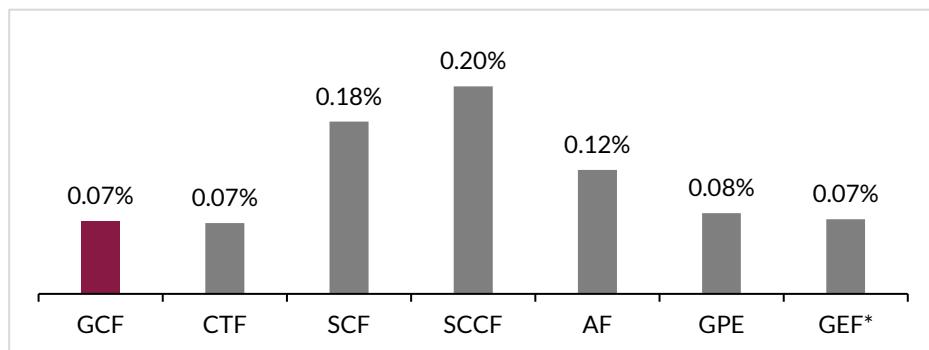
Evolution of Trustee costs as a proportion of average Trust Fund assets and comparison with benchmarks: GCF's Trustee costs as a proportion of average trust fund balances were 0.07% in 2021, on par or lower than those of benchmark trust funds, as shown in the figure below.

²⁹ Estimated budget refers to budget that is approved by the board before the beginning of the year, actual budget refers to the actual realized costs of Trustee services at the end of the year

³⁰ Actual costs breakdown provided by the Trustee for CY2019 – CY2021

³¹ Note that deposited and uncashed Promissory Notes are part of assets in Trust Fund but are not included in the below calculation

Figure 9: Comparison of Trustee costs (budgeted) as a proportion of funds under management for CY2021³² for all selected funds (%)³³

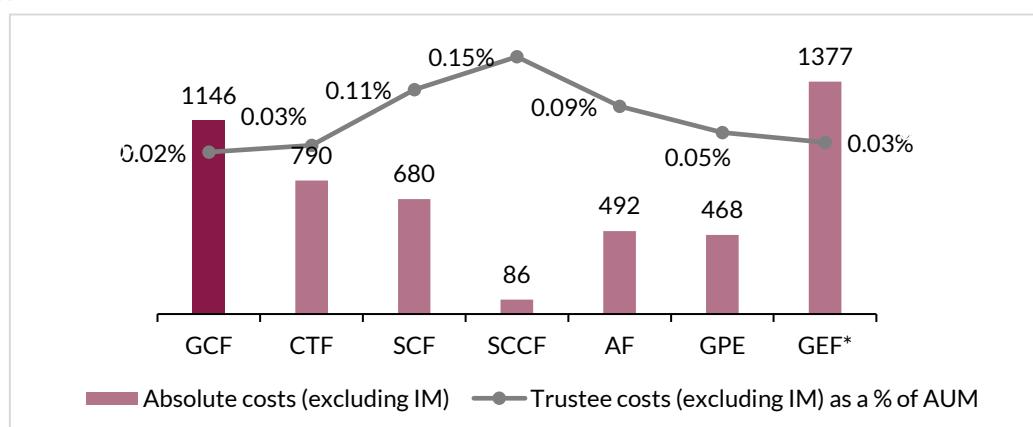


The GCF holds more funds in trust compared to other funds (e.g., GCF had ~USD 5.5 billion in cash and investments held in trust as of December 2021, compared to GEF's ~USD 4 billion and CTF's ~USD 2.5 billion) which resulted in *higher absolute investment management costs*, as these are calculated as a percentage of average trust fund balances.

With regards to the *other three components of the Trustee costs* (i.e., legal costs, accounting and reporting costs and financial administration and programming costs), the GCF Trust Fund's 2021 costs in USD were higher compared to all benchmarked trust funds except for the GEF. However, when compared to the average trust fund balances, they represented only 0.02% for the GCF Trust Fund, the lowest proportion among benchmark trust funds, as shown in

Figure 10³⁴.

Figure 10: Comparison of budgeted Trustee costs excluding investment management fees (thousands USD) and their proportion of average funds under management (%) between the GCF Trust Fund and benchmark trust funds for CY2021^{35 36}



³² January – December for each of the selected funds

³³ Data on Average Cash and Investments Held in Trust collected from Trustee Reports between 2019 – 2021, information on investment management costs collected from administrative budgets of each respective fund for 2021.

*Data for the GEF Trust Fund available until September 2021 and annualized for CY2021

³⁴ The exact scope of services the Trustee provides for benchmark trust may differ from those provided to the GCF Trust Fund, therefore this comparison is purely illustrative and does not assume the same services are received

³⁵ January – December for each of the selected funds

³⁶ Data on Average Cash and Investments Held in Trust collected from Trustee Reports between 2019 – 2021, information on investment management costs collected from administrative budgets of each respective fund for 2021

A.6 Incorporation of ESG issues in the investment strategy of the liquid GCF Trust Fund balances

Review of past performance of the Trustee: The GCF investment portfolio has observed an increasing ESG quality score, with an average of 7.14 out of 10. Further prioritization of ESG investments would require investments in Portfolios with longer investment horizons.

In line with the investment management strategy document and as a standard approach for all trust funds under administration, the Trustee has been managing the liquid GCF Trust Fund balances according to the Trustee's Sustainable and Responsible Investment (SRI) strategy that combines ESG (Environmental, Social and Governance) and financial analysis in the investment selection process. Although the Secretariat engaged in discussions with the Trustee to agree on the application of a sustainable bond strategy, considered to be more appropriate to GCF Trust Funds, the short investment horizon of the GCF Trust Funds limits the Trustee's ability to deploy such a strategy.

Since July 2019, all trust funds managed by the Trustee, including the GCF Trust Fund, have been managed according to an SRI approach defined as ESG integration. This strategy explicitly incorporates ESG (Environmental, Social and Governance) factors into the investment process. The Trustee uses MSCI ESG Research as the primary source of ESG analysis. The MSCI methodology assesses the ESG profile of the individual issuers (e.g., sovereigns, supranational organizations, corporates) with no differentiation among securities of the same issuer.

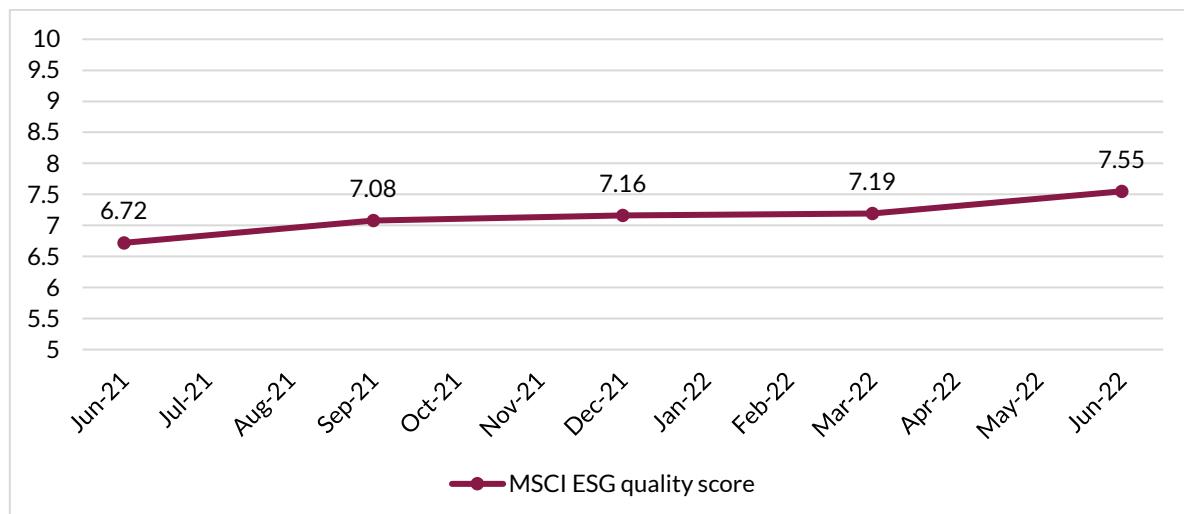
The Trustee has been providing ESG summary reports on the GCF Trust Fund since June 2021, within the quarterly Trustee reports. ESG information disclosed includes the MSCI ESG rating scale, the GCF Trust Fund's average ESG rating and the percentage distribution of holdings by ESG rating.

The GCF investment portfolio has observed an increasing ESG quality score, with an average of 7.14 (on a scale of 0 to 10) ([Figure 11](#)). The Trust Fund also contains a portion of investments without an ESG rating (14% as of 30 June 2022), which is because not all issuers of short-term securities or money market instruments have an ESG rating.

Figure 11: Average MSCI ESG quality score of the GCF portfolio (June 2021 – June 2022)³⁷

*Data for the GEF Trust Fund available until September 2021. Returns figures are annualized for CY2021, average Trust Fund liquid balances is averaged for January – September 2021

³⁷ Data retrieved from June 2021 to June 2022 quarter reports submitted by the Trustee



Per the request of the GEF's Governing Counsel, in 2020 the Trustee developed a specific Sustainable Bond Strategy for the GEF Trust Fund³⁸. This strategy consists of investing in Sovereign, Supranational and Agency securities that are either labeled (e.g., green bonds, social bonds, Certified Climate Bonds³⁹) or unlabeled but demonstrate a clear commitment towards the SDGs as assessed by the Trustee's internal teams. Based on discussions with the Trustee, we understand that the Sustainable Bond Strategy is applied to a small portion of the GEF Trust Fund that is earmarked in a separate, customized Model Portfolio, with an investment horizon of 5 years. The Trustee stated that they were in the process of building up the strategy for the earmarked funds: as there is a global shortage of sustainable bonds issued compared to the demand, they prioritize investing in the primary market, i.e., when new eligible bonds are issued, which takes time.

The Secretariat has approached the Trustee to enquire whether the Sustainable Bond Strategy could be implemented for the GCF Trust Fund. We understand from the Trustee that this strategy is currently not adapted to the GCF Trust Fund due to the short, maximum 1-year investment horizon the Trust Fund has, as the investment universe does not enable the Trustee to implement the strategy.

Considerations going forward: As the GCF has articulated a desire to prioritize ESG investments for its liquid Trust Fund balances, the contract renewal of the Trustee agreement should include a discussion on the feasibility and suitability of a Socially Responsible Investment approach for the GCF investment portfolio. As a first step, the Secretariat would need to negotiate with the Trustee a longer investment horizon for the GCF funds, because the current investment universe for the GCF liquid assets is not adapted to a more tailored SRI approach.

B – Contribution management

Review of past performance of the Trustee: Since 2019, the Trustee has participated in the management of contributions in alignment with GCF expectations. GCF Secretariat staff and Board members expressed their appreciation regarding the Trustee's good management of the process.

First, the Trustee has played a significant role in the discussions between the GCF Secretariat and contributors. The GCF Secretariat reported that the Trustee played a key role during the GCF-1

³⁸ GEF/C.59/12 Proposal of Responsible Investment Options for the GEF Trust Fund

³⁹ "Bonds and loans which are verified to conform with the Climate Bonds Standard are called Certified Climate Bonds. The Standard contains scientific criteria consistent with the 1.5 degrees Celsius target declared in the 2015 Paris Agreement."

Source: Climate Bonds Initiative, <https://www.climatebonds.net/certification>

replenishment period, as well as during the preparation for and the initial organizational meeting of the GCF-2 replenishment. It collaborates closely with both contributors and GCF, addresses the questions and concerns of contributors and provides legal and technical advice when requested.

Second, the Trustee has been fully meeting its obligations of developing the legal agreements between GCF, contributors, and the Trustee. Indeed, the Trustee leads the drafting of the tripartite contribution agreements/arrangements. From a technical point of view, the Trustee leverages its experience with other funds to develop the legal agreements between the three parties, set up the reference exchange rates, record pledges, and calculate the credits (promissory notes, etc.). Particularly, in the first replenishment period, the Trustee supported the Secretariat with calculating reference rates used to convert contributions made in currencies other than in USD into USD-equivalent contributions. Interviewed GCF Secretariat staff reported that although they appreciate the Trustee's support, they would appreciate further guidance when developing the methodology to set up reference rates, as well as greater flexibility on the templates used to draft legal agreements.

From a communications point of view when drafting legal agreements, the Trustee has ensured alignment between the GCF, contributors, and the Trustee, it tracked any revisions made to the draft of legal agreements and coordinated both the GCF Secretariat and contributors. According to GCF Secretariat and Board members/contributors, the Trustee has maintained an open line of communications with both the contributors and the GCF Secretariat, copying parties within all exchanges with few exceptions (e.g., when replying to a contributor request that may not have included Secretariat staff). It has done so with ownership and organization (e.g., reminding the Secretariat when actions are required on their end), as well as responsiveness and flexibility – for instance by treating demands when the Bank is closed.

Finally, the Trustee has managed payment requests of the contributions efficiently. As part of the tripartite contribution agreement/arrangement, the three parties agree on a payment schedule and the Trustee issues payment requests accordingly. No major problem has been identified in this regard, although consistency in copying all three parties in these exchanges would be appreciated by the GCF Secretariat.

Considerations going forward: In the management of contributions, we noted a desire from GCF to enhance its working relationship with the Trustee in two primary areas. First, the Trustee could play a more active advisory role when fixing reference rates for the GCF-2 replenishment period, such as on which currency to peg it to – USD, EUR, SDRs, etc., which reference period to use, the implications of these choices, and lessons learnt from recent replenishments of other trust funds managed by the Trustee. Second, the Trustee could ensure that the GCF Secretariat staff is consistently aware of all developments, arrangements, and transfers that occur between the Bank and contributors. This would further foster a sense of inclusion necessary to build tripartite relationships in the long term.

C – Cash transfers

Review of past performance of the Trustee: Overall, the Trustee has disbursed funds on behalf of GCF promptly and accurately. At the same time, communication between the Trustee and the Secretariat's staff could be more efficient.

The Trustee has been fulfilling its role of disbursing funds on a timely basis to the GCF Secretariat and Accredited Entities in line with expectations. For all its trust funds, the Trustee aims to process cash transfer requests in one to three business days. For USD-denominated funds, the Trustee aims to

execute all payments within T+1 business days while for EUR-denominated funds this number increases to T+3 due to the time it takes to convert USD into EUR.

According to data provided by GCF on disbursements of GCF funds by the Trustee to Accredited Entities⁴⁰, between April 2019 and August 2022, the average number of days taken to transfer GCF funds (both USD and EUR) to Accredited Entities was 3.8 business days.⁴¹ The transfer of funds to Accredited Entities from GCF's EUR Portfolio between April 2019 and August 2022 took an average of 7.4 business days while USD transfers took an average of 3.4 business days.⁴² The Trustee made 90% of disbursements within seven business days of receipt.

The difference between the average execution time calculated based on data received from the Secretariat and the Trustee's stated execution time can be explained by three factors: (i) due to the time difference between the location of the Secretariat and the Trustee (South Korea and Washington, D.C), a transfer request sent on a given day may only be received by the Trustee the day after; (ii) first-time cash transfers made to new beneficiaries are subject to the Trustee's internal control procedures (i.e., setting up the new bank account in their system, conducting standard banking controls) that lengthen the execution time; (iii) the Secretariat mentioned that the Trustee takes longer to process transfer requests in July and in December – when these periods come closer, the Trustee proactively sends messages to receive requests for disbursements that need to be executed before the cut-off. The Secretariat has not stated these instances as major bottlenecks, nor revealed issues in terms of the accuracy of cash transfers.

Considerations going forward: The Trustee and the Secretariat should explore ways of increasing the efficiency of their communications on disbursement requests. Emailing has been the default communication tool, often involving numerous 'back and forth' and execution delays due to time zone differences, subject to human error, and averting real-time visibility over the status of payments. Real-Time or Near Real Time information exchange (e.g., through an integrated system) would allow ongoing visibility over transactions' status and boost efficiency and effectiveness. The Trustee and the GCF Secretariat could start exploring the possibility of a limited, most likely phased, integration of the IT systems of GCF and the Trustee. This would provide greater efficiency and visibility over the GCF Trust Fund management. Integrating the systems will require alignment on the level of integration, evaluation of the implementation timeline, and a cost-benefit assessment.

D – Financial reporting to the Board and the Secretariat

Review of past performance of the Trustee: The financial reports submitted by the Trustee to the GCF Secretariat and Board are usually on time and accurate. At the same time, a greater level of detail would be helpful.

The Trustee usually submits financial reports in a **timely and flexible** manner. For instance, the Trustee submits monthly cash reports up to two weeks after the end of the month. For the quarterly investment portfolio reports, the Trustee aims to submit them to all trust funds up to one month after the closing of the quarter (*Figure 12*). In GCF's case, the Secretariat reports that quarterly reports are on average provided three weeks after the closing of the quarter, meaning the Trustee submits faster

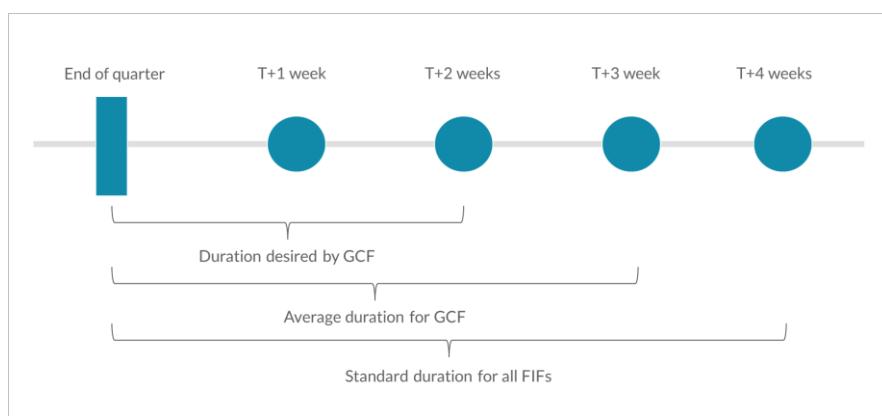
⁴⁰ Note that this analysis relates only to the disbursement of funds to Accredited Entities and does not include the disbursement of funds to the Secretariat

⁴¹Data on FP disbursement provided by the GCF Secretariat

⁴² Note that this analysis relates only to the disbursement of funds to Accredited Entities and does not include the disbursement of funds to the Secretariat

to GCF than is standard. The Trustee also offers the flexibility to submit quarterly reports in a shorter duration ahead of GCF Board meetings. However, the Secretariat staff reported some volatility in the submission of the quarterly reports. For instance, the Trustee has, at times, submitted quarterly reports up to eight weeks after the closing of the quarter – although we understand from the Trustee that this happens exceptionally (e.g., in July when Trustee capacity may be more limited, and other trust funds' reports are prioritized given their upcoming Board meetings).

Figure 12: Time taken for submission of quarterly reports – desired by GCF, average time for GCF, and standard time for all trust funds (in weeks)⁴³



In terms of **accuracy**, the financial reports prepared by the Trustee have been highly accurate. In some instances, the Finance team found minor inaccuracies in the quarterly reports and the Trustee is deemed to have been responsive to correcting them⁴⁴.

As for **completeness**, the Trustee develops approximately the same quarterly reports for all trust funds it manages with certain additional, customized areas for GCF. These include typical elements such as a financial summary of the trust fund (resources, disbursements, funds available), funding availability, and asset mix and investment income. As per GCF's request, the Trustee also includes information on replenishment, contributions, and disbursements to Accredited Entities. Based on discussions with the Secretariat, we understand that additional disclosures would be appreciated to facilitate their day-to-day activity and provide more visibility, such as (i) the exchange rates applied for each non-USD transaction (i.e., contributions received in other currencies than the USD, disbursements executed in EUR), (ii) a list of portfolio holdings and (iii) investment management comments related to the period.

Considerations going forward: Enhancing the Trustee's financial reporting services involve providing more information, enhancing efficiency through systems integration, and enhancing the visibility of the report to the Board. The Trustee and the Secretariat could first explore the possibility of enhancing the completeness of reports to provide additional information for GCF. Additionally, the Trustee and the GCF Secretariat could continue discussing the period within which the quarterly reports are submitted after the close of the quarter, taking into account the timing of availability of data and the Trustee's internal preparation and clearance processes. Both these issues could be solved by an automated exchange of information between the World Bank and the GCF. It would allow sharing real-time, complete data and decreasing report submission time. According to the Bank, this solution is possible even for trust funds whose Secretariat is not hosted within the Trustee, but parties need to explore its implications. Finally, regarding financial reports handed to the GCF Board, some Board members would appreciate it if the financial information related to the GCF Trust Fund was provided in a more visual and digestible manner and voiced over during Board meetings.

⁴³ Data based on qualitative assessment from the GCF Secretariat and the Trustee staff

⁴⁴ The Secretariat only noted reporting discrepancies on the recording of the investment income (reflows) from the World Bank as an accredited entity. In this case, the investment income earned on undisbursed balances held by the WB as AE is not recorded the same way as investment income from other Accredited Entities, while Trustee Reports include reflows/investment income received from AEs. This matter, however, lies on the World Bank more as an AE than as the Trustee and does not represent material consequences.

E – Overall relationship with the Board and the Secretariat

Review of past performance of the Trustee: Generally, the Trustee and the GCF Secretariat and Board maintain a good relationship through valuable interactions, particularly when the GCF requests support from the Trustee.

The Trustee has been able to provide useful advice to the GCF by leveraging its long-standing knowledge of trusteeship services. The GCF Secretariat has expressed high satisfaction with the level of experience and expertise of the Trustee's staff and their experience drawn from managing 26⁴⁵ funds.

The Trustee offers responsiveness and flexibility in responding to questions (e.g., on the investment portfolio of GCF funds), accommodates requests (e.g., submitting reports ahead of the usual), and offers solutions to arising problems. According to some Board members, the Trustee has consistently been open to *ad-hoc* questions about the performance of the investments of GCF funds. Additionally, Secretariat interviewees report that the Trustee has been flexible and responsive when requested to treat requests quicker than business as usual (e.g., provide updated reports for Board meetings, submit quarterly report raw data in shorter amounts of time, managing contributions during the Bank closing). This suggests that there have not been significant capacity bottlenecks within the Trustee to provide services and respond to requests from the GCF.

Nevertheless, the Trustee could go further in terms of proactively suggesting additional services and offering solutions to challenges. The Secretariat reported that although the Trustee is open to answering questions, sharing data, and responding to requests, it rarely takes a forward-looking and leading approach to suggest solutions to problems that may arise.

Based on interviews, we understand that there are open lines of communication between GCF and the Trustee staff. According to the Trustee, at least one Trustee staff attends the GCF Board meetings – in person before the pandemic, and virtually since. They also provide financial data on GCF funds for the Secretariat to incorporate into their presentations to the Board, even though they do not present their results directly. At the same time, Secretariat interviewees suggest that interactions are limited at the leadership level.

Considerations going forward: Three opportunities to further invest in the effectiveness and efficiency of the collaboration are emerging from the review. First, there could be greater, more frequent, and in-person interactions between the Secretariat and the Trustee. Notably, there could be more frequent check-ins between the Secretariat and the Trustee's leadership to discuss GCF's upcoming challenges and needs. Second, the GCF Secretariat would appreciate greater proactiveness from the Trustee, e.g., suggesting additional services to cover GCF's emerging needs.⁴⁶ Finally, some Board members would appreciate greater opportunities to interact with the Trustee, for instance through bilateral meetings or Trustee airtime in Board meetings to ask questions and have visibility over the investment of GCF funds. These three action points could help elevate the relationship further towards one of strategic partnership.

⁴⁵ <https://fiftrustee.worldbank.org/en/about/unit/dfi/fiftrustee/funds>

⁴⁶ Changes to Trustee services would require an amendment of the Trustee Agreement.

IV. CONCLUSIONS

A – Takeaways based on the review of the Trustee’s past performance

The review of the Trustee’s performance since it was appointed permanently indicates that the Trustee has fulfilled its role and obligations as stated in the Agreement and has acted per GCF instruction, where relevant. The GCF is satisfied with the Trustee’s performance across its four functions, as follows:

- **Management of investments and costs:** Since 2019, the Trustee has been managing GCF funds in alignment with initial expectations and agreements, in terms of allocation of funds (Model Portfolios and EUR/USD), returns on investments and ESG integration. GCF has enjoyed returns at least on par with benchmarks used by the Trustee and with comparable trust funds. At the same time, there is room to redefine the GCF Trust Fund’s investment horizon and seek ways in which the GCF Trust Fund assets could be invested with an advanced sustainability lens. Over the past few years, Trustee costs have increased across the Bank’s trust funds, and Trustee costs as a percentage of total assets are in line with what other trust funds are charged.
- **Contributions management:** The Trustee has been fulfilling its contributions management responsibilities to GCF’s satisfaction. It provides quality and timely legal and technical advice to GCF, plays a significant role in the discussions between the GCF Secretariat and GCF contributors, communicates with contributors and GCF alike, and leads the drafting of legal agreements.
- **Cash transfers:** The Trustee has been managing the disbursement of GCF funds to both the GCF Secretariat and Accredited Entities. Disbursement times for USD and EUR-denominated funds were timely and aligned with agreed-upon expectations. While the Trustee usually makes swift disbursements on behalf of the GCF, integrating systems could enhance efficiency in cash transfers.
- **Financial reporting:** The Trustee has been submitting accurate and useful reports in line with the Agreement and GCF requests. While the Trustee generally submits them promptly, even when exceptionally requested, the Secretariat wishes to decrease the volatility of their submission and enhance their completion to include a larger array of information.

Overall, interviewees across the GCF Board and the Secretariat believe that the Trustee has shown a high degree of responsiveness and goodwill in its relationship with the GCF, showing a willingness to function as a strategic partner and provide additional assistance when/ if needed. It has played its role as a service provider in line with expectations, fulfilling its responsibilities and responding to requests with quality, responsiveness, and flexibility. At the same time, GCF has expressed a desire to further expand and elevate the relationship with the Trustee. The next section outlines suggestions for how to work towards this goal.

B – Considerations to continue deepening the strategic relationship between GCF and the Trustee

The GCF and the Trustee may benefit from exploring three cross-cutting areas that could develop the relationship further and deeper.

- **Deepening of the strategic partnership:** We have observed a desire to continue developing a strong, strategic partnership between the GCF and the Trustee, whereby the Trustee's advisory role is elevated. We consider it would be a valuable investment for the two organizations to collaborate to develop a more strategic approach to Trustee – GCF relationships. For instance, the Trustee and the Secretariat could have more frequent and in-depth interactions both at the staff and leadership levels, to foster greater socialization between the two teams and involve the Trustee's leadership in GCF matters. This could be achieved by organizing regular forums in which they can share information and concerns and seek solutions. Opening and maintaining the dialogue is key to building a more productive and strategic relationship between the Trustee and GCF.
- **Systems integration:** The Secretariat has requested to explore the possibility of integrating the IT systems of the GCF and the Trustee. This would enhance the efficiency and effectiveness of communications between GCF and the Trustee, free up capacity from both organizations and reduce the risk of human error. Additionally, this would allow the GCF Secretariat to have real-time visibility over services provided by the Trustee and on GCF financial data – e.g., investments of the GCF portfolio and contributions. The Trustee has signaled the possibility of integrating IT systems. However, it is constrained by four elements: i) the extent to which systems can be integrated, as the Bank cannot provide access to confidential information on investments with which GCF funds are comingled; ii) the Bank's internal controls and security processes which may pose technical limitations; iii) the time compatibility with the GCF and the Bank's current IT infrastructure changes; iv) the significant expenses that will be incurred from both ends. Therefore, we recommend that both parties further explore the feasibility, implications, and modalities of systems integration.
- **Service upgrade:** The renewal of the contract between GCF and the Trustee presents a valuable opportunity to review how the Trustee can best support GCF's evolving needs. They could consider additional or enhanced services that the Trustee can provide to GCF across various areas under the current set-up, and if necessary, with contractual changes. For instance, the Secretariat and the Trustee could revisit the investment strategy of GCF funds: the allocation and subsequent returns and the ESG approach could be rediscussed to ensure that the renewed investment strategy of GCF funds matches its coming needs. They can explore what is legally and operationally possible across the allocation of funds across Model Portfolios (e.g., with longer duration), and potentially move towards a customized, dynamic portfolio, the development of a GCF-specific Sustainable Bond Strategy, and longer duration investments, among others. The Trustee could also decrease the vulnerability of GCF contributions during GCF-2 by conducting FX hedging and playing an expanded advisory role - as we understand it does for other trust funds. We hope that this review provides the necessary information for GCF to review its trusteeship needs in the coming years and collaborate with the Trustee to accommodate these expectations ahead of renewing the contract.

ANNEX

Table 5: List of documents used to conduct the analysis

No.	Document
1	2021 Trust Fund Annual Report Toward Greater Resilience
2	Adaptation Fund Board and Secretariat, and Trustee Administrative Budget (FY2021)
3	Adaptation Fund Quarterly Financial Report – Prepared by the Trustee (March 2019 – June 2022)
4	Administrative Budget for the Least Developed Countries Fund and the Special Climate Change Fund (FY2021)
5	Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund Trust Fund between the Green Climate Fund and the International Bank for Reconstruction and Development, serving as the Trustee of the Green Climate Fund Trust Fund (2019)
6	Amended and Restated Agreement on the Terms and Conditions for the Administration of the Green Climate Fund Trust Fund between the Green Climate Fund and the International Bank for Reconstruction and Development, serving as the Trustee of the Green Climate Fund Trust Fund (2015)
7	GCF/B.02-12/05/Rev.01Green Climate Fund Interim Trustee Arrangements for the Green Climate Fund (2012)
8	Clean Technology Fund Quarterly Financial Report – Prepared by the Trustee (March 2019 – March 2022)
9	Climate Investment Funds Business Plan and Budget (FY2021)
10	Internal communication on the Execution of the 2021 Trustee Budget (2021)
11	GCF Contribution Agreement with the French Republic (GCF-1)
12	GCF Investment Management Strategy Document (2019)
13	GCF Resource mobilization (GCF-1)
14	GCF audited financial statements for the years ending December 31, 2020, and 2019
15	GCF/B.02-12/05/Rev.01 Interim Trustee Arrangements for the Green Climate Fund
16	GCF/B.19/43 Annex I: Draft Terms of Reference of the Permanent Trustee
17	GCF/B.25/Inf.07/Add.02: Report on the execution of the 2019 administrative budget of the GCF
18	GCF/B.26/Inf.09/Add.01: Report on the execution of the 2020 administrative budget of the GCF

No.	Document
19	GCF/B.29/Inf.07/Add.03: Report on the execution of the 2021 administrative budget of GCF
20	GCF/B.32/Inf.10/Add.02: Report on the executed budget /on of the 2022 administrative budget of GCF
21	GCFB.27/18 Internal analysis of options to minimize the effects of currency fluctuations on the commitment authority of the GCF
22	GEF Business Plan and Corporate Budget for FY21
23	GEF/C.59/12 Proposal of Responsible Investment Options For The GEF Trust Fund, 2021
24	Global Partnership for Education FY21 Budget and Work Program
25	Green Climate Fund Quarterly Financial Report – Prepared by the Trustee (June 2019 – June 2022)
26	Internal contribution acknowledgement letters from the Trustee to Contributors
27	Internal payment requests from the Trustee for GCF Contributors
28	JCF June 2022 Bank Statement, Prepared by the Trustee
29	Terms of reference of the permanent Trustee
30	Trustee Disbursement List
31	UNFCCC decision 1/CP.16 paragraphs 104–107
32	World Bank Financial Intermediary Fund Management Framework (2019)
33	World Bank Group, Partnering with the World Bank through Trust Funds and Umbrella 2.0 Programs, 2021
34	World Bank Guidance Note on Managing Trust Funds for Results
35	World Bank Investment Management of Trust Funds and Financial Intermediary Funds