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**Global Green Growth Institute**

Eleventh Meeting of the Management and Program Sub-Committee

April 29, 2020; via videoconference

## 2020 Operational Budget

### Background

1. The Work Program and Budget (WPB) 2019-2020 approved by the GGGI Council on 31 October 2018 set out two budget scenarios; the first 'Base Case Scenario' projected expenditures of USD 112.9 million for the biennial period 2019/20. The 2020 Operational Budget (OB) was prepared using the 'Base Case' scenario as a starting point. Actual expenditures for 2019 are USD 46.6 million broken down between core of USD 32.8 million and earmarked of USD 13.8 million. Thus, of the total of USD 112.9 million approved by the Council for the biennial period an amount of up to USD 66.3 million remains available for 2020.
2. The MPSC requested management, at their July 2019 meeting, to prepare a balanced budget for 2020. Thus, the primary driver in the preparation of the 2020 GGGI OB is management's best estimate of the likely funding levels, including both core and earmarked, for 2020. This would dictate the amount of funding available for expenditures thereby ensuring a balanced budget.

### Summary Budget

3. The estimate of likely 2020 income is USD 56.1 million (2019: USD 47.8 million) which is an increase of USD 8.3 million or 17 per cent over 2019. The USD 56.1 million comprises core funding of USD 24.1 million (2019: USD 34 million) a reduction of USD 9.9 million or 29% and earmarked of USD 32.0 million (2019: USD 13.8 million) which is an increase of USD 18.2 million or 132%.
4. Total expenditures are budgeted at USD 56.1 million (2019: USD 46.6 million) to achieve a balanced budget. This represents an increase of USD 9.5 million or 20 per cent over 2019. The proposed 2020 OB summary is set out in table 1:

**Table 1: 2020 GGGI Operational Budget Summary compared to Actual 2019**

	2020			2019		
	Core	Earmarked	Total	Core	Earmarked	Total
	USD'000			USD'000		
Core contribution	20,723	32,010	52,733	32,724	13,763	46,487
O/H recovery	2,400		2,400	1,087		1,087

Investment Income	350		350	213		69
Fees for service	600		600			
<b>Total income</b>	<b>24,073</b>	<b>32,010</b>	<b>56,083</b>	<b>34,024</b>	<b>13,763</b>	<b>47,787</b>
<b>Expenditures</b>	<b>24,073</b>	<b>32,010</b>	<b>56,083</b>	<b>32,835</b>	<b>13,763</b>	<b>46,598</b>
<b>Total surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,189</b>	<b>-</b>	<b>1,189</b>

## 2020 Income

5. Total revenue is estimated at USD 56.1 million (2019: USD 47.8 million) for 2020. This is broken down by category of funding in table 2:

**Table 2: Total 2020 Revenue by category compared to projected 2019**

	2020			2019		
	Core	Earmarked USD'000	Total	Core	Earmarked USD'000	Total
Core contribution	20,723	32,010	52,733	32,724	13,763	46,487
O/H recovery	2,400		2,400	1,087		1,087
Investment Income	373		373	213		213
Fees for service	600		600	-		-
<b>Total income</b>	<b>24,073</b>	<b>32,010</b>	<b>56,083</b>	<b>34,024</b>	<b>13,763</b>	<b>47,787</b>

## Core Funding

6. The estimate of core funding for 2020 is set out in table 3.

**Table 3: 2020 Core Funding compared to Actual 2019**

	Note	2020 US\$'000	2019
Korea	1	10,000	10,000
Australia	2	-	8,000
United Kingdom	3	5,800	5,800
Denmark	4	3,000	3,000
Norway	4	1,923	1,900
<b>Total</b>		<b>20,723</b>	<b>28,700</b>

### Note:

1. The contribution of USD 10 million from Korea for 2020 is the second year of a two year signed agreement between the Government of Korea and GGGI. Korea notified GGGI, at the July 2019 MPSC meeting, that going forward the contribution in US\$ terms may reduce if the KRW depreciates significantly against the US\$. The impact of this directive for 2020 is yet unknown.

2. Following discussions with Australia we have been advised not to budget for any core contribution in 2020. This is a reduction of USD 8 million from 2019 and USD 5 million on a rolling three-year average.
3. The current agreement with the UK concludes in April 2020 and they are currently reviewing funding to all multilateral organizations with a view to reducing the number of organizations they fund. Their review of GGGI is almost concluded and we hope to learn by end of April/May what the outcome is. For now, we are assuming the same amount of USD 5.8 million similar to previous years. There is a risk that funding will not continue.
4. We are budgeting similar amounts from both Denmark and Norway as previous years.

### Earmarked Funding

7. Our estimate of earmarked funding for 2020 is USD 32 million against actual of USD 13.8 million in 2019. This represents an increase of USD 16.8 million or 116 per cent. Please note that earmarked funding is recognized in the financial statements as income only when related expenditures are incurred. This will differ to the amount of earmarked funding proposals signed during the period. Unspent earmarked funding at the year-end is carried forward into the following period and only recognized as income when related expenditures are incurred.
8. Estimated earmarked funding of USD 32 million is a large increase of USD 16.8 million over 2019. We are, however, confident given the number of multi-year earmarked funding agreements signed in 2019, signed in early 2020 or expected to be signed in the later part of 2020 that this is a realistic target. In addition, to the continuing support of Norwegian funding for the Indonesia Country Program (agreement expected to be signed for new phase 3 during later part of 2020); GCF Readiness ; UAE country program; and Norwegian funded Colombia Program (new agreement signed in March 2020) there are the ongoing activities for projects which came on stream in 2019 (Set out in table 4) and new earmarked projects expected to come on stream in 2020 (set out in table 5).

**Table 4: Continuing earmarked projects which began in 2019**

Donor	Project	Total funding	2020 funding	Country
Australia	Climate Resilient Green Growth in Papua New Guinea	A\$ 6 m	US\$ 1.3 m	PNG
Gates Foundation	Promoting City-Wide Inclusive Sanitation through Climate Resilience and Green Growth	US\$ 1.65 m	US\$ 0.8 m	Thematic (Senegal, Nepal)
Norway	Readiness for Article 6 Implementation	US\$2.7 million	US\$ 0.3 m	Global
KOICA	Development of Green Cities in Lao PDR	US\$3.8 million	US\$ 1.0 m	Lao PDR
UK BEIS	Scaling up green growth implementation and investments via capacity building of state and non-state actors	US\$ 560,000	US\$ 0.2 m	Colombia
Luxembourg	Green Cities Development in Senegal	€ 3 m	US\$ 0.5 m	Senegal

Luxembourg	Enhancing Resilience to Climate Change through Solar Power-Driven Access in Vanuatu	€ 1.5 m	US\$ 0.8 m	Vanuatu
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**Table 5: New earmarked projects coming on stream in 2020**

Donor	Project	Total funding	2020 funding	Country
Norway (agreement signed Q1 2020)	Agro forestry concessions	US\$ 6 m	US\$ 0.7 m	Peru
GCF (agreement signed Q1 2020)	National Adaptation Program (NAP)	US\$ 1.8 m	US\$ 0.5	Rwanda
GIZ (agreement signed Q1 2020)	Pacific NDC Hub	€ 1.0 m	US\$ 0.6 m	Pacific
WRI (agreement signed Q1 2020)	NDC CAEP	US\$ 2.2 m	US\$ 2.2 m	Burkina Faso, Caribbean, Indonesia, Morocco, Papua New Guinea, Peru
GIZ (agreement signed Q1 2020)	NAMA Facility	€ 0.35 m	US\$ 0.3 m	Mongolia
SIDA (agreement signed Q4 2019)	MRV Services	US\$ 2 million	US\$ 0.6 m	Burkina Faso
Swedish Energy (agreement signed Q4 2019)	Mobilizing Article 6 Trading Structures	US\$ 3.5 m	US\$ 1.5 m	Global
US State Dept/Conservation International (agreement signed Q1 2020)	Forest Finance & Innovation Incubator	US\$ 1.5 m	US\$ 0.75 m	Global
GCF	National Adaptation Program (NAP)	US\$ 3 m	US\$ 0.3 m	Ethiopia
EU	Greening Uganda's Urbanization & Industrialization	€5.0 m	US\$ 0.7 m	Uganda
EU	Energy Switch: Adoption of Solutions for Sustainable Energy in Textile Industry (signed Q1)	US\$ 3.8 m	US\$ 0.6 m	Cambodia
Luxembourg	Vietnam Green Bond Readiness Program	US\$ 2.7 m	US\$ 0.8 m	Vietnam
KOICA	Greening MSME's & promoting Greenpreneurship	US\$ 5.3 m	US\$ 0.6 m	Philippines
Norway	Green Growth Program Phase 2	US\$ 30 m	US\$ 1.0 m	Indonesia

Qatar	Country program	US\$ 7.5 m	US\$ 1.25 m	Qatar
USAID	Land Use Management around Narmada Streams	US\$ 2 m	US\$ 0.5 m	India
Luxembourg	Green City Development and Waste Management in Rwanda	US\$ 4 m	US\$ 0.2 m	Rwanda

### Overhead recovery

9. Overhead recovery is estimated at USD 2.4 million. This is based on a recovery rate of 7% on earmarked projects funded by GGGI's core contributors and 15% on projects funded by non-core contributors.

### Investment Income

10. The underlying philosophy behind the investment of GGGI's working capital is that investment decisions shall always prioritize preservation of capital ahead of optimizing investment returns. Investment returns are budget at USD 0.4 million in 2020 roughly the same level as in 2019.

### Fees for Service

11. Fees for services are budgeted at USD 0.6 million for income from World Green Economy Organization (WGEO) of USD 0.3 million for the successful development by GGGI of one bankable smart city project and three green infrastructure projects of USD 0.1 million per project by Asian Development Bank (ADB).

### Expenditures

12. Total expenditures are budgeted in 2020 at USD 56.1 million in line with revenue projections. Expenditures of USD 56.1 million is an increase of USD 9.5 million (20%) over actual 2019 expenditures of USD 46.6 million.

**Table 6: 2020 Budget versus actual 2019, 2018 & 2017 expenditures**

Year		Core		Earmarked		Total	
		USD'm	%	USD'm	%	USD'm	%
2020	Budget	24.1	43%	32.0	57%	56.1	100%
2019	Actual	32.8	70%	13.8	30%	46.6	100%
2018	Actual	39.1	79%	10.6	21%	49.7	100%
2017	Actual	37.2	84%	6.9	16%	44.1	100%

13. Of note is the mix between the percentage of annual expenditures funded by core and by earmarked funding. The 2020 budget proposes to finance approximately 57% of budget from earmarked funding and shows a marked increase from prior years. This demonstrates that the large investment (funded through the drawdown from reserves) that the organization has made

in 2017 and 2018 in building capacity at the country level has now resulted in a flow of earmarked projects, thereby making the expansion of 2015/16 sustainable.

**Risks to achieving a breakeven financial result for 2020**

14. The two principal risks to achieving a breakeven financial result for 2020 are as follows:

**Non-renewal of UK funding**

15. The UK is currently conducting an in-depth review of their funding to GGGI as part of a wider review of DFID funding to multilateral organizations. The intention of the exercise, we understand, is to reduce the number of organizations they fund so as to sharpen the focus of their investments. The outcome should be known by end of April/May 2020. Whilst there is a potential upside for GGGI in that the review may recommend increased funding there is also the downside in that GGGI funding could be cut to zero. Obviously, if this were to be the case then it will have a negative impact on our 2020 financial results. If that scenario proves to be the case GGGI management will implement a strategy for managing the reduction.

**Impact of COVID-19 on project implementation**

16. The second risk to our 2020 financials is the impact of COVID-19 on GGGI operations. This may impact negatively in two possible ways.

**Delays in project implementation**

17. Nearly all GGGI country offices are now working remotely. GGGI staff are encouraged to schedule as many meetings with partners as possible virtually, conduct consultations online, and generally be creative and innovative to keep delivery going. There is however likely to be a slowdown in the implementation of earmarked projects as government partners go offline and meetings are cancelled. Thus, we will not be able to charge some fixed costs (i.e. we continue to pay staff salaries) to projects resulting in a reduction in projected earmarked funding.

**Delays in signing new earmarked project agreements**

18. GGGI has signed a significant number of new earmarked projects during the first quarter of 2020. However, as set out in table 5 we expect to sign a number of donor agreements for additional new earmarked projects later in 2020. Signing of these agreements and beginning of project implementation may be delayed again resulting in a decrease in projected earmarked revenues whilst GGGI continues to incur staff costs.

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