



Global Green Growth Institute

Ninth Session of the Assembly and

Thirteenth Session of the Council (Joint Session)

October 12-23, 2020 | E-Consultations

October 28, 2020 | Hybrid Meeting

Update on 2020 GGGI 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 were 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 Management and Program Sub-Committee of the Council (MPSC) requested the 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 was 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.
3. The estimate of likely 2020 income at the time of the preparation of the budget in late 2019 was USD 56.1 million (2019: USD 47.8 million), which is an increase of USD 8.3 million or 17% 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 14.9 million) which is an increase of USD 17.1 million or 115%. 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% over 2019.

Summary Budgeted Income & Expenditure v. Full Year Estimate

4. This report is based on actual expenditures to 31 August 2020 and estimated expenditures for the remainder of the year. It takes into account reductions in both the UK and Korea’s core funding as well as the impact of COVID-19 on the operations of GGGI. The current estimate is that GGGI will record income of USD 39.4 million and expenditures of USD 44.4 million resulting in an operating deficit of USD 5 million for 2020. Details are set out below in Table 1.

Table 1: 2020 GGGI Operational Budget v Full Year Estimate

	Core/Other	Earmarked	Total

	Budget	Estimate	Budget	Estimate	Budget	Estimate
	US\$'000					
Total income	24,073	17,150	32,010	22,200	56,083	39,350
Expenditures	24,073	22,150	32,010	22,200	56,083	44,350
Total surplus/(deficit)	-	(5,000)	-	-	-	(5,000)

5. Projected expenditures of USD 44.4 million for 2020 compared to actual expenditures of USD 46.6 million for 2019.

2020 Income

6. Total revenue is budgeted at USD 56.1 million for 2020 and the current estimate is USD 39.4 million. This represents a decrease of USD 16.7 million or 30% and is broken down by category of funding in Table 2 below.

Table 2: Total 2020 budgeted revenue by category against current estimates

	2020			
	Budget	Latest Projection	Increase/ (decrease)	% increase/ (decrease)
	US\$'000			
Core	20,700	14,600	(6,100)	(29%)
Earmarked	32,010	22,200	(9,810)	(31%)
Overhead recovery	2,400	1,650	(750)	(31%)
Other Income	373	800	427	114%
Fees for Service	600	100	(500)	(83%)
Total	56,083	39,350	(16,733)	(30%)

Core Funding

7. The current estimate of core funding is USD 14.6 million and these are set out in Table 3.

Table 3: 2020 Core Funding

		2020 Budget	Latest Projection
	Note	US\$'000	
Korea	1	10,000	8,300
United Kingdom	2	5,800	1,300
Denmark	3	3,000	3,150
Norway	3	1,900	1,850
Total		20,700	14,600

Note

1. The budgeted contribution of USD 10 million from Korea for 2020 was based on the second year of a two-year signed agreement between the Government of Korea and

GGGI. However, at the July 2019 MPSC meeting, Korea notified GGGI that going forward the contribution in USD terms may reduce if the KRW depreciates against the USD. The exchange rate was fixed for 2020 at KRW 1,190/USD.

We were informed in late May 2020 that due to the impact of COVID-19 on the Korean economy, the Government of Korea was reducing funding to multi-lateral organizations for 2020 by 23%. Following the intervention of the Ministry of Foreign Affairs and our MPSC member, the reduction in KRW terms for GGGI was reduced by 16%. We should receive KRW 9.996 trillion, which approximates to USD 8.3 million at current exchange rates. This is a reduction of USD 1.7 million. This reduction comprises the reduction of 16% equivalent to USD 1.6 million and an exchange loss of USD 0.1 million. GGGI received the first USD 5 million in July.

Korea has informed GGGI that their intention is to restore the funding level to USD 10 million in 2021. Thus the 16% reduction in 2020 is a one-off adjustment. In addition, they have indicated that they will also make an additional contribution in 2021 to make up for the 2020 shortfall. The Ministry of Foreign Affairs informed GGGI that the 2021 Korean National Budget that will be presented to parliament in November 2020 for approval contains USD 10 million in core funding for GGGI for 2021. In addition, Korea have included in the draft budget an additional contribution of USD 1.7 million for 2021 to make up for the reduction of USD 1.7 million in 2020. However, given that the Government of Korea may seek for additional budget cuts for COVID-19 and monsoon recovery, we have taken a conservative view and have not included the additional USD 1.7 million in any future funding scenarios.

2. The current agreement with the UK concluded in April 2020. The UK informed GGGI on 24 June that because of unanticipated pressures as a result of a fall in ODA resources due to contracting of the UK economy and refocusing on COVID-19 recovery, the UK will not provide any core support to GGGI in financial year 2020/21. A decision about support in following years is expected in early 2021. The budget amount was USD 5.8 million for 2020. We received the amount of £1 million in March (USD 1.3 million) for the UK financial year 2019/2020. This amount will be recorded by GGGI as 2020 income. Thus, the decrease in the UK funding for 2020 is USD 4.5 million.
3. The 2020 contributions from both Denmark and Norway are in line with their 2019 contributions, but again there may be some variances due to exchange rate movements.

Earmarked Funding

8. The budgeted earmarked funding for 2020 is USD 32 million. Estimated earmarked funding of USD 32 million is a large increase of USD 16.8 million over 2019. We were, however, confident at the time of budgeting, given the number of multiyear 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 that are expected to come on stream in 2020 (set out in table 5).

Table 4: Continuing Earmarked Projects which Began in 2019

Resource Partner	Project	Total Funding	2020 Funding	Country
Australian Aid Program	Climate Resilient Green Growth in Papua New Guinea	AUD 6 million	USD 1.3 million	PNG
Bill and Melinda Gates Foundation	Promoting City-Wide Inclusive Sanitation through Climate Resilience and Green Growth	USD 1.65 million	USD 0.8 million	Thematic (Senegal, Nepal)
Norway	Readiness for Article 6 Implementation	USD 2.7 million	USD 0.3 million	Global
KOICA	Development of Green Cities in Lao PDR	USD 3.8 million	USD 1.0 million	Lao PDR
UK Partnering for Accelerated Climate Transitions (BEIS)	Scaling up green growth implementation and investments via capacity building of state and non-state actors	USD 0.56 million	USD 0.2 million	Colombia
Luxembourg	Green Cities Development in Senegal	€ 3 million	USD 0.5 million	Senegal
Luxembourg	Enhancing Resilience to Climate Change through Solar Power-Driven Access in Vanuatu	€ 1.5 million	USD 0.8 million	Vanuatu
Swedish Energy (agreement signed Q4 2019)	Mobilizing Article 6 Trading Structures	USD 3.5 million	USD 1.5 million	Global

Table 5: Continuing New Earmarked Projects Coming on Stream in 2020

Resource Partner	Project	Total Funding	2020 Funding	Country
Norway NICFI (agreement signed Q1 2020)	Agro forestry Concessions (Action)	USD 6 million	USD 0.7 million	Peru
GCF Readiness (agreement signed Q1 2020)	National Adaptation Program (NAP)	USD 1.8 million	USD 0.5 million	Rwanda
GIZ NDC Pacific Hub (agreement signed Q1 2020)	Climate Policy Support Project	€ 1.0 million	USD 0.6 million	Pacific
NDC Partnerships/ WRI (agreement signed Q1 2020)	Climate Action Enhancement Package	USD 2.2 million	USD 2.2 million	Burkina Faso, Eastern Caribbean, Indonesia, Morocco, Papua New Guinea, Peru
NAMA Facility / GIZ (agreement signed Q1 2020)	Energy Performance Contracting for Residential Retrofitting in Ulaanbaatar	€ 0.35 million	USD 0.3 million	Mongolia
Sida (agreement signed Q1 2020)	Development of the Monitoring, Reporting and Verification (MRV) System in Burkina Faso	USD 2 million	USD 0.6 million	Burkina Faso

US State Dept/Conservation International (agreement signed Q1 2020)	Forest Finance & Innovation Incubator	USD 1.5 million	USD 0.75 million	Global
GCF Readiness	National Adaptation Program (NAP)	USD 3 million	USD 0.1 million	Ethiopia
GCF Readiness (agreement signed Q3 2020)	National Adaptation Program (NAP)	USD 2 million	USD 0.3 million	Sri Lanka
EU (agreement signed Q3 2020)	Greening Uganda's Urbanization & Industrialization	€5.0 million	USD 0.7 million	Uganda
EU (signed Q1 2020)	Adoption of Solutions for Sustainable Energy in Textile Industry (ASSET)	USD 3.8 million	USD 0.6 million	Cambodia
Luxembourg (signed Q1 2020)	Viet Nam Green Bond Readiness Program	USD 2.7 million	USD 0.8 million	Vietnam
KOICA (agreement signed Q3 2020)	Climate Resilient and Inclusive Green Growth for Poor Rural Communities	USD 5.0 million	USD 0.6 million	Philippines
Norway NICFI	Green Growth Program Phase III	USD 12 million	USD 1.0 million	Indonesia
Qatar	GGGI Qatar Country program	USD 7.5 million	USD 1.25 million	Qatar
USAID (agreement signed Q2 2020)	Land Use Management around Narmada Streams	USD 2 million	USD 0.5 million	India
Luxembourg	Green City Development and Waste Management in Rwanda	USD 4 million	USD 0.2 million	Rwanda
New Zealand Aid (agreement signed Q3 2020)	Pacific Regional Program	NZD 4.7 million	USD 0.1 million	Pacific regional
Bill and Melinda Gates Foundation (agreement signed Q3 2020)	Promoting City-Wide Inclusive Sanitation through Climate Resilience and Green Growth – amendment	USD 0.7 million	USD 0.1 million	Nepal, Senegal
Qatar Fund for Development	Green Entrepreneur Network	USD 2.475 million		Pacific
Qatar Fund for Development	Green Entrepreneur Network	USD 2.644 million		Eastern Caribbean
Qatar Fund for Development	Climate Smart Agriculture	USD 1.80 million		Kiribati
Qatar Fund for Development	Solar Powered Irrigation Systems for Climate Smart Agriculture in the Senegal River Valley	USD 2.926 million		Senegal
Qatar Fund for Development	Solar Powered Irrigation Systems for Climate Smart Agriculture in Burkina Faso	USD 2.26 million		Burkina Faso

9. The current run rate for earmarked projects is USD 21.2 million with actual to 31 August of USD 14.1 million. By run rate, we mean if expenditures were to continue for the full year at their current rate. On a straight line basis, we would have expected USD 21.3 million of actual expenditures to the end of August.

10. The run rate is nearly double compared to August 2019 and is a reflection on the number of new earmarked projects, which have come on stream during the past year. However, we are unlikely to record USD 32 million in earmarked funding. There are three primary reasons for this:
- a. Firstly, there have been delays in the signing of new earmarked projects coming on stream. These include Uganda (EU funded Greening Uganda's Urbanization & Industrialization); India (USAID funded 'Land Use Management around Narmada Streams'); Philippines (KOICA funded 'Climate Resilient and Inclusive Green Growth for Poor Rural Communities: Accelerating Implementation in the Agriculture Value Chain'); Sri Lanka (GCF funded NAP); Qatar (Qatar country program); and Guyana (Norway).
 - b. Secondly, some project agreements were only signed during the first part of 2020 (Norway funded agroforestry in Peru and Phase 2 Colombia program). These had been expected to come on stream earlier in 2020.
 - c. Thirdly, the impact of COVID-19 has delayed the implementation of current projects.
11. It is difficult to predict what the eventual earmarked outcome for 2020 will be. On one hand, there are new projects coming on stream (EU Uganda, USAID India, Qatar, GCF NAP Sri Lanka) that will increase the run rate. On the other hand, the continuing impact of COVID-19 will delay the implementation of projects. Our best guestimate for 2020 is in the region of USD 22.2 million. However, this means that we would need to implement approximately USD 8.1 million of earmarked projects for the remaining four months of 2020 compared to USD 14.1 million for the first eight months. Thus, the monthly implementation rate will need to increase from USD 1.8 million to USD 2 million. We consider this target to be achievable.

Overhead recovery

12. Overhead recovery is budgeted 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. With the slowdown in both the implementation of earmarked projects and delays in new earmarked coming on stream, this is now likely to be of the order of USD 1.65 million, a reduction of USD 0.75 million or 31%.

Investment/Other Income

13. 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 now budgeted at USD 0.2 million in 2020. This is due to lower cash balances held by GGGI (USD 25.5 million at 31 August 2020 compared to USD 31.2 million on 1 January 2020) and continuing low interest rates.
14. Other income includes the write back of USD 0.6 million accrued for the payment of untaken leave when staff leave the organization. As part of the response to COVID-19, Management decided that at the end of an employment contract, GGGI will not (no longer) be giving Pay in Lieu of Annual Leave i.e. All leave must be taken by the end of the employment contract.

15. In the financial statements at 31 December 2019, GGGI had accrued USD 0.6 million for the potential liability of Pay in Lieu of Annual Leave. The provision in the accounts will be reversed and now be written back as sundry income in 2020.

Fees for Service

16. Fees for services are budgeted at USD 0.6 million. This comprises 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). For now, we have assumed that fees for serviced will yield USD 0.1 million in revenue based on one signed agreement with ADB.

Expenditures

17. Total expenditures are budgeted in 2020 at USD 56.1 million. Actual expenditures to 31 August against budget are set out in Table 6. They amount to USD 28.1 million. This equates to a run rate of approximately USD 41 million.

Table 6: 2020 GGGI Operational budget

	B	A	% spent	B	A	% spent	B	A	% spent
	Core			Earmarked			Total		
	US\$ 'm		%	US\$ 'm		%	US\$ 'm		%
Staff	17.5	10.7	61%	18.8	9.2	49%	36.3	19.9	55%
Operational	6.6	3.3	50%	13.2	4.9	37%	19.8	8.2	41%
Total	24.1	14.0	58%	32.0	14.1	44%	56.1	28.1	50%

Staffing Budget

18. Total staff costs are budgeted at USD 36.3 million to be funded by USD 17.5 million from core and USD 18.8 million from earmarked. Of the total of USD 36.3 million, USD 31 million is needed to fund current staff and USD 5.3 million for new proposed staff. The USD 5.3 million will only be incurred if new earmarked projects come on stream.

19. For the existing staff budget of USD 31 million, USD 17.5 million or 56.5% is to be funded from core and USD 13.5 million or 43.5% from earmarked. With the slowdown in earmarked projects, it is now likely that approximately USD 1.2 million of staff time previously budgeted to be funded by earmarked will now be funded by core.

Operational/Non-Staff Budget

20. The total operational budget for 2020 is USD 19.8 million of which USD 6.6 million is funded from core and USD 13.2 million from earmarked. Actual to 31 August is set out in Table 7.

Table 7: Operational expenditures at 31 May 2020

	Full year budget	Budget to 31 August	Actual at 31 August	Underspend
	US\$ 'm			

Core	6.6	4.4	3.3	1.1
Earmarked	13.2	8.8	4.9	3.9
Total	19.8	13.2	8.2	5.0

21. Activities continued during the first quarter for most of our country offices at normal levels, but there has been a drop in activity levels during the period April through August. This is reflected in the spend rate of both core and earmarked operational expenditures.
22. There will be cost savings in core funded operational expenditures particularly in travel and conferences. These will largely be used to fund the additional core needed to fund staff costs as noted above and to mitigate some of the reductions in core funding. These savings have, therefore, been taken into account when estimating the projected operating deficit for 2020.

Impact on GGGI reserves of a USD 5 million deficit

23. Total reserves at the end of 2019 comprise USD 18.6 million (2018: USD 17.4 million) as set out in Table 8:

Table 8: GGGI projected reserves at 31 December 2020

	Working Capital	Retained Surplus	Total
	US\$.000		
Balance at 1 January 2020	15,000	3,600	18,600
2020 projected operating deficit	(1,400)	(3,600)	(5,000)
Balance at 31 December 2020	13,600	0	13,600

24. If GGGI records an operating deficit of USD 5 million for 2020, we would finish the year with a working capital total of USD 13.6 million. This equates to 112 reserve days, which is still within the benchmark of 90-180 days and will leave GGGI in a reasonably healthy financial position heading into the next biennial period.
25. An operating deficit of USD 5 million is considerably lower than the projected deficit in the July report to the MPSC. This is due to additional cost cutting measures recently implemented by Management. These include:
- COVID-19 solidarity salary reductions amounting to USD 0.55 million for the period August-December 2020, which comprised reductions as follows:
 - 0% for national staff in developing and emerging economies;
 - 5% for national staff in high-income countries (Hungary, Korea, UAE);
 - 10% for international staff;
 - 15% for executives.
 - The de-monetizing of untaken staff leave amounting to USD 0.65 million;
 - Freezing of all recruitments for core-funded positions until further notice.
 - All contract renewals reviewed and approved by MT.
 - Delay of capital expenditures – no new capital expenditures for 2020-21 until further notice.
 - Reduction in operational expenditures and outsourcing to a minimum required for effective operations.

/End