

2 April 2026

**Eighth meeting of the Board**

22–24 April 2026

Livingstone, Zambia

Provisional agenda item 7

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## **Recommendations on the management of the commitment authority**

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### **Summary**

This document, prepared by the Secretariat in consultation with the Budget Committee, explains the components of the commitment authority and the types of commitments recorded against it. It also sets out guidance to support consistent reporting and management of the commitment authority. The document is advisory in nature and does not confer any control, mandate or decision-making authority on the Budget Committee regarding the management of the commitment authority.

*Expected actions of the Board:*

The Board will be invited to:

- (a) Adopt the methodology for estimating the commitment authority, as described in this document;
  - (b) Take note of the recommendations on the management of the commitment authority;
  - (c) Request the Secretariat to calculate the available commitment authority before the start of each Board meeting, on the basis of information received from the interim Trustee and in accordance with the methodology mentioned in paragraph (a) above, and to present the outcomes to the Board under the relevant agenda item.
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## I. Introduction

1. At its seventh meeting (B.7), the Board requested the Secretariat, in consultation with the Budget Committee, to develop recommendations on the management of the Fund's commitment authority (decision B.7/D.2 para. (d)). This document, prepared by the Secretariat in consultation with the Budget Committee, responds to that request.
2. This document explains the components of the commitment authority and the types of commitments drawn against it; and provides recommendations to support consistent reporting and prudent management of the commitment authority over time.
3. This document is advisory in nature and does not confer any control, mandate or decision-making authority on the Budget Committee regarding the management of the commitment authority.

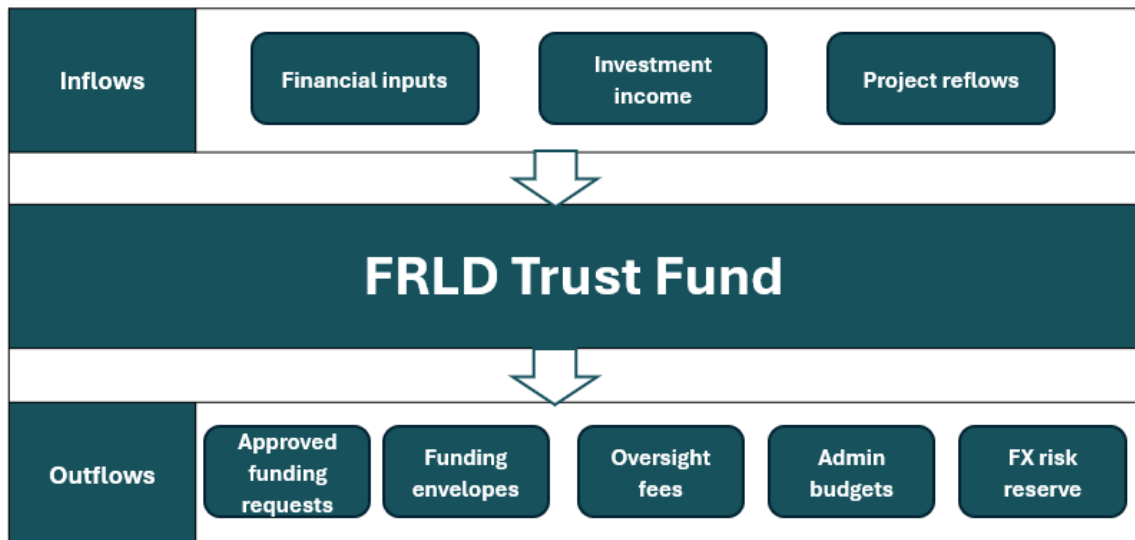
## II. Methodology for estimating the commitment authority

4. The commitment authority is the maximum level of financial resources at a given point in time that are available to the Board to approve new funding decisions, after accounting for existing Board-approved obligations and any applicable prudential set-asides or risk reserves.
5. The total commitment authority is an estimate of the sum of (a) cash held in the FRLD Trust Fund and (b) the value of promissory notes (PNs)<sup>1</sup> deposited in a designated custody account, minus (c) the net commitments approved by the Board and the applicable risk reserves. The risk reserve includes, for example, the foreign exchange risk buffer associated with unencashed PNs denominated in a currency other than United States dollars (USD). The commitment authority is a snapshot of the level of resources at the time of estimation. For this reason, disbursements do not reduce the size of the commitment authority because they are drawn against commitments related to prior Board approvals.
6. The figure below illustrates the components of the commitment authority (i.e. inflows minus outflows) and types of commitments, while chapters III and IV describe the different components of the commitment authority and the types of commitments and non-project funding requirements against that authority.

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<sup>1</sup> PNs are non-negotiable, non-interest-bearing instruments deposited by a contributor in a designated custody account.

**Components of the commitment authority**



Note: commitment authority = inflows minus outflows.  
 Abbreviation: FX = foreign exchange.

**III. Inflows: Contributing elements of the commitment authority**

7. This chapter explains the contributing elements of the commitment authority as shown in the first row of the figure in chapter II.

**A. Financial inputs**

8. Chapter VII of the Governing Instrument states that the Fund should be able to receive financial inputs from a wide variety of sources of funding, including grants and concessional loans from public, private and innovative sources, as appropriate; and that the Fund will be replenished every four years and will maintain the flexibility to receive financial inputs on an ongoing basis. It also states that the Board is responsible for preparing a long-term resource mobilization strategy and for guiding the mobilization of new, additional, predictable and adequate financial resources from all sources of funding.

9. At the time of preparing this document, the Board (with the support of the Secretariat) was preparing the first resource mobilization strategy. Accordingly, this document does not prejudice any elements of the resource mobilization strategy, including the types of contributions the Fund can receive or the length of the replenishment cycles.

10. Contributions to the Fund received in any form that is in accordance with the Governing Instrument and the policies of the FRLD are recorded as contributions or financial inputs. These contributions may be paid in cash or, at the option of the contributor and with the agreement of the FRLD and the interim Trustee, by depositing in a designated custody account, non-negotiable, non-interest-bearing PNs, to be drawn down in cash (“encashed”) on demand.

11. All the contributions will be paid and/or deposited in the FRLD Trust Fund held by the interim Trustee, which will manage the funds. The schedule of deposits of cash or PNs is defined in the contribution agreements/arrangements that are signed by the contributor and the interim Trustee.

12. Only those financial inputs received by the Trustee in cash or PNs will be counted for the purposes of estimating the commitment authority. Contributions receivable in the future are not counted when estimating the commitment authority.

## **B. Investment income**

13. The commitment authority available to the Fund increases because of the net realized investment income generated on undisbursed funds held in the Trust Fund. Those funds are invested as per the investment policies of the interim Trustee. It is therefore difficult to predict the amount of this investment income because it is driven by the amount of cash in the Trust Fund, which in turn is dependent upon the delivery of contributions and disbursements as well as market-based returns.

## **C. Project reflows**

14. Reflows from FRLD projects will contribute to increasing the commitment authority, once received by the interim Trustee in cash. When the FRLD project portfolio is initiated and as it expands over time, certain financial instruments used might start generating reflows from some of the projects. In accordance with the Governing Instrument and as permitted under the operational modalities of the FRLD, such reflows may include loan interest and principal, client fees and any other project reflows related to investments of FRLD funds in projects.

## **IV. Outflows: Net commitments/funding from the commitment authority**

15. This chapter explains the commitment/funding elements of the commitment authority (i.e. the third row of the figure in chap. II).

16. All the commitments are accounted on a net basis including cancellations of all or part of a commitment previously approved by the Board. Projects that are cancelled are likely to represent a primary source of such decommitments. Partial cancellation of a commitment may also occur where the level of FRLD funding ultimately required for a project is lower than what was initially approved. In addition, partial commitment cancellations may arise from underspent amounts under administrative budgets or special budgets established to support specific Board decisions. These are treated as “contra account” to the original commitments account resulting in the net commitments.

### **A. Approved funding requests**

17. The largest commitments of FRLD funds are expected to be associated with funding requests. Once a funding request has been approved by the Board, the interim Trustee will set aside the full approved amount, thereby reducing the available commitment authority, regardless of the timing of disbursements. This will apply for all financial instruments used by the FRLD, in accordance with relevant policies and the Governing Instrument.

### **B. Funding envelopes**

18. The Board may decide to set aside certain funding envelopes against future project funding decisions. Once a funding envelope has been established, any project-specific allocation can be decided later, either by the Board or, if so delegated, the Secretariat. Such set aside and funding decisions are required to be aligned with the trustee and hosting agreements, as well as with applicable policies and procedures and the Governing Instrument. An example of such a set aside is the amount of USD 250 million allocated for the Barbados Implementation Modalities (BIM) (decision B.5/D.4, para. (a)).

### **C. Oversight fees**

19. In addition to Board-approved project funding, oversight fees may be provided to entities responsible for project implementation, including accredited entities or government bodies that are accessing FRLD resources through direct access, direct budget support, or other approved funding channels, in accordance with the Governing Instrument and applicable policies.

20. At the time of writing this document, it is expected that the Board will consider an oversight fee policy at B.8, so the timing and conditions for the commitment of such oversight fees shall be defined through the relevant policies and decisions of the Board.

### **D. Administrative budgets**

21. The administrative budgets of the FRLD support the operations of the Secretariat and the Board, the services provided by the interim Trustee and any other contingent needs. Administrative budgets are deducted from the commitment authority following the approval of those budgets by the Board. Annual administrative budgets are typically approved at the final Board meeting of the year, while additional administrative or discretionary budgets for specific purposes may be approved by the Board at any time.

22. Approved annual administrative budgets are normally intended to be used within the relevant fiscal year of the Fund, consistent with approved budget ceilings and financial controls. Discretionary budgets may be used within or across financial reporting periods, in accordance with the terms and conditions set out in the relevant Board decisions. Any unutilized budget balances that are not authorized for carrying forward to subsequent periods may, following the completion of financial reporting for the period, be cancelled and released back into the commitment authority in accordance with applicable financial management and budgetary policies.

### **E. Foreign exchange risk reserve on promissory notes**

23. In accordance with decision B.4/D.10, paragraph (c), the interim Trustee maintains a foreign exchange risk reserve equivalent to a certain percentage of the USD value of unencashed PNs denominated in currencies other than USD. The percentage is determined by the interim Trustee on the basis of its policies and procedures. Upon the encashment of PNs, the corresponding foreign exchange risk reserve is adjusted down accordingly. The reserve is maintained to mitigate the impact of exchange rate fluctuations on the commitment authority, preventing overallocation of funds.

## **V. Recommendations on the management of the commitment authority**

24. As stated in the introduction, the Budget Committee has no mandate with respect to the management of the commitment authority. The recommendations presented below are provided exclusively in response to the Board's request and are advisory in nature. Accordingly, these recommendations should not be construed as expanding or otherwise modifying the mandate of the Budget Committee. The recommendations are as follows:

(a) Before each Board meeting, the Secretariat will calculate the available commitment authority on the basis of the information received from the interim Trustee and relevant Board decisions, in accordance with the methodology for estimating the commitment authority contained in chapter II of this document, and share the outcomes with the Board under the relevant Board meeting agenda item. The available commitment authority should be treated as the maximum ceiling for approving new commitments;

(b) Following the replenishment of the Fund and for each replenishment cycle, the Secretariat will prepare a financial plan that estimates the future commitment authority on

the basis of the confirmed pledges and contributions. The plan will be designed to inform funding decisions and strategic planning over the longer term. The plan will also take into consideration the administrative budget requirements for the Board, the Secretariat and the services of the interim Trustee and provisions for risk reserves for the longer term. The financial plan would be monitored and updated as needed in the light of new available resources and data;

(c) To ensure responsible and sustainable financial management, the types of financial inputs that make up the commitment authority should be matched to the financial instruments used for allocating those funds. For example, loan-based contributions should not be disbursed in the form of grants.

## Annex

### **DRAFT DECISION B.8/DD.x: Management of the commitment authority**

The Board, having considered document FRLD/B.8/6 titled “Recommendations on the management of commitment authority”:

(a) *Adopts* the methodology for estimating the commitment authority, as described in document FRLD/B.8/6 titled “Recommendations on the management of the commitment authority”;

(b) *Takes note of* the recommendations on the management of the commitment authority contained in the document mentioned in paragraph (a) above;

(c) *Requests* the Secretariat to calculate the available commitment authority before the start of each Board meeting, on the basis of information received from the interim Trustee and in accordance with the methodology mentioned in paragraph (a) above, and to present the outcomes to the Board under the relevant agenda item.

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