Annex XXIII: Green Climate Fund prudential debt limit examples

1. The debt limit is a function of the terms of incoming funds, the terms of outgoing financing, and the relative use of loans and grants. Many of the Fund's variables remain unknown; therefore examples of debt ratios under different assumptions are presented here.

2. The general assumptions used in both examples are:

(a) Two sets of loan contribution terms:

(i) Loan Contribution Terms 1: 40 year maturity, 10-year grace period (for both principal and interest payments) and 0 per cent interest;

(ii) Loan Contribution Terms 2: 25 year maturity, 5-year grace period (for both principal and interest payments) and 1 per cent interest; and

(iii) Contributors will, on an aggregate basis, provide an equal amount of loan contributions on terms in (i) and (ii).

(b) One quarter of the Fund's entire envelope during the IRM, on a nominal basis, will be disbursed to recipients as grants, the balance will be used as non-grant lending products with the approximate distribution as follows:

(i) 20 per cent for public sector highly concessional loans (Product 1);

(ii) 30 per cent for public sector less concessional loans (Product 2); and

(iii) 25 per cent for private sector (Product 3);

(c) For all non-grant lending products a NPL level of 20 per cent is assumed on average;

(d) All reflows from outgoing concessional loans are co-mingled and are used for servicing loan contribution interest payments and principal repayments; and

(e) The disbursement profile for public sector loans is similar to the IDA projected disbursement profile. The disbursement profile for private sector loans is shorter (about three years).

Example 1 uses the following assumptions on the financing terms for outgoing lending and results in a prudential debt limit of 10 per cent

Assumptions on outgoing lending terms	Maturity (years)	Grace Period (years)	Interest (%)
Product 1	40	10	0.00%
Product 2	20	10	1.75%
Product 3	15	5	1.75%

Example 2 uses the following assumptions on the financing terms for outgoing lending and results in a prudential debt limit of 30 per cent.

Assumptions on outgoing lending terms	Maturity (years)	Grace Period (years)	Interest (%)
Product 1	40	10	0.75%
Product 2	25	5	1.75%
Product 3	8	2	1.75%

The two examples show resulting debt limits under scenarios where neither the cumulative net cash flows nor annual net cash flows are negative.