

Annex I: Policy for contributions to the Green Climate Fund for the first replenishment¹

I. Resource mobilization approach for the first replenishment

1. This Policy for Contributions will apply to the first replenishment period (“GCF-1”) of the Green Climate Fund (the “GCF” or the “Fund”) with a view to continuing to apply to future replenishments.
2. Without prejudice to the foregoing, the first replenishment process will be subject to the following:
 - (a) **Pledging process and end-date for replenishment pledging:** Contributors will be invited to pledge contributions at a formal first replenishment pledging conference (24 – 25 October 2019). Based on Board decision B.05/04, the GCF will nevertheless maintain flexibility to receive additional contributions from both existing and new contributors on an ongoing basis;
 - (b) **Minimum contribution:** There will be no minimum contribution threshold for Parties to the United Nations Framework Convention on Climate Change (the “Convention”) and Non-Parties to the Convention (e.g. other sovereign entities, regional governments, states and cities) to participate in the replenishment consultation process and to make pledges and contributions. This matter will be re-visited during the consultation processes instituted for future replenishments;
 - (c) **Replenishment period:** The GCF’s replenishment process will secure financing for the 4-year-period beginning on 1 January 2020 and ending on 31 December 2023²;
 - (d) **Effectiveness:** The GCF’s commitment authority for the first replenishment period will become effective when 25 per cent of the total amount³ pledged at the pledging conference is confirmed by fully executed contribution agreements/ arrangements⁴.
 - (e) **Trigger for the subsequent replenishment process:** The GCF will initiate the next replenishment 30 months after the commencement of the replenishment period in order to allow sufficient time for the preparation and consideration of such reports and/or evaluations as may be necessary.
 - (f) **Carry-over of funds:**

Resources carried over from the initial resource mobilization (IRM) period/one replenishment period to the following replenishment period will consist of the following:

 - (i) Amounts contributed in cash or promissory notes not committed by the end of the IRM/relevant replenishment period;
 - (ii) Any investment income, reflows and other funds from financial instruments not committed by the end of the IRM/relevant replenishment period; and

¹ This Policy for Contributions may be further revised following the discussions to take place at the second consultation meeting in Ottawa, Canada and the Secretariat wide review prior to its submission to the Board at B.24.

² Decision B.23/07

³ Based on the reference exchange rate agreed for the pledging conference

⁴ “Fully executed contribution agreement/arrangement” refers to unqualified and unconditioned contribution agreement/arrangement with fixed payment or deposit schedule and signed by all parties.

- (iii) Unpaid cash or promissory notes per fully executed contribution agreements/arrangements.

In addition, unconfirmed pledges from the IRM period will be recorded for the IRM period. As they are confirmed by fully executed contribution agreements/arrangements and paid and/or deposited, they will be recognized as part of the commitment authority. GCF-1 contributors expect that all pledges are implemented by fully executed contribution agreements/arrangements, paid and deposited.

II. Sources of funds

3. The Governing Instrument for the Green Climate Fund (the “Governing Instrument”) states that “the Fund will receive financial inputs from developed country Parties to the United Nations Framework Convention on Climate Change”, and “may also receive financial inputs from other sources, public and private, including alternative sources”.⁵

4. The GCF, therefore, may also receive contributions from the following sources:

- (a) Non-Parties to the Convention;
- (b) Public and private entities; and
- (c) Philanthropic foundations, among others.

5. Contributions from Parties to the Convention and Non-Parties to the Convention, such as other sovereign entities, regional governments, states and cities, will be accepted on the basis of pledges received by the GCF in accordance with this Policy for Contributions.

6. Contributions from public and private entities, philanthropic foundations and alternative sources, may be accepted on the basis of pledges received by the GCF in accordance with the relevant policies approved by the Board⁶.

7. Additionally, sources of funds may include, but are not limited to:

- (a) Investment income earned on the balance of the Green Climate Fund Trust Fund (the “Trust Fund”);⁷ and
- (b) Reflows from outgoing loans and other financial products, including interest and principal repayments, net of repayments to loan contributors.

III. Types of contributions

8. In accordance with decision B.05/04, paragraph (d), the GCF will receive the following types of contributions:

- (a) Grants from public and private sources;
- (b) Paid-in capital⁸ contributions from public sources; and

⁵ Governing Instrument, paragraphs 29 and 30.

⁶ The policies for contributions from public and private entities, philanthropic foundations and other alternative sources should be submitted by the Secretariat to the Board for its consideration and further decision by the Board as part of its work plan in 2020.

⁷ This includes investment income earned on balances transferred by the Fund to implementing entities and intermediaries (if applicable).

⁸ The term “paid-in capital” used in previous Board decisions and GCF documentation does not denote capital (or equity of the GCF) that may be used as collateral or otherwise to leverage borrowing by the GCF (e.g. as in the case of a financial institution or multilateral development bank) but rather refers to “capital” as defined in Table 1.

(c) Concessional loans from public sources.

Table 1: Contribution types and uses

Contribution Type	Definition	Illustrative Uses by the Fund
Grant	<ul style="list-style-type: none"> Funds provided in cash or by promissory note No repayment obligation Cash and promissory notes are assets of the GCF 	<ul style="list-style-type: none"> Any financial instruments approved by the Board, (e.g. grants, concessional loans, equity, guarantees) Administrative budgets, Accredited Entities (AE) fees (i.e. fees that AE may be entitled to receive for project implementation or other services to be performed by AE)
Loan	<ul style="list-style-type: none"> Funds provided in cash Obligation of the Fund to repay the contributor, with or without interest Cash drawdowns are assets of the GCF, creating a corresponding liability of the GCF 	<ul style="list-style-type: none"> Loans on terms less concessional than the loan contributions
Capital⁹	<ul style="list-style-type: none"> Funds provided in cash or by promissory note Capital contributor may receive a potential return of its contribution, in whole or in part of pro-rata share upon wind-up of the Fund, depending on the availability of such funds at the time Capital contributions are assets of the GCF, creating a corresponding liability of the Fund 	<ul style="list-style-type: none"> Financial instruments which generate reflows regardless of the concessional level (e.g. concessional loans, guarantees generating fee income). Thus, capital contributions may not be used to finance grants unless the specific terms of the capital contribution so allow.

9. **Tracking of contribution types and their uses:** Tracking of different types of incoming contributions and their uses by the GCF in accordance with its relevant contribution policies will be performed by the Secretariat under the Financial Risk Management Framework (FRMF) to avoid cross-subsidisation between grant and loan contributors. Additional guidance will be drawn from the Risk Management Framework (RMF) and internal guidelines, as appropriate. The FRMF is planned for review in 2020, taking into account the RMF and any other GCF policies.

10. **Tracking of capital contributions:** Capital contributions would be tracked and reported to the relevant contributors and to the Board, as needed.

11. **Tracking of loan contributions:** As part of the implementation of the FRMF¹⁰ by the Secretariat, a system for tracking loan contributions reflects that:

- (a) Loan contributions will be tracked separately from grants and capital contributions; and
- (b) All loan contributions will be co-mingled, and grant amounts in respect of the cushion provided by the loan contributors will be used/shared on a pro-rata basis among all loan contributors.

⁹ As referred to as “paid-in capital” in previous Board decisions and GCF documentation.

¹⁰ Or any subsequent updates or revisions to the FRMF.

IV. Conditions applicable to all types of contributions

12. **Legal arrangements for contributions:** Contributions to the GCF would be facilitated through contribution agreements/ arrangements signed by the contributors, the GCF and the Trustee (as the entity holding the contributed funds in trust), which is the existing mechanism for receiving contributions to the Trust Fund.
13. **Size of contributions:** The GCF may accept pledges and contributions of any size from Parties to the Convention and Non-Parties to the Convention.¹¹ There will be no maximum limit applicable on the contributions that the GCF may receive, provided, however, that contributions are made within the limits set out for capital (paragraph 22), and loan contributions (paragraphs 30 and 32(a)).
14. **Currency:** It is recommended that all contributions be made in major freely convertible currencies. In accordance with prior Board decisions, including the FRMF and RMF, the Secretariat will consider taking appropriate measures to manage currency risk related to the receipt, use and any repayment obligations related to contributions to the GCF. Further details on the management of foreign exchange risk are provided in paragraph 41 below.
15. **Requirement to provide grants:** All contributors would be required to provide a grant contribution. Contributions in the form of loans or capital will be accompanied by a minimum grant contribution to the GCF in respect of the administrative costs and expenses of the GCF (collectively referred to as “administrative budget”),¹² and AE fees associated with the implementation and use of the loan or capital contribution, since they may not be used for such non-reimbursable uses. Further details on providing grants are provided in paragraphs 17 and 25 below. The grant contribution required in respect of administrative budgets would be counted as part of the contributor’s overall contribution to the GCF.
16. **Timing:** The GCF will accept contribution payments pursuant to the contribution agreements/arrangements. Although there will be no fixed instalment schedule during the replenishment period, contributors are strongly encouraged to fulfil their payments and deposits, as early as possible, and at least one year prior to the end of the respective replenishment period, to build up sufficient funding levels available for predictable funding decisions/commitments and programming by the Board.

V. Conditions for grant and capital¹³ contributions

17. **Grants:** A contribution made in the form of a grant may be used for any financial instruments (e.g. grants, concessional loans, equity, guarantees), administrative budgets, and AE fees.
18. **Maximizing the grant element:** In consideration of the requirements of the FRMF¹⁴ and the limitations on the GCF’s use of capital contributions, further described in paragraph 19 below, grant contributions must significantly exceed the amounts contributed in the form of loans and capital.
19. **Capital:** A contribution made in the form of capital may be used for financial instruments which generate reflows regardless of the concessional level (e.g. concessional

¹¹ Conditions, including minimum size, related to contributions from Non-Parties and other sources contemplated in the Governing Instrument, will be considered by the Board for decisions independently.

¹² Including Interim Trustee and other functions.

¹³ Also referred to as “paid-in capital” in GCF documents.

¹⁴ Pursuant to paragraph 2(a) of the Fund’s initial financial risk framework adopted by decision B.07/05 of the Board, “[t]he Fund will in aggregate seek to maximize grant contributions, taking into account its theme-based allocation. It is foreseen that grant contributions must significantly exceed loan amounts.”

loans, guarantees generating fee income). Capital contributions may not be used to finance grants¹⁵ or administrative budget, unless the specific terms of the capital contributions allow for such use.

20. Both capital and grant contributors may receive the return of their pro-rata share of the Trust Fund balance in the event the GCF were to wind up operations. The distinction between grant and capital contributions is that the pro-rata share of the remaining funds at the time of the termination of the GCF that would be attributable to the grant contributors would be reduced by the amount of outgoing grants made by the GCF (including administrative budgets and AE fees). The pro-rata shares of the capital contributors would not be subject to such reduction.

21. Capital contributors would be required to make a grant contribution to cover administrative budgets and AE fees, unless the specific terms of the capital contributions allow for financing of grants or administrative budgets. The amount of the additional grant contribution required should be at least 10 per cent of the amount of the pledged capital contribution. The amount may be adjusted based on an analysis of actual administrative budgets approved during the replenishment period, AE fees, and any other factors.¹⁶

22. It is recommended that aggregate capital contributions do not exceed 20 per cent of the total aggregated amount of pledges for the replenishment period, calculated using the reference exchange rate for the first replenishment period¹⁷. This may be reviewed within the context of the FRMF and upon further development of the risk appetite of the GCF.

23. In case there is a risk of breaching this limit due to foreign exchange impact or the newly pledged contribution amounts, the Board may review the situation to either allow the limit to be exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.

24. Also, during the pledging session, individual contributors would be encouraged to limit the individual capital component of their total contribution amount. If the total amount of capital contributions is greater than the aggregate capital limit, the Board may review the situation to either allow the limit to be exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.

25. **Payment of grant and capital contributions:**

- (a) **Method of payment:** Payments may be made in cash or, at the option of the contributor, and with the agreement of the GCF and the Trustee, by depositing, in a designated custody account, non-negotiable, non-interest-bearing promissory notes, to be drawn down in cash on demand;
- (b) **Encashment of Promissory Notes:** For those contributors who elect to make contributions in the form of promissory notes, the encashment of promissory notes will be based on an encashment schedule agreed between the contributor and the GCF, taking into account the expected programming of the GCF and resulting cash requirements. To the extent possible, the encashment schedule will be agreed among the parties allowing encashment on specific dates. While the encashment will be based on need, the period within which the encashment take place shall not exceed nine years

¹⁵ Capital contributions may also not be used for administrative budgets or AE fees.

¹⁶ The figure of 10 per cent is an estimate of total costs and fees and in no way presupposes a Board decision on AE or other fees or costs of the GCF.

¹⁷ It was agreed by the participants at the first consultation meeting held in Oslo, Norway during 4 to 5 April 2019 to adopt the six-month period from 1 February to 31 July 2019 as the time period for the calculation of the reference exchange rates.;

starting from the beginning of the relevant replenishment period. This can be reviewed again during the subsequent replenishment process; and

- (c) **Encashment schedule:** For the purposes of encashment, the following indicative schedule may apply:

Table 2: Indicative encashment schedule for the first replenishment period

Calendar Year	Percent of Contribution
2020	6.7%
2021	11.7%
2022	15.6%
2023	12.3%
2024	11.9%
2025	11.9%
2026	11.3%
2027	10.4%
2028	8.2%
Total	100.0%

26. For those contributors that choose to accelerate their cash payment or encashment schedule compared to the original or standard schedule, a credit will be provided which will be added to the nominal pledge amount. This credit will be calculated as the difference between the present value of the standard encashment schedule and the contributor's encashment schedule. The discount rate for calculating the present value will be based on the estimated investment return on the GCF's liquidity over the term of the encashment schedule. For the purposes of the first replenishment period, the discount rate would be 1.5 per cent. The encashment schedule will in no way prejudice the operation of the GCF in terms of programmatic decisions and disbursement profile. The encashment schedule may be reviewed in the future replenishment processes based on the approved projects' projected disbursement needs.

27. The Secretariat may also agree with the relevant contributor to encash promissory notes on a basis other than that of the indicative encashment schedule as long as the revised encashment schedule is no less favourable to the GCF than the indicative encashment schedule, in present value terms. Any credits gained from this revision may be reported.

VI. Conditions for loan contributions

28. To ensure the financial sustainability of the GCF, transparency and equal treatment of contributors, there will be no cross-subsidization between providers of grants and providers of loans.¹⁸

29. Loan contributions will be used to finance loans on terms less concessional than the loan contributions and will be unavailable for non-reimbursable uses, such as to provide grants, to finance the administrative budgets, and AE fees. Therefore, loan contributors would be required to provide a grant contribution to cover administrative budgets and AE fees. The amount of the

¹⁸ Decision B.07/05, Annex XI, paragraph 2(c).

additional grant contribution required should be at least 10 per cent of the amount of the pledged loan contribution. The amount may be adjusted based on analysis of actual administrative budget approved during the replenishment period, AE fees, and any other factors.¹⁹

30. For the first replenishment period, the GCF will continue to set the prudential debt limit (defined below) at 20 per cent, calculated using the foreign exchange rate at the end of the previous quarter or other latest foreign exchange rates as agreed. In case there is a risk of breaching the prudential debt limit due to foreign exchange impact or a newly pledged contribution amount, the Board may review the situation to either allow the limit to increase or request that the situation be rectified in order to maintain the limit of 20 per cent.

31. For the purposes of this Policy for Contributions, the prudential debt limit shall be defined as the total amount of pledges and/or contributions confirmed by fully executed contribution agreements/arrangements during the replenishment period in the form of loans as a percentage of the aggregate total amount of pledges and/or finalized contributions confirmed by fully executed contribution agreements/arrangements at any point during the relevant replenishment period.

32. The prudential debt limit will be reviewed in the subsequent replenishment process(es) within the context of the FRMF or other relevant policies upon further development of the risk appetite of the GCF:

- (a) **Implementation of the prudential debt limit:** The limit will be managed on an aggregate basis. During the pledging session, individual contributors would be encouraged to limit the individual loan component of their total contribution amount. The loan contribution of individual contributor should be no higher than 40 per cent of their total contribution, unless the grant contribution from that individual contributor exceeds the grant contribution provided to the previous resource mobilization period. If the total amount of loan contributions is greater than the prudential debt limit, the Board may review the situation to either allow the limit to be exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.
- (b) A review of the implementation of the prudential debt limit will be undertaken by the Secretariat based on actual loan, grant and capital contributions paid.
- (c) **Reporting of the grant equivalence of a loan contribution:** Funding received and extended by the GCF will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the GCF based on best international practices, to provide an accurate comparison of funding amounts between financial instruments.²⁰ To calculate grant equivalency of loan contributions, a discount rate of 2.70 per cent for loan contribution with 40 year maturity and 2.35 per cent for loan contribution with 25 year maturity will be utilized for the first replenishment period. Indicative calculations using 2.70 and 2.35 per cent discount rate are presented in Appendix II attached to this Policy for Contributions. The full-face value amount of the loan contribution shall be used for the purpose of calculating the commitment authority for GCF (see section VII), and the prudential debt limit;
- (d) **Loan drawdowns:** The proceeds of the loan contributions, payable in cash, will be held in the Trust Fund. Loan contributions will be drawn down on a schedule agreed by the GCF and contributor;

¹⁹ The figure of 10 per cent is an estimate of total costs and fees and in no way presupposes a Board decision on AE or other fees or costs of the GCF.

²⁰ Decision B.07/06, annex XIV, paragraph 2(b).

- (e) **Provisions for non-performing loans:** Losses from non-performing loans will be borne on a pro-rata basis by contributors whose contributions were allocated to loans. Should any loan extended by an AE for a project or programme it implements be overdue, the Trust Fund may not have sufficient cash to fulfil payment obligations to the loan contributors. Based on the Board decisions on the FRMF,²¹ to further avoid cross-subsidization between providers of grants and providers of loans:
- (i) The Secretariat will track loan performance and resource flows; and
 - (ii) Any financial losses will be borne on a pro-rata basis by contributors whose loan, grant or capital contributions were used by the GCF to extend loans, in line with the principle of no cross-subsidization between loans, grants and capital contributions;
- (f) The provisions for non-performing loans with respect to the loan contributors are as follows:
- (i) **Cash-flow monitoring and modelling by the Secretariat:** As noted above, the role of the FRMF and the Secretariat will be crucial to the management of contributions, and particularly the tracking of loan contribution cash flows; and
 - (ii) **Cushion and write-down of loans:** In addition to the grant contribution amount required to cover administrative budgets and AE fees (described in paragraph 29 above), loan contributors will also provide an additional grant contribution in respect of the cushion for non-performing loans. In accordance with the prudential debt limit considerations and principle of no cross-subsidization, a portion of the total grant contributions provided by loan contributors would be in respect of a cushion for non-performing loans, to be held as part of the assets of the Trust Fund, and available for use to make payments to loan contributors in the event reflows from outgoing loans are not sufficient to cover repayments due to contributors.²² The amount of the cushion can be refined as sufficient data on the actual performance of the GCF's portfolio is collected. Refinements will be based on a realistic (quantitative) assessment of the risks the GCF has taken and is prepared to take on (the GCF's risk appetite) and an analysis of the GCF's expected cash flows, based on default rates and other assumptions. If, despite all reasonable efforts to maintain the risk profile of the portfolio of the GCF in line with the agreed risk appetite, the cushion proves to be inadequate, the loan contribution agreements will require that the loan contributors make additional grant contributions (and/or write-down against the payment of interest and principal repayment of loan contributions). During the early stages of implementation, it is difficult to determine the level of non-performing loans and any related impact. Accordingly, the GCF will continue to maintain a cushion of 20 per cent of the total loan amount for the loan contributor during the first replenishment. In the event there is an excess amount of cushion, as determined by the Secretariat and the loan contributors, the excess amount may be released and may be used as a grant contribution. Loan cushions will not count toward grant equivalency or individual debt limit calculations. A review of the required level of cushion will be undertaken by the Secretariat in the subsequent replenishment process.

33. **Terms of loan contributions:** The terms of loan contributions will ensure that the average level of concessionality of outgoing loans will be less than the average concessionality

²¹ Decision B.07/05.

²² Reflows are expected to be insufficient until such time as interest payments are received on financing extended by the GCF.

level of incoming loan contributions, with a sufficient margin to cover a credit risk.²³ Proposed loan contribution terms are contained in Appendix I to this Policy for Contributions.

VII. Commitment authority

34. Funding decisions²⁴ will be made against the total amount of available resources in the form of cash and promissory notes in the Trust Fund, calculated based on the foreign exchange rate at the end of the previous quarter or other latest foreign exchange rates as agreed, at the time of calculation.

35. Based on the tracking by the GCF, as part of the implementation of the FRMF, it is expected that there will always be sufficient commitment authority available in the Trust Fund to meet the GCF's obligations and support the funding decisions. In the unlikely event there is insufficient commitment authority, funds will be committed and transferred in the following order of priority:

- (a) Payment of administrative budgets and AE fees, to be made from resources available in the Trust Fund, except for capital and loan contributions;
- (b) Transfers to AEs for projects and programmes, to be made based on resources available in the Trust Fund and subject to the uses of each types of contributions; and
- (c) Payment of interest and repayment of loans to the loan contributors, to be made from:
 - (i) Reflows received by the GCF from loans extended to AEs; and
 - (ii) The cushion described above, in line with the principle of avoiding cross-subsidization between grants and loans.

VIII. Liquidity risk management

36. Liquidity risk in relation to contributions represents the possibility of not having sufficient available cash in the Trust Fund to meet payment obligations of the GCF, including cash transfers for projects and programmes and debt service payments to loan contributors. Liquidity concerns would arise, if the GCF's cash position was lower than its scheduled or unscheduled payment obligations at any point in time.

37. In accordance with the Board decision on the GCF's FRMF and RMF, mechanisms are put into place to ensure that liquidity risk in relation to contributions is closely managed and monitored by the GCF.²⁵ Under the mechanisms to manage this liquidity risk, the GCF will:

- (a) Commit only against available cash and promissory note deposits;
- (b) Closely monitor the risk of non-payment;
- (c) Closely monitor and report to the Board on non-receipt of contributions on schedule; and
- (d) Set aside a financial reserve from the funding available for the minimum liquidity requirements as determined by the GCF's RMF.

²³ Decision B.07/05. The form and process for acceptance of promissory notes will be subject to agreement by the GCF and the Trustee.

²⁴ Funding decisions include Board decisions on funding proposals, the readiness program, the Project Preparation Facility, accredited entity management fees, any approved set asides, the administrative budget (including for the independent units) and any other financial commitments made by the Board.

²⁵ Decision B.07/05.

IX. Managing risk of non-payment of contributions

38. Related to liquidity management is the risk that:
- (a) Pledges are not converted into signed agreements/arrangements to provide contributions;
 - (b) Instalment payments, deposits and encashments under the signed agreements/arrangements are not paid or deposited on time; and
 - (c) The non- encashments of promissory notes, or lack of liquidity, could affect the disbursements to the approved programmes and projects.
39. Non conversion of pledges into signed agreements, non-receipt of the payments in cash or deposit of promissory notes, or non-encashment of promissory notes will affect commitment authority of the GCF.²⁶
40. Any pledges that are not converted into fully executed agreements/arrangements and non-payment of contributions will be reported regularly to the Board by the GCF as part of its reporting to the Board on the status of the resources. The Secretariat should regularly and actively engage with the relevant contributors to review and seek to address the situation, if any.

X. Foreign exchange risk management

41. Foreign exchange risk will be managed in the confines of the GCF's RMF.²⁷ In practice, foreign exchange risk as it relates to contributions can involve future expected encashments of promissory notes, cash payments not yet received, promissory notes not yet deposited and unencashed, and reflows needed to repay loan contributions. Foreign exchange risk can be mitigated by matching currencies of loan contributions to the currencies of the GCF's commitments to AEs. Foreign exchange risk will be monitored and considered as part of the development of any approach to mitigate the impact of foreign exchange rate volatility on contributions. Pursuant to the RMF, any hedging strategy would only be developed considering recommendations from the Risk Management Committee with agreement, where appropriate, from the Board.
42. For the purpose of reporting the pledges/contributions, GCF may use multiple currencies, as part of the monitoring of foreign exchange risks.

²⁶ The risk of inability to encash promissory notes is not considered here; it is deemed to be low based on the prevalence of the requirement for budget and legislative authority by the contributor prior to the deposit of promissory notes.

²⁷ Decisions B.17/11 and B.19/04

Appendix I: Loan contribution terms

1. It is recommended that the terms of loan contributions be standardized for all contributors. Two options for loan terms may be chosen:
 - (a) A more concessional option (Option 1); and
 - (b) A less concessional option (Option 2).
2. Standardized loan terms applicable during the initial phase of the GCF's operation would facilitate risk and cash flow management by the GCF.
3. These terms will apply for the first replenishment period, and may be reviewed in the future, during the subsequent replenishment processes. They may also need to be reviewed based on the terms chosen by the Board for concessional lending by the GCF, to ensure that such terms (maturity and interest rate) of loan contributions are more concessional than the high concessional loans to the projects from the GCF, which has 0 per cent and 40 years maturity.
 - (a) **Loan contribution size:** The maximum size of the loan contribution acceptable to the GCF would depend on the prudential debt limit set out in paragraph 30 of this Policy for Contributions;
 - (b) **Maturity:** The maturity of loan contributions will be 40 years for Option 1 and 25 years for Option 2;
 - (c) **Grace period:** The grace period of loan contributions will be 10 years for Option 1 and 5 years for Option 2 and will apply to interest and principal repayments;
 - (d) **Principal repayments:** Straight-line amortizing repayment schedule after the grace period; payments every six months;
 - (e) **Interest rate:** Loan contributions will attract a fixed coupon rate of up to 1 per cent per annum; payments every six months (applicable to Option 1 and Option 2) after the grace period; and
 - (f) **Drawdown of loan proceeds:** The GCF will draw down loan funds from contributors as agreed between the GCF and contributor.

Appendix II: Calculation of grant element

Indicative grant equivalence of the Fund loan contributions

Grant equivalence under different assumptions with respect to loan terms are presented below (assuming four-year fixed drawdown period):

Maturity	Grace period	Interest rate	Discount rate	Grant equivalence
40	10	1.00% p.a.	2.70% p.a.	34.51%
40	10	0.00% p.a.	2.70% p.a.	44.01%
25	5	1.00% p.a.	2.35% p.a.	16.91%
25	5	0.00% p.a.	2.35% p.a.	24.99%