

Green Climate Fund



Resource Mobilization for the Green Climate Fund



GCF/B.01-13/07

20 February 2013

Meeting of the Board

13-15 March 2013

Berlin, Germany

Agenda item 10

Recommended action by the Board

It is recommended that the Board:

- (a) Takes note of the information presented in document GCF/B.01-13/07 *Resource mobilization for the Green Climate Fund*;
- (b) Provides guidance on the policy matters and options for resource mobilization; and
- (c) Adopts the decision presented in Annex I to this document.

Resource Mobilization for the Green Climate Fund

I. Introduction

1. At its second meeting in Songdo, Republic of Korea, in October 2012, the Board approved a list of documents to be prepared for the first Board meeting in 2013. On the matter of resource mobilization for the Fund, the Board requested the Interim Secretariat to prepare a document addressing the following matters:

(a) Policies and procedures for public contributions and other contributions, including from alternative sources; and

(b) Process and policies, participants and timeframes for resource mobilization and subsequent replenishments.

2. Guided by the provisions of the Governing Instrument, this document explores these two matters, outlines the options for the Fund's resource mobilization process and proposes next steps for moving forward on this process. The analysis of resource mobilization policies and procedures used by other relevant funds and institutions delivering development and climate finance underpins the options presented in this document.

3. The document seeks to outline options for approaches to resource mobilization for the Fund. These options take into account the processes used in other funding mechanisms, such as the International Development Association (IDA), Global Environment Facility (GEF), Climate Investment Funds (CIFs), International Fund for Agricultural Development (IFAD), Consultative Group on International Agricultural Research (CGIAR) Fund, Multilateral Fund for the Implementation of the Montreal Protocol and the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund), and summarizes the key considerations that will need to be addressed by the Board. It should be noted that many of the options presented will be informed by decisions taken by the Board on the Fund's business model framework.

II. Guidance from the Governing Instrument

4. The Fund's approach to resource mobilization will be guided by the objectives and guiding principles of the Fund as set out in its Governing Instrument and the financial and operational provisions of the Governing Instrument. The Governing Instrument states that the "Fund will play a key role in channelling new, additional, adequate and predictable financial resources to developing countries and will catalyze climate finance, both public and private, and at the international and national levels (...). The Fund will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two".

5. The Governing Instrument provides that the "Fund will receive financial inputs from developed country Parties to the United Nations Framework Convention on Climate Change (UNFCCC)" and that the "Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources".

6. The Governing Instrument does not specify the terms on which financial inputs are to be provided. It does, however, address the terms of the financial outputs to be provided by the Fund: "The Fund will provide financing in the form of grants and concessional lending and through other modalities, instruments or facilities as may be approved by the Board".

7. The Governing Instrument does not specify the process for resource mobilization for the Fund, stating only the functions of the Fund's Secretariat include supporting the Board in arranging "replenishment processes".
8. The Conference of the Parties (COP) to the UNFCCC, through its decisions at its seventeenth and eighteenth sessions, also provided guidance to the Board for early and adequate resource mobilization for the Fund.

III. Approaches to resource mobilization

9. Broadly speaking, resources can be mobilized either as ad hoc contributions or through periodic replenishment processes.

3.1 Approaches used by other funds and institutions

10. Resources for the CIFs have been mobilized as ad hoc voluntary contributions using an informal resource mobilization process. Following consultations with interested countries, the World Bank, working with the regional development banks, developed a proposal for the CIFs and held consultations on the design with potential contributors. Following consultations, interested donors pledged resources. The World Bank, as the trustee of the CIFs, concluded individual agreements with each contributor that specified the amount of the contribution and the means and timing of payment. There were no provisions for "effectiveness" of the replenishment per se and burden-sharing considerations did not enter into calculation of the amount to be provided by contributors. The CIFs can accept additional contributions at any time and there is no process for periodic replenishment of CIFs' resources.
11. The Consultative Group on International Agricultural Research (CGIAR) was established in 1971 to support agriculture research through several research centres. The CGIAR Fund is governed by a Council composed of 22 members. There are eight representatives each of developed and developing countries and six of multilateral organizations and foundations. Contributions to the CGIAR are provided on an ad hoc basis. There is no pledging or replenishment process. The Council is, however, responsible for contributing to the development and implementation of a resource mobilization strategy for raising funds for the CGIAR Fund, seeking to provide adequate and predictable funding for research programmes, compiling and disclosing to the Consortium, on a rolling three-year basis, all funding indications made by Fund donors for contributions to the CGIAR Fund, including expected timing and amounts of contributions. There is also a Funders Forum that meets every two years to discuss strategy and funding matters.
12. Other funds started by using informal processes and then moved to more formal replenishment arrangements. The Global Fund was established in 2002. Initially, it mobilized resources as ad hoc voluntary contributions. In 2003, the Board of the Global Fund agreed to establish a funding model based on periodic replenishments. The Global Fund held a series of meetings for its first replenishment in 2005. The first replenishment covered a two-year period (2006-2007). There have been two subsequent replenishments, each covering a three-year period. The Global Fund replenishment process relies solely on voluntary contributions.
13. The GEF was established in 1991. Prior to its restructuring in 1994, the GEF mobilized resources through ad hoc voluntary contributions. Following its restructuring, the GEF has mobilized resources through a periodic replenishment process based on burden sharing. There have been five GEF replenishments so far. Negotiations on the sixth GEF replenishment will commence in 2013.
14. The IDA, IFAD and Multilateral Fund have, since their inception, mobilized resources through periodic replenishments based on burden sharing.

3.2 Considerations for the Board

15. An **ad hoc resource mobilization process** would provide more flexibility to contributors and could result in faster mobilization of resources for the Fund. The CIFs, CGIAR and Global Fund were able to mobilize resources quickly by using this method. Starting with ad hoc contributions could allow the Fund to demonstrate its effectiveness and build confidence for future formal processes.
16. At the same time, the timing and amount of contributions in an ad hoc process would be uncertain. The Fund could make initial funding decisions based on initial contributions relatively quickly, but long-term planning in the deployment of resources would be more challenging.
17. In an ad hoc process, individual contribution agreements are entered into with contributors. While such agreements could include standard terms, the terms and conditions of individual agreements could vary, based on negotiation with contributors.
18. A **periodic replenishment process** would, once completed, provide greater certainty as to the timing and amount of contributions, facilitating the planning process for resource deployment.
19. A periodic replenishment process may also result in greater uniformity in the terms of contributions. In a periodic replenishment process, the terms and conditions for contributions can be uniform and set forth in a replenishment document agreed with the contributors as part of the replenishment process.
20. A periodic replenishment process could, however, require a longer period of time to complete (both an initial and subsequent replenishments) than an ad hoc process.
21. The Board may therefore wish to consider the trade-off between the speed and flexibility that come with an ad hoc process versus the greater programming certainty and uniformity that come with a periodic replenishment model. The Board may wish to consider the options outlined below and provide guidance thereon:
 - (a) Option 1:
To follow an ad hoc resource mobilization process (like the CIFs, CGIAR and the initial process for the Global Fund);
 - (b) Option 2:
To start the Fund with an ad hoc resource mobilization process, with a goal to transition to a periodic replenishment process (like the GEF and Global Fund);
 - (c) Option 3:
To immediately move into a periodic replenishment process (like the IDA, IFAD and Multilateral Fund).
22. If the Board decides to mobilize resources through Option 1 or Option 2, it will need to consider the factors outlined in Chapter IV below.
23. If the Board decides to mobilize resources through Option 3, it will need to consider the factors outlined in Chapter V below.

IV. Factors to be considered for an ad hoc resource mobilization process (Options 1 or 2)

4.1 Leadership, participation and forum

4.1.1 Approaches used by other funds and institutions

24. Work on the Global Fund began in July 2000, with a dialogue at the G8 summit in Okinawa. In September, a roundtable of potential donors, non-governmental organizations (NGOs) and the private sector was held. In April 2001, United Nations (UN) agencies and donor governments agreed to a single global fund to fight AIDS and other deadly diseases. In May 2001, three donors made initial pledges. In June, the Bill and Melinda Gates Foundation made its first pledge. That same month, the UN General Assembly Special Session on HIV/AIDS took place and member states endorsed the call for a global fund. At that time, further developed countries pledged support. In July 2001, at the G8 Summit in Genoa, Italy, every member of the G8 pledged support for the global fund and one donor made a second pledge of financial support. Work then began to establish the Global Fund organization and to prepare its operational policies and procedures. Concurrently, additional governments and other organizations made financial pledges. Following the establishment of the Global Fund, the World Bank, as the trustee, entered into a trust fund administration agreement with the Global Fund and began receiving the contributions that had been pledged.

25. Work on the CIFs began in 2007. Three countries (Japan, the United Kingdom and the United States of America) separately proposed the establishment of new financing facilities for climate change following the adoption of the Bali Action Plan at the 2007 UNFCCC COP in Bali, Indonesia. Following the discussions with those countries, work began to develop a proposal for the CIFs. The proposal for the CIFs was finalized in May 2008 at a meeting of representatives from approximately 40 countries, the multilateral development banks and other development partners in Potsdam, Germany. The CIFs were formally approved by the Executive Directors of the World Bank on 1 July 2008. A pledging meeting was held in September 2008. At that time, representatives of ten developed countries pledged US\$ 6.1 billion to the CIFs. While there have not been subsequent pledging meetings since then, four other countries have made pledges and some of the initial countries have pledged additional amounts.

26. Work on reforming the CGIAR began in 2007. In December 2009, the CGIAR participants endorsed the reforms that had been designed over the prior two years and approved the founding documents for the reformed CGIAR, including drafts of the Constitution of the Consortium and the CGIAR Fund Framework and the joint declaration of the outcomes between the Consortium and the CGIAR Fund. The World Bank's Executive Directors approved the concept of creating the CGIAR Fund in January 2010 and the inaugural meeting of the Fund Council took place in February 2010. That meeting focused on making the CGIAR Fund and Consortium operational, including approving the budget for the Consortium. The Consortium was then established and in April 2010, representatives of donors and the Consortium Board met to discuss the CGIAR Fund governance framework and the forms of contribution agreements with donors, as well as the joint agreement between the Consortium and the Fund Council to govern the submission and approval of research proposals and the transfer and use of funds for the implementation of such proposals. Those documents were finalized and approved by the Fund Council in November 2010. The initial Funders Forum was held in July 2010. The Forum provides an opportunity for all CGIAR Fund donors, Fund Council members and other bilateral donors to meet to discuss strategy and common matters, including programme costs and funding projections.

4.1.2 Considerations for the Board

27. If the Board opts to approach resource mobilization via either Option 1 or Option 2, the Board will need to consider whether the resource mobilization process should be initiated and led by the Board, or outside of the Board, by a group of contributors.
28. A determination would also be required concerning the entities eligible to participate in the replenishment process. As the Governing Instrument provides that the Fund will receive financial inputs from developed country Parties to the UNFCCC, it would be logical that such countries would participate. There would also need to be a determination on whether other entities that wish to provide financial inputs could also participate and if developing country Parties to the UNFCCC and other entities would also be represented and/or participate.
29. Finally, a determination would be needed on the forum in which to hold the resource mobilization process.

4.2 Role of participants beyond pledging

4.2.1 Approaches used by other funds and institutions

30. Contributors to the Global Fund do not have a formal role in oversight or guidance of the Global Fund except through representation on the Global Fund Board. Since the Global Fund moved to a replenishment model, contributors do, however, have the opportunity at pledging meetings to provide views and recommendations to the Global Fund on specific matters presented to them by the Global Fund. For example, at the last pledging meeting, the contributors reviewed a paper prepared by the Global Fund on improving its efficiency and effectiveness and recommended that the Global Fund accelerate the implementation of key policies. They also proposed that the Global Fund launch a process to explore options for better coordination with bilateral partners for consideration by the Global Fund Board.
31. Contributors to the CIFs do not exercise any oversight or provide guidance on the CIFs except through their participation in the CIF governing bodies.
32. Contributors to the CGIAR Fund provide oversight and guidance through their representatives on the CGIAR Fund Council. Contributors also provide inputs through the Funders Forum, which takes place every two years. In such fora, contributors exchange views about the CGIAR, endorse the strategy and results framework proposed by the Consortium every six years, endorse the approach to address cost-sharing of CGIAR-related administrative costs, provide feedback to the Consortium and Fund Council on the implementation of the strategy and results framework based on progress reports from the Consortium and mid-term independent evaluations, review the financing plan for the CGIAR prepared by the CGIAR Fund Office in consultation with the Consortium and the trustee, and review shortfalls or imbalances in available resources so that individual contributors can consider adjusting or augmenting their contributions.

4.2.2 Considerations for the Board

33. If the Board opts to approach resource mobilization via either Option 1 or Option 2, the Board would need to consider what role the contributors would have in providing oversight of, or guidance to, the Board. Options range from not providing any guidance at all to providing views and recommendations on specific matters, endorsing strategies and results frameworks and reviewing various other policies and reports.

4.3 Timing

4.3.1 Approaches used by other funds and institutions

34. As the CIFs have not used a replenishment or periodic pledging approach to resource mobilization, there is no specified time period for the mobilization of additional resources. Instead, the need to raise additional resources is dependent on the commitment of its current resources, which are monitored by the trustee, the CIF administrative unit and the trust fund committees. The ability to commit additional resources is dependent upon additional pledges from contributors. The CGIAR Fund follows a similar approach.

35. The Global Fund initially followed an approach similar to that of the CIFs. The Global Fund decided to move to a replenishment process in 2005 to provide the Global Fund with longer-term and more predictable funding on a sufficient scale to respond effectively to the spread of the three diseases and to achieve the Millennium Development Goals. The Global Fund is now replenished every three years.

4.3.2 Considerations for the Board

36. If the Board opts to approach resource mobilization via either Option 1 or Option 2, the Board would need to consider the time at which it would start seeking both initial and subsequent contributions to fund operations and the relationship between the timing of fundraising and the Fund's budgeting process.

4.4 Contribution size

4.4.1 Approaches used by other funds and institutions

37. There is no requirement either in the Global Fund, CGIAR Fund or in CIFs that contributions must be of a minimum size. However, only those contributors that provide a specified minimum contribution are eligible to have a seat in the CIF governing bodies.

4.4.2 Considerations for the Board

38. If the Board opts to approach resource mobilization via either Option 1 or Option 2, the Board would need to consider whether there should be a requirement for contributions to be of a minimum size. Alternatively, rather than having a required minimum size, the Board may wish to consider setting a goal of a certain minimum total amount of contributions.

4.5 Effectiveness

4.5.1 Approaches used by other funds and institutions

39. Replenishments in certain funds become "effective" (i.e. funds begin to be allocated to operational activities) only once contributors have provided instruments of commitment for a specified amount of the total pledges for the replenishment. Until such commitments have been received, the fund is unable to commit contributions received by other contributors for the replenishment.

40. Conditions of effectiveness are most often applied in periodic replenishment processes. There are no conditions to the effectiveness of commitment of amounts contributed to the Global Fund, CGIAR Fund or CIFs.

4.5.2 Considerations for the Board

41. If the Board opts to approach resource mobilization via either Option 1 or Option 2, the Board would need to consider whether there would be any requirement for a minimum level of funding to be committed before Fund resources begin to be allocated to operational activities.

V. Factors to be considered for a periodic replenishment process (Option 3)

42. There are several common elements of resource mobilization amongst relevant funds and institutions that utilize a periodic replenishment process. The replenishment process typically involves a series of informal contacts and several formal meetings (three to six) over a year or so, concluding with an agreement on the amount of the replenishment and the amount pledged by each of the contributors. The process for subsequent replenishments usually begins a year or a year and a half before the end of the current replenishment period.

43. The GEF provides a typical example. For the initial resource mobilization for the restructured GEF, the process began with an informal meeting, at which donors agreed to a framework to guide the negotiation process. To assure efficiency in the process, it was decided that only those countries that indicated an intention to contribute a specified minimum amount should participate in the replenishment meetings. Five subsequent meetings were held before the replenishment discussions were concluded. At the first formal meeting, donors reviewed the potential financing needs for the GEF, taking into account institutional and absorptive capacities. At the subsequent meetings, donors discussed financial modalities and burden-sharing options and agreed on the basic burden-sharing framework. At the penultimate meeting, donors began discussing potential contributions. The discussions were finalized at the last replenishment meeting, where donors made firm pledges of contributions.

5.2 Leadership, participation and forum

5.2.1 Approaches used by other funds and institutions

44. In the case of the IDA, GEF and Global Fund, replenishments are negotiated outside their governing bodies through meetings of contributors. In the case of the Multilateral Fund, replenishment decisions are taken by the Parties to the Montreal Protocol at Meetings of the Parties (MOP).

45. In the IDA, all contributing countries that are members of the IDA are participants. In the last replenishment, twelve representatives from IDA recipient countries also participated in the replenishment discussions and policy papers prepared for the replenishment were made publicly available in advance of the replenishment meetings. Public comments were sought on the final replenishment report.

46. In the GEF, participation in the initial replenishment was limited to member states of the United Nations or any of its specialized agencies that decided to contribute.

47. For the current GEF replenishment, all contributing participants that indicated an intention to contribute the equivalent of Special Drawing Rights (SDR) 4 million or more for the replenishment participated in the replenishment discussion. In addition, four representatives from non-donor recipient countries participated, with one representative each from Africa, Asia, Eastern Europe and Latin America and the Caribbean. Potential donors that did not intend to provide the minimum agreed contribution and two NGO representatives (one from a donor country and one from a recipient country) also attended as observers.

48. Under the IFAD's governing document, the Agreement Establishing the IFAD, the Governing Council periodically reviews the adequacy of resources available to the IFAD. The

Governing Council is the principle governing body of the IFAD. It consists of all member states and meets annually. If the Governing Council, as a result of its review of resources, deems it necessary or desirable, it invites member states to make additional contributions to IFAD's resources to fund the amount of resources proposed by the Governing Council. Such additional contributions are made through a consultation of member states on the replenishment of IFAD's resources. All Organisation for Economic Co-operation and Development (OECD) and Organization of the Petroleum Exporting Countries (OPEC) countries that are members of the IFAD participate in such consultations, as do a limited number of recipient countries.

49. The Multilateral Fund was established in 1990 by a decision of MOP 2. The Multilateral Fund became operational in 1994 (an interim multilateral fund was in place prior to that time). Contributions to the Multilateral Fund from industrialized countries are assessed according to the UN scale of assessments and by applying the Multilateral Fund requirement that no Party may contribute over 25 per cent of the total Multilateral Fund value. The Multilateral Fund has been replenished every three years since 1994 by the Parties to the Montreal Protocol. As mandated by the Parties, and to facilitate discussions on the replenishment, a technology and assessment panel calculates the appropriate replenishment level. After reviewing the panel's assessment, a working group of the Parties forwards the recommendation on the replenishment to the Parties. The final decision on the replenishment budget is taken at the MOP in the final year of preceding replenishment period.

5.2.2 Considerations for the Board

50. If the Board opts to approach resource mobilization via Option 3, the Board would need to determine whether the replenishment negotiations would be conducted by the Fund's governing body, the Board, or outside the governing body, through meetings of contributors.

51. A determination would also be needed concerning the entities eligible to participate in the replenishment process. As the Governing Instrument provides that the Fund will receive financial inputs from developed country Parties to the UNFCCC, it would be logical that such countries participate. The Board would need to determine if other entities that wish to provide financial inputs would also participate and if developing country Parties to the UNFCCC and other entities would also be represented and/or participate.

52. Finally, a determination would be needed on the forum in which to hold the resource mobilization process.

5.3 Role of participants beyond pledging

5.3.1 Approaches used by other funds and institutions

53. In some funds, replenishment negotiations are used to review the fund's policies and objectives and to provide guidance and recommendations to the governing body. For example, in both the IDA and GEF, the contributors provide operational, policy and financial recommendations to the governing bodies as part of the replenishment. In the GEF, for example, participants agree to the indicative distribution of the replenishment resources among GEF focal areas, corporate programmes and other activities and agree on policy recommendations for the replenishment. Such policy recommendations are then developed by the GEF secretariat and presented as detailed proposals for consideration by the GEF Council.

54. In the IFAD, member states propose that the IFAD take a number of policy actions during the replenishment period.

55. The Multilateral Fund operates under the authority of the Parties to the Montreal Protocol that decide on its overall policies. The Parties to the Montreal Protocol decide on the

programme budget of the Multilateral Fund for each fiscal period and on the percentage of contributions of the individual Parties thereto.

5.3.2 Considerations for the Board

56. If the Board opts to approach resource mobilization through Option 3, a determination by the Board would be needed on what actions would be taken by contributors as part of the replenishment negotiations, other than deciding on their financial contributions.

5.4 Timing

5.4.1 Approaches used by other funds and institutions

57. The IDA and Multilateral Fund resources are replenished every three years. GEF resources are replenished every four years. For the last several replenishments, IFAD resources have been replenished every three years.

58. In addition to determining the time period for the replenishment, determinations are made on the timing of payment of contributions for the replenishment. In the GEF, payments of contributions are made in four equal annual instalments, either in cash or promissory notes. In the IDA, payments of contributions are made in three equal instalments. In the IFAD, payments of contributions are made in no more than three instalments. In both the GEF and IDA, there are also agreed schedules for the encashment of promissory notes. In the GEF, encashment is made over ten years. In the IDA, encashment is made over nine years. In the IFAD, promissory notes are encashed within the replenishment period or as otherwise agreed.

5.4.2 Considerations for the Board

59. If the Board opts to approach resource mobilization through Option 3, determinations by the Board would be needed on the time period to be covered by the replenishment and the timing of payment of contributions. The time period would in part be dependent on the resource needs of the Fund, which will be dependent both on the business model framework of the Fund and the Fund's stage of development.

5.5 Contribution size

5.5.1 Approaches used by other funds and institutions

60. Whereas contributions to replenishments of the Global Fund are determined by individual donors during each pledging session, contributions to replenishments of other funds are based on burden-sharing principles, under which contributors voluntarily undertake to contribute specified shares of the total replenishment amount based on a burden-sharing formula.

61. When the IDA was established, the members' shares in the International Bank for Reconstruction and Development (IBRD) were used to inform the burden-sharing framework. This was subsequently changed to use the Gross National Product (GNP) of contributors as a reference point. The GNP does not, however, provide the only basis for burden-sharing. In the IDA, the GNP provides a point of reference, but is not followed rigidly in determining contributors' shares in the replenishment. The IDA describes its burden-sharing arrangements as a "pragmatic approach that is based on the revealed preference of individual donors, in which donors collectively seek to balance the demand for a sense of 'fairness' as measured by some burden sharing indicators and the desire for the largest possible replenishment size".

62. Several options for burden sharing were explored as part of the negotiations for the first replenishment under the restructured GEF. These included using GEF pilot phase shares,

adjusted GNP shares, UN scale of assessments, IDA shares, as well as the inclusion of environmental shares. The burden-sharing model which enjoyed the widest level of support was that of the IDA. The GEF's burden-sharing arrangements are currently based on the framework used for the tenth replenishment of the IDA.

63. In the IFAD, the level of contributions has been determined through intergovernmental negotiations, rather than on the basis of a predetermined, explicit set of criteria.

64. Under each of these three examples, burden sharing for each replenishment is based largely on what was agreed in prior replenishments, with individual variations over time and with adjustments that reflect donors' budgetary circumstances and development assistance priorities.

65. It should be noted that the use of a burden-sharing approach can result in a "structural gap" between the amount of the proposed replenishment and the amounts pledged by contributors if some contributors do not contribute or contribute a smaller amount. If so, the burden shares may not add to 100 %. The resulting gap can be closed by additional contributions and/or internal resources.

5.5.2 Considerations for the Board

66. If the Board opts to approach resource mobilization through Option 3, a determination by the Board would be needed on whether or not contributions would be based on burden-sharing considerations, including the criteria used for such determination.

5.6 Effectiveness

5.6.1 Approaches used by other funds and institutions

67. Burden-sharing considerations are relevant not only for determining the size of replenishments, but may also be factors in its implementation. To ensure adequate burden-sharing among contributors, it is typical for replenishments to become effective only once contributors have provided instruments of commitment for a specified amount of the total pledges for the replenishment. Until such commitments have been received, the fund is unable to commit contributions received by other contributors for the replenishment. Since such effectiveness conditions prevent the commitment of replenishment contributions, it is not unusual for replenishments to permit the commitment of a portion of contributions prior to effectiveness in order to help reduce delays in the commitment of outgoing finance from the fund.

68. Some funds allow contributors to provide qualified instruments of commitment to take account of the fact that some contributors may not be able to make firm commitments for the full amount of their pledge for the replenishment period, due to appropriation or other legislative restrictions. To ensure burden-sharing, some replenishments allow contributors to defer commitment of their contributions on a pro rata basis if contributors that provided such qualified instruments of commitment have not unqualified their commitments by specified dates. The GEF and IFAD include such pro rata rights. IDA replenishments used to include such rights, but no longer do.

5.6.2 Considerations for the Board

69. If the Board opts to approach resource mobilization through Option 3, a determination by the Board would be needed as to whether there would be any conditions to the effectiveness of the replenishment and, if so, whether any mechanism would be included that would allow outgoing funding to be provided prior to effectiveness.

70. Additionally, a determination by the Board would be needed as to whether contributors would be entitled to defer the commitment of their contributions if other contributors have not provided their expected contributions.

VI. Sources and forms of funding

6.1 Funding from sources other than developed country Parties to the UNFCCC

6.1.1 Considerations for the Board

71. As noted above, the Governing Instrument provides that the Fund will receive financial inputs from developed country Parties to the UNFCCC and may also receive financial inputs from a variety of other sources, public and private, including alternative sources. The Board will therefore need to consider whether the Fund's resource mobilization process would be limited to the financial inputs from developed country Parties to the UNFCCC or whether the process would seek to include all sources of financial input. One option would be to mobilize financial inputs from other sources through a separate ad hoc contribution process.

72. If the Fund's primary resource mobilization process involves only developed country Parties to the UNFCCC and entails such contributors providing guidance and recommendations to the Board on policies and other matters, a determination by the Board would need to be made as to whether such guidance would extend to the use of resources provided by other sources.

73. A business model that would allow the private sector to invest in the Fund's private sector facility could also be considered. This option would need to be explored further and is not covered in this document.

6.2 Forms of contributions

6.2.1 Approaches used by other funds and institutions

74. While financial inputs can be provided in different forms, the two basic options are financial inputs provided as grants and financial inputs that involve some form of claim by the provider over the assets of the Fund.

75. Financial inputs to the GEF are provided only as grants and do not entitle the provider to any claim over the assets of the GEF. Financial inputs to the CIFs may be provided either as grants or as capital or concessional loans. The rights of the providers in the assets of the CIFs depend both on the type of financial input they provide and the type of outgoing funding financed by the input.

76. Financial inputs provided as grants do not represent any claim over the assets of the fund to the extent such inputs are used to provide outgoing grant financing. Financial inputs provided as capital or as grants used to provide outgoing finance in forms other than grants entitle the providers to a beneficiary ownership share in the assets of the fund.

77. Financial inputs provided as concessional loans are subject to repayment in accordance with the terms agreed with the provider and have a first claim on the assets of the fund. The concessional loans provided to the CIFs are repayable in instalments over a 20-year period, with a grace period of 10 years and carry an interest rate of 0.75 %.

78. Beyond the type of capital and loan contributions used in the CIFs, other forms of capital contributions can also be considered. For example, contributions can be made in a manner that

would entitle the contributor to receive other forms of returns from activities funded from financial outputs, such as emission reduction rights or dividend or other equity rights in private sector projects.

79. The forms in which contributions are made have a direct effect on the types of outgoing financing that can be provided by the institution in question. Financial inputs should therefore be mobilized in a manner that will match the desired outputs, as determined by Board decisions on the business model framework of the Fund, the financial instruments used by the Fund and their terms. Financial inputs received as grants provide maximum flexibility as they can be used to fund any form of financial outputs. Financial inputs received in other forms can limit the type of financial outputs that can be financed. For example, outgoing financing from the CIFs can be no more concessional than the incoming finance. Capital contributions can be used to fund any financial output other than grants. Loan contributions can be used only to fund financial outputs that are provided on terms that are no more concessional than the terms of the contributions.

80. Accepting contributions in multiple forms can mobilize more resources than accepting contributions only in the form of grants. However, it can also result in more fragmentation in resource allocation and it creates additional financial risk management issues. Multiple contribution forms could result in resources being split into separate pools in order to ensure that contributions provided as loans are deployed only for outgoing funding that is projected to generate reflows sufficient to service those contributions. Consideration would also be needed regarding how to address the risk that reflows would not be sufficient to service the loan contributions.

6.2.2 Considerations for the Board

81. The Governing Instrument does not specify the forms of financial inputs for the Fund. However, there will be a relationship between the forms of financial inputs and the financial outputs from the Fund, and the Governing Instrument provides that the Fund will provide financing in the form of grants and concessional lending and through other modalities, instruments or facilities as may be approved by the Board. The Board will also need to consider the terms on which the Fund will provide financial outputs.

82. Other relevant provisions of the Governing Instrument include that the Fund “will strive to maximize the impact of its funding for adaptation and mitigation, and seek a balance between the two (...) and is to have a private sector facility that enables the Fund to finance, both directly and indirectly, private sector mitigation and adaptation activities.”

83. Consideration by the Board could be given to accepting only certain forms of contributions to fund financial outputs for certain types of activities. For example, financial inputs for adaptation might be provided only in the form of grants. Financial inputs for certain mitigation activities or for private sector activities might be provided on other terms when warranted by the terms of the financial outputs.

84. The more the Fund provides financing as grants or concessional loans, the more the Fund would need to receive financial inputs on concessional terms and the more the Fund would need contributors to replenish periodically the Fund’s resources. This is because the Fund’s financial outputs would produce lower reflows to be used to provide subsequent financial outputs.

6.3 Earmarking

6.3.1 Approaches used by other funds and institutions

85. Both the IDA and GEF provide that contributions cannot be “earmarked” and instead are contributed only to a general pool. Contributors may agree in the replenishment on the

guidance on how the funds in the general pool should be allocated among different areas, but such decisions are done collectively rather than at the individual donor level.

86. The CIFs do allow donors to select the allocation of contributions among four programme areas, but do not allow further earmarking by donors.

87. The CGIAR Fund allows donors to allocate contributions to any of three windows.

6.3.2 Considerations for the Board

88. The Board will need to consider whether contributors will be allowed to designate their contributions to specific windows or facilities or whether contributions can be made only to a general fund. Earmarking can result in the mobilization of more resources, but it can also result in fragmentation, limit flexibility in resource allocation and can cause operational issues.

89. The Governing Instrument provides that the Fund will have “thematic funding windows” and that, initially, the Fund will have windows for mitigation and adaptation. The Fund will also have a private sector facility. The Governing Instrument provides that the Board has the authority to add, modify and remove additional windows and substructures or facilities, as appropriate.

90. The Governing Instrument does not specify the relationship between the private sector facility and the Fund’s financial inputs. The Board would need to consider the funding for the facility and whether such funding will be sought as part of the overall resource mobilization process or as a separate process.

6.4 Means of contributions

91. In the IDA, GEF, IFAD and CIFs, contributions can be accepted either in cash or in the form of promissory notes of similar obligations that are irrevocable and legally binding. Promissory notes are payable on demand and can be paid in accordance with agreed schedules and are non-interest bearing. The amount of contributions in cash and promissory notes (along with any investment income and reflows) forms the basis for the commitment authority of the fund (that is, the amount that the trustee can commit to make available to recipients to finance programme and project activities). Promissory notes are encashed (drawn down) by the trustee based on the need for cash based on projected disbursement needs.

92. Although not used in the IDA, GEF or CIFs, another option is to use promissory notes from contributors to backstop other sources of funding, in order to accelerate the receipt of cash into the institution. For example, the Global Alliance for Vaccines and Immunisation (GAVI) International Finance Facility for Immunization uses promissory note type-obligations from governments to convert those obligations into immediately available cash resources by issuing bonds in the capital markets and using the payments under the notes to service the bonds. Of course, such an approach has an impact on the institution’s policy and operational framework because outgoing funding (along with investment income and other resources) needs to be structured to generate sufficient revenue to pay the interest on the bonds.

6.4.1 Considerations for the Board

93. The Governing Instrument does not address the means by which financial inputs are to be provided. The Board may need to consider the relationship between the means by which financial inputs are provided and the commitment of resources for outgoing funding from the Fund.

94. The Board may wish to consider whether these detailed matters relating to sources, forms and means of contributions are most productively discussed within the resource mobilization process itself, rather than during the Board’s own resource mobilization discussions.

VII. Financial management considerations

95. As part of resource mobilization, the Board may need to consider how to address several financial management matters relating to currency, contributor, counterparty and interest rate risks. These detailed financial management considerations and financial risk have not been covered in this document. The Board may wish to consider whether the detailed matters relating to financial management risks are most productively discussed within the resource mobilization process itself, rather than during the Board's own resource mobilization discussions.

VIII. Next steps

96. Based on the guidance received by the Board on the policy matters relating to the resource mobilization process presented in the document and taking into account the need for the Board to first take certain decisions regarding the business model framework of the Fund, it is recommended that a resource mobilization strategy document be presented to the Board at its meeting in September 2013. The strategy document would lay out key elements and a timeline for organizing the initial resource mobilization for the Fund.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.01-13/07 *Resource mobilization for the Green Climate Fund*:

Approves the scope of further work set out in Annex II of document GCF/B.01-13/07.

Annex II: Scope of further work on the resource mobilization for the Green Climate Fund

1. March to September 2013: The Interim Secretariat will prepare a resource mobilization strategy document for consideration by the Board at its meeting in September 2013. In doing so, the Interim Secretariat will operate under the guidance of the Co-Chairs and take into consideration the guidance on the Fund's resource mobilization provided by the Board during its meeting in March 2013, as well as the guidance provided by the Board on the Fund's business model framework. The strategy document will lay out key elements and a timeline for organizing the initial resource mobilization for the Fund.
 2. Board meeting in September 2013: The Board will consider the resource mobilization strategy and take decisions on the Fund's approach to resource mobilization and key factors determining how that approach will be implemented.
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