Green Climate Fund

# Business Model Framework: Financial Inputs

**GCF/B.05/04**
17 September 2013

**Meeting of the Board**
8-10 October 2013
Paris, France
Agenda item 4 (c)

## Recommended action by the Board

It is recommended that the Board:

(a) Takes note of the information presented in document GCF/B.05/04 *Business Model Framework: Financial Inputs*;

(b) Provides guidance on the policy matters and options presented in this document; and

(c) Adopts the draft decision presented in Annex I to this document.

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# Business Model Framework: Financial Inputs

## I. Introduction

1. At its March 2013 meeting, the Board requested the Interim Secretariat to undertake work on a number of documents on the Fund's business model framework, with the assistance of consultants (decision B.01-13/06). One of the documents to be prepared for consideration at the October 2013 Board meeting was to address financial inputs, including an assessment of the different financial inputs received by other funds, their benefits and disadvantages and applicability.

2. The purpose of this document is to present to the Board an assessment of financial inputs that the Fund could employ to attain its objectives. This document should be read in conjunction with other documents on the business model framework.[1]

3. The Governing Instrument for the Fund provides specific guidance on financial inputs to the Fund:

> Paragraph 29: *"The Fund will receive financial inputs from developed country Parties to the Convention."*
>
> Paragraph 30: *"The Fund may also receive financial inputs from a variety of other sources, public and private, including alternative sources."*

4. In addition, the Board took decisions that are relevant to any discussion on financial inputs for the Fund. At its March 2013 meeting, the Board, in decision B.01-13/06, paragraph (c.iii), noted convergence that the Fund should:

> *"Focus initially on grants and concessional lending, and employ additional financial instruments as necessary to effectively achieve the objectives of the Fund."*

5. At its June 2013 meeting, the Board, in decision B.04/07:

> *"Decided to consider the terms and criteria of the grants and concessional lending to be deployed by the Fund for mitigation and adaptation through accredited national, regional and international intermediaries and implementing entities at its September 2013 meeting."*

6. At its June 2013 meeting, the Board, in decision B.04/08 concerning the Private Sector Facility:

> *"Acknowledged the need to mobilize funds at scale from, inter alia, institutional investors, such as pension funds and sovereign wealth funds, and to design modalities to that end; and ...*
>
> *Decided that the Private Sector Facility will initially focus on grants and concessional lending and will also draw on a broad range of other financial instruments and modalities to achieve its objectives."*

7. The guidance and principles from the Governing Instrument, as well as the decisions of the Board, have been reflected in the options for the Fund's financial inputs presented in this document.

[1] GCF/B.05/02, 03 and 05 to 08.

# II. Sources and forms of financial inputs

8. The Governing Instrument is not prescriptive regarding the forms of financial inputs to the Fund. The Fund has flexibility in relation to the sources and forms in which it can receive financial inputs. As the Fund evolves, this flexibility should allow for innovation and ambition in the Fund's resource mobilization strategy, financial inputs and financial instruments.

9. Given the urgency for the Fund to start operations as soon as possible, and in line with initial decisions taken by the Board, this document will mainly focus on the more traditional sources and forms of inputs. Nevertheless, considering a broader range of sources and forms is of paramount importance, therefore, this document will provide an initial indication of some opportunities for mobilizing other sources of inputs for future consideration.

## 2.1 Forms of financial inputs

10. In determining the types of financial inputs to be accepted at the start of the Fund's operations, the Board will need to consider the relationship between the forms of financial inputs and the financial instruments of the Fund. The forms in which financial inputs are made will have a direct effect on the possible types of outgoing financing and the financial management capabilities needed for an effective use of resources. In this sense, financial inputs and financial instruments of the Fund are clearly linked at a portfolio level. Consequently, given that there is convergence on the initial focus on the use of grants and concessional loans, it makes sense to pay special attention in this document to inputs that can facilitate the use of these instruments in the early operations of the Fund. Annex II contains a table that captures some advantages and considerations of financial inputs.

11. While financial inputs can be provided in different forms and subject to different terms, from a finance perspective, one can broadly divide financial inputs into two main categories: financial inputs that have no claim over the assets of the Fund (i.e. grants), and financial inputs that involve some form of claim by the provider over the assets of the Fund.

12. Looking at the financial inputs provided to public funds, one can identify that inputs have mainly been provided as grants, capital contributions and concessional loans. Some of the relevant experience by these public funds is highlighted below. Annex II contains a table that captures some advantages and considerations of financial inputs.

### 2.1.1 Grants

13. Grants are the predominant form of financial inputs to public funds. Financial inputs provided as grants do not entitle the provider to any claim over the assets of the fund. Consequently, inputs provided as grants allow for a high level of flexibility as to the type of instruments. However, depending on the terms of agreement with the contributor, they may establish the right to request the return of a portion of the contribution that is equivalent to its pro rata share of the overall contributions to the fund that have not been committed by the fund. In other instances, contributors may also be entitled to a pro rata share of any remaining assets of the fund at such time as the fund is terminated.

### 2.1.2 Capital contributions

14. Capital contributions have been accepted in the case of some public funds, such as the International Development Association (IDA) and the corresponding entities in other multilateral development banks (MDBs). Capital contributions can be viewed as an equity that may or may not expect a return or ownership interest, entitling the contributor to certain voting rights and ownership rights in the assets of the fund. From a financial perspective, capital

contributions made to IDA and the corresponding entities in other MDBs are similar to contributions provided as grants, as the contributors do not receive any financial return on such contributions. This is attributable to the structure and objectives of those entities. They provide concessional funding for developing countries and the reflows from such financial instruments are retained by the entity to fund additional financial instruments rather than being used to provide financial return to the contributors.

15. Capital contributions are also allowed in the case of the Climate Investment Funds (CIFs). While they are financially similar to grants, there are restrictions on the type of financial instruments that capital contributions to the CIFs can finance. To address the needs of certain CIFs contributors regarding the manner in which they are treated in the contributors' financial statements, such capital contributions generally cannot be used to fund financial instruments provided as grants.

16. Capital contributions can be provided either as paid-in capital or callable capital. Capital contributions to other public funds are generally provided as paid-in capital, which is provided to the fund in accordance with the payment schedule agreed with the contributor and used by the fund to finance its financial instruments. In the case of entities like the International Bank for Reconstruction and Development (IBRD) and other MDBs, which fund most of their financial instruments with the proceeds of bonds issued to institutional investors, most of the capital is callable capital which would be paid in only if the entity required the cash to meet its outstanding liabilities (i.e. if the principal and interest payments on the loans made by the entity along with its other assets became insufficient to pay the principal and interest payments due on bonds issued by the entity and its other obligations).

17. Capital contributions could be provided on the basis that the provider would receive financial returns, but such contributions would be provided with the expectation that the Fund would provide financial instruments in a way that would generate income for the Fund that could be used to provide dividends to contributors. Accepting such capital contributions would therefore impact the terms of the financial instruments that could be provided and would restrict the ability of the Fund to provide funding in the form of grants and concessional loans.

18. Capital contributions, on the other hand, could be provided on the basis that the provider would not receive any financial returns. If this were the case, as mentioned above, such contributions would be similar to those inputs provided as grants and therefore implicitly considered in the above discussion on grants.

### 2.1.3 Concessional loans

19. Inputs as concessional loans have been used in the case of the Clean Technology Fund (CTF). The concessional loans provided to the CTF are repayable in instalments over a 20-year period, with a grace period of 10 years and carry an interest rate of 0.75 per cent. As at March 2013, Canada, France and Germany have made concessional loans to the CTF with the value of receipts being approximately US$ 1.08 billion.

20. Inputs as concessional loans allow for less flexibility than grants or capital contributions. For example, the CTF Trust Fund has liabilities to loan contributors and therefore must meet semi-annual debt service obligations. Consequently, potential losses on local currency loans due to exchange rate fluctuations could impact the CTF Trust Fund's ability to repay loan contributors any time up to the maturity of the loan contributions.

21. Therefore, in the case of the CTF Trust Fund, the following risk monitoring measures have been put in place:

(a) Maintaining a minimum liquidity reserve in order to ensure that debt service payments to loan contributors can be met;

(b) Preparing quarterly projections on project repayments and possible loan loss rate scenarios on the overall portfolio to monitor the ability of the CTF Trust Fund to cover debt service payments to loan contributors;

(c) Simulating the loan loss/default sharing mechanism to determine the overall impact on the loan pay-out to loan contributors; and

(d) Keeping track of actual project interest rates to ensure that within the aggregate amount that is on-lent, there is at least an amount equal to the incoming loan contributions that is on-lent at equal or less concessional terms.

22. The above example is intended to highlight that specific financial risk management and monitoring measures will have to be in place for managing concessional loans.

23. Another example of concessional loans as inputs is the one used by the African Development Bank's (AfDB) Enhanced Private Sector Assistance Initiative, or specifically the Accelerated Co-financing Facility for Africa (ACFA), through which the Japan International Cooperation Agency has provided joint co-financing support for AfDB's sovereign projects. ACFA has provided US$ 484 million of funding alongside special drawing rights (885 million) of AfDB Group financing.

24. This approach could also be potentially broadened to enable climate-specific funds to tap other contributors with foreign-exchange reserves that they are willing to allocate to climate lending.

### 2.1.4 Non-concessional loans

25. Financial inputs in the form of non-concessional loans have been received by the International Financing Facility for Immunisation (IFFIm), a special-purpose company established to issue bonds. The proceeds from these bonds are provided to the GAVI Alliance to pay for vaccines and other health programmes. Principal and interest payments on the bonds issued by IFFIm are paid from grant contributions by those countries that have made legally binding commitments to make such contributions. On the basis of these commitments, IFFIm is able to immediately raise funds from investors and make them available to the GAVI Alliance. From the perspective of the GAVI Alliance, the resources it receives from IFFIm are in the form of grants, as the GAVI Alliance is not liable to make any interest or principal payments on the bonds. The investors' recourse is limited to the obligations of those countries that have made commitments to IFFIm to make payments to service the bonds.

26. The above mechanism is a means of front loading resources for the GAVI Alliance from countries that have made binding commitments. In the context of immunization, the possibility of providing as many vaccinations as early as possible has a big impact on the control of diseases. Similarly, one could think of parallels in relation to early action towards adaptation to, and mitigation of, climate change.

### 2.1.5 Bonds

27. Additionally, entities such as IBRD and regional development banks raise funds by issuing bonds. The Board could consider mechanisms by which to issue bonds and access the capital markets on market-based terms. Yet, the principal and interest payments on those bonds are liabilities of the entity and are repayable from their assets. The primary source of repayment are the principal and interest payments received by the entities on the outgoing loans to their borrowers. In the event an entity does not otherwise have sufficient resources to repay such bonds, amounts member countries are obligated to provide as capital to the entity would be used to make such repayments. The bonds issued by such entities carry investment grade ratings from rating agencies, taking into consideration the callable capital provided to them by

their member countries. Such ratings are important in broadening the classes of investors that are able to purchase such bonds and in determining the interest rate and other terms of such bonds. For the Fund to be able to issue bonds, a similar capital structure would be needed. As the bonds would carry market terms, receiving financial inputs in this form may restrict the ability of the Fund to provide financial outputs as grants or concessional loans.

#### 2.1.6 Other forms of financial inputs

28. Other forms of financial inputs could also be considered beyond the type of contributions described above.

29. For example, the Adaptation Fund is largely funded by a two per cent share of proceeds of certified emission reductions issued under the Clean Development Mechanism (CDM), which have been monetized to raise US$ 187.9 million, as at November 2012.

### 2.2 Relationship between forms of financial inputs and financial instruments

30. As noted above, the terms on which financial inputs are made will have a direct effect on the types of outgoing financing that can be provided at the portfolio level. Providing flexibility in the form in which financial inputs can be made may increase the total resources provided to the Fund. Accepting financial inputs in forms other than grants can impact on the types of financial instruments that the Fund can provide. To avoid a mismatch between assets and liabilities, the financial instruments of the Fund should be provided on terms that are, in the aggregate, no more concessional than the terms of the Fund's financial inputs.

31. The Board decided that, initially, the Fund will mainly focus on grants and concessional lending. It follows that the financial inputs should then be received on terms that will allow the Fund to deploy them in a manner that would not incur liabilities exceeding the amounts received by the Fund from its financial instruments.

32. Another matter relates to how any losses on outgoing concessional loans will be addressed. There is a risk that entities receiving concessional loans will default and that the Fund will not receive the full amount of principal and interest payments due from such loans. In that case, the Fund may not be able to service the financial inputs received as concessional loans. Therefore, the Board will need to consider what Fund resources are to be used to make payments on the concessional loan inputs and how losses on outgoing loans would be apportioned between contributors. This has been dealt with in other funds by not allowing cross-subsidies among contributors.

33. In contrast, financial inputs received as non-refundable grants and non-refundable capital contributions provide more flexibility, as they would not be repayable to the contributors and could be used to fund most forms of financial instruments. If used to finance concessional loans, the reflows from those loans, i.e. principal and interest payments received from the loans, would accrue to the Fund and could be used to fund additional financial instruments and operating costs of the Fund.

34. Financial inputs provided on non-concessional terms (e.g. non-concessional loans, bonds, capital provided on the basis of an expected dividend payment) would limit the terms of the Fund's financial instruments. This could also have implications for the staffing and administration of the Fund, including possibly the need for a separate fund manager to administer such resources.

35. The timing of the receipt of financial inputs will also be important as the commitment and disbursement of financial instruments will normally be dependent on the Fund having

available (i.e. encashed rather than just pledged or committed) the resources to provide such commitments and disbursements.

## 2.3 Sources of financial inputs

36. In other public funds, including the Global Environment Facility (GEF) and IDA, most funding has been provided from public sources by developed countries, yet a portion of the funding is provided by developing countries. Such public funding has been provided in the form of grants, capital and concessional loans.

37. Funding for some public funds has also been provided by private sources, primarily by private philanthropic foundations, such as the Bill and Melinda Gates Foundation, which is a major donor to the Global Fund to Fight AIDS, Tuberculosis and Malaria (the Global Fund) and the GAVI Alliance.

38. In the context of climate change, the large philanthropic grant-makers are: the Hewlett Foundation (US$ 140 million per annum), the Packard Foundation(US$ 70 million per annum), the Children's Investment Fund Foundation (US$ 30 million per annum), Bloomberg Philanthropies (US$ 30 million per annum), the Oak Foundation (US$ 20 million per annum), the Sea Change Foundation (US$ 30 million per annum) and the McKnight Foundation (US$ 25 million per annum).[2]

39. Funding by these foundations has been provided as grants and mainly focuses on transformative and catalytic grants, e.g. technical assistance for ambitious policy, and funding for monitoring, reporting and verification, performance evaluation, research or convening.

40. Mission-related investments are also made by some private philanthropic foundations. These are lower-return investments but are still profit-making and generally long-term, e.g. revolving-fund or first-loss type structures.

41. Consideration could also be given to seeking concessional loans from philanthropies and other private sources (as is done by social impact investors for microfinance).

42. In addition to large contributions from private sources, some funds receive smaller donations directly from individuals. The contributors may be eligible to receive tax deductions for such donations, depending on the means by which such donations are provided. For example, the Global Fund, the Adaptation Fund and the United Nations Environment Programme (UNEP) accept contributions from individuals. Individuals can make cash donations to the Global Fund through the internet or by mail. Such donations are made to the United Nations Foundation which then channels them to the Global Fund. The Adaptation Fund has also established a partnership with the United Nations Foundation, through which individuals can make cash donations on the internet for the benefit of the Adaptation Fund. The United Nations Foundation is recognized by the United States as a charitable institution and United States taxpayers are able to make tax-deductible donations through the Foundation. UNEP also accepts donations from individuals for UNEP's Environment Fund. Individuals may make donations through UNEP's website or by cheque to UNEP's account.

43. The most recent example of different forms and alternative sources of financial inputs is the commitment made in June 2013 at the high-level international meeting, Nutrition for Growth: Beating Hunger through Business and Science. Contributors secured new commitments of up to GBP 2.7 billion (US$ 4.15 billion) to tackle under-nutrition up to 2020, GBP 1.9 billion (US$ 2.9 billion) of which is core funding, with the remainder secured through matched funding. These commitments were made by a combination of actors from governments, international organizations, civil society organizations and the private sector. In the case of the private sector,

[2] This information is based largely on discussions with some of these private philanthropic foundations.

commitments were made by Ajinomoto, DelAgua, GUTS Agro Industry, Nirmal Seeds, Vodafone and Unilever, to name a few.[3]

44. Funds can also be received from private sector companies under programmes whereby companies agree to transfer a portion of the sale proceeds of branded projects, as in the case of the RED programme that provides resources to the Global Fund.[4]

45. Private sector companies have also joined forces with pubic sources, as in the case of the Global Climate Partnership Fund (GCPF). The GCPF is a special purpose company established in Luxembourg. It receives financial inputs through the issuance of shares and notes. The GCPF has three different classes of shares (senior, mezzanine and junior). The German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety and the International Finance Corporation (IFC) are the largest shareholders. The other shareholders are Kreditanstalt für Wiederaufbau (KfW), Deutsche Bank and the Danish Ministry of Foreign Affairs. The GCPF also received a loan from a private investor in 2012. The GCPF is used to provide debt financing on commercial terms through financial institutions for renewable energy and energy efficiency projects by small and medium enterprises and households in developing countries. The GCPF seeks to leverage the funding provided to it from public sources to raise funding from private sources. The tiered capital structure of the GCPF is designed to make the private investors senior to the public investors, thereby reducing the risk of their investment in the GCPF.

46. In addition to the examples of alternative sources of inputs highlighted above, relevant work has been conducted by the High-level Advisory Group on Climate Change Financing (AGF), which was established to study potential sources of revenue for financing mitigation and adaptation activities in developing countries. This study resulted in the publication of the *Report of the Secretary-General's High-level Advisory Group on Climate Change Financing*, in November 2010.[5] The study concluded that mobilizing large flows of resources was challenging but feasible. However, it is important to note that the study emphasized the importance of the carbon price: a key element in reaching the level of financial flows needed to meet the goals set by the international community is a carbon price of US$ 20–25 per tonne of carbon equivalent in 2020. This is the price range that the AGF used when quantifying the level of financial flows from carbon-related sources.

47. Some of the sources that the AGF looked into included international auctions of emission allowances and auctioning of allowances in domestic emission trading schemes, offset levies, revenues from international transportation, carbon-related revenues (other than auctions of assigned amount units and emission trading schemes), financial transaction taxes, and direct budget contributions. While the sources mentioned in the AGF might be able to provide significant resources for the Fund, they would require concerted actions on the part of governments, both domestically and internationally, beyond the scope of the Fund itself.

48. Financial inputs to the Fund could be received from institutional investors; however, institutional investors expect returns in excess of those that would be generated by concessional loans. As mentioned above, it could be possible to raise debt from institutional investors by using an approach similar to that of IFFIm, where bonds could be issued using commitments from contributors as the basis for making payments on the bonds. Such an approach would provide more cash resources to the Fund up front to provide for financial instruments as grants and concessional loans, while relying primarily on the commitments from contributors to provide resources in the future to repay the bonds (or to pay the difference

[3] More information can be found at: <http://nutrition4growth.org/index.html>.

[4] RED is a division of the ONE Campaign, a charitable, tax-exempt institution in the United States co-founded by Bono and Bobby Shriver. A number of companies (including, for example, Apple, Coca Cola and Starbucks) partner with RED and donate a portion of their profits from RED-branded products, services and events directly to the Global Fund. As at September 2013, donations from RED to the Global Fund have amounted to about US$ 210 million.

[5] Available at: <http://www.un.org/wcm/webdav/site/climatechange/shared/Documents/AGF_reports/AGF_Final_Report.pdf>.

between the amounts owed on the bonds and the reflows received by the Fund from outgoing finance provided as concessional loans).

## 2.4 Options of financial inputs for consideration by the Board

49. Given the considerations set out in the previous Sections, the Board may wish to consider various Options in relation to financial inputs to the Fund.

50. The following Options are not mutually exclusive. A combination of different or all Options could be acceptable to the Board.

(a) **Option I:** For the initial phase of implementation, the Fund would receive grants from public and private sources, paid-in capital contributions (without financial returns) from public sources and concessional loans from public sources.

(b) **Option II:** All of the above in Option 1 plus non-concessional loans from private sources.

(c) **Option III:** All of the above in Options 1 and 2 plus alternative sources.

# III. Means and modalities of contributions

51. In addition to deciding the types of financial inputs to be accepted, the Board will need to consider the means by which contributions will be accepted. In the case of other funds, the terms of contributions are normally set forth in an agreement with the contributor. In considering the types of agreements needed, the Board will need to consider both the process by which financial inputs are to be accepted and the legal relationships between the Fund, the contributors and the Trustee. To the extent that any one of those entities is to have any legal rights or obligations to either or both of the other entities, those rights and obligations should be set forth in an agreement between or among them.

## 3.1 Replenishment resolutions

52. In the case of those funds where there is a formal replenishment process, there is no contribution agreement per se. Instead, the terms governing the contribution are set forth in a replenishment resolution approved by the contributors collectively and adopted by the governing body of the institution that acts as the trustee of the fund. Individual contributors then confirm their agreement to contribute by providing an instrument of commitment to the trustee.

53. Additionally, there needs to be an agreement on the rights and obligations of the trustee. This is normally set forth in a separate document. For example, for the GEF, the rights and obligations of the trustee are set forth in an Annex to the *Instrument for the Establishment of the Restructured GEF*, which was accepted by the countries participating in the GEF and adopted by the boards of the three GEF implementing entities.

## 3.2 Contribution agreements

54. In the case of those funds with no formal replenishment process, the terms of the contribution are usually set forth in an agreement with the contributor. In other funds, the agreement is between the contributor and the trustee, even where the fund is a separate legal entity with the ability to enter into legal agreements. This reflects the fact that the contributions are made to the trustee, who retains legal title to the funds and holds them on behalf of the contributors to be disbursed in accordance with the terms of the agreement. The trustee also

enters into a separate agreement with the fund entity that then governs the relationship between the fund entity and the trustee.

55. For example, in the case of the Global Fund, there is a trust fund administration agreement between the Global Fund and the trustee that sets forth the terms for the administration of the trust fund by the trustee. The trustee then enters into a separate contribution agreement with each contributor that specifies the amount and timing of the contribution from the contributor and provides that the trustee will administer the contribution in accordance with the terms of the trust fund administration agreement. Initially, the Global Fund was not a party to such contribution agreements. However, in the past few years, the contribution agreements have been tripartite agreements between the Global Fund, the contributor and the trustee, and include certain reporting obligations of the Global Fund directly to the contributor.

56. In those cases where contribution agreements are entered into with contributors, the agreement usually includes standard terms and conditions applicable to all such agreements.

## 3.3 Financial management considerations

57. In addition to decisions on the form and means of contributions, the Board will also need to consider how to address several financial management matters relating to currency, contributor, counterparty and interest rate risks. The more the Fund receives funding in forms other than grants, the more complex these risks will become. These detailed financial management considerations and financial risks are not covered in this document. They will have implications for the staffing of the Fund, as indicated in document GCF/B.04/08.

# IV. Next steps

58. As stated above, more work is needed to understand how best to address risk management implications for the Fund as it prepares for receiving financial inputs other than grants. This needs to be addressed when developing the Fund’s risk management framework.

59. It is also clear that the Fund will need to mobilize resources at scale in order to achieve its objective. It is therefore important to further the understanding of how best the Fund can attract alternative sources of financial inputs. Decision B.04/08 regarding the Private Sector Facility acknowledges the need for developing modalities that will attract, inter alia, institutional investors. Likewise, it is important to consider how best to attract the broad range of possible sources and develop modalities to that end.

# Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.05/04 *Business Model Framework: Financial Inputs*:

(a) *Notes that the Fund may receive financial inputs from a variety of sources, public and private, including alternative sources;*

(b) *Decides that the Fund will maintain the flexibility to receive financial inputs on an on-going basis;*

(c) *Decides that, in the initial phase of implementation, the Fund will receive grants from public and private sources, and paid-in capital contributions and concessional loans from public sources;*

(d) *Requests the Secretariat to address the implications of accepting concessional loans for the Fund, including in the development of the Fund's risk management framework and investment strategy;*

(e) *Requests the Secretariat to prepare a document on modalities for attracting alternative sources of financial inputs to the Fund for consideration by the Board at its second meeting in 2014;*

(f) *Requests the Secretariat to initiate discussions with the Interim Trustee to identify adequate arrangements for receiving financial inputs;*

(g) *Agrees that cross-subsidization will be considered in the development of the terms and conditions for grants and concessional loans; and*

(h) *Notes convergence on the importance of the relationship between the terms and conditions of financial instruments and the types of financial inputs received by the Fund.*

# Annex II: Forms of financial inputs

| Form of financial input | Advantages of their use by the Fund | Considerations |
|---|---|---|
| **Grants** | Most flexible (used to fund all types of financial instruments) | - Do not require repayment to contributors / no claim over the assets of the Fund<br>- Can produce reflows |
| **Capital contributions (as paid in capital)** | - Flexible (used to provide concessional funding)<br>- Provide capital base | - Limited or no use for funding grants<br>- Produce reflows<br>- Contributors share more risks hence may have a more pro-active approach<br>- Contributors may require a return on their contribution or may require limitations as to the use of such contribution<br>- Active risk management and monitoring are essential |
| **Capital contributions (as callable capital)** | - Mostly useful to back the issuance of bonds<br>- Provide capital base | - Paid in only if the entity required the capital to meet its outstanding liabilities<br>- Active risk management and monitoring are essential |
| **Concessional loans** | - Flexible (used to provide concessional lending) | - Produce reflows<br>- Will need to be repaid to the contributor under the agreed terms<br>- Active risk management and monitoring are essential |
| **Non-concessional loans** | - Flexible (used to provide lending) | - Produce reflows<br>- Will need to be repaid at market rates<br>- Active risk management and monitoring are essential |
| **Bonds** | -Used to raised capital in capital markets<br>- Flexible/ used to provide funding for financial instruments of the Fund | - Will require repayment at market rates<br>- can produce reflows<br>- Active risk management and monitoring are essential |
| **Carbon assets (e.g. certified emission reductions)** | - Most flexible (can be used to fund all types of financial instruments) | - Will need to be monetized under market conditions<br>- Can produce reflows |