



**GREEN
CLIMATE
FUND**

Meeting of the Board
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GCF/B.11/08

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Arrangements for the first formal replenishment of the Green Climate Fund

Summary

The Green Climate Fund (GCF) adopted an ad hoc resource mobilization process at its inception. This document presents the background to and initial provisions for implementing a replenishment model, as well as an overview of the necessary arrangements for the first formal replenishment of the GCF. It sets out a proposal on the required steps for the replenishment process that follows international best practice, including: preparatory meetings, financial targets, performance reviews, programming and strategic direction establishment, among others. Finally, a pledging session will be held where contributors will announce their pledges to the first replenishment of the GCF.

* The agenda item number will be determined when the final sequence of items in the provisional agenda is confirmed by the Co-Chairs.

I. Introduction

1. Decision B.05/17, paragraph (d), states that “the policies, procedures, and documents necessary to trigger the first formal replenishment meeting” will be decided upon completion of the Initial Resource Mobilization (IRM) process. Also, in decision B.08/13, the Board endorsed the Policies for Contributions, which includes the trigger to initiate the formal replenishment process: once the cumulative funding approvals of the GCF exceed 60 per cent of the total contributions received during the IRM, the GCF will initiate a formal replenishment process. This milestone is expected to be reached by June 2017.

2. Based on these decisions, this document provides an overview of the replenishment process, through which the GCF Trust Fund may be replenished every three years. It introduces the main relevant aspects of the process culminating in the adoption of the replenishment report. In this regard, the replenishment of the GCF and its proposed process are presented herein, incorporating many of the key features of best international practice used by other relevant organizations – namely, the International Development Association, the Global Fund, the African Development Fund, the GAVI Alliance and the Global Environment Facility.

II. Possible action by the Board

3. This document introduces an overview, process, and schedule for the first formal replenishment of the GCF. Since the overall process for replenishment is expected to last over two years, the Secretariat would like the Board to take note of the main issues and procedures involved in this process and authorize the Secretariat to start the replenishment process on the basis of this document.

III. Overview of Green Climate Fund replenishment

3.1 Importance

4. As a key operating entity of the Financial Mechanism, the GCF will “promote the paradigm shift towards low-emission and climate-resilient development pathways”¹ by “channeling new, additional, adequate, and predictable financial resources to developing countries”.² In this regard, the industrialized countries have already committed to the aim of reaching climate finance of at least USD 100 billion per year by 2020, which was reiterated at the Summit of the Group of Seven Industrialized Countries held in Schloss Elmau, Germany on 7 and 8 June 2015. The attending world leaders noted that the GCF is a key institution in the future climate finance architecture. Furthermore, many developing countries have already, in their intended nationally determined contributions, explicitly stated their expectations of the GCF. Against this backdrop and reflecting on the political commitment and needs of the developing countries, the outcome of this replenishment process must provide the GCF with significant, adequate and predictable financial resources necessary to deliver on its ambitious mandate.

5. Along these lines, the eighteenth Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 18) provided guidance “to secure funding for the Green Climate Fund, taking into account paragraphs 29 and 30 of the Governing Instrument (...) and to establish the necessary policies and procedures to enable an early and adequate

¹ Paragraph 2 of the Governing Instrument for the GCF.

² Paragraph 3 of the Governing Instrument for the GCF.

replenishment process”.³ Following on this, COP 19 mandated the Fund to “commence its initial resource mobilization process (...) and transition subsequently to a formal replenishment process”.⁴ The guidance received from the COP on an annual basis has prompted progress in resource mobilization, and it will be equally important to underpin an effective and adequate GCF replenishment process. In accordance with the first formal replenishment, the guidance emanating from COP 21 and COP 22 will be critical in setting the right process and in mobilizing support from both contributing and recipient countries.

6. The replenishment process will also give contributors and other relevant stakeholders the opportunity to actively review the initial performance of the GCF and to assess the progress, programming and strategic direction of the GCF.

3.2 Role of the Board

7. During the IRM, pursuant to decision B.07/09, a process of collective engagement in the IRM process was launched with potential contributors. The first IRM meeting was held on 30 June and 1 July 2014 in Oslo, Norway, and a second technical IRM meeting was held on 8 and 9 September 2014 in Bonn, Germany.

8. For the IRM process, decision B.07/09 endorsed the arrangements for the collective engagement in the IRM, which explains the process and procedures for the participation of all interested contributors.

9. At its eighth meeting, the Board endorsed the policies for contributions for the GCF, which paved the way for contributors to make significant pledges to the GCF. Thereafter, a High-Level Pledging Conference was organized in Berlin, Germany, in November 2014 for those interested in contributing to the IRM process. Twenty-one countries pledged a total of up to USD 9.3 billion equivalent.

10. For the first replenishment process of the GCF, the Board could follow the approach of the IRM and the practice of other funds and entrust the Secretariat with its implementation within the framework of relevant Board decisions.

11. Also in line with the practice of the GCF IRM process, the Board may wish to have the two Board Co-chairs as well as two Developed and two Developing Country Board members to attend the consultation meetings and the pledging conference.

3.3 Programming and policy issues

12. For all interested Parties, which are considering contributing to the GCF, the GCF Secretariat needs to provide a comprehensive update on its policies and strategies, as well as on the GCF Fund's performance and progress, operational priorities, needs assessment, and financial framework.

13. The Board may consider and authorize specific updates to be provided and discussed in the replenishment process.

3.4 Financial components

14. The total amount of resources needed for the first replenishment will reflect the relevant outcome of COP 21 and the forecasted requirements for future programming agreed

³ Decision 6/CP.18, paragraph 7(c).

⁴ Decision 4/CP.19, paragraph 12.

upon by the Board and supplemented by contributors. Financial components of the replenishment process may include the following:

- (a) **New contributions:** All contributions pledged and signed by the contributors for the first replenishment period. The core of new contributions will be come from the traditional contributors, which are national and subnational (province, cities and any other public entities) governments. Since the GCF may also receive contributions from the private sector, including alternative resources, the Board may wish to consider whether resource mobilization from this type of contributor should be carried out as part of this replenishment process or as a separate one;
- (b) **Carry over:** Any unused resources from the IRM period;
- (c) **Investment income:** Any income earned during the first replenishment period on the liquidity balance of the GCF Trust Fund;
- (d) **Reflows:** Reflows from outgoing loans and other financial products, including interest and principal repayments, net of any repayments to loan contributors; and
- (e) **Fees:** Any fees earned from administration of the activities of the GCF.

3.5 Key contributors and other stakeholders

15. For any successful replenishment, participation and relationships with key stakeholders are essential. For the replenishment process, the GCF could be actively engaged with the following stakeholders: national designated authorities and accredited entities, other traditional contributors, non-traditional contributors (private sector), foundations, and any possible others. The roles of these stakeholders are explained below:

- (a) **Public sector contributors (developed country parties to the Convention, developing countries, other public sector entities):** Based on the commitments made under the UNFCCC and as the only source of contributions for the IRM, the GCF can expect the main source of funding to come from the public sector. Besides the existing contributors, the GCF will actively reach out to other developed countries, developing countries that may be willing to contribute, sub-sovereign entities/local governments mostly in developed countries, and State-owned entities mostly in developed countries;
- (b) **Non-traditional contributors (non-parties to the Convention, private entities and philanthropic foundations):** While there is not yet a proactive interaction with these stakeholders as possible contributors, they could be key players in mobilizing significant funds in climate finance. Since the level of contributions and agendas for other sources will be different from that of the public sector, the Board may wish to have a separate process by which to receive contributions from them;
- (c) **National designated authorities and accredited entities:** As key stakeholders of the GCF, national designated authorities and accredited entities are a source of valuable participation for the GCF to formulate its plans; and
- (d) **Other stakeholders (private sector actors and civil society organizations, etc.):** As mentioned in paragraph 71 of the Governing Instrument for the GCF, the “Board will develop mechanisms to promote the input and participation of stakeholders, including private sector actors, civil society organizations, vulnerable groups, women and indigenous peoples, in the design, development and implementation of the strategies and activities to be financed by the Fund”. In addition, as represented by its accredited and active observers, the GCF will actively reach out to request their participation as an

essential part of society to contribute and reflect their concerns regarding the operations of the GCF.

- (e) **Trustee.** Pursuant to the important role of the Interim Trustee during the IRM process, the Trustee could share its valuable knowledge and experience in other replenishment processes. The GCF would discuss and come to a mutual agreement with the Trustee in advance on the scope and nature of any additional support that may be requested during the replenishment process. Based on the outcome of the replenishment, the GCF and Trustee would discuss and agree on the contribution agreements/arrangements and/or amendments thereto that may be required. It is expected that, by the time of replenishment, a Permanent Trustee would have been selected. Based on the IRM experience, certainty about having the Permanent Trustee in place will be very important to enable contributors to secure necessary approvals in their respective governments to make a pledge. Therefore, it is highly desirable that the Permanent Trustee be in place by the third quarter of 2017, ahead of the Pledging Conference.

IV. Proposed replenishment process

4.1 Process

4.1.1 Initiating the process

16. Recognizing that one of the roles of the Secretariat is to “support the Board in arranging replenishment processes”,⁵ the Board would instruct the Secretariat to initiate the replenishment process and present a proposal containing at least the following items:

- (a) Financial matters;
- (b) Planning and logistics for each meeting; and
- (c) Supporting documentation under for the Board's decisions.

4.1.2 Consultations and Pledging

17. The replenishment consultations might span over two to three meetings. This provides an opportunity for contributors to review the progress, performance, programming and strategic direction of the GCF. The discussions typically begin with a short review of GCF performance, policy and programmatic direction already approved by the Board.

18. At the final meeting and after formal triggering of the replenishment as described in section 4.2, a pledging session is held where contributors agree upon and confirm their contributions to the first replenishment.

19. The Board may consider inviting an eminent person to champion the GCF globally at the political level. Also, in accordance with the IRM process, the Board may consider inviting a facilitator for the replenishment process to chair its consultation meetings.

4.1.3 Adoption of the replenishment and Board decisions

20. In the replenishment process, the following draft documents highlighting the three core replenishment components will be submitted by the Secretariat to the Board for its review before the first consultation meeting and then will subsequently be distributed to the potential contributors:

⁵ Paragraph 23(k) of the Governing Instrument for the GCF.

- (a) A programming document that summarizes the proposed uses of resources and funding scenarios to cover operations for the next three years of replenishment;
 - (b) A Board decision specifying the terms and conditions of replenishment, namely, such as target size, type of contributions, period of replenishment, etc.; and
 - (c) A report to the Board outlining policy recommendations on policy for the replenishment period, with recommendations on specific actions in strategic areas.
21. Upon the conclusion of the replenishment process which is expected to be before the sixteenth meeting of the Board, the Board is then requested to adopt a decision on replenishment based on the agreed and finalized “Report of the First Replenishment of GCF Resources.” This report will also include the above-mentioned three components. This decision, along with the trigger mechanism explained below, enables the formalization of pledges and the start of the financing period of replenishment.

4.2 Trigger mechanism

22. The last replenishment meeting will be a pledging conference, after which the GCF will be able to enter into contribution agreements/arrangements. Such a pledging conference will take place after the replenishment has been formally triggered.

23. In the Policies for Contributions of the GCF, the formal replenishment process is triggered “once the Fund’s cumulative funding approvals exceed 60 per cent of the total contributions, confirmed by fully executed contribution agreements/arrangements, received during the IRM, the Fund will initiate a formal replenishment process”. Such a milestone is expected by June 2017. Since the details of this trigger mechanism are not clearly identified, two options are proposed below for consideration by the Board:

- (a) **Option 1: 60 per cent trigger.** Regarding the calculation of the trigger, since the GCF is accepting contributions during the IRM, “total contributions” becomes a moving target. Therefore, in line with the procedure for confirming the effectiveness for the GCF commitment authority, the Board could consider using the nominal amount of total contributions duly executed by the end of the eleventh meeting of the Board as the basis for calculating the trigger (i.e., the replenishment would be triggered when cumulative funding approvals reach 60 per cent of contributions signed by the eleventh meeting of the Board);⁶ and
- (b) **Option 2: June 2017 trigger.** The programming size of the GCF will rapidly increase in the coming years. Therefore it could be prudent to approve now, that the GCF will trigger the replenishment, as expected in the Policies for Contributions, in June 2017, even if the cumulative amount of approvals by then have not reached 60 per cent of the total contributions signed by the eleventh meeting of the Board.

4.3 Timeline

24. Based on the explanation of the replenishment process above, a timetable for such a process is introduced in Table 1 below, in which important consultation meetings and Board decisions are mapped out. The process takes a conservative approach, where all necessary approvals and decisions are completed by the end of 2017, giving the GCF a year within which to finalize individual negotiations and sign agreements/arrangements with each contributor. This process is important so as to avoid a gap in funding availability in 2019.

⁶ Refer to document GCF/B.11/Inf.05 titled “Status of the Initial Resource Mobilization” for total contributions signed.

Annex I: Draft decision of the Board

The Board, having reviewed document GCF/B.11/08 titled “Arrangements for the first formal replenishment of the Green Climate Fund”:

- (a) Takes note of the arrangements for the first formal replenishment process; and
- (b) Requests the Secretariat to implement the replenishment process as contained in Annex II.

Annex II: The replenishment process

1. **Initiating the process.** The Board requests the Secretariat to initiate the replenishment process and present before the thirteenth meeting of the Board a proposal containing at least the following items:

- (a) Financial matters;
- (b) Planning and logistics for each replenishment meeting; and
- (c) Supporting documentation under for the Board's decisions.

The above proposals should include the below elements.

2. **Consultations.** The Secretariat will organize two to three replenishment meetings to enable contributors to review the progress, performance, programming and strategic direction of the GCF. The discussions typically begin with a short review of GCF performance, policy and programmatic direction already approved by the Board. Regarding the participation, the two Board Co-chairs, as well as, two Developed and two Developing Country Board members would be invited to attend the consultation meetings and the pledging conference.

3. **Adoption of the replenishment and Board decision.** In the replenishment process, the following draft documents highlighting the three core replenishment components will be submitted by the Secretariat to the Board for its review before the first consultation meeting and then will subsequently be distributed to the potential contributors;

- (a) A programming document that summarizes the proposed uses of resources and funding scenarios to cover operations for the next three years of replenishment;
- (b) A Board decision specifying the terms and conditions of replenishment, namely, such as target size, type of contributions, period of replenishment, etc.; and
- (c) A report to the Board outlining policy recommendations on policy for the replenishment period, with recommendations on specific actions in strategic areas.

Upon the conclusion of the replenishment consultations which is expected to be before the sixteenth meeting of the Board, the Board is then requested to adopt a decision on replenishment based on the agreed and finalized "Report of the First Replenishment of GCF Resources."

4. **Pledging.** Upon the replenishment decision by the Board along with the trigger mechanism explained below, the GCF will formalize the pledges and start the financing period of replenishment. At the pledging session, contributors agree upon and confirm their pledges to the first replenishment of the GCF.

5. **Triggering Mechanism.** The Green Climate Fund will start the replenishment of its trust fund:

[Option 1: when cumulative project/programme funding approvals reach 60 per cent of contributions signed by the eleventh meeting of the Board]

[Option 2: at the end of June 2017]

6. **Global GCF Champion and Chair.** The Secretariat is asked to support the Board co-Chairs to identify an eminent person to champion the GCF replenishment process globally at the political level as well as a facilitator to chair the replenishment meetings.

Annex III: Information on the replenishment processes of other institutions

	IDA	Global Fund	ADF	GAVI Fund	GEF
Date	December 2013	December 2013	March 2014	January 2015	April 2014
Period	Seventeenth replenishment (IDA-17)	Fourth replenishment	Thirteenth replenishment (ADF-13)	Second replenishment	Sixth replenishment (GEF-6)
Cycle	2014–2017 (3 years)	2014–2016 (3 years)	2014–2016 (3 years)	2016–2020 (5 years)	2014–2018 (4 years)
Pledged amount	SDR 34.6 billion (equivalent to USD 52.1 billion)	USD 12 billion	UA 4.8 billion (equivalent to USD 7 billion)	USD 7.5 billion	USD 4.43 billion
Annual Programming Capacity	USD 17.3 billion	USD 4 billion	USD 2.3 billion	USD 1.5 billion	USD 1.1 billion
Process	Four meetings were held in 2013 to finalize the replenishment; the financing framework and key financial variables were presented	A three-day preparatory meeting was held in April 2013/2-day pledging conference was held in December 2013; published four reports on the need for financing, a funding model, results and impact; a series of meetings with each donor government and private foundation/individual took place	Three consultation meetings were held in February, June and September 2013; at the third meeting, the financing framework and pledging were finalized	The second replenishment was launched at a high-level meeting hosted by the European Commission in Brussels, Belgium, on 20 May 2014; the Pledging Conference was hosted by the German Government – under the patronage of Chancellor Angela Merkel – in Berlin, Germany on 26 and 27 January 2015	Planning began in December 2012 and four replenishment meetings were held between then and April 2014; during the four meetings, the GEF published a list of documents updating the financial report, the previous replenishment update, the programme update, the business plan, etc.
Relevant document	“IDA17 replenishment final report”	Replenishment reports	“ADF-13 report: supporting Africa's transformation”	“The 2016–2020 investment opportunity”	“Draft summary of negotiations sixth replenishment of the GEF Trust Fund”

	IDA	Global Fund	ADF	GAVI Fund	GEF
Link	< www.worldbank.org/ida/ida-17-replenishment.html >	< http://www.theglobalfund.org/en/replenishment/fourth/reports/ >	< www.afdb.org/fileadmin/uploads/afdb/Documents/Boards-Documents/ADF-13-Report_on_the_Thirteenth_General_Replenishment_of_the_Resources_of_the_ADF.pdf >	< www.gavi.org/Library/Publications/Replenishment/The-2016-2020-GAVI-Alliance-Investment-Opportunity/ >	< www.thegef.org/gef/sites/thegef.org/files/documents/GEF_R.6_26_Draft%20Summary%20of%20Negotiations_Final.pdf >

Abbreviations: ADF = African Development Fund, GAVI Fund = Global Alliance for Vaccines and Immunization Fund, GEF = Global Environment Facility, IDA = International Development Association, SDR = special drawing rights.