



**GREEN
CLIMATE
FUND**

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Policy for contributions to the Green Climate Fund for the third replenishment

Summary

This document presents an updated policy for contributions to the Green Climate Fund for the third replenishment, prepared pursuant to decision B.45/18, paragraph (l), and in line with paragraphs 29 and 30 of the Governing Instrument. The proposal includes updates concerning types of financial inputs, financial safeguards, and the treatment of commitment authority following decision B.45/01.

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I. Introduction

1. At B.45, the Board requested the Secretariat to prepare for consideration a draft updated policy for contributions for the Green Climate Fund's (GCF or the 'Fund') third replenishment period (GCF-3) ([decision B.45/18](#), paragraph (I)).

2. Accordingly, the Secretariat developed this proposal for an updated Policy for Contributions (the "Policy") based on the experience gained through the Fund's Initial Resource Mobilization (IRM), first replenishment period (GCF-1), and second replenishment period (GCF-2). While maintaining continuity with the framework established in previous cycles, the Policy seeks to ensure that the Fund remains equipped to support the resource mobilization objectives of GCF-3 and the evolving needs of the institution, in accordance with paragraphs 29 and 30 of the Governing Instrument.

II. Policy rationale

3. This Policy sets out the financial input modalities, financial terms, and operational arrangements applicable to GCF-3. It is intended to facilitate the mobilization of resources from sovereign and sub-sovereign sources, including by expanding the range of existing financial input types and by introducing potential refinements to current prudential parameters. These updates seek to enhance the Fund's capacity to mobilize and deploy resources, facilitate engagement with existing and potential contributors, and preserve applicable safeguards, without predetermining future programming or risk management choices.

4. As in previous cycles, the Policy will apply to both Parties and Non-Parties¹ to the United Nations Framework Convention on Climate Change (UNFCCC). Consistent with paragraph 29 of the Governing Instrument, financial inputs from developed country Parties will remain central to GCF-3.

5. Separately, pursuant to [decision B.45/18](#), paragraph (I), the Secretariat has developed a draft policy for contributions from other sources not covered in this Policy. That separate policy is not time-bound to any specific replenishment cycle and is intended to provide a parallel process to map funding opportunities and mobilize resources from other sources, public and private, including alternative sources, consistent with the relevant provisions of the Governing Instrument, including paragraph 30. Accordingly, this Policy does not apply to contributions covered by that separate policy.

6. With distinct scopes and resource mobilization avenues, the two policies provide a coherent overall approach to maximizing concessional funding for developing countries, consistent with the Fund's mandate, Governing Instrument, governance arrangements, and operational model.

¹ As defined in previous policies, "Non-Parties" will include other sovereign entities, regional governments, states, and cities.

III. Analysis of policy proposal

7. The Policy builds on the overall structure and core features of previous policies for contributions,² while introducing targeted updates to support more dynamic resource mobilization.

8. **Eligible sources of funds:** Consistent with previous policies for contributions, the Policy applies to contributions from Parties and Non-Parties to the UNFCCC, as well as investment income earned from the balance of the GCF Trust Fund, reflows, and carry-over funds.

9. **Expanded types of financial input:** GCF will continue to receive grants, paid-in capital contributions, and concessional loans from eligible sources. While encouraging contributors to maximize contributions in the form of grants, the Policy will introduce flexibility to expand the range of eligible types of financial input, including sovereign and sub-sovereign guarantees.

10. **Guarantees:** As a new type of financial input, sovereign and sub-sovereign guarantees will allow guarantors to assume defined risks on behalf of GCF. They will be structured as binding commitments that are callable upon the occurrence of objective and verifiable conditions, with the amount, duration, and covered exposure set out in the applicable legal arrangement. Indicative guarantee terms are proposed in Appendix II.

11. The Policy considers two illustrative uses for sovereign and sub-sovereign guarantees. First, they can be used as counter-guarantees to support the guarantees already deployed by GCF through Accredited Entities to mitigate risks in specific funded activities; and second, they can be used as credit enhancement for the Fund's overall loan portfolio. GCF currently relies on grants and paid-in capital to support these risks and must retain financial capacity against potential losses. By shifting a defined share of that risk to sovereigns and sub-sovereigns, guarantees could reduce the resources GCF needs to retain against those exposures, increase available commitment authority, and enable more efficient use of scarce concessional resources, including for grants and other highly concessional programming.

12. **Maximization of grants and updates to non-grant financial parameters:** The Policy continues to encourage contributors to maximize their contributions in the form of grants, as this type of input is vital to the Fund's unique role in providing highly concessional, flexible financing and risk-sharing. At the same time, non-grant contributions remain important to increase the overall resources of the Fund, while allowing grants to be programmed where they are most needed. In particular, under the refined Commitment Authority Framework ([decision B.45/01](#)), loan contributions can expand the Fund's programming capacity not only by financing new loans, but also by releasing grant and capital resources currently supporting the existing loan portfolio.

13. With this in mind, in the context of the third replenishment, the Secretariat has re-examined the financial parameters currently governing the receipt of non-grant contributions. This analysis has taken into account the latest status of the Fund's loan portfolio and the need to ensure that such parameters remain aligned with the Fund's risk framework. Subject to the Board's approval, the Policy seeks to provide greater flexibility in the treatment of non-grant contributions, including the aggregate share of loan and capital contributions and individual loan contributions, while maintaining applicable financial safeguards, monitoring requirements, and tailored loss-absorption arrangements for loan contributions under the relevant

² Specifically, the policies for contribution to the Green Climate Fund for the Initial Resource Mobilization ([decision B.08/13](#)), first replenishment ([decision B.24/2](#)), and second replenishment ([decision B.36/14](#)).

contribution agreements. The proposed updates are intended to enable contributors to increase their overall support to GCF while still maximizing their grant contributions.

14. **General conditions to contributions:** While conditions specific to non-grant contributions may be updated in line with paragraph 13 above, general conditions applicable to existing types of contributions (i.e., legal arrangements, size, currency, grant requirement, and timing) will remain consistent with previous policies. The uses for which GCF may apply grant, capital, and loan contributions will be maintained, as will the principle of no cross-subsidization between grant and non-grant contributors.

15. **Payment waterfall:** Consistent with previous replenishment cycles, the Policy establishes the order of priority for the use of available funds in the unlikely event that such funds are insufficient to meet GCF's payment obligations. The determination of available commitment authority will be undertaken in accordance with the refined Commitment Authority Framework methodology endorsed by the Board in [decision B.45/01](#).

IV. Impact assessment and implementation arrangements

16. The Policy will supersede the Updated policy for contributions to the Green Climate Fund for the second replenishment ([decision B.36/14](#)). Consistent with previous policies, the Policy will apply to GCF-3, with a view to continuing to apply to future replenishments. Its operationalization will require appropriate legal arrangements, including contribution agreements or arrangements signed by the contributors, the GCF, and the Trustee (as the entity holding the contributed funds in trust), which is the existing mechanism for receiving contributions to the Trust Fund. Consistent with [decision B.45/18](#), the Policy will be implemented in line with the applicable principles and provisions of the UNFCCC, the Paris Agreement, the Governing Instrument, and relevant Board decisions.

V. Budgetary implications

17. Consistent with prior replenishment cycles, the Secretariat will proceed with implementation of the Policy within the allocated budget.

VI. Research and consultation

18. The proposed approach draws on extensive in-person and virtual consultations with the Board, including during informal sessions at B.43 and B.44; separate calls with the developed and developing country constituencies (3–4 February 2026 and 24–25 August 2026); a technical session with the full Board (1 October 2026); and multiple bilateral meetings. The draft contained in Annex II was shared ahead of B.45; underwent a written consultation exercise, which resulted in 12 submissions from Board members and Active Observers; and was also shared with the Trustee, which submitted feedback. Additional supporting analysis has been provided at the Board's request.

VII. Monitoring and review

19. The Policy will apply to GCF-3 and may be reviewed or updated in the context of future replenishments. The Secretariat will monitor implementation of this Policy through the Fund's existing financial and risk reporting arrangements and report any material financial or risk implications to the Board.

VIII. Recommended action by the Board

20. The Secretariat recommends that the Board adopt the draft decision contained in Annex I.

Annex I: Draft decision of the Board

The Board, having considered document GCF/B.46/12 titled “Policy for contributions to the Green Climate Fund for the third replenishment”:

- (a) Expresses its appreciation to the Board and alternate members and observers who actively engaged in the consultation process;
- (b) Approves the Policy for contributions to the Green Climate Fund for the third replenishment, as contained in annex II; and
- (c) Requests the Secretariat, in coordination with the Trustee, to take any necessary measures to give effect to and implement the Policy, including by establishing or updating, as necessary, the applicable legal, operational, financial, and administrative arrangements for the receipt, management, and administration of financial inputs according to the Policy.

Annex II: Policy for contributions to the Green Climate Fund for the third replenishment

I. Resource mobilization approach for the third replenishment

1. This Policy for Contributions (the “Policy”) will apply to the Green Climate Fund’s (GCF or the ‘Fund’) third replenishment period (GCF-3) with a view to continuing to apply to future replenishments.
2. The Policy implements the provisions of the Governing Instrument for the GCF regarding the sources and receipt of financial inputs¹ by establishing the rules applicable to the replenishment process, and by providing the modalities for the receipt of such inputs and triggering their use. The objective of the Policy is to maximize concessional funding for developing countries, consistent with the Fund’s mandate, Governing Instrument, governance arrangements, and operational model.
3. Without prejudice to the foregoing, the third replenishment process will be subject to the following:
 - (a) **A pledging process and end date for replenishment pledging:** contributors will be invited to pledge contributions at a formal GCF-3 pledging conference.² Based on decision B.05/04, GCF will maintain flexibility to receive financial inputs on an ongoing basis;
 - (b) **A minimum contribution:** there will be no minimum contribution threshold for Parties to the United Nations Framework Convention on Climate Change (the “Convention”) and Non-Parties to the Convention (e.g., other sovereign entities, regional governments, states and cities) to participate in the replenishment consultation process and to make pledges and contributions;
 - (c) **A replenishment period:** GCF’s replenishment process will secure financing for the four-year period beginning on 1 January 2028 and ending on 31 December 2031;³
 - (d) **Effectiveness:** Contributors are expected to confirm amounts pledged at the pledging conference through fully executed legal agreements/arrangements⁴ as soon as possible. Timely confirmation of pledges is essential to enable GCF to respond to urgent climate programming needs and avoid interruptions in the Fund’s ability to deliver on its mandate;
 - (e) **A trigger for the fourth replenishment process:** GCF will initiate the next replenishment 30 months after the commencement of GCF-3 in order to allow sufficient time for the preparation and consideration of such reports and/or evaluations as may be necessary; and
 - (f) **Carry-over of funds:** resources carried over from one replenishment period to the following replenishment period will consist of the following:
 - (i) Amounts contributed in cash or promissory notes not committed by the end of the relevant replenishment period;

¹ In particular, paragraphs 29 and 30 of the Governing Instrument.

² Scheduled for [DATE].

³ Decision B.45/18.

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

- (ii) Any investment income, reflows, and other funds from financial instruments not committed by the end of the relevant replenishment period; and
 - (iii) Unpaid cash or promissory notes per fully executed contribution agreements/arrangements.
- (g) **Confirmation of pledges and payments and/or deposits:**
- (i) All pledges will be confirmed by fully executed contribution agreements/arrangements, to be followed by payment and/or deposit according to the agreed schedule in the contribution agreements/arrangements; and
 - (ii) All unconfirmed pledges, non-receipt of payments in cash or deposit of promissory notes, or non-encashment of promissory notes will be recorded in document “Status of the Green Climate Fund resources” until they are confirmed by fully executed contribution agreements/arrangements and paid and/or deposited in accordance with the relevant agreements/arrangements.

II. Sources of funds

4. The Governing Instrument states that “[t]he Fund will receive financial inputs from developed country Parties to the Convention”, and “may also receive financial inputs from a variety of other sources, public and private, including alternative sources.”⁵
5. GCF may also receive financial inputs, among others, from the following sources:
- (a) Non-Parties to the Convention;
 - (b) Public and private entities; and
 - (c) Philanthropic foundations.
6. Financial inputs from Parties to the Convention and Non-Parties to the Convention, such as other sovereign entities, regional governments, states and cities, will be accepted on the basis of pledges received by GCF in accordance with this Policy for Contributions.
7. Financial inputs from other sources, including public and private entities, philanthropic foundations, and alternative sources, may also be received, in accordance with the applicable separate policy.⁶ This Policy does not apply to such financial inputs.
8. Additionally, sources of funds may include, but are not limited to:
- (a) Investment income earned on the balance of the GCF Trust Fund;⁷ and
 - (b) Reflows from outgoing loans and other financial products, including interest and principal repayments, net of repayments to loan contributors.

III. Types of contributions/financial inputs

9. Consistent with decision B.05/04, paragraph (d), GCF will receive the following types of contributions/financial inputs:
- (a) Grants from public and private sources;

⁵ Governing Instrument, paragraphs 29 and 30.

⁶ Policy on Contributions from Other Sources not Covered in the Policy for Contributions to the Green Climate Fund (DECISION).

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

- (b) Paid-in capital⁸ from public sources;
- (c) Concessional loans from public sources;
- (d) Guarantees from sovereign and sub-sovereign sources; and
- (e) Additional types of inputs to be decided by the Board.

Table 1: Contribution/financial input types and uses

Contribution/Financial Input Type	Definition	Illustrative Uses by GCF
Grant	- Funds provided in cash or by promissory note - No repayment obligation - Cash and promissory notes are assets of GCF	- Any financial instruments approved by the Board, (e.g. grants, concessional loans, equity, guarantees) - Administrative budgets, accredited entities (AE) fees (i.e. fees that AE may be entitled to receive for project implementation or other services to be performed by AE) - Other uses as may be decided by the Board
Loan	- Funds provided in cash - Obligation of GCF to repay the contributor, with or without interest - Cash drawdowns are assets of GCF, creating a corresponding liability of GCF	Loans on terms less concessional than the loan contributions
Capital⁹	- Funds provided in cash or by promissory note - Capital contributor may receive a potential return of its contribution, in whole or in part of pro rata share upon wind-up of GCF, depending on the availability of such funds at the time - Capital contributions are assets of GCF, creating a corresponding liability of GCF	- Financial instruments which generate reflows regardless of the concessionality level (e.g., concessional loans, guarantees generating fee income). Thus, capital contributions may not be used to finance grants unless the specific terms of the capital contribution so allow - Other uses as may be decided by the Board

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

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

Guarantee¹⁰	• Guarantees provided by an investment-grade sovereign or sub-sovereign • Contingent funds (not provided by sovereign or sub-sovereign upfront) • Guarantor commits to providing an agreed contingent grant contribution, upon triggering of objective and verifiable conditions specified in the applicable legal arrangements. • Upon execution of legal arrangements, guarantees will be recorded as a contingent asset in the notes to the Financial Statements; upon call of a guarantee, the relevant amount would be recognized as a receivable and provided as a grant contribution	• Supporting deployment of guarantees as a GCF financial instrument • Limiting potential losses that might accrue on GCF's loan exposures (as a credit risk guarantee) • Other uses as may be decided by the Board
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10. **Tracking of contribution/financial input types and their uses:** tracking of different types of contributions/financial inputs and their uses by GCF in accordance with its relevant contribution policies will be performed by the Secretariat under the financial risk management framework (FRMF)¹¹ to avoid cross-subsidization between grant and non-grant contributors. Additional guidance will be drawn from the risk management framework (RMF) and internal guidelines, as appropriate.

11. **Tracking of capital contributions:** capital contributions will be tracked and reported to the relevant contributors and to the Board, as needed.

12. **Tracking of loan contributions:** as part of the implementation of the FRMF¹² by the Secretariat, the system for tracking loan contributions reflects that:

- (a) Loan contributions will be tracked separately from grants and capital contributions; and
- (b) All loan contributions will be co-mingled, and grant amounts in respect of any cushion provided by the loan contributors, where applicable, will be tracked and applied in accordance with the applicable loss-absorption arrangements under paragraph 38.

13. **Tracking of guarantees:** Sovereign and sub sovereign guarantees will be tracked separately from grant, loan, and capital contributions, and reported to the relevant guarantors and to the Board, consistent with established reporting arrangements. Such tracking for guarantees shall include, for each guarantor:

¹⁰ A sovereign or sub-sovereign guarantee financial input, is recorded as a contingent asset, resulting in a grant contribution once called.

¹¹ The revised initial FRMF (submitted to the Board at B.26 as annex I to document GCF/B.26/Inf.10/Add.01 titled "Reports from committees, panels and groups of the Board of the Green Climate Fund") or any subsequent updates or revisions to the FRMF.

¹² Or any subsequent updates or revisions to the FRMF.

- (a) The total guarantee, tenor, trigger conditions, termination dates, and conditions under which exposure would be extinguished without call;
- (b) The total exposure allocated to a specific use;
- (c) Any grant contribution amounts called and settled; and
- (d) The total outstanding exposure.

IV. Conditions applicable to all types of contributions/financial inputs

14. **Legal arrangements for contributions/financial inputs:** contributions/financial inputs to GCF will be facilitated through legal agreements/arrangements signed by the contributors, GCF, and the Trustee, which is the existing mechanism for receiving contributions/financial inputs to the GCF Trust Fund.

15. **Size of contributions/financial inputs:** GCF may accept pledges and contributions/financial inputs of any size from Parties to the Convention and Non-Parties to the Convention.¹³

16. **Currency:** it is recommended that all contributions/financial inputs be made in major freely convertible currencies. In accordance with prior decisions, including the FRMF and RMF, the Secretariat will consider taking appropriate measures to manage currency risk related to the receipt, use, and any repayment obligations related to contributions to GCF. Further details on the management of foreign exchange risk are provided in paragraph 57 below.

17. **Requirement to provide grants:** all contributors will be required to provide a grant contribution. Contributions/financial inputs in other forms will be accompanied by a minimum grant contribution to GCF in respect of the administrative costs and expenses of GCF (collectively referred to as “administrative budget”),¹⁴ and accredited entity (AE) fees associated with the implementation and use of the non-grant contribution/financial input, where such resources cannot be used for such non-reimbursable uses. Further details on providing grants are provided in paragraphs 23, 30, and 47 below. The grant contribution required in respect of administrative costs and expenses will be counted as part of the contributor’s overall contribution to GCF.

18. **Timing:** GCF will accept contribution payments pursuant to the contribution/legal agreements/arrangements. Regarding the instalment schedule for payment of cash and deposit of promissory notes during the replenishment period, contributors are strongly encouraged to fulfil their payments and/or deposits (i) within the replenishment period and (ii) by the end of third quarter of each year of the respective replenishment period, in accordance with the corresponding payment and deposit schedule, to support predictable funding decisions and programming by the Board.

¹³ Conditions, including minimum size, related to contributions from non-Parties and other sources contemplated in the Governing Instrument, will be considered by the Board for decisions independently.

¹⁴ Including the Trustee and other functions.

V. Conditions for grant and capital¹⁵ contributions

19. **Grants:** a contribution made in the form of a grant may be used for any financial instruments (e.g., grants, concessional loans, equity, guarantees), administrative budgets, and AE fees.

20. **Maximizing the grant element:** Grant resources are uniquely important and remain central to the Fund's mandate and risk appetite. In consideration of the requirements of the FRMF¹⁶ and the limitations on GCF's use of non-grant contributions, contributors are encouraged to maximize contributions in the form of grants.

21. **Capital:** a contribution made in the form of capital may be used for financial instruments which generate reflows regardless of the concessional level (e.g., concessional loans, guarantees generating fee income). Capital contributions may not be used to finance grants¹⁷ or administrative budgets, unless the specific terms of the capital contributions allow for such use.

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

23. Capital contributors would be required to make a grant contribution to cover administrative budgets and AE fees, unless the specific terms of the capital contributions allow for financing of grants or administrative budgets. The amount of the additional grant contribution required should be at least 10 percent of the amount of the pledged capital contribution. The amount may be adjusted based on an analysis of actual administrative budgets approved during the replenishment period, AE fees, and any other factors.¹⁸

24. For the purposes of this Policy for Contributions, the aggregate capital contribution share shall be defined as the total amount of pledges and/or contributions confirmed by fully executed contribution agreements/arrangements in the form of capital as a percentage of the aggregate amount of pledges and/or contributions confirmed by fully executed contribution agreements/arrangements at any point during the relevant replenishment period. The share shall be calculated using the reference exchange rate for GCF-3.¹⁹

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

(a) **Method of payment:** payments may be made in cash or, at the option of the contributor, and with the agreement of GCF and the Trustee, by depositing, in a designated custody account, non-negotiable, non-interest-bearing promissory notes, to be drawn down in cash on demand;

(b) **Encashment of promissory notes:** for those contributors who elect to make contributions in the form of promissory notes, the encashment of promissory notes will

¹⁵ Also referred to as "paid-in capital" in GCF documents.

¹⁶ Pursuant to paragraph 2(a) of GCF's initial financial risk framework adopted through decision B.07/05, "[t]he Fund will in aggregate seek to maximize grant contributions, taking into account its theme-based allocation. It is foreseen that grant contributions must significantly exceed loan amounts".

¹⁷ Capital contributions may also not be used for administrative budgets or AE fees.

¹⁸ The figure of 10 per cent is an estimate of total costs and fees and in no way presupposes a Board decision on AE or other fees or costs of GCF.

¹⁹ [To be agreed during GCF-3 consultation meetings].

be based on an encashment schedule and related terms agreed between the contributor and GCF. To the extent possible, the encashment schedule will be agreed among the parties allowing encashment on specific dates. The period within which the encashment will take place shall not exceed nine years starting from the beginning of the relevant replenishment period. This can be reviewed again during the subsequent replenishment process; and

- (c) **Encashment schedule:** for the purposes of encashment, the indicative schedule set out in table 2 may apply.

Table 2: Indicative encashment schedule for the third replenishment period

Calendar Year	Percent of Contribution
2028	6.7%
2029	11.7%
2030	15.6%
2031	12.3%
2032	11.9%
2033	11.9%
2034	11.3%
2035	10.4%
2036	8.2%
Total	100.0%

26. For those contributors that choose to accelerate their cash payment or encashment schedule compared to the indicative encashment schedule provided in table 2, a credit will be provided which will be added to the nominal pledge amount. This credit will be calculated as the difference between the present value of the standard encashment schedule and the contributor's encashment schedule. The discount rate for calculating the present value will be based on the estimated investment return on GCF's liquidity over the term of the encashment schedule. For the purposes of GCF-3, the discount rate would be 5.06 per cent. The encashment schedule will in no way prejudice the operation of GCF in terms of programmatic decisions and disbursement profile. The encashment schedule may be reviewed in the future replenishment processes based on the approved projects' projected disbursement needs.

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

VI. Conditions for loan contributions

28. **Non-cross subsidization:** To ensure the financial sustainability of GCF, transparency, and equal treatment of contributors, there will be no cross-subsidization between sovereign and sub-sovereign providers of grants and providers of loans.²⁰

²⁰ Paragraph 2(c) of the Revised Initial Financial Risk Management Framework, endorsed by the Risk Management Committee, see B.26/Inf.10/Add.01 .

29. **Role and use of loan contributions:** Loan contributions are intended to increase the Fund's overall concessional resources while preserving the principle of maximizing contributions in the form of grants. The receipt of loan contributions is not intended to substitute for grant contributions or, by itself, determine the Fund's programming or outgoing financial instrument mix, which shall remain guided by Board-approved strategic programming and applicable allocation, financial, and risk parameters.

30. Loan contributions will be used to finance loans on terms less concessional than the loan contributions and will be unavailable for non-reimbursable uses, such as to provide grants, to finance the administrative budgets, and AE fees. Therefore, loan contributors would be required to provide a grant contribution to cover administrative budgets and AE fees. The amount of the additional grant contribution required should be at least 10 percent of the amount of the pledged loan contribution. The amount may be adjusted based on analysis of actual administrative budget approved during the replenishment period, AE fees, and any other factors.²¹

31. **Calculation of aggregate loan contribution share:** For GCF-3, the Secretariat will calculate the aggregate loan contribution share using the foreign exchange rate at the end of the previous quarter or other latest foreign exchange rates as agreed.

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

33. **Reporting of loan contributions:** Following the pledging session, the Secretariat will assess the aggregate loan contribution share and the resulting minimum share of programming to be deployed through less concessional loan instruments. The Secretariat will continue to monitor the aggregate loan contribution share and assess the corresponding programming implications as contribution agreements/arrangements are finalized.

34. **Reporting of the grant equivalence of a loan contribution:** funding received and extended by GCF will be accounted for in grant-equivalent terms based on the standard methodology developed by GCF with the support of the Trustee, which was based on best international practices and adopted in previous replenishment cycles, to provide an accurate comparison of funding amounts between financial instruments.^{22 23} Indicative grant equivalency rates are presented in appendix III.

35. **Loan drawdowns:** the proceeds of the loan contributions, payable in cash, will be held in the GCF Trust Fund. Loan contributions will be drawn down on a schedule agreed by GCF and the contributor.

36. **Provisions for non-performing loans:** losses arising from GCF's loan portfolio will be allocated on a pro-rata basis among the contributors supporting that portfolio. Based on

²¹ The figure of 10 per cent is an estimate of total costs and fees and in no way presupposes a Board decision on AE or other fees or costs of GCF.

²² Decision B.07/06, annex XIV, paragraph 2(b).

²³ The discount rates for the calculation of the grant-equivalent terms of the donor loan contributions represent the US dollar discount rates used by the International Development Association for estimating the grant element of its concessional partner loans under its most recently concluded replenishment.

decisions on the FRMF,²⁴ to further avoid cross-subsidization between grant and non-grant contributors:

- (a) The Secretariat will track loan performance and resource flows; and
- (b) Any financial losses arising from a given portfolio will be allocated on a pro-rata basis among the relevant loan, grant, and capital contributions supporting that portfolio, subject to the applicable loss-absorption arrangements under paragraph 38 and the principle of no cross-subsidization between grant and non-grant contributions.

37. **Cash-flow monitoring and modelling by the Secretariat:** as noted above, the role of the FRMF and the Secretariat will be crucial in the management of contributions, and particularly the tracking of loan contribution cash flows.

38. **Loss-absorption measures:** in addition to the grant contribution amount required to cover administrative budgets and AE fees (described in paragraph 30 above), each loan contribution will be subject to loss-absorption measures, as specified in the relevant contribution agreement. Such measures may include an additional grant contribution as a cushion²⁵ for non-performing loans or other binding arrangements agreed between the contributor and GCF, taking into account expected portfolio losses²⁶ and applicable risk management requirements.

- (a) Where a cushion is provided, it will be held as part of the assets of the GCF Trust Fund and will be available for use to make payments to the respective loan contributor in the event reflows from outgoing loans are not sufficient to cover repayments due to that contributor, in accordance with the principle of no cross-subsidization.²⁷
- (b) GCF will manage and monitor the relevant portfolio exposures in accordance with its risk management framework and agreed risk appetite, with a view to minimizing losses. If, despite all reasonable efforts to maintain the risk profile of the portfolio of GCF in line with the agreed risk appetite, losses arise or the agreed loss-absorption measures prove insufficient, the loan contribution agreement shall require that the loan contributor may be subject to write-down of principal and/or interest repayments, may be required to make additional grant contributions, or may be subject to other specified loss-absorption measures.

For illustration purposes, assuming expected portfolio losses of 17 percent: (i) a contributor electing to provide no cushion (0 percent) would bear the full implied write-down exposure of 17 percent; (ii) a contributor electing a partial cushion of 10 percent would bear residual write-down exposure of up to 7 percent; and (iii) a contributor electing the full expected loss cushion (17 percent) is protected up to that amount. In all cases, contributors would bear write-down risk for losses exceeding expected levels.

- (c) In the event there is an excess amount of cushion, as determined by GCF and the loan contributor, the excess amount may be released and used as a grant contribution. Loan cushions will not count toward grant-equivalency calculations.
- (d) The Secretariat will review the implementation and adequacy of the loss-absorption arrangements in subsequent replenishment processes.

²⁴ Decision B.07/05.

²⁵ In line with the Risk Management Framework.

²⁶ Expected portfolio losses are currently estimated at approximately 17 percent, based on the existing GCF loan portfolio and applicable modelling assumptions. This estimate is indicative and does not prescribe the loss-absorption arrangements for individual contributions.

²⁷ Reflows are expected to be insufficient until such time as interest payments are received on financing extended by GCF.

39. **Terms of loan contributions:** the terms of loan contributions will ensure that the average level of concessionality of outgoing loans will be less than the average concessionality level of incoming loan contributions, with a sufficient margin to cover a credit risk. Proposed loan contribution terms are contained in appendix I to this Policy for Contributions.

VII. Conditions for sovereign and sub-sovereign guarantees

40. The receipt and use of sovereign and sub-sovereign guarantees shall be subject to this Policy and the terms of the relevant legal arrangements. Indicative terms are proposed in appendix II.

41. Guarantees received may be used for purposes including:

- (a) Supporting deployment of guarantees as a GCF financial instrument;
- (b) Serving as a credit enhancement guarantee applied to GCF's loan portfolio, transferring a share of risk to limit potential losses; or
- (c) Other uses as may be decided by the Board.

42. Guarantees may be pledged subject to the guarantor's domestic legal and administrative requirements. Upon execution of the corresponding legal arrangements, guarantees must be legally binding, unconditional, and irrevocable. At that time, they will be recorded as a contingent asset in the notes to the Fund's Financial Statements. Upon a valid call, the relevant amount will be recognized as a receivable and provided as a grant contribution.

43. A guarantee shall not confer upon the guarantor or any related entity preferential access or treatment in relation to GCF accreditation, procurement, funding decisions, or funded activities, or authority over the identification, selection, appraisal, approval, or implementation of individual GCF-funded activities.

44. The applicable legal arrangements for guarantees will stipulate terms including:

- (a) The specified exposure type that the guarantee will cover;
- (b) Objective and verifiable triggers for a call on the guarantee, grant payment mechanics, and settlement timeline;
- (c) The maximum callable amount, currency denomination, and term; and
- (d) Any applicable fees.

45. Guarantees may only be called upon by the Fund to cover losses, payment obligations, or liquidity shortfalls arising from the specified exposures, and may not be called upon to cover administrative expenses, financing of grant financial instruments, or AE fees.

46. If multiple guarantors support the same exposure, calls will be made pro rata based on committed exposure unless otherwise specified.

47. Consistent with paragraph 17 above, guarantors would be required to also make an additional grant contribution to cover administrative budgets and AE fees. The amount of the additional grant contribution required should be at least 10 percent of the amount supported by the guarantee. The additional grant amount may be adjusted based on an analysis of actual administrative budgets approved during the replenishment period, AE fees, and any other relevant factors.²⁸

²⁸ The figure of 10 per cent is an estimate of total costs and fees and in no way presupposes a Board decision on AE or other fees or costs of GCF.

48. The receipt and use of guarantees will remain subject to GCF's FRMF and applicable prudential requirements. Each call of a guarantee must be reported to the Board, consistent with the Secretariat's financial reporting obligations, including the trigger event, amount called, remaining exposure, and impact on financial position.

49. **Reporting of the grant equivalence of guarantees:** for GCF-3 purposes, guarantees will be reported both in nominal and grant-equivalent terms based on a standard methodology developed by GCF based on best international practices, to provide an accurate comparison of funding amounts between financial instruments. Indicative grant equivalency rates are presented in appendix III.

VIII. Payment waterfall

50. Commitment authority represents the maximum incremental exposure that GCF may commit under its funding decisions²⁹ while maintaining its financial resilience. Commitment authority shall be determined in accordance with the FRMF and the refined Commitment Authority Framework methodology endorsed by the Board in decision B.45/01.

51. Based on the tracking by GCF, as part of the implementation of the FRMF, the refined Commitment Authority Framework methodology is expected to enable GCF to meet its obligations and support funding decisions in a prudent and sustainable manner. The Secretariat will report on relevant financial and risk indicators, including through the Risk Management Dashboard on a quarterly basis and other regular financial and risk reporting to the Board, to support transparency regarding the Fund's financial resilience and available resources. In the unlikely event that, despite the applicable safeguards, GCF faces insufficient funds to meet its payment obligations, available funds will be committed and transferred in the following order of priority:

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

IX. Liquidity risk management

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

²⁹ Funding decisions include decisions on funding proposals, the Readiness and Preparatory Support Programme, the Project Preparation Facility, accredited entity management fees, any approved set-asides, the administrative budget (including for the independent units) and any other financial commitments made by the Board.

53. In accordance with the decision on GCF's FRMF and RMF, mechanisms are put into place to ensure that liquidity risk in relation to contributions is closely managed and monitored by GCF.³⁰ Under the mechanisms to manage this liquidity risk, GCF will:

- (a) Commit only in accordance with the refined Commitment Authority Framework methodology;
- (b) Closely monitor the risk of non-payment;
- (c) Closely monitor and report to the Board on non-payment of contributions based on agreed schedules; and
- (d) Set aside a financial reserve from the funding available for the minimum liquidity requirements as determined by the GCF's RMF.

X. Managing risk of non-payment of contributions/financial inputs

54. Related to liquidity management is the risk that:

- (a) Pledges are not converted into signed agreements/arrangements to provide contributions;
- (b) Instalment payments, deposits, encashments, or any amounts due under the signed agreements/arrangements are not paid or deposited on time; and
- (c) The non-encashments of promissory notes, or lack of liquidity, could affect the disbursements to the approved programmes and projects.

55. Non-conversion of pledges into signed agreements/arrangements, non-receipt of the payments in cash or deposit of promissory notes, or non-encashment of promissory notes may affect the Fund's ability to meet programming needs and payment obligations in a timely manner.³¹

56. Any pledges that are not converted into fully executed agreements/arrangements and non-payment of contributions will be reported regularly to the Board by the Secretariat as part of its reporting to the Board on the status of the resources. The Secretariat should regularly and actively engage with the relevant contributors to review and seek to address the situation, if any.

XI. Foreign exchange risk management

57. Foreign exchange risk will be managed, monitored and reported in the confines of the GCF's RMF and the Policy to Minimize the Effect of Currency Fluctuations on the Commitment Authority of GCF.³²

58. For the purpose of reporting the pledges/contributions, GCF may use multiple currencies, as part of the monitoring of foreign exchange risks.

³⁰ Decision B.07/05.

³¹ The risk of inability to encash promissory notes is not considered here; it is deemed to be low based on the prevalence of the requirement for budget and legislative authority by the contributor prior to the deposit of promissory notes.

³² Decision B.34/22.

Appendix I: Loan contribution terms

1. It is recommended that the terms of loan contributions be standardized for all contributors. Two options for loan terms may be chosen:
 - (a) A more concessional option (Option 1); and
 - (b) A less concessional option (Option 2).
2. Standardized loan terms would facilitate risk and cash flow management by GCF.
3. These terms will apply for the third replenishment period, and may be reviewed in the future, during the subsequent replenishment processes. They may also need to be reviewed based on the terms chosen by the Board for concessional lending by GCF, to ensure that such terms (maturity and interest rate) of loan contributions are more concessional than the high concessional loans to the projects from GCF, which has 0 per cent and 40 years maturity. Any revision to the standardized loan contribution terms set out in this Appendix would require that loans programmed by GCF remain on less concessional terms than the revised contribution terms, to ensure that the Fund can service its loan contribution obligations from project reflows.
 - (a) **Maturity:** the maturity of loan contributions will be 40 years for option 1 and 25 years for option 2;
 - (b) **Grace period:** the grace period of loan contributions will be 10 years for option 1 and 5 years for option 2 and will apply to interest and principal repayments;
 - (c) **Principal repayments:** straight-line amortizing repayment schedule after the grace period payments every six months;
 - (d) **Interest rate:** loan contributions will attract a fixed coupon rate of up to 1 per cent per annum payments every six months (applicable to options 1 and 2) after the grace period; and
 - (e) **Drawdown of loan proceeds:** GCF will draw down loan funds from contributors as agreed between GCF and the contributor.

Appendix II: Guarantee terms

1. It is recommended that the terms of guarantees be standardized for all guarantors supporting GCF under this Policy.
2. The terms below will apply for the third replenishment period, and may be reviewed in the future, during the subsequent replenishment processes.
 - (a) **Exposure:** The covered exposure may be selected between two options, as specified in the applicable legal arrangement:
 - (i) GCF's guarantee portfolio.
 - (ii) GCF's loan portfolio.
 - (b) **Tenor:** The tenor of the guarantee shall be 4, 8, or 12 years, as specified in the applicable legal arrangement.
 - (c) **Coverage:** Each incoming guarantee will cover up to 100 per cent of any valid call allocated to that guarantor, subject to pro rata share with any co-guarantors, and up to the maximum guaranteed amount specified in the applicable legal arrangement. Coverage will extend to relevant outgoing guarantees or loans approved by the Board after execution of the applicable legal arrangement and before expiry of the incoming guarantee.
 - (d) **Triggers for call:**
 - (i) **Guarantee portfolio:** a call may be made when a valid and enforceable demand for payment is made under an underlying GCF guarantee within a covered Funded Activity, in accordance with the terms of that underlying guarantee.
 - (ii) **Loan portfolio:** a call may be made when an amount due on a covered loan exposure remains unpaid following the occurrence of a defined default and expiry of any applicable cure period.
 - (e) **Allocation among guarantors:** Where more than one guarantor covers the same exposure, any call shall be allocated pro rata, based on committed exposure, among the guarantors whose guarantees are in force at the time of the call. Each guarantor will be responsible only for its pro rata share and will not bear the risk of non-payment by another guarantor.

Appendix III: Calculation of grant element

Indicative grant equivalence of the GCF loan contributions

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

Maturity (years)	Grace period (years)	Interest rate (per annum)	Discount rate (per annum) ³³	Grant equivalence
40	10	1.00%	4.89%	56.57%
40	10	0.00%	4.89%	63.34%
25	5	1.00%	4.71%	35.86%
25	5	0.00%	4.71%	42.48%

Indicative grant equivalence of the GCF guarantees

Grant equivalence under different assumptions with respect to guarantee terms are presented below:

Tenor (years)	Discount rate (per annum)	Grant equivalence (approach 3)
4	4.6%	16.5%
8	4.6%	30.2%
12	4.6%	41.7%

³³ The reference discount rates applied will be updated at or before the pledging conference.