Annex XI: Guarantees as a new type of financial input from sovereign and sub-sovereign sources

I. Types of contributions/financial inputs

Contribution/Financial Input Type	Definition	Illustrative Uses by GCF
Guarantee[1]	• 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

1. **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:

(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.

II. Conditions for sovereign and sub-sovereign guarantees

2. 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 Section III below.

3. Guarantees received may be used for purposes including:

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

(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.

4. 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.

5. 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.

6. 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.

7. 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.

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

9. Consistent with paragraph 16 of the Policy contained in Annex X, 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.[2]

10. 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.

11. **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 Section IV.

[2] 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.

III. Guarantee terms

12. It is recommended that the terms of guarantees be standardized for all guarantors supporting GCF under the Policy contained in Annex X.

13. 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.

14. **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.

IV. Reporting of grant equivalence

15. 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 below.

16. Indicative grant equivalence under different guarantee terms are presented below:

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