Facilitator's summary - Second consultation meeting for the second formal replenishment of the Green Climate Fund

27–28 April 2023

Virtual meeting

I. Introduction

1. Pursuant to decision B.33/11, the second consultation meeting for the second formal replenishment of the Green Climate Fund was held virtually on 27 and 28 April 2023 to discuss matters relating to the second formal replenishment of GCF (GCF-2). Per document GCF/B.33/15/Rev.01, paragraph 5, the main purpose of the replenishment process will be to discuss and determine financial matters of GCF-2, inter alia the draft policy for contributions for consideration and approval by the Board, the financial position of the Fund, and the reference exchanges rates.

2. The second consultation meeting was attended by 30 potential contributors, 15 Board members, a representative of the Trustee, 3 active observers of the Board (2 civil society observers and 1 private sector observer), and observers from the secretariats of the United Nations Framework Convention on Climate Change, the Adaptation Fund, and the Climate Investment Funds. The agenda for the second consultation meeting is in annex II.

3. The draft policy for contributions to GCF for the second replenishment was agreed among participants after discussions at the second consultation meeting as presented in annex I.

II. Opening of the meeting

4. Day 1 of the meeting opened at 8:05 p.m. Korea Standard Time on Thursday, 27 April 2023.

5. The importance of GCF-2 was highlighted in remarks by the GCF-2 Facilitator, Mahmoud Mohieldin.

6. The Facilitator thanked Austria and Czechia for the first two pledges for GCF-2 and acknowledged the United States of America for its recent contribution towards its initial resource mobilization (IRM) pledge.

III. Building the momentum for an ambitious replenishment

7. Participants heard an update from the Executive Director ad interim (a.i.), Henry Gonzalez, on the unique features of GCF, programming and progress to date, and the growth of partnerships.

8. Participants were also shown excerpts of the video from the United Nations Secretary-General's speech delivered during the launch of the Intergovernmental Panel on Climate Change (IPCC) report on 20 March 2023, calling for a quantum leap on climate action and a successful replenishment of GCF.

IV. Financial position of GCF

9. Participants heard from the Chief Financial Officer (CFO)/Chief Operating Officer (COO), Hong-Thuy Paterson, on the financial position of GCF, including the portfolio, commitment authority, and the speed of GCF in bringing transactions to scale.

Discussion points

10. A participant called for balanced multilateral negotiations and state actions on climate change, as well as for developed countries to realize greater contributions in GCF-2 and fulfil existing climate finance commitments.

11. There were no further comments from participants. The previous two agenda items were closed.

V. GCF second performance review: informational session on the final report

12. The Head of the Independent Evaluation Unit (IEU), Andreas Reumann, provided an overview of the background and scope of the second performance review (SPR) as well as the approach and methods used for the report. He then summarized the key recommendations of the report and invited the participants to read the report for more detailed information on the recommendations.

13. IEU Chief Evaluation Officer, Archi Rastogi, presented a summary of the report's key findings under the following themes: institutional architecture and performance; access to GCF; programming in response to country needs; and results and impacts of GCF investments.

14. Investment Operations Manager, Timothy Breitbarth, responded to the report on behalf of the Secretariat. He conveyed some highlights from the management response of the Secretariat to the SPR, including brief responses to the seven broad recommendations of the IEU.

Discussion points

15. A participant requested a synthesized version of the findings with five high-level messages, and Mr. Reumann provided his response accordingly.

16. Participants noted the findings of the report and reiterated the importance of having a clear strategic plan for GCF-2 and improving governance and accreditation.

17. There were no further comments from participants. The agenda item was closed.

VI. Updated Strategic Plan for GCF-2

18. The Secretariat's Head of Policy and Strategy, Selina Wrighter, provided an overview of the timeline and key milestones leading up to the adoption of the updated Strategic Plan for GCF-2 (USP-2), summarized the ambitions of GCF in rising to the climate challenge and how these elements had been incorporated into the current draft of USP-2, and discussed the five strategic programming objectives in the current draft.

Discussion points

19. Participants noted the necessity of an ambitious USP-2, also stating that USP-2 must focus on serving all developing countries and must match the urgency of climate action.

20. Ms. Wrighter assured participants that the Secretariat had taken note of their comments and would continue supporting the Board towards the conclusion and adoption of USP-2.

21. There were no further comments from participants. The agenda item was closed.

VII. Issues related to the policy for contributions – first session

22. The Facilitator recalled that participants in the replenishment process had been invited to send comments on the draft policy for contributions to the Secretariat ahead of the second consultation meeting. The Secretariat had received comments, and these had been taken into consideration in the current draft presented to the participants.

23. Juichiro Sahara, the Secretariat's Head of Resource Mobilization, presented the process of the policy for contributions and provided an overview of the substantive comments that had been received on the policy since the first consultation meeting in December, including those provided at the thirty-fifth meeting of the Board (B.35). These comments related to having flexible and shorter encashment periods with incentives for countries that opted for shorter periods; including a policy statement on the need for a stable and predictable annual commitment authority; approaches to managing non-confirmed pledges and non-payment of confirmed pledges; and limiting the overall amount of loans received by GCF. Afterwards, Mr. Sahara presented the revisions that had been made to address these comments.

24. Mr. Sahara explained that participants would be invited to consider the draft one section at a time and provide any additional comments. After this section-by-section review, the Secretariat would revise the draft policy and share the revised draft the next day, before the resumption of the meeting. After further discussions, the Secretariat would review and fine-tune the draft with a view to having all participants agree to it by the end of the meeting. Once there was an agreement, the Secretariat would share the revised draft with all participants on Monday, 1 May 2023, or Tuesday, 2 May 2023, for final confirmation.

Discussion points

25. On the overall policy, participants stated that the policy should account for lessons learned from GCF-1 and emphasized the necessity of new and additional climate finance resources. Participants also expressed concern that a maximum limit on loan contributions might limit contributions to GCF. Mr. Sahara provided responses accordingly and explained that, with respect to limiting loan contributions, this was not a recommendation from the Secretariat but had been a comment received at B.35, which highlighted that GCF should receive more grant funding than loan funding.

26. On section one, ***resource mobilization approach***, there was a question on whether GCF had made an assessment of the financial situation, specifically on loans in relation to cushions. Mr. Sahara explained that there were no non-performing loans thus far and the Secretariat wished to continue taking a conservative approach in this regard.

27. On sections two and three, ***sources of funds*** and ***types of contributions,*** participants expressed their preference that GCF be able to receive contributions from all parties that were able and willing to contribute and emphasized the need to increase climate finance through new contributors from emerging economies and philanthropic and innovative sources. Mr. Sahara recalled that the Secretariat had submitted a document on contributions from alternative sources, with extensive research, at B.34, document GCF/B.34/18, titled "Approach paper on contributions from alternative sources of funds." Participants asked for an update on outreach being done in these areas, and Mr. Sahara stated that outreach was underway for contributors from emerging economies and noted the role of the Facilitator in this outreach.

28. Participants stated that while the Fund has the mandate to already to receive funding from alternative sources, they do not see why it needs a separate policy. Also, the language regarding types of contributions did not make it clear that private sector (alternative sources) contributions could not be received. They requested a revision of the language to clarify that private sector contributions to GCF depended upon the adoption of a policy for contributions

from alternative sources. Mr. Sahara explained that while the GCF can receive alternative sources of funding, the modalities on how to receive them needs to be approved as a policy, and this is why alternative sources of funding is not discussed in this policy. The Secretariat noted the suggested changes and agreed to revise the text for review the following day.

29. On section four, ***conditions applicable to all types of contributions,*** participants stated the need for greater flexibility in timing for fulfilling payments to account for different international budget and payment processes and suggested revised language to reflect this. Participants agreed to the suggested amendment, and the Secretariat reflected the changes accordingly.

30. Participants requested further clarification on encashment schedules for promissory notes and their relation to the actual project disbursements rather than the replenishment period and its commitment authority and suggested further revision to the language. Mr. Sahara responded accordingly, and the Secretariat noted the changes in the policy for further discussion the following day.

31. On section five, ***conditions for grant and capital contributions,*** participants requested an update on the discount rate for contributors that chose to accelerate their cash payment or encashment schedule. Mr. Sahara stated that a representative of the Trustee (the World Bank), Alexandru Cebotari would provide data and further explanation on the discount rate the following day.

32. On section six, ***conditions for loan contributions,*** participants asked for clarification regarding the selected method for calculation and discount rate to account for the grant equivalence of loan contributions. Participants also expressed their concern that requiring the cushion for non-performing loans seemed like an expensive way to cover credit risks and GCF needed a strategy for the management of non-performing loans

33. Participants also expressed concern that the grant equivalence of loan contributions was lower than it had been for GCF-1 and requested an explanation of the methodology, since low grant equivalence will disincentivize contributors from contributing larger amounts of contributions.

34. Mr. Cebotari explained that the Trustee had applied the same methodology used for GCF-1, which entailed applying the rate used by the International Development Association (IDA). Participants asked for further details regarding this methodology, and the Secretariat agreed to come back with responses the following day.

35. Regarding the cushion, Mr. Sahara also explained that the current approach of 20 per cent at the portfolio level took a more conservative approach and acknowledged that this 20 per cent allowance had been established at the early stages of GCF operations. As GCF was growing, the Secretariat would review this in the course of GCF-2.

36. On section seven, ***commitment authority,*** participants stated that GCF needed to manage its commitment authority in a predictable and conservative fashion. Mr. Sahara responded accordingly, stating that the Secretariat would be strengthening its communication and calculation of commitment authority.

37. On section eight, ***liquidity risk management,*** participants had no comments or questions.

38. On section nine, ***managing risk of non-payment of contributions,*** participants expressed concern over language used regarding “enforcement” of payment, suggesting that this language and paragraph be revised or deleted, as it is already covered in the existing

paragraphs. Participants agreed to delete the referenced paragraph and revise the preceding paragraph to reflect concerns, and the Secretariat reflected this in the draft.

39. On section ten, ***foreign exchange risk management,*** participants had no comments or questions.

40. On appendix I, ***loan contribution terms,*** and appendix II, ***calculation of grant element,*** participants noted that questions asked in previous sections related to appendix II.

41. The Facilitator reported on the summary of day 1 and closed day 1 of the meeting.

VIII. Remarks from a member of the Indigenous People's Advisory Group

42. The Facilitator opened day 2 of the meeting.

43. Helen Biangalen-Magata, a member of the Indigenous Peoples Advisory Group (IPAG), made remarks on the work of the IPAG, the impact that GCF had on indigenous peoples, and the importance of a successful GCF-2 replenishment.

44. Ms. Biangalen-Magata emphasized that a successful GCF replenishment would drastically change the scenario of demonstrated disproportionate climate change impact on indigenous peoples and their unequal access to and benefits from climate finance. A successful GCF replenishment could translate the aspirations of climate finance access into reality for indigenous peoples and developing countries all over the world.

IX. Project stories: presentation by the Secretariat and accredited entities

45. Executive Director a.i. Mr. Gonzalez made remarks on the partnership approach of GCF and its work with its accredited entities, including direct access entities.

46. Jacqueline Novogratz, Chief Executive Officer of Acumen, presented an overview of two projects that GCF and Acumen had partnered on: the Acumen Resilient Agriculture Fund (ARAF) (FP078) and the KawiSafi Ventures Fund (FP005). Ms. Novogratz also highlighted the benefits of partnership with GCF and its ability to unlock capital to have significant impact on the lives of the vulnerable.

47. Jyotsna Puri, Associate Vice-President of the Strategy and Knowledge Department of the International Fund for Agriculture and Development, spoke on the Inclusive Green Financing Initiative (IGREENFIN) (FP183). Ms. Puri noted the ambition of the project and the transformative role of GCF.

48. Keith Nichols, Head of the Programme Development and Management Unit of the Caribbean Community Climate Change Centre, presented the project The 3 R's (Reduce, Reuse, Recycle) for Climate Resilience Wastewater Systems in Barbados (FP192) and the project Water Sector Resilience Nexus for Sustainability in Barbados (WSRN) (FP060), highlighting the transformative impact of these GCF projects on the entire population of Barbados.

49. Mr. Gonzalez responded to the presentations, highlighting that the projects showed how GCF capital helped create markets and local ecosystems, where local financial institutions could join cross-border capital flows to de-risk and allow for private sector transactions to be viable responsibly—while following GCF environmental and social safeguards, protecting indigenous knowledge, and ensuring gender policies were incorporated.

Discussion points

50. Participants thanked the speakers and stated that they wished to pass these positive messages to respective political leaders.

51. Ms. Novogratz, Ms. Puri and Mr. Nichols responded to participants' comments and the Facilitator closed the agenda item.

X. Issues related to the policy for contributions – second session

52. The Facilitator recalled that the revised draft incorporating the comments from day 1 had been circulated to the participants by the Secretariat.

53. Mr. Sahara informed participants that they would proceed to go through the draft section by section where there were revisions. These revisions were in track changes in the revised draft circulated to the participants before day 2 started.

Discussion points

54. On ***paragraph 3(g)(i)***, Mr. Sahara explained that it had been revised to clarify the sequence of the contribution process, starting with the confirmation of pledges and followed by payment and/or deposit. There were no further comments on this paragraph.

55. On ***paragraphs 5–7***, revisions had been made to clarify and correct the list of contribution sources mandated to GCF through the Governing Instrument for the GCF. The revisions also clarified that accepting contributions from alternative sources called for policies on modalities to implement approved by the Board.

56. Participants requested clarification on the timeline of work relating to the policy for contributions and the policy for contributions from alternative sources. Mr. Sahara responded that it was unlikely that the policy for contributions from alternative sources would be considered by the Board before B.37. Other participants noted the sensitivity of this policy and the governance issues that might arise.

57. Participants expressed a preference to simplify the proposed language in paragraph 7 to be more in line with the Governing Instrument. Some participants expressed concern that the suggested revisions would put a condition on the Governing Instrument, which was not up to the Board to decide. Mr. Sahara responded that the Secretariat did not believe the paragraph was putting conditions on the Governing Instrument. It simply highlighted the need for a modality, instructions and guidance from the Board on how to accept contributions from alternative sources, and how to manage the sensitive issues on this matter.

58. The Secretariat proposed two options for paragraph 7 with simplified language, with the first option reverting mostly to the original language with some changes to reflect previous comments from participants, and the second option reiterating language from the Governing Instrument. Participants agreed to the first option, reverting to the original language of the paragraph and including as a footnote a reference to the adoption of corresponding policies and modalities by the Board for receipt of such contributions.

59. Participants suggested that the Secretariat consider current practices by other organizations in accepting private sector and philanthropic contributions. Mr. Sahara noted that the Secretariat had been looking into other organizations in this regard and would continue to do so.

60. Participants also emphasized that all Parties to the United Nations Framework Convention on Climate Change, not just developed country Parties, that were willing and able to contribute should be encouraged to do so.

61. On ***paragraph 17***, Mr. Sahara noted that it had been changed to reflect the participants' suggestion the previous day. Participants suggested one further change to the language, which the Secretariat reflected. No addtional comments were received.

62. On ***paragraph 19,*** Mr. Sahara explained that it had been revised to correct an error in paragraph numbering. No additional comments were received.

63. On ***paragraph 27,*** Mr. Sahara explained that it had been revised to include the discount rate of 1.49 per cent.

64. Mr. Cebotari, a representative of the Trustee, explained that the proposed discount rate had been determined as part of the recent replenishment of the Global Environment Facility (GEF-8) and that a note had been circulated to participants to explain this rate. There were two key reasons for suggesting this rate. First, the Trustee was in discussions with the Secretariat to revise the investment strategy of GCF and align this with the investment strategy. Second, in estimating the rate, it was important to balance the forward-looking approach and projection with historical trends. There were no additional comments.

65. On ***paragraphs 41 and 42***, Mr. Sahara explained that, based on the feedback from participants the day before, paragraph 42 had been deleted and paragraph 41 had been strengthened in relation to managing the non-confirmation and non-payment of contributions.

66. Participants requested changes to the language in paragraph 41 due to concerns that the policy currently gave direction to the Board, and suggested reverting to the original paragraph with one additional change.

67. Participants agreed to revert to the original language of paragraph 41 with one additional change, and the Secretariat took note of this.

68. On ***appendix I,*** Mr. Sahara explained that part of paragraph 3 had been corrected to say "second replenishment period" instead of "first replenishment period." There were no additional comments.

69. On ***paragraph 33(c) and appendix II,*** Mr. Sahara explained that the discount and grant equivalence rates in paragraph 33(c) had been revised and these numbers had been reflected in the table provided in appendix II.

70. Mr. Cebotari recalled that, the day before, a participant had asked about the methodology used to calculate the rates and proceeded to explain the methodology used to decide upon the IDA discount rate, which had been used in GCF-1 and again to calculate for GCF-2. The IDA discount rate was calculated by projecting funding costs across the five currencies that were part of the Special Drawing Rights (SDR) basket. The rate was then averaged using the different weights of the currencies in the SDR basket.

71. Following comments from the previous day regarding low rates, Mr. Cebotari suggested that, instead of using the average of the five currencies of the SDR basket as in GCF-1, the funding cost for United States dollars could be used instead as most transactions and the main operation currency of GCF was the United States dollar.

72. Participants requested a written explanation of the methodology as a footnote, as well as clarification on the reference year that was used. Mr. Cebotari agreed to prepare a written explanation for inclusion in the final draft, and explained that for the reference period, the

numbers used were from the IDA20 replenishment and these were averages of periods from March to August 2021.

73. On the timeline of work on the draft policy, participants noted that Monday, 1 May 2023 was a holiday for many and requested an extended timeline. The Secretariat agreed to provide the revised draft by Tuesday, 2 May 2023. The participants were requested to provide inputs by Monday, 8 May 2023.

74. As there were no further comments, the Facilitator thanked the participants and closed the agenda item.

XI. Organizational matters

75. The Facilitator informed participants that preparations were underway for the Pledging Conference in close collaboration with the host. The event will be in person, with a focus on formally announcing pledges. By the time of the Pledging Conference, all substantive content and preparations should be accomplished, including USP-2, the adoption of the policy for contributions, and agreement on reference exchange rates. The outcomes of the Pledging Conference would be presented to the GCF Board at B.37 later in October. Germany and the Secretariat would provide further updates on logistics and the workplan for the Pledging Conference in the coming weeks.

Discussion points

76. Participants requested clarification on the level of attendance at the Pledging Conference. Oyun Sanjaasuren, the Secretariat's Director of External Affairs, responded that Board members as well as senior representatives from contributor countries were welcome.

XII. Summary and conclusion

12.1 Chair's summary

77. The Facilitator reported on the summary of day 2.

78. There were no comments or questions, and the Facilitator proceeded to the next agenda item.

12.2 Report of the meeting

79. The Facilitator informed participants that, according to decision B.33/11, he would report to the Board on the progress of the replenishment consultation meetings. The Facilitator would present his report on the second consultation meeting to the Board at B.36 in July.

12.3 Any other business

80. Participants watched a video message from the Executive Director-elect of GCF, Mafalda Duarte.

81. No other business was raised.

82. The meeting was closed.

Annex I: Updated policy for contributions to the Green Climate Fund for the second replenishment

Policy for contributions to the Green Climate Fund for the second replenishment[1]

I. Resource mobilization approach for the second replenishment

1. This Policy for Contributions (the "Policy") will apply to the second replenishment period ("GCF- 2") of the Green Climate Fund (the "GCF" or the "Fund") with a view to continuing to apply to future replenishments.

2. The Policy implements the provisions of the Governing Instrument regarding the sources and receipt of financial inputs[2] by establishing the rules applicable to the replenishment process and by providing the modalities for the receipt of contributions and triggering their use.

3. Without prejudice to the foregoing, the second replenishment process will be subject to the following:

(a) **Pledging process and end-date for replenishment pledging**: Contributors will be invited to pledge contributions at a formal second replenishment pledging conference.[3] Based on Board decision B.05/04, the GCF will maintain flexibility to receive financial inputs on an ongoing basis;

(b) **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) **Replenishment period**: The GCF`s replenishment process will secure financing for the 4-year-period beginning on 1 January 2024 and ending on 31 December 2027[4];

(d) **Effectiveness**: The GCF's commitment authority for the second replenishment period will become effective when 25 per cent of the total amount[5] pledged at the pledging conference is confirmed by fully executed contribution agreements/ arrangements[6];

(e) **Trigger for the third replenishment process:** The GCF will initiate the next replenishment 30 months after the commencement of the second replenishment period 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:

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[1] This draft Policy for Contributions may be further revised following the discussions to take place at B.36.
[2] In particular, articles 29 and 30 of the Governing Instrument.
[3] Scheduled for 5 October 2023.
[4] Decision B.23/07.
[5] Based on the reference exchange rate agreed for the pledging conference.
[6] "Fully executed contribution agreement/arrangement" refers to unqualified and unconditioned contribution agreement/arrangement with fixed payment or deposit schedule and signed by all parties.

(i) Amounts contributed in cash or promissory notes not committed by the end of the relevant replenishment period;

(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 the Board 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 United Nations Framework Convention on Climate Change", and "[M]ay also receive financial inputs from other sources, public and private, including alternative sources".[7]

5. The GCF, may also receive contributions, among others, from the following sources:

(a) Non-Parties to the Convention;

(b) Public and private entities; and

(c) Philanthropic foundations.

6. Contributions 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 the GCF in accordance with this Policy for Contributions.

7. Contributions from public and private entities, philanthropic foundations and alternative sources, may also be received. [8]

8. Additionally, sources of funds may include, but are not limited to:

(a) Investment income earned on the balance of the Green Climate Fund Trust Fund (the "Trust Fund");[9] and

(b) Reflows from outgoing loans and other financial products, including interest and principal repayments, net of repayments to loan contributors.

[7] Governing Instrument, paragraphs 29 and 30.
[8] Receipt of such contributions may require the adoption by the Board of the corresponding policies and modalities.
[9] This includes investment income earned on balances transferred by the Fund to implementing entities and intermediaries (if applicable).

III. Types of contributions

9. In accordance with decision B.05/04 (d), the GCF will receive the following types of contributions:

(a) Grants from public and private sources;

(b) Paid-in capital[10] contributions from public sources; and

(c) Concessional loans from public sources.

Table 1: Contribution types and uses

Contribution Type	Definition	Illustrative Uses by the Fund
Grant	• Funds provided in cash or by promissory note • No repayment obligation • Cash and promissory notes are assets of the 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)
Loan	• Funds provided in cash • Obligation of the Fund to repay the contributor, with or without interest • Cash drawdowns are assets of the GCF, creating a corresponding liability of the GCF	• Loans on terms less concessional than the loan contributions
Capital[11]	• 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 the Fund, depending on the availability of such funds at the time • Capital contributions are assets of the GCF, creating a corresponding liability of the Fund	• 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.

10. **Tracking of contribution types and their uses:** Tracking of different types of incoming contributions and their uses by the GCF in accordance with its relevant contribution policies will be performed by the Secretariat under the Financial Risk Management Framework (FRMF)[12] to avoid cross-subsidisation between grant and loan contributors. Additional

[10] The term "paid-in capital" used in previous Board decisions and GCF documentation does not denote capital (or equity of the GCF) that may be used as collateral or otherwise to leverage borrowing by the 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.

[11] As referred to as "paid-in capital" in previous Board decisions and GCF documentation.

[12] The revised initial FMRF was submitted to the Board at B.26 as Annex I to GCF/B.26/Inf.10/Add.01 titled "Reports from committees, panels and groups of the Board of the Green Climate Fund."

guidance will be drawn from the Risk Management Framework (RMF) and internal guidelines, as appropriate.

11. **Tracking of capital contributions:** Capital contributions would 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 FMRF[13] by the Secretariat, a 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 the cushion provided by the loan contributors will be used/shared on a pro rata basis among all loan contributors.

IV. Conditions applicable to all types of contributions

13. **Legal arrangements for contributions:** Contributions to the GCF would be facilitated through contribution agreements/ 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.

14. **Size of contributions: The** GCF may accept pledges and contributions of any size from Parties to the Convention and Non-Parties to the Convention.[14] There will be no maximum limit applicable on the contributions that the GCF may receive, provided, however, that contributions are made within the limits set out for capital (paragraph 23), and loan contributions (paragraphs 31 and 33(a)).

15. **Currency:** It is recommended that all contributions be made in major freely convertible currencies. In accordance with prior Board decisions, including the FMRF 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 the GCF. Further details on the management of foreign exchange risk are provided in paragraph 43 below.

16. **Requirement to provide grants**: All contributors would be required to provide a grant contribution. Contributions in the form of loans or capital will be accompanied by a minimum grant contribution to the GCF in respect of the administrative costs and expenses of the GCF (collectively referred to as "administrative budget"),[15] and AE fees associated with the implementation and use of the loan or capital contribution, since they may not be used for such nonreimbursable- uses. Further details on providing grants are provided in paragraphs 22 and 30 below. The grant contribution required in respect of administrative budgets would be counted as part of the contributor`s overall contribution to the GCF.

17. **Timing**: The GCF will accept contribution payments pursuant to the contribution 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 (1) within the replenishment period and (2) by the end of third quarter of each year of the respective replenishment period, in accordance with the

[13] Or any subsequent updates or revisions to the FRMF.
[14] 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.
[15] Including the Trustee and other functions.

corresponding payment and deposit schedule, to build up sufficient funding levels available for predictable funding decisions/commitments and programming by the Board.

V. Conditions for grant and capital[16] contributions

18. **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.

19. **Maximizing the grant element:** In consideration of the requirements of the FRMF[17] and the limitations on the GCF's use of capital contributions, further described in paragraph 20 below, grant contributions must significantly exceed the amounts contributed in the form of loans and capital.

20. **Capital:** A contribution made in the form of capital may be used for financial instruments which generate reflows regardless of the concessionality level (e.g. concessional loans, guarantees generating fee income). Capital contributions may not be used to finance grants[18] or administrative budget, unless the specific terms of the capital contributions allow for such use.

21. Both capital and grant contributors may receive the return of their pro rata share of the Trust Fund balance in the event the 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 the GCF that would be attributable to the grant contributors would be reduced by the amount of outgoing grants made by the GCF (including administrative budgets and AE fees). The pro-rata shares of the capital contributors would not be subject to such reduction.

22. 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 per cent 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.[19]

23. It is recommended that aggregate capital contributions do not exceed 20 per cent of the total aggregated amount of pledges for the replenishment period, calculated using the reference exchange rate for the second replenishment period[20]. This may be reviewed within the context of the FRMF and upon further development of the risk appetite of the GCF.

24. In case there is a risk of breaching this limit due to foreign exchange impact or the newly pledged contribution amounts, the Board may review the situation to either allow the limit to be

[16] Also referred to as "paid-in capital" in GCF documents.
[17] Pursuant to paragraph 2(a) of the Fund's initial financial risk framework adopted by decision B.07/05 of the Board, "[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."
[18] Capital contributions may also not be used for administrative budgets or AE fees.
[19] 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 the GCF.
[20] It was agreed by the participants at the first consultation meeting held virtually during 4 to 5 December 2022 to adopt the six-month period from 1 January 2023 to 30 June 2023 as the time period for the calculation of the reference exchange rates.

exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.

25. Also, during the pledging session, individual contributors would be encouraged to limit the individual capital component of their total contribution amount. If the total amount of capital contributions is greater than the aggregate capital limit, the Board may review the situation to either allow the limit to be exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.

26. **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 the GCF and the Trustee, by depositing, in a designated custody account, nonnegotiable, 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 be based on an encashment schedule agreed between the contributor and the GCF, taking into account the expected programming of the GCF and resulting cash requirements. To the extent possible, the encashment schedule will be agreed among the parties allowing encashment on specific dates. While the encashment will be based on need, the period within which the encashment 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 following indicative schedule may apply:

Table 2: Indicative encashment schedule for the second replenishment period

Calendar Year	Percent of Contribution
2024	6.7%
2025	11.7%
2026	15.6%
2027	12.3%
2028	11.9%
2029	11.9%
2030	11.3%
2031	10.4%
2032	8.2%
Total	**100.0%**

27. For those contributors that choose to accelerate their cash payment or encashment schedule compared to the original or standard schedule, 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 the second replenishment period, the discount rate would be 1.49 per cent. The

encashment schedule will in no way prejudice the operation of the 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.

28. 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 the GCF than the indicative encashment schedule, in present value terms. Any credits gained from this revision may be reported.

VI. Conditions for loan contributions

29. To ensure the financial sustainability of the GCF, transparency and equal treatment of contributors, there will be no cross-subsidization between providers of grants and providers of loans.[21]

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 per cent 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.[22]

31. For the second replenishment period, the GCF will continue to set the prudential debt limit (defined below) at 20 per cent, calculated using the foreign exchange rate at the end of the previous quarter or other latest foreign exchange rates as agreed. In case there is a risk of breaching the prudential debt limit due to foreign exchange impact or a newly pledged contribution amount, the Board may review the situation to either allow the limit to increase or request that the situation be rectified in order to maintain the limit of 20 per cent.

32. For the purposes of this Policy for Contributions, the prudential debt limit 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. The prudential debt limit will be reviewed in the subsequent replenishment process(es) within the context of the FRMF or other relevant policies upon further development of the risk appetite of the GCF:

(a) ***Implementation of the prudential debt limit:*** The limit will be managed on an aggregate basis. During the pledging session, individual contributors would be encouraged to limit the individual loan component of their total contribution amount. The loan contribution of individual contributor should be no higher than 40 per cent of their total contribution, unless the grant contribution from that individual contributor exceeds the grant contribution provided to the previous resource mobilization period. If the total amount of loan contributions is greater than the prudential debt limit, the

[21] Decision B.07/05, Annex XI, paragraph 2(c).

[22] 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 the GCF.

Board may review the situation to either allow the limit to be exceeded or to request that the situation be rectified in order to maintain the limit of 20 per cent.

(b) A review of the implementation of the prudential debt limit will be undertaken by the Secretariat based on actual loan, grant and capital contributions paid.

(c) **Reporting of the grant equivalence of a loan contribution:** Funding received and extended by the GCF will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by the GCF based on best international practices, to provide an accurate comparison of funding amounts between financial instruments.[23] [24] To calculate grant equivalency of loan contributions, a discount rate of 2.53 per cent for loan contribution with 40 year maturity and 2.11 per cent for loan contribution with 25 year maturity will be utilized for the second replenishment period. Indicative calculations using 2.53 and 2.11 per cent discount rate are presented in Appendix II attached to this Policy for Contributors. The full-face value amount of the loan contribution shall be used for the purpose of calculating the commitment authority for GCF (see section VIII), and the prudential debt limit;

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

(e) **Provisions for non-performing loans:** Losses from non-performing loans will be borne on a pro rata basis by contributors whose contributions were allocated to loans. Should any loan extended by an AE for a project or programme it implements be overdue, the Trust Fund may not have sufficient cash to fulfil payment obligations to the loan contributors. Based on the Board decisions on the FRMF,[25] to further avoid cross-subsidization between providers of grants and providers of loans:

(i) The Secretariat will track loan performance and resource flows; and

(ii) Any financial losses will be borne on a pro-rata basis by contributors whose loan, grant or capital contributions were used by the GCF to extend loans, in line with the principle of no cross-subsidization between loans, grants and capital contributions.

(f) The provisions for non-performing loans with respect to the loan contributors are as follows:

(i) **Cash-flow monitoring and modelling by the Secretariat**: As noted above, the role of the FRMF and the Secretariat will be crucial to the management of contributions, and particularly the tracking of loan contribution cash flows; and

(ii) **Cushion and write-down of loans:** In addition to the grant contribution amount required to cover administrative budgets and AE fees (described in paragraph 30 above), loan contributors will also provide an additional grant contribution in respect of the cushion for non-performing loans. In accordance with the prudential debt limit considerations and principle of no cross-subsidization, a portion of the total grant contributions provided by loan contributors would be in respect of a cushion for non-performing loans, to be

[23] Decision B.07/06, annex XIV, paragraph 2(b).

[24] 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 (IDA) for estimating the grant element of its Concessional Partner Loans (CPLs) under its most recently concluded replenishment.

[25] Decision B.07/05.

held as part of the assets of the Trust Fund, and available for use to make payments to loan contributors in the event reflows from outgoing loans are not sufficient to cover repayments due to contributors.[26] The amount of the cushion can be refined as sufficient data on the actual performance of the GCF's portfolio is collected. Refinements will be based on a realistic (quantitative) assessment of the risks the GCF has taken and is prepared to take on (the GCF's risk appetite) and an analysis of the GCF's expected cash flows, based on default rates and other assumptions. If, despite all reasonable efforts to maintain the risk profile of the portfolio of the GCF in line with the agreed risk appetite, the cushion proves to be inadequate, the loan contribution agreements will require that the loan contributors make additional grant contributions (and/or write-down against the payment of interest and principal repayment of loan contributions). During the early stages of implementation, it is difficult to determine the level of non-performing loans and any related impact. Accordingly, the GCF will continue to maintain a cushion of 20 per cent of the total loan amount for the loan contributor during the second replenishment. In the event there is an excess amount of cushion, as determined by the Secretariat and the loan contributors, the excess amount may be released and may be used as a grant contribution. Loan cushions will not count toward grant equivalency or individual debt limit calculations. A review of the required level of cushion will be undertaken by the Secretariat in the subsequent replenishment process.

34. **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.[27] Proposed loan contribution terms are contained in Appendix I to this Policy for Contributions.

VII. Commitment authority

35. Funding decisions[28] will be made against the total amount of available resources in the form of cash and promissory notes in the Trust Fund, calculated based on the latest available foreign exchange rate at the time of calculation.

36. Based on the tracking by the GCF, as part of the implementation of the FRMF, it is expected that there will always be sufficient commitment authority available in the Trust Fund to meet the GCF's obligations and support the funding decisions. In the unlikely event there is insufficient commitment authority, 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, except for capital and loan contributions;

(b) Transfers to AEs for projects and programmes, to be made based on resources available in the Trust Fund and subject to the uses of each types of contributions; and

[26] Reflows are expected to be insufficient until such time as interest payments are received on financing extended by the GCF.

[27] Decision B.07/05. The form and process for acceptance of promissory notes will be subject to agreement by the GCF and the Trustee.

[28] Funding decisions include Board decisions on funding proposals, the readiness program, 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.

(c) Payment of interest and repayment of loans to the loan contributors, to be made from:

(i) Reflows received by the GCF from loans extended to AEs; and

(ii) The cushion described above, in line with the principle of avoiding cross-subsidization between grants and loans.

VIII. Liquidity risk management

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

38. In accordance with the Board decision on the GCF's FMRF and RMF, mechanisms are put into place to ensure that liquidity risk in relation to contributions is closely managed and monitored by the GCF.[29] Under the mechanisms to manage this liquidity risk, the GCF will:

(a) Commit only against available cash and promissory notes in the Trust Fund;

(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.

IX. Managing risk of non-payment of contributions

39. Related to liquidity management is the risk that:

(a) Pledges are not converted into signed agreements/arrangements to provide contributions;

(b) Instalment payments, deposits and encashments 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.

40. Non-conversion of pledges into signed agreements, non-receipt of the payments in cash or deposit of promissory notes, or non-encashment of promissory notes will affect commitment authority of the GCF.[30]

41. 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.

[29] Decision B.07/05.

[30] 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.

X. Foreign exchange risk management

42. Foreign exchange risk will be managed, monitored, and reported in the confines of the GCF's RMF[31]and the Policy to minimize the effect of currency fluctuations on the commitment authority of GCF[32].

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

[31] Decisions B.17/11 and B.19/04
[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 applicable during the initial phase of the GCF's operation would facilitate risk and cash flow management by the GCF.

3. These terms will apply for the second 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 the 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 the GCF, which has 0 per cent and 40 years maturity.

(a) **Loan contribution size**: The maximum size of the loan contribution acceptable to the GCF would depend on the prudential debt limit set out in paragraphs 31 and 33(a) of this Policy for Contributions;

(b) **Maturity:** The maturity of loan contributions will be 40 years for Option 1 and 25 years for Option 2;

(c) **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;

(d) **Principal repayments**: Straight-line amortizing repayment schedule after the grace period; payments every six months;

(e) **Interest rate:** Loan contributions will attract a fixed coupon rate of up to 1 per cent per annum; payments every six months (applicable to Option 1 and Option 2) after the grace period; and

(f) **Drawdown of loan proceeds**: The GCF will draw down loan funds from contributors as agreed between the GCF and contributor.

Appendix II: Calculation of grant element

Indicative grant equivalence of the Fund loan contributions

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

Maturity	Grace period	Interest rate	Discount rate	Grant equivalence
40	10	1.00% p.a.	2.53% p.a.	32.28%
40	10	0.00% p.a.	2.53% p.a.	42.05%
25	5	1.00% p.a.	2.11% p.a.	14.59%
25	5	0.00% p.a.	2.11% p.a.	22.84%

Annex II: Agenda of the second consultation meeting

Second replenishment of the Green Climate Fund (GCF-2)
Second Consultation Meeting, 27-28 April 2023

DAY 1: Thursday, 27 April 2023 (20:00-23:30 KST, 13:00-16:30 CEST/07:00-10:30 EDT)

1. Opening session
2. Secretariat presentation: Building the momentum for an ambitious replenishment
3. Financial position of the Fund and Q&A
4. GCF Second Performance Review (SPR): informational session on the final report
5. Updated Strategic Plan for GCF-2 and Q&A
6. Issues related to the policy for contributions and Q&A – Session 1
7. Summary of Day 1

DAY 2: Friday, 28 April 2023 (20:00-23:30 KST, 13:00-16:30 CEST/07:00-10:30 EDT)

1. Opening of Day 2 of the second consultation meeting
2. Remarks from a member of the Indigenous People's Advisory Group (IPAG)
3. Project stories: presentations by the Secretariat and accredited entities and Q&A
4. Issues related to the policy for contributions and agreement on the draft – Session 2
5. Organizational matters (pledging conference)
6. Summary and conclusion
7. Closing remarks from the Executive Director-elect