Updated policy for contributions to the Green Climate Fund for the second replenishment

This document captures the policy as adopted by the Board in decision B.36/14, paragraph (b). The policy was sent to the Board for consideration at B.36 in document GCF/B.36/15/Rev.01 titled "Updated policy for contributions to the Green Climate Fund for the second replenishment".

All decisions and documents adopted at B.36 can be found in document GCF/B.36/21 titled "Decisions of the Board – thirty-sixth meeting of the Board, 10 – 13 July 2023".

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I. Resource mobilization approach for the second replenishment

1. This Policy for Contributions (the "Policy") will apply to the second replenishment period of the GCF (GCF- 2) 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 inputs[1] 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) **A pledging process and end date for replenishment pledging**: contributors will be invited to pledge contributions at a formal second replenishment 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 2024 and ending on 31 December 2027;[3]

(d) **Effectiveness**: GCF's commitment authority for GCF-2 will become effective when 25 per cent of the total amount[4] pledged at the pledging conference is confirmed by fully executed contribution agreements/arrangements;[5]

(e) **A trigger for the third replenishment process:** GCF will initiate the next replenishment 30 months after the commencement of GCF-2 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;

  (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**:

[1] In particular, Articles 29 and 30 of the Governing Instrument.
[2] Scheduled for 5 October 2023.
[3] Decision B.23/07.
[4] Based on the reference exchange rate agreed for the pledging conference.
[5] "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) 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".[6]

5. 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 GCF in accordance with this Policy for Contributions.

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

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

(a) Investment income earned on the balance of the GCF Trust Fund;[8] 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

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

(a) Grants from public and private sources;

(b) Paid-in capital[9] contributions from public sources; and

(c) Concessional loans from public sources.

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

Table 1: Contribution types and uses

Contribution 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)
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
Capital[10]	• 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

10. **Tracking of contribution types and their uses:** tracking of different types of incoming contributions 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 loan contributors. Additional 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[12] 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.

[10] As referred to as "paid-in capital" in previous decisions and GCF documentation.
[11] The revised initial FMRF was 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".
[12] Or any subsequent updates or revisions to the FRMF.

IV. Conditions applicable to all types of contributions

13. **Legal arrangements for contributions:** contributions to GCF would be facilitated through contribution agreements/arrangements signed by the contributors, GCF and the Trustee (as the entity holding the contributed funds in trust), which is the existing mechanism for receiving contributions to the GCF Trust Fund.

14. **Size of contributions:** GCF may accept pledges and contributions of any size from Parties to the Convention and Non-Parties to the Convention.[13] 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 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 GCF. Further details on the management of foreign exchange risk are provided in paragraph 42 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 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 loan or capital contribution, since they may not be used for such non-reimbursable 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 GCF.

17. **Timing**: 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 (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 build up sufficient funding levels available for predictable funding decisions/commitments and programming by the Board.

V. Conditions for grant and capital[15] 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[16] and the limitations on 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.

[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.
[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".

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[17] or administrative budgets, 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 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.

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.[18]

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 GCF-2.[19] This may be reviewed within the context of the FRMF and upon further development of the risk appetite of 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 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 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 be based on an encashment schedule agreed between the contributor and GCF, taking into account the expected programming of 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 will take place shall not exceed nine years starting from

[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] 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.

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 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 GCF-2, the discount rate would be 1.49 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.

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 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 GCF, transparency and equal treatment of contributors, there will be no cross-subsidization between providers of grants and providers of loans.[20]

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

[20] Decision B.07/05, annex XI, paragraph 2(c).

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. For GCF-2, the Secretariat 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 at 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 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 contributors 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 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 GCF will be accounted for in grant-equivalent terms based on a standard methodology, to be developed by GCF based on best international practices, to provide an accurate comparison of funding amounts between financial instruments.[22] [23] 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 rates are presented in appendix II. 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;

[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.

(d) **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;

(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 GCF Trust Fund may not have sufficient cash to fulfil payment obligations to the loan contributors. Based on decisions on the FRMF,[24] 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 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 in 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 para. 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 held as part of the assets of the GCF 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.[25] The amount of the cushion can be refined as sufficient data on the actual performance of GCF's portfolio is collected. Refinements will be based on a realistic (quantitative) assessment of the risks GCF has taken and is prepared to take on (GCF's risk appetite) and an analysis of 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 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, 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

[24] Decision B.07/05.

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

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.[26] Proposed loan contribution terms are contained in appendix I to this Policy for Contributions.

VII. Commitment authority

35. Funding decisions[27] will be made against the total amount of available resources in the form of cash and promissory notes in the GCF Trust Fund, calculated based on the latest available foreign exchange rate at the time of calculation.

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

(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 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 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.

38. In accordance with the decision on 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 GCF.[28] Under the mechanisms to manage this liquidity risk, GCF will:

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

(b) Closely monitor the risk of non-payment;

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

(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 the commitment authority of GCF.[29]

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.

X. Foreign exchange risk management

42. Foreign exchange risk will be managed, monitored and reported in the confines of the GCF's RMF[30]and the Policy to Minimize the Effect of Currency Fluctuations on the Commitment Authority of GCF.[31]

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

[29] 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.
[30] Decisions B.17/11 and B.19/04.
[31] 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 GCF's operation would facilitate risk and cash flow management by 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 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.

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

(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 options 1 and 2) after the grace period; and

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

Appendix II: 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)	Grant equivalence
40	10	1.00%	2.53%	32.28%
40	10	0.00%	2.53%	42.05%
25	5	1.00%	2.11%	14.59%
25	5	0.00%	2.11%	22.84%

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