

GCF Observer Network of Civil Society, Indigenous Peoples, and Local Communities

Letter to the GCF Board on the

Consideration of Policies on Contributions

Access the documents: <https://www.greenclimate.fund/board-document/gcf-b46-12>;
<https://www.greenclimate.fund/board-document/gcf-b46-13>

Dear Board members, alternate Board members, and advisors:

We urge you not to approve the Policy on Contributions and the Policy on Contributions from Other Sources in their current forms and to demand essential changes before adoption to maintain the GCF's unparalleled value and central mandate as the largest multilateral climate fund, the core actor of the UNFCCC financial mechanism, and a key instrument for the implementation of the Paris Agreement, as well as its alignment with the Governing Instrument. Taken together, the two policies would move the GCF away from a pooled, largely public grant-based multilateral fund governed by a balanced Board toward a leveraged fund increasingly shaped by its contributors, through shifting the composition of inputs under one policy and establishing inappropriate terms for new inputs under the other.

These policies contain numerous threats discussed below. Our key concerns are as follows:

- Removing the aggregate loan and capital limits and individual loan caps is unwise, and changes to the composition of inputs constrains outflows that should serve the most vulnerable (Policy on Contributions).
- Introducing guarantees, and then counting those guarantees' grant-equivalency toward the replenishment numbers, is designed to falsely inflate replenishment numbers (Policy on Contributions).
- Creating the potential for pathways for other sources that presume any level of influence over the fund is in contravention of the GCF's role in the UNFCCC climate architecture and the Board's oversight and authority (Policy on Contributions from Other Sources).

Changing the nature of the GCF's resource mobilization in these ways would have staying power beyond GCF-3, curtailing developed countries' mandated public contributions irrevocably for all future GCF replenishments. Decision B.45/18 allows the Board to conclude its consideration no later than B.47. We therefore ask the Board to defer adoption to B.47 and to request revised drafts, including setting out each change from the GCF-2 Policy on Contributions, accompanied by the analysis needed for informed decisions on the policies' long-term implications.

In the Policy on Contributions, removing the 20% aggregate limit on capital and loan contributions, as well as the fixed 40% individual loan limits for contributors is extreme and unwarranted. The Secretariat has presented no recent, compelling evidence that these limits

have constrained contributions in the past. Its own figures show that loans made up 4.4% of pledges in GCF-1, and 5.5% in GCF-2, with capital at 0.2% in both, far below the aggregate limit. Caps on non-grant contributions are necessary to ensure that the overwhelming majority of the GCF's contributions remain in the form of non-repayable grants, and to signal the imperative of grant-based public finance as the core of the third replenishment. The removal of loan caps coupled with the **inclusion of creditor guarantees as a new financial input likewise severely undercuts the GCF's ability to provide grant financing.** Counting these inputs in grant equivalency gives a false impression of higher concessionality being delivered than in actuality.

Beneficiaries' needs, not the preferences of contributors, must be at the heart of policymaking. This Policy on Contributions risks further increasing the debt burden of developing countries. The same countries are already constrained by debt servicing and policy pressures that subordinate public priorities, including responding to the climate crisis, to the interests of creditors and investors. The GCF was established within the UN climate regime to address the Global South's climate needs. Relying heavily on loans and capital inputs and introducing creditor guarantees, drives the GCF in the direction of profitable investments and contributors' priorities, while allowing balance sheet management and credit-rating objectives to drive decisions that belong to the Board. Thus, it further threatens the Fund's capacity to deliver grant-based finance, while shifting the costs and risks of climate action onto developing countries and their peoples. The GCF must not reproduce the logic of financial institutions that place repayment, risk management, and investor priorities over the lives and continued survival of the Global South.

The policy should explicitly preserve the Board's discretion to decline contributions whose terms are incompatible with the Fund's mandate or financial sustainability. When asked whether the Board could decline contributions that create excessive liabilities, the Secretariat pointed only to the provision that inputs will be accepted on the basis of pledges.

We are also extremely worried that the Policy on Contributions from Other Sources as currently presented will undermine the very foundation of the GCF as a fund where all inputs are pooled in one trust fund, whether intentionally or not. Contrary to assertions that this draft policy is in alignment with the Governing Instrument (GI), the proposal has the potential to create a parallel, or several parallel structures under the GCF, that would run directly counter to the GI. The "Enabling Mechanisms" are nothing more than a way to bypass the GI's principles and provisions, which in effect undermines the Board's authority. Furthermore, not even the Board has the authority to change or circumvent any aspect of the GI, as it was adopted by the Parties to the UNFCCC and any change to the GI would have to be done through and by the COP.

More concretely, these enabling mechanisms open the door for new sources to preemptively shape decisions about the use of funding by implicitly endorsing earmarking, while the policy

continues to mask that all decision-making will remain with the Board. While a targeted allocation would not formally control individual projects, the terms attached to the resources could still shape what the GCF prioritizes and who gets access to these ringfenced funds. Over time, the shifting of priorities could make access more, not less, complicated and restrictive for some countries and actors, encourage competition for particular pools of money, or weaken the coherence of the current allocation framework.

This policy, as currently proposed, would in many ways render this extensive USP-3 process moot, as targeted allocations could mean priorities and directions are effectively decided outside of the Board room, outside of transparent and participatory processes (where consultation informs outcomes), and could undermine multilateralism. This type of earmarking contravenes all previous decisions not to allow individual contributors to drive the direction of the Fund outside of its governance arrangements. Introducing earmarking now could fracture any sense of coherence and cohesion, as well as undermine trust, at the moment an updated strategic plan is being developed to ensure clear direction. Equally weighing developed and developing country voices will be for appearances only, if the policy is adopted as it stands today.

Correspondingly, creating "advisory structures" could give an important degree of influence to undemocratic and unrepresentative stakeholders, in exchange for funding - a "pay-to-play". It remains unclear how public transparency, civil society participation, or the representation of developing countries, Indigenous Peoples, local communities, or other affected communities would work. Safeguards are also needed against conflict of interest, where a contributor stands to benefit as a co-investor, partner or beneficiary of the activities its resources support.

The proposal's due diligence process must exclude sources that are actively investing in fossil fuels, or other activities that have detrimental impacts on the climate, or that have a history of ignoring or violating human rights or the rights of Indigenous Peoples. An association through financial input to the GCF should not allow actors to greenwash climate-destructive, prior or ongoing, behavior.

Sources should contribute to the GCF as a public good, as a fund understood to serve the multilateral process of the UNFCCC, as an entity over which they have no influence, in return for simple recognition for contributing to combating the defining generational crisis of our time. The GCF must be governed by the needs and rights of the countries and peoples it serves, not by the size of its' contributors' wallets.

As these obligations are operationalized, the GCF cannot deliver predictable climate finance when pledges are withdrawn or reduced, or confirmed contributions go unpaid. The experience documented in the "Non-receipt of contributions under signed agreements" makes clear that expanding the range of accepted financial instruments will not by itself

solve the problem of non-payment. The updated Policy on Contributions should therefore include clear provisions for enforcement and remedial actions in the case of non-fulfillment of contributions under signed agreements under GCF-3. For developed country Parties providing climate finance, agreements associated with legal obligation and dispute resolution must be the default, in keeping with their Paris Agreement and Convention responsibilities, which are legal obligations affirmed by the International Court of Justice. Their failure to deliver must not be used to justify shifting the burden onto developing countries through greater reliance on loans, guarantees or profit-driven instruments. **Any contributions from Parties and non-Parties outside of those providing climate finance in alignment with Paris Agreement Article 9.1 do not lessen the obligation of developed countries to provide their fair shares.** This belongs in the operative text of both policies, not only in their rationale. Those with obligations must be held accountable, rather than having the Fund restructured to accommodate their failure to pay.

For the countries and peoples of the Global South, the climate crisis is an injustice rooted in centuries of exploitation, borne out of unequal historical emissions, and a global financial system that continues to constrain the peoples' ability to respond to a crisis that they did not create. The GCF must continue to serve as a vehicle for developed countries to deliver their climate finance obligations and not as a loan facility or means of mobilizing capital on commercial terms. Developed countries have the capacity to redirect current public funding that subsidizes fossil fuels and enables militarism, which further delays fossil fuel phase-out; they can also expand their fiscal space to fulfill their obligations, for example, by applying domestic taxes on polluters and the ultra-wealthy.

We urge the Board not to adopt the two policies in their current forms, and to take forward the changes set out above.

Best,

The GCF observer network of civil society organizations, Indigenous Peoples, and local communities