



GLOBAL ENVIRONMENT FACILITY  
INVESTING IN OUR PLANET



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Paris, France

**FINANCIAL CONSIDERATIONS**  
**FOR THE GEF-6 REPLENISHMENT**  
**(PREPARED BY THE GEF TRUSTEE)**



# **FINANCIAL CONSIDERATIONS FOR THE GEF-6 REPLENISHMENT**

## **I. Introduction**

1. The objective of this paper is to provide GEF-6 replenishment participants with additional information on the critical financial considerations for the GEF-6 replenishment,<sup>1</sup> and variables used in the GEF-6 financing scenarios. Section II presents indicative GEF-6 financing scenarios corresponding to the programming scenarios proposed by the GEF Secretariat.<sup>2</sup> These scenarios reflect estimates of the amount of funds to be carried over from the previous replenishments and investment income estimated to be earned during the GEF-6 period. Section III provides an update on financial terms applicable to contributions to the GEF-6, including the average exchange rates, indicative encashment schedules, and discount rate to be used to calculate credits and discounts on accelerated encashments.

## **II. Indicative Financing Scenarios**

2. Table 1 below presents preliminary GEF-6 financing scenarios corresponding to two alternative programming scenarios proposed by the GEF Secretariat<sup>3</sup> for the GEF-6 third replenishment meeting in Paris: (i) resource envelope of USD 4.25 billion, a “programming status quo” scenario, where the target programming level equals GEF-5 programming level, and (ii) resource envelope of USD 4.89 billion, representing an increase of 15 percent over the GEF-5 programming level.<sup>4</sup> The financing scenarios demonstrate how the programming scenarios can be achieved, based on assumptions with respect to funds to be carried over from GEF-5, and future potential investment income estimated to be earned during GEF-6 period (both explained in greater detail below).

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<sup>1</sup> For more information on GEF-6 Replenishment financial arrangements, refer to documents GEF/R.6/08: GEF-6 Replenishment: Overview of Financial Structure (Prepared by the Trustee) dated March 8, 2013 and GEF/R.6/15: GEF-6 Replenishment: Additional Information on Financial Structure (Prepared by the GEF Trustee) dated August 15, 2013.

<sup>2</sup> Refer to document GEF/R.6/20, GEF-6 Programming Directions.

<sup>3</sup> Refer to document GEF/R.6/20, GEF-6 Programming Directions.

<sup>4</sup> GEF-5 programming and application of the STAR was based on the USD 4.25 billion agreed as the GEF-5 programming scenario. The final GEF-5 replenishment amount, including additional pledges from donors, increased to USD 4.34 billion.

**Table 1. GEF-6 Preliminary Financing Scenarios**

<i>in USD millions</i>	GEF-5 as agreed	GEF-6 Scenarios			
		"Programming Status Quo" (USD 4.25 billion)	Change from GEF-5	"15% Programming Increase" (USD 4.89 billion)	Change from GEF-5
New Donor Funding	3,542	3,824	8.0%	4,464	26.0%
Carryover from previous replenishment	687	292	-57.5%	292	-57.5%
Projected Investment Income	112	134	20.0%	134	20.0%
<b>Total Replenishment Amount</b>	<b>4,340</b>	<b>4,250</b>	<b>-2.1%</b>	<b>4,890</b>	<b>12.7%</b>

### *Financing Components of the GEF-6 replenishment*

3. The expected resources for the GEF-6 replenishment comprise:

- a) new funding from donors,
- b) funds carried over from previous replenishments, and
- c) investment income projected to be earned during GEF-6 replenishment period.

4. ***New funding from donors.*** Under the “programing status quo” scenario (resource envelop of USD 4.25 billion), donors would be asked to contribute USD 3,824 million, representing an increase of 8.0 percent with respect to GEF-5 donor funding; while under the “15% programming increase” scenario (resource envelop of USD 4.89 billion) new funding from donors would increase to USD 4,464 million (26.0 percent over the GEF-5 donor funding).

5. ***Funds carried over from the previous replenishments*** include unpaid resources, deferred contributions and resources paid-in, but not yet allocated. The amount of funds estimated to be carried over from GEF-5 is USD 291.9 million. Table 2 below provides a breakdown of the Trustee’s estimate of the carry-over amount as of September 30, 2013.

- Unpaid resources include donor arrears from GEF-5 and previous replenishments, and Instruments of Commitment (IoCs) from GEF-5 and from the previous replenishments that have not yet been deposited.
- Deferred contributions refer to the contributions paid by contributors, but restricted from being committed, as per the instructions by donors in accordance with the provisions of paragraph 8(c) of the GEF-5 Replenishment Resolution. As of September 30, 2013, all deferred contributions had been released.
- Paid-in but unallocated resources. Any GEF-5 paid-in resources remaining unallocated by the end of the GEF-5 replenishment period will be carried over to the GEF-6 Replenishment. Full amount of the GEF-5 paid-in resources is currently estimated to be allocated for the GEF-5 funding.

**Table 2. Estimated GEF-6 Carryover Amount (in USD millions)**

	<u>Replenishment</u>	<u>USD eq. a/</u>
<b>1. Unpaid Resources</b>		<b>291.9</b>
<i>a. Arrears</i>		<b>263.4</b>
Egypt	GEF-1	0.8
United States	GEF-2	135.0
Nigeria	GEF-3	1.0
Spain	GEF-5	13.6
United States	GEF-5	112.9
<i>b. IoCs Not Yet Deposited with the Trustee</i>		<b>28.6</b>
Nigeria	GEF-4	6.1
Greece	GEF-5	6.0
Nigeria	GEF-5	5.7
Pakistan	GEF-5	4.7
Portugal	GEF-5	6.0
<b>2. Deferred Contributions</b>		<b>0.0</b>
<b>3. Estimated Paid-in but Unallocated GEF-5 Funding</b>		<b>0.0</b>
<b>Total Estimated GEF-6 Carryover ( 1 + 2 + 3 )</b>		<b>291.9</b>
a/ Valued on the basis of exchange rates of Sept 30, 2013		

6. **Projected investment income** for the GEF-6 replenishment period is USD 134 million assuming an average cash balance of the GEF Trust Fund of approximately \$3 billion and an estimated rate of return of 1.11 percent per annum. The total returns of the investment tranches are projected to remain modest, especially if fixed income yields continue to rise from recent historical lows. Annex 1 provides additional details on projected investment income calculations.

### **III. Financial Terms of GEF-6 Contributions and Payment Procedures**

7. **Currency of denomination and exchange rates.** The operating currency of the GEF Trust Fund is the US dollar (USD); nevertheless the Special Drawing Right (SDR) has been used in GEF replenishments as the reference currency, providing a common denominator for expressing the overall size of the replenishment. This approach provides an alternative measure of the replenishment size and relative contributions of each Participant, without reference to an operating currency whose relative value may change over time, and from replenishment to replenishment.

8. At the first GEF-6 replenishment meeting, the Contributing Participants agreed that the six-month period from April 1, 2013 to September 30, 2013 would be used as the reference time period for translating the GEF-6 donor contributions between SDR values and national currency values.

9. Contributing Participants also agreed that donor countries experiencing annual average inflation rates of over 10 percent during the preceding three-year period<sup>5</sup> would denominate their GEF-6 contributions in Special Drawing Rights (SDRs) or US dollars (the operating currency of the GEF trust fund). At the first meeting for the GEF-6 replenishment, the Trustee provided Contributing Participants with average inflation rates for the 2009-2011 period.<sup>6</sup>

10. Annex 2 presents the final GEF-6 reference exchange rates to be used to translate the SDR contributions into commitment currencies. Annex 3 compares the final reference exchange rates for the GEF-6 with those of the GEF-5.

11. ***Donor Instrument of Commitment (IoC).*** Donors formalize their pledges to the four-year replenishment by depositing an IoC with the Trustee. An IoC constitutes a legally binding obligation on the part of the donor to pay the total amount specified to the GEF Trust Fund. Most donors usually submit “unqualified” IoC, where the full amount of their pledge has been appropriated in their respective budgets. Donors that are not able to provide legally binding IoCs for the entire replenishment period due to their budget approval processes may, however, deposit a Qualified IoC with the Trustee. By depositing a Qualified IoC, donors agree to pay a part of their contribution without qualification, with the balance subject to future legislative appropriations. A donor that deposits a Qualified IoC undertakes to exercise its best efforts to obtain such legislative appropriations for the full amount of its contribution – and by the same payment dates applicable to unqualified IoCs – as set out in the Replenishment Resolution.

12. ***Payment of contributions***

- ***Timing:*** Donors are required to pay their contributions in four annual installments, by November 30 of each year. Upon written request from a donor, the Trustee may agree to expedite the installment payments in fewer than the standard four installments. Alternatively, the Trustee may agree to a donor’s request to postpone the payment of any installment, or a portion of the installment, up to, but not beyond, June 30 of the calendar year following the year in which the installment is due. Payments made in accordance with these agreements with the Trustee are deemed to be timely (i.e., not in arrears).
- ***Form of payment:*** Payments for each subscription can be in cash or, at the option of the donor, by deposit of a promissory note or similar obligation, to be drawn down in cash (encashed) on demand by the Trustee.

13. ***Encashment of Promissory Notes:*** If a donor chooses to pay via the deposit of a promissory note or similar obligation, it is further required to follow an agreed schedule of cash deposits (i.e., encashment) in order to drawdown these notes or similar obligations. To ensure that donor promissory notes are drawn down on “as-needed” basis, the Trustee calculates indicative (or standard) encashment schedule in line with the expected time profile of disbursements by agencies for GEF projects approved during the replenishment periods.

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<sup>5</sup> This would refer to the 2009-2011 period where data was available.

<sup>6</sup> See GEF/R.6/09 “Reference Exchange Rates for Use in the Sixth GEF Replenishment” dated March 8, 2013.

14. The Trustee has calculated expected disbursement needs of the GEF Agencies by:
- using the observed historical disbursement patterns reported by GEF Agencies by project type (Full Sized Projects, Medium Sized Projects, Enabling Activities, etc.),
  - making assumptions with respect to expected amounts to be approved by project type, and
  - extrapolating the resulting disbursement needs based upon the expected amounts approved by project type and disbursement profile.
15. Additionally, the indicative encashment schedule takes into consideration donors' general preferences that encashment levels do not fluctuate sharply from period to period. The resulting GEF-6 indicative (or 'standard') encashment schedule is presented in Table 3 below.

**Table 3. GEF-6 Indicative Encashment Schedule**

<b>Fiscal Year (July - June)</b>	<b>GEF-6 Indicative Encashment Schedule (%)</b>
<b>2015</b>	3.0
<b>2016</b>	8.0
<b>2017</b>	10.0
<b>2018</b>	12.0
<b>2019</b>	13.0
<b>2020</b>	15.0
<b>2021</b>	14.0
<b>2022</b>	11.0
<b>2023</b>	9.0
<b>2024</b>	5.0
<b>Total</b>	<b>100.0</b>

16. This indicative encashment schedule will be the basis for drawdowns on promissory note contributions to the GEF-6. However, the Trustee may agree to encash promissory notes on a basis other than that of the indicative schedule if the revised encashment schedule is no less favorable to the GEF Trust Fund than the indicative schedule, in present value terms. The above indicative schedule will be the benchmark for which accelerated cash installment payments or encashments will be compared in order to determine the present value of donor contributions and corresponding discount or credit amounts as described below. Additionally, at the written request of a donor (e.g. one experiencing exceptionally difficult budgetary circumstances), the Trustee may permit postponement of encashment for: (i) up to two years for a donor that is also a recipient under the GEF Trust Fund, and (ii) up to 45 days for all other donors.

17. *Accelerated encashment framework.* As described above, a donor may choose to take advantage of the flexibility in payment procedures offered by the GEF and provide their contribution in cash installment “up-front” or accelerate promissory note encashment if the present value of the accelerated encashment schedule is no less favorable to the GEF Trust Fund than the present value of the indicative schedule. As per the current practice, the following options are available for donors to accelerate cash installment payments or promissory note encashments:

- a. A donor may choose to reduce the actual payment amount in the currency of contribution or to take a “discount”. In this case, the present value of the donor’s contribution is maintained through a combination of accelerating the payment schedule and reducing the actual cash payment amount. Under this option, there is no impact on the SDR or national currency value of the contribution presented in the contribution table (Annex 1) attached to the Replenishment Resolution.
- b. Alternatively, a donor may choose to increase the SDR value of the contribution while maintaining the actual payment amount in the currency of contribution, or to take a “credit”. In this case, the present value of the contribution is increased by accelerating payment, and the donor’s relative share of the new funding in the replenishment is increased. The option of selecting a credit enhances the SDR value of a contribution without changing the value of a contribution in national currency.

18. Contributing Participants may refer to Annex 4 for illustrative alternative cash payments or encashment schedules and corresponding discount or credit amounts.

19. The selection of a discount or credit is generally made during the pledging session (i.e. expected at the final, February 2014 meeting) and reflected in the final contribution table attached to the Replenishment Resolution. The discount or credit selection should also be confirmed at the time an Instrument of Commitment is deposited with the Trustee. If, for any reason, a donor were to change its credit decision after replenishment negotiations are completed, its relative share of the new donor funding, and the SDR value of its contribution, would be affected retroactively.

20. *Discount Rate to be Used for GEF-6 Credits and Discounts Calculation.* The amounts receivable by the GEF Trust Fund under the standard encashment schedule and an accelerated schedule should be identical in present value terms. This ensures that all donors will contribute to the GEF-6 at their agreed level. Based on the Trustee’s analysis, the discount rate of 2.1 percent will be used for GEF-6 credits and discounts calculation. The discount rate is derived based on the expected investment return on the US dollar investment portfolio in which the GEF Trust Fund resources are to be invested over the ten year standard encashment period for the GEF-6.

21. It is important to note that the actual amounts earned in the GEF Trust Fund investment portfolio may be higher or lower than amounts credited or discounted depending on the then prevailing market conditions and actual cash balances over the disbursement horizon of the replenishment.



### Annex 1. GEF-6 Investment Income projections

GEF Trust Fund assets are invested across three of the World Bank Trust Fund's investment model portfolios, ("Tranche 0" for short term working capital needs, "Tranche 1" with an investment horizon of one year, and "Tranche 2" with an investment horizon of three years). The latter two tranches aim to optimize investment returns subject to capital preservation with a high degree of confidence (based on statistical models) over the respective investment horizon. Approximately 90% of the GEF Trust Fund assets are invested in Tranche 2 with the remaining balance split between tranche 0 and tranche 1.

For the purposes of estimating investment income for the GEF-6 period, the GEF Trust Fund portfolio's current allocation across the TF Pool investment tranches (i.e., 90% in Tranche 2 and 10% in Tranche 1) is assumed to remain constant over the GEF-6 replenishment period. The table below presents the projected balance and allocation between tranches, average projected rate of return by tranches and the total projected return over the GEF-6 period.

#### GEF-6 Projected Investment Income

<b><i>Projected Balance (USD million)</i></b>	<b><i>Average (FY15-FY18)</i></b>
Tranche 1	304
Tranche 2	2,732
<b>Total</b>	<b>3,035</b>
<b><i>Projected rate of return (%)</i></b>	<b><i>Average (FY15-FY18)</i></b>
Tranche 1	0.27%
Tranche 2	1.20%
<b>Total</b>	<b>1.11%</b>
<b><i>Projected Investment Income (USD million)</i></b>	<b><i>Total (FY15-FY18)</i></b>
Tranche 1	3
Tranche 2	131
<b>Total Projected GEF-6 Investment Income</b>	<b>134</b>

## Annex 2. Reference Exchange Rates for the GEF-6

Reference Period: April 1, 2013 to September 30, 2013<sup>7</sup>

<u>Currency</u>	<u>Currency Name</u>	<u>National Currency vs. SDR</u>
AUD	Australian Dollar	1.58867
BRL	Brazilian Real	3.29020
CAD	Canadian Dollar	1.55758
CHF	Swiss Franc	1.41547
CNY	Chinese Yuan	9.27237
CZK	Czech Koruna	29.66218
DKK	Danish Krone	8.56248
EUR	Euro	1.14829
GBP	Pound Sterling	0.97877
INR	Indian Rupee	89.09366
JPY	Japanese Yen	149.26481
KRW	Korean Won	1685.32159
MXN	Mexican Peso	19.17081
NGN	Nigerian Naira	241.91518
NOK	Norwegian Krone	8.92765
NZD	New Zealand Dollar	1.86696
PKR	Pakistan Rupee	152.07219
RUB	Russian Ruble	48.69097
SEK	Swedish Krona	9.90105
TRY	Turkish Lira	2.87977
USD	United States Dollar	1.51028
XOF	West African CFA Franc	753.23042
ZAR	South African Rand	14.71165

<sup>7</sup> The time period for establishing the reference exchange rates for use in the GEF-6 replenishment was agreed by Contributing Participants at the April 2013 Replenishment Meeting.

### Annex 3. Reference Exchange Rates for the GEF6 and GEF-5 Comparison

Currency	Currency Name	National Currency vs. SDR			National Currency vs. USD		
		GEF-6 a/	GEF-5 b/	Change %	GEF-6 a/	GEF-5 b/	Change %
AUD	Australian Dollar	1.58867	1.98569	19.99	1.05177	1.29852	19.00
BRL	Brazilian Real	3.29020	3.10224	(6.06)	2.17808	2.02858	(7.37)
CAD	Canadian Dollar	1.55758	1.76370	11.69	1.03132	1.15246	10.51
CHF	Swiss Franc	1.41547	1.68130	15.81	0.93733	1.09817	14.65
CNY	Chinese Yuan	9.27237	10.46823	11.42	6.13958	6.83139	10.13
CZK	Czech Koruna	29.66218	29.22796	(1.49)	19.64245	19.10312	(2.82)
DKK	Danish Krone	8.56248	8.26500	(3.60)	5.67001	5.39895	(5.02)
EUR	Euro	1.14829	1.10992	(3.46)	0.76039	0.72503	(4.88)
GBP	Pound Sterling	0.97877	0.97932	0.06	0.64814	0.63994	(1.28)
INR	Indian Rupee	89.09366	75.04669	(18.72)	58.97650	48.99847	(20.36)
JPY	Japanese Yen	149.26481	146.79619	(1.68)	98.83995	95.84657	(3.12)
KRW	Korean Won	1685.32159	1979.67643	14.87	1115.97396	1293.63131	13.73
MXN	Mexican Peso	19.17081	20.71625	7.46	12.69241	13.52817	6.18
NGN	Nigerian Naira	241.91518	230.48216	(4.96)	160.17357	150.37044	(6.52)
NOK	Norwegian Krone	8.92765	9.77495	8.67	5.91126	6.38596	7.43
NZD	New Zealand Dollar	1.86696	2.48040	24.73	1.23616	1.62234	23.80
PKR	Pakistan Rupee	152.07219	124.91109	(21.74)	100.67871	81.49350	(23.54)
RUB	Russian Ruble	48.69097	49.32914	1.29	32.23801	32.22361	(0.04)
SEK	Swedish Krona	9.90105	11.88075	16.66	6.55625	7.76574	15.57
TRY	Turkish Lira	2.87977	2.39167	(20.41)	1.90649	1.56241	(22.02)
USD	United States Dollar	1.51028	1.53238	1.44	1.00000	1.00000	-
XOF	West African CFA Franc	753.23042	728.05822	(3.46)	498.78440	475.58646	(4.88)
ZAR	South African Rand	14.71165	12.89032	(14.13)	9.73989	8.42980	(15.54)

a/ As agreed by the Contributing Participants at the April 2013 GEF-6 replenishment meeting, the reference exchange rate to convert the SDR amount to the national currency will be the average daily exchange rate over the period from April 1, 2013 to September 30, 2013.

b/ As agreed by the Contributing Participants at the March 2009 GEF-5 replenishment meeting, the reference exchange rate to convert the SDR amount to the national currency will be the average daily exchange rate over the period from March 1, 2009 to September 30, 2009.

**Annex 4. Illustrative Alternative Cash Payment or Encashment Schedules for GEF-6**  
(Percent of Total Contributions)

Fiscal Year	GEF-6 Standard Schedule	Examples of Accelerated Schedules <sup>a/</sup>		
		Over 6 years	Over 4 years	One payment
<b>2015</b>	3.0	10.0	25.0	100.0
<b>2016</b>	8.0	16.0	25.0	
<b>2017</b>	10.0	20.0	25.0	
<b>2018</b>	12.0	24.0	25.0	
<b>2019</b>	13.0	20.0		
<b>2020</b>	15.0	10.0		
<b>2021</b>	14.0			
<b>2022</b>	11.0			
<b>2023</b>	9.0			
<b>2024</b>	5.0			
Face value of contribution	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Discount rate (%) <sup>b/</sup>	2.1%	2.1%	2.1%	2.1%
NPV equivalent	89.0	92.9	95.0	97.9
		<i>% off face value</i>		
<b>Discount</b> <sup>c/</sup>		4.22%	6.33%	9.18%
<b>Credit</b> <sup>d/</sup>		4.40%	6.75%	10.10%

<sup>a/</sup> The above schedules are provided for illustration purposes only.

<sup>b/</sup> A discount rate of 2.1% is based on an estimate of the long-term US dollar-based return on investment. Actual returns will naturally depend on cash balances and market conditions over the replenishment period.

<sup>c/</sup> If a donor chooses to use an accelerated cash payment or encashment schedule and take a discount, the discount amount may be deducted from the face value of the contribution to reduce the payment amount in national currency.

<sup>d/</sup> If a donor chooses to use an accelerated cash payment or encashment schedule and take a credit, the credit amount may be added to the face value of the contribution to enhance the value of the SDR contribution.