



GEF/R.7/Inf. 04

May 17, 2017

---

**THE IMPACT OF A CHANGE IN SDR BASKET COMPOSITION ON  
THE GEF-7 REPLENISHMENT  
(PREPARED BY THE TRUSTEE)**

## I. Introduction

1. This note provides an overview of the changes to the basket composition of the Special Drawing Rights (SDR)(inclusion of the Chinese renminbi as of October 31, 2016), the role of the SDR within the GEF, and the implications, if any, on the GEF Trust Fund, as offered by the Trustee during the first meeting of the GEF-7 replenishment (Paris, 28-30 March, 2017).

## II. Overview of the Changes to the Basket Composition of the SDR

2. The Special Drawing Rights (SDR) basket composition is reviewed by the IMF Executive Board every five years. Following the most recent review (complete in November 2015), the IMF decided that a new basket would come into effect on October 1, 2016 after a period of transition, which would include the Chinese renminbi as a fifth currency in the basket. The Chinese renminbi would join the U.S. dollar, Euro, Japanese yen and Pound sterling. This is the first time a new currency has been added to the SDR basket since the Euro replaced the French franc and Deutsche mark in 1999.

3. Also in the November 2015 review, the IMF adopted a new formula for determining currency weights in the SDR basket to address long-recognized issues with the formula that had been in place since 1978<sup>1</sup>.

## III. The Role of the SDR in the GEF

4. Since the inception of the GEF, the role of the SDR within the GEF trust fund has progressively become less prominent.

5. First and foremost, the U.S. dollar (USD) is the operating and holding currency of the GEF Trust Fund. All non-USD contributions are converted into USD immediately upon receipt. All GEF commitments and disbursements are made in USD.

6. Secondly, the SDR's role in GEF replenishments is limited as the base currency for burden sharing purposes and to provide a common denominator for expressing the overall size of the replenishment. The USD value of the aggregate replenishment is used as the main reference point, as such, any changes in the value or volatility of the SDR would not have any impact on the aggregate size of the replenishment.

7. Thirdly, the proportion of contributions denominated in SDR has decreased significantly from GEF-1 (shown in Table 1 below) meaning that any significant shift in the value or volatility of the SDR will have a minimal impact (zero impact in GEF-5 and GEF-6) on the aggregate size of the GEF replenishment.

Table 1: Proportion of SDR-denominated Contributions by GEF Replenishment

	GEF-1	GEF-2	GEF-3	GEF-4	GEF-5	GEF-6
Proportion of Contributions Denominated in SDR (%)	23.0%	5.8%	5.3%	0.8%	-	-

8. While countries typically pledge in national currencies, there are two main circumstances under which countries would contribute in a currency other than their national currency (typically SDR or USD): i) when a country is contributing the minimum contribution amount of

<sup>1</sup> The adopted formula assigns equal shares to the currency issuer's exports and a composite financial indicator. The financial indicator comprises, in equal shares, official reserves denominated in the member's currency that are held by other monetary authorities that are not issuers of the relevant currency, foreign exchange turnover in the currency, and the sum of outstanding international bank liabilities and international debt securities denominated in the currency.

SDR 4.0 million; and ii) when a country has experienced high inflation over the three years preceding a replenishment<sup>2</sup>. Under both of these circumstances in the last two replenishments (GEF-5 and GEF-6), contributions were made in USD in all cases. As a result, no pledges have been made in SDR since GEF-4, and this trend is expected to continue in GEF-7.

#### IV. Impact on the SDR following inclusion of the Chinese Renminbi

9. Analysis based on historical foreign exchange rates indicates that the difference between the new and the old SDR basket is minimal. During the transition to the new basket, the currency amounts in the new SDR basket were calculated such that the value of the SDR was the same before and after the revision. In addition, simulations performed by the IMF show that the properties of the new SDR, including its value in U.S. dollar terms and its volatility, would stay broadly similar to the SDR before the inclusion of Chinese renminbi. The Trustee’s analysis shows that the value of the SDR since October 1, 2016 including the renminbi is very similar to what it would have been if the change had not occurred. Table 2 below shows the official value of the SDR versus the value of the SDR if the renminbi had not been added, providing a comparison between the SDR in the old and new basket compositions.

Table 2: Value of the SDR (versus the USD) over the last 5 years



#### V. Conclusion

10. The inclusion of the Chinese renminbi in the SDR basket will have no impact on the GEF in the context of the GEF-7 replenishment for three main reasons: i) firstly, consistent with established practice, the SDR will merely be used for burden sharing purposes and to determine an aggregate size of the GEF-7 replenishment; ii) secondly, few, if any, contributions are expected to be denominated in SDR going forward; and iii) thirdly, the inclusion of the renminbi in the SDR basket is not expected to have a significant impact on the value or volatility.

<sup>2</sup> At the start of each replenishment, Participants agree that any country that has experienced average inflation of over 10% over the three years preceding the replenishment will contribute in SDR or USD.