

Second Meeting for the Eighth Replenishment of the GEF Trust Fund
September 29 - October 01, 2021
Virtual Meeting

GEF-8 Replenishment: Financial Structure

(Prepared by the GEF Trustee)

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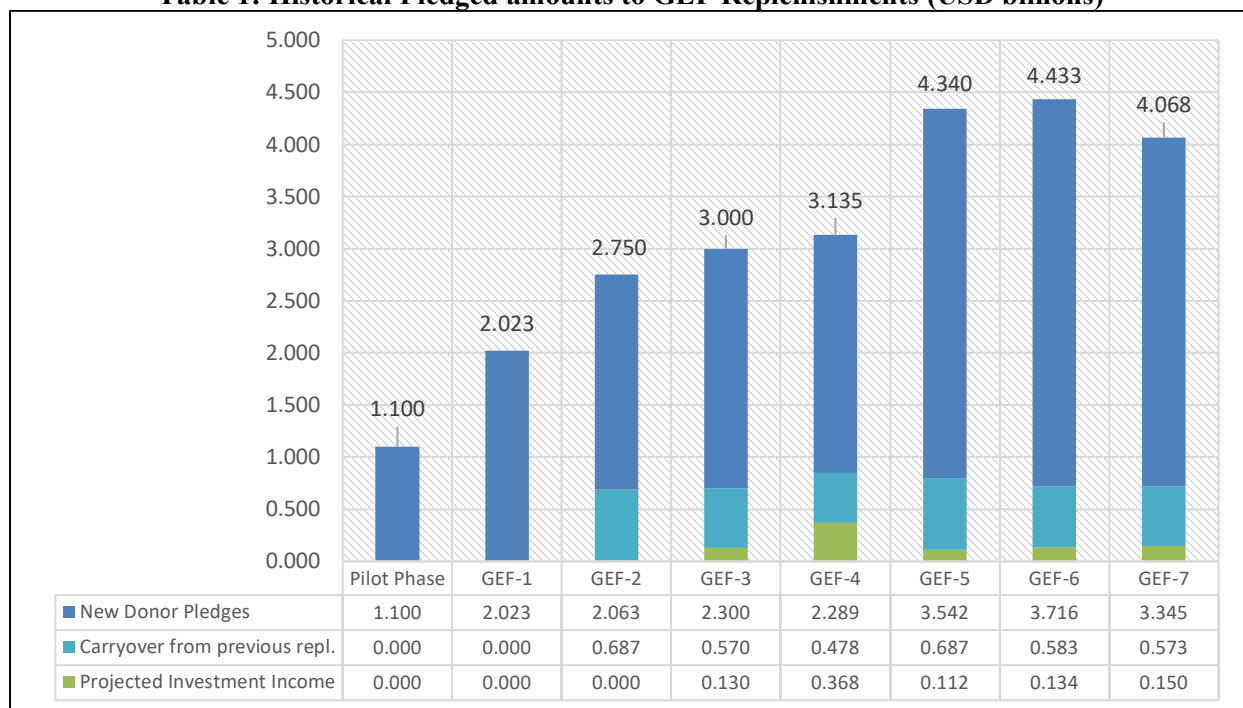
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I. Introduction

1. The Global Environment Facility (GEF) was established in 1992 on the eve of the Rio Earth Summit to help tackle our planet’s environmental challenges and protect nature by ensuring sustainable use of its resources. GEF is the only multilateral mechanism with a multi-faceted mandate to cover areas such as Biodiversity, Climate Change, Land Degradation, International Waters, and Chemicals and Waste. Since its inception, the GEF has provided more than US\$21.1 billion in grants and mobilized an additional US\$114 billion in co-financing for more than 5,000 projects in 170 countries.

2. The Eighth Replenishment Cycle of the GEF will cover the four-year period over 2022-2026. Replenishment discussions provide the contributing participants an opportunity to deliberate on the strategy and programming priorities of the GEF to help tackle global environment challenges while making a concerted effort to raise adequate funding to implement the programming priorities agreed during the replenishment negotiations. Table 1 shows the total replenishment resources for each of the previous GEF replenishments.

Table 1: Historical Pledged amounts to GEF Replenishments (USD billions)



3. At the first GEF-8 Replenishment meeting held in April 2021, the Trustee outlined the replenishment process and financing modality to receive contributions for GEF-8. Participants at the first meeting discussed several aspects pertaining to the financial structure of the GEF Trust Fund (GEF TF) including i) the minimum contribution required for participation in replenishment discussions; ii) burden-sharing framework; iii) the parameters to determine GEF-8 reference exchange rates; and iv) the sources of replenishment resources (New Donor pledges, Carryover from previous replenishments, Projected investment income, and reflows from non-grant instrument).

4. The following sections provide an overview of the principles governing the replenishment negotiation and steps leading to the conclusion of the replenishment process. Section II provides the principles that guide the negotiations and pledging process for GEF-8. Section III presents the financial terms of contributions and payments procedures. Section IV outlines options for providing incentives to contributing participants to fulfill their pledges and Section V outlines the Projected Investment Income and an update on Sustainable and Responsible Investing for the GEF liquid asset portfolio. Annexes include an overview of the methodology for agreed minimum contribution for participation in replenishment discussions (Annex A), parameters agreed for selecting the reference period for GEF-8 reference exchange rates (Annex B), and encashment schedule for GEF-7 for reference (Annex C).

II. Principles Guiding Contributions and the Replenishment Pledging Process

5. The overarching principles guiding the contributions to GEF replenishment are transparency, equity, and the ability to contribute given each contributor's strategic priorities and budgetary circumstances. GEF replenishment negotiations typically span four meetings. Each contributing participant considers the option that best fits its individual objectives under a common and agreed financing framework.

6. Over the course of the replenishment process, contributing participants negotiate the programming priorities and strategic directions for the GEF. Once the policy and programming directions are determined, contributing participants agree on the overall target size of the replenishment at the third meeting of the replenishment negotiations (January 2022 for GEF-8). The target replenishment size depends on the estimated overall funding requirements for the agreed programming package and on the contributing participants' priorities and ability to fund the replenishment.

7. Following agreement on the overall target size of the replenishment, the Trustee and Secretariat will consult bilaterally with contributing participants and develop illustrative pledging scenarios for discussion at the third meeting, based on key assumptions arising from the consultations.

8. At the fourth and final replenishment meeting (March 2022 for GEF-8), a pledging session will be held during which contributing participants confirm their intended financial commitment and pledges. The Trustee uses the pledge information to prepare the table of contributions for contributing participants' review and confirmation. The Trustee makes any needed adjustments to the contribution table to reflect feedback from contributing participants and includes the table of contributions in the final replenishment resolution. The replenishment package, including the table of contributions and summary of negotiations is approved by the GEF Council and further adopted by the World Bank Board of Executive Directors.

i) Minimum Contribution

9. During the GEF-6 negotiations, it was agreed that the minimum contribution amount for participating contributors should be adjusted for inflation at the beginning of each replenishment cycle. Following the agreed methodology to adjust for inflation, the Trustee applied SDR deflators for calendar years 2016, 2017, 2018 and 2019 to the GEF-7 minimum contribution amount of SDR 4.0 million. Accordingly, it was determined that the minimum contribution amount for participating in GEF-8 replenishment negotiations will continue to be SDR 4.0 million¹.

ii) Burden Sharing Approach

10. Burden sharing is the term applied to the agreed sense of “fairness” in sharing the financial responsibility of a multilateral effort. The goal of burden sharing in the GEF is to ensure adequate funding for the intended objectives. Principles guiding a burden-sharing framework are transparency, equity, and ability to pay. Burden-sharing frameworks vary, over time and across institutions, based on contributing participants’ capacity and willingness to contribute as well as on agreement about what is an equitable distribution of financial responsibility. At the outset, contributing participants are guided by share levels in the previous replenishment, which reflect past budgetary decisions and replenishment considerations. This reference point is known as “basic shares”. Notwithstanding the share levels from previous replenishments, contributing participants have the flexibility to adopt different approaches that meets their unique requirements for each replenishment. As such, changing donor budgetary circumstances and priorities, may be reflected in “actual donor shares”, which are the basic shares enhanced by additional and supplementary contributions.

III. Financial Terms of Contributions and Payment Procedures

11. *Currency of denomination and exchange rates.* While the operating currency of the GEF is the US dollar (USD), the Special Drawing Rights (SDR) is used in GEF replenishments as the base currency for burden sharing purposes and to provide a common denominator for expressing the overall size of the replenishment. Contributions are typically denominated in national currencies; however, contributing participant countries with high inflation rates² must contribute in SDR or in USD, as agreed by the GEF-8 participants at the first meeting of GEF-8 replenishment in April 2021.

12. *Instrument of Commitment.* Pledges from contributing participants to the four-year replenishment are formalized by the deposit of an Instrument of Commitment (IoC) with the Trustee. An IoC constitutes a legally binding obligation on the part of the participant to pay the total amount specified to the GEF TF. Some contributing participants are not able to provide legally binding IoCs for the entire replenishment period; they may deposit a Qualified IoC with

¹ GEF-8 Replenishment: Participation, Workplan and Proposed Timetable, GEF/R.8/Rev01

² Inflation as measured by the consumer price index (CPI) published on the International Monetary Fund’s World Economic Outlook Database (October 2016). Countries are considered to have high inflation rates if their annual average inflation rate over the prior three years is greater than 10%. For more information, refer to the paper entitled “Reference Exchange Rates for Use in the Eighth GEF Replenishment” (Prepared by the Trustee), GEF/R.8/03/Rev.01, April 16, 2021.

the Trustee, agreeing to pay a part of their contribution without qualification while the remainder is still subject to enactment by their legislature of the necessary appropriation legislation. Participants depositing a Qualified IoC undertake to exercise their best efforts to obtain legislative approval for the full amount of contribution by the same payment dates applicable to unqualified IoCs, as set out in a replenishment resolution.

13. *Payment of contributions.*

- a) *Timing:* Contributing participants are required to fulfill their financial commitments in four annual and equal installments by November 30 of each year of the four years of a GEF replenishment period. Upon written request, the Trustee may agree to allow a participant to expedite the installment payment in fewer than the standard four installments. Alternatively, the Trustee may agree to a 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 pursuant to these agreements with the Trustee are deemed to be timely (i.e., not in arrears).
- b) *Form of payment:* Payments for each subscription can be in cash or, at the option of the contributing participant, by depositing in the designated GEF TF custody account, non-negotiable non-interest-bearing notes (promissory note) or similar obligations, to be drawn down in cash (encashed) on demand by the GEF Trustee.

14. *Encashment of Promissory Notes:* Promissory notes are payable on demand and are normally encashed (or drawn down) following the indicative encashment schedule. The Council approves the replenishment work program over the four-year replenishment period. Trustee commitments and disbursements for those same funding decisions occur over a more extended period as project activities are implemented. Accordingly, draw downs on promissory notes typically occur over the period set out in an indicative encashment schedule, which is attached to the replenishment resolution. The encashment schedule, which typically extends up to ten years, is based on the projected disbursement needs of the GEF Agencies, while also taking into consideration contributing participant's preference for encashment levels which do not fluctuate sharply from period to period. For reference, the GEF-7 agreed encashment schedule is shown in Annex C. The indicative encashment schedule for GEF-8 will be provided by the Trustee at the third meeting of the GEF-8 replenishment.

15. In the past, contributing participants paying their installments with promissory notes, or similar obligations, have also benefited from some flexibility in encashment arrangements. The Trustee may agree to encash promissory notes on a basis other than that of the indicative schedule provided the revised encashment schedule is no less favorable to the GEF TF than the indicative schedule. Additionally, at the written request of a participant experiencing exceptionally difficult budgetary circumstances, the Trustee may permit postponement of encashment for: i) up to two years for a contributing participant that is also a recipient of the GEF; and ii) up to 45 days for all other contributing participants.

16. *Framework for accelerated contribution payments.* As described above, a contributing participant may choose to take advantage of the flexibility provided for in the payment procedures, if the present value of its cash payments to the GEF TF is at least the same as the present value

generated under the indicative schedule. Contributing participants can accelerate either their cash installment payments or the encashment of their promissory notes. Contributing participants can choose to use the acceleration in either of two ways:

- a) *Reducing the actual payment amount in the currency of contribution or taking a “discount”*. In this case, the present value of the 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 value of the contribution.
- b) *Increasing the SDR value of the contribution while maintaining the actual payment amount in the currency of contribution or taking a “credit”*. In this case, the present value of the contribution is increased by accelerating payment, and the burden-share can be increased, or the contributing participant can receive credit for a supplemental contribution. The option of selecting a credit enhances the SDR value of a contribution and can be applied to the contributing participant’s basic and or supplemental contribution.

17. The selection of a discount or credit (and corresponding increase in the basic or supplemental contribution amount) is generally made at the pledging session and reflected in the final contribution table attached to the replenishment resolution. The option to choose discount or credit would impact the burden-share and the SDR value of the contributing participant, and the overall size of the replenishment. As such, the discount or credit decision must be confirmed with the Trustee before the replenishment negotiations are completed.

18. *Definition of Funding Envelope*: Participants agree on a targeted size for each replenishment based on new pledged contributions, anticipated investment income, carryover from previous replenishments. Additional category of funding source was introduced in GEF-7 which is reflows from Non-Grant Instruments (NGI). Reflows³ from projects under NGI that are expected during the upcoming replenishment funding period are included in the funding envelope for the replenishment.

19. The target programming level is used for planning purposes and adjustments are made periodically by the Trustee throughout the replenishment period to consider any reserves for foreign exchange and investment income volatility, the likelihood of unfulfilled pledges, and the risk of non-payment of Instruments of Commitment (IoC) or Qualified IoCs (i.e., new arrears). Funding decisions made by the Council or the GEF CEO are based on available fund balance in the GEF TF at the time of the decision.

IV. Incentives for Timely Payment

20. *Contribution Arrears*: The pledging commitment and appropriation processes vary for each contributing participant. In some instances, contributing participants have been unable, for different reasons, to pay the full amount of their replenishment pledges which has resulted in arrears to the GEF. The current practice for determining the full amount of a replenishment is to

³ GEF-7 target replenishment envelope included USD 25.2 million from reflows anticipated during GEF-7 funding period i.e., July 1, 2018 to June 30, 2022. As of July 31, 2021, the Trustee has received an amount of USD 29.4 million.

include arrears and carryovers from previous replenishments as the target programming amount for allocation to countries.

21. The inclusion of arrears may lead to the GEF TF being “over-programmed” and experiencing a funding “shortfall” at the end of the replenishment i.e., the amount programmed is less than the envelope determined at the start of the replenishment. However, in the GEF TF, demand for resources is used as an incentive for contributing participants to fulfill pledges. Including arrears in the programming envelope incentivizes contributing participants to make efforts to fulfill their pledges to meet the target funding envelope agreed during the replenishment negotiation.

22. Continuation of the current practice of GEF Council’s funding decisions based on resources available with the Trustee reduces the risk of over commitment, consistent with the provisions of the GEF Instrument.

23. Track records reflect the continued efforts of contributing participants in clearing their arrears and fulfilling their obligations to the GEF from previous replenishments. Table 2 below provides a snapshot of arrears as of 31 July 2021 and a comparison with arrears at the beginning of GEF-7 period.

Table 2: GEF Arrears as of 31 July 2021 (in USD millions)

Contributing Participant	Repl.	Currency	Installment Receivable Amount	Status as of Jul 31, 2021, USD eq. a/	Status at beginning of GEF-7 USD eq. b/
Egypt	GEF-1	SDR	0.5	0.8	0.7
United States	GEF-2	USD	102.4	102.4	135.0
Nigeria	GEF-3	SDR	0.7	1.0	0.9
Pakistan c/	GEF-6	USD	0.2	0.2	4.1
Total				104.3	140.8

a/ Based on exchanges rates as of July 31, 2021.

b/ Based on exchanges rates as of June 30, 2018.

c/ Installment receivable balance under negotiation.

Note: Totals may not add up accurately due to rounding.

24. *The pro-rata provision in the GEF:* Over the four years of a GEF replenishment period, contributing participants are expected to pay their contributions in four equal annual installments. Due to domestic constraints, some participants deposit a Qualified Instrument of Commitment (IoC) with the Trustee, which authorizes the full amount of the four-year contribution, pursuant to which a contributing participant agrees to pay part of its contribution without qualification, while the remainder is still subject to enactment of the necessary legislative approvals.

25. To facilitate fair burden sharing between a “lead contributing participant”⁴ that provides a Qualified IoC and other contributing participants, and to protect the interests of other contributing participants in the event of delayed or reduced contributions by the lead contributing participant, the *pro-rata* (deferment) clause was introduced in the GEF-1. The *pro-rata* provision was also meant to provide an incentive to the lead contributing participant to expedite necessary internal approvals of its GEF contribution.

26. During the third meeting of the GEF-7 replenishment negotiations, there was consensus among the contributing participants to remove the pro-rata provision given its limited use and efficacy in timely clearance of arrears. However, the provision could not be dropped in GEF-7 due to the lead time required by a contributing participant in seeking internal approval towards dropping this clause before the GEF-7 pledging meeting in April 2018. Since then, the contributing participant has confirmed to the Trustee that they secured necessary internal approval for discontinuation of the pro-rata provision. Reflecting the consensus among the GEF-7 Participants and the limited efficacy to encourage timely payments, it is proposed to drop the pro-rata provision from GEF-8 replenishment onwards.

V. Projected Investment Income

27. Resources paid-in by the contributing participants are held in a liquid asset portfolio until they are transferred to the agencies and recipients of the GEF projects. The undisbursed cash balance of the GEF Trust Fund is maintained in a commingled investment portfolio (“Pool”) for all trust funds managed by IBRD. The Pool is managed actively and conservatively with capital preservation as the over-arching objective.

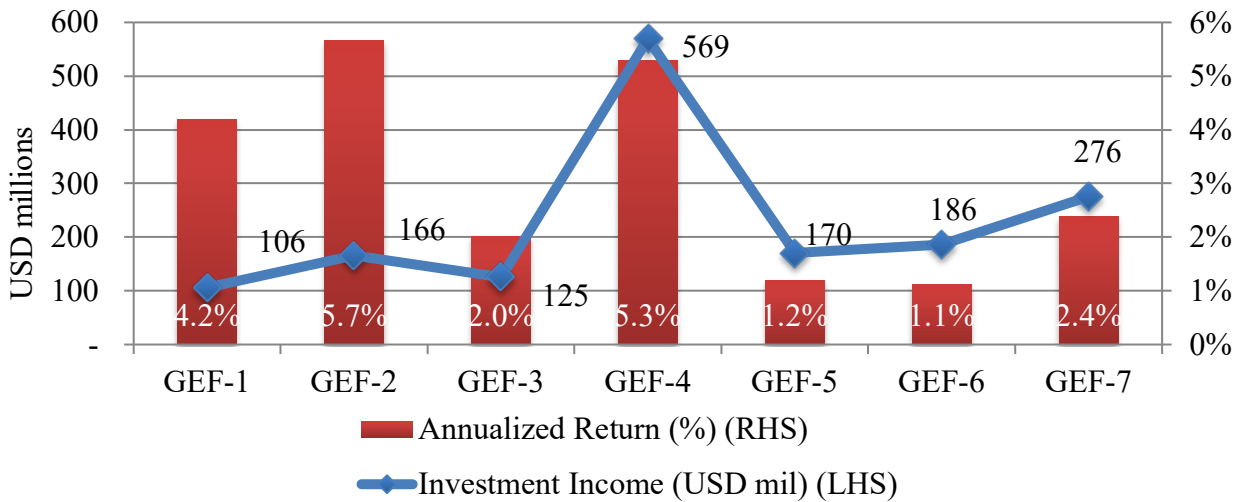
28. The World Bank as the Trustee for the GEF TF manages these liquid assets according to the provisions of IBRD’s General Investment Authorizations (GIAs)⁵. Approved by the World Bank’s Board of Executive Directors, the GIAs determine the framework under which the Trustee provides investment management services to the GEF TF. It also specifies the types of transactions and eligible investments in which the World Bank is authorized to conduct.

29. Projected investment income over the replenishment period is estimated using projected liquidity balances for the four-year replenishment period, and the expected investment return over that period. The actual amount of investment income earned will naturally depend on actual liquidity balances and market conditions. The GEF-7 replenishment envelope included a projected investment income of USD 149.1 million for the four-year replenishment period. The GEF TF earned an investment income of USD 276 million from July 1, 2018 to July 31, 2021.

⁴ A “lead contributing participant” is a Contributing Participant that has deposited a Qualified Instrument of Commitment and whose contribution represents more than 5 percent of the total amount of the resources to be contributed pursuant to the GEF-8.

⁵ General Investment Authorization for IBRD (Resolution No. 97-1, adopted on April 18, 1997)

Table 3: GEF Investment Income and Return by Replenishment (as of 31 July 2021)



i) Sustainable and Responsible Investing

30. In response to the GEF-7 policy recommendation for the Trustee to develop SRI options for the GEF Council’s consideration, the Trustee has applied ESG Integration as the default SRI approach for all portfolios managed by the World Bank, including for the GEF Trust Fund assets, since July 2019. Using the ESG positioning in the MSCI ESG Fund Ratings Universe⁶⁷ as a reference indicator, GEF’s investment portfolio falls in the top decile of the ratings universe. This reflects the GEF portfolio’s high capacity to manage key medium- to long-term risks and opportunities arising from Environmental, Social and Governance factors.

31. In December 2020, the GEF Council approved the Sustainability Themed Investments strategy (“the Strategy”) for the GEF and noted that this Strategy along with the ESG Integration approach, already in implementation since July 2019, collectively address the GEF-7 policy recommendation for the Trustee to develop options for a responsible investment strategy for the financial management of the GEF funds held in trust.

32. Since receiving the Council approval, the Trustee formally started preparations for implementing the strategy, including engaging with issuers and service providers, establishing a Sustainability Framework to provide strategic and operational guidance, and pre-implementation infrastructure setup. The Strategy has been in implementation⁸ since June 2021 with an initial US\$100 million allocation and purchase of 9 bonds spanning green, social and sustainability categories. The Trustee will continue implementation of the Strategy during the GEF-8 period.

⁶ MSCI ESG Fund Ratings aim to measure the resilience of portfolios to long term risks and opportunities arising from ESG factors. ESG positioning reflects portfolio’s ESG Quality Score based on MSCI ESG Ratings and measured on a scale of 0 to 10 (worst to best) following a rule-based methodology. The scores are compared across the whole universe of funds and the score shows the percentage of funds with an ESG Quality Score lower than, or equal to, that of the portfolio. A higher score is better. Please see details on MSCI ESG Ratings Methodology from: <https://www.msci.com/documents/1296102/4769829/MSCI+ESG+Ratings+Methodology+-+Exec+Summary+Dec+2020.pdf/15e36bed-bba2-1038-6fa0-2cf52a0e04d6?t=1608110671584>.

⁷ For more details refer to GEF Trust Fund Financial Report, Summary of Financial Information as of July 31, 2021, GEF/R.8/Inf. 05

⁸ For more details refer to GEF Trust Fund Financial Report, Summary of Financial Information as of July 31, 2021, GEF/R.8/Inf. 05

Annex A: Minimum Contribution Inflation Adjustment Methodology

The measure of inflation applied to the minimum contribution amount for participants is the Special Drawing Rights (SDR) deflator. The SDR deflator is used as a measure of world inflation for annual adjustments to operational and analytical income thresholds and World Bank Atlas method estimates of Gross Net Income (GNI) per capita.

The SDR deflator⁹ is calculated by the International Monetary Fund (IMF) on an annual basis and is typically available with a six-month lag. As such, the latest data point available is as of December 31, 2019.

When the SDR deflator is applied to the minimum contribution amount for GEF participants of SDR 4.0 million over the last four calendar years, the result is that the amount remains unchanged (refer to Table 4 below).

Table 4: Calculation of Inflation-Adjusted Minimum Contribution for GEF Participating Members

Year	SDR deflator in US\$ terms	SDR inflation rate (% change)	Inflation Adjusted Minimum Contribution for GEF-8 participants
2015	332.0		4.00
2016	325.8	-1.9	
2017	321.1	-1.4	
2018	329.6	2.7	
2019	333.9	1.3	4.02

⁹ Source: The World Bank, 1 July 2020.

Annex B: GEF-8 Reference Exchange Rates

Reference exchange rates are used to translate contributions between SDR values and national currency values for the purpose of burden sharing in replenishment negotiations. For each of the previous GEF replenishments, Contributing Participants have agreed, early in the replenishment cycle, on a time period to use for determining the reference exchange rates. An average of the daily exchange rates of each national currency against the SDR were then calculated for the agreed period and used as the reference exchange rates for the replenishment.

In choosing a reference period for the GEF-8, Contributing Participants considered the same criteria that has been used in each of the previous replenishments:

- The time period chosen should not include known exchange rates to the extent feasible.
- The end point of the reference time period chosen should allow for sufficient lead time to determine the national currency amounts in which Contributing Participants will pledge to meet a specific share objective.
- The method for determining reference exchange rates should minimize distortions that may be caused by short-term currency fluctuations.

Based on the criteria above, Contributing Participants adopted the six-month period from July 1, 2021 through December 31, 2021 as the reference time period for translating GEF-8 contributions between SDR values and national currency values.

Annex C: GEF-7 Encashment Schedule

For reference purposes, the encashment schedule that was agreed for GEF-7 is shown in Table 5 below.

Table 5: Encashment Schedule for GEF-7

Fiscal Year (July 1 to June 30)	GEF-7 Encashment Schedule (%)
2018	3.0%
2019	8.0%
2020	11.0%
2021	15.0%
2022	16.0%
2023	16.0%
2024	13.0%
2025	9.0%
2026	5.0%
2027	4.0%
Total	100.0%