



**SUMMARY OF THE CO-CHAIRS  
MEETING ON THE THIRD REPLENISHMENT OF THE GEF TRUST FUND  
WASHINGTON D.C., DECEMBER 3 - 4, 2001**

*Opening of the meeting*

The meeting was opened by Mr. Motoo Kusakabe, Vice President, Resource Mobilization and Co-Financing of the World Bank and Mr. Mohamed T. El-Ashry, Chief Executive Officer/Chairman of the Facility. The co-chairs welcomed the participants to this meeting for the third replenishment. Mr. El-Ashry noted that while significant progress has been made in the replenishment discussions, it appears that it will be necessary to have an additional meeting, beyond the one scheduled to take place next February in Paris, to finalize the replenishment. It is proposed to have that additional meeting in April 2002.

The meeting agreed to reorder its consideration of the agenda items.

*Agenda Item 2            GEF-2 Funding Situation and Commitment Authority*

Mr. Amedee Prouvost, Manager, Finance, Resource Mobilization Department of the World Bank, introduced document GEF/R.3/119 *GEF-2 Current And Projected Funding Status* and revised Annex A, based on December 2, 2001, figures was circulated. The Trustee reported that \$325 million in resources is expected to be carried over from GEF-2 to GEF-3 (comprised of \$62 million of unused GEF-2 available resources and \$263 million of arrears). The projected investment income of the GEF Trust Fund for the GEF-3 period is \$120 million (i.e. \$30 million for each year of the replenishment period). The Trustee explained the basis of its investment income projections and confirmed that investment income earned on GEF funds disbursed to two of the Implementing Agencies is reported to the Trustee by the Implementing Agencies and included in the calculation of resources available to the Council for commitment. At Italy's request, it was agreed that footnote (c) of Annex A will be re-worded to clarify that the delays in Italy's payments to GEF-2 result from the budgetary procedures for Italy's GEF-2 appropriation. A revision will also be made to reflect the fact that Norway has now paid its GEF-2 contribution in full. Korea stated that it has now paid the last installment of its GEF-2 contribution. Denmark stated that all procedures for its payment of its final GEF-2 installment have now been completed and that the Trustee should receive the final installment within a few days.

*Agenda Item 5*

*Burden Sharing and Financial Issues for the Third GEF Replenishment*

Mr. Amedee Prouvost outlined the five topics detailed in document GEF/R.3/21 *Burden Sharing and Financial Issues for The Third GEF Replenishment*: (i) the effective reference exchange rates to be used in GEF-3; (ii) illustrative contributions to GEF-3 based on GEF-1 basic shares and GEF-2 basic shares; (iii) illustrative contributions to GEF-3 based on new funding needs (between the range of SDR 1,640 million and SDR 2,430 million); (iv) information on projected inflation rates for those donors (Mexico, Nigeria, Russia and Turkey) whose average inflation rates during 1998-2000 were above 10% and who may, therefore, be required to denominate their contributions to GEF-3 in SDR; and (v) an explanation of the flexibility that may be provided to donors in negotiating encashment schedules with the Trustee.

Participants took note of the effective reference exchange rates to be used in GEF-3.

Participants expressed different views on whether GEF-1 or GEF-2 basic shares should be the reference point for GEF-3 burden sharing and indicated that they were not prepared to reach a final decision on this issue at this time.

Participants agreed to continue the practice of requiring those donors who experienced an average annual inflation rate exceeding 10% over an agreed reference period to denominate their contributions in SDRs. Accordingly, those donors who experienced an average annual inflation rate exceeding 10% over the 1998-2000 period (Mexico, Nigeria, Russia and Turkey) will be required to denominate their contributions to GEF-3 in SDRs.

Participants endorsed the practice of affording donors the option of providing their contributions in cash “up front” or on the basis of an alternative encashment schedule, provided that the net present value of a donor’s encashment schedule is equal to or greater than the present value of the standard encashment schedule. They agreed that this practice should be continued with respect to the payment of GEF-3 contributions. Accordingly, for GEF-3, the Trustee will agree to changes in encashment schedules at the request of a donor provided that the present value of the donor’s new encashment schedule is at least equal to the present value of the standard encashment schedule.

*Agenda Item 6*

*Arrears*

The US provided a status report on the budget deliberations in the US. Congress is in the process of coming to closure on its fiscal year 2002 funding decisions. The US Administration is now finalizing its proposals for the fiscal year 2003 budget submission with an eye towards clearing arrears.

Egypt sent a fax to the CEO informing the meeting that Egypt will clear its arrears to GEF-1 (amounting to \$2.94 million).

Note was made of the documents on arrears that were distributed to some of the donor representatives in advance of the meeting, consisting of: a note entitled, “GEF –Consideration of Restrictions on Consultants from Donor Countries Who Have Not Paid-in Their Arrears”;

information on the Poverty Reduction and Growth Facility (“PRGF”) Trust Fund established by the International Monetary Fund; and a letter from Italy sent to the Secretariat following the Edinburgh replenishment meeting concerning the note “Arrears and the GEF” distributed to Participants at that meeting. These documents were distributed to all Participants at the meeting and Mr. Kusakabe expressed his apologies to those Participants who, due to a technical error in the documents’ transmission, had not received them earlier.

Japan distributed a note to all Participants outlining its concerns about the current pro rata provision and detailing a proposal for an arrears prevention mechanism in GEF-3 based on procurement restrictions.

13. Participants agreed that all options for the prevention of arrears in GEF-3 should remain open for discussion at this time, and that further information should be gathered on the feasibility and costs of introducing procurement restrictions as an arrears prevention mechanism in GEF-3. In this regard, it was agreed that the three Implementing Agencies and the seven organizations that have been identified under expanded opportunities for executing agencies will be invited to provide information on the feasibility of implementing procurement restrictions associated with GEF financing. In so doing, they will be invited to consider and report on the costs of implementing such restrictions, how, and to what extent, such restrictions would affect the efficiency of project preparation and implementation and whether such restrictions would impact upon their willingness to collaborate with the GEF. They will also indicate how such restrictions would apply to projects which include co-financing from sources other than GEF funds. An independent consultant will be recruited to gather and evaluate the input from these agencies and to prepare a document for review by the replenishment meeting in February 2002.

#### *Agenda Item 4            Programming of Resources for the Third GEF Replenishment*

The Secretariat introduced document GEF/R.3/15/Rev.1, Programming of Resources for the Third GEF Replenishment. The Secretariat highlighted the changes and additions that had been introduced into the previous programming document at the request of the replenishment meeting in October.

The meeting expressed its appreciation for the revised tables and additional information that had been provided, since they facilitated consideration of the programming proposals and the three funding scenarios. In particular, the meeting welcomed the preparation of the annex on quantifying achievable outcomes as a guide to the respective impacts of the financial scenarios under discussion and noted that this information would facilitate the setting of priorities and the monitoring and evaluation of future activities. The meeting requested the Secretariat to prepare for the next replenishment meeting new tables illustrating for each focal area the expected increase in resources under GEF-3, taking into account the core allocations as well as the multisectoral projects, capacity building and other kinds of cross cutting resources that directly or indirectly relate to the focal area.

The meeting concluded that it was premature at this time to narrow the range for the GEF-3 funding level and agreed that it would continue to consider the proposed range of \$2.2 – 3.2 billion in new resources in preparing for its meeting in February and would reach agreement

on a target for the replenishment at that meeting. The meeting considered that projected investment income should be taken into account as a new financial resource in the funding scenarios.

*Agenda Item 3. Second Overall Performance Study of the GEF: Policy Recommendations*

The CEO introduced document GEF/R.3/20 which describes the process followed for preparing policy recommendations for the purposes of GEF-2. The note also highlights the role of the Council in endorsing the policy recommendations emerging from the second replenishment negotiations as a statement of the Council on actions to be undertaken by the GEF and in approving and monitoring an action plan for responding to the recommendations of the First Overall Performance Study.

The meeting agreed that the development of policy recommendations is an important part of the replenishment process, that such recommendations should be formulated using the Second Overall Performance Study as a basis, and that it would be necessary to have a thorough discussion and interaction among the donors to achieve a common understanding on the agreed recommendations.

In this regard, and taking into account the discussion on the Second Overall Performance Study that is scheduled to be held in the Council meeting later in the week, it was agreed that the following process for formulating the policy recommendations for the GEF-3 replenishment would be as follows:

Participants are invited to submit to the Secretariat their views on the priority issues to be addressed in the recommendations by January 15, 2002;

On the basis of the submissions received, the Secretariat will prepare an initial list of the issues to be addressed in the recommendations, and circulate the list for comment by January 22, 2002;

The Participants will be invited to comment on the list by January 29, 2002;

Taking into account the comments received, the Secretariat will prepare proposed recommendations for consideration by the replenishment meeting in February 2002. Sufficient time will be allocated during the meeting for a thorough discussion of the proposed recommendations and the outcome of the Second Overall Performance Study;

Approval of the policy recommendations at the final replenishment meeting in April 2002.

*Closure of the Meeting*

The meeting was closed at 11:40 a.m. on December 4, 2001, by the co-chairs