



SUMMARY OF THE CO-CHAIRS MEETING ON THE THIRD REPLENISHMENT OF THE GEF TRUST FUND PARIS, FRANCE, FEBRUARY 27-28, 2002

Opening of the meeting

1. 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.
2. Ms. Stephane Pallez, Deputy Head of the Treasury for European and International Affairs, Vice Chair of the Paris Club, welcomed the delegates to Paris and emphasized the importance of the GEF-3 replenishment. She noted that the replenishment should be viewed as part of a broader sequence of meetings addressing sustainable development including the International Conference on Financing for Development and the World Summit on Sustainable Development.

GEF-2 Current And Projected Funding Status and Estimated Carryover and Projected Investment Income for the GEF-3 Replenishment Period

3. Mr. Amedee Prouvost introduced document GEF/R.3/24, *Current and Projected Funding Status and Estimated Carryover and Projected Investment Income for the GEF-3 Replenishment Period*. The paper addresses the current and projected funding status of GEF-2 for the May Council meeting, the estimated carryover of GEF resources into GEF-3 and the projected investment income that may be earned during the GEF-3 replenishment period. Revised Annexes A, B and C, reflecting Italy's payment of the second tranche of its GEF-2 contribution and a supplemental contribution to GEF-2 by Canada, were circulated. Mr. Prouvost noted that the current low level of funding is due to a combination of factors; delayed installment payments; the decision of one donor to defer commitment of the third and fourth tranche of its GEF-2 contribution and the fact that 3 donors have not yet decided whether to defer commitment of, or release for commitment the fourth tranche of their GEF-2 contributions; and exchange rate movements resulting in the decline of some currencies against the US dollar.

4. Italy stated that it will pay the balance of its GEF-2 contributions between FY03 and FY05. The United States stated that the US Congress appropriated \$100.5 million towards its FY02 GEF contribution. This payment is expected to be made before the May Council meeting. In addition, the United States informed the meeting that the US Administration has proposed a three-year plan to clear its arrears to a number of international financial institutions, including a request of \$70.3 million in FY03 to partially clear its arrears to GEF-2. Austria indicated that it probably would only release the portion of its deferred contribution corresponding to the portion of the US contribution actually paid. France, Germany and Japan advised that they still have not made a decision on whether to defer commitment of, or release for commitment, the fourth tranche of their GEF-2 contributions. Mr. El-Ashry informed the meeting that there will be no intersessional in light of the constraints in commitment authority. He advised that further work program adjustments will be made in accordance with funding constraints, in consultation with the Implementing Agencies.

5. The Trustee agreed to make one further, final effort to encourage Brazil and the Russian Federation to finalize their GEF-2 pledges. The Trustee advised that it intends to use the exchange rates prevailing on March 31, 2002, to value the carryover into GEF-3 prior to the final GEF-3 replenishment meeting in April 2002.

Procurement Restrictions Related to Arrears in Donors' Contributions to the GEF

6. Mr. Prouvost introduced document GEF/R.3/25, *Procurement Restrictions Related To Arrears in Donors' Contribution to the GEF*. Mr. El-Ashry urged donors to discuss what measures, if any, they wished to introduce to help prevent arrears to GEF-3 in order to facilitate agreement on GEF-3. Donors expressed a variety of views. Several donors noted that the issue of arrears is a political issue, not readily amenable to technical, legal solutions. Some donors suggested that procurement restrictions be imposed on the hiring of consultants from countries in arrears and/or limiting the voting rights and Council participation of countries in arrears. Other donors opposed introducing such restrictions and suggested alternatives such as (i) making arrears one criterion (as distinct from an absolute prohibition) to be applied by the Implementing and Executing Agencies in the hiring by grant recipients of consultants for GEF work, and/or (ii) requiring the pertinent minister of a country in arrears to write a letter to the GEF Council setting out the reasons for the arrears. Other donors expressed their clear opposition to such penalties for arrears. In light of this range of views, it was agreed that the Co-Chairs would undertake consultations with interested donors, including a meeting if necessary, for further discussion in advance the April replenishment meeting.

Replenishment Amount

7. Mr. Prouvost introduced 3 tables, showing three possible target amounts of new donor funding, respectively, SDR 1.677 billion (Table 1), SDR 2.066 billion (Table 2), and SDR 2.455 billion (Table3), corresponding to the three scenarios in the resource programming paper.

8. A large majority of the donors clearly supported the funding level proposed in Table 2 (equivalent to \$2.7 billion of new funding) as the appropriate target for the third replenishment, but also

noted the imperative of maintaining fair and equitable burden sharing. A few of these donors also indicated that their contributions should be seen in the context of maintaining the institutional structure of the GEF while enlarging its scope to include new focal areas. Several donors, however, indicated support for the replenishment level proposed in Table 1 (equivalent to \$2.2 billion of new funding), while others supported a level between Tables 1 and 2. The meeting noted that while scenario 1 will represent some increase over GEF-2 financing in terms of new donor resources, it will not support an equivalent level of activities in GEF-3 because of the smaller carryover.

9. The meeting agreed that the Trustee and CEO should undertake further consultations on the target amount with a view to facilitating agreement at the final replenishment meeting to be held in Copenhagen on April 8-9, 2002.

10. The Trustee described a series of accelerated encashment options. Donors availing themselves of one of these options could be afforded a discount or credit on their contributions. Donors interested in these options were invited to consult with the Trustee.

Policy Recommendations

11. In introducing document GEF/R3/26, *Policy Recommendations to be Agreed as Part of the Replenishment Process*, the Secretariat noted that the document had been compiled from submissions of the participants concerning priority issues to be addressed in the policy recommendations to be adopted as part of the process for the third replenishment of the GEF Trust Fund.

12. The CEO reminded the meeting that the policy recommendations are directed towards the Council of the GEF, which will be invited to approve them and to use the recommendations, together with the Second Overall Performance Study of the GEF, as a framework for considering and approving a plan of action and timetable for improving the effectiveness, impacts and results to be achieved by the GEF during the GEF-3 period. It was also noted that the policy recommendations will serve as a basis for the statement to be agreed by all GEF Participants at the second Assembly in October 2002.

13. The meeting reviewed and commented upon each section of the policy recommendations, and it was agreed that the Secretariat would prepare, taking into account the participants' comments and in consultation with the Implementing Agencies, a revised paper for consideration at the next replenishment meeting in April.

14. The meeting agreed that the revised paper on the overall structure, processes and procedures of the GEF which is being prepared by the Secretariat in consultation with the Implementing Agencies for review at the Council meeting in May 2002 should be distributed in advance of the next replenishment meeting so it can be taken into account in reviewing the policy recommendations.

15. The understanding reached by the GEF Council at its meeting in December 2001 that activities under the new funds to be managed by the GEF pursuant to the decisions of the seventh session of the

Conference of the Parties to the UN Framework Convention on Climate Change will remain separate from the activities of the GEF Trust Fund was reiterated.

Draft Replenishment Document

16. Ms. Sophie Smyth introduced document GEF/R.3/27, *Global Environment Facility Trust Fund Replenishment Document in the Form of a World Bank Resolution* and explained the approval process for such document and the key substantive changes that had been made from the GEF-2 Resolution. The meeting reviewed and commented on the document. It was noted that the draft Resolution will be revised on the basis of the comments made at the meeting and submitted for review at the next replenishment meeting. The revised draft will reflect the outcome of the donors' consultations regarding the establishment of arrears prevention mechanisms. The meeting also requested the Trustee to amend paragraph 3 (b) (ii) to reflect what consequences would apply where a Contributing Participant fails to observe the encashment schedule it has negotiated with the Trustee. It was agreed that paragraph 3 (a) (iii) would be amended to provide that the Trustee may agree to postponement of payments for up to 45 days and that payments made pursuant to any such agreement will constitute timely payments.

Summary of the Co-Chairs

17. The meeting reviewed the Summary of the Co-Chairs.

18. The meeting expressed its sincere appreciation to the Government of France for their generosity and warm hospitality in hosting the meeting.