



Global Environment Facility

GEF/R.4/5
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Meeting for the Fourth Replenishment of the GEF Trust Fund
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Washington, D.C.

REFERENCE EXCHANGE RATES FOR USE IN THE FOURTH GEF REPLENISHMENT (PREPARED BY TRUSTEE)

I. Introduction

1. Donor contributions to GEF replenishments are typically pledged in national currencies. While the operating currency of the GEF is the US dollar (USD), the SDR¹ 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. For GEF replenishments, donors agree in advance on a set of reference exchange rates that are used to translate their national currency contributions into SDR values. These reference rates are used to calculate donors' specific shares in the replenishment as well as the aggregate size of the replenishment in SDR terms.

2. This note proposes that donors (i) adopt a specified time period for setting the reference exchange rates for the GEF-4 replenishment, and (ii) approve continuing the practice that a donor country experiencing an average annual inflation rate in its economy over a certain threshold during a specified period will denominate its contribution in SDR.

3. As requested by donors at the March 2005 planning meeting, this note also describes the movement of national currency exchange rates against the SDR since the time of the GEF-3 replenishment negotiations. In addition, it illustrates the impact of the exchange rate fluctuations on the value of donor contributions to the GEF-3.

II. Reference Exchange Rates

4. Reference exchange rates are used to translate donor contributions between SDR values and national currency values for the purpose of burden sharing in replenishment negotiations. For each of the previous GEF replenishments, donors have agreed, early on in the replenishment cycle, on a time period to use for determining the reference exchange rates. Following this, an average of the daily exchange rates of each national currency against the SDR was calculated for the agreed time period. These rates were subsequently used as the reference exchange rates for the replenishment.

5. In choosing a reference time period for the GEF-4, donors may consider using the following criteria which were used in each of the previous replenishments:

- *The time period chosen should avoid including known exchange rates to the extent feasible.* This criterion can be met by defining a forward looking time period over which the relevant exchange rates will be determined at the outset of the replenishment.
- *The end point of the reference time period chosen should allow for sufficient lead time to determine the national currency amounts which donors will pledge to meet*

¹ The SDR or Special Drawing Rights is a currency basket consisting of fixed proportions of the EUR, JPY, GBP, and the USD.

a specific share objective. Before donors can pledge a specific level of contributions at the end of the replenishment discussions, they typically have to obtain pledging authorization in their national currencies. Therefore, they need to know in advance how much national currency will be required to meet their given share of replenishment levels under consideration. Thus, the end date for the reference time period should precede the conclusion of the replenishment discussions.

- *The method for determining reference exchange rates should mitigate short-term currency fluctuations.* Using average exchange rates over several months will serve this purpose. Since the GEF-2, donors have selected a reference time period of six months.² The reference exchange rate period used for each of the previous GEF replenishments is shown in Table 1 below.

Replenishment	Negotiations Completed	Reference Time Periods Adopted	Length
GEF-1	March 1994	February 1 – October 31, 1993	9 months
GEF-2	February 1998	May 1 – October 31, 1997	6 months
GEF-3	August 2002	May 15 – November 15, 2001	6 months

6. Based on the criteria in paragraph 5, the reference time period for the GEF-4 could include the dates May 1, 2005 through October 31, 2005.

III. Donor Countries Experiencing High Inflation

7. Donor contributions to the GEF are normally denominated in national currencies, with the exception of contributions from countries experiencing high inflation in their economies. In previous replenishments, donors agreed that countries with average annual inflation rates greater than 10% during the three years preceding the replenishment would denominate their contributions in SDRs. This practice recognizes that the largest loss in the value of replenishment resources over a replenishment commitment and encashment period tends to be caused by the depreciation of national currencies in countries with high inflation rates. Following previous practice, the time period for determining the average annual inflation rate for

² Other multilateral institutions such as IDA and the African Development Bank also used a 6-month reference period for this purpose.

the GEF-4 will encompass the years 2002-2004. Annex 1 presents the 2002-2004³ inflation rates for all previous GEF donors.

IV. Exchange Rate Movements Since the GEF-3 Replenishment Negotiations

8. At the March 2005 planning meeting of the GEF-4 replenishment, donors requested a technical description of the movement of national currency exchange rates against the SDR since the time of the GEF-3 replenishment negotiations.

9. As shown in Table 1, the agreed six-month time period for setting reference exchange rates for the GEF-3 extended from May 15, 2001 through November 15, 2001. The resulting SDR vs. national currency exchange rates ultimately used in the GEF-3 are shown Annex 2, Column 5. For comparison, Column 6 shows the SDR vs. national currency exchange rates available on April 10, 2005, and Column 9 shows the relevant increase (decrease) in the value of the SDR equivalent contribution as a result of the appreciation (depreciation) of the national currencies against the SDR. As can be seen, many national currency exchange rates have moved considerably against the SDR since the GEF-3 reference time period. To illustrate, among the SDR component currencies, contributions denominated in EUR and GBP have increased in SDR terms by 22.7% and 10.5% respectively, in line with the appreciation of those currencies against the SDR. Contributions denominated in JPY and USD, however, have depreciated by 5.5% and 15.7% respectively, in line with their depreciation against the SDR.

V. Recommendation

10. Based on the criteria described in Section II, the Trustee recommends that donors adopt the period from May 1, 2005 through October 31, 2005 as the reference time period for translating GEF-4 donor contributions between SDR values and national currency values.

11. The Trustee also recommends that donors agree that those donor countries experiencing an average annual inflation rate in their economies exceeding 10% over the years 2002-2004 will denominate their GEF-4 contributions in the SDR.

³ Three donor countries have average annual inflation rates exceeding 10% per annum: Argentina, Nigeria, and Turkey.

Annex 1

Inflation Rates of GEF Donors *				
Percent Change Over Previous Year				
<u>Country</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>Average</u>
	(%)	(%)	(%)	(%)
Argentina	25.869	13.442	4.416	14.576
Australia	3.003	2.771	2.344	2.706
Austria	1.810	1.363	2.053	1.742
Bangladesh	3.333	5.668	4.279 <i>a/</i>	4.427
Belgium	1.643	1.591	2.096	1.777
Brazil	8.450	14.715	6.599	9.921
Canada	2.248	2.766	1.833	2.282
China	-0.765	1.157	4.469 <i>a/</i>	1.620
Cote d'Ivoire	3.105	3.349	2.000 <i>a/</i>	2.818
Czech Republic	1.785	0.102	2.834	1.573
Denmark	2.426	2.091	1.160	1.892
Egypt	2.737	4.508	11.271	6.172
Finland	1.576	0.864	0.190	0.877
France	1.925	2.101	2.135	2.054
Germany	1.373	1.048	1.667	1.363
Greece	3.629	3.531	2.904	3.355
India	4.392	3.806	3.399 <i>a/</i>	3.866
Indonesia	11.879	6.586	6.244	8.236
Ireland	4.668	3.480	2.195	3.448
Italy	2.465	2.673	2.207	2.448
Japan	-0.915	-0.254	-0.008	-0.393
Korea	2.690	3.555	3.591	3.278
Luxembourg	2.074	2.050	2.226	2.117
Mexico	5.031	4.548	4.688	4.756
Netherlands	3.467	2.115	1.236	2.273
New Zealand	2.677	1.754	2.290	2.240
Nigeria	12.883	14.026	15.1 <i>a/</i>	14.003
Norway	1.288	2.475	0.465	1.410
Pakistan	3.290	2.914	7.445	4.550
Portugal	3.545	3.283	2.356	3.061
Slovak Republic	3.323	8.554	7.549	6.475
Slovenia	7.484	5.583	3.582	5.549
Spain	3.067	3.033	3.034	3.045
Sweden	2.171	1.905	0.378	1.485
Switzerland	0.642	0.629	0.820	0.697
Turkey	44.964	25.296	8.598	26.286
United Kindgom	1.634	2.914	2.964	2.504
United States	1.586	2.270	2.677	2.178

* Data source: International Financial Statistics.
a/ This figure is an estimate by the World Bank, therefore, subject to revision.

GEF Third Replenishment of Resources Detail of Contributions and Illustration of Revaluation using Current Exchange rates										
Contributing Participants	GEF-3 Agreed Contributions ^{a/}				Current Value of GEF-3 NC Contributions				Difference	
	Currency	Amount (in millions)	SDR equivalent (in millions)	Reference exchange rates 2001	Exchange Rates (April 10, 2005)	SDR Equivalent (in millions)	SDR Equivalent (in millions)	SDR Equivalent (in millions)	Increase (decrease) (in %)	
Australia	AUD	68.2	27.6	2.5	2.0	34.7	7.1	25.8		
Austria	EUR	25.4	17.7	1.4	1.2	21.7	4.0	22.7		
Belgium	EUR	47.2	33.0	1.4	1.2	40.5	7.5	22.7		
Canada	CAD	178.8	91.0	2.0	1.8	97.3	6.3	6.9		
China	CNY	88.6	8.4	10.5	12.5	7.1	(1.3)	(15.7)		
Cote d'Ivoire	XOF	3,758.9	4.0	939.7	765.8	4.9	0.9	22.7		
Czech Republic	CZK	218.7	4.5	48.6	35.0	6.3	1.8	39.0		
Denmark	DKK	298.2	28.0	10.7	8.7	34.3	6.3	22.6		
Finland	EUR	30.0	20.9	1.4	1.2	25.7	4.8	22.7		
France	EUR	184.6	128.8	1.4	1.2	158.1	29.3	22.7		
Germany	EUR	331.8	231.6	1.4	1.2	284.2	52.6	22.7		
Greece	EUR	6.4	4.5	1.4	1.2	5.5	1.0	22.7		
India	INR	479.8	8.0	60.1	65.8	7.3	(0.7)	(8.8)		
Ireland	EUR	6.4	4.5	1.4	1.2	5.5	1.0	22.7		
Italy	EUR	118.9	83.0	1.4	1.2	101.8	18.9	22.7		
Japan	JPY	51,444.9	333.4	154.3	163.2	315.2	(18.2)	(5.5)		
Korea	KRW	7,143.0	4.3	1,642.7	1,524.9	4.7	0.3	7.7		
Luxembourg	EUR	5.7	4.0	1.4	1.2	4.9	0.9	22.7		
Mexico	SDR	4.0	4.0	1.0	1.0	4.0	-	-		
Netherlands	EUR	92.8	64.8	1.4	1.2	79.5	14.7	22.7		
New Zealand	NZD	12.1	4.0	3.0	2.1	5.7	1.7	43.5		
Nigeria	SDR	4.5	4.5	1.0	1.0	4.5	-	-		
Norway	NOK	228.3	20.0	11.4	9.5	23.9	4.0	20.0		
Pakistan	PKR	320.6	4.0	80.2	89.4	3.6	(0.4)	(10.3)		
Portugal	EUR	5.7	4.0	1.4	1.2	4.9	0.9	22.7		
Slovenia	SIT	353.2	1.1	313.9	279.8	1.3	0.1	12.2		
Spain	EUR	21.7	15.1	1.4	1.2	18.6	3.4	22.7		
Sweden	SEK	764.7	57.0	13.4	10.7	71.5	14.5	25.5		
Switzerland	CHF	99.1	45.9	2.2	1.8	54.7	8.8	19.1		
Turkey	SDR	4.0	4.0	1.0	1.0	4.0	-	-		
United Kingdom	GBP	132.6	149.9	0.9	0.8	165.7	15.8	10.5		
United States	USD	430.0	339.2	1.3	1.5	285.8	(53.4)	(15.7)		
Total			1,754.8			1,887.4	132.6	7.6		

^{a/} Not including conditional contributions