



Global Environment Facility

GEF/R.5/4
March 2, 2009

First Meeting for the Fifth Replenishment of the GEF Trust Fund
March 17-18, 2009
Paris, France

REFERENCE EXCHANGE RATES FOR USE IN THE FIFTH 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 donor contributions between SDR and national currency 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-5 replenishment, and (ii) approve the continuation of 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.

II. Reference Exchange Rates

3. 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.

4. In choosing a reference time period for the GEF-5, 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 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

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

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.

<u>Replenishment</u>	<u>Negotiations</u>		<u>Length</u>
	<u>Completed</u>	<u>Reference Time Periods Adopted</u>	
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
GEF-4	August 2006	May 1 – October 31, 2005	6 months

Based on the criteria in paragraph 5, the reference time period for the GEF-5 could include the dates April 1, 2009 through September 30, 2009.

III. Donor Countries Experiencing High Inflation

5. 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 the GEF-5 will encompass the years 2005-2007. Annex 1 presents the 2005-2007³ inflation rates for all previous GEF donors.

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

³ In the time period covered, CY2005-CY2007, Nigeria has an average annual inflation rate exceeding 10% per annum. The Government of Nigeria is in arrears to the GEF-3 for a total of SDR 3 million, or 75% of its total contribution. For the GEF-4, Nigeria pledged SDR 4 million but has not yet deposited its Instrument of Commitment with the Trustee.

IV. Recommendation

6. Based on the criteria described in Section II, the Trustee recommends that donors adopt the six-month period from April 1, 2009 through September 30, 2009 as the reference time period for translating GEF-5 donor contributions between SDR values and national currency values.

7. 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 2005-2007 will denominate their GEF-5 contributions in the SDR.

**Global Environment Facility
Inflation Rates of GEF Donors**
Percent Change Over Previous Year

Contributing Participant a/	2005	2006	2007	Average
	(%)	(%)	(%)	(%)
Argentina	9.64	10.9	8.83	9.79
Australia	2.67	3.53	2.36	2.85
Austria	2.32	1.44	2.17	1.98
Bangladesh	7.04	6.77	9.11	7.64
Belgium	2.78	1.79	1.82	2.13
Brazil	6.87	4.18	3.64	4.90
Canada	2.21	2	2.14	2.12
China	1.82	1.47	4.78	2.69
Cote d'Ivoire	3.89	2.47	1.89	2.75
Czech Republic	1.85	2.53	2.92	2.43
Denmark	1.81	1.89	1.71	1.80
Egypt, Arab Rep.	4.83	7.64	9.47	7.31
Finland	0.61	1.57	2.51	1.56
France	1.74	1.68	1.49	1.64
Germany	1.56	1.57	2.29	1.81
Greece	3.55	3.21	2.89	3.22
India	4.24	6.18	6.37	5.60
Indonesia	10.46	13.1	6.07	9.88
Ireland	2.41	3.94	4.92	3.76
Italy	1.99	2.09	1.83	1.97
Japan	-0.27	0.24	0.06	0.01
Korea	2.75	2.24	2.53	2.51
Luxembourg	2.49	2.67	2.31	2.49
Mexico	3.99	3.63	3.97	3.86
Netherlands	1.67	1.44	1.61	1.57
New Zealand	3.04	3.37	2.37	2.93
Nigeria	17.86	8.24	5.38	10.49
Norway	1.52	2.33	0.73	1.53
Pakistan	9.06	7.92	7.6	8.19
Portugal	2.29	3.1	2.44	2.61
Slovak Republic	2.71	4.48	2.76	3.32
Slovenia	2.48	2.46	3.61	2.85
South Africa	3.4	4.64	7.1	5.05
Spain	3.37	3.52	2.79	3.23
Sweden	0.45	1.36	2.21	1.34
Switzerland	1.17	1.06	0.73	0.99
Turkey	8.18	9.6	8.76	8.85
United Kingdom	2.05	2.33	2.32	2.23
United States	3.38	3.24	2.85	3.16

Source: Global Economic Monitor - Excel Tables

a/ These Contributing Participants represent current and past donors to GEF.