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## **GEF-5 DISCOUNT RATE AND INDICATIVE ENCASHMENT SCHEDULE**

**(PREPARED BY THE WORLD BANK AS TRUSTEE)**

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## GEF-5 DISCOUNT RATE AND INDICATIVE ENCASHMENT SCHEDULE

### I. Introduction

1. This note provides Contributing Participants with the information required in order to complete financial arrangements for the GEF-5. This paper focuses on (i) the discount rate that will be used to calculate discounts and credits for acceleration of GEF-5 cash installment payments or encashments of promissory notes; and (ii) the indicative encashment schedule for donor contributions to the GEF-5. The previously issued report GEF/R.5/5, *Review of the GEF Trust Fund: Contributions, Funding Availability and Financial Risk* provides detailed information on discount, credits, and burden sharing as related to the financial arrangements for Contributing Participants.

### II. Discount Rate to be Used for Credits and Discounts Calculation

2. **Based on the analysis of the World Bank's Treasury Department, the Trustee will use the discount rate of 3.8% for the GEF-5.** The discount rate is derived based on the expected ten year investment return on the US dollar investment portfolio in which the GEF Trust Fund resources are invested.

3. Contributing Participants to the GEF-5 have the flexibility to accelerate either cash installment payments or the encashment of promissory notes. When a donor chooses to accelerate payment of its contribution, the donor also has the option of taking either a discount or a credit on its contribution. The Trustee invests such donor funds that are received through an acceleration of payment or encashment together with the GEF cash balance in the trust fund investment pool. The objective is to generate sufficient income to reach the full value of a donor's contribution over the disbursement horizon of the replenishment.

4. The amount of the discount or credit depends on the present value of the donor's estimated payment schedule compared to the indicative encashment schedule set out in the Replenishment Resolution. The present value is dependent upon the discount rate applied, and as noted above, the discount rate of 3.8% will be used for the GEF-5.

5. It is important to note that the actual amounts earned in the investment portfolio may be higher or lower than amounts credited or discounted depending on market conditions and actual cash balances over the disbursement horizon of the replenishment.

### III. Indicative Encashment Schedule

6. **The GEF-5 indicative, or standard, encashment schedule is presented in Annex 1.** It is based on the projected disbursement needs of the GEF Agencies over the lifetime of the expected projects to be approved during the GEF-5 Replenishment period. The expected disbursement needs were calculated by: (i) taking the historical disbursement patterns for each GEF Agency by project type (Full Sized projects, Medium Sized Projects, Enabling Activities),

(ii) selecting representative disbursement trends by project type, (iii) making assumptions on the expected amounts to be approved by project type and (iv) extrapolating the resulting disbursement needs based upon the expected amounts approved by project type and disbursement profile.

7. Additionally, the indicative encashment schedule takes into consideration donor preference for encashment levels which do not fluctuate sharply from period to period.

8. This indicative encashment schedule will be the basis for drawdowns on promissory note contributions to the GEF-5. However, the Trustee may agree to encash promissory notes on a basis other than that of the indicative schedule provided that the revised encashment schedule is no less favorable to the GEF Trust Fund than the indicative schedule in present value terms. As discussed in Section II, the indicative schedule will be the benchmark for which accelerated cash installment payments or encashments will be compared in order to determine the present value of donor contributions and corresponding discount or credit amounts.

9. Contributing Participants can choose to use the acceleration option in the following ways:

- a. **Discount:** or reducing the actual payment amount in the currency of contribution. 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. **Credit:** or increasing the SDR value of the contribution while maintaining the actual payment amount in the currency of contribution. In this case, the present value of the contribution is increased by accelerating payment. The credit can be used in the following ways:
  - i. Credit can be applied to the basic contribution, thus increasing the basic share; or
  - ii. The donor can receive credit for a supplemental contribution, thus increasing the actual share.

10. Contributing Participants may refer to Schedules A, B, and C in Annex 1 for some illustrative alternative encashment schedules and corresponding discount or credit amounts.

**GEF-5 Financial Arrangements**  
**Indicative Encashment Schedule, Credits and Discounts Valuation**  
*(for every hundred of currency contributions)*

Fiscal Year	GEF-5 Standard Schedule	Illustrative Accelerated Schedules		
		A	B	C
<b>2011</b>	8.0	10.0	25.0	100.0
<b>2012</b>	11.0	16.0	25.0	
<b>2013</b>	14.0	20.0	25.0	
<b>2014</b>	14.5	24.0	25.0	
<b>2015</b>	14.0	20.0		
<b>2016</b>	12.0	10.0		
<b>2017</b>	10.0			
<b>2018</b>	8.0			
<b>2019</b>	5.0			
<b>2020</b>	3.5			
Face value of contribution	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Discount rate (%) <i>a/</i>	3.8%	3.8%	3.8%	3.8%
Present value of contribution in 2010	83.8	87.6	91.2	96.3
Discount amount <i>b/</i>		4.4	8.1	13.1
Credit amount <i>c/</i>		4.6	8.9	15.0

*a/* A discount rate of 3.8% is based on an estimate of the long-term US dollar-based return on investment. Actual returns will naturally depend on cash balances and market conditions over the replenishment period.

*b/* If a donor chooses to use an accelerated encashment schedule and take a discount, the discount amount may be deducted from the face value of the national currency contribution.

*c/* If a donor chooses to use an accelerated encashment schedule and take a credit, the credit amount may be added to the SDR equivalent of the face value of the contribution to enhance a donor's share.