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**Financial Considerations for
the GEF-8 Replenishment
(Prepared by the GEF Trustee)**

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Financial Considerations for the GEF-8 Replenishment

I. Introduction

1. The objective of this paper is to provide Participants of the GEF-8 replenishment with additional information on the key financial considerations for the GEF-8 replenishment¹ and variables used in the GEF-8 financing scenarios. Section II presents indicative GEF-8 financing scenarios that correspond to the programming scenarios proposed by the GEF Secretariat² and reflect the estimated carryover of funds from previous replenishments, expected reflows from Non-Grant Instruments and investment income to be earned during the GEF-8 period. Details on the financing components of the GEF-8 replenishment are included in Section III. Section IV presents an update on financial terms applicable to contributions to GEF-8, including the average exchange rates, indicative encashment schedules, and discount rate to be used to calculate credits and discounts on accelerated payments.

II. Indicative Financing Scenarios

2. Three preliminary GEF-8 financing scenarios corresponding to the programming scenarios proposed by the GEF Secretariat³ for the third GEF-8 replenishment meeting are shown in below Table 1. The three scenarios include: (i) a “Programming Envelope of USD 5.0 bn” scenario representing an increase of 22.9% over the GEF-7 programming level; (ii) a “Programming Envelope of USD 6.5 bn” scenario representing an increase of 59.8% over the GEF-7 programming level; and (iii) a “Programming Envelope of USD 7.0 bn” scenario which represents a 72.1% decrease over GEF-7 programming level.

3. The financing scenarios demonstrate how the programming scenarios can be achieved, based on assumptions with respect to funds to be carried over from previous replenishments, future potential investment income estimated to be earned during GEF-8 period, and expected reflows from projects under Non-Grant Instruments during GEF-8 period.

Table 1. GEF-8 Preliminary Financing Scenarios

in USD millions	GEF-7	GEF-8 Scenarios					
		"Programming Envelope of USD 5.0 bn"	% change from GEF-7	"Programming Envelope of USD 6.5 bn"	% change from GEF-7	"Programming Envelope of USD 7.0 bn"	% change from GEF-7
New Resources from Contributing Participants	3,345.1	4,308.3	28.8%	5,808.3	73.6%	6,308.3	88.6%
Projected Carryover from Previous Replenishment	547.9	464.0	-15.3%	464.0	-15.3%	464.0	-15.3%
Projected Investment Income	149.5	196.8	31.7%	196.8	31.7%	196.8	31.7%
Reflows from NGI	25.2	30.9	22.6%	30.9	22.6%	30.9	22.6%
Total Replenishment Amount	4,068	5,000	22.9%	6,500	59.8%	7,000	72.1%

¹ For more information on GEF-8 Replenishment financial arrangements, refer to documents GEF/R.8/04: Eighth GEF Replenishment: Overview of Financial Structure (Prepared by the Trustee) dated April 1, 2021 and GEF/R.08/09: GEF-8 Replenishment: Financial Structure (Prepared by the GEF Trustee) dated September 8, 2021.

² Refer to document GEF/R.8/15, GEF-8 Programming Scenarios and Global Environmental Benefits Targets.

³ Refer to document GEF/R.8/15, GEF-8 Programming Scenarios and Global Environmental Benefits Targets

III. Financing Components of the GEF-8 Replenishment

4. The expected resources for the GEF-8 replenishment comprises four components:
- i. *New funding from Contributing Participants.* Under the “Programming Envelope of USD 5.0 bn” scenario, Contributing Participants would be required to contribute USD 4.3 billion, representing an increase of 28.8% from GEF-7 new Participant funding in USD terms. Under the “Programming Envelope of USD 6.5 bn” scenario, new Participant funding required would increase to USD 5.8 billion, representing an increase of 73.6% over GEF-7 new Participant funding in USD terms. Under the “Programming Envelope of USD 7.0 bn” scenario, Contributing Participants would be required to contribute USD 6.3 billion in new funding, representing an increase of 88.6% from GEF-7 new Participant funding in USD terms.
 - ii. *Projected investment income.* Projected investment income for the GEF-8 replenishment period is USD 196.8 million. This projection is estimated based on the assumption of an average cash balance in the GEF Trust Fund (GEF TF) of approximately USD 4.19 billion and estimated rate of return of 1.14% per annum. The estimates are based on the GEF TF portfolio's average allocation to each of the Trust Fund Pool's (TF Pool) investment portfolios in which the GEF TF has invested. The total returns of the investment tranches are projected to remain modest, assuming fixed income yields continue to rise from recent historical lows. Annex 1 provides additional details on the projected investment income calculations.
 - iii. *Funds carried over from previous replenishments.* The Trustee estimates USD 464.0 million will be carried over from previous replenishments into GEF-8. This funding comprises three components:
 - *Unpaid resources.* Includes Contributing Participants' arrears and Instruments of Commitment (IoCs) that have not yet been deposited from GEF-7 and previous replenishments.
 - *Deferred contributions.* Includes contributions paid by Contributing Participants, but restricted from being committed, per instructions from Contributing Participants in accordance with the provisions of paragraph 8(c) of the GEF-7 Replenishment Resolution. As of December 31, 2021, there are no contributions that are deferred by Contributing Participants.
 - *Paid-in but unallocated resources.* Includes any GEF-7 paid-in resources that remain unallocated at the end of the GEF-7 replenishment period. It is estimated that approximately USD 311.1 million will carry over into GEF-8. This amount would be reviewed and updated based on actual funding approvals and additional contributions received from now through the end of GEF-7 period.

A breakdown of the Trustee's estimate of the carry-over amount based on FX rates as of December 31, 2021 is shown in Table 2 below.

Table 2. Estimated GEF-8 Carryover Amount (in USD millions)

	Replenishment	USD eq. million a/
1. Unpaid Resources		152.9
<i>a. Arrears⁴</i>		<i>104.1</i>
Egypt	GEF-1	0.7
United States	GEF-2	102.4
Nigeria	GEF-3	0.9
<i>b. IoCs Not Yet Deposited with the Trustee⁵</i>		<i>48.8</i>
Nigeria	GEF-4	5.6
Greece	GEF-5	5.0
Nigeria	GEF-5	2.2
Portugal	GEF-5	5.0
Brazil	GEF-6	15.9
Russian Federation	GEF-6	15.0
2. Deferred Contributions		0.0
3. Estimated Paid-in but Unallocated GEF-7 Funding		311.1
Total Estimated GEF-8 Carryover (1 + 2 + 3)		464.0
a/ Valued on the basis of exchange rates as of December 31, 2021.		

- iv. *Reflows from Non-Grant Instrument (NGI)*. Reflows⁶ from projects under NGI that are expected during the upcoming replenishment funding period are included in the funding envelope for the replenishment. Based on NGI projects that have been approved as of December 31, 2021, a reflow of USD 30.9 million is anticipated during GEF-8 funding period, i.e., July 1, 2022 to June 30, 2026. This amount would be reviewed and updated based on new NGI projects, if any, approved in the remainder of GEF-7 period.

⁴ Total arrears do not include unpaid installment of \$213k for GEF-6 from Pakistan. The Trustee and Pakistan are in discussion to address the unpaid amount.

⁵ An amount of \$11.9 million has been received from Brazil. Payment arrangements are being finalized with Brazil for their GEF-6 pledges.

⁶ As of December 31, 2021, the Trustee has received an amount of USD 30.9 million.

IV. Financial Terms of GEF-8 Contributions and Payment Procedures

Currency of Denomination and Exchange Rates

5. While the operating currency of the GEF is the US dollar (USD), the Special Drawing Rights (SDR) is used in GEF replenishments as the base currency for burden sharing⁷ purposes and to provide a common denominator for expressing the overall size of the replenishment. Contributions are typically denominated in national currencies; however, Contributing Participants' countries with high inflation rates⁸ must contribute in SDR or in USD, as agreed by the GEF-8 Participants at the first meeting of GEF-8 Replenishment in April 2021.

6. Contributing Participants agreed that the six-month period from July 1, 2021 to December 31, 2021 would be used as the reference period for translating the GEF-8 contributions between SDR values and national currency values. The final GEF-8 reference exchange rates, and a comparison between the GEF-8 and GEF-7 reference exchange rates are presented in Annexes 2 and 3 respectively.

Instrument of Commitment (IoC)

7. Pledges from Contributing Participants to the four-year replenishment are formalized by the deposits of IoCs with the Trustee. An IoC constitutes a legally binding obligation on the part of the Contributing Participant to pay the total amount specified to the GEF TF. Some Contributing Participants who are not able to provide legally binding IoCs for the entire replenishment period, may deposit Qualified IoCs with the Trustee, and agree to pay a part of their contribution without qualification while the remainder is still subject to enactment by their legislature of the necessary appropriation legislation. Participants who deposit qualified IoCs undertake to exercise their best efforts to obtain legislative approval for the full amount of contribution by the same payment dates applicable to unqualified IoCs as set out in a replenishment resolution.

Payment of Contributions

8. *Timing of Installments:* Contributing Participants are required to fulfill their financial commitments in four annual and equal installments by November 30 of each year of the four years of a GEF replenishment period. Upon written request, the Trustee may agree to allow a Contributing Participant to expedite the installment payment in fewer than the standard four installments. Alternatively, the Trustee may agree to a request to postpone the payment of any installment, or a portion of the installment, up to, but not beyond, June 30 of the calendar year following the year in which the installment is due. Payments made pursuant to these agreements with the Trustee are deemed to be timely (i.e., not in arrears).

9. *Form of payment:* Payments for each subscription can be in cash or, at the option of the Contributing Participant, by depositing in the designated GEF TF custody account, non-negotiable non-interest-bearing notes (promissory notes) or similar obligations, to be drawn down in cash (encashed) on demand by the GEF Trustee.

⁷ The goal of burden sharing in the GEF is to ensure adequate funding for the intended objectives, and the principles guiding a burden-sharing framework are transparency, equity and ability to pay. Burden sharing frameworks vary, over time and across institutions, based on the capacity and willingness of Contributing Participants to contribute as well as on agreement about what is an equitable distribution of financial responsibility. For some Contributing Participants, a "burden-shared" approach is important, correlating contribution levels to objective criteria (e.g., GNI per capita, prior GEF burden shares, or contributions to other international funds or organizations); for others, a burden-shared approach is less relevant, as contribution levels are driven by domestic budgetary priorities and circumstances. As such, changing budgetary circumstances and priorities of Contributing Participants may be reflected in "actual shares", which are the basic shares enhanced by additional and supplementary contributions.

⁸ Inflation as measured by the consumer price index (CPI) published on the International Monetary Fund's World Economic Outlook Database (October 2020). Countries are considered to have high inflation rates if their annual average inflation rate over the prior three years is greater than 10%. For more information, refer to paper entitled "*Reference Exchange Rates for Use in the Eighth GEF Replenishment*" (Prepared by the Trustee), GEF/R.8/03/Rev.01, April 16, 2021.

Payment by Promissory Notes and Notes Encashment

10. Promissory notes are payable on demand and are normally encashed (or drawn down) following the indicative encashment schedule. The Council approves the replenishment work program over the four-year replenishment period. Trustee commitments and disbursements for those same funding decisions occur over a more extended period as project activities are implemented. Accordingly, draw downs on promissory notes typically occur over the period set out in an indicative encashment schedule, which is attached to the replenishment resolution.

11. The encashment schedule, which typically extends up to ten years, is based on the projected disbursement needs of the GEF Agencies, while also taking into consideration Contributing Participants' preference for encashment levels. The resulting GEF-8 indicative (or 'standard') encashment schedule is presented in Table 3 below.

Table 3. GEF-8 Indicative Encashment Schedule

Fiscal Year	GEF-8 Indicative Encashment Schedule (%)
2023	3.0%
2024	9.0%
2025	12.0%
2026	15.0%
2027	15.0%
2028	15.0%
2029	14.0%
2030	8.0%
2031	6.0%
2032	3.0%
Total	100.0%

12. Contributing Participants who pay their installments with promissory notes, or similar obligations, can benefit from some flexibility in encashment arrangements. The Trustee may agree to encash promissory notes on a basis other than that of the indicative schedule provided the revised encashment schedule is no less favorable to the GEF TF than the indicative schedule. Additionally, at the written request of a Participant experiencing exceptionally difficult budgetary circumstances, the Trustee may permit postponement of encashment for: i) up to two years for a Contributing Participant that is also a recipient of the GEF TF; and ii) up to 45 days for all other Contributing Participants.

Payment by Cash

13. A Contributing Participant paying their installments by cash may also take advantage of the flexibility if the present value of its cash installment payments to the GEF TF is at least the same as the present value generated under the indicative schedule discussed above.

Acceleration of Payments

14. Contributing Participants can accelerate either their cash installment payments or the encashment of their promissory notes. Contributing Participants can choose to use the acceleration in either of two ways:

- i. *Reducing the actual payment amount in the currency of contribution or taking a "discount".* 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.

- ii. *Increasing the SDR value of the contribution while maintaining the actual payment amount in the currency of contribution, or taking a “credit”.* In this case, the present value of the contribution is increased by accelerating payment, and the burden-share can be increased or the Contributing Participant can receive credit for a supplemental contribution. The option of selecting a credit enhances the SDR value of a contribution and can be applied to the Contributing Participant’s basic and or supplemental contribution.

15. The selection of a discount or credit (and corresponding increase in the basic or supplemental contribution amount) is generally made at the pledging session and reflected in the final contribution table attached to the replenishment resolution. If, for any reason, a Contributing Participant were to change its discount or credit decision after replenishment negotiations are completed, its burden-share and the SDR value of its contribution, and the overall size of the replenishment would be affected retroactively. As such, the discount or credit decision must be confirmed with the Trustee before the replenishment negotiations are completed. Illustrative alternative cash payment or encashment schedules can be found in Annex 4.

Discount Rate to be Used for GEF-8 Credits and Discounts Calculation

16. The amounts receivable by the GEF TF under the standard encashment schedule and an accelerated schedule should be identical in present value terms. This ensures that all Contributing Participants will contribute to the GEF-8 at their agreed level. Based on the Trustee’s analysis, the discount rate of 1.49% will be used for GEF-8 credits and discounts calculation. The discount rate is derived based on the expected investment return on the USD investment portfolio in which the GEF TF resources are to be invested over the ten-year standard encashment period for the GEF-8.

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

Pro-rata Provision in the GEF TF

Based on the consensus of Contributing Participants during GEF-7 negotiations over the provision’s limited use and efficacy in timely clearance of arrears, as well as Participant’s continued support during the GEF-8 discussions, the Trustee is proposing to drop the pro-rata provision from GEF-8 replenishment onwards. The drop of the Pro-rata Provision is also proposed in the draft GEF-8 Replenishment Resolution for consideration of GEF-8 Participants at the third meeting of GEF-8 replenishment (GEF/R.8/20).

Annex 1. GEF-8 Investment Income Projections

GEF TF assets are invested across three of the World Bank Trust Fund’s investment model portfolios: “Model Portfolio 0” for short-term working capital needs, “Model Portfolio 1” with an investment horizon of one year, “Model Portfolio 2” with an investment horizon of three years, and “Model Portfolio 8” specifically for sustainability-themed investment with a similar risk return profile as “Model Portfolio 2”. Model Portfolios 1 and 2 aim to optimize investment returns subject to capital preservation with a high degree of confidence (based on statistical models) over the respective investment horizon. Approximately 80% of the GEF TF assets are invested in Model Portfolio 2 with the remaining balance split between Model Portfolios 0, 1 and 8.

For the purposes of estimating investment income for the GEF-8 period, the GEF TF portfolio's average allocation across the TF Pool investment portfolios (i.e., 79% in Model Portfolio 2, 12% in Model Portfolio 8, 5% in Model Portfolio 1, and 4% in Model Portfolio 0) is assumed to remain constant over the GEF-8 replenishment period.

Table 4 below presents the projected balance and allocation between Model Portfolios, average projected rate of return by Model Portfolio and the total projected return over the GEF-8 period.

Table 4: GEF-8 Projected Investment Income

<i>Projected Balance (USD million)</i>	
Model Portfolio 0	172.80
Model Portfolio 1	216.21
Model Portfolio 2	3,313.58
Model Portfolio 8	483.95
Total	4,186.53
<i>Projected rate of return (%)</i>	
Model Portfolio 0	0.54%
Model Portfolio 1	1.15%
Model Portfolio 2	1.18%
Model Portfolio 8	1.03%
Total	1.14%
<i>Projected Investment Income (USD million)</i>	
Model Portfolio 0	3.76
Model Portfolio 1	10.27
Model Portfolio 2	162.11
Model Portfolio 8	20.69
Total Projected GEF-8 Investment Income	196.83

Annex 2. Reference Exchange Rates for GEF-8

Reference Period: July 1 to December 31, 2021⁹

<u>Currency</u>	<u>Currency Name</u>	<u>National Currency vs. SDR</u>
AUD	Australian Dollar	1.93177
BRL	Brazilian Real	7.63262
CAD	Canadian Dollar	1.78061
CHF	Swiss Franc	1.30043
CNY	Chinese Yuan	9.09044
CZK	Czech Koruna	30.96652
DKK	Danish Krone	9.05179
EUR	Euro	1.21707
GBP	Pound Sterling	1.03677
INR	Indian Rupee	105.29648
JPY	Japanese Yen	158.10228
KRW	Korean Won	1655.87503
MXN	Mexican Peso	28.81616
NGN	Nigerian Naira	581.65548
NOK	Norwegian Krone	12.35810
NZD	New Zealand Dollar	2.02601
PKR	Pakistan Rupee	239.39090
RUB	Russian Ruble	103.28216
SEK	Swedish Krona	12.36790
TRY	Turkish Lira	13.94732
USD	United States Dollar	1.41334
XOF	West African CFA Franc	798.34680
ZAR	South African Rand	21.22680

⁹ The time period for establishing the reference exchange rates for use in the GEF-8 replenishment was agreed by Contributing Participants at the GEF-8 First Replenishment Meeting in April 2021.

Annex 3. Reference Exchange Rates for the GEF-8 and GEF-7 Comparison

Currency	Currency Name	National Currency vs. SDR			National Currency vs. USD		
		GEF-8 ^{a/}	GEF-7 ^{b/}	Change %	GEF-8 ^{a/}	GEF-7 ^{b/}	Change %
AUD	Australian Dollar	1.93177	1.82323	(5.95)	1.36692	1.28084	(6.72)
BRL	Brazilian Real	7.63262	4.58774	(66.37)	5.40170	3.22255	(67.62)
CAD	Canadian Dollar	1.78061	1.78854	0.44	1.25991	1.25638	(0.28)
CHF	Swiss Franc	1.30043	1.38093	5.83	0.92014	0.97021	5.16
CNY	Chinese Yuan	9.09044	9.29165	2.17	6.43163	6.52789	1.47
CZK	Czech Koruna	30.96652	30.50979	(1.50)	21.91269	21.43679	(2.22)
DKK	Danish Krone	9.05179	8.85779	(2.19)	6.40541	6.22326	(2.93)
EUR	Euro	1.21707	1.19004	(2.27)	0.86125	0.83609	(3.01)
GBP	Pound Sterling	1.03677	1.05633	1.85	0.73365	0.74217	1.15
INR	Indian Rupee	105.29648	91.73244	(14.79)	74.50513	64.43684	(15.63)
JPY	Japanese Yen	158.10228	158.61345	0.32	111.87671	111.43221	(0.40)
KRW	Korean Won	1655.87503	1564.43661	(5.84)	1171.70195	1099.06220	(6.61)
MXN	Mexican Peso	28.81616	26.65887	(8.09)	20.39192	18.72655	(8.89)
NGN	Nigerian Naira	581.65548	441.68262	(31.69)	411.54776	310.24657	(32.65)
NOK	Norwegian Krone	12.35810	11.40565	(8.35)	8.74447	8.01292	(9.13)
NZD	New Zealand Dollar	2.02601	2.00083	(1.26)	1.43361	1.40573	(1.98)
PKR	Pakistan Rupee	239.39090	153.32091	(56.14)	169.41881	107.67004	(57.35)
RUB	Russian Ruble	103.28216	82.19861	(25.65)	73.07779	57.74573	(26.55)
SEK	Swedish Krona	12.36790	11.63625	(6.29)	8.75208	8.17484	(7.06)
SDR	Special Drawing Rights	1.00000	1.00000	-	0.70758	0.70250	(0.72)
TRY	Turkish Lira	13.94732	5.32235	(162.05)	9.88123	3.73848	(164.31)
USD	United States Dollar	1.41334	1.42368	0.73	1.00000	1.00000	-
XOF	West African CFA Franc	798.34680	780.61326	(2.27)	564.94236	548.44065	(3.01)
ZAR	South African Rand	21.22680	18.53856	(14.50)	15.02284	13.03065	(15.29)

a/ As agreed by the Contributing Participants at the April 2021 GEF-8 replenishment meeting, the reference exchange rate to convert the SDR amount to the national currency will be the average daily exchange rate over the period from July 1, 2021 to December 31, 2021.

b/ As agreed by the Contributing Participants at the April 2018 GEF-7 replenishment meeting, the reference exchange rate to convert the SDR amount to the national currency will be the average daily exchange rate over the period from September 1, 2017 to February 28, 2018.

Annex 4. Illustrative Alternative Cash Payment or Encashment Schedules for GEF-8

(Percent of Total Contributions)

GEF-8 Financial Arrangements and Valuation of Payments from Contributing Participant				
Fiscal Year	GEF-8 Standard Schedule	Examples of Accelerated Schedules a/		
		Over 6 years	Over 4 years	One payment
2023	3.0	10.0	25.0	100.0
2024	9.0	16.0	25.0	
2025	12.0	20.0	25.0	
2026	15.0	24.0	25.0	
2027	15.0	20.0		
2028	15.0	10.0		
2029	14.0			
2030	8.0			
2031	6.0			
2032	3.0			
Face value of contribution	100.0	100.0	100.0	100.0
Discount rate (%) <i>b/</i>	1.49%	1.49%	1.49%	1.49%
NPV equivalent	92.54	94.87	96.38	98.53
		<i>% of face value</i>		
Discount <i>c/</i>		2.45%	3.99%	6.08%
Credit <i>d/</i>		2.51%	4.15%	6.48%

a/ The above schedules are provided for illustration purposes only.

b/ A discount rate of 1.49% is based on an estimate of the long-term USD-based return on investment. Actual returns will naturally depend on cash balances and market conditions over the replenishment period.

c/ If a Contributing Participant chooses to use an accelerated cash payment or encashment schedule and take a discount, the discount amount may be deducted from the face value of the contribution to reduce the payment amount in national currency.

d/ If a Contributing Participant chooses to use an accelerated cash payment or encashment schedule and take a credit, the credit amount may be added to the face value of the contribution to enhance the value of the SDR contribution.