



Global Environment Facility

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OVERVIEW OF BURDEN-SHARING FOR GEF REPLENISHMENTS (PREPARED BY TRUSTEE)

I. Introduction

1. This paper provides an overview of the GEF burden-sharing framework and how it evolves over the course of replenishment negotiations. Burden-sharing arrangements reflect the collective sense of donors about fair sharing of the financial responsibilities for a multilateral effort.¹ As in past replenishment discussions, the burden-sharing framework to be adopted for a GEF replenishment needs to reflect a framework that supports both fairness and full funding of resources.

2. Section II describes the typical process for establishing a burden-sharing framework, and briefly reviews the history of GEF burden-sharing. To provide donors with a sense of how much a replenishment would cost in terms of national currencies, illustrative burden-sharing scenarios (based on “Revised Programming Document GEF-4”, August 9, 2005, GEF/R.4/9) are also included. Section III provides a general explanation of the funding components that go into a replenishment and underlie the burden-sharing framework. Finally, Section IV describes how donor payment options may impact contribution values and burden-sharing.

II. Establishing Replenishment Size and a Burden-Sharing Framework

3. The challenge during each replenishment negotiation is the reconciliation of two core objectives. First, the replenishment must be adequate in size to be able to support overall financing requirements for future programming as agreed by the donors. Second, the replenishment must be carried out within an acceptable burden-sharing framework.

4. A provisional burden-sharing framework provides donors with a reference point for negotiations. Burden-sharing frameworks vary, over time and across institutions, based on donor capacity and willingness to contribute as well as on agreement about what is an equitable distribution of financial responsibility. At the outset, one generally looks to donor share levels in the previous replenishment, which reflect past budgetary decisions and replenishment considerations. Successful replenishment negotiations require flexibility on the part of donors, reflecting their shared determination to achieve a successful outcome, in the light of the specific current circumstance and priorities of each donor.

5. When the GEF Trust Fund was first established, donors agreed to use the shares from the IDA10 Replenishment Resolution as the initial shares. These initial shares were referred to as “basic shares”. These basic shares continued to be used as a reference point for the GEF-2 and GEF-3 replenishment discussions, with some

¹ “The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources... The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden-sharing among the developed country Parties.” From Article 4, paragraph 3 of The Framework Convention on Climate Change.

adjustments reflecting then-current circumstances.² The agreed burden-share (basic shares) of the GEF-1, GEF-2, and GEF-3 are shown in Annex 1. Most donors have maintained their basic shares across all three GEF replenishments.

6. In some cases, donors separate their replenishment contributions into two components, a basic contribution (from which their basic share is calculated) and a supplemental contribution (which is not counted in the calculation of their basic share). Additional efforts made by donors beyond their basic contribution are reflected in the calculation of “actual donor shares,” which represents the two components combined.³

III. Financial Components of a GEF Replenishment

7. The agreed size of a replenishment is derived from the estimated overall financing requirements for agreed future programming as well as from donor priorities and their ability to fund the replenishment. Funding for each replenishment comprises several financial components:

- a. New donor funding is the base amount for which the discussions and considerations of burden-sharing take place. New donor funding consists of all basic and supplemental contributions:
 - i. Basic contributions represent a donor’s contribution of its basic share of the agreed total size of a particular replenishment. For recipient donors, who are not allocated a basic share, the basic contribution is the agreed minimum contribution of SDR 4 million.
 - ii. Supplemental contributions are provided by donors in addition to their basic contribution – that is, additional to a donor’s agreed basic share. Some supplemental contributions reflect a donor’s desire to contribute more than their burden-shared amount without having the extra funding increase its basic share in the future. For donors whose basic contribution is less than the agreed minimum contribution of SDR 4 million, a supplemental contribution is required in order to meet the minimum contribution.
- b. Carryover is any unallocated amounts from the previous replenishment that are potentially available for commitment. It consists of several components, notably arrears, deferred contributions, and paid-in but unallocated funds.

² In the GEF-2, actual pledges from Germany, Italy, and United States were below their actual GEF-1 basic shares. In the GEF-3, actual pledges from Canada, Germany, Switzerland, and United Kingdom were above their actual GEF-2 basic share, while pledges from France, Japan, Norway, and United States were below.

³ Supplemental contributions in the form of a credit for acceleration are not included in the calculation of “actual shares”.

- c. Investment income projected to be earned over the replenishment period is estimated using projected cash balances for the four-year period, and the expected investment return over that period. (The actual amount of investment income earned will naturally depend on actual cash balances and market conditions.)
- d. Reflows are projected repayments from GEF loans or guarantees expected to be received during the commitment period of the replenishment.

8. The notional replenishment size also comprises a funding gap if the agreed target amount is not fully funded. Donor pledges that are made after replenishment negotiations are concluded will reduce the funding gap.

9. To illustrate how the burden-sharing structure works in practice, Annexes 2A and 2B present two different replenishment scenarios. These scenarios are based on the range of new funding needs as described in the replenishment paper entitled “Revised Programming Document GEF-4”, August 9, 2005, GEF/R.4/9”. Each scenario uses GEF-3 basic shares, and the required minimum contribution of SDR million, as the basis for illustrating individual donor contributions. The illustrative contributions are shown in SDR and national currency terms, and all financial components are translated into SDR equivalents using the agreed reference exchange rates for the replenishment.

IV. The Impact of Donor Payment Options on Contribution Values and Burden-Sharing

10. As described in Sections V and VI of the companion paper entitled “Financial Arrangements for GEF Replenishments”, GEF/R.4/16, dated September 28, 2005, replenishment arrangements provide for flexible payment procedures. Notably, the value of each donor’s contribution and burden-share depends on the timing of its actual cash payments. Using the indicative encashment schedule as the baseline, donors can adopt a shorter encashment schedule that maintains the same present value of their contributions. In that case, a donor may choose to accelerate either its cash installment payments or the encashment of its promissory notes, and take either a discount (paying a lower nominal total currency amount more quickly) or a credit (paying the full nominal amount more quickly and increasing its share). The amount of the discount or credit depends on the present value of the donor’s estimated payment schedule compared to the indicative, or standard, encashment schedule. Annex 3 provides an illustration of how a discount or credit would arise under different payment schedules.

11. A donor accelerating its payments can apply a resulting credit to increase its basic contribution and/or to provide a supplemental contribution, thereby increasing either its basic burden-share and/or actual burden-share. Examples of how credits increase the SDR value of a contribution are provided below:

- Donors can opt to pay their agreed national currency contribution in cash up front to increase their basic contributions. For example, a donor using

Schedule A in Annex 3 can use the credit amount, or additional value generated, to increase the value of its basic contribution and thus its basic share.

- Donors can opt to pay the agreed national currency contribution in cash up front to provide for or increase a supplemental contribution. Using the above example, a donor can choose to declare the credit amount as a supplemental contribution. As a result, the donor's basic contribution would remain unchanged, while its total contribution would increase.
- Alternatively, a donor can also choose to accelerate encashment of its promissory note contribution, without claiming a discount, in order to increase either the basic or supplemental contribution (similar to the examples above). Following Schedule A, for example, a donor would increase its actual share by 6.4%, which could be applied to its basic contribution, or to a supplemental contribution, or shared between the two. The specific value of such a credit will depend on the encashment schedule selected and the present value of the contribution.

12. In a GEF replenishment, any credit taken by a donor will enhance the SDR value of their contributions. This additional value generated will correspondingly increase the actual size of the replenishment, helping fill the funding gap. If all donors were to follow Schedule B and provide their contributions in cash over four years without claiming a discount, the additional resources generated would amount to 11.2% of the benchmark value of total contributions – or approximately 11.2 million for every 100 million of currency contributions.

Global Environment Facility Trust Fund
Burden-Sharing Framework: Agreed Basic Shares *a/*

Countries	GEF-1	GEF-2	GEF-3	Differences	
	(1)	(2)	(3)	(2)-(1)	(3)-(2)
Australia	1.46%	1.46%	1.46%	-	-
Austria	0.90%	0.90%	0.90%	-	-
Belgium	1.55%	1.55%	1.55%	-	-
Canada	4.00%	4.00%	4.28%	-	0.28
Denmark	1.30%	1.30%	1.30%	-	-
Finland	1.00%	1.00%	1.00%	-	-
France	7.02%	7.02%	6.81%	-	(0.21)
Germany	11.00%	11.00% <i>b/</i>	11.00%	-	-
Greece	0.05%	0.05%	0.05%	-	-
Ireland	0.11%	0.11%	0.11%	-	-
Italy	5.30%	5.30% <i>b/</i>	4.39%	-	(0.91)
Japan	18.70%	18.70%	17.63%	-	(1.07)
Korea	0.23%	0.23%	0.23%	-	-
Luxembourg	0.05%	0.05%	0.05%	-	-
Netherlands	3.30%	3.30%	3.30%	-	-
New Zealand	0.12%	0.12%	0.12%	-	-
Norway	1.42%	1.42%	1.06%	-	(0.36)
Portugal	0.12%	0.12%	0.12%	-	-
Spain	0.80%	0.80%	0.80%	-	-
Sweden	2.62%	2.62%	2.62%	-	-
Switzerland	1.74%	1.74%	2.43%	-	0.69
United Kingdom	6.15%	6.15%	6.92%	-	0.77
United States	20.86%	20.86% <i>b/</i>	20.86% <i>c/</i>	-	-
Total	89.80%	89.80%	88.99%		

a/ This table does not include recipient donors since they do not contribute on a burden-sharing basis.

b/ Actual GEF-2 basic contributions reflect shares of 10.66% for Germany, 4.39% for Italy, and 20.84% for the United States.

c/ Actual GEF-3 basic contribution reflects a share of 17.94% for the United States.

**Illustrative Contributions Based on GEF-3 Basic Shares
and New Funding Needs of US\$3bn a/**

All figures expressed in millions, except where stated b/

<u>Assumptions</u>	<u>SDRm equiv</u>	<u>USDm</u>
1 Illustrative replenishment size a/	2,038.1	3,000.0
2 Illustrative carryover	203.8	300.0
3 Projected investment income c/	222.8	328.0
4 New donor money required	1,611.4	2,372.0
4a Total basic and supplemental contributions e/	1,491.1	2,194.8
4b Expected funding gap	120.4	177.2

<u>Contributing participants</u>	CONTRIBUTIONS (IN MILLIONS)						
	Calculated Basic Contributions		d/ Supplemental Contributions	e/	Total Contributions		
	(%)	SDR	SDR		(%)	SDR	Currency Currency b/
Australia	1.46%	23.5	-		1.46%	23.5	45.4 AUD
Austria	0.90%	14.5	-		0.90%	14.5	17.3 EUR
Belgium	1.55%	25.0	-		1.55%	25.0	29.8 EUR
Brazil	0.00%	4.0	g/	-	0.25%	4.0	14.1 BRL
Canada	4.28%	69.0	-		4.28%	69.0	124.7 CAD
China	0.00%	4.0	g/	-	0.25%	4.0	48.3 CNY
Cote d'Ivoire	0.00%	4.0	g/	-	0.25%	4.0	3,134.6 XOF
Czech Republic	0.00%	4.0	g/	-	0.25%	4.0	143.1 CZK
Denmark	1.30%	20.9	-		1.30%	20.9	186.5 DKK
Finland	1.00%	16.1	-		1.00%	16.1	19.3 EUR
France	6.81%	109.8	-		6.81%	109.8	131.2 EUR
Germany	11.00%	177.3	-		11.00%	177.3	211.8 EUR
Greece	0.05%	0.8		3.2 e/	0.25%	4.0	4.8 EUR
India	0.00%	4.0	g/	-	0.25%	4.0	256.6 INR
Ireland	0.11%	1.8		2.2 e/	0.25%	4.0	4.8 EUR
Italy	4.39%	70.7	-		4.39%	70.7	84.5 EUR
Japan	17.63%	284.1	-		17.63%	284.1	45,766.1 JPY
Korea	0.23%	3.7		0.3 e/	0.25%	4.0	5,997.2 KRW
Luxembourg	0.05%	0.8		3.2 e/	0.25%	4.0	4.8 EUR
Mexico	0.00%	4.0	g/	-	0.25%	4.0	4.0 SDR f/
Netherlands	3.30%	53.2	-		3.30%	53.2	63.5 EUR
New Zealand	0.12%	1.9		2.1 e/	0.25%	4.0	8.4 NZD
Nigeria	0.00%	4.0	g/	-	0.25%	4.0	4.0 SDR f/
Norway	1.06%	17.0	-		1.06%	17.0	161.5 NOK
Pakistan	0.00%	4.0	g/	-	0.25%	4.0	351.1 PKR
Portugal	0.12%	1.9		2.1 e/	0.25%	4.0	4.8 EUR
Slovenia	0.00%	4.0	g/	-	0.25%	4.0	1,144.4 SIT
South Africa	0.00%	4.0	g/	-	0.25%	4.0	38.5 ZAR
Spain	0.80%	12.9	-		0.80%	12.9	15.4 EUR
Sweden	2.62%	42.2	-		2.62%	42.2	469.1 SEK
Switzerland	2.43%	39.2	-		2.43%	39.2	72.4 CHF
Turkey	0.00%	4.0	g/	-	0.25%	4.0	4.0 SDR f/
United Kingdom	6.92%	111.5	-		6.92%	111.5	90.7 GBP
United States	20.86%	336.1	-		20.86%	336.1	494.8 USD
Total	88.99%	1,478.0	13.0		92.53%	1,491.1	

a/ Illustrative replenishment size is based on the funding scenarios presented in "Revised Programming Document GEF-4", August 9, 2005, GEF/R.4/9.

b/ As agreed by the Contributing Participants at the June 9-10, 2005 GEF-4 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 May 1, 2005 to October 31, 2005. For this exercise, the average daily exchange rates used covers the period from May 1, 2005 to September 15, 2005.

c/ Investment income is projected using a \$2bn average cash balance and investment return of 4.1% per annum.

d/ The illustrated shares are based on agreed GEF-3 basic shares.

e/ For donors whose derived basic contribution is less than the agreed minimum contribution of SDR 4 million, a supplemental contribution is required in order to meet the minimum contribution. During the course of the replenishment negotiations, other donors may also provide supplementary contributions.

f/ As agreed by donors in the June 9-10, 2005 GEF-4 replenishment meeting, 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.

g/ For those donors that do not have a basic share, this represents the agreed minimum contribution of SDR 4 million.

**Illustrative Contributions Based on GEF-3 Basic Shares
and New Funding Needs of US\$3.75bn a/**

All figures expressed in millions, except where stated b/

<u>Assumptions</u>	<u>SDRm equiv</u>	<u>USDm</u>
1 Illustrative replenishment size a/	2,547.6	3,750.0
2 Illustrative carryover	203.8	300.0
3 Projected investment income c/	222.8	328.0
4 New donor money required	2,121.0	3,122.0
4a Total basic and supplemental contributions e/	1,941.9	2,858.5
4b Expected funding gap	179.0	263.5

<u>Contributing participants</u>	CONTRIBUTIONS (IN MILLIONS)						
	Calculated Basic Contributions d/		Supplemental Contributions e/	Total Contributions			
	(%)	SDR	SDR	(%)	SDR	Currency	Currency b/
Australia	1.46%	31.0	-	1.46%	31.0	59.8	AUD
Austria	0.90%	19.1	-	0.90%	19.1	22.8	EUR
Belgium	1.55%	32.9	-	1.55%	32.9	39.3	EUR
Brazil	0.00%	4.0	g/	0.19%	4.0	14.1	BRL
Canada	4.28%	90.8	-	4.28%	90.8	164.1	CAD
China	0.00%	4.0	g/	0.19%	4.0	48.3	CNY
Cote d'Ivoire	0.00%	4.0	g/	0.19%	4.0	3,134.6	XOF
Czech Republic	0.00%	4.0	g/	0.19%	4.0	143.1	CZK
Denmark	1.30%	27.6	-	1.30%	27.6	245.5	DKK
Finland	1.00%	21.2	-	1.00%	21.2	25.3	EUR
France	6.81%	144.5	-	6.81%	144.5	172.7	EUR
Germany	11.00%	233.3	-	11.00%	233.3	278.7	EUR
Greece	0.05%	1.1	2.9	e/	0.19%	4.0	EUR
India	0.00%	4.0	g/	0.19%	4.0	256.6	INR
Ireland	0.11%	2.3	1.7	e/	0.19%	4.0	EUR
Italy	4.39%	93.1	-	4.39%	93.1	111.2	EUR
Japan	17.63%	373.9	-	17.63%	373.9	60,236.9	JPY
Korea	0.23%	4.9	-	0.23%	4.9	7,313.8	KRW
Luxembourg	0.05%	1.1	2.9	e/	0.19%	4.0	EUR
Mexico	0.00%	4.0	g/	0.19%	4.0	4.0	SDR f/
Netherlands	3.30%	70.0	-	3.30%	70.0	83.6	EUR
New Zealand	0.12%	2.5	1.5	e/	0.19%	4.0	NZD
Nigeria	0.00%	4.0	g/	0.19%	4.0	4.0	SDR f/
Norway	1.06%	22.4	-	1.06%	22.4	212.6	NOK
Pakistan	0.00%	4.0	g/	0.19%	4.0	351.1	PKR
Portugal	0.12%	2.5	1.5	e/	0.19%	4.0	EUR
Slovenia	0.00%	4.0	g/	0.19%	4.0	1,144.4	SIT
South Africa	0.00%	4.0	g/	0.19%	4.0	38.5	ZAR
Spain	0.80%	17.0	-	0.80%	17.0	20.3	EUR
Sweden	2.62%	55.6	-	2.62%	55.6	617.4	SEK
Switzerland	2.43%	51.5	-	2.43%	51.5	95.3	CHF
Turkey	0.00%	4.0	g/	0.19%	4.0	4.0	SDR f/
United Kingdom	6.92%	146.8	-	6.92%	146.8	119.4	GBP
United States	20.86%	442.4	-	20.86%	442.4	651.2	USD
Total	88.99%	1,931.5	10.5	91.56%	1,941.9		

a/ Illustrative replenishment size is based on the funding scenarios presented in "Revised Programming Document GEF-4", August 9, 2005, GEF/R.4/9.

b/ As agreed by the Contributing Participants at the June 9-10, 2005 GEF-4 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 May 1, 2005 to October 31, 2005. For this exercise, the average daily exchange rates used covers the period from May 1, 2005 to September 15, 2005.

c/ Investment income is projected using a \$2bn average cash balance and investment return of 4.1% per annum.

d/ The illustrated shares are based on agreed GEF-3 basic shares.

e/ For donors whose derived basic contribution is less than the agreed minimum contribution of SDR 4 million, a supplemental contribution is required in order to meet the minimum contribution. During the course of the replenishment negotiations, other donors may also provide supplementary contributions.

f/ As agreed by donors in the June 9-10, 2005 GEF-4 replenishment meeting, 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.

g/ For those donors that do not have a basic share, this represents the agreed minimum contribution of SDR 4 million.

**Illustrative Financial Arrangements
and Valuation of Donor Payments**
(for every hundred of currency contributions)

Fiscal Year	GEF-3	Examples of Payment Schedules		
	standard schedule <i>1/</i>	A	B	C
2007	7.5	10.0	25.0	100.0
2008	10.0	16.0	25.0	
2009	13.5	20.0	25.0	
2010	12.5	24.0	25.0	
2011	12.5	20.0		
2012	12.0	10.0		
2013	11.0			
2014	9.0			
2015	8.0			
2016	4.0			
Face value of contribution	100.0	100.0	100.0	100.0
Discount rate (%) <i>2/</i>	4.3%	4.3%	4.3%	4.3%
Present value of contribution in 2006	81.0	86.2	90.1	95.9
Discount amount <i>3/</i>		6.0	10.1	15.5
Credit amount <i>4/</i>		6.4	11.2	18.3

1/ In the above illustration, the standard schedule is based on the agreed encashment schedule for GEF-3. The above schedules are provided for illustration purposes only.

2/ A discount rate of 4.3% 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.

3/ 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 contribution to reduce the national currency amount payable.

4/ If a donor chooses to use an accelerated 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.