

**GCF First Replenishment (GCF-1)**  
**First consultation meeting**  
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**REFERENCE EXCHANGE RATES FOR USE IN THE  
GREEN CLIMATE FUND REPLENISHMENT  
(PREPARED BY THE TRUSTEE)**

## **I. Introduction**

1. Contributions to the First Replenishment of the Green Climate Fund (GCF) may be pledged in any convertible national currency. Recognizing that the dominant operating currency of the GCF is USD, it is important that the Contributing Participants agree in advance on a set of reference exchange rates that are used to translate contributions between USD and national currency values. These reference rates could also be used to calculate Contributing Participants' specific shares in the replenishment as well as the aggregate size of the replenishment in USD terms.

2. This note includes an illustration of the impacts of using two different time periods in the past and presents the average observed exchange rates of major currencies in comparison to USD (annex 1), and the volatility of major currencies. Further, the note outlines a proposal for a specified time-period for setting the reference exchange rates for the First Replenishment.

## **II. Reference Exchange Rates**

3. In choosing a reference time-period for the First Replenishment of the GCF, Contributing Participants may consider using the following criteria:

- *The time period chosen should not include 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 negotiations, i.e. early April 2019.
- *The end point of the reference time period chosen should allow for sufficient lead time to determine the national currency amounts in which Contributing Participants will pledge to meet a specific share objective.* Before Contributing Participants 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 the national currency amount required to meet their given replenishment share. Thus, the end date for the reference time period should precede the expected conclusion of the replenishment discussions, i.e. October 2019.
- *The method for determining reference exchange rates should minimize distortions that may be caused by short-term currency fluctuations.* Using average exchange rates over several months serves this purpose<sup>1</sup>. As an illustration, analysis was performed on the currency volatility of major currencies over a 6-month, and a 7-month period from Sep 2018 – Feb 2019, and Aug 2018 – Feb 2019 respectively. The results are shown in Table 1 below.

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<sup>1</sup> Other multilateral institutions such as IDA and the African Development Bank use a 6-month reference period for this purpose.

**Table 1: Volatility of Exchange Rates**

**Observed volatility of major currencies  
vis-à-vis the USD**

	<b>7-month period</b>	<b>6-month period</b>
	<b>1 Aug 2018 – 28 Feb</b>	<b>1 Sep 2018 – 28 Feb</b>
	<b>2019</b>	<b>2019</b>
AUD	7.2%	7.8%
CAD	5.9%	7.0%
CHF	5.2%	6.9%
DKK	5.5%	7.1%
EUR	5.6%	7.1%
GBP	7.0%	8.6%
JPY	4.7%	10.4%
NOK	6.9%	8.0%

Volatility is measured as the standard deviation of daily percentage change in the exchange rates over the relevant time-period. The standard deviation of daily change in exchange rates has been annualized to derive the percentages in Table 1. The volatility of these currencies was generally lower over the longer time period.

### **III. Recommendation**

4. Based on the criteria described in Section II, it is recommended that Contributing Participants use the longest term possible within the constraints of this criteria. With a first meeting in April 2019, it would not be possible to use a 7-month period (i.e. 1 March to 30 Sept 2019) and provide sufficient lead time in advance of the final, pledging meeting. Therefore, it is proposed that Contributing Participants use the six-month period from March 1, 2019 through August 30, 2019 as the time-period to calculate the reference exchange rates. The Trustee would provide Contributing Participants with the actual observed averages within one week after the end of the reference time-period, i.e. by early September 2019, for use by Contributing Participants prior to the expected pledging meeting in October 2019.

**Exchange Rates for the GCF Replenishment - An Illustration**

		National Currency vs. USD	
<u>Currency</u>	<u>Currency Name</u>	<u>Aug 2018 - Feb 2019</u>	<u>Sep 2018 - Feb 2019</u>
AUD	Australian Dollar	1.3908	1.3951
BRL	Brazilian Real	3.8468	3.8357
CAD	Canadian Dollar	1.3179	1.3201
CHF	Swiss Franc	0.9906	0.9907
CNY	Chinese Yuan	6.8565	6.8571
CZK	Czech Koruna	22.4751	22.5107
DKK	Danish Krone	6.5119	6.5200
EUR	Euro	0.8728	0.8738
GBP	Pound Sterling	0.7745	0.7740
INR	Indian Rupee	71.3680	71.6729
JPY	Japanese Yen	111.5016	111.5764
KRW	Korean Won	1124.1645	1124.4390
MXN	Mexican Peso	19.3969	19.4873
NGN	Nigerian Naira	362.6530	362.8257
NOK	Norwegian Krone	8.4386	8.4559
NZD	New Zealand Dollar	1.4908	1.4891
PKR	Pakistan Rupee	132.7485	134.4517
RUB	Russian Ruble	66.6715	66.7170
SEK	Swedish Krona	9.0536	9.0508
SDR	Special Drawing Rights	0.7186	0.7188
TRY	Turkish Lira	5.6274	5.5809
USD	United States Dollar	1.0000	1.0000
XOF	West African CFA Franc	572.4944	573.1413
ZAR	South African Rand	14.2035	14.2207