



Global Environment Facility

(GEF/C.27/Inf.3)
October 11, 2005

GEF Council
November 8-10, 2005

TRUSTEE REPORT

(Prepared by Trustee)



World Bank

Trustee of The Global Environment Facility (GEF) Trust Fund

Trustee Report

October 11, 2005

I. Introduction

1. This report provides an update to the GEF Council on the financial status and management of the GEF Trust Fund (the Trust Fund) as of October 11, 2005. It is divided into five sections. Following this Section I of Introduction, Section II reports on the current payment status of contributions to GEF-1 through GEF-3. Section III presents the projected available resources of the GEF Trust Fund. Section IV provides an update on the status of the Executing Agencies' direct access to GEF resources. Section V concludes with a report on financial and risk management matters. Unless otherwise noted, all currency valuations are based on exchange rates as of September 30, 2005.

II. Payment Status of Contributions to GEF-1 through GEF-3

Status of Contributions to the GEF-3

2. Thirty-two donors pledged contributions to the third replenishment of the GEF Trust Fund (GEF-3). At the June 2005 Council meeting, the Trustee reported that Italy was the only donor that had not yet formalized its commitment to the GEF-3. On June 13, 2005, Italy submitted an Instrument of Commitment (IoC) to the Trustee in the amount of EUR 118.9 million. The contribution of Italy represents an actual share of 4.62% of the total GEF-3 donor pledges.

3. The GEF-3 Resolution called for 75% of contributions to be paid to the Trustee by November 30, 2004 through three installments.¹ Since the June 2005 Council meeting, Italy paid the first three installments of its GEF-3 contribution. Spain paid the third and fourth installments, and Greece, Mexico and Finland paid their third installments in full. With payments from these donors, a total of 29 donors out of 32 have paid at least 75% of their GEF-3 contributions as of the date of this report. Details on the payment status of donors are provided in Annex 1.

4. Three donors, Belgium, Nigeria, and the United States, have not yet paid the full 75% of their GEF-3 contributions. Total payments due from these donors is USD equivalent 16.45 million, as shown in Table 1. Consequently, in accordance with sub-paragraph 4(a) of the GEF-3 Resolution,² the Trustee sent a letter of notification to each of these countries in September 2005, reminding them of their obligation to pay. The letter also notified them of the further requirement of the Resolution that, if the delay persists, their responsible Minister provide the Chief Executive Officer/Chairman of the GEF with

¹ Under sub-paragraph 3(a) of the GEF-3 Resolution, donors shall pay their GEF-3 contributions in "four equal installments" by November 30, 2002, November 30, 2003, November 30, 2004 and November 30, 2005, except as indicated in footnote f to Attachment 1 of the GEF-3 Resolution.

² Sub-paragraph 4(a) of the GEF-3 Resolution requires the Trustee to notify the Contributing Participant (donor) of any delay of payment if such delay continues for thirty (30) days. The Trustee is also required to remind a Contributing Participant that the responsible Minister of the Contributing Participant shall provide the CEO/Chairman of the GEF with a written communication stating the reasons for the delay and the measures being taken to address it, with a copy to the Trustee, if payment has not been made thirty (30) days before the date of the Council meeting following the date on which the delay was incurred.

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Table 1: GEF-3 Arrears As of October 11, 2005 (in millions)					
Donor	Amount paid as a % of total contribution	Arrears			
		Currency	Amount	As a % of total contribution	USD eq.
Belgium	50.0%	EUR	10.50	25.0%	12.62
Nigeria	25.0%	SDR	2.00	50.0%	2.90
United States	74.8%	USD	0.86	0.2%	<u>0.86</u>
Total GEF-3 arrears					16.38

5. Since the United States has not yet made a full payment of its contribution to the GEF-3, Austria, France, and Germany exercised their pro rata right under the Resolution,³ deferring commitment of a part of the third tranche of their contributions to GEF-3, in proportion to the U.S. shortfall, until corresponding amounts of the U.S. contribution are unqualified. The total amount deferred by the three donors that is unavailable for Council allocation is USD equivalent 1.04 million as shown in Table 2.

Table 2: GEF-3 Deferred Contributions As of October 11, 2005 (in millions)				
Donor	Currency	Deferred Contributions		
		Amount	As a % of total contribution	USD eq.
Austria	EUR	0.05	0.20%	0.06
France	EUR	0.33	0.20%	0.39
Germany	USD	0.59	0.20%	<u>0.59</u>
Total GEF-3 deferred contributions				1.04

³ Under sub-paragraph 8(b) and 8(c) of the GEF-3 Resolution, the Trustee shall promptly inform all Contributing Participants if a Contributing Participant has deposited a Qualified IoC and whose contribution represents more than 20 percent of the total amount of resources to be contributed to the Third Replenishment has not unqualified the total amount thereof by November 30, 2005 or 30 days after the Effective Date, whichever is later. Within 45 days of the notice by the Trustee, each Contributing Participant receiving such notice may notify the Trustee in writing that the commitment by the Trustee, of the second, third or fourth installment, whichever is applicable, of such Contributing Participant's contribution shall be deferred while any part of the contribution referred to in sub-paragraph 8(b) remains qualified. During such period, the Trustee shall make no commitments in respect of the resources to which the notice pertains unless the right of the Contributing Participant is waived.

Status of Contributions to the GEF-2 and the GEF-1

6. In the June 2005 Trustee Report, the Trustee reported that Pakistan and the United States had not fully paid their contributions to the GEF-2; unpaid amounts totaled USD equivalent 142.2 million. Since then, Pakistan cleared its arrears in GEF-2 with a payment of USD equivalent 1.5 million. The Trustee is closely following the situation concerning the U.S. arrears.

7. Two donors, Argentina and Egypt, have not yet paid their contributions to the GEF-1, in the amount of USD equivalent 4.81 million in total. Egypt has been making payments to the GEF in accordance with the restructured payment schedule agreed with the Trustee and is expected to clear its arrears by November, 2006. Argentina paid half of its pledged contribution to the GEF-1. The Government has agreed to a schedule to clear its arrears, but the Trustee has not received the scheduled payments for past three calendar years 2002, 2003, and 2004. Table 3 below shows donors with outstanding contributions to the GEF-1 and the GEF-2.

Table 3: GEF-1 and GEF-2 Arrears As of October 11, 2005 (in millions)					
Donor	Arrears				USD eq.
	Repl.	Currency	Amount	As a % of total contribution	
Argentina	GEF-1	USD	2.50	50.0%	2.50
Egypt	GEF-1	SDR	1.60	39.9%	2.31
	Sub total				4.81
United States	GEF-2	USD	140.67	32.7%	140.67
	Sub total				140.67
Total GEF-1 and GEF-2 arrears					145.48

8. The United States' outstanding contribution to the GEF-2 represents 32.7% of its pledged contribution of USD 430 million. Based on the U.S. shortfall, Austria, France, and Japan have exercised their pro rata right and deferred commitment of the fourth tranche of their contribution to the GEF-2. As a result, a total of USD equivalent 152.39 million is not available for Council allocation. Table 4 details the GEF-2 amount of these deferred commitment contributions.

Status of Promissory Note Encashment

9. Many donors pay their GEF contributions by depositing promissory notes. The Trustee draws down (i.e., encashes) the promissory notes quarterly, based on specific encashment schedules agreed between donors and the Trustee for each respective replenishment. Most donors using this payment method are current on their encashments. The exceptions are Brazil (GEF-1) and Côte d'Ivoire (GEF-1 and GEF-2).⁴ The Trustee is working to renegotiate the encashment schedules with these two donors.

⁴ Under sub-paragraph 4(b) of the GEF-1 Resolution and sub-paragraph 4(b) of the GEF-2 Resolution, recipient donors are permitted postponement of two years on encashments. Both Brazil and Côte d'Ivoire are overdue beyond the two-year limit for GEF-1. Côte d'Ivoire is also overdue for GEF-2.

Table 4: GEF-2 Deferred Contributions
As of October 11, 2005
(in millions)

Deferred Contributions				
Donor	Currency	Amount	As a % of total contribution	USD eq.
Austria	EUR	4.20	25.0%	5.05
France	EUR	32.88	25.0%	39.54
Japan	JPY	12,188.58	25.0%	107.79
Total GEF-2 deferred contributions				152.39

III. Projected Available Resources of the GEF Trust Fund

10. Since the inception of the GEF Trust Fund, cumulative resources made available for Council allocation amount to USD equivalent 6.7 billion, of which USD 6.4 billion (about 96%) has been allocated to the GEF work program, fees and corporate budgets, net of cancellations and dropped projects up to October 11, 2005, as shown in Annex 2.

11. Net GEF resources available for allocation as of the date of this report amount to USD equivalent 284.1 million (see Annex 2). This amount does not include USD equivalent 161.9 million of unpaid GEF-1, GEF-2 and GEF-3 contributions (detailed in Tables 1 and 3) and USD equivalent 153.4 million of deferred GEF-2 fourth and GEF-3 third tranche payments that are not yet released (detailed in Tables 2 and 4). The amount of available net funding also does not take into account work programs and fees that are expected to be submitted for approval at the November Council meeting.

12. Additional resources projected to be paid and/or made available between now and the end of the GEF-3 period (June 30, 2006) for allocation to the Council total USD equivalent 634.3 million, as shown in Table 5 (also see Annex 2). Any arrears remaining unpaid would reduce the total available amount, while any payment of amounts currently in arrears would be immediately available for Council allocation. Any part of GEF-3 fourth tranche installments that remains qualified would also reduce the total available amount. Amounts remaining qualified could further reduce the total available amount because of the right of other donors to defer commitment of a proportionate part of their fourth tranche installment, in accordance with sub-paragraphs 8(b) and (c) of the GEF-3 replenishment resolution.

13. Total resources projected to be available during the course of FY06 are USD equivalent 918.4 million, as shown in Annex 2. This amount comprises the current net funding balance of the GEF Trust Fund of USD equivalent 284.1 million and the projected resources of USD equivalent 634.3 million to be paid and/or made available during FY06.

Table 5: Projected Resources to be Paid and Made Available in FY06
As of October 11, 2005
(in millions)

<u>Description</u>	<u>USD eq.</u>
GEF-3 Third Tranche arrears	15.52
GEF-3 Fourth Tranche projected to be paid by November 30, 2005	375.51
GEF-3 Fourth Tranche projected to be paid between Jan to June 2006	208.59
GEF-3 Fourth Tranche paid in advance but not released	33.42
GEF-1 arrears projected to be paid during FY06	<u>1.27</u>
Total	<u>634.31</u>

IV. Arrangements for Agencies' Direct and Full Access to GEF Resources

14. The Trustee continues to work on arrangements to implement the Council's decision to grant direct access to allocations of GEF resources to all executing agencies.⁵ As of the date of this report, all executing agencies except the EBRD (European Bank for Reconstruction and Development) have finalized such arrangements by entering into a Memorandum of Understanding (MOU) with the Secretariat and the Financial Procedures Agreement (FPA) with the Trustee. Negotiations with EBRD to finalize the MOU and FPA are ongoing.

V. Currency Risk Management

15. As previously reported, the Trustee is working with the GEF Secretariat on how best to minimize exposure of the GEF Trust Fund to the risk from fluctuations in currency exchange rates. Currency/exchange rate risks arise primarily from the substantial differences between the time donor contributions are received and the time the notes are encashed and converted into US dollars.

⁵ The executing agencies are IFAD (International Fund for Agricultural Development), EBRD (European Bank for Reconstruction and Development), AfDB (Africa Development Bank), FAO (Food and Agriculture Organization of the United Nations), UNIDO (United Nations Industrial Development Organization), IADB (Inter-American Development Bank), and ADB (Asian Development Bank).

Global Environment Facility Trust Fund Status of Paid-in Contributions as of October 11, 2005 (in millions)												
Contributing Participants	GEF-1 Contributions				GEF-2 Contributions				GEF-3 Contributions			
	Currency	Commitment	Paid	% Paid	Currency	Commitment	Paid	% Paid	Currency	Commitment	paid	% Paid
Argentina	USD	5.00	2.50	50% a/	*	*	*	*	*	*	*	*
Australia	AUD	42.76	42.76	100%	AUD	43.27	43.27	100%	AUD	68.16	51.12	75.00%
Austria	EUR	16.82	16.82	100%	EUR	16.80	16.80	100%	EUR	24.38	18.29	75.00%
Bangladesh	SDR	2.00	2.00	100%	*	*	*	*	*	*	*	*
Belgium	EUR	27.27	27.27	100%	EUR	30.94	30.94	100%	EUR	41.98	20.99	50.00%
Brazil	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*
Canada	CAD	111.11	111.11	100%	CAD	141.66	141.66	100%	CAD	158.94	119.21	75.00%
China	SDR	4.00	4.00	100%	SDR	6.00	6.00	100%	SDR	7.50	5.66	75.40%
Cote d'Ivoire	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.00%
Czech Republic	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	3.00	75.00%
Denmark	SDR	25.08	25.08	100%	DKK	193.16	193.16	100%	DKK	298.18	223.64	75.00%
Egypt	SDR	4.00	2.40	60% b/	*	*	*	*	*	*	*	*
Finland	EUR	20.86	20.86	100%	EUR	19.63	19.63	100%	EUR	30.00	22.50	75.00%
France	EUR	122.98	122.98	100%	EUR	131.50	131.50	100%	EUR	164.00	123.00	75.00%
Germany	SDR	171.30	171.30	100%	EUR	198.99	198.99	100%	USD	293.67	220.25	75.00%
Greece	USD	5.00	5.00	100%	EUR	4.50	4.50	100%	EUR	5.73	4.30	75.00%
India	SDR	6.00	6.00	100%	INR	323.83	323.83	100%	INR	426.39	319.79	75.00%
Ireland	EUR	2.08	2.08	100%	EUR	4.69	4.69	100%	EUR	5.73	4.30	75.00%
Italy	EUR	82.53	82.53	100%	EUR	73.85	73.85	100%	EUR	118.9	89.18	75.00%
Japan	JPY	45,698.09	45,698.09	100%	JPY	48,754.33	48,754.33	100%	JPY	48,754.33	36,565.75	75.00%
Korea	SDR	4.00	4.00	100%	KRW	4,933.67	4,933.67	100%	USD	5.51	5.51	100.00%
Luxembourg	SDR	4.00	4.00	100%	EUR	4.97	4.97	100%	EUR	5.73	4.30	75.00%
Mexico	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	USD	5.07	3.80	75.00%
Netherlands	SDR	50.97	50.97	100%	SDR	53.05	53.05	100%	SDR	62.39 c/	46.79	75.00%
New Zealand	NZD	10.35	10.35	100%	NZD	8.31	8.31	100%	NZD	12.14	9.10	75.00%
Nigeria	*	*	*	*	SDR	4.00	4.00	100%	SDR	4.00	1.00	25.00%
Norway	NOK	220.00	220.00	100%	NOK	228.32	228.32	100%	NOK	228.32	171.24	75.00%
Pakistan	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	3.00	75.00%
Portugal	EUR	4.45	4.45	100%	EUR	4.90	4.90	100%	EUR	5.73	4.30	75.00%
Slovak Republic	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*
Slovenia	*	*	*	*	SDR	1.00	1.00	100%	SDR	1.00	0.75	75.00%
Spain	EUR	13.10	13.10	100%	EUR	14.81	14.81	100%	EUR	21.67	21.67	100.00%
Sweden	SEK	450.04	450.04	100%	SEK	448.07	448.07	100%	SEK	764.67	764.67	100.00%
Switzerland	SDR	31.97	31.97	100%	CHF	64.38	64.38	100%	CHF	99.07	74.30	75.00%
Turkey	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	3.00	75.00%
United Kingdom	GBP	89.55	89.55	100%	GBP	85.25	85.25	100%	GBP	117.83	88.37	75.00%
United States	USD	430.00	430.00	100%	USD	430.00	289.33	67%	USD	430.00	321.64	74.80%

* Designates a country which is not contributing to the replenishment.

a/ Argentina and the Trustee have agreed on a schedule to clear its arrears to the GEF-1.

b/ Egypt and the Trustee have agreed on a schedule to clear Egypt's arrears to the GEF-1.

c/ In addition to the four annual installments of SDR 15.6 million for GEF3, the Netherlands has made a supplemental payment of USD 3 million.

GLOBAL ENVIRONMENT FACILITY TRUST FUND

Schedule of Projected Available Resources

Updated as of October 11, 2005

Based on Cumulative GEF Council Approved Work Program and Corporate Budget
(Expressed in current US\$ millions) a/

	<u>USDeq</u>
1. Total GEF resources available for Council allocation	6,704.6 b/
2. Amount approved by the Council for the work program, fees and Corporate Budget of the GEF up to September 30, 2005	<u>6,420.4</u> c/
3. Net Funding Situation as at October 11, 2005 (1 -2)	284.1
4. Expected additional donor resources to be paid and made available during FY06	<u>634.3</u>
5. Projected available resources at June 30, 2006 (3+4)	<u>918.4</u>

a/ Valued on the basis of September 30, 2005 exchange rates.

b/ Includes promissory notes, cash, note encashments, earned investment income and exchange rate losses from the Pilot Phase, GEF-1, GEF-2, and GEF-3, but does not include arrears and deferred contributions. This amount also takes into consideration unrealized investment gains and losses on the investment portfolio.

c/ Includes cumulative project allocations, cancellations, corporate budget allocations, Implementing Agency fees, and a one-time Implementing Agency fee provision.

Expected Payments for the 4th installment of GEF-3 <i>a/</i>				
To Be Received in FY06 (in millions)				
Donor	Currency	Currency Amount	Valued USD	<i>b/</i>
Australia	AUD	17.04	12.91	
Austria	EUR	6.10	7.34	
Belgium	EUR	10.50	12.62	
Canada	CAD	39.74	33.88	
China	USD	2.38	2.38	
Cote d'Ivoire	SDR	-	-	<i>c/</i>
Czech Republic	SDR	1.00	1.45	
Denmark	DKK	65.21	10.51	
Finland	EUR	7.86	9.46	
France	EUR	41.00	49.32	
Germany	USD	73.42	73.42	
Greece	EUR	1.43	1.72	
India	INR	106.60	2.42	
Ireland	EUR	1.43	1.72	
Italy	EUR	29.73	35.75	
Japan	JPY	12,188.58	107.79	
Korea	USD	-	-	<i>c/</i>
Luxembourg	EUR	1.43	1.72	
Mexico	USD	1.11	1.11	
Netherlands	SDR	15.60	22.60	
New Zealand	NZD	3.03	2.07	
Nigeria	SDR	1.00	1.45	
Norway	NOK	57.08	8.78	
Pakistan	SDR	1.00	1.45	
Portugal	EUR	1.43	1.72	
Slovenia	SDR	0.25	0.36	
Spain	EUR	-	-	<i>c/</i>
Sweden	SEK	-	-	<i>c/</i>
Switzerland	CHF	24.77	19.16	
Turkey	SDR	1.00	1.45	
United Kingdom	GBP	29.46	52.03	
United States	USD	107.50	107.50	
Total USDeq of Estimated payments			584.09	
<i>a/ Payments for the fourth installment of GEF-3 are due on November 30, 2005.</i>				
<i>b/ Based on exchange rate as of September 30, 2005.</i>				
<i>c/ Cote d'Ivoire, Korea, Spain and Sweden have already paid the fourth installment of their GEF-3 contribution.</i>				