



Global Environment Facility

GEF/C.28/Inf.15

June 8, 2006

GEF Council
June 6-9, 2006

REFUND OF INVESTMENT INCOME FOR 2002-2005

(Prepared by UNDP)

United Nations Development Programme



2 June 2006

Dear Ms. Crivelli,

Refund of Investment Income for 2002-2005

As requested, we would like to provide the following clarifications regarding the refund of investment income for the financial period 2002 - 2005:

1. Basis for the Earned Investment Income

- From January 2002 to December 2005, total investment income earned on UNDP/GEF investment portfolio is US\$4,016,831; total interest charges paid to UNDP is \$831,293, and net investment income \$3,185,538. This amount includes income earned on GEF project funds, corporate budget, IA fee and other co-financing funds. Of the total, US\$775,994 is relating to GEF project funds and Corporate budget. Upon Trustee's confirmation on banking information, it will be transferred to the Trustee.
- For the majority of 2002 and 2003, the balance was invested in the Goldman Sachs Financial Square Prime Obligation Money Market Fund (MMF) and the portfolio earned an average yield that approximated the MMF yield and was also close to the comparable maturity time deposit rate (another reference point for comparing performance).
- Investment income is driven by two factors: available balance for investing and interest rates. In 2002 and 2003, available balance for investing was low and often GEF had a liquidity shortage. In such cases, GEF was not able to settle its payable with UNDP, therefore technically had to "borrow" liquidity from UNDP in order to meet its cash outflow requirement. When new funding arrived, GEF had to pay back the "borrowing" plus interest. In addition, during the two year period, interest rates were low: the average money market fund rate was at 1.74% and 1.05%, respectively (Source: Goldman Sachs Prime MMF). Lower available balance and low interest rates resulted in low investment income for the period.
- Cash inflow improved in 2004, with an average monthly balance increasing to \$50 million in 2004 and \$80 million in 2005, from \$20 million in 2002 and 2003. However, even though the Federal Reserve started raising short term interest rate in June 2004, the average yield for money market funds stayed relatively low in 2004 at an average of 1.27% and gradually rose in 2005 to an average of 3.15%.
- Detailed monthly calculations of investment income including MMF and CD interest rates are attached for reference.

2. The Management of GEF's Cash Inflows and Outflows

- Cash inflows from the trustee are received in GEF's bank account, and are invested in a segregated portfolio with maturities approximately matching estimated outflows.
- UNDP disburses funds for GEF's expenditure globally and recovers the outlay on a monthly basis. In addition, based on the final receivables/payables (also known as inter-fund balance) between GEF and UNDP at fiscal year end, UNDP settles with GEF. The annual settlement takes place after the end of fiscal

year when the financial statements are finalized. Interest is charged on the balance from the fiscal year end up to the settlement date. The three month Euro Dollar index rate is used for interest calculation.

- Due to annual inter-fund settlements per financial statements 2001 to 2004, GEF paid total interest charges (net of refunds) \$527,890 to UNDP.
- Due to the shortage of GEF liquidity in certain months in 2002 and 2003, GEF paid total interest \$303,403 to UNDP.

3. Basis for Allocating Earned Investment Income to the GEF Project Funds

- Investment income of GEF other funds are calculated based on the unexpended balances at the end of each month. UNDP transfers investment income from the main GEF fund to other funds (including IA Fee and Co-Financing funds) using its institutional rate. The remaining balance under the GEF main fund is the final investment income earned on GEF project funds (project grant and Corporate Budget).
- This allocation method is being used by UNDP in allocating investment income to other donors' contributions to UNDP.

4. Items Included in "Interest on Other Funds"

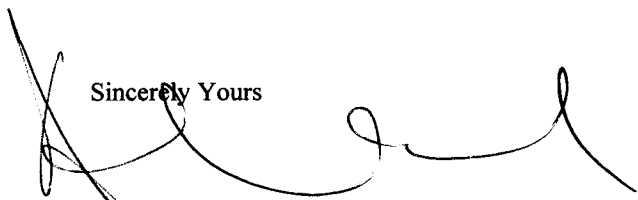
Other funds include other donors' contributions to GEF funded projects under co-financing arrangements (Cost sharing, Management Service Agreements and Sub-Trust Funds).

5. Report on Investment Income Allocated to GEF Funds

As UNDP operates on a calendar year, the allocation of investment income is done once a year for the UNDP fiscal year ended 31 December. UNDP is not able to provide final investment income report for the GEF fiscal year ended 30 June. Based on consultations with the Trustee, from GEF FY06, UNDP will submit an estimated allocated investment income report on GEF funds for the GEF fiscal year ended 30 June. A final report will be submitted to the Trustee for the UNDP fiscal year ended 31 December.

Thank you for your kind cooperation.

Sincerely Yours


Darshak Shah
Director and Comptroller
Office of Finance, BOM

Ms. Pamela R. Crivelli
Lead Financial Officer
Concessional Finance and Global
Partnerships Multilateral Trustee Operations

Cc: Frank Pinto, GEF Executive Coordinator/EEG/BDP
Julie Anne Mejia, Treasurer, OF
Diane Kepler, Chief of Accounts, OF

**Interest Income Analysis
Summary Table**

Year	MMF Interest	TD/CD Interest	Bonds	Total Investment Income	Interest Charges for Liquidity Shortage	Interest (Paid to)/from UNDP for Year-end Interfund Settlement	Net Interest Income
2002	387,047	71,066	-	458,113	(211,145)	(233,380)	13,589
2003	86,212	121,814	(1,589)	206,438	(92,259)	48,647	162,826
2004	106,720	568,351	-	675,071		(8,034)	667,037
2005	224,773	2,432,724	19,713	2,677,210		(335,123)	2,342,087
Total				4,016,831	(303,403)	(527,890)	3,185,538

GEF Investment Income Analysis
based on Monthly Management Reporting (not General Ledger)

Period	Average Invested Balance	Avg Bal Change Mth to Mth	Interest Income	Average Portfolio Yield	Average Maturity in Months	MM Fund Rate	1 Day USD Deposit Rate	Investment Types
Jan 02	63,045		105	1.96	0.03	1.92	1.91	MMF
Feb 02	48,983	-22%	79	2.09	0.03	1.83	1.82	MMF
Mar 02	46,626	-5%	72	1.83	0.03	1.80	1.91	MMF
April 02	38,518	-17%	58	1.84	0.03	1.85	1.78	MMF
May 02	30,500	-21%	47	1.81	0.03	1.81	1.73	MMF
Jun 02	2,602	-91%	4	1.74	0.03	1.80	1.94	MMF
Jul 02	636	-76%	1	1.74	0.03	1.74	1.79	MMF
Aug 02	1,275	100%	1	1.71	0.03	1.71	1.82	MMF
Sep 02	30,780	2314%	44	1.73	0.03	1.72	1.97	MMF
Oct 02	1,756	-94%	3	1.73	0.03	1.71	1.83	MMF
Nov 02	844	-52%	1	1.52	0.03	1.43	1.25	MMF
Dec 02	37,645	4360%	44	1.38	0.81	1.34	1.36	MMF, TD
Mthly Avg	25,268			1.76		1.72		
Jan 03	47,371	26%	52	1.30	0.03	1.25	1.27	MMF
Feb 03	35,762	-25%	34	1.25	0.03	1.25	1.31	MMF
Mar 03	16,042	-55%	17	1.22	0.03	1.21	1.32	MMF
April 03	1,457	-91%	1	1.19	0.03	1.17	1.29	MMF
May 03	608	-58%	1	1.13	0.03	1.09	1.23	MMF
Jun 03	3,475	472%	3	1.10	0.03	1.01	1.13	MMF
Jul 03	28,390	717%	25	1.06	0.90	0.95	1.05	MMF, TD
Aug 03	41,648	47%	38	1.06	0.75	0.91	1.06	MMF, TD
Sep 03	30,483	-27%	27	1.06	0.23	0.92	1.05	MMF, TD
Oct 03	18,935	-38%	17	1.08	0.23	0.93	1.04	MMF, TD
Nov 03	7,865	-58%	7	1.03	0.03	0.95	1.11	MMF
Dec 03	46,528	492%	45	1.14	2.98	0.95	1.09	MMF, TD
Mthly Avg	23,214			1.14		1.05		
Jan 04	104,980	126%	100	1.12	3.21	0.93	1.07	MMF, TD
Feb 04	94,220	-10%	84	1.12	2.57	0.92	1.05	MMF, TD
Mar 04	82,619	-12%	79	1.12	2.02	0.92	1.04	MMF, TD
April 04	71,267	-14%	66	1.13	1.67	0.92	1.07	MMF, TD
May 04	73,071	3%	69	1.10	1.05	0.92	1.05	MMF, TD
Jun 04	56,956	-22%	55	1.18	1.61	1.04	1.41	MMF, TD
Jul 04	40,394	-29%	48	1.40	0.72	1.21	1.42	MMF, TD
Aug 04	25,885	-36%	31	1.40	0.20	1.37	1.47	MMF, TD
Sep 04	11,518	-56%	11	1.20	0.03	1.51	1.86	MMF
Oct 04	1,596	-86%	2	1.83	0.03	1.61	1.79	MMF
Nov 04	999	-37%	1	1.74	0.03	1.82	2.01	MMF
Dec 04	44,741	4379%	80	2.10	3.27	2.08	2.43	MMF, TD, CD
Mthly Avg	50,687			1.37		1.27		
Jan 05	91,168	104%	194	2.50	3.09	2.19	2.60	MMF, TD, CD
Feb 05	74,918	-18%	151	2.63	2.72	2.39	2.74	MMF, TD, CD
Mar 05	69,110	-8%	155	2.64	2.15	2.58	2.86	MMF, TD
April 05	61,979	-10%	136	2.68	1.80	2.73	3.00	MMF, TD
May 05	46,510	-25%	110	2.81	1.50	2.92	3.10	MMF, TD
Jun 05	57,575	24%	142	2.99	1.32	3.05	3.20	MMF, TD
Jul 05	56,756	-1%	156	3.23	1.11	3.19	3.35	MMF, TD
Aug 05	92,415	63%	275	3.50	2.78	3.40	3.74	MMF, TD, CD
Sep 05	94,074	2%	292	3.77	2.28	3.56	3.78	MMF, TD, CD
Oct 05	83,557	-11%	276	3.88	2.38	3.74	4.01	MMF, TD, CD
Nov 05	105,591	26%	353	4.06	2.29	3.93	4.23	MMF, TD, CD
Dec 05	119,966	14%	423	4.15	1.21	4.17	4.38	MMF, TD, CD
Mthly Avg	79,468			3.24		3.15		