



Global Environment Facility

GEF/C.25/Inf.3
April 15, 2005

GEF Council
June 3-8, 2005

TRUSTEE REPORT

(Prepared by Trustee)



Trustee Report

April 15, 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 April 15, 2005. It is divided into five sections. Following this Section I of Introduction, Section II presents 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 reports on the status of the direct access to GEF resources by the Executing Agencies. Finally, Section V provides an update on financial and risk management issues, including the new investment strategy for the GEF Trust Fund. Unless otherwise noted, all currency valuations are based on exchange rates as of March 31, 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). As of the date of this report, only Italy has not yet formalized its pledge by submitting an Instrument of Commitment (“IoC”) to the Trustee. The pledged contribution of Italy¹ represents an actual share of 4.62% (SDR 82.99 million) 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.² Since the October 2004 Trustee Report, Canada, the United Kingdom, and the United States have scaled up their payments to 75%, 75%, and 74.8% of their respective contributions. Greece and Mexico have informed the Trustee of their intent to pay in full their third installments by June 30, 2005. As of the date of this report, among all donors who have submitted IoCs to the Trustee, five donors have not yet paid 75% of their contributions to the GEF-3: Nigeria (25% paid), Belgium (50% paid), Spain (66.7% paid),³ Finland (70.3% paid), and the United States (74.8% paid). The Trustee has not received any communication from Nigeria on the payment of its second or third installment to GEF-3. The payment status of the GEF-3 contributions as of April 15, 2005 is provided in Annex 1.

¹ Italy has notified the CEO and the Trustee that its Parliament approved a contribution to the GEF-3 in March, 2005. Italy has begun the procedure to deposit the IoC and the promissory notes. Italy expects to pay the amount due for the year 2004 and 2005 within a few months.

² According to 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.

³ Spain agreed with the Trustee to pay three installments to GEF-3, instead of four. In accordance with the agreement, Spain paid its second installment to GEF-3 due on October 29, 2004, which raised its paid-in contribution to 66.7%.

Status of Contributions to the GEF-2

4. In the October 2004 Trustee Report, the Trustee reported that three donors (Italy, Pakistan and the United States) had not fully paid their contributions to the GEF-2 with a total unpaid amount of USDeq 158.2 million. Since then, Italy fully paid their contribution to GEF-2 with a payment of EUR12.4 million, based on the restructured payment schedule agreed between Italy and the Trustee. The Trustee is in correspondence with Pakistan and the U.S. regarding its outstanding installment payments to the GEF-2. Details are provided in table 1 below.

Table 1: Outstanding GEF-2 Contributions as of April 15, 2005					
(Amount expressed in millions)					
Donor	Currency	Amount of Unpaid GEF-2 Contribution in Currency	Amount of Unpaid GEF-2 Contribution in USDeq	Total GEF-2 Contribution Commitment	Amount of Unpaid as % of GEF-2 Contribution Commitment
Pakistan	SDR	1.0	1.51	4.0	25.0%
US	USD	140.7	140.67	430.0	32.7%
Total USDeq of Unpaid GEF-2 Contribution			142.18		

5. Since the United States has unqualified (i.e., paid-in) less than 100%⁴ of its GEF-2 contribution, paid-in contributions of other donors amounting to USDeq 161.6 million have not yet been released for commitment and therefore are not included in the net resources available for Council allocation set out in Annex 2. Table 2 below shows the breakdown of the GEF-2 contributions not yet released.

Table 2: GEF-2 Contributions Not Released as of Oct 15, 2004			
(Amount expressed in millions)			
Donor	Currency	Amount of Contributions Not Released in Currency	Amount of Contributions Not Released in USDeq
Austria	EUR	4.2	5.43
France	EUR	32.9	42.53
Japan	JPY	12,188.6	113.64
Total USDeq of GEF-2 Contributions Not Released			161.60

⁴ According to Sub paragraph 8(b) of the GEF-2 Resolution, the Trustee shall promptly inform all Contributing Participants if a Contributing Participant has deposited a Qualified Instrument of Commitment and whose contribution represents more than 20 percent of the total amount of the resources to be contributed pursuant to the Second Replenishment has not unqualified the total amount thereof by November 30, 2001 or 30 days after the Effective Date, whichever is later.

Status of Contributions to the GEF-1

6. As shown in table 3, Argentina and Egypt have not fully paid their GEF-1 contributions with a total unpaid contribution amount of USDeq 4.91 million. Egypt has been paying in accordance with the restructured payment schedule agreed between Egypt and the Trustee. As of the date of this report, Egypt's unpaid GEF-1 contribution stands at 39.9%. Egypt is expected to pay the unpaid amount fully by November, 2006. The Trustee is in correspondence with Argentina regarding payment of its GEF-1 contribution. Argentina has agreed to a schedule to clear its arrears to GEF-1, but the Trustee has not received the scheduled payments for calendar years 2002, 2003, and 2004.

Donor	Currency	Amount of Unpaid GEF-1 Contribution in Currency	Amount of Unpaid GEF-1 Contribution in USDeq	Total GEF-1 Contribution Commitment	Amount of Unpaid as % of GEF-1 Contribution Commitment
Argentina	USD	2.5	2.5	5.0	50.0%
Egypt	SDR	1.6	2.41	4.0	39.9%
Total USDeq of Unpaid GEF-1 Contribution			4.91		

Status of Encashment of Promissory Notes for the GEF-1, GEF-2 and GEF-3

7. Many donors pay their GEF contributions by depositing promissory notes with the encashments occurring over time. The Trustee requests quarterly draw-down of the promissory notes (i.e., encashments) based on agreed encashment schedules for each respective replenishment. Most donors using this payment method are current on their encashments. The exceptions are Brazil (GEF-1) and Cote d'Ivoire (GEF-1 and GEF-2).⁵ The Trustee is pursuing efforts to renegotiate the encashment schedules with these two donors.

III. Projected Available Resources of the GEF Trust Fund

8. The projected GEF resources available for Council allocation before the June 2005 Council meeting amount to USDeq 682.4 million (see Annex 2). This amount excludes USDeq 147.1 million in both unpaid GEF-1 and GEF-2 contributions (as shown in tables 1 and 3) and USDeq 161.6 million of GEF-2 fourth tranche payments not yet released (as shown in table 2).

⁵ According to 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 Cote d'Ivoire are overdue beyond the two year limit for the GEF-1. Cote d'Ivoire is also overdue beyond the two year limit for the GEF-2.

9 Assuming that the USDeq 224.6 million of work programs, fees, corporate budget and special initiatives which are expected to be submitted to the Council for approval at the June 2005 Council meeting are approved, the projected net resources available for Council allocation immediately thereafter will be USDeq 457.8 million (see Annex 2). The Trustee expects no further payments from the donors before November 30, 2005 when the fourth installment of the GEF-3 contributions is due. GEF-3 fourth installment payments of USDeq 577.39 million are expected to be received on or after November 30, 2005, the details of which are provided in Annex 3.

IV. Arrangements For Agencies' Direct Access To GEF Trust Fund Resources

10 In the October 2004 Trustee Report, the Trustee reported on the status of the arrangements to facilitate the Council's decision to accord the executing agencies direct access to the GEF resources. As of the date of this report, ADB, IADB, UNIDO, FAO, and AfDB⁶ have finalized such arrangements by entering into the Memorandum of Understanding (MOU) with the Secretariat and the Financial Procedures Agreement (FPA) with the Trustee. Commitments and/or disbursements have been made by the Trustee to ADB, IADB, and UNIDO for projects and fees under the above arrangement.

V. Financial and Risk Management Update

Trust Fund Investment Strategy

11. The new investment strategy for Trust Funds administered by the World Bank was implemented in January, 2005. As described in previous reports by the Trustee, the new investment strategy comprises two separate portfolios: a more conservative one-year horizon portfolio (tranche 1) and a longer three-year horizon portfolio with potentially higher returns depending on market conditions (tranche 2). The tranching is to differentiate between trust funds with disparate risk appetites so as to be able to optimize investment returns for each tranche consistent with the funds' risk tolerance and liquidity requirements. The investment objective for each tranche is to maximize returns subject to a limit on the probability of incurring a negative return to no more than 1% over their specific investment horizons. Participation in tranche 2 assumes that the Trust Fund has the wherewithal for tolerating increased variability in year to year returns, including potential negative returns. The expectation is that a negative return in any given year will likely be offset by favorable return outcomes during subsequent years so as is likely to ensure that the nominal value of donor contributions will be protected over a three year time frame. Given its size and cash flow profile, the GEF Trust Fund participates in tranche 2, along with a number of other funds which meet the eligibility requirements.

Currency Risk

12. In its efforts to strengthen financial and risk management, the Trustee has performed an analysis of the GEF Trust Fund exposure to the risk of currency fluctuations that arise primarily from the time when donor contributions are received in promissory notes or similar obligations to the time such notes or obligations are converted into US dollars at the time of encashments. The analysis has identified preliminary options on ways to manage the foreign currency exposure. The Trustee will consult with the

⁶ AfDB (Africa Development Bank), FAO (Food and Agriculture Organization of the United Nations), UNIDO (United Nations Industrial Development Organization), IADB (Inter-American Development Bank), ADB (Asian Development Bank).

GEF Secretariat on the results of this analysis and will propose to the Council, if necessary, recommended action to address this issue.

Other Issues

13. Council members recently requested an update on the status of certain audit matters set out in the financial statements of the implementing agencies' accounts. These audit matters include a) concerns about the adequacy of the assurance obtained by UNDP that funds have been properly used for the purposes intended for UNDP directives in respect of GEF nationally executed projects, b) clarification on the accounting for disbursements with repayment provisions by the agencies and disclosure in the financial statements and c) an update on the reviews that were being conducted for three recipient executed grants for GEF-financed activities for which IBRD acts as the Implementing Agency, and whether in general similar compliance reviews exist for UNDP and UNEP. The Trustee is working with the implementing agencies, to prepare a separate information document to update the Council on these matters.

Global Environment Facility Trust Fund

Status of Paid-in Contributions

as of April 15, 2005

(Expressed in millions)

Contributing Participants	GEF-1				GEF-2				GEF-3			
	Currency	Commitment	Contributions Paid	% Paid	Currency	Commitment	Contributions Paid	% Paid	Currency	Commitment	Contributions 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	14.89	14.89	100%	EUR	30.00	21.08	70.26%
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	2.86	49.83%
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%	c/	-	-	-
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	4.41	79.91%
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	2.54	50.00%
Netherlands	SDR	50.97	50.97	100%	SDR	53.05	53.05	100%	SDR	62.39	d/ 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	3.00	75%	e/ 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	14.45	66.67%
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/ Country which has not yet submitted IOC for GEF-3.

d/ 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.

e/ The Trustee is working with Pakistan for payment of its 4th tranche of GEF-2.

GLOBAL ENVIRONMENT FACILITY TRUST FUND

**Schedule of Projected Available Resources
Updated as of April 15, 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	6,615.7 b/
2. Amount approved by the Council for the work program, fees and corporate budget of the GEF up to March 31, 2005	<u>5,952.2</u> c/
3. Net funding situation as of April 15, 2005 (1 -2)	663.5
4. GEF-3 third tranche payments expected to be paid by June 30, 2005	18.9
5. Projected available resources for Council approvals for work programs, fees, corporate budget before June 2005 Council meeting (3 + 4)	682.4
6. Expected submission of work programs, fees, and corporate budget for June 2005 Council meeting	<u>224.6</u>
7. Projected available resources for Council allocation after June 2005 Council meeting (5 - 6)	<u><u>457.8</u></u>

a/ Valued on the basis of March 31, 2005 exchange rates.

b/ Includes promissory notes, cash, note encashments, 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.

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 *a/*

To be received in FY06 *b/*
(in millions)

Donor	Currency	Currency Amount	Valued USD <i>c/</i>
Australia	AUD	17.04	13.15
Austria	EUR	6.10	7.89
Belgium	EUR	10.50	13.57
Canada	CAD	39.74	32.80
China	USD	2.38	2.38
Cote d'Ivoire	SDR	-	- <i>d/</i>
Czech Republic	SDR	1.00	1.51
Denmark	DKK	65.21	11.31
Finland	EUR	7.92	10.24
France	EUR	41.00	53.00
Germany	USD	73.42	73.42
Greece	EUR	1.43	1.85
India	INR	106.60	2.43
Ireland	EUR	1.43	1.85
Japan	JPY	12,188.58	113.64
Korea	USD	0.97	0.97
Luxembourg	EUR	1.43	1.85
Mexico	SDR	1.00	1.11
Netherlands	SDR	15.60	23.52
New Zealand	NZD	3.03	2.15
Nigeria	SDR	1.00	1.51
Norway	NOK	57.08	9.34
Pakistan	SDR	1.00	1.51
Portugal	EUR	1.43	1.85
Slovenia	SDR	0.25	0.38
Spain	EUR	7.22	9.34
Sweden	SEK	-	- <i>d/</i>
Switzerland	CHF	24.77	20.63
Turkey	SDR	1.00	1.51
United Kingdom	GBP	29.46	55.19
United States	USD	107.50	107.50
Total USDeq of Estimated Payments			577.39

a/ This table excludes Italy who has not submitted its GEF-3 IoC to the Trustee.

b/ Payments for the fourth installment of GEF-3 are due on November 30, 2005.

c/ Based on exchange rate as of April 15, 2005.

d/ Cote d'Ivoire and Sweden have already paid the fourth installment of their GEF-3 contribution.