



Global Environment Facility

GEF/C.30/Inf.3
December 1, 2006

GEF Council
December 5-8, 2006

TRUSTEE REPORT

(Prepared by the Trustee)



TRUSTEE REPORT

December 1, 2006

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 December 1, 2006. It is divided into four sections. Following this Section I of Introduction, Section II reports on the outcome of the replenishment negotiations for the fourth replenishment of the GEF (the GEF-4). Section III presents the payment status of contributions to GEF-1 through GEF-3 as well as the funding status of the Trust Fund. Section IV provides an update on relevant issues of financial management of the Trust Fund. Unless otherwise noted, all currency valuations are based on exchange rates as of October 31, 2006.

II. Outcome of the GEF-4 Replenishment Negotiations

2. The negotiations for the GEF-4 were successfully completed in August 2006. The GEF Council endorsed the replenishment documents on August 28, 2006 in Cape Town, South Africa.

3. Contributing participants agreed to a replenishment level of USD 3.13 billion (SDR 2.14 billion) comprising:

- i) new funding from thirty-two donors amounting to USD 2.28 billion (SDR 1.56 billion);
- ii) projected investment income to be earned during the GEF-4 period amounting to USD 368 million (SDR 250.9 million);
- iii) projected carryover of previous replenishment resources, including arrears, deferred contributions, and paid-in but unallocated resources at the end of the GEF-3 period amounting to USD 477.6 million (SDR 325.7 million).

4. On October 19, 2006, the World Bank Executive Directors adopted the GEF-4 Resolution, thereby authorizing the World Bank, as Trustee of the Trust Fund, to manage the resources made available under the GEF-4. With this authorization, donors may deposit an Instrument of Commitment (IoC) or Qualified IoC with the Trustee. Submission of an IoC constitutes formal notification that a donor will participate in the replenishment.

5. The GEF-4 will become effective when the Trustee receives IoCs or Qualified IoCs from donors whose contributions total at least SDR 929 million. However, in order to avoid an interruption in the GEF's ability to make financing allocations pending effectiveness of the GEF-4, one-quarter of the amount of IoCs received from donors may become available for

commitment by the Trustee when IoCs or Qualified IoCs representing total contributions of at least SDR 310 million have been received.

6. As of December 1, 2006, twelve donors have submitted an IoC or a Qualified IoC with the Trustee: Australia, Canada, China, Czech Republic, Finland, France, India, Korea, Luxembourg, Mexico, New Zealand, and Norway. The contributions from these donors total SDR 336 million. Consequently, the Advance Contribution arrangements of the GEF-4 became effective on November 30, 2006.

III. Payment Status of Contributions to the GEF-1 through GEF-3

Status of Contributions to the GEF-3

7. All thirty-two donors who have pledged contributions to the third replenishment of the GEF Trust Fund (GEF-3) have formalized their commitments.

8. As of the date of this report, all donors except Belgium, Nigeria and the United States have paid 100% of their contributions to the GEF-3 as called for by the GEF-3 Resolution.¹ The detailed donor payment status is provided in Annex 1.

9. The total amount due from the three donors mentioned in paragraph 6 is USD equivalent 46.9 million. In October 2006, Belgium informed the Trustee that the payment of its fourth installment has been initiated.

<u>Donor</u>	<u>Amount paid as a % of total contribution</u>	<u>Arrears</u>			
		<u>Currency</u>	<u>Amount</u>	<u>As a % of total contribution</u>	<u>USD eq.</u>
Belgium	75.00%	EUR	10.50	25.00%	13.31
Nigeria	25.00%	SDR	3.00	75.00%	4.43
United States	93.22%	USD	29.16	6.78%	<u>29.16</u>
Total GEF-3 arrears					46.90

10. Since the United States has not yet unqualified and paid 6.78% of its pledged contribution to the GEF-3, France, Germany and Japan exercised the pro rata right under the

¹ 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.

Resolution² in proportion to the U.S. shortfall thereby deferring 6.78% of their respective paid-in contributions to the GEF-3. The total amount deferred that is unavailable for Council allocation is USD equivalent 61.9 million as shown in Table 2.

<u>Donor</u>	<u>Currency</u>	<u>Deferred Contributions</u>		
		<u>Amount</u>	<u>As a % of total contribution</u>	<u>USD eq.</u>
France	EUR	11.12	6.78%	14.10
Germany	USD	19.91	6.78%	19.91
Japan	JPY	3306.22	6.78%	<u>27.89</u>
Total GEF-3 deferred contributions				61.91

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

11. All donors except the United States have fully paid their contributions to the GEF-2. The total amount unqualified and consequently unpaid by the United States is USD 140.7 million.

12. In respect of the GEF-1, two donors, Argentina and Egypt, have not yet paid their contributions. The total amount due from these donors is USD equivalent 4.9 million. Egypt has not been paying in accordance with the restructured payment schedule agreed with the Trustee in July 2002. The Trustee has periodically followed up with Egypt, reminding Egypt of its obligations and requesting payment. Argentina paid only half of its pledged contribution to the GEF-1. The Government of Argentina has agreed to a schedule to clear its arrears, but the Trustee has not received any of the scheduled payments since 2001. The Trustee has been in communication with Argentina on this issue and will follow up as necessary.

13. The United States' outstanding contribution to the GEF-2 represents 32.7% of its pledged contribution of USD 430 million. Austria, France, and Japan have exercised the pro-rata right for the fourth tranche only and deferred commitment of 25% of their contributions to the GEF-2. As a result, a total of USD equivalent 149.8 million is not available for Council allocation. Table 3 below shows the GEF-1 and GEF-2 arrears and the deferred contributions.

² According to Sub paragraph 8(b) of the GEF-3 Resolution, the Trustee shall promptly inform all Contributing Participants if a Contributing Participant who 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 Third Replenishment has not unqualified the total amount thereof by November 30, 2005 or 30 days after the Effective Date, whichever is later.

Table 3: GEF-1 and GEF-2 Arrears and Deferred Contributions
 As of December 1, 2006
 (in millions)

Arrears					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Argentina	GEF-1	USD	2.50	50.0%	2.50
Egypt	GEF-1	SDR	1.60	39.9%	<u>2.36</u>
	Sub total				4.86
United States	GEF-2	USD	140.67	32.7%	<u>140.67</u>
	Sub total				140.67
Total GEF-1 and GEF-2 arrears					145.53
Deferred Contributions					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Austria	EUR	4.20	25.0%	25%	5.32
France	EUR	32.88	25.0%	25%	41.69
Japan	JPY	12,188.58	25.0%	25%	<u>102.83</u>
Total GEF-2 deferred contributions					149.84
Total arrears and deferred contributions for GEF-1 and GEF-2					295.37

14. Consequently, as shown in Table 4 below, a total of USD equivalent 404.2 million is not available for Council allocation due to arrears and deferred contributions for the GEF-1 through the GEF-3. This amount is included as part of carryover resources in the GEF-4.

Table 4: Arrears and Deferred Contributions

As of December 1, 2006

(in millions)

Arrears					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Argentina	GEF-1	USD	2.5	50.00%	2.50
Egypt	GEF-1	SDR	1.6	39.90%	2.36
United States	GEF-2	USD	140.7	32.71%	140.67
Belgium	GEF-3	EUR	10.5	25.00%	13.31
Nigeria	GEF-3	SDR	3.0	75.00%	4.43
United States	GEF-3	USD	29.2	6.78%	<u>29.16</u>
Total arrears					192.43
Deferred Contributions					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Austria	GEF-2	EUR	4.2	25.00%	5.3
France	GEF-2	EUR	32.9	25.00%	41.7
Japan	GEF-2	JPY	12,188.6	25.00%	102.8
France	GEF-3	EUR	11.1	0.00%	14.1
Germany	GEF-3	USD	19.9	6.78%	19.9
Japan	GEF-3	JPY	3,306.2	6.78%	<u>27.9</u>
Total deferred contributions					211.7
Total resources not available for Council allocation					404.2

Status of Promissory Note Encashment

15. Many donors pay their GEF contributions by depositing promissory notes. The Trustee draws down the promissory notes (i.e., encashments) quarterly, based on pre-defined 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 Cote d'Ivoire (GEF-1, GEF-2 and GEF-3).³ The Trustee is pursuing renegotiation of the encashment schedules with these two donors.

Funding Status of the Trust Fund

16. Since inception of the GEF Trust Fund, cumulative resources made available for Council allocation amount to USD equivalent 7.36 billion, of which USD equivalent 7.20 billion (about 98%) has been allocated to the GEF work program, fees, corporate budgets, net of cancellations and dropped projects. The allocations include all Council and CEO funding decisions to date. Consequently, unallocated GEF resources as of the date of this report amount to USD equivalent 162 million.⁴ As shown in Annex 2, the estimated amount that will become available upon effectiveness of the GEF-4 is USD equivalent 127 million.

17. In the absence of a foreign exchange hedging framework, the Trustee implemented a reserve policy in FY06 to help mitigate risks associated with foreign exchange fluctuations. Volatility of foreign exchange rates create a potential risk that the GEF Trust Fund may not have sufficient funds to disburse against commitments made to GEF agencies. The reserve amount is currently set at USD 35 million based upon simulations of movements in foreign exchange rates over a 12 month horizon (as predicted by today's forward rates).

18. Prior to the close of the GEF-4 replenishment discussions, the Trustee examined the need to take into account interest rate variability, as well as foreign exchange fluctuations, in calculating the reserve for the GEF Trust Fund. As notified in the June 2006 Trustee Report to Council, and after consultation with the GEF Secretariat, the overall reserve amount may increase.

IV. Updates on Financial Management of the GEF Trust Fund

19. In its June 2006 Report, the Trustee reported that commitments and cash transfers to UNDP had been suspended since January 2006 due to UNDP's non-compliance with the reporting requirement for investment income. UNDP has since rectified the situation and

³According to sub-paragraph 4 (b) of the GEF-1 Resolution, sub-paragraph 4(b) of the GEF-2 Resolution, and sub-paragraph 3(c)(ii) of the GEF-3 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 for the GEF-2 and GEF-3.

⁴This amount comprises USD 70 million from GEF-3 resources agreed by donors to be carried over into the GEF-4, as well as realized and unrealized investment income since June 2006. It is important to note that the USD equivalent 162 million may be affected by the ongoing reconciliation exercise between the Trustee and the GEF Agencies, which is expected to be completed by December 31, 2006.

enhanced its financial reporting system. Consequently, starting October 2006, the Trustee has resumed commitments and cash transfers of GEF funds to the UNDP.

20. Since last reported to the Council in June 2006, the negotiations between the Trustee, the GEF Secretariat and the European Bank for Reconstruction and Development (EBRD) to grant EBRD direct and full access to allocations of the GEF resources are completed. The legal documents allowing for this access (Memorandum of Understanding (MOU) with the GEF Secretariat and Financial Procedures Agreement (FPA) with the Trustee) have now been finalized. All other Executing Agencies have entered into an MOU with the Secretariat and an FPA with the Trustee.

Fiduciary Responsibility of GEF Recipient Agencies

21. One of the GEF-4 policy recommendations requests the Trustee to prepare for Council decision, at its meeting in May/June 2007, policy proposals on strengthened accountability for Implementing and Executing Agencies eligible for implementing GEF assistance. At a meeting convened by the GEF Secretariat, the Trustee discussed the next steps with the Agencies. The Agencies were informed that the Trustee will rely on consultations with the Agencies, internal and external expertise, and consultant assistance in the preparation of the policy proposals.

Global Environment Facility Trust Fund

Status of Payments on Contributions

as of December 1, 2006

(expressed in SDR millions)

Contributing Participants	Pilot Phase		GEF-1			GEF-2			GEF-3			Total Contributions Paid	As % of total GEF Contributions Received by the Trustee
	Core Contribution	Co-/Parallel Financing	Commitment	Value of Contributions Paid	% Paid	Commitment	Value of Contributions Paid	% Paid	Commitment	Value of Contributions paid	% Paid		
1 Argentina	-	-	3.57	1.79	50.0%	*	*	*	*	*	*	1.79	0.03%
2 Australia	9.68	7.39	20.84	20.84	100.0%	23.47	23.47	100.0%	27.60	27.60	100.0%	88.98	1.69%
3 Austria	26.02	-	14.28	14.28	100.0%	14.70	14.70	100.0%	17.70	17.70	100.0%	72.70	1.38%
4 Bangladesh	-	-	2.00	2.00	100.0%	*	*	*	*	*	*	2.00	0.04%
5 Belgium	5.00	5.34	22.86	22.86	100.0%	24.92	24.92	100.0%	32.97	24.73	75.0%	82.85	1.57%
6 Brazil	4.00	-	4.00	4.00	100.0%	*	*	*	*	*	*	8.00	0.15%
7 Canada	6.33	-	61.78	61.78	100.0%	74.60	74.60	100.0%	80.91	80.91	100.0%	223.62	4.25%
8 China	4.00	-	4.00	4.00	100.0%	6.00	6.00	100.0%	8.44	8.44	100.0%	22.44	0.43%
9 Cote d'Ivoire	2.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	14.00	0.27%
10 Czech Republic	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.50	4.50	100.0%	12.50	0.24%
11 Denmark	16.25	-	25.08	25.08	100.0%	20.90	20.90	100.0%	27.95	27.95	100.0%	90.18	1.71%
12 Egypt	4.00	-	4.00	2.40	60.1%	*	*	*	*	*	*	6.40	0.12%
13 Finland	20.44	-	15.45	15.45	100.0%	16.07	16.07	100.0%	20.94	20.94	100.0%	72.90	1.39%
14 France	110.08	-	102.26	102.26	100.0%	105.54	105.54	100.0%	128.84	128.84	100.0%	446.72	8.49%
15 Germany	110.02	-	171.30	171.30	100.0%	160.32	160.32	100.0%	231.62	231.62	100.0%	673.26	12.79%
16 Greece	-	-	3.57	3.57	100.0%	4.00	4.00	100.0%	4.50	4.50	100.0%	12.07	0.23%
17 India	4.00	-	6.00	6.00	100.0%	6.56	6.56	100.0%	7.99	7.99	100.0%	24.55	0.47%
18 Indonesia	4.00	-	*	*	*	*	*	*	*	*	*	4.00	0.08%
19 Ireland	-	-	1.71	1.71	100.0%	4.00	4.00	100.0%	4.50	4.50	100.0%	10.21	0.19%
20 Italy	65.14	-	81.86	81.86	100.0%	65.97	65.97	100.0%	82.99	82.99	100.0%	295.96	5.62%
21 Japan	27.36	19.08	295.95	295.95	100.0%	300.67	300.67	100.0%	333.41	333.41	100.0%	976.47	18.56%
22 Korea	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.35	4.35	100.0%	12.35	0.23%
23 Luxembourg	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	12.00	0.23%
24 Mexico	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	16.00	0.30%
25 Netherlands	37.74	-	50.97	50.97	100.0%	53.05	53.05	100.0%	62.39	62.39	100.0%	204.15	3.88%
26 New Zealand	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	12.00	0.23%
27 Nigeria	4.00	-	*	*	*	4.00	4.00	100.0%	4.50	1.13	25.0%	9.13	0.17%
28 Norway	19.56	3.29	22.29	22.29	100.0%	22.83	22.83	100.0%	19.96	19.96	100.0%	87.93	1.67%
29 Pakistan	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	16.00	0.30%
30 Portugal	4.50	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	16.50	0.31%
31 Slovak Republic	-	-	4.00	4.00	100.0%	*	*	*	*	*	*	4.00	0.08%
32 Slovenia	-	-	*	*	*	1.00	1.00	100.0%	1.13	1.13	100.0%	2.13	0.04%
33 Spain	10.00	-	13.97	13.97	100.0%	12.03	12.03	100.0%	15.12	15.12	100.0%	51.12	0.97%
34 Sweden	24.54	-	41.60	41.60	100.0%	42.12	42.12	100.0%	56.98	56.98	100.0%	165.24	3.14%
35 Switzerland	30.06	10.68	31.97	31.97	100.0%	31.97	31.97	100.0%	45.94	45.94	100.0%	150.62	2.86%
36 Turkey	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.0%	16.00	0.30%
37 United Kingdom	54.73	-	96.04	96.04	100.0%	101.23	101.23	100.0%	149.91	149.91	100.0%	401.91	7.64%
38 United States	-	109.69	306.92	306.92	100.0%	313.35	210.84	67.3%	339.15	316.15	93.2%	943.60	17.93%
Total	615.45	155.46	1,444.27	1,440.89		1,445.30	1,342.79		1,742.29	1,707.68		5,262.26	

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

GLOBAL ENVIRONMENT FACILITY TRUST FUND

**Schedule of Funding Status
Updated as of December 1, 2006**

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

	<u>USD eq.</u>
1. Total cumulative GEF resources made available for Council allocation	7,361.1 b/
2. Net amount approved by the Council for the work program, fees and Corporate Budget of the GEF	<u>7,198.9</u> c/
3. Unallocated resources as at November 15, 2006	162.2 d/
4. Reserve to cover foreign exchange rate fluctuations	35.0
5. Estimated available resources upon effectiveness of the GEF-4	127.2 e/

a/ Valued on the basis of October 31, 2006 exchange rates.

b/ Includes promissory notes, cash, note encashments, realized and unrealized investment income, exchange rate gains and 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.

d/ Primarily comprised of \$70 million agreed by the Council to carry over to the GEF-4 plus realized and unrealized investment income earned from May 2006 to October 2006.

e/ Does not include payments expected from donors for their GEF-4 contributions.