



Global Environment Facility

GEF/C.23/Inf.3
April 19, 2004

GEF Council
May 19-21, 2004

TRUSTEE REPORT

(Prepared by Trustee)



Trustee Report

April 15, 2004

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, 2004. It is divided into five sections. Section II presents the current payment status of contributions to GEF-1 through GEF-3. Highlights of the current and projected available resources of the GEF Trust Fund is presented in Section III. Section IV reports on the status of the Financial Procedures Agreements and Section V provides an update on financial and risk management issues. Unless otherwise noted, all currency valuations were based on exchange rates as of March 31, 2004.

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

Status of Contributions to the GEF-3

2. Thirty-two donors pledged a total of SDR 1,797.5 million (USDeq 2,280 million) for the third replenishment of the GEF Trust Fund (GEF-3). To date, only Italy and Pakistan have not yet formalized their pledges by submitting an Instrument of Commitment (“IoC”) to the Trustee. The pledged contributions of these two donors represent 4.8% (SDR 86.99 million) of the total GEF-3 donor pledges. Annex 1 presents the status of IoCs submission for the GEF-3.

3. The GEF-3 agreement calls for fifty percent of contributions to be paid to the Trustee by November 30, 2003 through two installments.¹ To date, of all donors who have submitted IoCs to the Trustee, seven donors have not yet fully paid 50% of their GEF-3 contribution: Belgium (25% paid), Finland (40% paid), Greece (42% paid), Netherlands (25% paid), Nigeria (0% paid)², Spain (33% paid) and the United Kingdom (25% paid). Among these donors, Belgium, Greece, Netherlands and UK have informed the Trustee of their intent to pay in full their second installment by June 30, 2004. The payment status of the GEF-3 contributions as of April 15, 2004 is provided in Annex 2.

Status of Contributions to the GEF-2

4. At the November 2003 Council meeting, the Trustee reported that three donors (Italy, Pakistan and the United States) had not fully paid their contribution to the GEF-2. The unpaid amount totals USDeq 201.4 million. Since then, Italy has paid EUR 12.4 million, reducing the unpaid percentage of

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,....”

² Nigeria’s Minister of Finance sent a letter to the CEO before the November 2003 Council meeting in which it stated that it shall pay the 1st installment by the end of the fiscal year. The Trustee is in communication with Nigeria regarding payment for both the 1st and 2nd installments.

Italy's GEF-2 contribution from 34% to 16.4%. The United States also brought down its GEF-2 unpaid percentage from 40% to 32.7% with a payment of US\$30.9 million.

5. As of April 15, 2004, unpaid GEF-2 contributions from Italy, Pakistan and the United States total USDeq 157.2 million. Details are provided in Table 1 below.

Table 1: Outstanding GEF-2 Contributions as of April 15, 2004 (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
Italy	EUR	12.4	15.0	73.9	16.8%
Pakistan	SDR	1.0	1.5	4.0	25.0%
US	USD	140.7	140.7	430.0	32.7%
Total USDeq of Unpaid GEF-2 contribution			157.2		

6. Since the United States has paid less than 75% of its GEF-2 contribution, paid-in contributions of other donors amounting to USDeq 160.3 million have not yet been released for commitment.³ Table 2 shows the breakdown of the not yet released payments.

Table 2: GEF-2 Contributions Not Released as of April 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	5.1
France	EUR	32.9	39.9
Japan	JPY	12,188.6	115.4
Total USDeq of GEF-2 Contributions Not Released			160.3

Status of Contributions to the GEF-1

7. As shown in Table 3, Argentina and Egypt remain the two donors who have not fully paid their GEF-1 contributions with a total unpaid amount of USDeq 4.8 million. Since the November 2003 Council meeting, Egypt has paid SDR .532 million in accordance with the restructured payment schedule agreed between Egypt and the Trustee. This has reduced Egypt's unpaid percentage from 50% to 39.9%. The Trustee is in correspondence with Argentina regarding payment of its GEF-1 contribution.

³ As permitted under sub-paragraph 8 (c) of the GEF-2 Resolution.

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	2.3	4.0	39.9%
Total USDeq of Unpaid GEF-1 contribution			4.8		

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

8. Many donors pay their GEF contributions by depositing promissory notes. The Trustee requests quarterly draw-down of the promissory notes (i.e., encashments) based on agreed encashment schedules for each respective replenishments. 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).⁴ The Trustee is pursuing efforts to renegotiate the encashment schedule with these two donors.

III. Projected Available Resources of the GEF Trust Fund

9. The projected GEF resources available for Council approval before the May 2004 Council meeting amount to USDeq 634.7 million (see Annex 3). This amount excludes USDeq 162 million in both unpaid GEF-1 and GEF-2 contributions and USDeq 160.3 million of GEF-2 fourth tranche payments not yet released.

10. Assuming that the US\$298 million submitted for work programs, fees and corporate budget will be approved by the Council at the May 2004 Council meeting, the projected net resources available for Council allocation immediately thereafter is USDeq 336.7 million (see Annex 3). The Trustee expects no further payments from the donors before November 30, 2004 when the third installment of the GEF-3 contributions is due. Expected GEF-3 Third Installment Payments to be received in FY05 is provided in Annex 4.

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

11. At its meeting in November 2003, the Council requested the Secretariat and the Trustee to establish arrangements with the Executing Agencies by May 2004 to facilitate the agencies' direct access to GEF resources. Negotiations among the Trustee, the Secretariat and the Executing Agencies concerning those arrangements have been ongoing since that time and are almost complete. Such arrangements will be set out in a Memorandum of Understanding (MOU) entered into between the Secretariat and each agency (establishing the basis on which agencies may submit project proposals to the

⁴ 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.

Secretariat) and a related Financial Procedures Agreement (FPA) entered into between the Trustee and each agency (providing for the commitment and transfer of GEF funds to the agencies and for the administration and reporting on such funds by the agencies to the Trustee). As of the date of this report, the Secretariat and the Trustee have provided draft MOUs and FPAs to all seven Executing Agencies for their review.

12. The formalization with the agencies of the arrangements for direct access builds upon the work done by the Trustee, the Secretariat, the Implementing Agencies and the Executing Agencies at the first GEF financial consultation meeting, hosted by the Trustee and the Secretariat in October 2003, to clarify and define GEF financial processes, procedures, reporting and auditing requirements.

13. Under the Instrument, the Trustee has a responsibility to monitor the application of budgetary and project funds so as to ensure that the resources of the Trust Fund are being used in accordance with the Instrument and the decisions taken by the Council. Upon the establishment of the GEF, the Trustee consulted with the Implementing Agencies on the appropriate manner for the Trustee to discharge this responsibility. In light of the fact that the Implementing Agencies are UN agencies and the Bank itself, and that they too share a responsibility under the Instrument to ensure that the resources of the Trust Fund are being used in accordance with the Instrument and the decisions taken by the Council, it was agreed that an appropriate manner for the Trustee to discharge this responsibility would be for it to require, and accept from, the Implementing Agencies an annual audited financial report, audited by the agency's independent auditors, and certain periodic unaudited financial reports, as evidence that the resources of the Trust Fund had been so used. The Trustee has continued to operate on this basis and does not, therefore undertake additional monitoring measures, such as, for example, requiring that the Implementing Agencies submit to spot audits or make their books available to the Bank.

14. Subject to the Council's confirming that this practice is satisfactory, the Trustee intends to operate on the same basis with respect to the monitoring of GEF resources made available to the Executing Agencies. Accordingly, the FPAs require each Implementing Agency and Executing Agency to provide the Trustee with an annual audited financial report, audited by the agency's independent auditors, and certain other financial reports, as agreed with the agencies in the FPAs, but do not require the agencies to submit to additional monitoring measures undertaken by the Trustee.

15. **The Trustee seeks confirmation from the Council that:** (a) the Council supports the current practice that the Trustee discharges its responsibility under the Instrument to monitor the application of budgetary and project funds so as to ensure that the resources of the Trust Fund are being used in accordance with the Instrument and the decisions taken by the Council solely by requiring, and accepting from the Implementing and Executing Agencies an annual audited financial report, audited by the agency's independent auditors, and certain periodic unaudited financial reports, as evidence that the resources of the GEF Trust Fund have been so used; and (b), given the importance of the agencies' financial reports to the Trustee's ability to discharge its responsibilities under the Instrument, agrees that the Trustee may suspend commitment and disbursement of GEF funds that have been allocated by the Council and/or the CEO, as appropriate, to any agency which is out of compliance with its reporting obligations to the Trustee under the FPA it has entered into with the Trustee, and such non-compliance shall have continued for a period of not less than thirty (30) days after written notification there of shall have been given to the agency by the Trustee, pending any such non-compliance being resolved to the satisfaction of the Trustee.

V. Financial and Risk Management Update

Trust Fund Investment Strategy

16. The investment strategy for trust funds managed by the World Bank is currently under review. This includes a review of existing policy for investing trust fund cash balances and managing assets within appropriate risk parameters so as to ensure adequate investment performance that is commensurate with existing risk tolerance. The review is likely to result in the creation of two portfolios featuring different investment horizons: a more conservative short-horizon portfolio for most trust funds, and a longer-horizon portfolio that could result in shorter term volatility but higher return over the longer horizon. This longer-horizon portfolio accommodates the larger trust funds with more predictable cash flows, such as the GEF Trust Fund, where it is possible to make reliable multi-year cash flow projections. The Trustee expects to be able to provide a verbal update of the progress of this review at the Council meeting.

Currency Risk

17. Although GEF donors pledge and make payments in many currencies, the business of commitments and disbursements for the GEF work program, agency fees and corporate budgets is conducted in US dollars. Thus, the Trust Fund is exposed to the risk of currency fluctuations from the time of conclusion of negotiation of a new replenishment through the time contributions are converted into US dollars at the time of encashments. During FY04, the Trustee began the work of assessing the Trust Fund's currency exposure. This work will continue into FY05 and will culminate in a recommendation on whether the Trust Fund should hedge this currency risk.

**Status of GEF-3 Instruments of Commitment
and Qualified Instruments of Commitment
as of April 15, 2004
(in SDR millions)**

I. Instruments of Commitment Received:

<u>Country</u>	<u>Pledges</u>
Australia	27.60
Austria	17.70
Belgium	32.97
Canada	80.91 <i>a/</i>
China	8.44
Cote d'Ivoire	4.00
Czech Republic	4.50
Denmark	27.95
Finland	20.94
France	128.84
Germany	231.62
Greece	4.50
India	7.99
Ireland	4.50
Japan	333.41
Luxembourg	4.00
Korea	4.35
Mexico	4.00
Netherlands	62.39
New Zealand	4.00
Nigeria	4.50
Norway	19.96
Portugal	4.00
Slovenia	1.13
Spain	15.12 <i>b/</i>
Sweden	56.98
Switzerland	45.94
Turkey	4.00
United Kingdom	149.91
United States	<u>394.36</u> <i>c/</i>
Total Commitments Received:	1,710.51

II. Instruments of Commitment Not Yet Received:

<u>Country</u>	<u>Pledges</u>
Italy	82.99
Pakistan	<u>4.00</u>
Total Commitments Not Yet Received	86.99

a/ Canada deposited a Qualified IOC in the amount of CAD 158.94 million (SDR 80.91 million) of which CAD 39.74 million is unqualified. The unqualified amount represents the first tranche of its GEF-3 contribution (25% of its contribution).

b/ Spain deposited a Qualified IOC in the amount of EUR 21.67 million (SDR 15.12 m), of which EUR 7.223 million is unqualified.

c/ The United States deposited a Qualified IOC in the amount of USD 500 million (SDR 394.36 million), of which USD 107.5 million is unqualified. The unqualified amount represents the first installment of its GEF-3 contribution (21.5% of its contribution).

Annex 2

Global Environment Facility Trust Fund													
Status of Payments on Commitments													
as of April 15, 2004 (Expressed in millions)													
Contributing Participants	GEF-1				GEF-2				GEF-3				
	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	34.08	50%	
Austria	EUR	16.82	16.82	100%	EUR	16.80	16.80	100%	EUR	24.38	12.19	50%	
Bangladesh	SDR	2.00	2.00	100%	*	*	*	*	*	*	*	*	
Belgium	EUR	27.27	27.27	100%	EUR	30.94	30.94	100%	EUR	41.98	10.50	25%	
Brazil	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*	
Canada	CAD	111.11	111.11	100%	CAD	141.66	141.66	100%	CAD	158.94	79.47	50%	
China	SDR	4.00	4.00	100%	SDR	6.00	6.00	100%	SDR	7.50	3.75	50%	
Cote d'Ivoire	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	
Czech Republic	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	2.00	50%	
Denmark	SDR	25.08	25.08	100%	DKK	193.16	193.16	100%	DKK	298.18	149.09	50%	
Egypt	SDR	4.00	2.40	60% ^{b/}	*	*	*	*	*	*	*	*	
Finland	EUR	20.86	20.86	100%	EUR	14.89	14.89	100%	EUR	30.00	12.08	40%	
France	EUR	122.98	122.98	100%	EUR	131.50	131.50	100%	EUR	164.00	82.00	50%	
Germany	SDR	171.30	171.30	100%	EUR	198.99	198.99	100%	USD	293.67	146.83	50%	
Greece	USD	5.00	5.00	100%	EUR	4.50	4.50	100%	EUR	5.73	2.43	42%	
India	SDR	6.00	6.00	100%	INR	323.83	323.83	100%	INR	426.39	213.20	50%	
Ireland	EUR	2.08	2.08	100%	EUR	4.69	4.69	100%	EUR	5.73	2.89	50%	
Italy	EUR	82.53	82.53	100%	EUR	73.85	61.46	83% ^{c/}	d/	-	-	-	
Japan	JPY	45,698.09	45,698.09	100%	JPY	48,754.33	48,754.33	100%	JPY	48,754.33	24,377.17	50%	
Korea	SDR	4.00	4.00	100%	KRW	4,933.67	4,933.67	100%	USD	5.51	4.41	80%	
Luxembourg	SDR	4.00	4.00	100%	EUR	4.97	4.97	100%	EUR	5.73	2.87	50%	
Mexico	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	USD	5.07	2.54	50%	
Netherlands	SDR	50.97	50.97	100%	SDR	53.05	53.05	100%	SDR	62.39	15.60	25%	
New Zealand	NZD	10.35	10.35	100%	NZD	8.31	8.31	100%	NZD	12.14	6.07	50%	
Nigeria	*	*	*	*	SDR	4.00	4.00	100%	SDR	4.00	0	0%	
Norway	NOK	220.00	220.00	100%	NOK	228.32	228.32	100%	NOK	228.32	114.16	50%	
Pakistan	SDR	4.00	4.00	100%	SDR	4.00	3.00	75% ^{e/}	d/	-	-	-	
Portugal	EUR	4.45	4.45	100%	EUR	4.90	4.90	100%	EUR	5.73	2.87	50%	
Slovak Republic	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*	
Slovenia	*	*	*	*	SDR	1.00	1.00	100%	SDR	1.00	0.50	50%	
Spain	EUR	13.10	13.10	100%	EUR	14.81	14.81	100%	EUR	21.67	7.22	33%	
Sweden	SEK	450.04	450.04	100%	SEK	448.07	448.07	100%	SEK	764.67	764.67	100%	
Switzerland	SDR	31.97	31.97	100%	CHF	64.38	64.38	100%	CHF	99.07	49.54	50%	
Turkey	SDR	4.00	4.00	100%	SDR	4.00	4.00	100%	SDR	4.00	2.00	50%	
United Kingdom	GBP	89.55	89.55	100%	GBP	85.25	85.25	100%	GBP	117.83	29.46	25%	
United States	USD	430.00	430.00	100%	USD	430.00	289.33	67%	USD	500.00 ^{f/}	215.00	43%	

* 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/} While Italy has approved payment of the full amount of its contribution, the fourth installment will be paid-in over the fiscal years FY04 and FY05.

^{d/} Countries which have not yet submitted IOCs for GEF-3.

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

^{f/} In addition to the four annual installments of USD107.5 million, the United States will provide USD 70 million in the final year of the replenishment upon achievement of certain performance measures outlined in Schedule 1 to Attachment 1 of GEF-3 Resolution. The amount of USD70 million is included in the USD 500million. The United States have paid up to 50% of their commitment amount of USD 430 million.

Annex 3

GLOBAL ENVIRONMENT FACILITY TRUST FUND

Schedule of Projected Available Resources Updated as of April 15, 2004

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

	<u>USDeq</u>
1. Total GEF resources available for Council allocation	5,856.0 <i>b/</i>
2. Amount approved by the Council for the work program, fees and corporate budget of the GEF up to [April 15, 2004]	<u>5,312.0</u> <i>c/</i>
3. Net Resources Available as of [April 15, 2004] (line 1 - line 2)	544.0
4. Projected additional resources to be paid and become available before May 2004 Council meeting	<u>90.6</u> <i>d/</i>
5. Projected net resources available for May 2004 Council meeting (line 3 + line 4)	634.7
6. Expected submission of work program, fees and corporate budget for May 2004 Council meeting	<u>298.0</u>
7. Projected net resources available for Council approval after the May 2004 Council meeting (line 5 - line 6)	336.7

a/ Valued on the basis of March 31, 2004 exchange rates.

b/ Includes promissory notes, cash, note encashments, investment income and exchange rate gains/losses from the Pilot Phase, GEF-1, GEF-2, and GEF-3, but excludes 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/ Includes projected GEF-3 2nd tranche payments from Belgium, Netherlands, Nigeria and U.K..

Expected GEF-3 Third Installment Payments a/**To be Received In FY05****(in millions)**

<u>Donor</u>	<u>Currency</u>	<u>Currency Amount</u>	<u>Valued USD</u>	<i>b/</i>
Australia	AUD	17.04	12.68	
Austria	EUR	6.10	7.39	
Belgium	EUR	10.50	12.73	
Canada	CAD	39.74	30.41	
China	USD	2.38	2.38	
Czech Republic	SDR	1.00	1.47	
Denmark	DKK	65.21	10.62	
Finland	EUR	7.99	9.69	
France	EUR	41.00	49.72	
Germany	USD	73.42	73.42	
Greece	EUR	1.43	1.74	
India	INR	106.60	2.42	
Ireland	EUR	1.41	1.71	
Japan	JPY	12,189	115.35	
Korea	USD	-	-	<i>c/</i>
Luxembourg	EUR	1.43	1.74	
Mexico	USD	1.11	1.11	
Netherlands	SDR	15.60	22.94	
New Zealand	NZD	3.03	1.97	
Nigeria	SDR	1.00	1.47	
Norway	NOK	57.08	8.19	
Portugal	EUR	1.43	1.74	
Slovenia	SDR	0.25	0.37	
Spain	EUR	7.22	8.76	
Switzerland	CHF	24.77	19.28	
Turkey	SDR	1.00	1.47	
United Kingdom	GBP	29.46	53.48	
United States	USD	107.50	<u>107.50</u>	
Total USDeq of Estimated payments			<u>561.74</u>	

a/ This table excludes Italy and Pakistan who have not submitted GEF-3 IoCs to the Trustee. It also excludes donors who have fully paid their GEF-3 contributions: Cote d'Ivoire and Sweden.

b/ Based on exchange rate as of March 31, 2004.

c/ Korea has already paid the third installment of its GEF-3 contribution.