



Global Environment Facility

GEF/C.24/Inf.3
October 20, 2004

GEF Council
November 17-19, 2004

TRUSTEE REPORT

(Prepared by Trustee)



Trustee Report

October 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 October 15, 2004. 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. Unless otherwise noted, all currency valuations are based on exchange rates as of October 15, 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). 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 Italy represents actual share of 4.62% (SDR 82.99 million) of the total GEF-3 donor pledges. Annex 1 presents the status of IoC submissions for the GEF-3.

3. The GEF-3 resolution called for 50% of contributions to be paid to the Trustee by November 30, 2003 through two installments.¹ Since the May 2004 Trustee Report, Ireland, Finland, Greece and Nigeria have scaled up their payments to 75%, 70%, 50% and 25% of their respective contributions. As of the date of this report, among all donors who have submitted IoCs to the Trustee, three donors have not yet paid 50% of their contributions to the GEF-3: Belgium (25% paid), Nigeria (25% paid) and Spain (33% paid). As of the date of this report, as these countries have not fulfilled their obligation to have paid 50% of their contributions by November 30, 2003, according to sub-paragraph 4(a)² of the GEF-3 Resolution, the Trustee has sent letter of notification to each of these countries, reminding them of their obligation to pay and if the delay persists, for their responsible Minister to provide the CEO with a written communication stating the reasons for the delay and the measures being taken to address it. Although

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.

² Sub-paragraph 4(a) of the GEF-3 Resolution requires the Trustee to notify the Contributing Participant of any delay of payment, in the event that a Contributing Participant does not make payment in accordance with sub-paragraph 3(a) or 3(b), and such delay continues for thirty (30) days. The Trustee is also required to remind a Contributing Participant of the obligations it will incur under the further requirements of this sub-paragraph if the delay persists. 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, the responsible Minister of the Contributing Participant concerned shall provide the CEO with a written communication stating the reasons for the delay and the measures being taken to address it. The CEO shall forward any such communication to the Council, with a copy to the Trustee.

Belgium had informed the Trustee of its intent to have fully paid their second installment by June 30, 2004, the Trustee has not received the payment to date. Spain has agreed to pay their contribution to the GEF-3 in cash under three equal installments. Upon payment of its second installment to the GEF-3, which is due on October 29, 2004, the paid-in contribution of Spain will be 67%. In accordance with Sub-paragraph 4(a) of the GEF-3 Resolution, Spain has communicated to the CEO, its intention to pay the second installment of their contribution to GEF-3 before the end of this year. The Trustee has not received any communication from Nigeria on the payment of its second installment to GEF-3. The payment status of the GEF-3 contributions as of October 15, 2004 is provided in Annex 2.

Status of Contributions to the GEF-2

4. In the May 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 157.4 million. Details are provided in Table 1 below. Based on the restructured payment schedule agreed between Italy and the Trustee, it is expected that Italy will fully pay their contribution to GEF-2 by April 30, 2005. The Trustee is in correspondence with Pakistan regarding its fourth installment payments to the GEF-2.

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	15.2	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			157.4		

5. Since the United States has unqualified (i.e., paid-in) less than 100%³ of its GEF-2 contribution, paid-in contributions of other donors amounting to USDeq 156.5 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 3. Table 2 below shows the breakdown of the contributions not yet released.

³ 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.

Donor	Currency	Amount of Contributions Not Released in Currency	Amount of Contributions Not Released in USDeq
Austria	EUR	4.2	5.2
France	EUR	32.9	40.5
Japan	JPY	12,188.6	110.9
Total USDeq of GEF-2 Contributions Not Released			156.5

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 4.8 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%. In accordance with the restructured payment schedule agreed between Egypt and the Trustee, Egypt is expected to fully pay the unpaid amount by November 2006. The Trustee is in correspondence with Argentina regarding payment of its GEF-1 contribution and Argentina has agreed to a schedule to clear its arrears to GEF-1. The Trustee has not received the scheduled payments for calendar year 2002 and 2003.

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

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, GEF-2 and GEF-3).⁴ 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 November 2004 Council meeting amount to USDeq 203.1 million (see Annex 3). This amount excludes USDeq 162.2million in both unpaid GEF-1 and GEF-2 contributions (as shown in tables 1 and 3) and USDeq 156.5 million of GEF-2 fourth tranche payments not yet released (as shown in Table 2).

9 Assuming that the US\$152 million of work programs, fees and other initiatives which are expected to be submitted to the Council for approval at the November 2004 Council meeting are approved, the projected net resources available for Council allocation immediately thereafter will be USDeq 64 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. GEF-3 third installment payments of USDeq 549.49 million are expected to be received on or after November 30, 2004, the details of which are provided in Annex 4.

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

10 In the May 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 and UNIDO 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 and IADB for projects and fee under the above arrangement.

11. The FPA requires an 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 FPA. At its May 2004 meeting, the Council approved that the Trustee may suspend the 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 thereof shall have been given to the agency by the Trustee, pending any such non-compliance being resolved to the satisfaction of the Trustee. Reports are being submitted by agencies in accordance with their reporting obligations.

V. Financial and Risk Management Update

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.

Trust Fund Investment Strategy

12. As reported in the May 2004 Trustee Report, the World Bank has conducted a comprehensive review of the investment policy governing the portfolio of the trust funds managed by the World Bank. The review culminated in a set of revisions to the current investment policy. The result is the creation of two separate portfolios: a more conservative short horizon portfolio and a longer horizon portfolio which may see higher short term volatility but higher returns over the longer horizon. Work is currently underway to prepare for the implementation of this new investment policy in fiscal year 2005 and it is expected that the GEF funds will be invested in the longer horizon portfolio.

Currency Risk

13. The GEF Trust Fund receives payments of contributions from Donors in a number of national currencies. However, the operating currency for GEF's administrative expenses, fees and project disbursements from the Trustee are denominated in USD. As a result, the GEF Trust Fund is exposed to exchange rate risk from the time contributions are paid in the form of promissory notes or similar obligations to the time such notes or obligations are converted into US dollars at the time of encashment. The Trustee, in conjunction with the Secretariat, has begun the work of assessing the GEF Trust Fund currency exposure and expects to be able to inform the Council by the end of fiscal year 2005, of options available for consideration to manage the foreign currency exposure. One of the options under consideration is for the Trustee to establish a commitment reserve in the last year of the replenishment to provide a cushion against any decrease in the value of contributions due to exchange rate fluctuation. The purpose of the reserve is to avoid commitments in excess of the resources available and to help ensure that there are sufficient levels of assets to fulfill obligations⁵ (e.g. commitments to agencies for projects) in the event that the USD equivalent value of contributions received declines in value relative to the original amount committed (i.e. amount of IoCs received).

Resource Availability Model

14. Since May 2004, the Trustee, in cooperation with the Secretariat, engaged in a joint effort to develop a forecasting model for the funding availability for Council allocation. The model projects the amounts of GEF resources available for the coming three years. The purpose of the model was to provide the Secretariat with better information on available resources and cash flows of the GEF Trust Fund to help with near to medium term programming of GEF activities and business planning.

⁵ According to sub-paragraph 9 of Annex B to the Instrument for the Establishment of the Restructured Global Environment Facility, the Trustee shall make all necessary arrangements to avoid commitments on behalf of the GEF Trust Fund in excess of the resources available to such Fund.

Annex 1

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

I. Instruments of Commitment Received:

<u>Country</u>	<u>Amount</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
Pakistan	4.00
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:	1,714.51

II. Instruments of Commitment Not Yet Received:

<u>Country</u>	<u>Amount</u>
Italy	<u>82.99</u>
Total Commitments Not Yet Received	82.99
Total Amount	<u>1,797.50</u>

a/ Canada deposited a Qualified IOC in the amount of CAD 158.94 million (SDR 80.91 million) of which CAD 79.47 million is unqualified. The unqualified amount represents the first and second installment of its GEF-3 contribution (50% of its contribution).

b/ Spain deposited a Qualified IOC in the amount of EUR 21.67 million (SDR 15.12 million), of which EUR 7.223 million is unqualified.(33% of its contribution)

c/ The United States deposited a Qualified IOC in the amount of USD 500 million (SDR 394.36 million), of which USD 215 million is unqualified. The unqualified amount represents the first and second installment of its GEF-3 contribution (43% of its contribution).

Global Environment Facility Trust Fund														
Status of Paid-in Contributions														
as of October 15, 2004														
(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	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	21.08	70%	
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	2.86	50%	
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	4.30	75%	
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	e/	31.20	50%
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	1.00	25%	
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%	f/	SDR	4.00	2.00	50%
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	58.92	50%	
United States	USD	430.00	430.00	100%		USD	430.00	289.33	67%	USD	500.00	g/	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 the fiscal years FY05.

d/ Country which has not yet submitted IOC for GEF-3.

e/ 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.

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

g/ 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.

GLOBAL ENVIRONMENT FACILITY TRUST FUND

**Schedule of Projected Available Resources
Updated as of Oct 15, 2004**

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	5,958.2 b/
2. Amount approved by the Council for the work program and Corporate Budget of the GEF up to October 15, 2004	<u>5,755.2</u> c/
3. Net Funding Situation at October 15, 2004 (1 - 2)	203.1
4. Projected additional resources to be paid and become available before November 2004 Council Meeting	12.9 d/
5. Projected available resources for Council approvals for work program and fees before November 2004 Council meeting (3 + 4)	216.0
6. Expected submission of work program and fees for November 2004 Council meeting	152
7. Projected available resources for Council allocation after the November 2004 Council meeting	<u><u>64</u></u>

a/ Valued on the basis of September 30, 2004 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.

d/ This amount represents anticipated receipt from Belgium towards GEF-03 second tranche.

Annex 4

Expected Payments for the third installment of GEF-3 a/

To be Received in FY05 b/
(in millions)

Donor	Currency	Currency Amount	Valued USD	<i>c/</i>
Australia	AUD	17.04	12.33	
Austria	EUR	6.10	7.49	
Belgium	EUR	10.50	12.90	
Canada	CAD	39.74	31.63	
China	USD	2.38	2.38	
Czech Republic	SDR	1.00	1.47	
Denmark	DKK	65.21	10.78	
Finland	EUR	-	-	<i>d/</i>
France	EUR	41.00	50.40	
Germany	USD	73.42	73.42	
Greece	EUR	1.43	1.76	
India	INR	106.60	2.33	
Ireland	EUR	-	-	<i>d/</i>
Japan	JPY	12,189	110.91	
Korea	USD	-	-	<i>d/</i>
Luxembourg	EUR	1.43	1.76	
Mexico	USD	1.11	1.11	
Netherlands	SDR	15.60	22.90	
New Zealand	NZD	3.03	2.04	
Nigeria	SDR	1.00	1.47	
Norway	NOK	57.08	8.54	
Pakistan	SDR	1.00	1.47	
Portugal	EUR	1.43	1.76	
Slovenia	SDR	0.25	0.37	
Spain	EUR	7.22	8.88	
Switzerland	CHF	24.77	19.69	
Turkey	SDR	1.00	1.47	
United Kingdom	GBP	29.46	52.74	
United States	USD	107.50	<u>107.50</u>	
Total USDeq of Estimated payments			<u>549.49</u>	

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

b/ Payments for the third installment of GEF-3 are due on November 30, 2004.

c/ Based on exchange rate as of October 15, 2004.

d/ Finland, Korea and Ireland have already paid the third installment of their GEF-3 contribution.