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TRUSTEE REPORT GLOBAL ENVIRONMENT FACILITY TRUST FUND

(PREPARED BY TRUSTEE)

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
CAD	Canadian Dollar
CEO	Chief Executive Officer
CHF	Swiss Franc
CY	Calendar Year
EBRD	European Bank for Reconstruction and Development
EUR	Euro
FX	Foreign Exchange
FY	Fiscal Year (for GEF and World Bank: July 1 to June 30)
FPA	Financial Procedures Agreement
GBP	British Pound
GEF	Global Environment Facility
GEF-5	Global Environment Facility – Fifth Replenishment
GEF Sec	GEF Secretariat
IADB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IoC	Instrument of Commitment
JPY	Japanese Yen
LoC	Letter of Commitment
SDR	Special Drawing Rights (The SDR or Special Drawing Rights is a currency basket consisting of fixed proportions of the EUR, JPY, GBP, and the USD).
SEK	Swedish Krona
STAP	The Scientific and Technical Advisory Panel of UNEP
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
USD	United States Dollar

INTRODUCTION

1. This paper provides a financial overview of the status of the GEF Trust Fund (Trust Fund). Section I provides an update on the investment strategy and portfolio performance, the current investment climate, and the returns of the GEF Trust Fund. Section II provides an overview of the GEF cumulative resources and funding decisions, and looks at current funding availability and the link to funding decisions, Trustee commitments and cash transfers to Agencies. Section III provides an update on relevant issues of financial management and trust fund administration. Unless otherwise noted, all currency valuations are based on exchange rates in effect as at April 30, 2009.

I. INVESTMENT STRATEGY AND REPORT

2. The International Bank for Reconstruction and Development (World Bank) as the Trustee (the “Trustee”) for the Global Fund Trust Fund receives and holds donor contributions to the Global Environment Facility Trust Fund. Assets held in trust by the World Bank are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. The assets in the Pool are managed in accordance with the investment strategy established for all trust funds administered by the World Bank.

Investment Strategy

3. The objective of the investment portfolio strategy is to maintain adequate liquidity to meet foreseeable cash flow needs, preserve capital and maximize investment returns subject to tranche-specific risk tolerances and liquidity requirements of the underlying trust funds. The Pool is subdivided into sub-portfolios: a cash portfolio (Tranche 0) that comprises investments in money market instruments with a very short investment horizon of less than 3 months; a short horizon portfolio (Tranche 1) which comprises that portion of funds with an investment horizon of up to one year and a longer horizon portfolio (Tranche 2) which comprises that portion of funds with a longer investment horizon and commensurately larger risk tolerance.

4. The Pool is actively managed so that the probability of incurring negative returns is no more than 1% over the applicable investment horizon. The objective of tranching is to differentiate between trust funds with disparate risk appetites which would allow the optimization of the investment returns of both tranches subject to their respective risk tolerances and liquidity requirements.

5. Allocations to the above investment tranches are made based on fund specific investment horizons, risk tolerances and other criteria set by the Bank. The investment universe comprises (i) liquid financial instruments such as money market instruments guaranteed by financial institutions whose senior debt securities are rated AA-; (ii) government issues or agency obligations rated at least AA-; and (iii) mortgage-backed securities, asset-backed securities and corporate securities rated at least AAA. Each sub-portfolio is invested in a combination of these asset types consistent with the applicable risk tolerance for that sub-portfolio.

Chart 1: Asset Allocation								
	Tranche 0		Tranche 1		Tranche 2		Tranche 3	
	USD	EUR	USD	EUR	USD	EUR	USD	EUR
Domestic Govt.	--	--	37%	37%	31%	--	--	--
Corporates	--	--	--	3%	--	--	--	--
Mortgage Backed Sec	--	--	--	--	32%	--	--	--
Asset Backed Sec	--	--	13%	--	10%	--	14%	--
Agency	--	--	14%	4%	12%	--	--	--
Sovereign/Govt Gtd	--	--	10%	6%	8%	--	--	--
Money Market	100%	100%	26%	50%	6%	--	86%	--
	100%	100%	100%	100%	100%	0%	100%	0%

6. The following sections outline the investment returns earned by the World Bank commingled Trust Fund portfolio over the last quarter, with performance over the previous periods provided for comparison.

Chart 2: Investment Portfolio Summary							
	Size 31-Mar-09	Q3 FY09		Investment Returns FY09 to date		FY08	
		% (non-ann)	Excess Ret	% (non-ann)	Excess Ret	%	Excess Ret
		USD	17,464	0.99%	-	4.47%	-
- Tranche 0	1,853	0.15%	11bps	1.32%	61bps	0.63%	7bps
- Tranche 1	7,079	0.82%	64bps	3.79%	35bps	5.84%	11bps
- Tranche 2	7,894	1.37%	62bps	5.82%	29bps	7.99%	17bps
- Tranche 3	638	0.73%	42bps	1.58%	4bps	4.36%	-5bps
EUR	1,076	0.78%	-	4.63%	-	3.58%	-
- Tranche 0	360	0.40%	8bps	2.39%	22bps	1.04%	5bps
- Tranche 1	716	0.98%	7bps	5.62%	16bps	3.84%	14bps
- Tranche 2	-	-	-	-	-	-	-
Other (USD Eq)	393	0.32%	-	2.19%	-	5.08%	-
Total	20,009	0.97%		4.44%		6.60%	

Investment Portfolio Performance Highlights

7. The Trust Fund portfolio (which had reached almost USD 19 billion by March 31, 2009) returned almost 1% (non-annualized) over the first quarter of the calendar year, with relatively robust, positive returns across all tranches and currencies. In USD, the portfolio returned 1% (non-annualized) while in EUR, returns were 0.8% (non-annualized). Of particular note is the outperformance vs. the benchmark across all Tranches in USD and EUR. For the fiscal year to date, the portfolio returned almost 4.5% (non-annualized) with the outperformance vs. the benchmarks again a distinguishing feature. Performances (non-annualized) in USD (4.5%) and EUR (4.6%) were particularly robust, with the overall resulted diluted by the more modest returns in other currencies.

Investment Climate

8. Global financial markets have recently shown signs of recovery following a turbulent start to the calendar year. The release of better than expected bank stress test

results in the US has stabilized markets and added some impetus for recovery in many asset classes. The World Bank Trust Fund portfolio has continued to post positive returns throughout the crisis and the nascent signs of stability in the markets open up opportunities for higher returns going forward, should the markets continue in the same mode. For now, while any recovery and confidence remain somewhat fragile, the World Bank Treasury Department, which manages the Pool's investments, retains a defensive portfolio outlook with the onus on capital preservation and risk minimization. The investment management strategy has included (but has not been limited to) lowering the Pool's exposure to Commercial Banks and adjusting the duration of various portfolios to maintain a more conservative risk profile.

GEF Trust Fund Returns

9. The GEF Trust Fund, due to its participation in each of the tranches, has returns for Jan-Mar 09 in the region of 1.2%. This compares to returns of 4.5% in 2005, 2.2% in 2006, 7.0% in 2007 and 5.8% in 2008. In the context of sharply lower government bond and money market yields (which form the bulk of the current investment portfolio) the lower returns in the first quarter and expected lower returns for CY09 relative to past years is understandable. When compared against returns in other asset classes such as equities (-13.8% for MSCI World Index) and corporate bonds (-2.8% for Merrill Lynch Corp Index), the returns on the GEF portfolio compare very favorably.

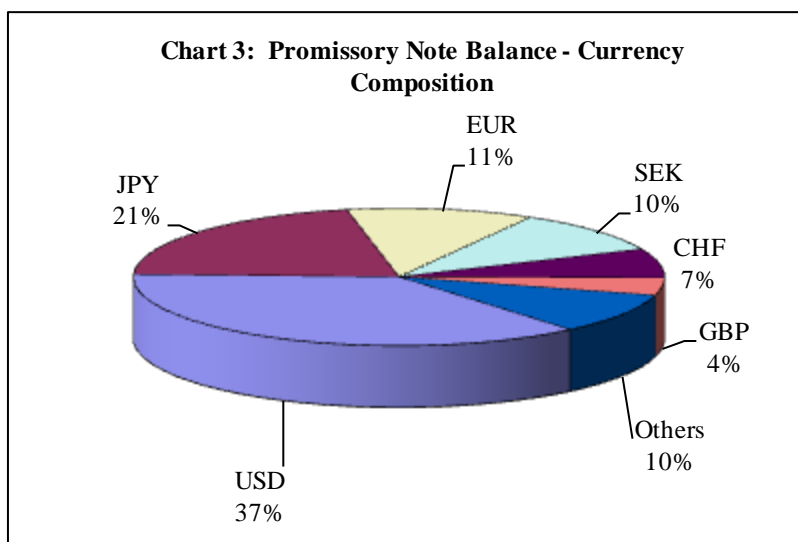
II. OVERVIEW OF GEF CUMULATIVE RESOURCES AND FUNDING DECISIONS

10. This section reviews the cumulative financial history of the GEF Trust Fund. The paragraphs that follow focus on the details in Table 1, which shows the total cumulative resources of the GEF Trust Fund and the cumulative funding decisions made since inception. The cumulative resources, including resources not yet received, amount to USD eq. 10.6 billion. For further information, Annex 1 describes the GEF Trust Fund financial transaction processes.

A. Cumulative Resources

11. ***Cumulative Resources Received.*** Cumulative resources received to date amount to USD eq. 9.6 billion, including USD 7.8 billion received from Donors in payment of installments and encashments of promissory notes, USD eq. 907 million in outstanding balances of promissory notes and letters of credit, and USD 894 million in investment income. Annex 2 shows the cumulative payments made by Donors as of the date of this report.

12. ***Promissory notes are subject to foreign exchange exposure.*** As shown in Chart 3, about 37% of the current value of promissory notes is represented by USD-denominated promissory notes or letters of credit. Thus, 63% of the current value of promissory notes is subject to daily foreign exchange rate fluctuations until the promissory notes are drawn down and converted into USD.



13. **Resources Not Yet Available.** The total amount of resources not yet available to support funding decisions is about USD eq. 1.2 billion, which is approximately 12% of total cumulative pledged and committed resources of the GEF. Of this amount, the largest share is taken up by installment receivables. Table 2 provides the detail of the amounts not yet available to fund GEF operations.

Table 2: Resources Not Yet Available
Status as of April 30, 2009 (in USD eq. millions)

	<u>Amount</u>	<u>Percentage of Total Cumulative Resources</u>
IoCs not yet Deposited with the Trustee	125	1.2%
Installment Receivables a/	836	7.9%
Restricted Resources b/	<u>286</u>	<u>2.7%</u>
Total Resources Not Available	1,247	11.8%
Total Cumulative Resources	10,580	

a/ Represents IoCs deposited with the Trustee but not yet converted into cash or note.
b/ Represents deferred contributions from the GEF-2 and GEF-3 totaling USDeq. 241 million, plus a reserve of USD 45 million to mitigate FX risk.

Instruments of Commitment Not Yet Deposited with the Trustee

14. The Donors that have not yet deposited IoCs with the Trustee are Italy, (USD eq. 114 million), Nigeria (USD eq. 6 million) and Pakistan (USD eq. 4 million).¹ Until received in cash, all of these resources are subject to fluctuations in exchange rates.

¹ By letter dated April 29, 2009, the Trustee reminded these Donors that an Instrument of Commitment has not yet been deposited with the Trustee; the Trustee requested information on the status of this document.

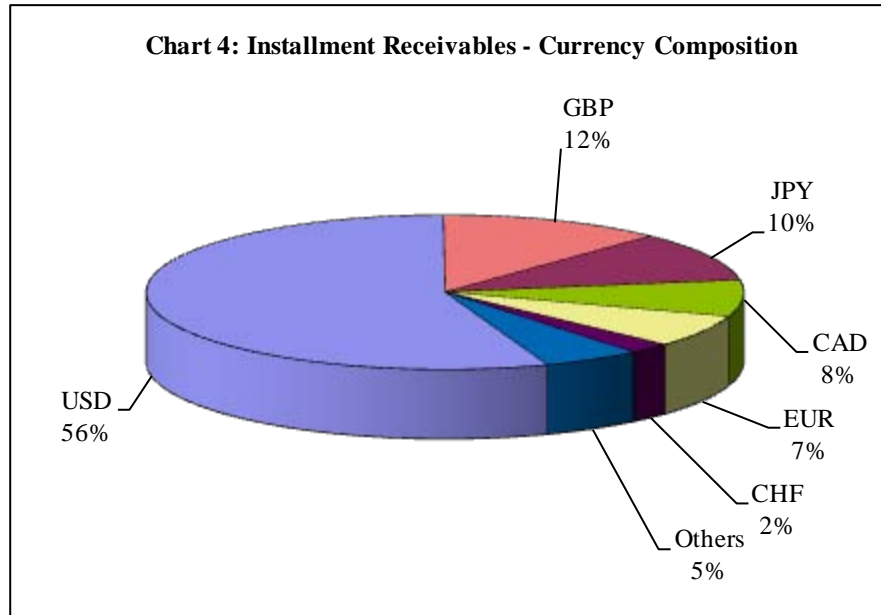
15. **Installment Receivables.** Table 3 depicts the breakdown of installment receivables by replenishment. The large majority, 79% of installment receivables, represents the GEF-4 installments that are due between May 1, 2009 and the end of the GEF-4 period, June 30, 2010. A further 20% of the installments due represent the arrears of the United States from GEF-2 and the GEF-3. Annex 3 details the arrears to the GEF Trust Fund by Donor as of the date of this report.²

<u>Replenishment</u>	<u>USDeq.</u>	<u>Percentage</u>
GEF-1 a/	3	0.4%
GEF-2 b/	141	16.8%
GEF-3 c/	33	3.9%
GEF-4 d/	660	78.9%
Total Installments	836	

a/ Represents the arrears of Argentina and Egypt.
b/ Represents the arrears of the United States.
c/ Represents the arrears of Nigeria and the United States.
d/ Represents outstanding installments from the GEF-4.

16. Chart 4 shows the composition of the value of installment receivables by currency. The majority of the current value of installment receivables is represented by receivables denominated in USD (56%) followed by GBP (12%), JPY (10%), CAD (8%), and EUR (7%). All installment receivables denominated in currencies other than the USD are subject to exchange rate fluctuations until they are paid in cash and converted to USD.

² According to Sub-paragraph 4 (a) of the GEF-4 replenishment, the Trustee shall remind the Contributing Participant of the obligations it will incur if a delay persists. If payment has not been made 30 days before the date of the next council meeting following the date on which the delay incurred, the responsible Minister of the Contributing Participant concerned shall provide the Chief Executive Officer/Chairperson with a written communication stating the reasons for the delay and the measures taken to address it. A similar provision is provided for in paragraph 4(a) in the GEF-3 Replenishment Resolution. Pursuant to these provisions, by letter dated April 29, 2009, the Trustee reminded the Donors that are in arrears of their obligations.



17. **Restricted Resources.** Restricted resources represent about 3% of total cumulative resources. The majority of this amount comprises deferred GEF-2 and GEF-3 contributions associated with the *pro rata* right provision in the respective replenishment agreements. These restricted resources will be released automatically when the United States clears its arrears to those replenishments.

18. An additional restriction on funds is in place to provide a cushion against foreign exchange fluctuations to avoid commitments by the Trustee in excess of the resources available. The exchange rate risk arises from the holding of promissory notes which are denominated in currencies other than the USD. The establishment of this risk mitigation measure is considered necessary because the GEF Trust Fund does not have access to market instruments for hedging. The current reserve in the amount of USD 45 million is approximately 0.5% of cumulative pledged and committed resources.

19. Table 4 shows the details of the composition of the restricted resources of the GEF Trust Fund.

Table 4: Restricted Resources
Status as of April 30, 2009 (in USDeq. millions)

	<u>USDeq.</u>	<u>Percentage</u>
Deferred Contribution		
Austria a/	5	1.9%
France b/	56	19.7%
Germany c/	19	6.7%
Japan b/	160	55.9%
Reserve to cover FX fluctuations	<u>45</u>	15.8%
Total Restricted Resources	286	

a/ Represents deferred contributions from the GEF-2.

b/ Represents deferred contributions from the GEF-2 and GEF-3.

c/ Represents deferred contributions from the GEF-3.

B. Cumulative Funding Decisions

20. Initial funding decisions made by the Council and the CEO total USD 9.8 billion, representing about 93% of cumulative GEF resources. This amount has been offset by cumulative cancellations³ totaling USD 660 million, or about 7% of total approvals. The total net cumulative funding decisions amount to USD 9.2 billion, representing about 87% of cumulative GEF resources.

21. As shown in Table 5, about 84% of resources was initially approved for projects, programmatic initiatives, and project preparation activities. A further 5% was approved to cover Agency fees, and 4% represented approved administrative budget and special initiatives.

³ Cancellations represent unused amounts from closed projects, dropped projects, reductions at the time of endorsement, and cancelled amounts from ongoing projects. All cancellations increase the funding availability of the Trust Fund.

Table 5: Funding Decisions Against Total Cumulative Resources

Inception to April 30, 2009 (in USD millions)

	Funding Decisions	Percentage against Total Cumulative Resources
Project and Project Preparation a/	8,841	83.6%
Project Fees	541	5.1%
Administrative Budget	462	4.4%
Total	9,844	93.0%
Total Cumulative Resources	10,580	

a/ Includes Programmatic Initiatives.

22. Table 6 shows the total amount approved for projects and fees by Agency since inception of the GEF Trust Fund, including the Pilot Phase. Eighty-five percent of the funding decisions for projects and fees were approved for IBRD and UNDP. The share approved for UNEP amounts to about 9%; the remaining 6% was approved funding to the remaining seven Agencies.

23. Trustee commitments are made on the basis of CEO endorsement, and over time may be adjusted by cancellations and unused amounts from financially closed projects. The difference between the cumulative funding decisions and Trustee commitments is the (i) amounts not yet endorsed and (ii) cancellations after Council or CEO approval. Cash transfers are made by the Trustee to Agencies on an “as needed” basis. Agencies disburse to recipients based on their own policies and procedures. As last reported in January 2009, Agencies reported disbursements to recipients totaling USD 4.7 billion, or 90% of the total cash transferred to them. Agencies are expected to update the disbursement numbers during the second quarter of FY10.

Table 6: Total Amount of Funding Decisions by Agency – Projects and Fees a/
Inception to April 30, 2009 (in USD millions)

	Council/CEO	Trustee	
	Funding Decisions	Commitments b/	Cash Transfers
ADB	122	65	37
AfDB	10	1	-
EBRD	39	1	1
FAO	68	24	15
IADB	90	37	16
IBRD	4,551	3,587	2,448
IFAD	88	66	52
UNDP	3,346	2,734	2,070
UNEP	827	667	511
UNIDO	156	78	56
Total	9,296	7,260	5,205

a/ Includes stand alone projects, projects attached to Programmatic Initiatives, fees and project preparation activities.

b/ Reflects initial Trustee commitments less cancellations and unused amounts from financially closed projects.

24. Cumulatively, taking into account only the amounts approved for projects (i.e., exclusive of fees), Table 7 shows the breakdown of Council and CEO funding decisions by focal area.

Table 7: Project Funding Decisions by Focal Area

Inception to April 30, 2009 (in USD millions)

<u>Focal Area</u>	<u>Funding Decisions a/</u>	<u>Percentage</u>
Biodiversity	2,847	32.9%
Climate Change	2,776	32.1%
International Waters	1,058	12.2%
Land Degradation	353	4.1%
Multi-focal Areas	1,097	12.7%
Ozone Depletion	171	2.0%
Persistent Organic Pollutants	345	4.0%
Total	8,647	

a/ Includes Funding Decisions for Projects attached to Programmatic Initiatives.

III. CURRENT FUNDING AVAILABILITY AND RESOURCE PLANNING

25. In accordance with current GEF Council policy, funding decisions made by the Council or the CEO of the GEF are based on the available fund balance in the GEF Trust Fund at the time of the decision. The available balance at any given point in time, however, is an estimate that changes over time with fluctuations in exchange rates. The available balance of funds is derived in the following manner:

Step 1: Calculate Funds Held in Trust with No Restrictions

- i. Funds held in Trust, representing
 - Cash and investments, held in US dollars; plus
 - USD equivalent of promissory notes and letters of credit; these assets are held in the contribution currencies of donors and are revalued at the end of every month using end of month exchange rates; less
- ii. Restricted Resources, representing
 - USD equivalent of deferred contributions; these assets are held in the contribution currencies of donors; non-USD assets are revalued at the end of every month using end of month exchange rates; plus

- Reserve to cover foreign exchange fluctuations; this reserve is stated in USD.

Step 2: Calculate Approved Amounts Pending Disbursement

- i. Trustee Commitments, representing
 - Cumulative Trustee commitments since inception less amounts disbursed (i.e. liabilities); all amounts are in USD (no exchange rate impact); plus
- ii. Amounts Approved by Council but not yet CEO Endorsed, representing
 - All funding decisions previously made by the Council and pending CEO Endorsement; all amounts are in USD (no exchange rate impact); plus
- iii. Financing decisions pending Council approval, representing
 - The semi-annual work program and administrative budget (including Special Initiatives) presented to Council and the Intersessional Work Program; all amounts are in USD.

Step 3: Calculate the Funds Available to support Council or CEO financing decisions

- i. Funds held in Trust with no restrictions; less
- ii. Approved amounts pending disbursement.

26. Table 8 below shows the Schedule of Funds as of April 30, 2009: the amount available to fund future GEF operations was USD eq. 180 million, representing a decrease of USD eq. 19 million since January 31, 2009⁴, resulting from the following financial transactions during the month of April:

- i. Funds held in Trust: Net increase of USD eq. 87 million as a result of encashments of promissory notes, investment income; and the revaluation of the balance of promissory notes at month-end;
- ii. Restricted Funds: Net change of USD eq. 8 million due to the revaluation of the balance of deferred contributions at month end;⁵ and changes in the FX reserve; and

⁴ “Review of the GEF Trust Fund: Contributions, Funding Availability and Financial Risk”, GEF/R.5/5, March 11, 2009.

⁵ Increases in the USD eq. value of deferred contributions have a negative impact on the funds available for approval.

- iii. Approved Amounts Pending Disbursement: Net increase of USD eq. 116 million as a result of new funding decisions by the Council or CEO, cancellations reported by Agencies, and cash transfers to Agencies.

	<u>As of April 30, 2009</u>	<u>As of January 31, 2009</u>
	<u>USD eq. a/</u>	<u>USD eq. b/</u>
<u>1. Funds held in Trust</u>	3,977	3,890
a. Cash and investments	3,071	2,928
b. Unencashed Promissory notes	907	962
<u>2. Restricted Funds</u>	286	294
a. Deferred contributions in respect to the pro rata right	241	254
b. Reserve to cover foreign exchange rate fluctuations	45	40
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>	3,692	3,596
<u>4. Approved amounts pending disbursement</u>	3,512	3,396
a. Trustee Committed	2,066	1,936
b. Approved by Council but not yet CEO Endorsed	1,445	1,461
c. Requested amounts for financing pending Council Decision c/	-	-
<u>5. Funds available to support Council or CEO funding decisions (5 = 3 - 4)</u>	180	199

a/ Valued on the basis of exchange rates of April 30, 2009
b/ Valued on the basis of exchange rates of January 31, 2009
c/ Represents either semiannual work program presented to Council or Intersessional work program.

Planning of Resources through the end of the GEF-4 Period

27. Determining the amount available in the GEF Trust Fund (current and future) requires the Trustee (i) take all current financial transactions as well as changes into account and (ii) project future flows. At any point in time, a number of different elements affect estimated available funding and projected funding for the remaining life of the replenishment:

- Projections on the timing of receipt of a Donor payment (either in payment of an installment receivable or against a note encashment) are made based on indicative payment schedules and on information provided by Donors. The actual payment of that asset can be earlier or later than projected;
- Projections of investment income change over time given then-prevailing market conditions and cash flow estimates (inflows from Donors and outflows to Agencies). The actual investment income earned will be different than the amount projected;
- Project funding amounts may change from the time of initial approval by the Council to endorsement by the CEO; these potential changes cannot be

predicted and either release or use up funding. In addition, cancellations of Trustee-committed projects and unused amounts from financially closed projects increase funding availability but cannot be predicted; and

- A challenge to projecting available resources for the future is created by the mismatch between assets (non-USD installment receivables and promissory notes) and liabilities (Trustee USD commitments to Agencies). Projections are made on the future value of non-USD assets based on current market information; the final realized USD value of that asset is only realized upon conversion to cash and converted into USD.

28. When projecting available funding for a replenishment period, the Trustee first calculates the potential amount available over the remaining life of a replenishment period. A projection then must be made on when potential resources are expected to be received. As noted earlier, this step is challenging in that (i) the future value of the asset is estimated based on current exchange rates, and (ii) actual value depends on timing of payments from Donors and current market conditions, which impact actual investment income earned.

29. Given the inherent uncertainty with regard to projections (financial as well as political and market uncertainty), the availability of future resources and their USD value cannot be estimated with certainty.

30. Table 9 shows the current USD value of the GEF-4 Envelope as of April 30, 2009 and the projections of funding availability between May 1, 2009 and June 30, 2010 (the end of the GEF-4 period). The target replenishment level as agreed in the GEF-4 replenishment document was USD eq. 3.1 billion; the current value of the projected GEF-4 envelope is equal to the agreed level, even though the Trustee has not projected that all potential flows will become available during the GEF-4 period. This means, in fact, that there has been a net increase, some of which has already been realized, above the target replenishment level.

Table 9 - GEF-4 Specific Funding Decisions

Status as of April 30, 2009

(in USDeq. millions)

			3,100
1. Target Replenishment Funding a/			
2. Projected Available Resources During Remaining GEF-4 Period			1,010
<u>Estimated Funds available to support Council or CEO Financing Decisions</u>			180
	Potential Amount Available	of which Projected to be Available	
<u>Receivables</u>			660
- Arrears	238	62 b/	
- Due within 6 months c/	126	126	
- Due between 7 and 12 months d/	373	373	
- Due between 13 and 18 months d/	99	99	
<u>Release of Deferred Contributions</u>			-
- Deferred Contributions	241	-	
<u>IoCs not yet Deposited with the Trustee e/</u>	125	119	119
<u>Projected Investment Income</u>	51	51	51
<u>Total</u>	1,253	830	
3. GEF-4 Specific Funding Decisions			2,053
<u>Approvals by Council</u>			1,922
- Projects + Fees		1,192	
- Admin. Budget		43	
- Special Initiatives		2	
- Programmatic Initiatives		684	
<u>Approvals by CEO</u>			143
- Projects + Fees (MSPs, EEAs)		125	
- Project Preparation Activities + Fees		18	
<u>Net Changes to Initial Approvals</u>			(12)
- Reductions (cancellations) on GEF-4 projects, Administrative Budget and Special Initiatives f/		(12)	
Pending decisions on Intersessionals and Council meetings			-
- Projects, Fees, Admin Budget, Splc Initiatives, Programmatic Initiatives		-	
4. Projected GEF-4 "Envelope" as of April 30, 2009 (4 = 2 + 3)			3,063
5. Excess or (Shortfall) as Measured Against the Target in Line 1 (5 = 4 - 1)			(37)
a/ Represents the target replenishment level as agreed, including new resources from Donors, projected investment income, and carryover of amounts from previous replenishments.			
b/ Represents the amounts that were due from Belgium and United States on November 30, 2008 and South Africa on April 30, 2009, which are expected to be paid in full.			
c/ Represents the remaining amounts from third installment.			
d/ Represents amounts from fourth installment.			
e/ Represents IoCs not yet received by the Trustee from Italy (EUR 88 million), Nigeria (SRD 4 million), Pakistan (PKR 350 million). The amount projected to be available comprises of Italy (USD eq. 1118 million) and Pakistan (USD eq. 4 million).			
f/ To fit the GEF Secretariat's RAF model, pre-GEF-4 project net changes were excluded from the calculation. The total reductions to initial approvals (including GEF-4 and pre-GEF-4 projects) is USD 224 million.			

31. Following on this point, if all potential resources were made available before the end of the GEF-4 period, including all arrears from previous replenishments and IoCs not yet deposited, then the total GEF-4 envelope valued as at April 30, 2009 would amount to USD eq. 3.5 billion, representing an increase of 13% (about USD eq. 400 million) over the target replenishment level as agreed.

IV. FINANCIAL MANAGEMENT ISSUES FOR THE GEF TRUST FUND

Foreign Exchange Rate Movements and Interest Rate Risk

32. In an ongoing effort to manage the Trust Fund's exposure to exchange rate variations, the Trustee initiated a reserve policy in FY06 to guard against the possibility that exchange rates move in such a way that the Trust Fund may not have sufficient funds to disburse against Trustee commitments made to GEF Agencies. The exchange rate risk arises from the holding of promissory notes which are denominated in foreign currencies. These notes are encashed and converted to US dollars – the operating currency of the GEF Trust Fund – over a period of time ranging anywhere from one to ten years. The establishment of this risk mitigation measure is considered necessary because the GEF Trust Fund does not have access to market instruments for hedging.

33. The Trustee has prepared a paper for the second GEF-5 Replenishment meeting to be held directly after the June 2009 Council meetings examining the impacts of foreign exchange volatility on the GEF Trust Fund, and various options available to mitigate this risk, including the possible expansion of the reserve to mitigate interest rate risk.

Reporting of Investment Income

34. The Trustee and the Agencies work together to ensure timely reporting on investment income – that is, income earned by the Agencies from the investment of GEF funds pending their disbursement (except for income earned on the investment of GEF funds transferred as fees.) At the end of every fiscal year, Agencies report to the Trustee the amount of the investment income earned during that fiscal year. Agencies then transfer the funds to the GEF Trust Fund; all amounts transferred are made available to the Council to cover funding decisions.

35. The transfer of investment income earned by Agencies to the GEF Trust Fund, in respect of periods up to FY08, has been completed except for EBRD and IADB. Table 10 shows the investment income earned by the Agencies through FY08.

Table 10: Investment Income Earned by Agencies

Amounts expressed in USD

<u>Agencies a/</u>	<u>Upto FY07</u>	<u>FY08</u>	<u>Cumulative to date</u>
ADB Asian Development Bank	0.30	0.22	0.52
AfDB African Development Bank	-	-	-
EBRD European Development Bank	0.00	0.00	b/ 0.00
FAO Food and Agriculture Organization	0.17	0.04	0.21
IADB Inter-American Development Bank	0.37	0.02	c/ 0.39
IFAD International Fund for Agricultural Development	0.77	0.68	1.46
UNDP United Nations Development Programme	27.17	8.11	35.27
UNEP United Nations Environment Programme (including STAP)	11.44	1.17	12.61
UNIDO United Nations Industrial Development Organization	1.01	0.26	1.26
Total	41.23	10.50	51.73

a/ Investment Income earned by IBRD as Implementing Agency on the undisbursed balances are automatically posted to the GEF Trust Fund. This investment income is included in the overall investment income earned by the GEF Trust Fund. This is also true of the undisbursed balances on administrative budgets of the Secretariat and the Evaluation Office.

b/ Denotes amounts less than USD 10,000.

c/ Investment income earned but not yet received by the Trustee.

Audited Financial Statements International Financial Reporting Standards (IFRS)

36. The FY08 external audit of the GEF Trust Fund was finalized in January 2009. The corresponding audited FY08 Financial Statements will be made available at the June 2009 Council meeting. Copies of the audit report and Financial Statements were sent to Donors by mail in April 2009. The FY08 audit for the administrative budgets for the Secretariat and the Evaluation Office are also complete. The Trustee is currently coordinating for the FY09 external audits.

V. WORK IN PROGRESS

Systems Development

37. The development and rollout of an electronic messaging system between the Trustee and the Agencies was affected by a delay in obtaining the necessary licensing for the software. The Trustee has now submitted the purchase order for the license and expects to receive both the license and the software by the end of June 2009.

Financial Procedures Agreements

38. Two Agencies have executed Financial Procedures Agreements (FPAs) with the Trustee: ADB and IFAD. The Trustee expects to enter into an FPA with IADB soon. Negotiations are continuing on the customization of FPAs for all other Agencies.

World Bank Client Connections Website

39. As part of the drive to make information readily available to donors, Agencies, the GEF Secretariat and Evaluation Office, the Trustee is building a platform on the World Bank's Client Connection network. It is a secure website that offers the Trustee's clients quicker access to information in real time. There are several windows for accessing data. The open platform will provide access to information such as the status of replenishments, Instruments of Commitments, the daily Funding Status of the GEF Trust Fund, a breakdown of Council approvals and the associated Trustee commitments. In addition, official documents will also be available such as the Instrument for the Establishment of the Restructured Global Environment Facility, World Bank replenishment resolutions for the GEF Trust Fund, and the annual, audited Financial Statements of the GEF Trust Fund.

40. Each donor will have its own restricted access window restricted with respect to the GEF Trust Fund, for each Agency and for the GEF Secretariat and Evaluation Office. This will provide access to detailed information, including the donor's contribution payments, note encashment history, and projected encashment schedules where applicable. In addition, invoices for installment payments and note encashment requests will be available online. The restricted window for Agencies will provide detailed information on Trustee commitments and cash transfers to Agencies. Letters of Commitment and notifications of cash transfers will be posted online as well.

41. The Trustee's platform on Client Connections has been launched; the Trustee is developing the protocols for website access for Council, the Secretariat, the Evaluation Office, STAP, and the Agencies.

GEF Trust Fund Financial Transaction Process

GEF Trust Fund Assets: Resources In

Donors may pledge both during and after replenishment negotiations. On an ongoing basis, the Trustee tracks all pledges and formalized pledges, i.e., commitments by Donors made through the deposit of an Instrument of Commitment. The management of the financial flows of the GEF Trust Fund is described below.

(1) Resources Not Yet Received

- Instruments of Commitment or Qualified Instruments of Commitment not yet deposited with the Trustee; these future assets are treated as “pledges” and not assets of the GEF Trust Fund; and
- Instruments of Commitment or Qualified Instrument of Commitment deposited with the Trustee but not yet converted into cash or promissory note; this future resource comprises both arrears and upcoming installment payments. These resources are treated as future assets of the GEF Trust Fund.

(2) Resources Received

Contributions from Donors comprise the bulk of the incoming, usable resources to the GEF Trust Fund. They are denominated in multiple currencies and as such are subject to foreign exchange exposure until they are converted into USD. Resources are also increased by investment income as well as any returned funds from the Agencies, including unused funds and investment income earned on the undisbursed balance of GEF funds transferred by the Trustee to the Agencies. The following represent the categories of resources received into the GEF Trust Fund:

- Cash paid in. All non-USD cash receipts are converted to USD immediately upon receipt by the Trustee;
- Promissory notes received as Installments—USD and non-USD balances, whose value remains subject to foreign exchange movements;
- Promissory notes converted to cash (i.e. note encashments)—non-USD receipts are converted to USD immediately upon receipt by the Trustee;
- Investment income

- Investment income earned by the Agencies on undisbursed balances of the GEF funds they hold; this income is transferred back to the GEF Trust Fund in USD; and
- Returned funds from Agencies on cancelled or closed projects; on occasion, the Agencies may be required to return cash to the GEF Trust Fund⁶; in such cases, the funds are returned in USD.

(3) Resources Released from Set-Aside or Commitment

During any replenishment period, some resources previously set aside or committed by the Trustee for a particular use are subsequently cancelled. When this occurs, the Trustee records the cancellation upon receipt of notification from an Agency or the Secretariat, as applicable. These cancellations include any of the following:

- Amounts associated with dropped projects or activities;
- Amounts associated with CEO endorsement (i.e. reduction of the initial amount approved by the Council); and
- Unused amounts from closed projects/activities.

(4) Restricted Resources

To determine the level of usable resources (available resources), the Trustee reduces (i) the sum of resources received by (ii) the restricted resources in the GEF Trust Fund that are not available for commitment:

- Paid-in but Deferred Contributions—under the terms of the replenishment resolutions, Donors may instruct the Trustee to “defer” commitment of a proportion of their contributions to the extent of arrears in the contribution of the largest contributor.⁷ Cash or promissory notes that have been paid in but are associated with the exercise of the “*pro rata* right” under a particular replenishment are then restricted from use. These amounts are released if the Donor agrees to waive the right or the arrears are paid;⁸ and

⁶ Agencies are required to return funds to the GEF Trust Fund only when the Trustee does not have a liability to that Agency.

⁷ Under GEF-2 through GEF-3, the largest contributor is the United States. Under the GEF-4 replenishment resolution, the *pro rata* policy did not come into effect since no Donor contributed above the threshold amount.

⁸ During GEF-2, Germany deferred its GEF-2 contribution in proportion to the arrears of the United States. At the end of the GEF-2 period, during a time of resource constraint, Germany released its contribution to support operations of the GEF although the United States had not cleared its GEF-2 arrears.

- Any reserves established by the Trustee, for example to provide a cushion against foreign exchange fluctuations, to avoid commitments by the Trustee in excess of the resources available.⁹

GEF Trust Fund Liabilities: Resources Out

GEF resources are tracked, committed, transferred and finally disbursed in accordance with (i) the GEF project cycle approved by Council in June 2007 for tracking of funding decisions, (ii) the Financial Procedures Agreement entered into between the Trustee and the Agencies for commitments and cash transfers, and (iii) the rules and procedures of the Agencies for disbursements. This process consists of several steps starting with an initial approval of funding by either the Council or the CEO, followed by commitment of finances by the Trustee and eventually cash transfers out of the Trust Fund to the Agencies.

It should be noted that the process differs depending on the type of funding provided (i.e., investment projects and associated fees, programmatic initiatives, administrative budget). For simplicity, the following paragraphs focus on the life cycle of investment projects approved by Council.

(1) Council Approval

The first step in tracking the funding decisions taken by the Council is to record initial amounts approved by Council for individual projects and fees in a GEF Council work program or an “Intersessional”. At this stage, the Trustee reserves (“sets-aside”) the approved amount of funding which automatically reduces the level of funds available to support Council or CEO future financing decisions. The set aside is a temporary reserve on funding, pending endorsement by the CEO.

The Council approved target for reaching the endorsement stage is up to twenty-two months from the approval by Council of the Project Identification Form (PIF).¹⁰

(2) CEO Endorsement

The next step in the life cycle of a full-sized investment project is the subsequent endorsement by the CEO. At this stage, one of three decisions can be taken, two of which have an impact on the amount previously set aside by the Trustee:

- i. CEO endorses the exact amount approved by the Council; no impact on current funding availability;

⁹ Pursuant to Annex B, paragraph 9, of the Instrument for the Establishment of the Restructured Global Environment Facility, March 2008, the Trustee shall make all necessary arrangements to avoid commitments on behalf of the Fund in excess of the resources available to such Fund.

¹⁰ Document Number GEF/C.31/7, May 14, 2007, GEF Project Cycle.

- ii. CEO endorses the project for a reduced amount; the reduction is released back to the available pool of funds for reallocation to other projects and activities; and
- iii. CEO endorses an amount that is higher than the initial Council-approved amount,¹¹ resulting in an increase to the set-aside; the funds available to support future Council and CEO decisions are correspondingly reduced.

(3) Trustee Commitment

Upon notification by the GEF Secretariat to the Trustee that an amount has been endorsed by the CEO, the Trustee commits funds to the Agency. The commitment process by the Trustee establishes a legal obligation on behalf of the Trustee to provide funding to an Agency. This obligation is established by way of a Letter of Commitment (LoC) signed by the Trustee and addressed to an Agency. Typically, before an Agency can receive approval by its board of a project, the Agency must prove that the GEF component of the project has secured financing. The LoC demonstrates to an Agency's Board of Directors that the funds are secured. The amount of funds committed for investment projects is subject to availability of resources in the GEF Trust Fund at the time of commitment as well as at the time of cash transfer.

(4) Transfer of Funds to Agencies

The transfer of funds is the process by which the Trustee "draws down" against its commitments to an Agency. Subject to availability of resources in the GEF Trust Fund, the Trustee transfers funds based on a request from an Agency in an amount sufficient to cover six months of projected disbursements by the Agency. The Trustee and the Agencies have agreed that cash transfers based on liquidity needs of the Agencies, instead of a project-by-project basis, creates efficiencies and keeps transaction costs down.

¹¹ The CEO has discretionary authority to increase an allocation by up 5% of the amount approved by Council.

Global Environment Facility Trust Fund
 Commitments and Payments for the Purpose of Calculating Voting Rights
 (Includes payments on contributions plus the grant equivalent of co-financing and parallel financing made under the GEF pilot phase)
 as of May 27, 2009
 (expressed in SDR millions as agreed)

Contributing Participants	Pilot Phase		GEF-1			GEF-2			GEF-3			GEF-4			Total Contributions Paid	
	Core Contribution	Co-Parallel Financing	Contributions			Contributions			Contributions			Contributions			Total Contributions Paid	As % of total GEF Contributions Paid
			Commitment	Paid	% Paid	Commitment	Paid	% Paid	Commitment	Paid	% Paid	Commitment	Paid	% Paid		
1 Argentina	a/		3.6	1.8	50.0	a/			a/			a/			1.8	0.0
2 Australia	9.7	7.4	20.8	20.8	100.0	23.5	23.5	100.0	27.6	27.6	100.0	31.0	23.3	75.0	112.3	1.8
3 Austria	26.0		14.3	14.3	100.0	14.7	14.7	100.0	17.7	17.7	100.0	21.8	16.4	75.0	89.1	1.4
4 Bangladesh	a/		2.0	2.0	100.0	a/			a/			a/			2.0	0.0
5 Belgium	5.0	5.3	22.9	22.9	100.0	24.9	24.9	100.0	33.0	33.0	100.0	42.3	42.3	100.0	133.3	2.1
6 Brazil	4.0		4.0	4.0	100.0	a/			a/			a/			8.0	0.1
7 Canada	6.3		61.8	61.8	100.0	74.6	74.6	100.0	80.9	80.9	100.0	89.2	66.9	75.0	290.5	4.6
8 China	4.0		4.0	4.0	100.0	6.0	6.0	100.0	8.4	8.4	100.0	7.1	5.3	75.0	27.8	0.4
9 Cote d'Ivoire	2.0		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	a/			14.0	0.2
10 Czech Republic	a/		4.0	4.0	100.0	4.0	4.0	100.0	4.5	4.5	100.0	4.7	4.7	100.0	17.2	0.3
11 Denmark	16.3		25.1	25.1	100.0	20.9	20.9	100.0	28.0	28.0	100.0	38.1	28.6	75.0	118.7	1.9
12 Egypt	4.0		4.0	3.5	86.7	a/			a/			a/			7.5	0.1
13 Finland	20.4		15.5	15.5	100.0	16.1	16.1	100.0	20.9	20.9	100.0	28.5	21.4	75.0	94.3	1.5
14 France	110.1		102.3	102.3	100.0	105.5	105.5	100.0	128.8	128.8	100.0	128.7	64.4	50.0	511.1	8.1
15 Germany	110.0		171.3	171.3	100.0	160.3	160.3	100.0	231.6	231.6	100.0	201.1	153.8	76.5	827.1	13.1
16 Greece	a/		3.6	3.6	100.0	4.0	4.0	100.0	4.5	4.5	100.0	5.3	3.9	75.0	16.0	0.3
17 India	4.0		6.0	6.0	100.0	6.6	6.6	100.0	8.0	8.0	100.0	6.7	5.0	75.0	29.6	0.5
18 Indonesia	4.0		a/			a/			a/			a/			4.0	0.1
19 Ireland	a/		1.7	1.7	100.0	4.0	4.0	100.0	4.5	4.5	100.0	5.3	4.0	75.2	14.2	0.2
20 Italy	65.1		75.7	75.7	100.0	66.0	66.0	100.0	83.0	83.0	100.0	b/			289.8	4.6
21 Japan	27.4	19.1	296.0	296.0	100.0	300.7	300.7	100.0	333.4	333.4	100.0	208.0	156.0	75.0	1,132.5	17.9
22 Korea	a/		4.0	4.0	100.0	4.0	4.0	100.0	4.4	4.4	100.0	4.5	3.3	73.3	15.6	0.2
23 Luxembourg	a/		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	4.0	3.0	75.0	15.0	0.2
24 Mexico	4.0		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	4.0	3.0	75.0	19.0	0.3
25 Netherlands	37.7		51.0	51.0	100.0	53.1	53.1	100.0	64.8	64.8	100.0	74.7	74.7	100.0	281.2	4.4
26 New Zealand	a/		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	4.0	3.0	75.0	15.0	0.2
27 Nigeria	4.0		a/			4.0	4.0	100.0	4.0	1.0	25.0	b/			9.0	0.1
28 Norway	19.6	3.3	22.3	22.3	100.0	22.8	22.8	100.0	20.0	20.0	100.0	24.1	18.1	75.0	106.0	1.7
29 Pakistan	4.0		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	b/			16.0	0.3
30 Portugal	4.5		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	4.8	3.6	75.0	20.1	0.3
31 Slovak Republic	a/		4.0	4.0	100.0	a/			a/			a/			4.0	0.1
32 Slovenia	a/		a/			1.0	1.0	100.0	1.1	1.1	100.0	4.4	3.3	75.0	5.4	0.1
33 South Africa	a/		a/			a/			a/			4.0	2.4	60.3	2.4	0.0
34 Spain	10.0		14.0	14.0	100.0	12.0	12.0	100.0	15.1	15.1	100.0	18.1	18.1	100.0	69.2	1.1
35 Sweden	24.5		41.6	41.6	100.0	42.1	42.1	100.0	57.0	57.0	100.0	76.2	76.2	100.0	241.4	3.8
36 Switzerland	30.1	10.7	32.0	32.0	100.0	32.0	32.0	100.0	45.9	45.9	100.0	47.5	35.6	75.0	186.3	2.9
37 Turkey	4.0		4.0	4.0	100.0	4.0	4.0	100.0	4.0	4.0	100.0	4.0	3.0	75.0	19.0	0.3
38 United Kingdom	54.7		96.0	96.0	100.0	101.2	101.2	100.0	149.9	149.9	100.0	171.9	85.9	50.0	487.9	7.7
39 United States	0.0	109.7	306.9	306.9	100.0	313.4	210.8	67.3 c/	339.2	317.0	93.5 c/	218.2	132.3	60.7 c/	1,076.8	17.0
Total	615.5	155.5	1,438.1	1,435.8		1,445.3	1,342.8		1,744.2	1,719.0		1,482.0	1,061.4		6,330.0	100.0

a/ Designates a country which is not a Contributing Participant to the replenishment.

b/ Designates Contributing Participants who have not yet submitted an Instrument of Commitment.

c/ The U.S. Administration's FY10 budget request to the Congress includes USD 80 million to meet its financial obligations to the GEF-4 and USD 6.5 million towards arrears clearance.

Global Environment Facility Trust Fund						
Arrears						
Status as of May 27, 2009						
Contributing Participant	Amount Paid as a			Arrears Amount	Arrears as a % of Total Contribution	USD eq.
	% of Total Contribution	Repl.	Currency			
Argentina	50%	GF01	USD	2.5	50%	2.5
Egypt, Arab Republic of	87%	GF01	SDR	0.5	13%	0.8
Nigeria	25%	GF03	SDR	3.0	75%	4.6
South Africa	60%	GF04	ZAR	5.6	15%	0.7
United Kingdom	50%	GF04	GBP	35.0	25%	56.1
United States	61%	GF04	USD	45.9	14%	45.9
United States	93%	GF03	USD	28.1	7%	28.1
United States	67%	GF02	USD	140.7	33%	140.7
Total						279.3