

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
AS AN IMPLEMENTING AGENCY OF THE
GLOBAL ENVIRONMENT FACILITY TRUST FUND**

**WORLD BANK REFERENCE
TF050551**

**FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT
June 30, 2008**

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INDEPENDENT AUDITORS' REPORT

To: The Council of the Global Environmental Facility and International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund

We have audited the accompanying statement of cash receipts, disbursements and fund balance of the International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund (the Trust Fund) as of June 30, 2008, for the year then ended and for the period from March 14, 1991 (date of inception) to June 30, 2008. This financial statement is the responsibility of the Trust Fund's management. Our responsibility is to express an opinion on this financial statement based on our audit. The financial statement of the International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund for the period from March 14, 1991 (date of inception) to June 30, 1997 was audited by other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that statement and included an explanatory paragraph that described the basis of accounting discussed in Note 2 to the financial statement. The financial statement for the period from March 14, 1991 (date of inception) to June 30, 1997 reflects total cash disbursements of US\$ 318.3 million, of the related totals for the period March 14, 1991 (date of inception) through June 30, 2008. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Trust Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2 to the financial statement, this financial statement was prepared on the cash receipts and disbursements basis of accounting, modified to mark investments to market ("modified cash basis of accounting"). The financial statement for the period from March 14, 1991 (date of inception) to June 30, 1997, which the other auditors' report opined on, was prepared on the cash basis of accounting. The modified cash basis of accounting and the cash basis of accounting are comprehensive bases of accounting other than accounting principles generally accepted in the United States of America or International Financial Reporting Standards. This financial statement is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

In our opinion, based on our audit and the report of the other auditors, the financial statement referred to above presents fairly, in all material respects, the fund balance of the Trust Fund as of June 30, 2008 and its cash receipts and disbursements for the year then ended and for the period from March 14, 1991 (date of inception) to June 30, 2008 on the basis of the accounting described in Note 2 to the financial statement.

As described in Note 10 to the financial statement, in 2002, 2006 and 2008, certain disbursements made by the Trust Fund were determined to be ineligible expenditures. These amounts were fully reimbursed to the Trust Fund.

Deloitte + Touche LLP

May 22, 2009

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS AN
IMPLEMENTING AGENCY OF THE GLOBAL ENVIRONMENT FACILITY TRUST FUND

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND FUND BALANCE

Expressed in U.S. dollars

	For the year ended June 30, 2008	March 14, 1991 (date of inception) to June 30, 2008
Transfers in from GEF Trust Fund for:		
Projects	\$ 332,660,000	\$ 2,042,852,918
Project implementation fees (Note 3)	13,593,446	275,515,135
Corporate budget (Note 4)	-	134,954,441
Project grant to EBRD (Note 5)	-	9,907,650
Project implementation fee for EBRD (Note 5)	-	942,000
Investment income (Note 6)	3,825,448	19,941,614
Return of funds from special deposit account (Note 7)	3,085,802	3,816,029
Repayment of disbursements		
with repayment provisions (Note 8)	-	4,804,066
Reimbursement of ineligible expenditures (Note 10)	27,252	2,454,972
Other income (Note 11)	361,311	502,565
Total receipts	353,553,259	2,495,691,390
Project disbursements (Notes 8, 9, and 10)	251,473,564	1,920,858,808
Project implementation fees (Note 3)	27,366,704	250,026,098
Corporate budget disbursements (Note 4)	-	134,057,210
Return to GEF Trust Fund:		
Unutilized corporate budget (Note 4)	897,231	897,231
Implementation fee on cancelled project (Note 3)	173,520	173,520
Other income (Note 11)	361,311	361,311
Project grant transfer to EBRD (Note 5)	-	9,907,650
Project implementation fee transfer to EBRD (Note 5)	-	942,000
Repayment of disbursements		
with repayment provisions (Note 8)	-	4,804,066
Reimbursement of ineligible expenditures (Note 10)	-	2,420,000
Total disbursements	280,272,330	2,324,447,894
Excess of receipts over disbursements	73,280,929	171,243,496
Fund balance:		
Beginning of period	97,962,567	-
End of period	\$ 171,243,496	\$ 171,243,496
Fund balance consists of:		
Share in pooled cash and investments		\$ 171,243,496

The accompanying notes are an integral
part of this financial statement.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS AN
IMPLEMENTING AGENCY OF THE GLOBAL ENVIRONMENT FACILITY TRUST FUND

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 1 - Organization and operation of the GEF

The Global Environment Facility (GEF) was formally established as a mechanism in 1994 by the Instrument for the Establishment of the Restructured Global Environment Facility (the Instrument). It provides grants and concessional financing to eligible countries for incremental costs of measures to achieve global environmental benefits in four focal areas specified in the Instrument: climate change, biological diversity, international waters and ozone layer depletion. In October 2002, an amendment to the Instrument to designate persistent organic pollutants (POPs) and land degradation (primarily desertification and deforestation) as additional focal areas was approved at the second Assembly of the GEF (the Assembly).

In addition, in October 2002, an amendment to the Instrument was approved at the Assembly to make eligible the agreed incremental costs of activities to achieve global environmental benefits concerning chemicals management as they relate to the above focal areas. The incremental costs of such other activities under Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development) as agreed by the Council of the GEF (the Council) were also made eligible for funding insofar as they achieve global environmental benefits in the focal areas.

Under the Instrument, contributions to GEF and all other assets and receipts of GEF are held in the Global Environment Facility Trust Fund (the GEF Trust Fund) which, in accordance with the provisions of the Instrument, became effective on March 16, 1995. On that date, the Global Environment Trust Fund (GET) (a funding mechanism for the GEF, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in the GET were transferred to the GEF Trust Fund at book value. The GEF Trust Fund is administered by the International Bank for Reconstruction and Development (IBRD) as Trustee. Separate financial statements report the financial position, operations and cash flows of the GEF Trust Fund.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 1 - Organization and operation of the GEF (continued)

In addition to being Trustee of the GEF Trust Fund, IBRD is also one of the three Implementing Agencies of the GEF. The other two Implementing Agencies are the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). Under the Instrument, the Implementing Agencies of the GEF shall be accountable to the Council for their GEF financed activities, including the preparation and cost effectiveness of GEF projects, and for the implementation of the operational policies, strategies and decisions of the Council within their respective areas of competence. The Instrument similarly assigns other responsibilities to the Secretariat of the GEF (the Secretariat) and the Trustee of the GEF Trust Fund. The accompanying financial statement reports the cash receipts and disbursements of "IBRD as an Implementing Agency (IA) of the GEF Trust Fund" (the Trust Fund).

The Trust Fund's activities are partly executed by IBRD and partly by recipient agencies (the Agencies) that are external to IBRD and who are responsible for the execution of funds disbursed by IBRD as grants and loans. IBRD and the Agencies, as part of their executing activities, prepare terms of reference, procure goods and services from suppliers, make payments and submit progress reports and audited financial reports for the activities executed by them respectively.

Note 2 - Significant accounting policies

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting modified to mark investments to market (modified cash basis of accounting). Accordingly, investment income includes realized and unrealized investment income.

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America or International Financial Reporting Standards; contributions are recorded when collected rather than when pledged, and expenditures are recorded as disbursements when paid rather than when committed. This financial statement is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 2 - Significant accounting policies (continued)

Transactions recorded in periods subsequent to the financial statement date, including refund of disbursements deemed by management not to be eligible in accordance with the relevant Trust Fund agreements, whether these transactions relate to the reporting period or to prior periods, are reported in the Statement of Cash Receipts, Disbursements and Fund Balance in the period the cash transaction occurs.

IBRD is an international organization which conducts its operations in the currencies of all of its members. Disbursements in currencies other than the reporting currency are translated at the rates of exchange on the transaction dates. Transaction gains or losses, if any, are borne by IBRD.

Note 3 - Project implementation fees

On an ongoing basis, the GEF Trust Fund, based upon allocation approved by the Council (or, as the case may be, by the Chief Executive Officer (CEO) of the GEF, as such authority delegated by the Council) provides IBRD as IA with funds to reimburse certain project implementation expenses associated with the identification, preparation, appraisal, negotiation, supervision and evaluation of GEF projects.

Effective July 2007, the GEF Council decided to eliminate the corporate budget of IAs (see Note 4 below). However, the GEF Trust Fund will provide IBRD as IA additional Project implementation fees, in order to reimburse IBRD as IA for administrative expenses. Using these funds, IBRD as IA reimburses IBRD for certain administrative, accounting, financial reporting, and treasury services performed by IBRD on behalf of IBRD as IA.

Disbursements for Project implementation fees for the year ended June 30, 2008 and from July 1, 2001 to June 30, 2008 include amounts for direct staff costs, related benefits and overheads totaling US\$27,346,324 and US\$227,755,269, respectively, which were paid to IBRD for their estimated costs incurred for activities consistent with the purpose of the Trust Fund in accordance with the administration agreements. Amounts of this nature that were reimbursed to IBRD prior to July 1, 2001 are not practicably determinable and therefore not presented.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 3 - Project implementation fees (continued)

During the year ended June 30, 2008, Project implementation fee in the amount of US\$173,520 on El Salvador Environmental Services project was returned to the GEF Trust Fund as the project was cancelled,

Note 4 - Corporate budget

Until June 30, 2007, in accordance with the Instrument, and as approved annually by the Council, the GEF Trust Fund provided corporate budget funds to IBRD as IA in order to reimburse IBRD as IA for administrative expenses incurred in the performance of its corporate functions as IA. Consequent to the GEF Council's decision to eliminate the corporate budget for IAs, the unutilized funds in the amount of US\$897,231 was returned to the GEF Trust Fund.

Disbursements for Corporate budget for the period from July 1, 2001 to June 30, 2007 include amounts for direct staff costs, related benefits and overheads totaling to US\$18,736,739, which were paid to IBRD for their estimated costs incurred for activities consistent with the purpose of the Trust Fund in accordance with the administration agreements. Amounts of this nature that were reimbursed to IBRD prior to July 1, 2001 are not practicably determinable and therefore not presented.

Note 5 - Project grant and project implementation fee to EBRD

The Instrument calls upon the Implementing Agencies of the GEF to make arrangements for GEF project preparation and execution, by, inter alia, multi-lateral development banks. Effective May 1999, the GEF Council approved a proposal to allow for the participation of the European Bank for Reconstruction and Development (EBRD) in the preparation and execution of GEF projects. within the context of an expanded opportunities program. In order to access GEF resources, multi-lateral development banks were required to do so via the Implementing Agencies of the GEF. of which IBRD is one.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 5 - Project grant and project implementation fee to EBRD (continued)

Pursuant to an agreement between IBRD as IA and EBRD, a grant of US\$9,907,650, to support the implementation of an EBRD/GEF Environmental Credit Facility in the Republic of Slovenia together with US\$942,000 for certain costs of preparation, supervision, and report preparation of this GEF grant activity was made available to EBRD by IBRD as IA. During the years ended June 30, 2004 and 2003, IBRD as IA received funds of US\$9,907,650, and US\$942,000, respectively, from the GEF Trust Fund, for purposes of transferring such funds to EBRD. These funds were transferred to EBRD during the year ended June 30, 2004.

Note 6 - Investment income

Amounts paid into the Trust Fund, but not yet disbursed, are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (the World Bank Group). IBRD maintains all trust fund assets separate and apart from the funds of the World Bank Group. The Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD. Generally, the Pool is invested in liquid financial instruments such as money market instruments, government and agency obligations, mortgage-backed securities, and other high-grade bonds. The Pool may also include securities pledged as collateral under repurchase agreements with other counter parties. Additionally, the Pool may include receivables from resale agreements for which it has accepted collateral.

Investment income consists of the Trust Fund's allocated share of: interest income earned by the Pool, realized gains / losses from sales of securities and unrealized gains / losses resulting from marking the assets held by the Pool to market. Investment income in the amount of US\$3,825,448 and US\$19,941,614 was credited to the Trust Fund during the year ended June 30, 2008 and from March 14, 1991 (date of inception) to June 30, 2008, respectively. Investment income earned on funds advanced to IBRD as IA for projects and corporate budget is credited to the GEF Trust Fund, and therefore is not reflected in the accompanying financial statement.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 7 - Return of funds from special deposit account

In order to ensure an adequate flow of funds to finance eligible expenditures, IBRD as IA may disburse funds before expenditures are made by GEF grant recipients. In such cases, the grant recipient maintains such advance disbursements in a separate Special deposit Account (SA). The grant recipient must document amounts advanced to the SA or refund any undocumented balances to IBRD as IA. In cases where refunds (reflows) are received after the project has been closed, these amounts are recorded as receipts by the Trust Fund. IBRD as IA has recorded US\$3,085,802 and US\$3,816,029 for the year ended June 30, 2008, and from March 14, 1991 (date of inception) to June 30, 2008, respectively, as project reflows.

Note 8 - Repayment of disbursements with repayment provisions

While GEF financing has been made predominantly in the form of grants, under the Instrument, GEF financing may also be made available in forms other than grants, including in the form of loans and guarantees, on such terms as may be approved by the Council. Pursuant to such authority, the Council has authorized a program of GEF operations on terms other than grants, such terms to be approved on a project by project basis by the Council. IBRD as IA, and IFC, acting as executing agency for IBRD as IA, implement and execute programs of such GEF operations other than grants, with repayment provisions.

IBRD as IA has advanced funds from the Trust Fund to IFC for such operations. However, the repayment provisions under such operations are contingent on a number of factors. Accordingly, in recognition of the uncertain nature of the repayments, IBRD as IA has reported amounts advanced for such GEF operations as Project disbursements. With respect to active grants as at June 30, 2008, the GEF Trust Fund had transferred grant funds to IBRD as IA for such operations totaling US\$65,875,000 as grants with repayment provisions. As at June 30, 2008, IFC, acting as executing agency for IBRD as IA, had disbursed grants with repayment provisions totalling US\$39,272,232 to grant recipients, and are included in the line item "Project disbursements" in the accompanying financial statement.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 8 - Repayment of disbursements with repayment provisions (continued)

In accordance with the modified cash basis of accounting, IBRD as IA has not established any receivables due from grant recipients, nor has it recorded any payable to the GEF Trust Fund. During the period from March 14, 1991 (date of inception) to June 30, 2008, an amount of US\$4,804,066, comprising of US\$3,913,776 principal repayment plus interest of US\$674,426 along with exchange gain of US\$215,864 was repaid by grant recipients to IBRD as IA and transferred to the GEF Trust Fund.

Note 9 - Commitments

As part of normal operations, IBRD as IA enters into contractual arrangements with agencies and external parties to undertake activities permitted under the Trust Fund. Some of these arrangements may contain predefined payment schedules for which funds are disbursed to agencies and external parties from the Trust Fund via reimbursements to IBRD. In accordance with the modified cash basis of accounting used, disbursements are not recorded in the financial statement until such payments are made.

Note 10 - Reimbursement of ineligible expenditures

IBRD performs various compliance reviews of the Trust Fund activities as part of its regular control framework. These reviews include GEF-financed activities for which IBRD acts as IA. During fiscal year 2002, IBRD as IA brought to the Trustee's and the CEO's attention that this work had identified certain matters which could result in ineligible expenditures in three recipient-executed GEF grants. The CEO then brought this matter to the attention of the Council in a letter dated April 21, 2003.

With respect to the three recipient-executed grants identified above, in one case, the recipient reimbursed the Trust Fund US\$161,965 in June 2003, representing the full amount considered ineligible by the IBRD's review, thereby closing this case. No irregularities were identified in the case of the second grant. With respect to the third grant, IBRD management had reviewed the findings of this work and, as a result of this review, in May 2005, IBRD deemed it appropriate to reimburse US\$2,420,000 to IBRD as IA which was in turn reimbursed to the GEF Trust Fund during the year ended June 30, 2005.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 10 - Reimbursement of ineligible expenditures (continued)

An audit of the grant recipient's records and accounts, conducted by the recipient's auditors identified certain ineligible expenditures in the amount of US\$7,720 relating to a sub grant, which was refunded to the Trust Fund during the year ended June 30, 2006.

During the year ended June 30, 2008, as a part of internal review, the Bank had identified certain ineligible expenditures in the amount of US\$27,252 which were fully reimbursed to the Trust Fund.

Note 11 - Other income

Other income during the year ended June 30, 2008 and for the period from March 14, 1991 (date of inception) to June 30, 2008, amounts to US\$361,311 and US\$502,565, respectively. Other income during the year represents interest income from unutilized fund balance held by Union Fenosa Ingenieria S.A relating to the IFC/GEF - Efficient Lighting Initiative (ELI) project. These funds were received by the Trust Fund and transferred to the GEF Trust Fund.