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**REVIEW OF THE GEF TRUST FUND:
CONTRIBUTIONS, FUNDING AVAILABILITY AND FINANCIAL RISK
(PREPARED BY TRUSTEE)**

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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
CAD	Canadian Dollar
CEO	Chief Executive Officer
CHF	Swiss Franc
EA	Enabling Activity
EBRD	European Bank for Reconstruction and Development
ERP	Enterprise Resource Planning
EUR	Euro
FAO	Food and Agriculture Organization of the United Nations
FY	Fiscal Year (for GEF and World Bank: July 1 to June 30)
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
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IoC	Instrument of Commitment
JPY	Japanese Yen
MSP	Medium-Sized Project (up to USD 1 million)
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).
RAF	Resource Allocation Framework
SEK	Swedish Krona
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNIDO	United Nations Industrial Development Organization
USD	United States Dollar

INTRODUCTION

1. This paper provides a financial overview of the GEF Trust Fund (Trust Fund) and outlines key challenges inherent in the financial management of the Trust Fund. It is provided to help frame discussions for the Fifth Replenishment of the GEF (GEF-5) against the current market backdrop of global financial market and exchange rate volatility and low expected investment returns. Volatility in financial markets creates volatility in the levels of GEF resources available for Council approvals. This presents a challenge for the GEF, compounding GEF's financial management and Resource Allocation Framework challenges.

2. Section I provides a general explanation of the financial components that go into a replenishment. Section II outlines the financial structure and processes of the GEF Trust Fund, looking cumulatively at its activities from inception. Section III provides an overview of 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 IV turns to current funding availability and resource planning. Section V focuses on key financial management issues facing the GEF, including the challenges inherent in managing the GEF's unique and complex structure; the impact of its variable funding availability on its Resource Allocation Framework; and the global financial crisis and related foreign exchange management and data reconciliation issues.

3. Over the past three months, the Trustee, Agencies and Secretariat have been engaged in a process of reconciling all financial information and transaction dates relating to approved projects, including project preparation grants, and fees in the GEF Trust Fund. This verification of end-to-end financial transactions since inception of the GEF followed the restructuring of the Trustee's ten-year old financial system for the GEF. That restructuring, an upgrade and revision of the GEF system software, entailed an overhaul and conversion of the related business and financial data, and an associated comprehensive reconciliation to ensure that all financial and business data related to the funding decisions of Council and CEO are sound.

4. Trustee has completed the reconciliation with the Agencies, but the process is not completely final between the Trustee and the GEF Secretariat. The fact that reconciliation is still ongoing is the reason for the delayed distribution of this paper. There may be small adjustments as the final round of validation of project data is completed with the Secretariat. If any changes to information presented in this paper result due to final adjustments, the paper will be updated and reposted to ensure that there is a final version with the reconciled data. The unusual length and complexity of this year's reconciliation process is taken up as part of the issues in the paper's final section (Section V). Given the multiple systems tracking GEF financial information, the Trustee recommends an independent review be undertaken on ways to improve the tracking and management of GEF transactions, and the way financial information flows through the GEF system, is supplied by the different GEF partners to the central system managed by the Trustee, and in turn supports GEF transactions and supplies partners with needed information.

I. GEF REPLENISHMENT STRUCTURE

5. The GEF replenishment structure was originally based on replenishments of the International Development Agency (IDA). The GEF was designed to be, primarily, a grant-making entity (although it has the capacity to provide concessional financing in forms other than grants). Accordingly, its funding must be replenished periodically. The GEF funding cycle traditionally spans four-year replenishment periods. At the request of Council, the Trustee is responsible for mobilizing replenishment resources by convening meetings of participants to agree on the size and operational strategy for the subsequent replenishment period.

6. GEF replenishment negotiations provide an opportunity for Contributing Participants (“Donors”) to review GEF performance, evaluate progress, and decide on programming and strategic directions for the future. Donors assess the funding needs going forward, and agree on the size, financial and payment arrangements for the new replenishment. *Annex 1* describes the financial aspects and decisions of a replenishment and outlines the process by which the final replenishment resolution is agreed and adopted.

A. Burden Sharing

7. A key challenge during each replenishment negotiation is the reconciliation of two core objectives. First, the replenishment must be adequate in size to be able to support overall financing requirements for future programming as agreed by the Donors. Second, the replenishment must be carried out within an acceptable burden-sharing framework.

8. Burden-sharing frameworks vary, over time and across institutions, as Donors reach funding agreements on the basis of a variety of factors. At the start, Donors usually begin from share levels in the previous replenishment, which reflect past budgetary decisions and replenishment considerations. Final agreements respond to the specific current circumstance and priorities of the Donors.

9. When the GEF Trust Fund was first established, its Donors agreed to use the shares from the IDA10 Replenishment Resolution as the initial shares. These initial shares were referred to as “basic shares”. These basic shares continued to be used as a reference point for the GEF-2, GEF-3, and GEF-4 replenishment discussions, with some adjustments reflecting then-current circumstances.¹ The agreed burden-shares (basic shares) of the GEF-1 through GEF-4 are shown in *Annex 2*. Most donors have maintained their basic shares across all four GEF replenishments.

¹ In the GEF-2, actual pledges from Germany, Italy, and United States were below their actual GEF-1 basic shares. In the GEF-3, actual pledges from Canada, Germany, Switzerland, and United Kingdom were above their actual GEF-2 basic share, while pledges from France, Japan, Norway, and United States were below. In the GEF-4, Norway and Spain increased their basic shares; Slovenia took up a basic share based on its basic share in IDA14; Switzerland’s basic share is below its share in GEF-3.

B. Financial Components of a GEF Replenishment

10. The agreed size of a replenishment is derived from the estimated overall funding requirements for agreed future programming as well as from Donor priorities and ability to fund the replenishment. This agreed replenishment size should be treated as a notional number as several of the components are subject to, at times, significant variations over the duration of the funding period of the replenishment. The financial components of a replenishment may include:

- a. New donor funding is the amount around which the discussions and considerations of burden-sharing are centered. New donor funding consists of all basic and supplemental contributions:
 - i. Basic contributions represent a Donor's contribution of its basic share (as defined above) of the agreed size of a particular replenishment. For recipient Donors for whom basic shares aren't applicable,² the basic contribution is the agreed minimum contribution, which has been set at SDR 4 million since the GEF-2.
 - ii. Supplemental contributions are those provided by Donors over and above their basic contribution. Such supplemental contributions may reflect a Donor's one-time desire to contribute more than its burden-shared amount without raising its agreed basic share for future replenishments. Another type of supplemental contribution concerns those Donors whose basic share yields an amount that is less than the agreed minimum contribution. These Donors are required to meet the minimum contribution by providing a supplemental contribution.
- b. Carryover consists of a projection of any resources from the previous replenishment that will not have been set aside by the close of the replenishment period. Carryover may consist of several components, notably arrears, deferred contributions, and paid-in funds.
- c. Investment income projected to be earned over the replenishment period is estimated using projected liquidity balances for the four-year period, and the expected investment return over that period. (The actual amount of investment income earned will naturally depend on actual liquidity balances and market conditions.)
- d. Reflows are projected repayments from GEF loans or guarantees expected to be received during the funding period of the replenishment.

11. The agreed replenishment also includes a structural funding gap if the target for new donor pledges is not reached. That is, if Donors agree on an overall replenishment envelope, but their individual pledges and other funds projected to be available do not add

² Recipient donors may choose to take up a share at any time.

up to that envelope, the structural gap is the unfunded portion of the envelope. Any donor pledges that are made after replenishment negotiations are concluded contribute to reducing this gap.

12. While the operating currency of the GEF is the US dollar (USD), the SDR³ is used in GEF replenishments as the base currency for burden sharing purposes and to provide a common denominator for expressing the overall size of the replenishment. Contributions are paid by Donors predominantly in national currencies. A result of this arrangement is that foreign exchange fluctuations impact the actual realized value of the GEF replenishment, compared to the headline size of the replenishment envelope. This is due to different valuations between the time when donors pledge (i.e., when the replenishment is agreed) and when actual payments of those contributions are received in cash.

II. FINANCIAL STRUCTURE AND PROCESSES OF THE GEF TRUST FUND

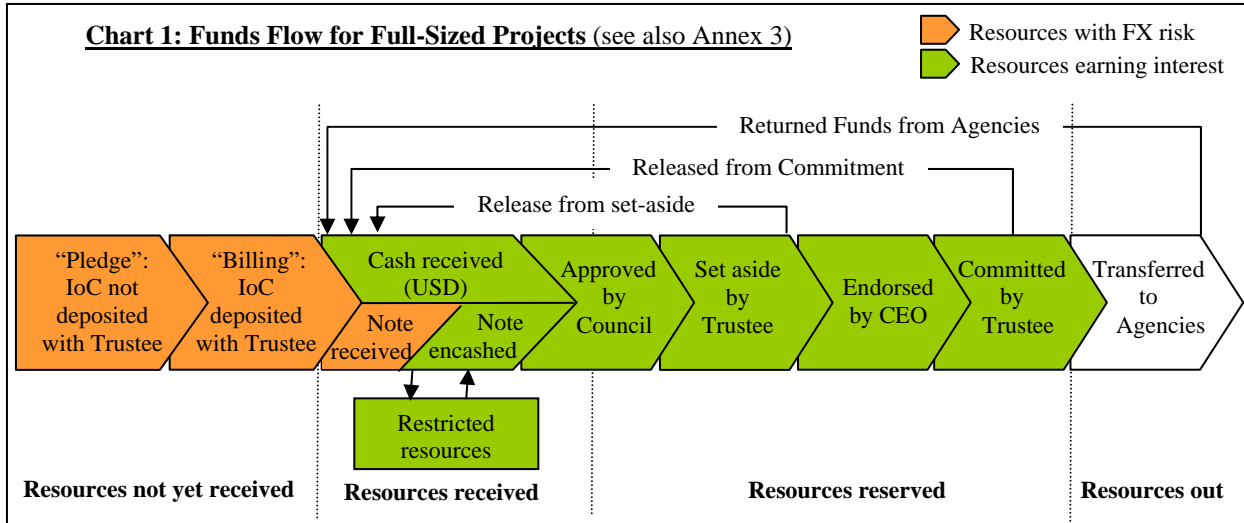
13. The GEF project cycle goes through several stages:⁴

- First, Council is responsible for all funding decisions. Project proposals from Agencies are considered by Council, which approves funding decisions for all projects (larger than \$1 million); the Council has delegated its authority to the CEO to approve projects under \$1 million.
- Second, the Trustee sets aside the amounts approved by Council, pending CEO endorsement.
- Third, Agencies prepare, appraise and negotiate the project with the recipient country.
- Fourth, after a final review by Council members, the CEO endorses the final amount for a project proposal, which may involve increased or reduced funding compared to the initial funding decision approved by Council. The amount endorsed represents the amount that an Agency may present for approval to its Board.
- Fifth, upon CEO endorsement, the Trustee makes a legal commitment to the Agency that the requisite funds have been reserved to ensure that they will be available when needed for disbursement by the Agency.
- Finally, cash transfers are made to Agencies to cover (i) project preparation, (ii) the 10% fee covering non-preparation expenses such as for supervision, monitoring and evaluation, and (iii) disbursements on investment projects and enabling activities over the life of the project/activity from Agencies to final recipients.

³ The SDR or Special Drawing Right is a currency basket consisting of fixed proportions of the EUR, JPY, GBP, and the USD.

⁴ GEF Project Cycle, GEF/C.31/7, dated May 14, 2007.

14. Supporting this project cycle, the GEF Trust Fund holds different types of assets—primarily invested cash balances and promissory notes. At any point in time, a significant portion of those assets are set aside to fund GEF projects, programs and activities that have been approved. To determine the level of available resources that may be used to support new projects, programs and other GEF activities, the Trustee looks at the balance of unrestricted resources held by the Trust Fund less the resources that have already been set aside or endorsed by the CEO and committed by the Trustee pending transfer to the Agencies. Chart 1 depicts the funds flow for Full-Sized projects from Donor pledge to cash transfer to the Agencies.



15. Tracking funding decisions made in USD against resources whose USD value fluctuates on a daily basis presents a challenge. Trust Fund financial transactions must be closely monitored to ensure that funding decisions of the Council and the CEO (existing and potential) do not exceed actual funds available. It is possible, for example, that foreign exchange movements on non-USD promissory notes may reduce available funding estimates below what is already needed to cover existing funding decisions. Fluctuations can impact possible set-asides, CEO endorsements, and Trustee commitments on a daily basis. Thus, while the GEF works on the basis of current available funds, the long approval and life cycle of projects needs to be taken into account when planning future funding availability.

16. Determining the funds available at any given point in time requires the tracking of (i) all resources received into the GEF Trust Fund, (ii) cancellations,⁵ and (iii) existing funding decisions taken by the Council or CEO. *Annex 3* describes the processes that form the basis of the financial transactions of the GEF Trust Fund.

⁵ The amount of cancellations, which include amounts associated with dropped projects and unused amounts from closed projects, is released to the general pool of funds when the Trustee is notified of the cancellations by an Agency or the Secretariat.

III. OVERVIEW OF GEF CUMULATIVE RESOURCES AND FUNDING DECISIONS

17. This section reviews the cumulative financial history of the GEF Trust Fund, considering each financial component covered in the previous section in turn. The discussion focuses 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.

1. Target Programming Level a/		10,115
2. Cumulative Resources b/		10,571
<u>Resources not yet received</u>		<u>1,058</u>
IoCs not yet Deposited with the Trustee	127	
Installment Receivables c/	931	
Resources received d/		<u>9,513</u>
Cash receipts from Installments and Encashments	7,691	
Unenchashed Promissory Notes	962	
Investment Income Earned on Undisbursed Balances of GEF Funds e/	859	
3. Cumulative Funding Decisions		9,066
Approvals by Council and CEO		9,682
Cancellations		(616)
Pending decisions on Intersessionals and Council meetings		-
4. Cumulative Resources Net of Funding Decisions (4 = 2 - 3)		1,504
5. Excess (shortfall) as Measured Against the Target in Line 1 (5 = 2 - 1)		455

a/ This amount represents the targeted new resources as agreed by Donors during replenishment discussions; it excludes the agreed carryover of arrears, deferred contributions, and paid-in funds not yet set aside.
b/ This amount represents the actual USD value of resources to the GEF Trust Fund since the Pilot Phase of the GEF.
c/ Represents IoCs deposited with the Trustee but not yet converted into cash or note.
d/ Includes restricted contributions that are not yet available to support GEF operations.
e/ Includes realized investment income from Pilot Phase to January 31, 2009.

A. Target Programming Level

18. Table 1 is structured to compare actual current value with the aggregate programming targets of all GEF replenishments – that is, the replenishment envelope of new resources as agreed by donors for each replenishment. As of January 31, 2009, cumulative GEF resources of USD eq. 10.6 billion, including resources not yet received, represented an excess of USD eq. 455 million over the cumulative targeted programming levels⁶ for all GEF replenishments. This increase, which is not fully realized, represents

⁶ Target Programming Level for replenishments is represented by new resources expected for that replenishment.

the difference between (i) the value of target programming levels and (ii) the value of the cumulative resources of the GEF Trust Fund as of January 31, 2009. Table 2 shows the target replenishment funding and the derived target programming levels by replenishment. Target replenishment funding represents the total amount of the agreed replenishment envelope, including new resources from Donors and investment income and carryover of resources from previous replenishments. The target programming level represents the total amount of new resources as agreed by donors in the replenishment discussions.

Table 2: Target Programming Level by Replenishment
(in USD millions)

	Target Replenishment Funding	Agreed Carryover	Target Programming Level
	(1)	(2)	(3) = (1) - (2)
Pilot Phase	1,000	-	1,000
GEF-1	2,000	-	2,000
GEF-2	2,750	687	2,063
GEF-3	3,000	570	2,430
GEF-4	3,100	478	2,622
Total	11,850	1,735	10,115

19. The primary reason for the larger actual versus target value is that the amount of investment income earned during replenishment periods was higher than the amounts projected in the replenishment agreements as can be seen in Table 3 below.

Table 3: GEF Trust Fund Investment Income (FY basis) a/
Status as of January 31, 2009 (in USD millions)

	Investment Income		
	Projected	Realized	Rate of Return
GEF-1	- b/	106	4.2% d/
GEF-2	- b/	166	5.7% d/
GEF-3	130	125	1.9% d/
GEF-4	368	431 c/	6.6% e/
Total	498	828 a/	

a/ Total Investment Income does not include investment income earned during the Pilot Phase (USD 31 million). Total Investment Income as of January 31, 2009, including Pilot Phase, amounts to USD 859 million.

b/ Projected investment income was not included as a financial component in the GEF-1 and GEF-2 replenishment agreements.

c/ This amount includes realized investment income as of Jan 31, 2009.

d/ Rate of return calculated using average annual trust fund balance for each replenishment period.

e/ Rate of return as of Jan 31, 2009.

20. For GEF-1 and GEF-2, the full amount of investment income increased available funds, since investment income was not included in the replenishment envelope. In GEF-3, investment income was included in the replenishment envelope for the first time, and realized investment income was very close to the projection. In GEF-4, investment returns already exceed the projected amount, for two reasons. First, there have been somewhat higher liquidity balances in the trust fund than estimated, as a number of Donors decided to pay in cash over four years instead of paying by promissory note. Second, the financial crisis contributed to an increase in investment returns in 2008 due to a tightening of credit spreads for high-quality assets, combined with a sharp reduction in market interest rates leading to mark-to-market gains on the bond portfolio. Additional investment income, although at lower expected rates, will accrue for the balance of the GEF-4 period.

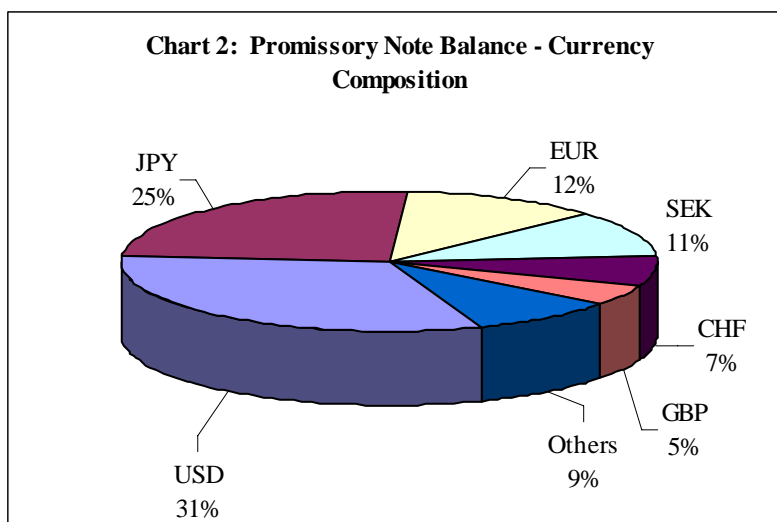
21. In addition to investment income, the GEF benefitted from some net strengthening of non-USD currencies between the time the replenishments were agreed and the actual time of cash payment of the contribution, which in some cases stretches out over ten years.⁷ *Annex 4* shows the average exchange rates against the USD since the GEF-1. The holding and operating currency of the GEF Trust Fund is the USD. Upon receipt of a non-USD cash asset, the Trustee converts the funds into USD, removing any further risk of mismatching GEF assets to liabilities. That currency mismatch risk exists because USD set-aside amounts arising from Council or CEO funding decisions are funded, in part, against the outstanding balances of promissory notes in other currencies. It should be noted that, had non-USD currencies significantly weakened against the USD in that same time period, the current results would have been different. The currency risks borne by the GEF Trust Fund will be further discussed in Section V.

B. Cumulative Resources

22. ***Cumulative Resources Received.*** Cumulative resources received to date amount to USD eq. 9.5 billion, including USD 7.7 billion received from Donors in payment of installments and encashments of promissory notes, USD eq. 962 million in outstanding balances of promissory notes and letters of credit, and USD 859 million in investment income.

23. ***Promissory notes are subject to foreign exchange exposure.*** As shown in Chart 2, about 31% of the current value of promissory notes is represented by USD denominated promissory notes or letters of credit. **Thus, 69% of the current value is subject to daily foreign exchange rate fluctuations until the promissory notes are drawn down and converted into USD.**

⁷ If a Donor chooses to pay its contribution in the form of promissory notes or letters of credit and also chooses to follow the agreed indicative encashment schedule, then promissory notes or letters of credit will be drawn down over a ten year period.



24. **Resources Not Available.** The total amount of resources not available to support funding decisions is about USD eq. 1.4 billion, which is approximately 13% of total cumulative pledged and committed resources of the GEF. Of this amount, the largest share is taken up by installment receivables. Table 4 provides the detail of the amounts not yet available to fund GEF operations.

Table 4: Resources Not Available
Status as of January 31, 2009 (in USD eq. millions)

	<u>Amount</u>	Percentage of Total Cumulative <u>Resources</u>
IoCs not yet Deposited with the Trustee	127	1.2%
Installment Receivables a/	931	8.8%
Restricted Resources b/	294	2.8%
Total Resources Not Available	1,352	12.8%
Total Cumulative Resources	10,571	

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. 254 million, plus a reserve of USD 40 million to mitigate FX risk.

Instruments of Commitment Not Yet Deposited with the Trustee

25. The countries that have not yet deposited IoCs with the Trustee are Italy, (USD eq. 117 million), Nigeria (USD eq. 6 million) and Pakistan (USD eq. 4 million). Until received in cash, all of these resources are subject to fluctuations in exchange rates.

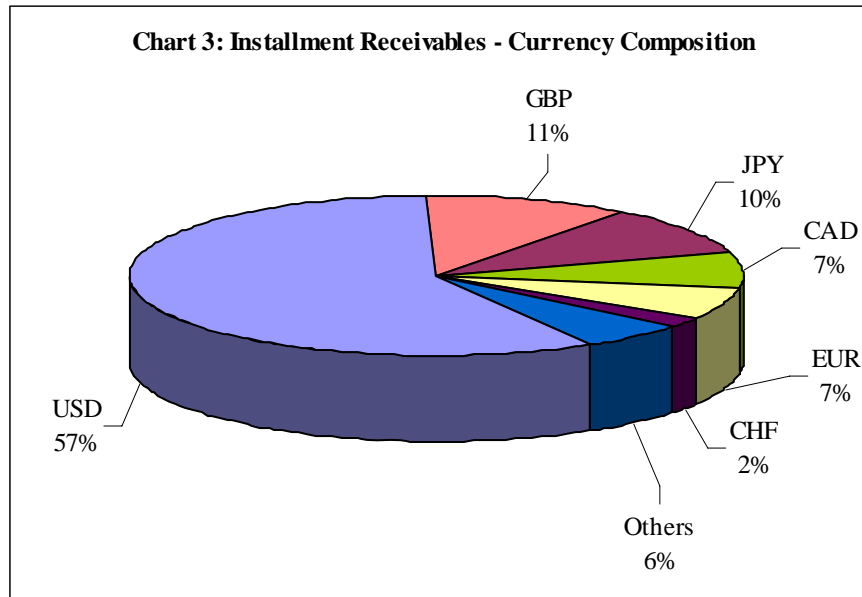
26. **Installment Receivables.** Table 5 depicts the breakdown of installment receivables by replenishment. The large majority, 81% of installment receivables, represents the GEF-4 installments that are due between February 1, 2009 and the end of the GEF-4 period,

June 30, 2010. A further 16% of the installments due represent the arrears of the United States from GEF-2 and the GEF-3.

<u>Replenishment</u>	<u>USDeq.</u>	<u>Percentage</u>
GEF-1 a/	3	0.4%
GEF-2 b/	141	15.1%
GEF-3 c/	33	3.5%
GEF-4 d/	<u>755</u>	81.0%
Total Installment	931	

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.

27. Chart 3 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 (57%) followed by GBP (11%), JPY (10%), CAD (7%), 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.



28. **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.

29. 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 40 million is equivalent to less than 0.5% of cumulative pledged and committed resources.

30. Table 6 shows the details of the composition of the restricted resources of the GEF Trust Fund.

	<u>USD eq.</u>	<u>Percentage</u>
Deferred Contribution		
Austria a/	6	1.9%
France b/	57	19.4%
Germany c/	19	6.5%
Japan b/	172	58.6%
Reserve to cover FX fluctuations	40	13.6%
Total Restricted Resources	294	

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.

C. Cumulative Funding Decisions

31. The net cumulative funding decisions made by the Council and the CEO total USD 9.1 billion, representing about 86% of cumulative GEF resources. Initial funding decisions comprise approvals in the amount of USD 9.7 billion, which have been offset by cumulative cancellations⁸ totaling USD 616 million, or about 6% of total approvals.

32. As shown in Table 7, about 82% of resources were 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.

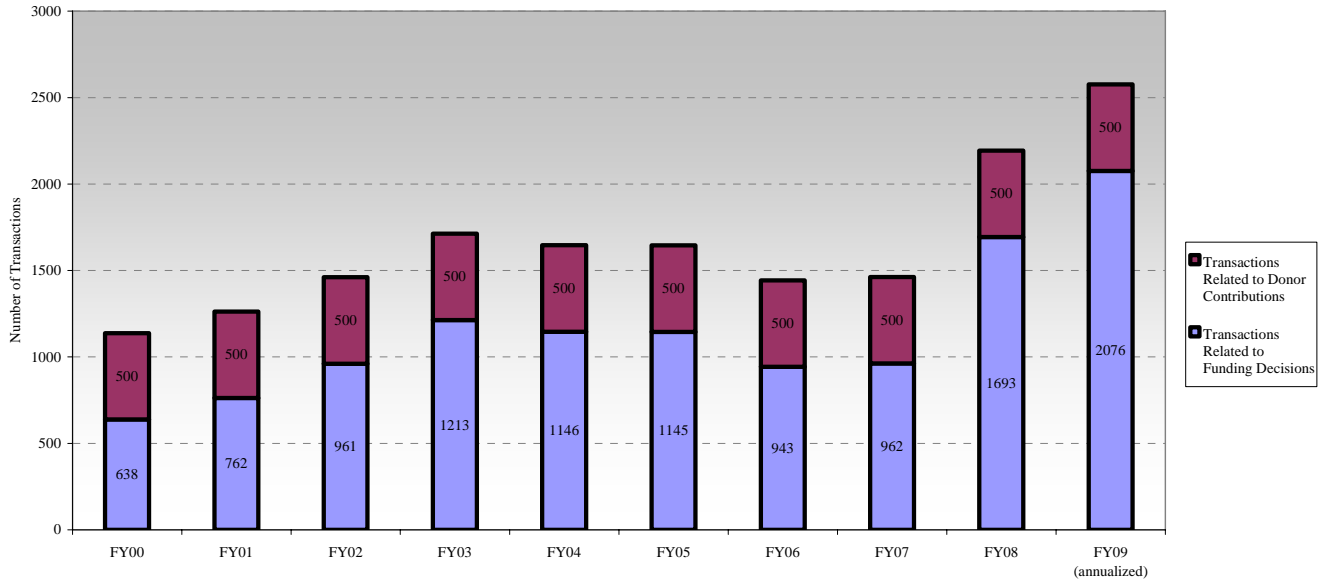
⁸ Cancellations represent unused amounts from closed projects, dropped projects, reductions at the time of endorsement, and cancelled amounts from ongoing projects. All cancellations increase the funding availability of the Trust Fund.

	Funding Decisions	Percentage against Total Cumulative Resources
Project and Project Preparation a/	8,687	82.1%
Project Fees	533	5.0%
Administrative Budget	<u>462</u>	4.4%
Total	9,682	91.5%
Total Cumulative Resources	10,571	

a/ Includes Programmatic Initiatives.

33. Chart 4 depicts the trend in number of transactions associated with processing Council and CEO funding decisions, as well as all transactions related to donor contributions. Transactions to manage and record the cumulative resources of the GEF Trust Fund (IoCs, receivables, cash payments, deposits of promissory notes and note encashments, exchange rate conversions, donor invoicing) have remained fairly constant since FY00. However, the amount of transactions required to manage and track Council and CEO funding decisions and follow-on transactions reported by Agencies has increased over time. This is a result of several key factors: (i) in FY02, the Trustee enhanced its software that it uses to manage GEF Trust Fund resources to link Trustee commitments to Council funding decisions; and (ii) in FY07, the Trustee overhauled the software to provide more robust support to the end-to-end business process and transactions of the GEF Trust Fund, including the managing of programmatic approaches and linking stand-alone projects to respective programs. The current volume of transactions in FY08 and FY09 to date reflect the number of transactions that pass through the GEF Trust Fund from end-to-end (i.e., from Donor pledging to recording of financial closures of projects).

Chart 4: Number of GEF Transactions
Fiscal Year 2000 to 2009



34. Table 8 shows the breakdown of administrative budget approvals to each of the administrative partners of the GEF that are, or had been, entitled to receive direct reimbursement of costs for corporate services provided for the GEF.⁹

⁹ Beginning in FY08, the GEF Council agreed to cease provision of direct support of administrative costs to the three Implementing Agencies through the Corporate Budget. Instead, Council agreed to raise the project cycle management fee from 9% to 10% for all Agencies to cover costs of project administration and corporate services. See GEF/C.30/9, dated November 7, 2006.

Table 8: Cumulative Funding Decisions and Trustee Commitments for Administrative Budget and Special Initiatives
Inception to January 31st, 2009 (in USD millions)

Administrative Partner	Funding Decisions	Percentage against Total Cumulative Resources	Trustee Commitments a/
GEF Secretariat	b/ 171	1.6%	159
GEF Evaluation Office	12	0.1%	12
IBRD	136	1.3%	135
UNDP	66	0.6%	66
UNEP	c/ 57	0.5%	53
Trustee	20	0.2%	20
Total	462		444
Total Cumulative Resources	10,571		

a/ Reflects cancellation of amounts from unused administrative budget and special initiatives.

b/ Includes GEF Evaluation Office budget since inception to FY07.

c/ Includes amounts approved for the administrative budget of STAP.

35. Table 9 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.

36. As noted earlier, 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.

37. 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. The amount reflected in Table 9 represents total cash disbursements from inception to December 31, 2008 for each Agency.¹⁰

¹⁰ Total disbursements by project will be available at the replenishment meeting to be held in fall 2009.

Table 9: Total Amount of Funding Decisions by Agency – Projects and Fees a/
Inception to January 31st, 2009 (in USD millions)

	Council/CEO	Trustee		Agency	
	Funding Decisions	Commitments b/	Cash Transfers	Disbursements	% of Disbts against Trustee Commts
ADB	108	68	37	21	30.4%
AfDB	10	1	-	-	0.0%
EBRD	39	1	1	N/A	c/
FAO	63	24	15	3	11.2%
IADB	81	32	16	10	29.8%
IBRD	4,525	3,547	2,448	2,319	65.4%
IFAD	88	57	56	7	11.4%
UNDP	3,253	2,702	2,070	1,890	70.0%
UNEP	812	659	510	463	70.3%
UNIDO	148	77	43	32	42.1%
Total	9,126	7,168	5,194	4,744	

a/ Inclusive of 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.

c/ Trustee is awaiting submission of disbursement data from EBRD.

38. Table 10 shows the burn rate of the transaction flows for projects and fees. Of the total amount approved by the Council or the CEO, 78% has been committed by the Trustee. The difference between the amount of Trustee commitment and total funding decisions is represented by projects and fees pending CEO endorsement, 89% of which is set aside for GEF-4 projects, programmatic initiatives and fees that have been approved over the last 15 months.

Table 10: Cumulative Financial Transactions with Agencies against Total Funding Decisions (Projects and Fees)

Inception to January 31st, 2009 (in USD millions)

	Cumulative Totals	Percentage against Total Funding Decisions
Funding Decisions	9,126	
Trustee Commitment	7,168	78.5%
Cash Transfers	5,194	56.9%
Disbursements	4,744	52.0%

39. Table 11 shows the percentage of disbursements made by Agencies against cash transfers received from the Trustee. It should be noted that comparing percentages across Agencies is not possible due to the agreed process between the Agencies and the Trustee for transferring cash. In cases where the percentage is higher, there is a strong likelihood

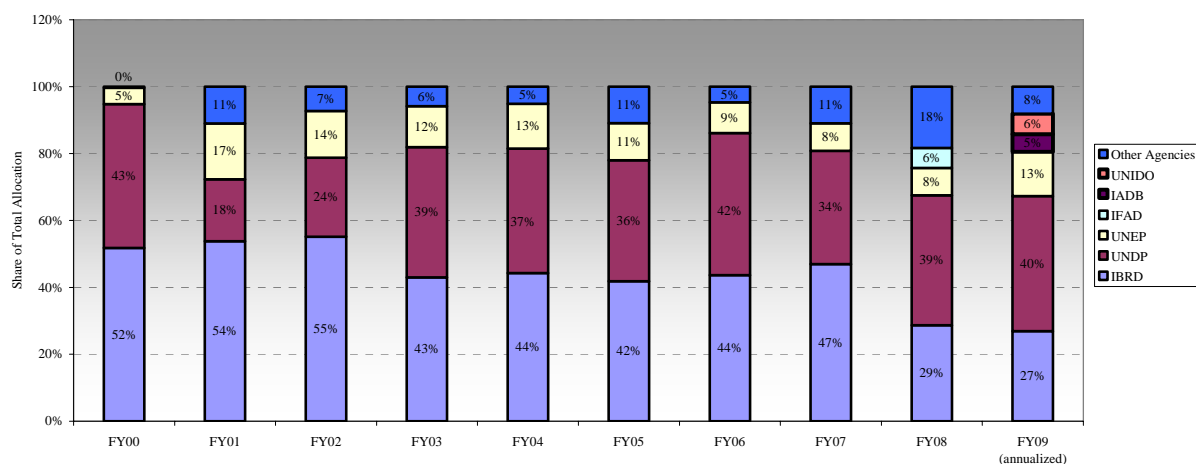
that Agency will be requesting a cash transfer from the Trustee soon. This is the case for IBRD, UNDP and UNEP who have already disbursed more than 90% of cash transfers. As mentioned previously, Agencies are expected to request cash transfers every six months, or as needed to meet their disbursement needs. As the Trustee provides the funds, the Agencies are expected to drawdown against those cash transfers within a six-month period. Where the percentages are lower than 50%, it is a reflection that that the Trustee has recently transferred cash to that Agency.

Table 11: Agency Disbursements – Projects and Fees
Inception to January 31st, 2009 (in USD millions)

	Trustee Cash Transfers	Agency Disbursements	Percentage of Disbursements against Cash Transfers
ADB	37	21	56.8%
AfDB	-	-	-
EBRD	1	N/A	N/A
FAO	15	3	17.8%
IADB	16	10	61.4%
IBRD	2,448	2,319	94.7%
IFAD	56	7	11.6%
UNDP	2,070	1,890	91.3%
UNEP	510	463	90.9%
UNIDO	43	32	76.1%
Total	5,194	4,744	

40. Chart 5 depicts the Council and CEO funding decisions since FY00 and the trend by Agency. As shown, while the bulk of cumulative amounts approved since FY00 have gone to IBRD and UNDP, the trend in recent years shows a changing picture. While the share of resources for other Agencies has increased over time, more than 50% is still going to IBRD and UNDP. In the past two years, the smaller agencies have increased their share, while there has been a sharp fall in IBRD's share of GEF funding decisions from 47% in FY07 to 27% at present.

Chart 5: Trend by Agency of GEF Council and CEO Net Funding Decisions a/
Fiscal Year 2000 to 2009



a/ Includes Projects, Fees and Project Preparation Activities but does not include cancellations.

41. Cumulatively, taking into account only the amounts approved for projects (i.e., exclusive of fees), Table 12 shows the breakdown of Council and CEO funding decisions by focal area.

Table 12: Project Funding Decisions by Focal Area

Inception to January 31, 2009 (in USD millions)

Focal Area	Funding Decisions a/	Percentage
Biodiversity	2,819	33%
Climate Change	2,735	32%
International Waters	1,054	12%
Land Degradation	351	4%
Multi-focal Areas	1,033	12%
Ozone Depletion	171	2%
Persistent Organic Pollutants	344	4%
Total	8,506	

a/ Includes Funding Decisions for Projects attached to Programmatic Initiatives for the amount of USD 858 million.

IV. CURRENT FUNDING AVAILABILITY AND RESOURCE PLANNING

42. 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.

43. Table 13 below shows the Schedule of Funds as of January 31, 2009: the amount available to fund future GEF operations was USD eq. 199 million, representing an increase of USD eq. 6 million since December 31, 2008, resulting from the following financial transactions during the month of January:

- i. Funds held in Trust: Net increase of USD eq. 19 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. 9 million due to the revaluation of the balance of deferred contributions at month end;¹¹ and
- iii. Approved Amounts Pending Disbursement: Net increase of USD eq. 3 million as a result of new funding decisions by the Council or CEO as well as cancellations reported by Agencies.¹²

¹¹ Increases in the USD eq. value of deferred contributions have a negative impact on the funds available for approval.

¹² During the month of January 2009, no cash transfers were made by the Trustee to Agencies.

	<u>As of January 31, 2009</u>	<u>As of December 31, 2008</u>
	<u>USD eq. a/</u>	<u>USD eq. b/</u>
<u>1. Funds held in Trust</u>	3,890	3,871
a. Cash and investments	2,928	2,807
b. Unencashed Promissory notes	962	1,064
<u>2. Restricted Funds</u>	294	285
a. Deferred contributions in respect to the pro rata right	254	245
b. Reserve to cover foreign exchange rate fluctuations	40	40
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>	3,596	3,586
<u>4. Approved amounts pending disbursement</u>	3,396	3,393
a. Trustee Committed	1,936	1,892
b. Approved by Council but not yet CEO Endorsed	1,461	1,360
c. Requested amounts for financing pending Council Decision c/	-	141
<u>5. Funds available to support Council or CEO funding decisions (5 = 3 - 4)</u>	199	193

a/ Valued on the basis of exchange rates of January 31, 2009
b/ Valued on the basis of exchange rates of December 31, 2008
c/ Represents either semiannual work program presented to Council or Intersessional work program.

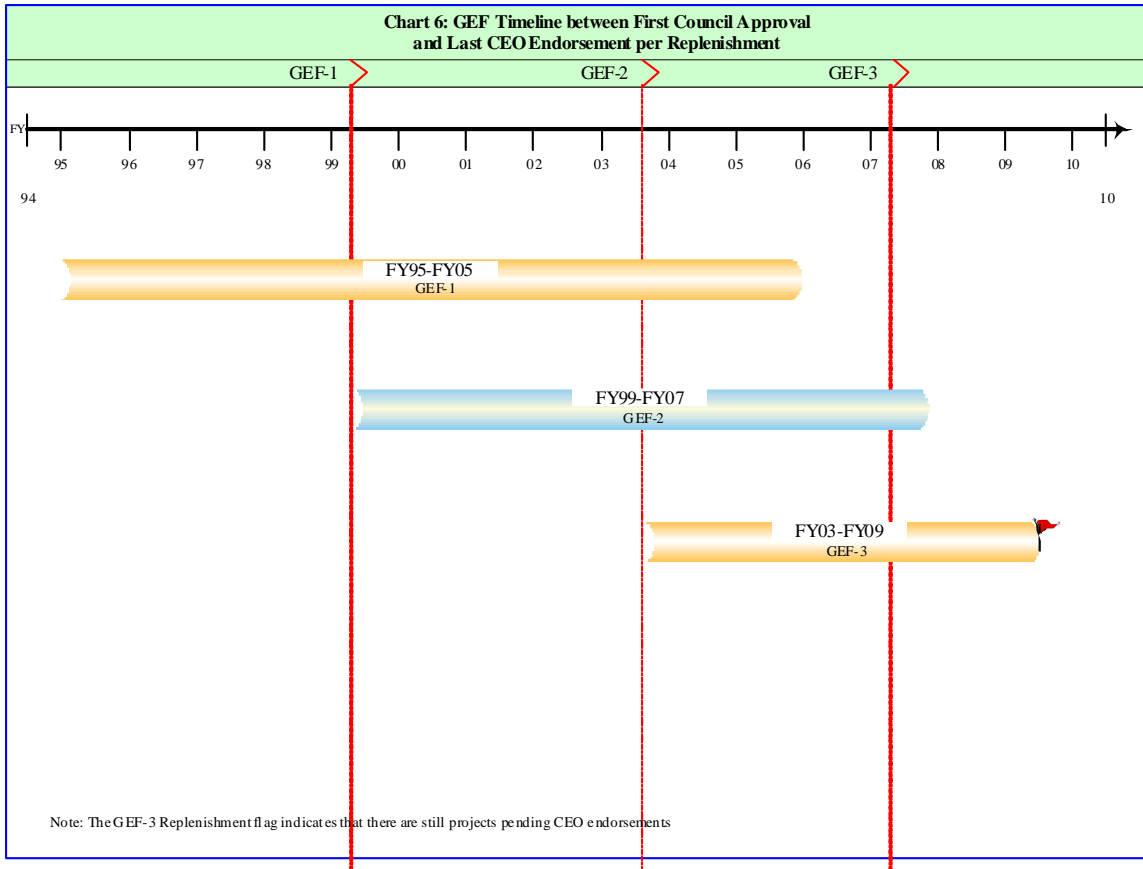
Planning of Resources through the end of the GEF-4 Period

44. Each GEF replenishment is structured to cover a four-year period: under the Fourth Replenishment Resolution, GEF-4 spans July 1, 2006 to June 30, 2010. Financially, however, a replenishment is not a self-contained construct. Each replenishment is affected by ongoing financial activity relating to earlier replenishments, as GEF projects are developed, approved and implemented over an average of about eight years. Different replenishments are therefore not managed separately, due to such operational realities as the lag time between Council approval, CEO endorsement, Agency Board approval, actual disbursement needs of the Agencies, and cancellation of amounts from projects approved during previous replenishments. Further, as the project funding is only finalized at the time of endorsement, there are occasions when the amount endorsed is different from the initial amount. When this occurs and the project's initial funding was derived from an earlier replenishment, the change in financing is captured as a transaction in the current replenishment.¹³ This practice is more efficient than trying to maintain all changes in financing under the replenishment from whence it came since the latter will give an inaccurate financial picture in the current replenishment, which absorbs the actual financial impact of changes to projects from earlier replenishments.

45. As each project goes through the GEF approval process, specific financial transactions related to project approvals are recorded, and they impact the GEF Trust Fund at the time of each approval or endorsement. For example, a number of projects approved

¹³ On the occasion when a project, upon endorsement, requires increased funding, the increase is financed using available funding from the effective replenishment at that time.

during GEF-3 have been endorsed during the GEF-4 period, and projects approved during the GEF-4 replenishment may be endorsed in GEF-5. This is most likely to happen for projects approved during the last two years of the replenishment period. If a project is endorsed in a subsequent replenishment and the endorsed amount is higher than the initial amount approved by Council, then the resources funding the increase are drawn down from current replenishment resources. Chart 6 illustrates how the funding approval cycle of a project crosses over into the subsequent replenishments, from the first Council approval to the latest recorded CEO endorsement. It is important to note that the chart below does not represent the average time between Council approval and CEO endorsement for all projects approved during a replenishment. It is simply illustrating how financial transactions related to the project approval process cross over into subsequent replenishments. For GEF-1, 68 projects were endorsed after the GEF-1 period; for GEF-2, 72 projects; for GEF-3, 106 have been endorsed after the close of the GEF-3 period, and 24 are pending CEO endorsement.



46. The replenishment period is thus a planning and tracking construct that provides a four-year platform for donor contributions and associated policy arrangements. However, managing the GEF Trust Fund requires taking all current transactions and changes into account. At any point in time, a number of different elements affect estimated available funding and projected funding for the remaining life of the replenishment:

- One 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;
- 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 will 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.

47. 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 mentioned earlier, the challenge to this step is that (i) the future value of the asset may be estimated based on current exchange rates, and (ii) the Trustee has no control over the actual timing of payments from Donors or current market conditions, which impact actual investment income earned.

48. 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.

49. An additional complicating factor is the current practice of resource planning based on the as agreed target replenishment level in the replenishment document. Target replenishment level refers to the total replenishment envelope, including carryover from previous replenishments. To date, resource planning in the GEF uses the entire replenishment level as agreed, including the carryover and projected investment income, both of which may not materialize. Further, there is also some level of uncertainty regarding the conversion of donor pledges into formalized commitments with the Trustee. At the close of replenishment discussions, most, if not all, pledges must be approved by a Donor's legislative body.

50. Program planning for the replenishment has not made allowances to date for the following events: (i) pledges that may not materialize into Donor commitments to the Trustee (deposit of an IoC); (ii) non-clearance of arrears as well as new arrears; (iii) deferred contributions not released because arrears are not cleared; and (iv) projected investment income not realized at the estimated value.

51. Likewise, decisions to increase funding at the time of CEO endorsement for projects that were initially approved by Council in a previous replenishment period cannot be provisioned for at the time of replenishment discussions as there is an insufficient track record on which to create a projection. However, while these amounts may be relatively small to date in comparison to the initial amounts approved by the Council, they do affect both the funding availability and the Council's ability to approve funding at the agreed target replenishment level.

52. Table 14 shows the current USD value of the GEF-4 Envelope as of January 31, 2009 and the projections of funding availability between February 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 USD eq. 2.9 billion, a difference of about USD eq. 200 million. It should be noted that when judged against the target programming level (USD eq. 2.6 billion as shown in Table 2), the current projected envelope exceeds the target programming level by USD eq. 300 million.

Preliminary Version – March 11, 2009

Table 14: Funding Decisions made during the GEF-4 Period 11/30/06 to 6/30/10			
Status as of January 31st, 2009			
(in USDeq. millions)			
1. Target Replenishment Funding a/			3,100
2. Projected Available Resources During Remaining GEF-4 Period			1,125
Estimated Funds available to support Council or CEO Financing Decisions			199
	Potential Amount Available	of which Projected to be Available	
<u>Receivables</u>			754
- Arrears	320	142	
- Due within 6 months	133	133	
- Due between 7 and 12 months	346	346	
- Due between 13 and 18 months	132	132	
<u>Release of Deferred Contributions</u>			-
- Deferred Contributions	254	-	
<u>IoCs not yet Deposited with the Trustee</u>	127	121	121
<u>Projected Investment Income</u>	51	51	51
Total	1,363	926	
3. Funding Decisions During the GEF-4 Period			1,743
<u>Approvals by Council</u>			1,792
- Projects + Fees		1,099	
- Admin. Budget		43	
- Special Initiatives		2	
- Programmatic Initiatives		647	
<u>Approvals by CEO</u>			122
- Projects + Fees (MSPs, EAs)		107	
- Project Preparation Activities + Fees		15	
<u>Net Changes to Initial Approvals</u>			(171)
- Net amount increase (decrease) on projects (GEF-4 and pre GEF-4), Administrative Budget and Special Initiatives		(171)	
Pending decisions on Intersessionals and Council meetings			-
- Projects, Fees, Admin Budget, Spcl Initiatives, Programmatic Initiatives		-	
4. Projected GEF-4 "Envelope" as of January 31, 2009 (4 = 2 + 3)			2,868
5. Excess or (Shortfall) as Measured Against the Target in Line 1 (5 = 4 - 1)			(232)
a/ Represents the target replenishment level as agreed, including new resources from Donors, projected investment income, and carryover of amounts from previous replenishments.			

53. If all potential resources were made available before the end of the GEF-4 period, including all arrears from previous replenishments, then the total GEF-4 envelope valued as at January 31, 2009 would amount to USD eq. 3.3 billion, representing an increase of USD eq. 200 million over the target replenishment level as agreed, and USD eq. 700 million over the target programming level of USD eq. 2.6 billion. It may be reiterated that in reality the arrears remain unpaid. In the context of the Resource Allocation Framework, the GEF does not now have available funding sufficient to allocate USD eq. 3.3 billion, as it did not have available funding sufficient to allocate the full USD eq. 3.1 billion agreed target replenishment level specified in the GEF-4 programming paper.

54. Table 15 illustrates that in each of the first three replenishments, the GEF Trust Fund benefited from some degree of net foreign exchange gains, as some contribution currencies appreciated in value between the time of the pledge and the actual payment of the contribution in cash. While the Trustee is still encashing promissory notes for GEF-2 and GEF-3, the bulk of the assets have already been converted into USD cash receipts. There still remains, however, some exposure to foreign exchange movements on GEF-2 and GEF-3 promissory notes. As it happens, the value of each GEF replenishment has, in the end, been fairly close to its agreed target funding envelope, taking into account arrears, foreign exchange gains, investment, and net project cancellations over increases. It is important to note that the “book value” amounts shown in the Table 15 reflect the historical USD value of Donor pledges as they are received in the Trust Fund¹⁴ and thus cannot be used as a baseline for managing future programming for the GEF.

¹⁴ The amounts do not represent the actual USD purchased at the time of exchange rate conversion of a non-USD asset, which is the case in Table 13.

Table 15: Illustrative Changes to GEF-1 through GEF-4 Replenishment Contribution Tables (in USD eq. millions)								
Sources of Funds	GEF-1		GEF-2		GEF-3		GEF-4	
	Based on Replenishment Agreement on 03/16/1994	Based on Book Value as of 01/31/2009	Based on Replenishment Agreement on 02/10/1998	Based on Book Value as of 01/31/2009	Based on Replenishment Agreement on 08/07/2002	Based on Book Value as of 01/31/2009	Based on Replenishment Agreement on 08/23/2006	Based on Book Value as of 01/31/2009
Funding from Donors and Other Sources	2,023	1,955	2,063	2,042	2,300	2,514	2,289	2,356
New Donor Funds	1,963		1,991		2,300		2,289	
Gap	60		72					
ToCs Not Yet Deposited with the Trustee								127
Installment Receivables		3		141		33		754
Unencashed Promissory Notes		3		122		255		582
Paid-in cash historical value		1,949		1,779		2,227		892
Investment Income	-	106	-	166	130	125	368	482
Projected	- a/		- a/		130 b/		368 c/	51 d/
Realized		106		166		125		431
Carryover	-	-	687	687	570	648	478	521
Projected Arrears	-	-	190	190	254	268	194	195
Projected Deferred Contributions	-	-			192	257	214	256
Projected Funds Available at the end of a replenishment period to support financing decisions	-	-	497	497	123	123	70	70
Total	2,023	2,061	2,750	2,895	3,000	3,288	3,135	3,359
Target Replenishment Funding	2,000	2,000	2,750	2,750	3,000	3,000	3,100	3,100
Excess [shortfall] over the Target level as judged against the USD eq. Value	23	61	-	145	-	288	35	259

a/ Investment income projections were not included in the replenishment agreement.

b/ Represents projected investment income over the GEF-3 commitment period (FY03-FY06).

c/ In 2006, investment income was projected using a \$2 billion average cash balance and expected investment returns of 4.6% per annum.

d/ As of January 31, 2009, investment returns were estimated at 1.5% per annum.

V. KEY FINANCIAL ISSUES FOR GEF-5

55. **Complexity.** The current GEF structure is complicated. A number of factors contribute to its effectiveness, as a unique international arrangement – and at the same time to its relative complexity:

- The GEF was structured as an innovative, integrated international arrangement to benefit from the strengths of its Agencies, Trustee and Secretariat. Over time the number of Agencies has increased from three to ten, and more agencies have expressed interest in joining.
- The GEF project cycle has a number of steps to incorporate the dual rounds of approval by the GEF itself and by each Agency, and the variety of supported projects and programs continues to increase.
- GEF financing is primarily in the form of grants; GEF funding is predominantly from donor contributions, with very limited reflows from non-grant financing. Thus the GEF has no supporting “balance sheet” in the sense of an international organization to assist in managing financial uncertainties.
- GEF funding availability is based in part on flows that are subject to change. Estimated available funding depends not only on available liquidity in the trust fund, but also on installment payments and promissory note draw downs yet to be received from Donors, as well as on projections of investment income that will be realized, inevitably, at different levels than those projected, and on allocations of funding that can increase, decrease or be cancelled as proposals move through the project cycle.

56. Over the GEF’s history, variability in available funding has by and large not been a significant challenge. The net foreign exchange impact on the value of donor contributions has not been substantial, and has been slightly positive overall. In most replenishments, investment income above projections, as well as small net gains from project cancellations, provides a needed funding cushion. However, new challenges have altered this landscape in GEF-4.

57. **Variable available funding and the RAF.** Managing the changing levels of expected available funding was made more challenging with the introduction in GEF-4, of a specified funding envelope fully allocated both across focal areas and under the Resource Allocation Framework (RAF). Throughout the GEF’s history, the agreed “target” envelope for each replenishment has always overstated actual expected funding availability. This is because the target envelope assumes that the value of donor pledges will be unaffected by currency fluctuations, that all arrears will be paid, deferred contributions released, and

investment income realized as forecast.¹⁵ However, in GEF-4 for the first time, the replenishment programming document allocated the full target envelope across focal areas and under the RAF, without providing any flexibility and taking into account the fact that the target envelope overstates the amount of funding likely to be actually available. This construct created expectations at the recipient level, which did not reflect the possibility of changes in actual funding availability over the course of GEF-4.

58. Another important challenge in the GEF-4 period is the global financial crisis. The GEF has been fortunate in its conservative investment policy, which resulted in continuing positive returns on its liquidity balance of USD 2.9 billion. Even with the now low expected returns for the remainder of the GEF-4 period, the GEF Trust Fund has realized investment income (as of January 31, 2009) of USD 430 million. This amount is well over the USD 368 million projected for the whole replenishment period, which was based on expected investment returns of 4.6% annually on a USD 2 billion average liquidity balance. In this area, the GEF benefited from the crisis, as the asset value of its high-grade holdings increased and the GEF Trust Fund earned average returns of over 7% during FY08 and the first half of FY09.

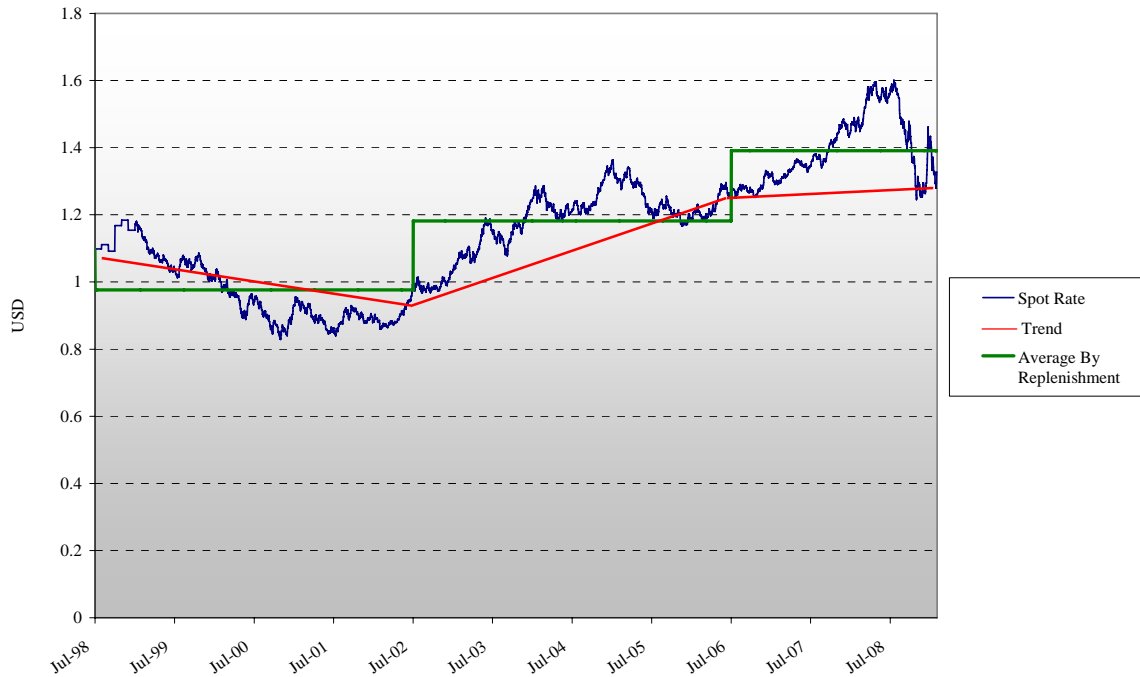
59. At the same time, currency exchange rate variations have been significant within the GEF-4 period (see, for example, Chart 7 below showing the EUR-USD rate). At the time of the replenishment agreement (August 2006), the book value of GEF-4 donor funding¹⁶ was just under USD eq. 2.3 billion. By the end of December 2007, due to net increases in the value of GEF-4 installment and promissory note receivables from donors, that value had risen to USD eq. 2.4 billion. By the middle of 2008, with the strong appreciation in value of the EUR in particular the estimated value of donor funding had increased by about USD eq. 240 million to USD eq. 2.5 billion. (For the same six months mid-2008, rates of return on GEF liquidity investment reached over 10%.) Since that time, the estimated value of donor funding has dropped, along with the currencies of those contributions, back to USD eq. 2.4 billion. *Annex 5* shows the JPY-USD and GBP-USD rates.

60. These two factors taken together – a framework indicating the allocation of specific amounts, and the market crisis – created a serious challenge for the GEF. The RAF re-allocation process was undertaken in mid-2008, just before significant drops in the value of non-USD contribution currencies, notably EUR and GBP in the fall of 2008. This suggests that the GEF should look into both of these elements. First, as the GEF allocation framework is assessed and revised for GEF-5, elements of flexibility should be considered so that application of the framework is consistent with variations in funding availability. Second, consideration should be given as to whether and how the GEF should manage the currency mismatch between the liabilities and some of the assets of the GEF Trust Fund.

¹⁵ Prior to GEF-4, it was also assumed that the “structural gap” – the portion of the total envelope for which there were no associated donor pledges or other funding sources – would be filled.

¹⁶ The value of donor funding can be estimated for different points in time by looking at, for a specific date, the historical value of cash payments that have been made, plus the “book value” of Instruments of Commitment not yet received, plus installment and promissory note receivables.

Chart 7: EUR Exchange Rate



61. **Foreign Exchange Risk.** The GEF’s holding and operating currency is USD, while donors pledge primarily in national currencies. Donors also pay in their contributions over time. As a result, the value of donor contributions to a given replenishment is not fully “locked in” for ten years. At any point in time, the Trust Fund is receiving regular non-USD contribution payments relating to the current replenishment and two prior replenishments.

62. Prior to the current crisis, over the life of the GEF, foreign exchange variations have not had substantial impact on the value of donor contributions. On balance, gains in the value of some currencies from the time when they were pledged to when they were paid have resulted in a net gain to the trust fund, estimated at about USD 250 million from GEF-1 through GEF-3, but the fluctuations over time have not been significant.

63. The GEF has only limited capacity to manage foreign exchange risk. In the past, the possibility of hedging the currency mismatch was considered. The GEF Trust Fund does not have legal capacity to enter into swap agreements, and it is questionable whether it would be considered an acceptable counterparty by market participants even if it did. Assuming that issue could be resolved, however, it is possible that the risk/return assessment of managing the GEF’s currency exposure would not support pursuing a hedging strategy. Historically, the impact of currency fluctuations has had little net impact, with gains from one contribution currency offsetting losses from others. The risk of expected loss was not seen to be substantial enough to outweigh the costs of undertaking hedging transactions – including the initial cost of operationalizing a long-term hedging strategy, transaction costs and credit fees, and the fact that funds might be tied up to

support collateral requirements. In addition, a hedging approach would require Donor engagement to make all payments as scheduled, with no flexibility for payment delays or adjustment.

64. In FY06, the Trustee implemented a reserve against resources available for commitment, to cover potential variability in cash flows from foreign exchange rate volatility. The measure does not mitigate foreign exchange risk exposure, but helps to reduce the potential that GEF may not have sufficient funds to disburse against commitments already made by the Trustee as a result of foreign exchange movements. Initially, a reserve amount of \$35 million was set based upon simulations of movements in foreign exchange rates over a 12-month horizon (as predicted by current forward rates). The reserve amount is recalculated periodically to reflect variations in the amount and currency composition of new donor funds to be received as well as prevailing market conditions. This reserve could be expanded to work as a reserve against all foreign exchange risk (not just Trustee commitments already made). Other possible ways to reduce GEF exposure to exchange rate risk might include donor agreement to contribute in USD, or SDR, or examining the possibility of GEF grants made in currencies other than the USD.

65. As a final note on foreign exchange risk: The current financial crisis has highlighted the risk to the GEF portfolio of volatility in the foreign exchange markets. As detailed above, volatility in currency exchange rates has had a substantial impact in the estimated value of the GEF-4 envelope. However, it may be noted that, if all relevant donor contributions had been hedged at the outset of the GEF-4 replenishment, their current value would be lower than it is today – without taking into account the substantial costs of entering into the hedges. The primary dilemma relating to foreign exchange risk is less the varying value of the GEF-4 envelope than the timing of the GEF-4 re-allocation process at the peak value of the envelope.

66. **Addressing complexity.** Separate from financial management issues and risks around variations in funding availability and envelopes, the increasing complexity of the GEF is an issue for Donors to consider. The possibility of further increasing the number of Agencies may open new doors for the GEF to be more effective, but it would also increase the number of processes, systems, and communication requirements supported by the GEF system. Increasing the ways GEF extends its financing may generate additional revenues and help the GEF be more innovative, flexible and responsive, but it will also add to the processing and tracking requirements. In that context, the experience of the current reconciliation process is insightful.

67. Over the past three months, the Trustee, Agencies and Secretariat have been engaged in a process of reconciling all the financial information and transaction dates relating to the approved projects and fees of the GEF Trust Fund. The need for this year's extended, large-scale undertaking is a result of the Trustee's complete revamping of the software it uses to manage GEF financial and business data to keep up with evolving business needs of the GEF. In FY07, the Trustee began a three-year system development project to restructure and overhaul the ten-year old financial system for the GEF Trust

Fund.¹⁷ A key part of the new system design required the development of new data tables for tracking and storing all Council and CEO funding decisions and the subsequent transactions as they move through Agency approval to financial closure. This in turn necessitated the transfer of every piece of financial and business data held in the old table structures to the new. In total, the Trustee converted over 260,000 pieces of financial and business data from the old system into the new.

68. Best practice requires that, upon conversion of any financial data in an Enterprise Resource Planning (ERP)¹⁸ system, a comprehensive reconciliation take place to ensure that financial and business data were not corrupted during the conversion process. While the conversion was a mix of system and manual efforts, the subsequent required reconciliation with the Agencies and Secretariat is currently a manual process.¹⁹

69. A verification of end-to-end financial transactions relating to projects and fees since inception of the GEF was carried out, including all the following:

- i. Council and CEO funding decisions and dates for stand-alone projects and programmatic initiatives;
- ii. amounts endorsed by the CEO and corresponding dates;
- iii. amounts associated with dropped projects;
- iv. cancellations of amounts associated with ongoing projects;
- v. Agency approval dates for projects;
- vi. financial closure dates for projects and project preparation activities;
- vii. final amounts disbursed by the Agency to the recipient, and if applicable the unused amounts, from financially closed projects; and
- viii. reallocations of amounts from one Agency to another.

70. This reconciliation process is still not complete. While reconciliation with the Agencies is complete, final work is ongoing between the Trustee and the Secretariat. The length and complexity of the reconciliation process and the nature of the iterations between the Trustee and the Secretariat point to needed improvements for the future.

71. In that regard, and in light of the increasing complexity in the GEF system, the Trustee recommends that an independent review be undertaken of the interactions between the GEF's financial system and the supporting systems in the Secretariat and Agencies. In the future, the annual reconciliation exercise should not take the same amount of human effort as required this year, given the exceptional nature of this year's exercise.

¹⁷ In FY07, the Trustee embarked on a major overhaul of its GEF financial system, to reflect the evolution of GEF business, processes and procedures over time, and the conversion of the GEF financial statements from Special Purpose to International Financial Reporting Standards (IFRS). The systems development project has been largely completed, with additional enhancements expected over the course of FY10 and FY11.

¹⁸ Enterprise Resource Planning is the term applied to an information system designed to coordinate and track all the resources, business information, and activities needed to manage a business process from end-to-end.

¹⁹ The Trustee is working with the Agencies to develop an electronic means of reconciliation.

Nonetheless, independent recommendations would be useful on ways to improve the tracking and management of GEF transactions, and the way financial information flows through the GEF system, is supplied by the different GEF partners to the central system managed by the Trustee, and in turn supports GEF transactions and supplies partners with needed information. The review should assess how the functions are managed, and advise on possible improvements, as well as appropriate staffing levels and skills to manage the inter-related systems. It should provide input on how best to design and develop an electronic means of transferring financial and business data between respective ERP systems of the Trustee and the Agencies, and between the Trustee and the Secretariat. The independent review would also need to take into account possible changes to the GEF structure, such as the addition of more agencies, different programmatic approaches, different governance arrangements, which could have implications for the financial management of the GEF.

72. **Conclusion.** The increasing complexities of the GEF structure and operations should be taken into account in the GEF-5 replenishment discussions as well as in the wider consideration of the climate change aid architecture. Given the international focus on climate change, and the rapid increase in the number of environment-focused initiatives, the GEF may be at a crossroads. Its place in the aid architecture is unique. To take full advantage of its strengths and at the same time acknowledge its limitations, Donors are likely to examine the GEF's future role, remit, modes of operation and governance. The Bank looks forward to working with GEF Donors and the GEF Council to ensure that the GEF can continue to function effectively and evolve appropriately. As the GEF is, fundamentally, a financing mechanism, it would be appropriate if financial management issues were front and center in these important deliberations.

GEF Replenishment Process: Financial Arrangements

1. GEF replenishment negotiations provide an opportunity for Donors to review GEF performance, evaluate progress, and decide on programming and strategic directions for the future. Donors assess the funding needs going forward, and agree on the size, financial and payment arrangements for the new replenishment. Policy and programmatic direction is provided in the final replenishment report, and financial undertakings by Donors are embodied in the replenishment resolution.
2. This Annex describes the financial issues and decisions considered by Donors in the replenishment discussions and pledging process and outlines the process by which the final replenishment resolution is agreed and adopted.

Donor Pledging Process

3. Over the course of replenishment discussions, Donors agree on the overall target size of the replenishment. Once the size is agreed upon, a pledging session is scheduled as part of the replenishment discussions. This session generally occurs at the final meeting of the replenishment negotiations.
4. At the pledging session, each Donor confirms its contribution to the replenishment. A number of specific items underpin the pledge:
 - a. Each Donor pledges the level of its contribution, specifies whether the pledge is in national currency or in SDRs, and decides whether it expects to make a supplemental contribution above its basic burden-shared amount.
 - b. Each Donor indicates how it will pay its contribution, whether by cash installment payments, or through the deposit of promissory notes or similar obligations.
 - c. Each Donor provides information about its expected encashment/ drawdown arrangements – that is, whether it will follow the indicative schedule of installment and/or encashment payments or an accelerated schedule.
5. The Trustee uses the pledge information provided by Donors to prepare a table of contributions. Donors review the table and any needed adjustments are made. When finally agreed, the contribution table is attached to the replenishment resolution. The information provided about payment and encashment arrangements also helps the Trustee to forecast the resources available for Council or CEO funding decisions over the replenishment period.

Adoption of the Replenishment Resolution

6. At the conclusion of the replenishment process, Donors agree on a summary of negotiations, which highlights the main agenda items that were considered during the replenishment meetings, for transmittal to the GEF Council. The summary is accompanied by three core replenishment documents:

- a. A programming document that summarizes proposed uses of resources within the likely funding scenarios to cover GEF operations and activities for the four years of the replenishment;
- b. A draft resolution specifying the terms of replenishment of the GEF Trust Fund; The World Bank resolution stipulates the terms under which the Trustee will manage the resources made available under the replenishment.
- c. A report to the GEF Council outlining policy recommendations for the replenishment period and recommending specific actions in strategic areas. The report draws upon the analysis and recommendations from the Overall Performance Study and other reports from the GEF Evaluation Office.

7. The GEF Council is asked to take note of the summary, endorse the three attached documents, and call for the CEO/Chairperson of the GEF to transmit the summary of negotiations, the World Bank resolution, and the policy recommendations to the World Bank, requesting that the World Bank's Executive Directors adopt the replenishment resolution.

8. The World Bank's Executive Directors consider and adopt the resolution that specifies arrangements for replenishing the GEF Trust Fund. Under the terms of the resolution, the World Bank, as Trustee of the GEF Trust Fund, is authorized to manage the resources made available under the new replenishment. The Trustee informs Donors of the adoption of the resolution, and Donors work to formalize their pledges to the replenishment. When Donors have obtained the appropriate parliamentary authorization and/or budgetary approval to participate in the replenishment, they deposit an Instrument of Commitment with the Trustee, as discussed further below.

Donor Instruments of Commitment

9. Under the terms of the replenishment resolution, Donor pledges to the replenishment are realized by the deposit of an Instrument of Commitment (IoC), or Qualified IoC, with the Trustee. An IoC constitutes a legally binding obligation on the part of the Donor to pay the amount specified to the GEF Trust Fund.

Advance Contribution Scheme, Effectiveness

10. To ensure continuity in GEF activities and a smooth transition between replenishments, the Trustee can operate an advance contribution scheme prior to the

effectiveness of the replenishment. Upon receipt of IoCs with an aggregate not less than 20% of total new pledged contributions to be provided, the Trustee may deem one quarter of the total amount of each contribution for which the IoC or qualified IoC has been deposited as an advance contribution available for programming unless the Donor specifies otherwise.

11. When the Trustee receives IoCs totaling an agreed threshold amount, typically 60% of total new pledged contributions, the replenishment becomes effective. If there is a significant delay in the receipt of the required instruments of commitment, the Trustee informs the Donors and consults with them on ways to prevent interruption of GEF activities. This is undertaken in collaboration with the CEO and if necessary with the guidance of Council.

Donor Payment Procedures

12. Donors fulfill their financial commitments to the replenishment on an annual basis. These yearly payments are known as “installment payments” and are made in line with parliamentary budgetary procedures. Payments are due starting 31 days after the replenishment effective date. As further described below, they may be made through either a deposit of cash, promissory notes, or similar obligations. If a Donor chooses to meet its financial commitment via the deposit of a promissory note or similar obligation, it is further required to follow an agreed schedule of cash deposits (i.e., encashment) in order to draw down these notes or similar obligations. Donors are provided some flexibility in meeting these yearly financial obligations, as outlined below.

13. Installment Payments. Donors can choose to pay their contributions either in cash or by depositing non-negotiable, non-interest bearing promissory notes, or similar obligations. Contributions are normally paid to the Trustee in four annual installments of equal amounts by November 30th of each year. Upon written request from a Donor, the Trustee may agree to allow a Donor to expedite the installment payment. For example, Donors may choose to contribute cash or promissory notes in fewer than the standard four installments. Alternatively, the Trustee may agree to a Donor’s request to postpone the payment of any installment, or a portion of the installment, up to, but not beyond, June 30 of the calendar year following the year in which the installment is due. Payments made pursuant to these agreements with the Trustee are deemed to be timely, i.e., not in arrears.

14. Encashment of Promissory Notes or Similar Obligations. Promissory notes are payable on demand and are normally encashed (or drawn down) on an approximately *pro rata* basis among Donors. The Council approves the replenishment work program over the four-year replenishment period. Trustee commitments and disbursements for those same funding decisions occur over a more extended period as activities are implemented. Accordingly, draw downs on promissory notes typically occur over the period set out in an indicative encashment schedule, which is attached to the replenishment resolution. The encashment schedule, which normally extends up to ten years, is based on the projected disbursement needs of the GEF Agencies, while also taking into consideration Donor preference for encashment levels which do not fluctuate sharply from period to period.

15. In the past, Donors who pay their installments with promissory notes, or similar obligations, have also been able to benefit from some flexibility in encashment arrangements. The Trustee may agree to encash promissory notes on a basis other than that of the indicative schedule provided that the revised encashment schedule is no less favorable to the GEF Trust Fund than the indicative schedule. Additionally, at the written request of a Donor experiencing exceptionally difficult budgetary circumstances, the Trustee may permit postponement of encashment for (i) up to two years for a Donor that is also a recipient of the GEF, and (ii) up to 45 days for all other Donors.

Credit and Discount Options

16. As described above, a Donor may choose to take advantage of the flexibility provided for in the payment procedures, as long as the present value of its cash payments to the GEF Trust Fund is at least the same as the present value generated under the indicative schedule. Donors can accelerate either their cash installment payments or the encashment of their promissory notes. Donors can choose to use the acceleration in either of two ways:

- a. Reducing the actual payment amount in the currency of contribution or taking a “discount”. In this case, the present value of the contribution is maintained through a combination of accelerating the payment schedule and reducing the actual cash payment amount. Under this option, there is no impact on the SDR value of the contribution.
- b. Increasing the SDR value of the contribution while maintaining the actual payment amount in the currency of contribution, or taking a “credit”. In this case, the present value of the contribution is increased by accelerating payment, and the burden-share can be increased or the donor can receive credit for a supplemental contribution.

17. Alternatively, the Donor may choose not to claim a discount and instead pay the full amount of its pledged contribution. In this case, the credit option is chosen, and the additional value that is generated will be used to increase the size of the Donor’s SDR equivalent value of its contribution. The option of selecting a credit enhances the SDR value of a Donor’s contribution and can be applied to its basic and/or supplemental contribution.

18. The selection of a discount or credit (and corresponding increase in the basic or supplemental contribution amount) is generally made at the pledging session and reflected in the final contribution table attached to the replenishment resolution. The discount or credit selection is also expected to be confirmed at the time an Instrument of Commitment is deposited with the Trustee. If for any reason a Donor were to change its discount or credit decision after replenishment negotiations are completed, its burden-share, and the SDR value of its contribution, would be affected retroactively.

Global Environment Facility Trust Fund				
Basic Shares by Replenishment				
	GEF-1 (%)	GEF-2 (%)	GEF-3 (%)	GEF-4 (%)
Argentina	-			
Australia	1.46	1.46	1.46	1.46
Austria	0.90	0.90	0.90	0.90
Bangladesh	-			
Belgium	1.55	1.55	1.55	1.55
Brazil	-			
Canada	4.00	4.00	4.28	4.28
China	-	-	-	-
Cote d'Ivoire	-	-	-	
Czech Republic	-	-	-	-
Denmark	1.30	1.30	1.30	1.30
Egypt, Arab Republic of	-			
Finland	1.00	1.00	1.00	1.00
France	7.02	7.02	6.81	6.81
Germany	11.00	10.66	11.00	11.00
Greece	0.05	0.05	0.05	0.05
India	-	-	-	-
Indonesia				
Ireland	0.11	0.11	0.11	0.11
Italy	5.30	4.39	4.39	4.39
Japan	18.70	18.70	17.63	17.63
Korea, Republic of	0.23	0.23	0.23	0.23
Luxembourg	0.05	0.05	0.05	0.05
Mexico	-	-	-	-
Netherlands	3.30	3.30	3.30	3.30
New Zealand	0.12	0.12	0.12	0.12
Nigeria		-	-	-
Norway	1.42	1.42	1.06	1.44
Pakistan	-	-	-	-
Portugal	0.12	0.12	0.12	0.12
Slovak Republic	-			
Slovenia		-	-	0.03
South Africa				-
Spain	0.80	0.80	0.80	1.00
Sweden	2.62	2.62	2.62	2.62
Switzerland	1.74	1.74	2.43	2.26
Turkey	-	-	-	-
United Kingdom	6.15	6.15	6.92	6.92
United States	20.86	20.84	17.94	20.86
Total	89.80	88.53	86.07	89.43

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 Fund²⁰; 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.²¹ 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;²² and

²⁰ Agencies are required to return funds to the GEF Trust Fund only when the Trustee does not have a liability to that Agency.

²¹ 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.

²² 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.²³

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).²⁴

(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;

²³ 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.

²⁴ 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,²⁵ resulting in an increase to the set-aside; the funds available to support future Council and CEO decisions are correspondingly reduced.

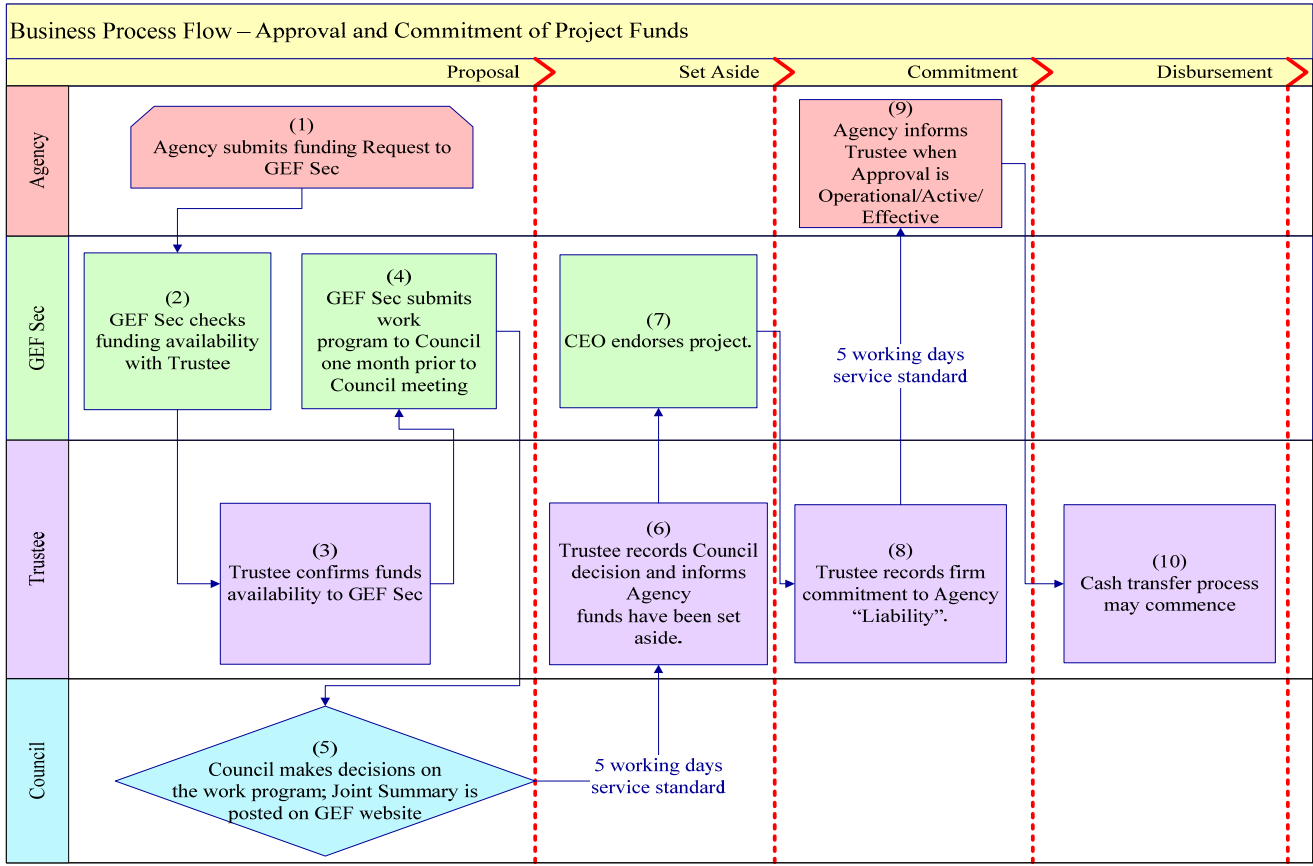
(3) Trustee Commitment

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.

²⁵ The CEO has discretionary authority to increase an allocation by up 5% of the amount approved by Council.



Global Environmental Facility Trust Fund				
Average Exchange Rates Against USD				
Updated as of January 31st, 2009				
Currency	GEF-1	GEF-2	GEF-3	GEF-4
ATS	12.296	14.256		
AUD	1.428	1.741	1.449	1.227
BEF	36.041	41.793		
CAD	1.405	1.518	1.318	1.087
CHF	1.446	1.601	1.303	1.159
CZK				19.386
DEM	1.748	2.026		
DKK	6.664	7.698	6.342	5.387
ESP	147.922	172.359		
EUR			0.852	0.723
FIM	5.259	6.160		
FRF	5.874	6.796		
GBP	0.611	0.655	0.577	0.529
GRD	281.740	347.310		
IEP	0.683	0.815		
INR	37.300	45.186	45.667	
ITL	1733.210	2005.720		
JPY	123.305	118.237	113.118	111.219
KRW	1143.251	1227.432		1011.281
LUF	36.041	41.793		
MXN				11.101
NOK	7.246	8.413	6.803	5.911
NZD	1.629	2.142	1.617	1.433
PKR				65.117
PTE	178.057	207.699		
SEK	7.740	9.215	7.835	6.813
SIT				183.071
USD	1.000	1.000	1.000	1.000
SDR	0.729	0.759	0.697	0.650
ZAR				7.643

