



Global Environment Facility

GEF/C.14/8
November 11, 1999

GEF Council
December 8-10, 1999
Agenda Item 10

DRAFT ANNUAL REPORT 1999 VOLUME II: FINANCIAL STATEMENT

GEF Annual Report 1999 - Volume II

Status of the GEF Trust Fund and Financial Statements

The following information on the status of the Global Environment Facility (GEF) Trust Fund is based on the most recent Financial Statements of the International Bank for Reconstruction and Development (IBRD) as Trustee of the GEF Trust Fund (Trustee), IBRD, UNDP and UNEP as Implementing Agencies and the GEF Secretariat (Secretariat).

Status of the GEF Trust Fund

Contributions to the GEF as of June 30, 1999

Financial Statements

Due to the different operating cycles¹ and accounting bases² used by the Implementing Agencies and their use of different external auditors³, an audited consolidated financial statement cannot be presented for the GEF Trust Fund. Accordingly, the consolidated financial statement in this report is unaudited. However, the most recent audited Financial Statement of each of the Implementing Agencies, the Trustee and the Secretariat is included in this Annex:

| | <u>Financial Statement as of</u> |
|-----------------------------|----------------------------------|
| Trustee | June 30, 1999 |
| IBRD as Implementing Agency | June 30, 1999 |
| Secretariat | June 30, 1999 |
| UNEP / GEF | December 31, 1998 |
| UNDP / GEF | December 31, 1998 |

Please note that the external audits of UNDP / GEF and UNEP / GEF are limited in their scope, as indicated in the United Nations Board of Auditors' Audit Opinion attached to the UNDP / GEF and UNEP / GEF Financial Statements included herein.

¹ UNDP and UNEP operate on a calendar fiscal year. IBRD and the Secretariat (which is supported administratively by IBRD) operates on a July to June fiscal year.

² See Note 2 of unaudited GEF Consolidated Financial Statement.

³ The UNDP / GEF and UNEP / GEF Financial Statements are audited by the United Nations Board of Auditors, IBRD as Implementing Agency, the Trustee and the Secretariats' Financial Statements are audited by IBRD's external auditors.

Contributions to GEF as of June 30, 1999
(SDR millions)

| | Pilot Phase a/ | | GEF-1 b/ | | GEF-2 c/ | | Total Contributions Paid |
|-----------------|-----------------------|-------------------------------|--------------------------|-----------------|--------------------------|-----------------|--------------------------------|
| | Core Contributions | Co- /Parallel Financing | Contributions Paid d/ | Pledges | Contributions Paid d/ | Pledges | |
| Argentina | - | - | 0.89 | 3.57 | - | 4.00 | 0.89 |
| Australia | 9.68 | 8.03 | 20.84 | 20.84 | 5.87 | 23.47 | 44.42 |
| Austria | 26.02 | - | 14.28 | 14.28 | 3.68 | 14.70 | 43.98 |
| Bangladesh | - | - | 2.00 | 2.00 | - | - | 2.00 |
| Belgium | 5.00 | 5.00 | 22.86 | 22.86 | 6.23 | 24.92 | 39.09 |
| Brazil | 4.00 | - | - | 4.00 | - | 4.00 | 4.00 |
| Canada | 6.33 | 9.50 | 61.78 | 61.78 | 16.08 | 64.30 | 93.69 |
| China | 4.00 | - | 4.00 | 4.00 | 1.50 | 6.00 | 9.50 |
| Cote d'Ivoire | 2.00 | - | 4.00 | 4.00 | 1.00 | 4.00 | 7.00 |
| Czech Republic | - | - | 4.00 | 4.00 | 1.00 | 4.00 | 5.00 |
| Denmark | 16.25 | - | 25.08 | 25.08 | - | 20.90 | 41.33 |
| Egypt | 4.00 | - | 1.87 | 4.00 | - | 4.00 | 5.87 |
| Finland | 20.44 | - | 15.45 | 15.45 | 8.04 | 16.07 | 43.92 |
| France | 110.08 | - | 102.26 | 102.26 | - | 105.54 | 212.34 |
| Germany | 110.02 | - | 171.30 | 171.30 | 40.08 | 160.32 | 321.40 |
| Greece | - | - | 3.57 | 3.57 | 1.00 | 4.00 | 4.57 |
| India | 4.00 | - | 6.00 | 6.00 | 1.64 | 6.56 | 11.64 |
| Indonesia | 4.00 | - | - | - | - | - | 4.00 |
| Ireland | - | - | 1.71 | 1.71 | 0.48 | 4.00 | 2.19 |
| Italy | 65.14 | - | 81.86 | 81.86 | - | 65.97 | 147.00 |
| Japan | 27.36 | 19.08 e/ | 295.95 | 295.95 | 75.17 | 300.67 | 417.56 |
| Korea | - | - | 4.00 | 4.00 | 0.52 | 4.00 | 4.52 |
| Luxembourg | - | - | 4.00 | 4.00 | - | 4.00 | 4.00 |
| Mexico | 4.00 | - | 4.00 | 4.00 | 1.00 | 4.00 | 9.00 |
| Netherlands | 37.74 | - | 50.97 | 50.97 | 13.26 | 53.05 | 101.97 |
| New Zealand | - | - | 4.00 | 4.00 | 1.00 | 4.00 | 5.00 |
| Nigeria | 4.00 | - | - | - | - | 4.00 | 4.00 |
| Norway | 19.56 | - | 22.29 | 22.29 | 5.71 | 22.83 | 47.56 |
| Pakistan | 4.00 | - | 4.00 | 4.00 | - | 4.00 | 8.00 |
| Portugal | 4.50 | - | 4.00 | 4.00 | 1.00 | 4.00 | 9.50 |
| Russia | - | - | - | - | - | 4.00 | - |
| Slovak Republic | - | - | 4.00 | 4.00 | - | - | 4.00 |
| Slovenia | - | - | - | - | 0.33 | 1 | 0.33 |
| Spain | 10.00 | - | 12.36 | 12.36 | - | 12.03 | 22.36 |
| Sweden | 24.54 | - | 41.60 | 41.60 | - | 42.12 | 66.14 |
| Switzerland | 30.06 | 8.62 | 31.97 | 31.97 | 7.99 | 31.97 | 78.64 |
| Turkey | 4.00 | - | 4.00 | 4.00 | 1.00 | 4.00 | 9.00 |
| United Kingdom | 54.73 | - | 96.04 | 96.04 | 25.31 | 101.23 | 176.08 |
| United States | - | 109.60 | 289.12 | 306.92 | - | 313.35 | 398.72 |
| Total | 615.46 | 159.83 | 1,416.05 | 1,442.66 | 218.87 | 1,450.99 | 2,410.22 |

a/ In SDR equivalents based on average daily exchange rates for the three month period ending September 30, 1990.

b/ In SDR equivalents based on average daily exchange rates for the period February 1, 1993 to October 31, 1993.

c/ In SDR equivalents based on average daily exchange rates for the period May 1, 1997 to October 31, 1997.

d/ includes payments in the form of promissory notes or cash.

e/ Based on grant equivalents.

GLOBAL ENVIRONMENT FACILITY TRUST FUND
CONSOLIDATED FINANCIAL STATEMENT

UNAUDITED

**CONDENSED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN FUND BALANCE**

Expressed in millions of U.S. dollars

| | July 1, 1998 to June 30, 1999 | March 31, 1991 (inception) to June 30, 1999 |
|--|-------------------------------------|---|
| Receipts | | |
| Contributions | | |
| Cash payments received | \$ 30.6 | \$ 346.0 |
| Notes Encashed | 224.3 | 1,234.0 |
| Investment income | 45.5 | 188.9 |
| Total receipts | 300.4 | 1,768.9 |
| Disbursements | | |
| Project disbursements of the Implementing Agencies and Secretariat | | |
| Disbursements for projects managed by IBRD | 107.6 | 429.9 |
| Disbursements for projects managed by UNDP | 63.3 | 332.4 |
| Disbursements for projects managed by UNEP | 12.6 | 40.9 |
| Disbursements for projects managed by Secretariat | 0.3 | 1.8 |
| | 183.8 | 805.0 |
| Administrative expenses of the Implementing Agencies and Secretariat | | |
| IBRD administrative expenses | 20.6 | 112.8 |
| UNDP administrative expenses | 7.7 | 43.7 |
| UNEP administrative expenses | 3.5 | 17.9 |
| Secretariat administrative expenses | 7.2 | 38.7 |
| | 39.0 | 213.1 |
| Administrative expenses of IBRD as Trustee | 0.8 | 5.7 |
| Total administrative expenses | 39.8 | 218.8 |
| Total disbursements | 223.6 | 1,023.8 |
| Excess of receipts over disbursements | 76.8 | 745.1 |
| Net foreign exchange losses | - | (11.4) |
| Change in fund balance | 76.8 | 733.7 |
| Fund balance, beginning of period | 656.9 | - |
| Fund balance, end of period | \$ 733.7 | \$ 733.7 |
| Comprising: | | |
| Cash and investments | | \$ 631.3 |
| Cash and investments not available for disbursement | | 102.4 |
| | | \$ 733.7 |

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

GLOBAL ENVIRONMENT FACILITY TRUST FUND
CONSOLIDATED FINANCIAL STATEMENT

UNAUDITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

June 30, 1999

Note 1 – Organization and Operation of the GEF Trust Fund

The Global Environment Facility ("GEF") was formally established as a mechanism in 1994 by the Instrument for the Establishment of the Restructured Global Environment Facility ("the Instrument"). It provides grants and concessional loans to eligible countries for incremental costs of measures to achieve global environmental benefits in four focal areas specified in the Instrument: climate change, biological diversity, international waters, and ozone layer depletion.

Incremental costs of activities concerning land degradation as they relate to the four focal areas are also eligible for funding. In addition, the incremental costs of such other activities under Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development) as agreed by the GEF Council ("the Council") are eligible for funding insofar as they achieve global environmental benefits in the four focal areas.

Under the Instrument, contributions to GEF and all other assets and receipts of GEF are held in the Global Environment Facility Trust Fund ("the Fund") which, in accordance with the provisions of the Instrument, became effective on March 16, 1995. On that date, the Global Environment Trust Fund ("GET") (a funding mechanism for a Global Environment Facility, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in GET were transferred to the Fund at book value.

The Fund is administered by International Bank for Reconstruction and Development ("IBRD") as Trustee. Under the Instrument, the Trustee was authorized to accept contributions to the Fund from July 1, 1994, to June 30, 1997 ("GEF-1"). In March 1998, Contributing Participants (as defined in the Instrument) agreed upon the terms of a second replenishment for the period July 1, 1998 to June 30, 2002 ("GEF-2"). On July 14, 1998, by Resolution No. 98-2, IBRD's Executive Directors authorized IBRD to act as Trustee in respect of the resources made available for GEF-2. Resolution No. 98-2 also provides that any GEF-1 funds not committed by the Council at the end of GEF-1 period shall be administered as part of GEF-2.

GEF-2 has not yet become effective. On October 16, 1998, however, the Trustee, having received Instruments of Commitment from Contributing Participants whose contributions aggregated Special Drawing Rights (SDR) 290.2 million, deemed the Advance Contribution Scheme provided for in Resolution 98-2 effective. For GEF-2 to become effective, Instruments of Commitment totaling SDR 1,160.8 million must be received. As of June 30, 1999, Instruments of Commitments totaling SDR 892.0 million have been deposited with the Trustee. Accordingly an additional SDR 268.8 million is needed before GEF-2 can become effective.

In addition to being Trustee of the Fund, IBRD is also one of the three Implementing Agencies of GEF. The other two Implementing Agencies are the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). Under the Instrument, specific responsibilities are assigned to each of the Implementing Agencies, the GEF Secretariat ("the Secretariat") and the Trustee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT UNAUDITED

June 30, 1999

Note 2 – Summary of Significant Accounting and Related Policies and Procedures

Basis of Accounting

The accompanying financial statement has been prepared by IBRD from the June 30, 1999, audited financial statements of IBRD as Trustee, IBRD as an Implementing Agency, and the Secretariat; as well as the unaudited June 30, 1999, reports of GEF operations of UNDP and UNEP. The accompanying financial statement reports the consolidated financial activities of the Trustee, the Implementing Agencies and the Secretariat, as they relate to the sources and uses of contributions and investment income of the Fund.

The financial statement has been prepared on the cash basis of accounting (except for UNEP's activities which is reported on an accrual basis) modified to include accruals in respect of administrative expenses incurred but not paid at June 30, 1999. A condensed statement of receipts, disbursements and changes in fund balance has been presented which is not intended to present any details regarding the composition of project disbursements.

Foreign Exchange

The financial statement is expressed in terms of United States Dollars (US\$) solely for the purpose of summarizing the Fund's financial position and the results of its operations. Administrative expenses are incurred in US\$. Cash contributions and notes encashed in currencies other than US\$ are converted into US\$ upon receipt and are recorded at the exchange rate in effect at the date of conversion. Investment income earned in currencies other than US\$ is periodically converted into US\$ and recorded at the exchange rate in effect on the date of conversion. Investment income held in currencies other than US\$ at the end of the accounting period is translated into US\$ at the exchange rate in effect on the date the income was earned.

Pledges outstanding and notes not encashed in currencies other than US\$, as disclosed in the Notes to the Financial Statement, are translated at the exchange rate in effect at the end of the accounting period.

Receipts of Investment Income

IBRD, UNDP and UNEP invest and reinvest cash receipts pending their disbursement. Investment income is paid to the Fund.

Project Disbursements

Project disbursements at June 30, 1999, include both disbursements for project expenditures and outstanding advances for future expenditures.

Note 2 – Summary of Significant Accounting and Related Policies and Procedures (continued)*Administrative Expenses*

The Council is responsible for approving the administrative budget of GEF. IBRD (both in its capacity as Implementing Agency and in its capacity as Trustee and in respect of costs it incurs in providing administrative support to the Secretariat), UNDP and UNEP are reimbursed by the Fund for administrative costs incurred on behalf of GEF.

Cash Not Available for Disbursement

Some Contributing Participants pay their contributions in cash instead of notes. In these cases, the cash is treated as "not immediately available for disbursement" until the date when demand notes from other Contributing Participants are drawn down. The same is true for note encashments made by Contributing Participants ahead of schedule. This is to ensure that over a reasonable period of time, the resources provided by all Contributing Participants are used on an approximately pro rata basis. It also accords with understandings reached between the Trustee and certain of those Contributing Participants who have paid their contributions in cash.

Note 3 – Receipts of Investment Income

Due to the migration to a new accounting system for IBRD during the current year, the receipts of investment income that were allocated to the Fund for the year was for 13 months and accordingly, approximately US\$ 3.6 million of additional investment income was included for fiscal year 1999.

Note 4 – Fee-Based System

In May 1999, the Council approved the application of a fee-based system to determine Implementing Agency fees with respect to GEF projects. This includes a one-time provision to the Implementing Agencies of up to US\$ 70.8 million representing the outstanding implementation and supervision costs of the Implementing Agencies' portfolios of GEF projects approved by the Council through June 1999, as approved in the Joint Summary of The Chairs, GEF Council Meeting May 5-7, 1999.

This amount is presented in note 4 to the June 30, 1999, financial statement of IBRD as Trustee.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT**UNAUDITED**

June 30, 1999

Note 5 - Schedule of Sources and Uses of Funds*Expressed in millions of U.S. dollars*

| | June 30, 1999 | June 30, 1998 |
|---|---------------|---------------|
| Cumulative Sources (Receipts) | | |
| Contributions | | |
| Notes | \$ 2,663.5 | \$ 2,136.5 |
| Cash | 346.0 | 315.4 |
| Investment income | 188.9 | 143.4 |
| | \$ 3,198.4 | \$ 2,595.3 |
| Less: | | |
| Net foreign exchanges losses | (11.4) | (11.4) |
| Net Cumulative Sources (Receipts) | 3,187.0 | 2,583.9 |
| Cumulative Uses | | |
| Approved Commitments | | |
| Investment projects | 1,121.6 | 933.7 |
| Technical assistance | 460.5 | 356.1 |
| Pre-investment Facility (PRIF) | 70.4 | 56.7 |
| Project Preparation Advance (PPA) | 26.0 | 25.8 |
| Project Preparation and Development (PDF) | 40.9 | 28.8 |
| Other | 89.7 | 55.4 |
| Administrative expenses | 218.8 | 183.1 |
| | 2,027.9 | 1,639.6 |
| Net Sources of Funds | \$ 1,159.1 | \$ 944.3 |
| Comprising: | | |
| Notes not encashed | \$ 1,429.5 | \$ 1,126.8 |
| Cash and investments | 733.7 | 656.9 |
| | 2,163.2 | 1,783.7 |
| Approved Commitments Not Disbursed: | | |
| IBRD-managed projects | (734.5) | (639.0) |
| UNDP-managed projects | (236.9) | (169.5) |
| UNEP-managed projects | (31.9) | (29.8) |
| Secretariat-managed projects | (0.8) | (1.1) |
| | (1,004.1) | (839.4) |
| | \$ 1,159.1 | \$ 944.3 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENT**UNAUDITED**June 30, 1999

Note 5 – Schedule of Sources and Uses of Funds (continued)*Note 5a – Reclassification*

Certain amounts presented in the *Schedule of Sources and Uses of Funds* were reclassified to confirm to the current year presentation.

Note 6 – Schedule of Cumulative Pledges*Expressed in millions of U.S. dollars*

| | June 30, 1999 | June 30, 1998 |
|---|-------------------|-------------------|
| Pledges | | |
| Pledges outstanding | \$ 916.7 | \$ 263.3 |
| Contributions | | |
| Cash | 346.0 | 315.4 |
| Discounts in respect of contributions paid in advance | 20.3 | 19.9 |
| Notes encashed | 1,234.0 | 1,009.7 |
| Notes not encashed | 1,429.5 | 1,126.8 |
| Total | <u>\$ 3,946.5</u> | <u>\$ 2,735.1</u> |

Pledges to the Fund are denominated in SDRs or a currency that is freely convertible. Contributions in the form of notes are non-negotiable and non-interest bearing. Notes contributed in respect of the Fund are encashed quarterly as needed for disbursements, transfers, and operational and administrative requirements. Contributing Participants may pay their pledges in cash in advance. Discounts given for such payments in advance are disclosed above.

NOTES TO CONSOLIDATED FINANCIAL STATEMENT
UNAUDITED

June 30, 1999

Note 7 – Schedule of Outstanding Cumulative Pledges by Phase

Pledges outstanding are as follows:

| | <u>June 30, 1999</u> | <u>June 30, 1998</u> |
|------------------------------------|----------------------|----------------------|
| 1. GEF 1 contributions due on | | |
| July 1, 1998 through June 30, 1999 | \$ 4.0 | \$ - |
| July 1, 1997 through June 30, 1998 | 26.3 | 131.3 |
| July 1, 1996 through June 30, 1997 | 1.3 | 109.0 |
| July 1, 1995 through June 30, 1996 | 0.2 | 23.0 |
| | <u>31.8</u> | <u>263.3</u> |
| 2. GEF 2 contributions due on | | |
| July 1, 2001 through June 30, 2002 | \$ 287.9 | - |
| July 1, 2000 through June 30, 2001 | 293.4 | - |
| July 1, 1999 through June 30, 2000 | 297.9 | - |
| July 1, 1998 through June 30, 1999 | 5.7 | - |
| | <u>884.9</u> | <u>-</u> |
| Total Pledges outstanding | <u>916.7</u> | <u>263.3</u> |

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND
OPERATIONS OF INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT AS TRUSTEE
WORLD BANK REFERENCE
TF029006**

**REPORT AND FINANCIAL STATEMENT
June 30, 1999**

THE WORLD BANK GROUP

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INDEPENDENT AUDITORS' REPORT

Global Environment Facility Council and International
Bank for Reconstruction and Development as
Trustee for the Global Environment Facility Trust Fund

We have audited the accompanying condensed statement of receipts and disbursements changes in fund balance of the Global Environment Facility Trust Fund - Operations of the International Bank for Reconstruction and Development as Trustee (the Fund), for which the International Bank for Reconstruction and Development (the Bank) acts as the Trustee as of and for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999. This financial statement of the Fund is the responsibility of the management of the Bank. Our responsibility is to express an opinion on the financial statement based on our audits. The condensed statement of receipts, disbursements and changes in fund balance of the Fund for the period March 14, 1991 (date of inception) to June 30, 1997 was audited by other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that statement and included an explanatory paragraph that described the basis of accounting discussed in Note 2. The financial statement for the period March 14, 1991 (date of inception) through June 30, 1997 reflects total receipts and disbursements of US\$ 1,169.7 million and US\$ 630.8 million, respectively. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and with the International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2, this financial statement was prepared on the basis of cash receipts and disbursements, modified to reflect accruals with respect to administrative expenses incurred but not paid, which is a comprehensive basis of accounting other than generally accepted accounting principles. This financial statement is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, based on our audits and the report of other auditors, this financial statement presents fairly, in all material respects, the fund balance of the Global Environment Facility Trust Fund - Operations of the International Bank for Reconstruction and Development as Trustee, for which the Bank acts as a Trustee, at June 30, 1999, and the cash receipts and disbursements for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999, on the basis of accounting described in Note 2.

October 15, 1999

DeloitteTouche Tohmatsu

GLOBAL ENVIRONMENT FACILITY TRUST FUND
 OPERATIONS OF INTERNATIONAL BANK FOR RECONSTRUCTION
 AND DEVELOPMENT AS TRUSTEE

**CONDENSED STATEMENT OF RECEIPTS, DISBURSEMENTS AND
 CHANGES IN FUND BALANCE**

Expressed in millions of U.S. dollars

| | Year ended June 30, 1999 | March 14, 1991 (inception) to June 30, 1999 |
|---|-----------------------------|---|
| Receipts | | |
| Contributions | | |
| Cash payments received | \$ 30.6 | 346.0 |
| Notes encashed | 224.3 | 1,234.0 |
| Investment income | 42.9 | 171.6 |
| Total receipts | <u>297.8</u> | <u>1,751.6</u> |
| Disbursements | | |
| Disbursements on behalf of and transfers and reimbursements to Implementing Agencies and the Secretariat | | |
| Disbursements on behalf of and expense reimbursements to IBRD | 128.2 | 542.7 |
| Transfers to UNDP | 130.0 | 421.6 |
| Transfers to UNEP | - | 64.2 |
| Disbursements on behalf of and expense reimbursements to the Secretariat | 7.5 | 40.5 |
| Administrative expenses of the Trustee | 0.8 | 5.7 |
| Total disbursements | <u>266.5</u> | <u>1,074.7</u> |
| Excess of receipts over disbursements | 31.3 | 676.9 |
| Net foreign exchange losses | - | (11.4) |
| Change in fund balance | 31.3 | 665.5 |
| Fund balance, beginning of period | 634.2 | - |
| Fund balance, end of period | <u>665.5</u> | <u>665.5</u> |
| Comprising: | | |
| Cash and investments | | 563.1 |
| Cash and investments not available for disbursement | | 102.4 |
| | | <u>665.5</u> |

*The accompanying notes are an integral part
of this Financial statement.*

GLOBAL ENVIRONMENT FACILITY TRUST FUND OPERATIONS OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AS TRUSTEE

NOTES TO THE FINANCIAL STATEMENT

June 30, 1999

Note 1 - Organization and Operation of the GEF Trust Fund

The Global Environment Facility ("GEF") was formally established as a mechanism in 1994 by the Instrument for the Establishment of the Restructured Global Environment Facility ("the Instrument"). It provides grants and concessional loans to eligible countries for incremental costs of measures to achieve global environmental benefits in four focal areas specified in the Instrument: climate change, biological diversity, international waters, and ozone layer depletion.

Incremental costs of activities concerning land degradation as they relate to the four focal areas are also eligible for funding. In addition, the incremental costs of such other activities under Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development) as agreed by the GEF Council ("the Council") are eligible for funding insofar as they achieve global environmental benefits in the four focal areas.

Under the Instrument, contributions to GEF and all other assets and receipts of GEF are held in the Global Environment Facility Trust Fund ("the Fund") which, in accordance with the provisions of the Instrument, became effective on March 16, 1995. On that date, the Global Environment Trust Fund ("GET") (a funding mechanism for a Global Environment Facility, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in GET were transferred to the Fund at book value.

The Fund is administered by International Bank for Reconstruction and Development ("IBRD") as Trustee. Under the Instrument, the Trustee was authorized to accept contributions to the Fund from July 1, 1994 to June 30, 1997 ("GEF-1"). In March 1998, Contributing Participants (as defined in the Instrument) agreed upon the terms of a second replenishment for the period July 1, 1998 to June 30, 2002 ("GEF-2"). On July 14, 1998, by Resolution No. 98-2, IBRD's Executive Directors authorized IBRD to act as Trustee in respect of the resources made available for GEF-2. Resolution No. 98-2 also provides that any GEF-1 funds not committed by the Council at the end of GEF-1 period shall be administered as part of GEF-2.

GEF-2 has not yet become effective. On October 16, 1998, however, the Trustee, having received Instruments of Commitment from Contributing Participants whose contributions aggregated Special Drawing Rights (SDR) 290.2 million, deemed the Advance Contribution Scheme provided for in Resolution 98-2 effective. For GEF-2 to become effective, Instruments of Commitment totaling SDR 1,160.8 million must be received. As of June 30, 1999, Instruments of Commitments totaling SDR 892.0 million have been deposited with the Trustee. Accordingly an additional SDR 268.8 million is needed before GEF-2 can become effective.

In addition to being Trustee of the Fund, IBRD is also one of the three Implementing Agencies of GEF. The other two Implementing Agencies are the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). Under the Instrument, specific responsibilities are assigned to each of the Implementing Agencies, the GEF Secretariat ("the Secretariat") and the Trustee.

The resources of the Fund, held in trust by the Trustee, are kept separate and apart from the resources of IBRD.

NOTES TO THE FINANCIAL STATEMENT

June 30, 1999

Note 2 - Summary of Significant accounting and Related Policies and Procedures

Basis of Accounting

The accompanying financial statement reports the operations and fund balance of IBRD as Trustee of GEF, not the consolidated operations and fund balance of GEF. Separate financial statements report the operations of UNDP and UNEP; the operations of IBRD as Implementing Agency and the Secretariat are reported in separate schedules of disbursements. Cumulative figures in the accompanying financial statement report the operations of the Trustee from March 14, 1991 (date of inception) to June 30, 1999.

The financial statement has been prepared on the cash basis of accounting modified to include accruals in respect of administrative expenses incurred but not paid at June 30, 1999. A condensed statement of receipts, disbursements and changes in fund balance has been presented which is not intended to present any details regarding the composition of project disbursements.

Foreign Exchange

The financial statement is expressed in terms of United States Dollars (US\$) solely for the purpose of summarizing the Fund's financial position and the results of its operations. Administrative expenses are incurred in US\$. Cash contributions and notes encashed in currencies other than US\$ are converted into US\$ upon receipt and are recorded at the exchange rate in effect at the date of conversion. Investment income earned in currencies other than US\$ is periodically converted into US\$ and recorded at the exchange rate in effect on the date of conversion. Investment income held in currencies other than US\$ at the end of the accounting period is translated into US\$ at the exchange rate in effect on the date the income was earned.

Pledges outstanding and notes not encashed in currencies other than US\$, as disclosed in the Notes to the Financial Statement, are translated at the exchange rate in effect at the end of the accounting period.

Receipts of Investment Income

IBRD invests and reinvests cash receipts pending their disbursement. Investment income is paid to the Fund.

Disbursements, Reimbursements and Transfers

Upon request from IBRD as an Implementing Agency and from the Secretariat, the Trustee makes project disbursements on their behalf. The Trustee reimburses IBRD for administrative expenses incurred in its role as an Implementing Agency and for administrative expenses paid on behalf of the Secretariat. The Trustee makes transfers to UNDP and UNEP from time to time upon request. Disbursements, reimbursements and transfers are made on the basis of the budget and work program approved by the Council and project commitments by the Implementing Agencies.

NOTES TO THE FINANCIAL STATEMENT

June 30, 1999

Note 2 - Summary of Significant accounting and Related Policies and Procedures (continued)

Administrative Expenses

In accordance with the Instrument, the Fund reimburses IBRD for reasonable administrative expenses incurred in its capacity as Trustee. The Council reviews and approves the administrative budget of GEF.

Cash Not Available for Disbursement

Some Contributing Participants pay their contributions in cash instead of notes. In these cases, the cash is treated as "not immediately available for disbursement" until the date when demand notes from other Contributing Participants are drawn down. The same is true for note encasements made by Contributing Participants ahead of schedule. This is to ensure that over a reasonable period of time, the resources provided by all Contributing Participants are used on an approximately pro rata basis. It also accords with understandings reached between the Trustee and certain of those Contributing Participants who have paid their contributions in cash.

Note 3 - Receipts of Investment Income

Due to the migration to a new accounting system during the current year, the receipts of investment income that were allocated to the Fund for the year was for 13 months and accordingly, approximately US\$ 3.6 million of additional investment income was included for fiscal year 1999.

NOTES TO THE FINANCIAL STATEMENTJune 30, 1999

Note 4 - Schedule of Resources Available for Allocation by Council*Expressed in millions of U.S. dollars*

| | <u>June 30, 1999</u> | <u>June 30, 1998</u> |
|--|----------------------|----------------------|
| Cumulative Sources (Receipts) | | |
| Contributions | | |
| Notes | \$ 2,663.5 | \$ 2,136.5 |
| Cash | 346.0 | 315.4 |
| Investment income | 171.6 | 128.7 |
| | <u>3,181.1</u> | <u>2,580.6</u> |
| Less: | | |
| Contributions not yet available for allocation * | (7.4) | (63.5) |
| Net foreign exchange losses | (11.4) | (11.4) |
| | <u>(18.8)</u> | <u>(74.9)</u> |
| Net Cumulative Sources (Receipts) | <u>3,162.3</u> | <u>2,505.7</u> |
| Cumulative Uses | | |
| Council allocations | | |
| Cumulative project allocations | (2,499.0) | (2,007.3) |
| Corporate budget allocations | (245.5) | (223.2) |
| One time project implementation / supervision provision ** | (70.8) | - |
| | <u>(2,815.3)</u> | <u>(2,230.5)</u> |
| Resources Available for Allocation by Council | \$ 347.0 | \$ 275.2 |

*

The United States (U.S.), a Participant whose contribution represents 20.86% of the total amount in resources to be contributed pursuant to Annex C of the Instrument, and which has deposited a qualified Instrument of Commitment, had not unqualified 100% of its contribution as of June 30, 1999. As of that date 5.81% percent of the United States' contribution remained unqualified, having a value of US\$ equivalent 25.0 million. In accordance with the provisions of Sections 8(b) and (c) of Annex C, one Contributing Participant has instructed the Trustee to defer commitment of an equivalent percentage of the fourth tranche of its contribution until corresponding amounts of the U.S. contribution are unqualified. Consistent with these instructions, an amount of US\$ 7.4 million has been excluded from the sources of funds for fiscal year 1999.

**

In May 1999, the Council approved the application of a fee-based system to determine Implementing Agency fees with respect to GEF projects. This includes a one-time provision to the Implementing Agencies of up to US\$ 70.8 million representing the outstanding implementation and supervision costs of the Implementing Agencies' portfolios of GEF projects approved by the Council through June 1999. As approved in the Joint Summary of The Chairs, GEF Council Meeting May 5-7, 1999.

NOTES TO THE FINANCIAL STATEMENT

June 30, 1999

Note 5 - Council Allocations not yet Committed by the Implementing Agencies and the Secretariat

Expressed in millions of U.S. dollars

| | June 30, 1999 | June 30, 1998 |
|---|---------------|---------------|
| Cumulative Sources (Receipts) | | |
| Contributions | \$ 2,663.5 | \$ 2,136.5 |
| Notes | 346.0 | 315.4 |
| Cash | 171.6 | 128.7 |
| Investment income | 3,181.1 | 2,580.6 |
| Less: | | |
| Resources available for allocation by Council | (347.0) | (275.2) |
| Contributions not yet available for allocation | (7.4) | (63.5) |
| Net foreign exchange losses | (11.4) | (11.4) |
| | (365.8) | (350.1) |
| Net Cumulative Sources (Receipts) | 2,815.3 | 2,230.5 |
| Cumulative Uses | | |
| Commitments and administration expenses of the Implementing Agencies and the Secretariat | | |
| IBRD | 1,277.0 | 1,053.5 |
| UNDP | 613.0 | 474.6 |
| UNEP | 90.7 | 72.5 |
| Secretariat | 41.3 | 34.1 |
| Administrative expenses of the Trustee | 5.7 | 4.9 |
| | 2,027.9 | 1,639.6 |
| Council Allocations not yet Committed by the Implementing Agencies and the Secretariat | \$ 787.4 | \$ 590.9 |
| Comprising: | | |
| Notes not encashed | \$ 1,429.5 | \$ 1,126.8 |
| Less: | | |
| Resources available for allocation by Council | (347.0) | (275.2) |
| Contributions not yet available for allocation | (7.4) | (63.5) |
| | 1,075.1 | 788.1 |
| Fund balance | 665.5 | 634.2 |
| | 1,740.6 | 1,422.3 |
| Less: | | |
| Commitments awaiting disbursement by the Implementing Agencies and the Secretariat: | | |
| IBRD | (734.5) | (639.0) |
| UNDP | (191.4) | (183.0) |
| UNEP | (26.5) | (8.3) |
| Secretariat | (0.8) | (1.1) |
| | (953.2) | (831.4) |
| Council Allocations not yet Committed by the Implementing Agencies and the Secretariat | \$ 787.4 | \$ 590.9 |

NOTES TO THE FINANCIAL STATEMENT

June 30, 1999

Note 6 - Schedule of Cumulative Pledges

Expressed in millions of U.S. dollars

| | <u>June 30, 1999</u> | <u>June 30, 1998</u> |
|---|----------------------|----------------------|
| Pledges | | |
| Pledges outstanding | \$ 916.7 | \$ 263.3 |
| Contributions | | |
| Cash | 346.0 | 315.4 |
| Discounts in respect of contributions paid in advance | 20.3 | 19.9 |
| Notes encashed | 1,234.0 | 1,009.7 |
| Notes not yet encashed | 1,429.5 | 1,126.8 |
| Total Cumulative Pledges | <u>\$ 3,946.5</u> | <u>\$ 2,735.1</u> |

Pledges to the Fund are denominated in SDRs or a currency that is freely convertible. Contributions in the form of notes are non-negotiable and non-interest bearing. Notes contributed in respect of the Fund are encashed quarterly as needed for disbursements, transfers, and operational and administrative requirements. Contributing Participants may pay their pledges in cash in advance. Discounts given for such payments in advance are disclosed above.

Note 7 - Schedule of Outstanding Cumulative Pledges by Phase

Expressed in millions of U.S. dollars

Pledges outstanding are as follows:

| | <u>June 30, 1999</u> | <u>June 30, 1998</u> |
|------------------------------------|----------------------|----------------------|
| 1. GEF 1 contributions due on | | |
| July 1, 1998 through June 30, 1999 | \$ 4.0 | \$ - |
| July 1, 1997 through June 30, 1998 | 26.3 | 131.3 |
| July 1, 1996 through June 30, 1997 | 1.3 | 109.0 |
| July 1, 1995 through June 30, 1996 | 0.2 | 23.0 |
| | <u>31.8</u> | <u>263.3</u> |
| 2. GEF 2 contributions due on | | |
| July 1, 2001 through June 30, 2002 | \$ 287.9 | - |
| July 1, 2000 through June 30, 2001 | 293.4 | - |
| July 1, 1999 through June 30, 2000 | 297.9 | - |
| July 1, 1998 through June 30, 1999 | 5.7 | - |
| | <u>884.9</u> | <u>-</u> |
| Total Pledges outstanding | <u>916.7</u> | <u>263.3</u> |

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND
OPERATIONS OF INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
AS AN IMPLEMENTING AGENCY
WORLD BANK REFERENCE
TF029006**

**REPORT AND SCHEDULE OF DISBURSEMENTS
June 30, 1999**

THE WORLD BANK GROUP

Trust Funds Division
1818 H Street N.W.
Washington, D.C. 20433, USA

Tel.: (202) 458-5800
Fax: (202) 477-7163

**Deloide Touche
Tohmatsu
(International Firm)**

555 1 2th Street NW Washington, DC

INDEPENDENT AUDITORS' REPORT

Global Environment Facility Council and International
Bank for Reconstruction and Development as Implementing
Agency for the Global Environment Facility Trust Fund

We have audited the accompanying schedule of disbursements (as defined in the Instrument for the Establishment of the Restructured Global Environment Facility dated March 1994) of the Global Environment Facility Trust Fund - Operations of International Bank for Reconstruction and Development as Implementing Agency for which the International Bank for Reconstruction and Development (the Bank) acts as an Implementing Agency for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999. This schedule is the responsibility of the Bank's management. Our responsibility is to express an opinion on this schedule based on our audits. The schedule of disbursements of the Implementing Agency for the period March 14, 1991 (date of inception) to June 30, 1997 was audited by the other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that schedule and included an explanatory statement that described the basis of accounting discussed in Note 2. This schedule for the period March 14, 1991 (date of inception) to June 30, 1997 reflects total disbursements of US\$ 318.3 million. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of disbursements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2, this schedule was prepared on the basis of cash receipts and disbursements, modified with respect to administrative expenses incurred but not paid, which is a comprehensive basis of accounting other than generally accepted accounting principles. This schedule is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, based on our audits and the report of other auditors, such schedule of disbursements presents fairly, in all material respects, the disbursements of the Global Environment Facility Trust Fund - Operations of International Bank for Reconstruction and Development as Implementing Agency as implemented by the International Bank for Reconstruction and Development for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Global Environment Facility Council and the Board of Governors of the International Bank for Reconstruction and Development and is not intended to be and should not be used by anyone other than these specified parties.

October 15, 1999

DeloitteTouche Tohmatsu

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

SCHEDULE OF DISBURSEMENTS

Expressed in millions of U.S. dollars

| | Year ended June 30, 1999 | March 14, 1991 (inception) to June 30, 1999 |
|--|-----------------------------|---|
| | <hr/> | <hr/> |
| Disbursements | | |
| Project disbursements | \$ 107.6 | \$ 429.9 |
| Administrative expenses | 20.6 | 112.8 |
| | <hr/> \$ | <hr/> \$ |
| | 128.2 | 542.7 |
| | <hr/> | <hr/> |
| Of which: | | |
| Disbursed by the Trustee on behalf of the Implementing Agency | \$ 107.6 | \$ 429.9 |
| Reimbursed by the Trustee | 19.8 | 112.0 |
| Reimbursable by the Trustee | 0.8 | 0.8 |
| | <hr/> \$ | <hr/> \$ |
| | 128.2 | 542.7 |
| | <hr/> | <hr/> |

*The accompanying notes are an integral
part of this schedule.*

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

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 1 - Organization and Operation of the GEF Trust Fund

The Global Environment Facility ("GEF") was formally established as a mechanism in 1994 by the Instrument for the Establishment of the Restructured Global Environment Facility ("the Instrument"). It provides grants and concessional loans to eligible countries for incremental costs of measures to achieve global environmental benefits in four focal areas specified in the Instrument: climate change, biological diversity, international waters, and ozone layer depletion.

Incremental costs of activities concerning land degradation as they relate to the four focal areas are also eligible for funding. In addition, the incremental costs of such other activities under Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development) as agreed by the GEF Council ("the Council") are eligible for funding insofar as they achieve global environmental benefits in the four focal areas.

Under the Instrument, contributions to GEF and all other assets and receipts of GEF are held in the Global Environment Facility Trust Fund ("the Fund") which, in accordance with the provisions of the Instrument, became effective on March 16, 1995. On that date, the Global Environment Trust Fund ("GET") (a funding mechanism for a Global Environment Facility, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in GET were transferred to the Fund at book value.

The Fund is administered by International Bank for Reconstruction and Development ("IBRD") as Trustee. Under the Instrument, the Trustee was authorized to accept contributions to the Fund from July 1, 1994 to June 30, 1997 ("GEF-1"). In March 1998, Contributing Participants (as defined in the Instrument) agreed upon the terms of a second replenishment for the period July 1, 1998 to June 30, 2002 ("GEF-2").

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 1 - Organization and Operation of the GEF Trust Fund (continued)

On July 14, 1998, by Resolution No. 98-2, IBRD's Executive Directors authorized IBRD to act as Trustee in respect of the resources made available for GEF-2. Resolution No. 98-2 also provides that any GEF-1 funds not committed by the Council at the end of GEF-I period shall be administered as part of GEF-2.

GEF-2 has not yet become effective. On October 16, 1998, however, the Trustee, having received Instruments of Commitment from Contributing Participants whose contributions aggregated Special Drawing Rights (SDR) 290.2 million, deemed the Advance Contribution Scheme provided for in Resolution 98-2 effective. For GEF-2 to become effective, Instruments of Commitment totaling SDR 1,160.8 million must be received. As of June 30, 1999, Instruments of Commitments totaling SDR 892.0 million have been deposited with the Trustee. Accordingly an additional SDR 268.8 million is needed before GEF-2 can become effective.

In addition to being Trustee of the Fund, IBRD is also one of the three Implementing Agencies of GEF. The other two Implementing Agencies are the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP). Under the Instrument, specific responsibilities are assigned to each of the Implementing Agencies, the GEF Secretariat ("the Secretariat") and the Trustee.

Note 2 - Summary of Significant accounting and Related Policies and Procedures

Basis of Accounting

The accompanying schedule reports the operations of IBRD as an Implementing Agency of the Fund, not the consolidated operations and fund balance of the Fund. Separate financial statements report the operations and fund balance of the Trustee and each of the other Implementing Agencies; and the operations of the Secretariat are reported in a separate schedule of disbursements. Cumulative figures in the accompanying schedule report the operations of IBRD as an Implementing Agency from March 14, 1991 (date of inception) to June 30, 1999.

The schedule has been prepared on the cash basis of accounting modified to include accruals in respect of administrative expenses incurred but not paid at June 30, 1999.

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 2 - Summary of Significant Accounting and Related Policies and Procedures (continued)

Project Disbursements

Upon request from IBRD as an Implementing Agency, the Trustee makes project disbursements on IBRD's behalf. Project disbursements at June 30, 1999 include both disbursements for project expenditures and outstanding advances to grant recipients for future expenditures.

Administrative Expenses

In accordance with the Instrument, the Trustee reimburses IBRD for reasonable administrative expenses incurred in its role as an Implementing Agency. The Council reviews and approves the administrative budget of GEF.

Approved Commitments

IBRD as an Implementing Agency makes project commitments by extending grants to eligible recipient countries in accordance with the work program approved by the Council.

Note 3 - Schedule of Approved Commitments

Expressed in millions of U.S. dollars

| | <u>June 30, 1999</u> | <u>June 30, 1999</u> |
|---|----------------------|----------------------|
| Approved Commitments | | |
| Investment Projects | \$ 1,121.6 | \$ 933.7 |
| Medium Size projects (MSP) | 12.8 | - |
| Project Preparation Advances (PPA) | 12.4 | 12.6 |
| Project Preparation and Development (PDF) | 15.1 | 13.1 |
| Enabling Activities | 2.5 | 1.9 |
| Total project commitments | <u>1,164.4</u> | <u>961.3</u> |
| Cumulative disbursements | <u>429.9</u> | <u>322.3</u> |
| Commitments awaiting disbursement | <u>\$ 734.5</u> | <u>\$ 639.0</u> |

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND
OPERATIONS OF THE SECRETARIAT
WORLD BANK REFERENCE
TF029006**

**REPORT AND SCHEDULE OF DISBURSEMENTS
June 30, 1999**

THE WORLD BANK GROUP

Trust Funds Division
1818 H Street N.W.
Washington, D.C. 20433, USA
Tel.: (202) 458-5800
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**Deloide Touche
Tohmatsu**
(International Firm)

555 1 2th Street NW Washington, DC

INDEPENDENT AUDITORS' REPORT

Global Environment Facility Council and International Bank for Reconstruction and Development and to the Secretariat for the Global Environment Facility Trust Fund

We have audited the accompanying schedule of disbursements (as defined in the Instrument for the Establishment of the Restructured Global Environment Facility dated March 1994) of the Global Environment Facility Trust Fund - Operations of the Secretariat (the Secretariat) for which the International Bank for Reconstruction and Development (the Bank) acts as an Administrator for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999. This schedule is the responsibility of the Bank's management. Our responsibility is to express an opinion on this schedule based on our audits. The schedule of disbursements of the Secretariat for the period March 14, 1991 (date of inception) to June 30, 1997 was audited by other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that schedule and included an explanatory statement that described the basis of accounting discussed in Note 2. The schedule for the period March 14, 1991 (date of inception) to June 30, 1997 reflects total disbursements of US\$ 24.3 million. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America and with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of disbursements is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule of disbursements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

As described in Note 2, this schedule was prepared on the basis of cash receipts and disbursements, modified with respect to administrative expenses incurred but not paid, which is a comprehensive basis of accounting other than generally accepted accounting principles. This schedule is not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, based on our audits and the report of other auditors, such schedule of disbursements presents fairly, in all material respects, the disbursements of the Global Environment Facility Trust Fund - Operations of the Secretariat as administered by the International Bank for Reconstruction and Development for the year ended June 30, 1999 and for the period from March 14, 1991 (date of inception) to June 30, 1999, on the basis of accounting described in Note 2.

This report is intended solely for the information and use of the Global Environment Facility Council and the Board of Governors of the International Bank for Reconstruction and Development and is not intended to be and should not be used by anyone other than these specified parties.

DeloitteTouche Tohmatsu

October 15, 1999

GLOBAL ENVIRONMENT FACILITY TRUST FUND OPERATIONS OF THE
SECRETARIAT

SCHEDULE OF DISBURSEMENTS

Expressed in millions of U.S. dollars

| | Year ended June 30, 1999 | March 14, 1991 (inception) to June 30, 1999 |
|--|-----------------------------|---|
| Disbursements | | |
| Project disbursements | \$ 0.3 | \$ 1.8 |
| Administrative expenses | 7.2 | 38.7 |
| | <u>\$ 7.5</u> | <u>\$ 40.5</u> |
| Of which: | | |
| Disbursed by the Trustee on behalf of the Secretariat | \$ 0.3 | \$ 1.8 |
| Reimbursed by the Trustee | 7.2 | 37.8 |
| Reimbursable by the Trustee | - | 0.9 |
| | <u>\$ 7.5</u> | <u>\$ 40.5</u> |

*The accompanying notes are an integral
part of this schedule*

GLOBAL ENVIRONMENT FACILITY TRUST FUND OPERATIONS OF THE SECRETARIAT

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 1 - Organization and Operation of the GEF Trust Fund

The Global Environment Facility ("GEF") was formally established as a mechanism in 1994 by the Instrument for the Establishment of the Restructured Global Environment Facility ("the Instrument"). It provides grants and concessional loans to eligible countries for incremental costs of measures to achieve global environmental benefits in four focal areas specified in the Instrument: climate change, biological diversity, international waters, and ozone layer depletion.

Incremental costs of activities concerning land degradation as they relate to the four focal areas are also eligible for funding. In addition, the incremental costs of such other activities under Agenda 21 (the action plan of the 1992 United Nations Conference on Environment and Development) as agreed by the GEF Council ("the Council") are eligible for funding insofar as they achieve global environmental benefits in the four focal areas.

Under the Instrument, contributions to GEF and all other assets and receipts of GEF are held in the Global Environment Facility Trust Fund ("the Fund") which, in accordance with the provisions of the Instrument, became effective on March 16, 1995. On that date, the Global Environment Trust Fund ("GET") (a funding mechanism for a Global Environment Facility, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in GET were transferred to the Fund at book value.

The Fund is administered by International Bank for Reconstruction and Development ("IBRD") as Trustee. Under the Instrument, the Trustee was authorized to accept contributions to the Fund from July 1, 1994 to June 30, 1997 ("GEF-1"). In March 1998, Contributing Participants (as defined in the Instrument) agreed upon the terms of a second replenishment for the period July 1, 1998 to June 30, 2002 ("GEF-2"). On July 14, 1998, by Resolution No. 98-2, IBRD's Executive Directors authorized IBRD to act as Trustee in respect of the resources made available for GEF-2. Resolution No. 98-2 also provides that any GEF-1 funds not committed by the Council at the end of GEF-1 period shall be administered as part of GEF-2.

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 1 - Organization and Operation of the GEF Trust Fund (continued)

GEF-2 has not yet become effective. On October 16, 1998, however, the Trustee, having received Instruments of Commitment from Contributing Participants whose contributions aggregated Special Drawing Rights (SDR) 290.2 million, deemed the Advance Contribution Scheme provided for in Resolution 98-2 effective. For GEF-2 to become effective, Instruments of Commitment totaling SDR 1,160.8 million must be received. As of June 30, 1999, Instruments of Commitments totaling SDR 892.0 million have been deposited with the Trustee. Accordingly an additional SDR 268.8 million is needed before GEF-2 can become effective.

The GEF Secretariat ("the Secretariat") is supported administratively by IBRD and operates in a functionally independent manner to discharge the responsibilities allotted to it under the Instrument. The Instrument similarly allots other responsibilities to the Trustee and the Implementing Agencies.

Note 2 - Summary of Significant accounting and Related Policies and Procedures

Basis of Accounting

The accompanying schedule reports the operations of IBRD as an Implementing Agency of the Fund, not the consolidated operations and fund balance of the Fund. Separate financial statements report the operations and fund balance of the Trustee and each of the other Implementing Agencies; and the operations of the Secretariat are reported in a separate schedule of disbursements. Cumulative figures in the accompanying schedule report the operations of IBRD as an Implementing Agency from March 14, 1991 (date of inception) to June 30, 1999.

The schedule has been prepared on the cash basis of accounting modified to include accruals in respect of administrative expenses incurred but not paid at June 30, 1999.

Project Disbursements

Upon request from the Secretariat, IBRD as Trustee makes project disbursements on its behalf.

NOTES TO THE SCHEDULE OF DISBURSEMENTS

June 30, 1999

Note 2 - Summary Significant Accounting and Related Policies and Procedures (continued)

Administrative Expenses

In accordance with the Instrument, IBRD is reimbursed by the Trustee for reasonable administrative expenses incurred in providing administrative support for the Secretariat. The Council reviews and approves the administrative budget of GEF.

Approved Commitments

The GEF Administrator's Office, to which the Secretariat is the successor, was authorized by the GET participants (twenty-nine members of IBRD and Switzerland (now a member of IBRD)) to commit US\$ 2.6 million in respect of the Programme for Measuring Incremental Costs for the Environment (PRINCE) project.

Note 3 - Schedule of Approved Commitments

Expressed in millions of U.S. dollars

| | <u>June 30, 1999</u> | <u>June 30, 1999</u> |
|-----------------------------------|----------------------|----------------------|
| Approved Commitments | | |
| Project commitments | \$ 2.6 | \$ 2.6 |
| Less: | | |
| Cumulative disbursements | <u>(1.8)</u> | <u>(1.5)</u> |
| Commitments awaiting disbursement | <u>\$ 0.8</u> | <u>\$ 1.1</u> |

AUDIT OPINION

We have audited the accompanying Statement of Commitments as at 31 December 1998 and the Statement of Changes in Cash and Investments for the year then ended of the Global Environment Facility (GEF) Trust Fund of the United Nations Environment Programme (UNEP). These statements are the responsibility of the UNEP management. Our responsibility is to express an opinion on these statements based on our audit.

We conducted our audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Except that the statements were drawn up on an accrual basis rather than a cash basis as stated, and except for any adjustments that may be found to be necessary upon receipt of outstanding audited expenditure statements relating to \$6.64 million spent by the executing agencies, in our opinion, the Annexed statements present fairly, in all material respects, the commitments made by and the financial position of the Global Environment Facility Trust fund as at 31 December 1998 and the changes in cash and investments for the year then ended. Further, in our opinion, the resources of the Trust fund have been used in accordance with the Instrument for the establishment of the Global environment facility and the decisions taken by the Council.

Kanwal Nath
Director of External Audit, India
On behalf of the United Nations Board of Auditors

Date: 29 June 1999
New York, NY 10017

ANNEX A

Global Environmental Facility Trust Fund Financial Statement for UNEP

Statement of Changes in Cash and Investments *Expressed in millions of US dollars*

| Receipts | 1998 |
|--|--------------|
| Disbursements received from Trustee | 16.166 |
| Investment Income | <u>0.791</u> |
| Total Receipts | 16.957 |
| Outgoings | |
| Disbursements | 8.516 |
| Administrative Expenses (incl. STAP) | 2.826 |
| Bank Charges | <u>0</u> |
| Total Outgoings | 11.342 |
| Increase (Decrease) in Cash and Investments | 5.615 |
| Cash and Investments (Reserve and Fund Balance) at beginning of period | 11.082 |
| Cash and Investments (Reserve and Fund Balance) at end of period | 16.697 |

Certified Correct

R. Rikhy, Chief
Financial Resources Management
Services, UNON
Date: 23/4/99

Certified Correct

M. Ajibade, Chief
Project Accounts Unit, UNON
Date: 23/4/99

ANNEX B

Global Environmental Facility Trust Fund Financial Statement for UNEP

Statement of Commitments *Expressed in millions of US dollars*

| | 1998 |
|---------------------------------------|---------------|
| Investment Projects | - |
| Technical Assistance | 17.528 |
| Pre-Investment Facility (PRIF) | 0 |
| Project Preparation Advance (PPA/PDF) | 0.819 |
| Other (Administrative Project) | 2.386 |
| STAP | 1.219 |
| Total Approved Commitment | <u>21.952</u> |

UNITED NATIONS BOARD OF AUDITORS

UNITED NATIONS DEVELOPMENT PROGRAMME GLOBAL ENVIRONMENT FACILITY (GEF) TRUST FUND

AUDIT OPINION

I have audited the following appended financial statement of the United Nations Development Programme (UNDP) Trust Fund for the Global Environment Facility for the financial period ended 31 December 1998. The statement is the responsibility of UNDP Management. My responsibility is to express an opinion on the financial statement based on my audit.

I conducted my audit in accordance with the Common Auditing Standards of the Panel of External Auditors of the United Nations, specialised agencies and the International Atomic Energy Agency. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, and as considered by the auditor to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for the audit opinion.

Except for any adjustments that may be found to be necessary upon receipt of outstanding audited expenditure statements relating to \$12,500,000 of nationally executed project expenditure, in my opinion, the financial statement presents fairly, in all material respects, the financial position of the Trust Fund for the Global Environment Facility as at 31 December 1998 and its income and expenditure for the financial period then ended.

Further, in my opinion, the transactions of the Trust Fund, which I have tested as part of my audit, have in all significant respects been in accordance with the Instrument for the establishment of the Global Environment Facility and the decisions taken by the Council.

DJ Woodward
Director of External Audit, United Kingdom
On behalf of the United Nations Board of Auditors
27 October 1999

TRUST FUND FOR THE GLOBAL ENVIRONMENT FACILITY-GEF

STATEMENT OF INCOME AND EXPENDITURE FOR GEF TRUSTEE
FOR THE 12 MONTHS ENDED 31 DECEMBER

| | (In US Thousands Dollars) | |
|--|---------------------------|-----------------|
| | 1998 | 1997 |
| Income | | |
| Transfers from Trustee | 60,000 | 50,000 |
| Investment Income | 2,633 | 3,308 |
| Other Income (expenditure) | (31) | (160) |
| Net Income | <u>62,602</u> | <u>53,148</u> |
| Expenditure | | |
| Project Disbursements | 66,582 | 57,231 |
| Administrative Expenses | 7,880 | 6,684 |
| Savings on Prior Biennium's Obligations | 0 | 0 |
| Net Expenditure | <u>74,542</u> | <u>63,915</u> |
| Excess of Income Over Expenditure | <u>(11,940)</u> | <u>(10,767)</u> |
| Fund Balances, 1 January | 28,493 | 40,260 |
| Fund Balances, 31 December | 17,553 | 29,493 |

| Approved Project Commitments | Cumulative to 31 December 1998 (In US Thousands Dollars) |
|---|--|
| Technical Assistance | 425,600 |
| Pre-Investment Facility | 18,200 |
| Project Preparation and Development | 18,300 |
| Small Grants Programme & Other | 70,800 |
| Total Approved Project Commitments | <u>530,900</u> |

I certify, in all material respects, that the information contained in this statement reflects the activities for the Global Environment Facility financed from contributions received from the World Bank GEF, as GEF Trustee.

Gilbert Houngbo
Chief
Comptroller's Division
United Nations Development Programme

Notes to the Statement

This Statement of Income and Expenditure has been prepared on an accrual basis of accounting. Therefore it includes the following unliquidated obligations:

| | 1998 | 1997 |
|---|----------------------------------|---------------------|
| | <i>(in US Thousands Dollars)</i> | |
| | <hr/> | |
| Unliquidated obligations - projects | 12,911 | 8,397 |
| Unliquidated obligations - administrative | <u>171</u> | <u>206</u> |
| Total unliquidated obligations | <u><u>13,082</u></u> | <u><u>8,603</u></u> |

On the other hand, outstanding advances receivable/(payable) made to executing agencies are (as at 31 December):

| | 1998 | 1997 |
|----------------------------|----------------------------------|-----------------------|
| | <i>(in US Thousands Dollars)</i> | |
| | <hr/> | |
| Government | 10,282 | 8,824 |
| Executing Agencies | <u>(6,762)</u> | <u>(11,274)</u> |
| Total O/S advances payable | <u><u>3,520</u></u> | <u><u>(2,450)</u></u> |

The net outstanding advances payable to executing agencies include \$130,604 disbursed by GEF on their behalf.