

**TRUST FUND FOR THE SECRETARIAT OF THE
GLOBAL ENVIRONMENT FACILITY**

**WORLD BANK REFERENCE
TF050495, TF050496 and TF070613**

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

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INDEPENDENT AUDITORS' REPORT

To: The Secretariat and the Council of the Global Environment Facility

We have audited the accompanying statement of cash receipts, disbursements and fund balance of the Trust Fund for the Secretariat of the Global Environment Facility, as administered by International Bank for Reconstruction and Development (the administrator), as of June 30, 2008 and for the year then ended and for the period from March 14, 1991 (date of inception) to June 30, 2008. This financial statement is the responsibility of the administrator's management. Our responsibility is to express an opinion on this financial statement based on our audit. The financial statement of the Trust Fund for the Secretariat of the Global Environment Facility for the period from March 14, 1991 (date of inception) to June 30, 1997 was audited by other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that statement and included an explanatory paragraph that described the basis of accounting discussed in Note 2 to the financial statement. The financial statement for the period from March 14, 1991 (date of inception) to June 30, 1997 reflects total disbursements of US\$ 24.3 million of the related total for the period from March 14, 1991 (date of inception) to June 30, 2008. The other auditors' report has been furnished to us, and our opinion, insofar as it relates to the amounts included for such prior period, is based solely on the report of such other auditors.

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

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

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

Deloitte + Touche LLP

January 12, 2009

**TRUST FUND FOR THE SECRETARIAT OF THE GLOBAL ENVIRONMENT
FACILITY**

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND FUND BALANCE

Expressed in U.S. dollars

	<u>For the year ended June 30, 2008</u>	<u>March 14, 1991 (date of inception) to June 30, 2008</u>
<i>Transfers in from Trustee for:</i>		
Corporate budget (Note 3)	\$ 10,895,338	\$ 140,270,118
Evaluation office (Note 4)	4,293,366	15,808,879
Grant commitments (Note 8)	-	3,348,600
	<u>15,188,704</u>	<u>159,427,597</u>
Donor contributions (Note 6)	90,599	595,674
Donor contributions - Evaluation office (Note 6)	-	653,099
Donor contributions - WSSD (Note 6)	-	150,000
Investment income (Note 7)	15,100	15,100
Total receipts	<u>15,294,403</u>	<u>160,841,470</u>
Corporate budget disbursements (Notes 3, 5, 9 and 11)	12,403,349	134,363,600
Evaluation office disbursements (Notes 4, 5 and 9)	4,012,223	15,974,630
Grant commitments disbursements (Notes 5, 8 and 9)	97,046	2,378,957
Return to Trustee - Unutilized funds (Note 10)	1,478,818	1,478,818
Refund to donor (Note 10)	18,702	18,702
Total disbursements	<u>18,010,138</u>	<u>154,214,707</u>
Excess of (disbursements over receipts) / receipts over disbursements	(2,715,735)	6,626,763
Fund Balance:		
Beginning of period	9,342,498	-
End of period	<u>\$ 6,626,763</u>	<u>\$ 6,626,763</u>
Fund balance consists of:		
Share in pooled cash and investments		<u>\$ 6,626,763</u>

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

TRUST FUND FOR THE SECRETARIAT OF THE GLOBAL ENVIRONMENT FACILITY

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 1 - Organization and operation of the GEF

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

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

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

The Secretariat of the GEF (the Secretariat) coordinates the formulation of projects included in the annual work program, oversees its implementation, and makes certain that operational strategy and policies are followed.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

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

The Secretariat is supported administratively by IBRD and operates in a functionally independent manner to discharge the responsibilities assigned to it under the Instrument. The accompanying financial statement reports the cash receipts and disbursements of the Secretariat of the GEF Trust Fund (the Trust Fund).

IBRD performs certain administrative, accounting, financial reporting and treasury services related to Trust Fund activities on behalf of the Secretariat. The Instrument similarly assigns other responsibilities to the Trustee of the GEF Trust Fund and the implementing agencies.

Activities of the Trust Fund are carried out by IBRD through the Secretariat which is responsible for their execution. IBRD as part of its executing activities, prepares terms of reference, procures goods and services from suppliers, disburses funds and submits progress reports and audited financial reports for these activities.

Note 2 - Significant accounting policies

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

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

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 2 - Significant accounting policies (continued)

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

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

Note 3 - Transfers in from Trustee for corporate budget

In accordance with the Instrument, and as approved annually by the Council, the GEF Trust Fund provides corporate budget funds to the Secretariat in order to reimburse the Secretariat for administrative expenses incurred in the performance of its corporate management activities. Using these funds, the Secretariat subsequently reimburses IBRD for certain administrative, accounting, financial reporting, and treasury services performed by IBRD on behalf of the Secretariat.

Note 4 - Evaluation office

The monitoring and evaluation functions of the GEF were established after the GEF restructuring in 1994, when the GEF Council was entrusted with the responsibility for developing, adopting, and evaluating the operational policies and programs for GEF activities. As a result of the second overall performance study and replenishment of the GEF Trust Fund, the GEF Monitoring and Evaluation Unit was made independent in 2003. In November 2004, the GEF Council renamed the unit as the GEF Office of Monitoring and Evaluation and was responsible for developing new policies for monitoring and evaluation in the GEF.

In November 2005, the GEF Council renamed the unit as GEF Evaluation office (EO). Administratively, the EO operates as an organizational unit that is independent of GEF Secretariat management in the conduct of the evaluations that it undertakes and it reports directly to the Council.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 4 - Evaluation office (continued)

The EO has the central role of ensuring the evaluation function within the GEF, of setting minimum requirements for monitoring and evaluation, of ensuring oversight of the quality of monitoring and evaluation systems on program and project level and of sharing evaluative evidence within the GEF network.

Effective July 1, 2003, the corporate budget of the Evaluation office was reported separately from the corporate budget of the Secretariat. Funding for EO activities prior to July 1, 2003 is included in the line item 'Transfers in from Trustee for corporate budget', as described in Note 3. Similarly, corporate budget disbursements associated with EO activities prior to July 1, 2003 are included in the 'Corporate budget disbursements' line item.

Transfers in from Trustee for Evaluation Office and EO's disbursements for the year ended June 30, 2008 amounting to US\$4,293,366 and US\$4,012,223 respectively, do not include any amounts which may have been received or disbursed by the Secretariat for EO activities prior to July 1, 2003, given that EO was made an independent unit effective July 1, 2003.

Note 5 - Administrative arrangements

IBRD is periodically reimbursed for expenditures made from its own resources in executing activities for the Secretariat. Disbursements for the fiscal year ended June 30, 2008 and from July 1, 2001 to June 30, 2008 include amounts for direct staff costs, related benefits and overheads totaling US\$4,991,948 and US\$29,620,640 respectively, which were paid to IBRD for their estimated costs incurred for activities consistent with the purpose of the Secretariat in accordance with the administration agreements. Amounts of this nature that were reimbursed to IBRD prior to July 1, 2001, are not practicably determinable and therefore not presented.

Note 6 - Donor contributions

Conversions of contributions received in various currencies into U.S. dollars are initiated by IBRD upon the latter of the receipt of funds, or the receipt of the signed and countersigned administration agreement.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 6 - Donor contributions (continued)

As of June 30, 2008, GEF Secretariat has received donor contributions totaling US\$505,075 to support the preparation and organization of the third meeting of the Assembly and associated meetings (GEF Third Assembly project). The amounts committed by the donors and received by IBRD in this regard are as follows:

<u>Donor</u>	<u>Amounts Committed</u>		<u>Amounts Received</u>		<u>Contributions received in / converted to US\$</u>
Denmark	DKr	400,000	DKr	400,000	US\$ 68,010
Finland	US\$	100,000	US\$	100,000	100,000
Norway	NKr	500,000	NKr	500,000	79,596
South Africa	Zar	1,500,000	Zar	1,500,000	207,469
Sweden	US\$	50,000	US\$	50,000	50,000
Total					US\$ 505,075

In addition, during the year ended June 30, 2008, GEF Secretariat also received contribution in the amount of US\$90,599 from Norway, to support participation by the GEF focal points representatives to the United Nations Climate Change conference 2007.

The EO has received donor contributions totaling US\$653,099 for the period March 14, 1991 (date of inception) to June 30, 2008, to support a study of the Nature of Local Benefits in GEF Program areas. As of June 30, 2008, the amounts committed by the donors and received by IBRD in this regard are as follows:

<u>Donor</u>	<u>Amounts Committed</u>		<u>Amounts Received</u>		<u>Contributions received in / converted to US\$</u>
Canada	Can\$	249,980	Can\$	249,980	US\$ 173,525
Norway	NKr	1,680,000	NKr	1,680,000	244,030
Sweden	SKr	1,915,560	SKr	1,915,560	235,544
Total					US\$ 653,099

As of June 30, 2008, the EO unit also received contributions from McArthur Foundation in the amount of US\$50,000 and from Netherlands Minister for Development Cooperation in the amount of US\$100,000 to fund the development of lessons-learned case studies on environmental enterprises for presentation at the World Summit on Sustainable Development (WSSD).

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 7 - Investment income

Amounts paid into the Trust Fund and received from the GEF Trust Fund, but not yet disbursed, are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, the International Development Association, the International Finance Corporation, the Multilateral Investment Guarantee Agency and the International Centre for Settlement of Investment Disputes (the World Bank Group). IBRD maintains all trust fund assets separate and apart from the funds of the World Bank Group.

The Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD. Generally, the Pool is invested in liquid financial instruments such as money market instruments, government and agency obligations, mortgage-backed securities, and other high-grade bonds. The Pool may also include securities pledged as collateral under repurchase agreements with other counter parties. Additionally, the Pool may include receivables from resale agreements for which it has accepted collateral.

Investment income earned on funds held by the Secretariat is credited to the GEF Trust Fund and therefore is not reflected in the accompanying financial statement, except investment income in the amount of US\$15,100 on contributions received towards the GEF Third Assembly and Associated Meetings.

Note 8 - Grant commitments

Cumulative funds received for grant commitments totaling US\$3,348,600 include US\$748,600 as part of the GEF Country Dialogue Workshops, a joint project managed by United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP) and IBRD in cooperation with the Secretariat. In addition, the Secretariat was previously authorized by the contributing participants to commit US\$2,600,000 with respect to the Programme for Measuring Incremental Costs for the Environment (PRINCE) project, which has been completed.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2008

Note 9 - Commitments

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

Note 10 - Return of funds

During the year ended June 30, 2008, activities in the trust funds established for GEF Third Assembly and Associated Meetings were completed and unutilized fund balance in the amount of US\$18,702 and US\$1,478,818 was returned to the Donors and the Trustee, respectively.

Note 11 - Subsequent event

During the year ended June 30, 2008, disbursements in the amount of US\$385,774, were incorrectly charged to the Trust Fund, of which an amount of US\$279,289 was reimbursed to the Trust Fund. As of June 30, 2008, corporate budget disbursements include the remaining balance of US\$106,485, which was reimbursed to the Trust Fund subsequently.