



Producing Results for the Global Environment

GEF Annual Report 2004



GLOBAL
ENVIRONMENT
FACILITY

“The GEF is committed to helping build the capacity of people, governments, and institutions to protect the global environment.”

Len Good
CEO and Chairman
Global Environment Facility

GEF Annual Report 2004

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The Global Environment Facility (GEF)

The GEF unites 176 member governments—in partnership with international institutions, non-governmental organizations (NGOs), and the private sector—to address global environmental issues while supporting national sustainable development initiatives. It is the catalyst that drives actions to improve the global environment.

The GEF mobilizes international cooperation, helping to move the world toward sustainable development. It links local, national, and global environmental challenges. In just 14 years, it has

evolved into an effective and transparent entity with a solid track record of getting results. Today, the GEF is the largest funder of projects to improve the global environment. The GEF has allocated \$5 billion, supplemented by more than \$16 billion in cofinancing, for more than 1500 projects in 140 developing countries and countries with economies in transition.

At the heart of GEF's work are its three Implementing Agencies—the U.N. Development Programme (UNDP), U.N. Environment Programme (UNEP), and the

World Bank—which share credit for the GEF's measurable on-the-ground achievements. The GEF's Executing Agencies also contribute to the GEF's impact: the U.N. Food and Agriculture Organization (FAO), the U.N. Industrial Development Organization (UNIDO), the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IDB), and the International Fund for Agricultural Development (IFAD).

Fast Facts About GEF

- **INDEPENDENT FINANCIAL ENTITY**
- **176 MEMBER COUNTRIES**
- **LARGEST SINGLE SOURCE OF FUNDING FOR THE GLOBAL ENVIRONMENT (\$5 BILLION IN DIRECT GRANTS, LEVERAGING MORE THAN \$16 BILLION IN COFINANCING FROM PARTNERS)**
- **FINANCIAL MECHANISM FOR THE INTERNATIONAL CONVENTIONS ON BIODIVERSITY, CLIMATE CHANGE, PERSISTENT ORGANIC POLLUTANTS, AND DESERTIFICATION**
- **UNDP, UNEP, AND WORLD BANK ARE GEF PARTNERS, IMPLEMENTING OVER 1,500 PROJECTS AND THOUSANDS OF SMALL GRANTS IN MORE THAN 140 COUNTRIES**
- **EVERY \$1 INVESTED BY THE GEF LEVERAGES \$3 IN COFINANCING FROM PARTNERS**
- **MORE THAN 700 NGOs ACTIVELY PARTICIPATE IN GEF ACTIVITIES AND OVERSEE GEF PROJECTS**

Message from the CEO and Chairman



LEN GOOD

With negotiations for the fourth replenishment of the GEF Trust Fund underway, I thought it would be useful to take stock of this current replenishment period.

I believe that GEF's work to improve the global environment while helping the poor lead better lives is making a significant difference. Results in all six GEF focal areas speak to the success of our collaborations with our implementing and executing agencies, as well as with other partners, such as the private sector and the 700 nongovernmental organizations (NGOs) who actively participate in GEF activities and oversee projects. GEF's involvement continues to have a huge multiplier effect. Every \$1 invested by GEF leverages, on average, \$3 in cofinancing from other international institutions, regional development banks, bilateral donors, businesses, NGOs, and developing country governments.

Let me highlight a few examples of the results anticipated from the successful implementation of GEF projects approved in FY03 and FY04:

- Nearly 600 million tons of greenhouse gas emissions are expected to be avoided.
- Protected areas are estimated to be expanded by 46 million hectares.
- More than 17 million additional hectares of land are expected to be saved from degradation.
- Fifty-nine more countries are actively assessing threats from dangerous stockpiles of persistent organic pollutants and developing safer ways to destroy them.
- Six additional major water bodies are expected to be managed more effectively and efficiently, often despite regional tensions.
- Methyl bromide, one of the most dangerous chemicals depleting the ozone layer, is estimated to be phased out in Central and Eastern Europe.

In my 2003 annual report message, I emphasized that GEF projects are best known for global environmental benefits, but as we help protect the planet and its fragile ecosystems, our work is also helping to create livelihoods and opportunities for the poor. This year I want to focus on one of the foundations of this work—

GEF's commitment to help build the capacity of people, governments, and institutions to protect the global environment so they can maximize benefits from the many ecological services and economic benefits our ecosystems provide.

There is little doubt that capacity building remains one of the most important needs for developing countries and countries with economies in transition. These countries have made commitments to participate in global environmental management. Yet in many cases, their national capacity to fulfill these commitments is limited and thwarts their aspirations and hopes.

I am proud to say that most of the GEF's 1,500 projects already have a capacity-building component at either the individual, institutional, or systemic level. Embedding capacity building in our projects is the most effective means for sustainable development. The vignettes you will read about demonstrate GEF's support in a variety of forms—from building capacity for using new technologies, to establishing financing

mechanisms that make environmental protection more affordable, to creating enabling policy frameworks.

In China, for example, we are helping raise awareness about the health risks of PCBs to ensure that these dangerous chemicals are disposed of in an environmentally safe manner. In Brazil, we are helping the government implement a new national water law that promotes more effective water management. And in India, Kenya, and Morocco, we are promoting new financial instruments that can help budding photovoltaic businesses capture a larger share of the market.

Looking to the future, I want to emphasize that we are planning to design capacity building into all GEF projects and to monitor the impacts so we can best capture lessons learned. Our goal is to leave a lasting imprint. By building capacity, we can help ensure that when a GEF project is completed, the work to protect the global environment continues.

Rob Good



Making a Difference for the Global Environment

By addressing threats to the global environment, the GEF furthers political stability, poverty alleviation, disease prevention, and other efforts important to world peace. Governments, private companies, the scientific community, grassroots organizations, and nongovernmental organizations all contribute their expertise and specialties to GEF's work. The GEF has evolved into an effective and responsive entity with an increased focus on results measurement. The following are some examples of how GEF projects can make a difference for the global environment and the poor.

REDUCING RISKS OF CLIMATE CHANGE

Helping developing countries to expand their use of clean energy can reduce their consumption of fossil fuel. As the largest funder of renewable energy in the developing world, the GEF is supporting solar, wind, geothermal, biomass, and small hydropower energy, along with energy efficient lights. In 14 years, the GEF's clean energy portfolio has grown to more than \$1.9 billion in grants for projects with a total value of nearly \$12 billion.

GEF's climate programs are also helping countries to adapt to the adverse effects of climate change. Particularly at risk are small island states with fragile coastal ecosystems, such as the Caribbean and Pacific Islands. The GEF is working with these countries to identify areas vulnerable to climate change and sea level rise, develop cost-effective response programs, and enhance regional and national capabilities for dealing with climate change problems.

The GEF has invested substantial "capital" in transforming markets toward cleaner, low greenhouse gas-emitting technologies and promoting a path toward sustainable development. This market

focus has made the GEF increasingly effective in catalyzing private investment, government commitments to programs and policies, rural energy services, and expansion of technology markets. Because of its credibility and reputation, GEF has increasingly leveraged more cofinancing, facilitated better investments, and conducted new market transformation programs. The experience has also allowed the GEF to replicate projects from one country to another. Moreover, the range of technologies the GEF supports has grown to encompass fuel cells, solar thermal power plants, efficient motors, and renewable energy for rural health, education, and income generation.

When successfully implemented, GEF energy projects approved in FY03 and FY04, which include renewable energy and energy efficiency projects, are expected to directly reduce emissions of greenhouse gases by 181 million tons over their lifetime. These same projects are conservatively estimated to have an indirect impact as well: 409 million tons of greenhouse gas emissions are expected to be avoided over the lifetime of the investments, provided they are replicated and sustained beyond GEF financing, as intended.

REVERSING BIODIVERSITY LOSS

From oceans to high mountains, from deserts to rain forests, the earth collectively supports millions of species of plants and animals. All people, regardless of birth or economic status, depend on this natural endowment for their livelihoods and survival. Loss of these natural goods and services hinders national development and economic growth, taking the most serious toll on those who depend most directly on natural resources for their survival—the poor.

The GEF supports practical measures to encourage the conservation and sustainable use of biodiversity. Since 1991, the GEF has provided \$2 billion and leveraged \$4.4 billion more in commitments from partners for more than 700 projects that address the loss of globally significant biodiversity. The GEF's biodiversity portfolio centers on critical, life-supporting systems and the interactions among them: drylands, forests, mountains, agricultural biodiversity, and coastal, marine, and freshwater resources.

In 2001, the GEF broadened its strategy toward conserving biodiversity. Up until then, the GEF's

assistance had focused on managing interventions within protected areas and their buffer zones and strengthening the enabling environment in that context. The new strategic direction emphasizes sustainable use activities within protected areas, the surrounding lands, and the larger production landscape and seascapes. The GEF recognized that going beyond protected areas and targeting productive landscapes is essential for ensuring long-term conservation.

When successfully implemented, GEF projects approved in FY03 and FY04 are expected to place 46 million additional hectares of land under protection or conservation management, which would bring the total protected areas saved since the GEF's inception in 1991 to 279 million hectares. Also estimated to be safeguarded are 39 million hectares surrounding protected areas—land that is being used productively and, at the same time, supporting habitats and ecosystems.

PREVENTING OZONE DEPLETION

Ozone-depleting substances damage the earth's natural layer of protection from ultraviolet sunlight. Exposure to this type of radiation is associated with skin cancer and eye maladies, along with harm to wildlife and aquatic ecosystems.

Since 1992, the GEF has been approving grants and assistance to countries that are not eligible for assistance from the Multilateral Fund for the Montreal Protocol—such as the Russian Federation and the nations of Eastern Europe and Central Asia.

Because of its success in assisting eligible countries to phase out ozone-depleting substances in the initial stages of the Montreal Protocol, the GEF staked out a new direction and sought to eliminate methyl bromide to the extent feasible during the third replenishment period.

When successfully implemented, GEF projects approved in FY03 and FY04 are expected to phase out 167 tons of methyl bromide, thus ensuring that all seven participating countries in Central and Eastern Europe are in compliance with the Montreal Protocol on Substances that Deplete the Ozone Layer.

SAFEGUARDING INTERNATIONAL WATERS

The world's marine and freshwater resources are under enormous stress, threatening the future of developing country economies and the people who depend on them. Transboundary waters, coastal and marine areas, lakes, coral reefs, and other water resources are being degraded by pollution from land-based activities and poor management practices, overuse of water for irrigation, over-fishing, and other factors.

The GEF works with more than 135 countries on projects to restore and protect transboundary water resources that are so vital to communities. GEF expects to invest more than \$400 million to address critical water problems during the third replenishment period.

In 2002, the GEF embarked on a new strategic thrust for its work on international waters. Initially, the GEF's support to countries bordering transboundary water bodies was focused on capacity building to strengthen collaboration. These "enabling activities" built trust and confidence among nations, helping them work together and identify needed

actions. With the third replenishment, the GEF strategy has shifted to assisting governments as they implement agreed-upon actions, including policy, legal, and institutional reforms, as well as investment strategies.

When successfully implemented, GEF projects approved in FY03 and FY04 are expected to support the establishment of new management frameworks for six transboundary water bodies: the Niger and Volta River Basins, the West Sahara and Illumedden Aquifers, the Limpopo Basin, and the Guinea Current Large Marine Ecosystem. This would bring the total number of transboundary water bodies helped by GEF projects to 32, with another 12 projects in the pipeline.

ELIMINATING PERSISTENT ORGANIC POLLUTANTS

Persistent organic pollutants (POPs) are among the most dangerous pollutants released in the environment. These highly toxic organic compounds include pesticides, industrial chemicals such as heat-resistant compounds used primarily in electrical equipment, and substances generated as by-products of incomplete combustion and chemical processes. They cause an array of health effects in humans and animals, including disease, birth defects, and death. They can persist in the environment and accumulate in animals for years or decades before breaking down.

To address the issues surrounding POPs, the Stockholm Convention on Persistent Organic Pollutants was adopted on May 2001 and the GEF was designated as the interim financial mechanism. Since then, the GEF has approved more than \$100 million in grants, supplemented by \$70 million in cofinancing, to help countries prepare for the phase-out and elimination of POPs and the switch to sustainable alternative chemicals, tech-

nologies, and practices. This includes \$50 million for country projects and another \$50 million for enabling activities to help countries prepare national implementation plans.

The GEF's involvement with POPs dates back to 1995, through its support for its international waters operational strategy, particularly its contaminant-based component.

This early activity allowed the GEF to respond promptly to the request of the negotiators of the Stockholm Convention for support to implement the Convention in the interim before its entry into force, and led to the adoption by the GEF Council of the guidelines for POPs enabling activities.

In FY03 and FY04, the GEF has approved 59 new proposals from developing countries for help in assessing threats posed by POPs and promoting safer methods of destroying stockpiles of these dangerous chemicals. The GEF is now helping more than 100 countries develop national implementation plans for the elimination of POPs.

PREVENTING LAND DEGRADATION

Around the world, land degradation, especially desertification and deforestation, is reaching alarming levels. The Millennium Ecosystem Assessment has confirmed that drylands are most affected. Each year 12 million hectares are lost through desertification—enough land to grow 20 million tons of grain. Both desertification and deforestation have triggered ecosystem destruction and large-scale population movements, disrupted economic development prospects, aggravated regional conflicts and instability, and threatened the lives and livelihoods of people living in affected areas.

From the beginning, GEF projects to preserve biodiversity, reduce risks of climate change, protect the ozone layer, and clean up international waters have had the added benefit of strengthening sustainable land management. With land degradation around the world reaching alarming levels, the Second GEF Assembly expanded GEF's mandate by adding the land degradation focal area to the GEF portfolio. In 2003, the GEF was designated a financial mechanism of

the United Nations Convention to Combat Desertification.

What makes GEF's sustainable land management strategy unique is its holistic view. The GEF recognizes that land and water resources are key to sustainable development in the world's dry areas. The focus is not on individual benefits, but rather on synergies among various GEF focal areas. During the third replenishment period, GEF expects to invest more than \$250 million in projects that directly integrate sustainable land management into national development priorities; strengthen human, technical, and institutional capacities; bring about needed policy and regulatory reforms; and implement innovative sustainable land management practices. Projects in other GEF focal areas that indirectly address land degradation are expected to add another \$250 million in GEF resources.

When successfully implemented, GEF projects approved in FY03 and FY04 are expected to bring an additional 17 million hectares under sustainable land management, thereby protecting them from degradation.

Good News about the GEF



Through GEF assistance, countries in Central Asia, Russia, and Eastern Europe have **cut their use of chemicals that deplete the ozone layer** by more than 90 percent.



A large-scale effort by the GEF and partners is **eliminating stockpiles of obsolete pesticides**, including toxic organic pollutants, which present a serious threat to the health of Africans and the integrity of the continent's environment.



Five million energy efficient lights have been installed through GEF projects. In Poland, the number of households using compact fluorescent lighting increased from 11 percent to 20 percent. In Mexico, this technology has been introduced in thousands of homes and offices. **Renewable energy** systems have also increased agricultural productivity and the incomes of Mexico's small farmers.



Off the coasts of Belize, Ghana, and Indonesia, the GEF is helping shield the undersea beauty and rich **biodiversity of barrier reefs and other marine systems**. These marine systems support vital industries, including tourism, fisheries, and agriculture.



In South Africa, GEF funding is creating jobs in and around Cape Town by training national park staff and the unemployed to **combat invasive species**, which threaten one of the world's six floral kingdoms, located on Cape Peninsula. The area harbors more than 9,000 plant species, 70 percent of which are found nowhere else.



GEF funding to **restore degraded wetlands** in Romania has resulted in the removal of an estimated 55 tons of phosphorus, 1,200 tons of nitrogen, and 40,000 tons of sediment from the Danube River before it enters the Black Sea.



A GEF project has been successful in **stimulating and facilitating communication** between Albania and the Former Yugoslav Republic of Macedonia. Despite regional tensions, the governments and people of the two countries are jointly managing a GEF project to protect historic Lake Ohrid, which hosts a unique collection of plants and animals.



GEF projects have contributed to the global market for solar home systems, which now totals more than 1 million rural households. In India, **wind power generation** capacity increased from zero to over 1200 megawatts—enough to power more than 5 million homes.



GEF projects in the humid tropics, Amazonia, Guyana Shield, Caucasus, and Himalayas collectively work to **conserve the largest remaining tracts of tropical rainforests**, home to millions of species.

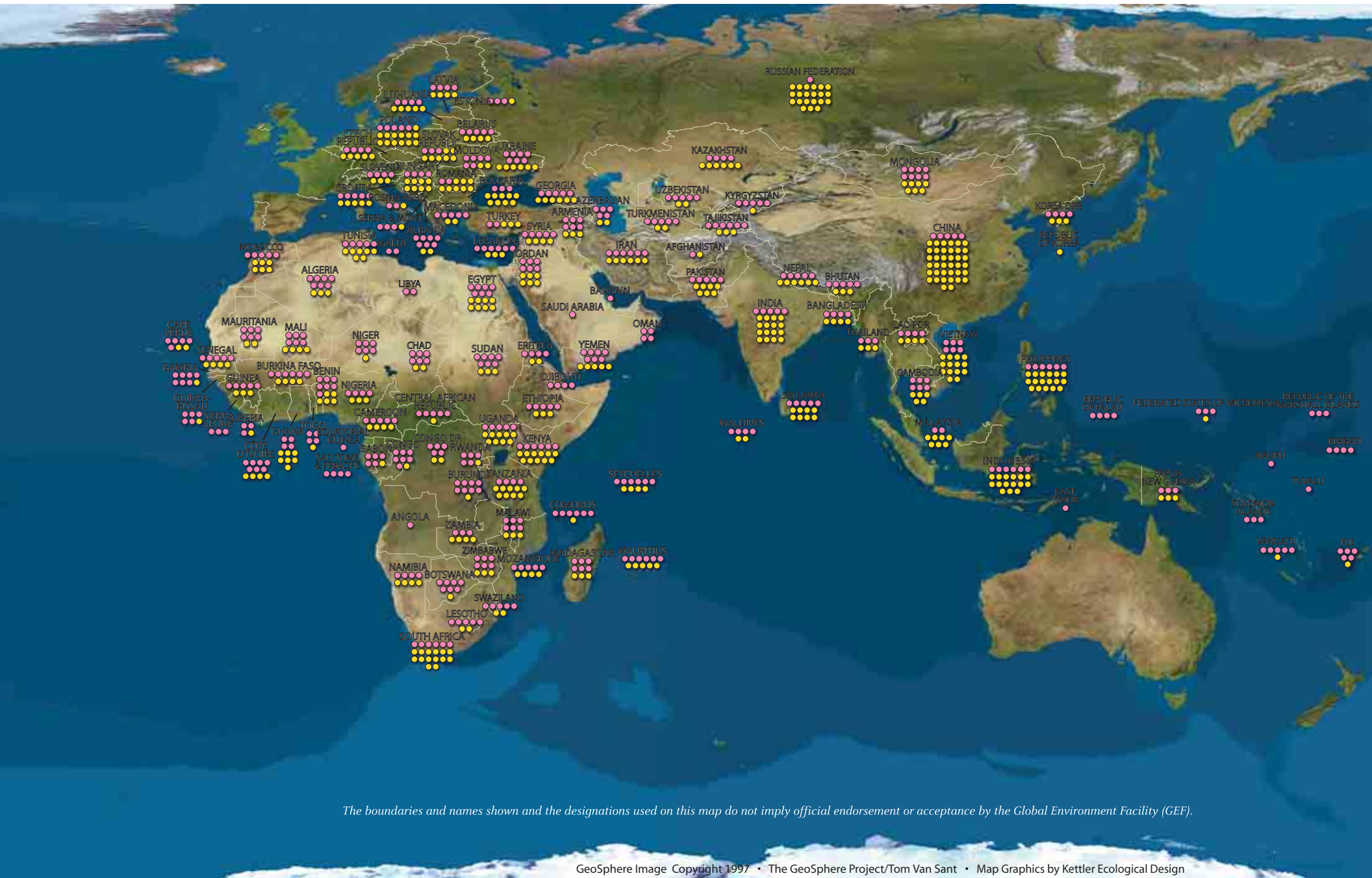
A Sampling of GEF Projects Around the World

● Country Enabling Activities

● Country Projects

This map depicts country-specific GEF projects. It does not show the more than 250 global and regional GEF projects.





The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the Global Environment Facility (GEF).

GeoSphere Image Copyright 1997 • The GeoSphere Project/Tom Van Sant • Map Graphics by Kettler Ecological Design



GEF Support for Capacity Building

Building Capacity through Increased Awareness

Polychlorinated biphenyls (PCBs), a class of synthetic organic chemicals, are found worldwide in air, water, soil, food, and the fatty tissues of humans and animals. Human exposure to PCBs through contaminated foods may cause such health problems as developmental and behavioral disorders in children and disruption in the endocrine and immune systems. PCBs are considered to be carcinogenic, and research also links PCBs to reproductive failure and suppression of the immune system in seals, mink, and other wild animals. Moreover, PCBs are toxic to fish; higher doses kill fish and lower doses cause spawning failures.

As the interim financial mechanism for the Stockholm Convention on Persistent Organic Pollutants, the GEF is responsible for channeling much of the international funding for identifying, labeling, and disposing of PCBs. In many countries where the GEF is promoting effective PCB management, the first

step is to build capacity—particularly institutional development, training, and public awareness. Although China no longer produces PCBs, thousands of tons of these chemicals still exist around the country. During the 1980s, following growing health and environmental concerns, the government removed most PCB-containing capacitors from service and placed them in temporary storage facilities intended to hold them for 3 to 20 years. Recent surveys and investigations indicate that most PCB-containing equipment remains in these temporary storage facilities, and that many of the facilities—caves and burial sites—are leaking PCBs into the environment.

A GEF project is helping China with PCB management and disposal challenges. A key component of the project is building public awareness and educating citizens, government officials, and others about the health risks surrounding PCBs. This will be a vast undertaking given China's size and its large population. Specifically, the project will focus

on a demonstration area and will develop local capacity to identify locations of all PCB storage sites, prevent leakage from the sites, collect all PCB-containing equipment, recover PCB-containing oils, and dispose of them in an environmentally safe manner. The project will also design a national replication program and disseminate its findings regionally and globally.

Building Capacity through Technology Transfer

There is a growing need in many countries for clean, reliable power for productive applications because grid power is either not available or unreliable. The answer may be fuel cells. To introduce stationary fuel cells to manufacturers, entrepreneurs, and others, the Fuel Cells Financing Initiative, a global GEF program, is using structured learning and technology transfer to help develop local capacity. Fuel cells can produce electricity at higher conversion efficiencies than most other currently available technologies. The initiative, through its structured capacity building and

technology transfer approach, is a unique attempt to bridge technological gaps between developed and developing countries.

Stage one of this initiative is to gain transactional experience with stationary fuel cell technologies in developing countries. Participants will be encouraged to come up with innovative business models and applications that have the potential of being sustainable and replicable. Subsidies are provided to make fuel cells more “affordable” during this stage of the initiative. Up to three commercial demonstration projects will be set up during the first stage.

The second stage of the initiative will build on the lessons learned from the first phase and will be initiated only when technology prices have dropped to more acceptable levels.

Building Capacity through Institutional Reforms

The Eastern Arc Forests in the mountains of Tanzania have the highest known number of plant

and animal species of any region in the country and represent one of the oldest and most stable terrestrial ecosystems on the continent. These forests are recognized as one of the 25 global biodiversity hotspots, with a concentration of endemic species under considerable threat.

A GEF project, Conservation and Management of the Eastern Arc Mountain Forests, is encouraging institutional reforms to strengthen the capacity of national forestry institutions in Tanzania. These institutions will in turn provide services that foster participatory processes in forest biodiversity conservation in the Eastern Arc. The project is working at the central, district, and local levels to incorporate specific responsibilities for biodiversity conservation, oversight, monitoring, and coordination.

GEF's support responds to the growing threats to the Tanzanian forests at a time when both local communities and more distant populations are increasingly dependent on them for their

livelihoods as well as their water and energy potential. The GEF project focuses on promoting sustainable conservation and management of the Eastern Arc Forests and is part of a broader effort—the Forest Conservation and Management Project—which is supporting institutional reforms, community-based forest and woodland protection and management, and improved forest governance throughout Tanzania.

Building Capacity by Providing Access to Financing

Despite their huge potential, the markets for photovoltaic (PV) energy in developing countries are at an early stage of development, and mainstream investors are often cautious about entering these markets. To build local capacity by accelerating the financial viability of PV businesses in developing countries, especially for off-grid applications, the GEF designed the Photovoltaic Market Transformation Initiative (PVMTI), a financing facility with a variety of financial instruments. PVMTI seeks to fulfill its mandate by nur-

ture a few selected PV business models and providing them with an appropriate combination of technical assistance and loan financing, as well as providing guarantees and equity.

The GEF initially focused on India, Kenya, and Morocco. Investments in those markets are expected to provide sustainable business models that can ultimately be replicated in other countries. The PVMTI currently supports 12 businesses, representing a wide range of applications, including individual solar home systems and mini-grid type applications. In the six years since its implementation, the project has provided equity financing to sellers and users of PV systems, in addition to loans and credit guarantees.

Building Capacity through Policy Reforms

Brazil's Rio São Francisco traverses diverse climatic zones and five states in northwestern Brazil before discharging into the Atlantic Ocean. The river is as large as the Danube or the Colorado Rivers and faces similarly

complex water problems as a result of haphazard development of mining, irrigation, hydropower, and urban water supply projects. These projects did not take environmental considerations into account, resulting in adverse impacts on coastal areas, biodiversity, and the future development potential of this water-scarce, semi-arid region.

As the scale of the problems in the region became known, Brazil requested GEF assistance to develop a watershed management program that addresses the root causes of water degradation and scarcity in the basin. The project, Integrated Management of Land-based Activities in the São Francisco Basin, is using grants from the GEF along with cofinancing from the Government of Brazil, The World Bank, and the Organization of American States.

The project is helping the government to implement its new national water law in the basin, including a system of pricing for water use. It is also working to implement other policy reforms

that achieve more efficient water use and improve environmental quality in the degraded coastal area. These policy reforms are essential for creating an enabling environment that promotes effective water management.

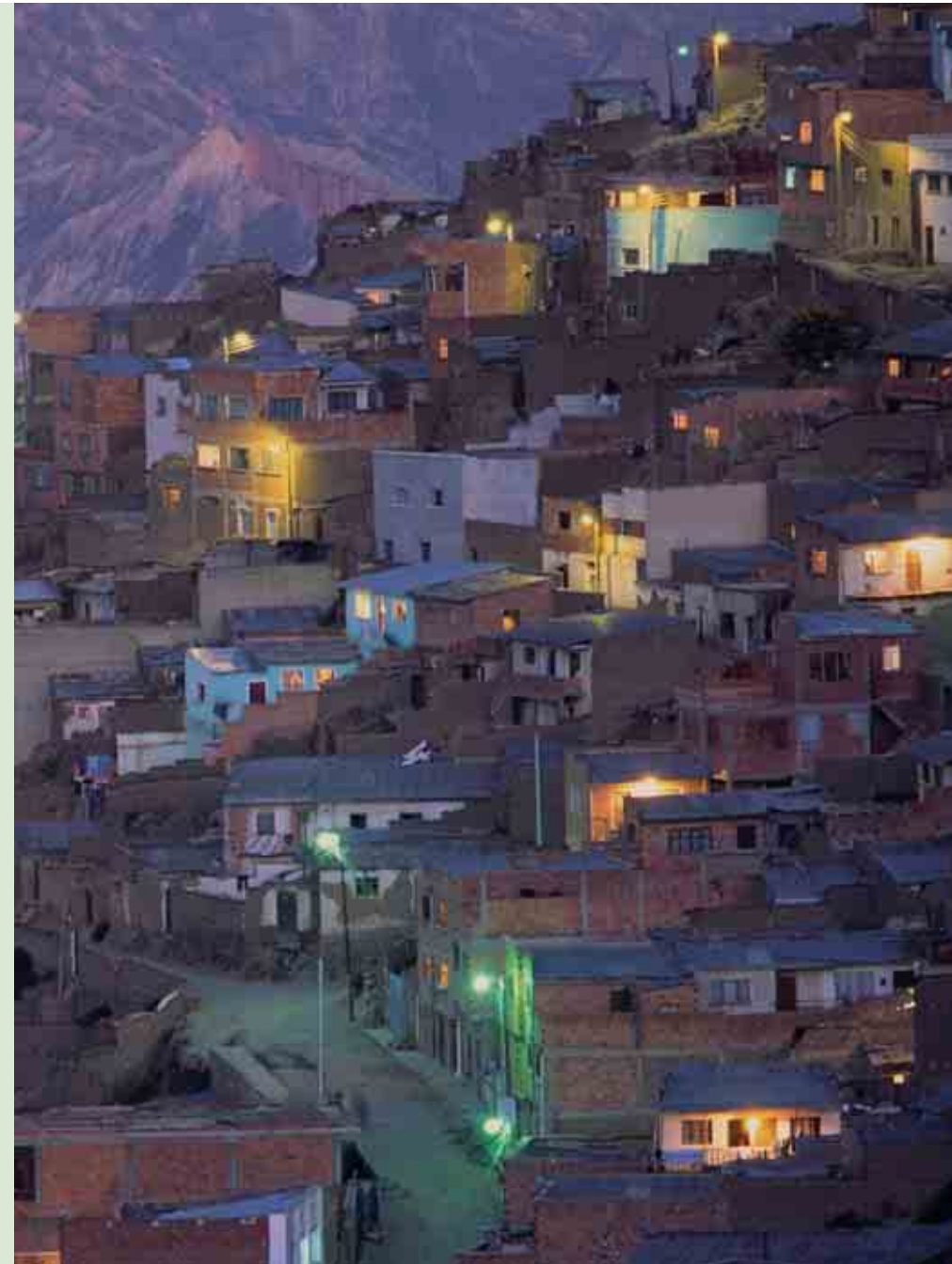
In addition, the project is:

- Working to establish a quantitative basis for the fiscal and legal mechanisms needed under the new law to sustainably manage the river and its coastal zone, including a framework for the allocation of water rights and the development of water prices and use regulations.
- Helping form a river basin committee representing stakeholders in the five basin states. In addition, a framework is being developed for a financially sustainable basin management agency to facilitate integrated land and water management strategies that incorporate the ecological needs of the basin and coastal zone.

- Developing a program of legislative initiatives to harmonize and optimize water resource management and protection among the five different states in the basin.

- Preparing analyses of the use of artificial floods and different scenarios for hydropower and irrigation operation of the series of reservoirs in the basin to minimize estuarine and coastal zone degradation.

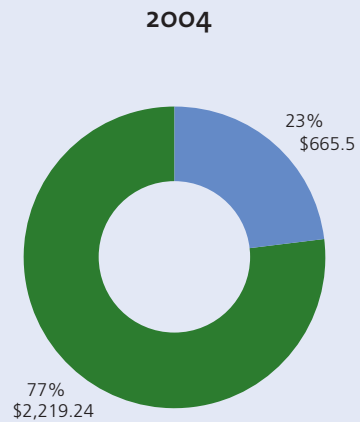
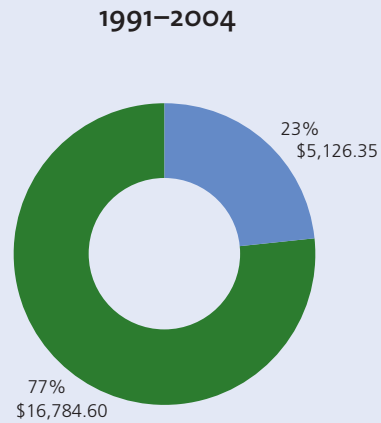
The experience gained from using financial and legal mechanisms to manage both water quantity and quality will be of great interest for replication elsewhere. These mechanisms may have broad application to other situations around the world where quality and quantity considerations need simultaneous attention as countries address the water crisis in a holistic manner.



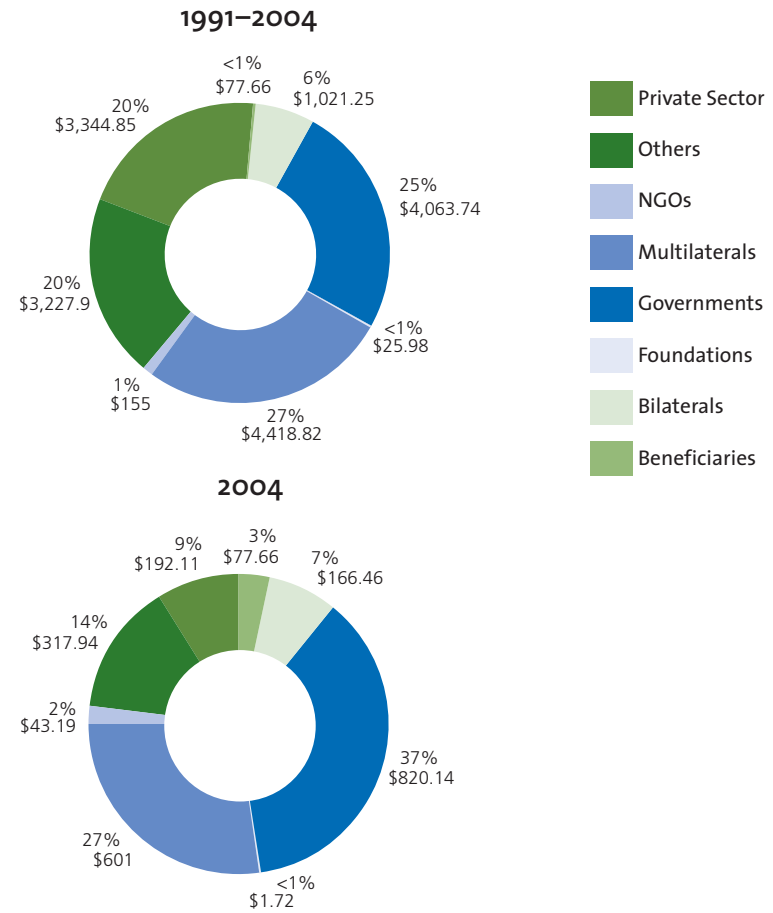
The GEF Portfolio Allocations and Cofinancing

The Leveraging Effect of GEF Support

■ Cofinancing Amount
■ GEF Allocation



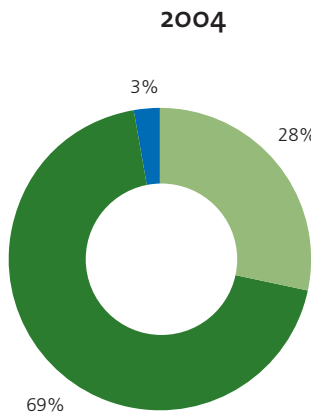
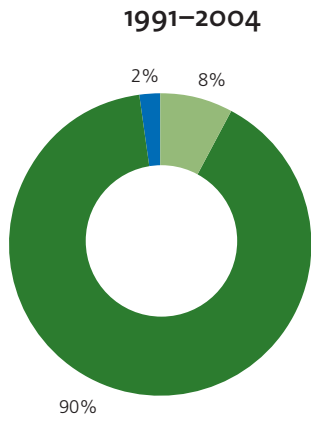
Sources of GEF Cofinancing



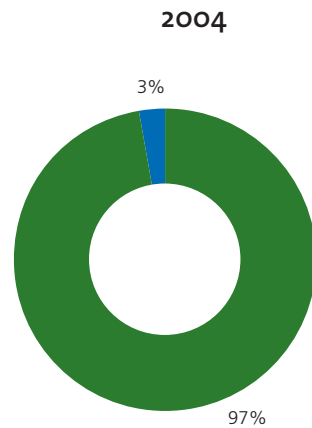
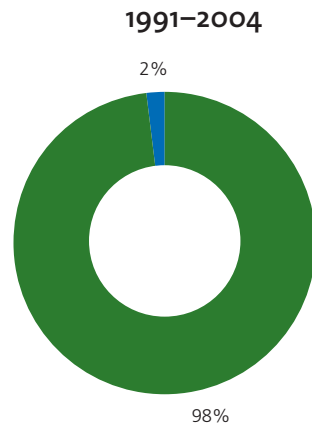
All amounts in millions of dollars. Totals may not equal 100% due to rounding.

The GEF Portfolio Project Types

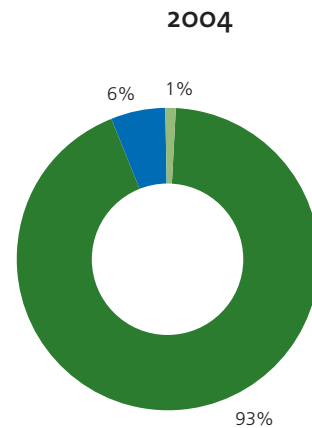
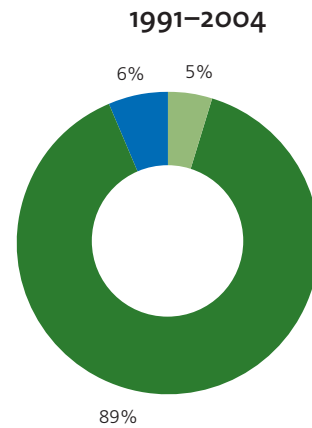
GEF Allocations for Climate Change Projects



GEF Allocations for International Waters Projects



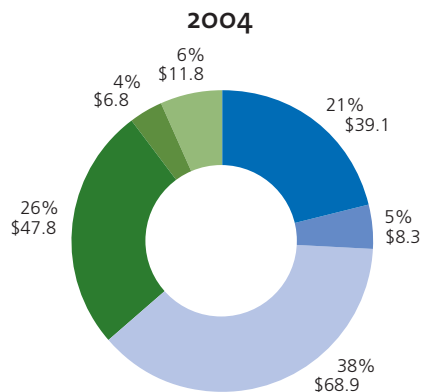
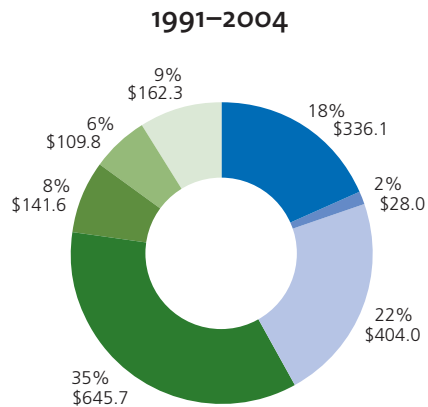
GEF Allocations for Biodiversity Projects



- Full-size projects:**
\$1 million and higher.
- Medium-size projects:**
Up to \$1 million; projects are accessible to NGOs.
- Enabling activities:**
Typically up to \$450,000.

Totals may not equal 100% due to rounding.

The GEF Portfolio Investments in Biodiversity



- Sustainable Forestry.** *Example:* GEF's project to help place a minimum of 10 percent of Brazil's Amazon ecosystem—more than 37 million hectares—under "strict protection," with no mining or logging permitted.

- Mountain Ecosystems.** *Example:* GEF's project to protect the rich ecological landscapes and biodiversity of the Karakoram, Hindu Kush, and Western Himalayan mountain ranges of northern Pakistan.

- Enabling Activities.** *Example:* GEF's assistance to South Africa to prepare its first national report for the Conference of Parties to the Convention on Biological Diversity.

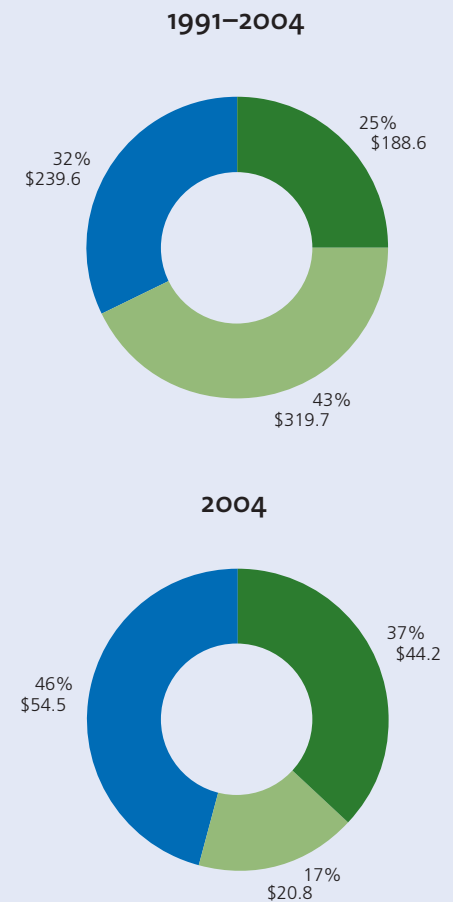
- Short-term Responses to Conserve Biodiversity.** *Example:* GEF's project to protect the endangered Mediterranean Monk Seal, including the Cap Blanc colony in Mauritania.

- Arid and Semiarid Lands.** *Example:* GEF's project to ensure the conservation of biodiversity important to agriculture in the Fertile Crescent.

- Conservation.** *Example:* GEF's project to support the conservation and sustainable use of natural resources in critical wetland ecosystems in Rwanda.

- Coastal, Marine, and Freshwater Resources.** *Example:* GEF's project to conserve the biologically rich wetlands of República Bolivariana de Venezuela's Orinoco Delta.

The GEF Portfolio Investments in International Waters



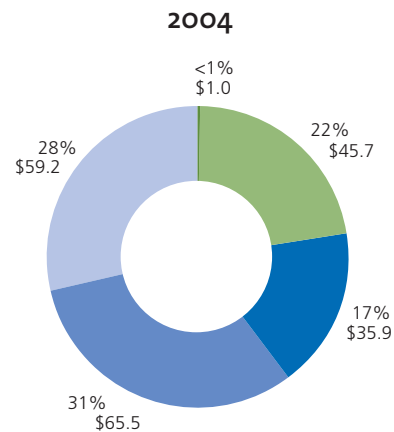
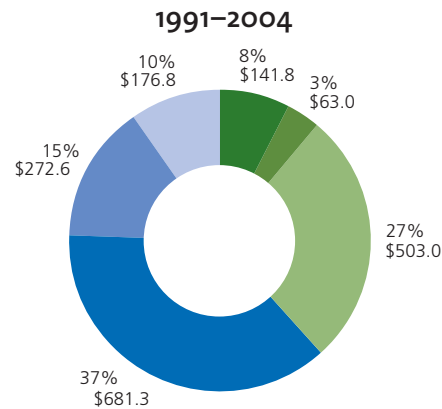
All amounts in millions of dollars.

The GEF Portfolio Investments in Climate Change

Integrated Land and Water Resource Management. *Example:* GEF's project to promote environmentally sustainable development within the Bermejo River Basin of South America.

Contaminant Reduction. *Example:* GEF's global program to improve water quality in developing country ports by reducing the release of harmful organisms from ship ballast water.

Restoring Water Bodies. *Example:* The partnership of 17 countries in support of a GEF program aimed at reducing pollution of the Danube River and Black Sea.



All amounts in millions of dollars.

Sustainable Transportation. *Example:* GEF's project to commercialize the development of public transit buses powered by hydrogen fuel cells in India.

Energy Efficiency. *Example:* GEF's project to replace CFC-based chillers in commercial buildings in Thailand with more energy-efficient systems that do not use ozone-damaging chemicals.

Short-term Measures to Reduce Greenhouse Gases. *Example:* GEF's project to separate municipal solid waste to reduce methane emissions in Indonesia.

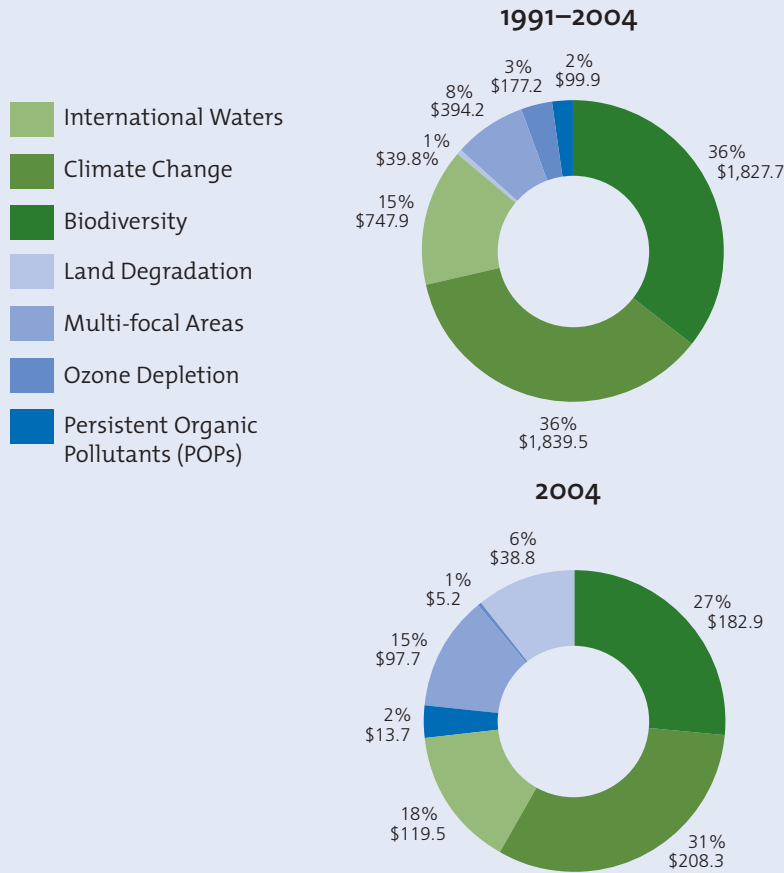
Renewable Energy. *Example:* GEF's initiative to accelerate the commercialization and financial viability of photovoltaic technology in Kenya, Morocco, and India.

Enabling Activities. *Example:* GEF's assistance to China to assess its vulnerability to climate change and inventory its greenhouse gas emissions.

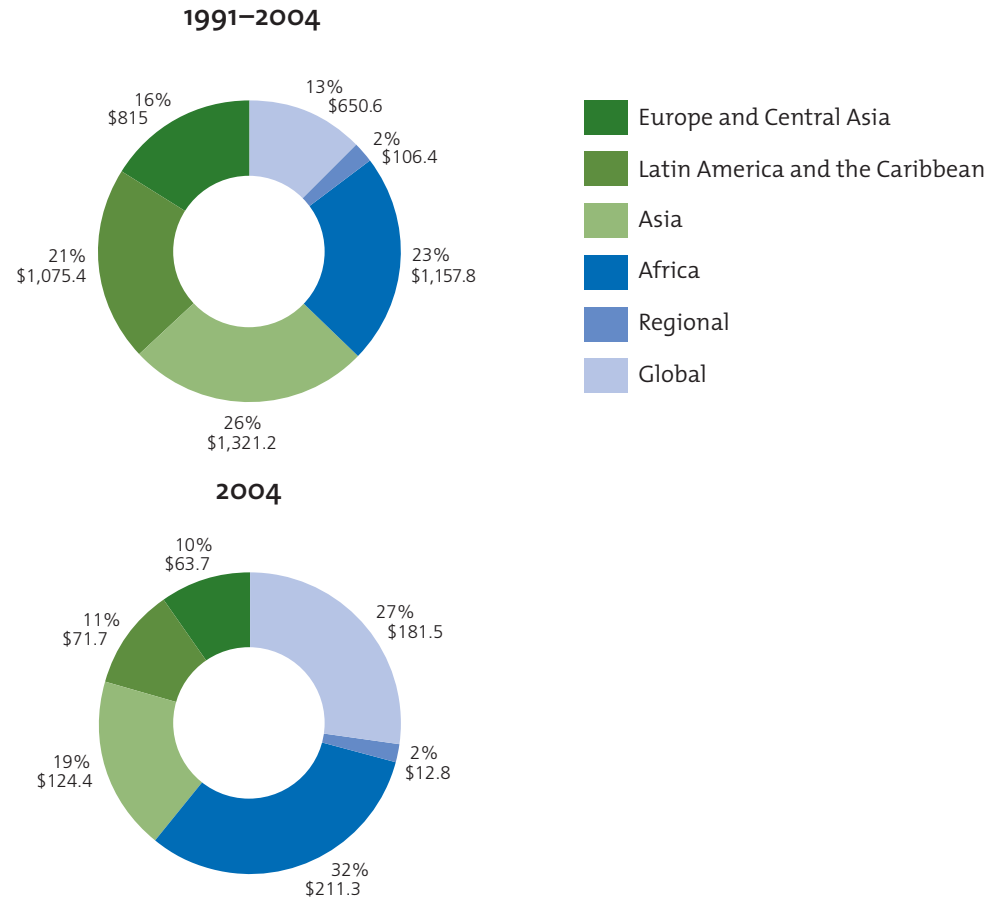
Greenhouse Gas Reduction. *Example:* GEF's assistance to Romania to reduce greenhouse gas emissions from heat and power generation plants and from fossil fuel consumption.

The GEF Portfolio Focal Areas and Regions

Total GEF Allocation by Focal Area



Total GEF Allocation by Region Including Global and Regional Projects



All amounts in millions of dollars.



New GEF Projects and Programs in 2004

COUNTRY	PROJECT NAME	AGENCY	GEF AMOUNT	COFIN AMOUNT	TOTAL PROJECT COST
BIODIVERSITY					
Global	Development of National Biosafety Frameworks Project (Add-on)	UNEP	5.22		5.22
Global	Building Capacity for Effective Participation in the Biosafety Clearing House (BCH) of the Cartagena Protocol	UNEP	4.62	0.35	4.97
Regional	Marine Aquarium Market Transformation Initiative (MAMTI)	World Bank/IFC	6.92	15.37	22.28
Regional	Conservation of Transboundary Biodiversity in the Minkebe-Odzala-Dja Interzone in Gabon, Congo, and Cameroon	UNDP	10.46	34.62	45.08
Regional	Integrated Ecosystem Management in Indigenous Communities	World Bank/IADB	9.70	39.89	49.59
Regional	Enhancing Conservation of the Critical Network of Sites of Wetlands Required by Migratory Waterbirds on the African/Eurasian Flyways	UNEP	6.35	6.77	13.12
Regional	OECS Protected Areas and Associated Sustainable Livelihoods	World Bank	3.92	3.87	7.80
Regional	Building the Inter-American Biodiversity Information Network (IABIN)	World Bank	6.65	30.29	36.94
Benin	Community-based Coastal and Marine Biodiversity Management Project	World Bank	4.65	9.80	14.45
Bulgaria	Forest Development Project	World Bank	8.09	46.71	54.80
Cambodia	Establishing Conservation Areas Landscape Management (CALM) in the Northern Plains	UNDP	2.51	2.67	5.18
Cameroon	Forestry and Environmental Sector Adjustment Credit (FESAC)	World Bank	10.27	116.53	126.80
Chile	Conserving Globally Significant Biodiversity along the Chilean Coast	UNDP	4.08	7.91	12.00
Guinea	Coastal Marine and Biodiversity Management	World Bank	5.35	13.05	18.40
Honduras	Consolidation of Ecosystem Management and Biodiversity Conservation of the Bay Islands	IADB	2.82	13.80	16.62
Iran	Conservation of Iranian Wetlands	UNDP	3.29	10.32	13.61
Latvia	Biodiversity Protection in North Vidzeme Biosphere Reserve	UNDP	2.91	10.74	13.65
Madagascar	Third Environment Programme	World Bank/UNDP	13.50	135.35	148.85
Malaysia	Conserving Marine Biodiversity through Enhanced Marine Park Management and Inclusive Sustainable Island Development	UNDP	2.13	2.01	4.14
Malaysia	Conservation of Biological Diversity through Improved Forest Planning Tools	UNDP	2.46	3.44	5.90
Mali	Biodiversity Conservation and Participatory Sustainable Management of Natural Resources in the Inner Niger Delta and its Transition Areas, Mopti Region	World Bank/IFAD	6.33	13.59	19.92



COUNTRY	PROJECT NAME	AGENCY	GEF AMOUNT	COFIN AMOUNT	TOTAL PROJECT COST
BIODIVERSITY					
Mongolia	Community-based Conservation of Biological Diversity in the Mountain Landscapes of Mongolia's Altai Sayan Ecoregion	UNDP	3.07	7.70	10.77
Pakistan	Protection and Management of Pakistan Wetlands	UNDP	3.33	8.79	12.12
Republic of Korea	Conservation of Globally Significant Wetlands	UNDP	2.47	11.02	13.50
Russian Federation	Conservation of Wetland Biodiversity in the Lower Volga Region	UNDP	6.96	9.03	15.99
Russian Federation	Biodiversity Conservation in the Russian Portion of the Altai-Sayan Ecoregion	UNDP	3.81	12.16	15.97
Senegal	Integrated Marine and Coastal Resource Management	World Bank	5.34	12.00	17.34
Tunisia	Gulf of Gabes Marine and Coastal Resources Protection	World Bank	6.41	2.74	9.15
Uruguay	Integrated Natural Resources and Biodiversity Management	World Bank	7.34	12.00	19.34
Vietnam	Forest Sector Development Project	World Bank	9.20	65.59	74.79
CLIMATE CHANGE					
Global	National Communications Programme for Climate Change	UNDP/UNEP	58.49	1.55	60.03
Global	Fuel Cells Financing Initiative for Distributed Generation Applications	World Bank/IFC	9.85	9.00	18.85
Botswana	Renewable Energy-Based Rural Electrification Programme	UNDP	3.31	5.39	8.69
Bulgaria	Energy Efficiency Project	World Bank	10.30	39.51	49.81
China	Heat Reform and Building Energy Efficiency Project	World Bank	18.35	81.00	99.35
Cuba	Generation and Delivery of Renewable Energy Based Modern Energy Services in Cuba; the case of Isla de la Juventud	UNEP	5.66	10.50	16.17
Egypt	Solar Thermal Hybrid Project	World Bank	50.85	97.20	148.05
Eritrea	Wind Energy Applications	UNDP	2.27	3.00	5.26
Lesotho	Renewable Energy-based Rural Electrification	UNDP	2.82	4.26	7.08
Malaysia	Building Integrated Photovoltaic (BIPV) Technology Application Project	UNDP	4.83	20.39	25.22
Pakistan	Sustainable Development of Utility-Scale Wind Power Production (Phase 1)	UNDP	3.47	0.72	4.19
Philippines	Efficient Lighting Market Transformation Project	UNDP	3.23	12.02	15.25
Swaziland	Energizing Rural Transformation	World Bank	3.10	8.60	11.70
Tunisia	Development of an Energy Efficiency Program for the Industrial Sector for Tunisia	World Bank	8.50	23.30	31.80
Tunisia	Development of On-Grid Wind Electricity in Tunisia for the 10th Plan	UNDP	10.53	95.74	106.26





COUNTRY	PROJECT NAME	AGENCY	GEF AMOUNT	COFIN AMOUNT	TOTAL PROJECT COST
CLIMATE CHANGE					
Vietnam	Energy Efficiency Public Lighting (VEEPL) Project	UNDP	3.31	12.38	15.69
Zambia	Renewable Energy-based Electricity Generation for Isolated Mini-grids	UNEP	3.28	4.56	7.83
INTERNATIONAL WATERS					
Global	Coral Reef Targeted Research and Capacity Building for Management	World Bank	11.73	17.09	28.81
Global	Strengthening Global Capacity to Sustain Transboundary Waters: The International Waters Learning Exchange and Resource Network (IW:LEARN), Operational Phase	UNDP/World Bank/ UNEP	6.35	6.14	12.49
Regional	Groundwater and Drought Management in SADC	World Bank	7.35	6.90	14.25
Regional	Integrating Watershed and Coastal Area Management (IWCAM) in the Small Island Developing States of the Caribbean	UNEP/UNDP	13.99	98.27	112.26
Regional	Marine Electronic Highway Demonstration	World Bank	8.47	7.50	15.97
Regional	Control of Eutrophication, Hazardous Substances and Related Measures for Rehabilitating the Black Sea Ecosystem: Tranche 2	UNDP	6.00	5.33	11.33
Regional	Towards a Convention and Action Programme for the Protection of the Caspian Sea Environment	UNDP	6.45	25.80	32.25
Regional	Combating Living Resource Depletion and Coastal Area Degradation in the Guinea Current LME through Ecosystem-based Regional Actions	UNDP/UNEP	21.45	33.87	55.32
China	Guangdong - Pearl River Delta Urban Environment	World Bank	10.00	427.35	437.35
China	Hai River Basin Integrated Water Resources Management	World Bank	17.35	112.99	130.34
Romania	Hazard Risk Mitigation and Emergency Preparedness Project	World Bank	7.35	11.18	18.53
LAND DEGRADATION					
Global	LDCs and SIDS Targeted Portfolio Approach For Capacity Development and Mainstreaming of Sustainable Land Management	UNDP	29.00	30.95	59.95
Burundi	Agricultural Rehabilitation and Sustainable Land Management Project	World Bank	5.35	37.00	42.35

COUNTRY	PROJECT NAME	AGENCY	GEF AMOUNT	COFIN AMOUNT	TOTAL PROJECT COST
MULTIPLE FOCAL AREAS					
Global	Small Grants Programme (Second Operational Phase - 6th Year)	UNDP	31.20	28.00	59.20
Global	Environmental Business Finance Program (EBFP)	World Bank/IFC	20.00	80.00	100.00
Regional	Integrated Ecosystem Management of Transboundary Areas between Niger and Nigeria Phase I: Strengthening of Legal and Institutional Frameworks for Collaboration and Pilot Demonstrations of IEM	UNEP	5.38	9.12	14.50
Brazil	Rio de Janeiro Integrated Ecosystem Management in Production Landscapes of the North-Northwestern Fluminense	World Bank	7.00	8.03	15.02
Chad	Community Based Integrated Ecosystem Management Project Under PROADEL	World Bank	6.25	46.00	52.25
China	Nature Conservation and Flood Control in the Yangtze River Basin	UNEP	4.00	22.95	26.95
Kenya	Western Kenya Integrated Ecosystem Management Project	World Bank	4.30	5.45	9.75
Tajikistan	Community Agriculture and Watershed Management	World Bank	4.50	13.30	17.80
OZONE DEPLETION					
Regional	Total Sector Methyl Bromide Phase Out in Countries with Economies in Transition	UNEP/UNDP	5.18	6.73	11.90
PERSISTENT ORGANIC POLLUTANTS (POPS)					
Philippines	Global Programme to Demonstrate the Viability and Removal of Barriers that Impede the Successful Implementation of Available Non-Combustion Technologies for Destroying Persistent Organic Pollutants (POPs)	UNDP/UNIDO	4.57	7.76	12.33





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 and the GEF Trust Fund, IBRD, UNDP, and UNEP as Implementing Agencies and the GEF Secretariat.

Status of the GEF Trust Fund as of June 30, 2004

The operating cycles¹ and external auditors² used by the Implementing Agencies, the Trustee, and the Secretariat are different. The most recent audited financial statements of each of the Implementing Agencies, the Trustee, and the Secretariat are included in this Annex:

	FINANCIAL STATEMENT AS OF
Trustee	June 30, 2004
IBRD as Implementing Agency	June 30, 2004
Secretariat	June 30, 2004
UNDP/GEF ³	December 31, 2003
UNEP/GEF ³	December 31, 2003

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

² The UNDP/GEF and UNEP/GEF financial statements are audited by the U.N. Board of Auditors. IBRD as Implementing Agency, the Trustee, and the Secretariat's financial statements are audited by IBRD's external auditors.

³ The external auditor of the UNDP accounts (see page 60) states his opinion that "the financial statements present fairly, in all material respects, the financial position of the Trust Fund for the GEF as of 31 December 2003....." and that the transactions that have come to his notice or that he has tested as part of his audit have in all significant respects been in accordance with the GEF Instrument and decisions taken by the GEF Council. He was, however, concerned about the utilization of funds for \$71 million in projects under the "national execution" modality since some audit reports had not been received. UNDP provided the following clarification at the June 2005 GEF Council meeting. UNDP policy is to audit all nationally executed projects with over \$100,000 in expenditure during the year under review, comprising 270 projects. At the time the management letter and audit opinion were issued in November 2004, 241 project audit reports comprising 93% of the financial expenditure for these projects were covered under the audit. Of the 29 outstanding reports at that time, 27 have subsequently been received, leaving only two pending reports. As a result, final audit report compliance for nationally executed projects in 2004 was 99%.

Contributions to GEF as of June 30, 2004

(In USD Millions as Agreed)

CONTRIBUTING PARTICIPANTS	CONTRIBUTIONS RECEIVABLE	CONTRIBUTIONS PAID IN	TOTAL CONTRIBUTIONS
Argentina	\$ 2,500,000	\$ 2,500,000	\$ 5,000,000
Australia	23,794,656	91,798,340	115,592,996
Austria	14,828,526	86,999,930	101,828,456
Bangladesh	—	2,730,132	2,730,132
Belgium	38,299,928	81,922,590	120,222,518
Brazil	—	11,211,115	11,211,115
Canada	59,056,962	243,986,335	303,043,297
China	5,510,588	24,715,425	30,226,013
Côte d'Ivoire	—	20,100,624	20,100,624
Czech Republic	2,938,980	13,822,790	16,761,770
Denmark	24,408,972	109,356,343	133,765,315
Egypt	2,345,191	8,971,001	11,316,192
Finland	21,801,217	83,974,611	105,775,828
France	99,748,900	527,955,593	627,704,493
Germany	146,833,123	756,863,913	903,697,036
Greece	4,011,134	12,401,963	16,413,097
IBRD	—	28,602,687	28,602,687
India	4,641,232	26,267,682	30,908,914
Indonesia	—	5,689,700	5,689,700
Ireland	3,455,934	9,874,692	13,330,626
Italy	15,077,856	233,053,661	248,131,517
Japan	225,515,967	1,094,516,946	1,320,032,913
Korea	1,107,540	13,845,969	14,953,509
Luxembourg	3,485,129	14,621,429	18,106,558
Mexico	2,535,500	18,400,110	20,935,610
Netherlands	45,840,741	246,908,752	292,749,493
New Zealand	3,863,481	14,277,683	18,141,164
Nigeria	4,408,470	12,351,409	16,759,879
Norway	16,715,964	101,658,194	118,374,158
Pakistan	4,408,470	18,213,606	22,622,076
Portugal	3,485,458	20,351,823	23,837,281
Slovak Republic	—	5,657,783	5,657,783
Slovenia	734,745	2,065,852	2,800,597
Spain	17,573,648	54,913,141	72,486,789
Sweden	—	246,504,001	246,504,001
Switzerland	39,589,994	173,717,975	213,307,969
Turkey	2,938,980	19,728,126	22,667,106
United Kingdom	107,676,000	456,020,361	563,696,361
United States	425,667,364	934,332,636	1,360,000,000
Total	\$ 1,374,800,650	\$ 5,830,884,923	\$ 7,205,685,573
Less unamortized discounts		\$ (4,981,552)	
Contributions paid in		\$ 5,825,903,371	

GEF Allocations by Country, 1991 – 2004

(In USD Millions)

COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT
Global	650.61	China	454.53	Honduras	17.15	Mongolia	14.15	Slovenia	21.32
Regional	986.70	Colombia	40.49	Hungary	26.62	Morocco	69.88	Solomon Islands	0.13
Afghanistan	1.18	Comoros	3.66	India	162.92	Mozambique	13.82	South Africa	40.13
Albania	6.25	Congo	11.68	Indonesia	91.45	Namibia	11.44	Sri Lanka	38.98
Algeria	15.50	Congo DR	7.47	Iran	8.18	Nauru	0.22	St. Kitts and Nevis	0.59
Angola	0.34	Cook Islands	0.63	Jamaica	4.92	Nepal	10.34	St. Lucia	1.31
Antigua and Barbuda	1.22	Costa Rica	31.31	Jordan	21.51	Nicaragua	18.15	St. Vincent and Grenadines	1.00
Argentina	45.63	Côte d'Ivoire	26.46	Kazakhstan	26.74	Niger	5.72	Sudan	4.57
Armenia	11.90	Croatia	25.29	Kenya	24.45	Nigeria	34.62	Suriname	10.03
Azerbaijan	7.84	Cuba	28.66	Kiribati	0.81	Niue	1.30	Swaziland	9.82
Bahamas	0.79	Czech Republic	10.78	Korea DPR	2.63	Oman	1.17	Syria	10.59
Bahrain	0.34	Djibouti	1.24	Kyrgyzstan	1.23	Pakistan	47.45	Tajikistan	7.02
Bangladesh	32.44	Dominica	0.80	Lao PDR	6.88	Palau	0.99	Tanzania	23.08
Barbados	0.43	Dominican Republic	3.68	Latvia	11.19	Panama	13.38	Thailand	20.21
Belarus	13.03	Ecuador	47.25	Lebanon	7.33	Papua New Guinea	26.38	Togo	2.31
Belize	11.44	Egypt	79.95	Lesotho	6.61	Paraguay	11.36	Tonga	1.13
Benin	21.96	El Salvador	1.78	Liberia	0.84	Peru	58.67	Trinidad and Tobago	4.85
Bhutan	13.19	Equatorial Guinea	0.30	Libya	0.48	Philippines	104.97	Tunisia	41.37
Bolivia	26.41	Eritrea	8.54	Lithuania	26.79	Poland	70.70	Turkey	21.42
Bosnia-Herzegovina	0.20	Estonia	1.57	Macedonia	3.72	Republic of Korea	2.47	Turkmenistan	2.35
Botswana	4.57	Ethiopia	10.87	Madagascar	36.68	Romania	40.56	Uganda	48.62
Brazil	188.21	Fiji	1.59	Malawi	15.03	Russian Federation	135.95	Ukraine	42.23
Bulgaria	44.16	Gabon	2.09	Malaysia	28.47	Rwanda	5.56	Uruguay	23.18
Burkina Faso	30.56	Gambia	2.27	Maldives	4.87	Samoa	1.92	Uzbekistan	4.97
Burundi	6.84	Georgia	20.44	Mali	20.76	Sao Tome and Principe	1.11	Vanuatu	1.74
Cambodia	17.52	Ghana	29.79	Malta	0.36	Saudi Arabia	0.35	Venezuela	11.84
Cameroon	19.20	Grenada	1.60	Marshall Islands	0.80	Senegal	20.65	Vietnam	39.70
Cape Verde	9.52	Guatemala	16.61	Mauritania	3.42	Serbia and Montenegro	0.99	Yemen	10.68
Central African Republic	3.78	Guinea	12.23	Mauritius	7.44	Seychelles	5.28	Zambia	8.81
Chad	9.06	Guinea-Bissau	5.95	Mexico	210.73	Sierra Leone	0.80	Zimbabwe	15.10
Chile	33.79	Guyana	9.61	Micronesia	1.20	Slovak Republic	22.20		
		Haiti	1.09	Moldova	7.71				

GEF Allocations by Country, 2004 (In USD Millions)

COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT	COUNTRY	GEF AMOUNT
Global	181.56	Costa Rica	0.20	Lithuania	0.20	Rwanda	0.03	Turkmenistan	0.33
Regional	123.16	Cuba	6.16	Madagascar	13.50	Samoa	0.23	Ukraine	0.20
Afghanistan	1.18	Czech Republic	0.40	Malawi	0.22	Sao Tome and Principe	0.23	Uruguay	7.34
Albania	0.55	Dominica	0.23	Malaysia	9.41	Senegal	5.34	Uzbekistan	0.20
Algeria	0.20	Egypt	51.05	Maldives	0.98	Serbia and Montenegro	0.49	Vanuatu	1.00
Argentina	0.20	El Salvador	0.19	Mali	6.33	Seychelles	0.22	Vietnam	14.50
Belarus	0.50	Eritrea	2.27	Malta	0.09	Sierra Leone	0.22	Yemen	0.23
Belize	0.20	Fiji	0.24	Mauritius	1.00	Slovak Republic	0.20	Zambia	3.28
Benin	4.65	Georgia	0.99	Mexico	0.50	Slovenia	0.20		
Bhutan	0.22	Ghana	1.79	Mongolia	3.27	South Africa	0.20		
Bolivia	0.20	Grenada	0.23	Mozambique	0.21	Sri Lanka	0.20		
Bosnia-Herzegovina	0.20	Guatemala	0.99	Nauru	0.22	St. Kitts and Nevis	0.23		
Botswana	3.76	Guinea	5.35	Nicaragua	0.65	St. Lucia	0.59		
Brazil	7.00	Honduras	4.66	Niue	0.23	St. Vincent and Grenadines	0.23		
Bulgaria	18.39	India	1.20	Oman	0.45	Sudan	0.23		
Burundi	5.57	Indonesia	0.20	Pakistan	7.11	Swaziland	3.10		
Cambodia	2.51	Iran	3.29	Panama	0.20	Syria	0.20		
Cameroon	10.27	Kenya	5.25	Paraguay	0.73	Tajikistan	5.22		
Chad	6.45	Korea DPR	0.65	Peru	2.25	Tanzania	2.48		
Chile	4.28	Kyrgyzstan	0.50	Philippines	7.79	Tonga	0.10		
China	49.70	Lao PDR	0.23	Poland	1.99	Trinidad and Tobago	0.21		
Comoros	0.76	Latvia	2.91	Republic of Korea	2.47	Tunisia	25.44		
Congo DR	0.10	Lesotho	3.05	Romania	7.55				
Cook Islands	0.23	Liberia	0.22	Russian Federation	11.49				

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

World Bank Reference
TF029840

Special Purpose Financial Statements and
Independent Auditors' Report
June 30, 2004 and 2003

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

INDEPENDENT AUDITORS' REPORT

To: Global Environment Facility Council and International
Bank for Reconstruction and Development (IBRD)
as Trustee for the Global Environment Facility Trust Fund

We have audited the accompanying special purpose financial statements of financial position of the Global Environment Facility Trust Fund (GEF) as of June 30, 2004 and 2003 and the related statements of income, changes in net trust resources and cash flows for the years then ended. These financial statements are the responsibility of the Trust Fund Trustee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits 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 our audits 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 provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements these financial statements are special purpose financial statements and are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America or with International Financial Reporting Standards.

In our opinion, such special purpose financial statements present fairly, in all material respects, the financial position of the Global Environmental Facility Trust Fund at June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with the basis of accounting discussed in Note 2 to the financial statements.

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

Deloitte & Touche LLP

September 25, 2004
except for Notes 11 and 12, as to which the date is May 26, 2005

Statements of Financial Position

Expressed in U.S. dollars

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
ASSETS		
Cash and cash equivalents - Note 3	\$ 868,960,313	\$ 392,774,294
Investments - Note 3	745,060,992	582,411,897
Investment income receivable	1,707,435	5,212,259
Notes receivable - Note 4	<u>1,732,250,663</u>	<u>1,930,111,450</u>
Total Assets	<u>\$ 3,347,979,403</u>	<u>\$ 2,910,509,900</u>
LIABILITIES		
Grant liability:		
IBRD/IA	\$ 758,431,389	\$ 571,999,782
UNDP	111,314,379	285,143,392
UNEP	58,307,679	16,323,703
Fee liability:		
IBRD/IA	29,247,250	—
UNDP	16,426,882	—
UNEP	<u>1,124,685</u>	<u>3,843,450</u>
Total Liabilities	<u>974,852,264</u>	<u>877,310,327</u>
NET TRUST RESOURCES		
Contributions committed - Note 4	\$ 7,205,685,573	\$ 6,803,936,821
Contributions receivable - Notes 4 and 5	(1,374,800,650)	(1,781,196,985)
Unamortized discounts	<u>(4,981,552)</u>	<u>(2,321,241)</u>
Contributions paid in - Note 4	5,825,903,371	5,020,418,595
Cumulative grants and fees - Notes 7, 8 and 9	<u>(3,401,487,666)</u>	<u>(2,935,444,450)</u>
Deficit - Note 9	<u>(51,288,566)</u>	<u>(51,774,572)</u>
Total Net Trust Resources	<u>2,373,127,139</u>	<u>2,033,199,573</u>
Total Liabilities and Net Trust Resources	<u>\$ 3,347,979,403</u>	<u>\$ 2,910,509,900</u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

Statements of Income

Expressed in U.S. dollars

FOR THE YEARS ENDED

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
INCOME		
Income earned on GEF grant funds - Note 8	\$ —	\$ 1,380,754
Net investment income - Note 3	15,300,036	32,272,312
Other income	—	4,450
	<u>15,300,036</u>	<u>33,657,516</u>
EXPENSES		
Administrative budget:		
IBRD/IA	2,768,702	3,110,000
UNDP	—	5,074,000
UNEP	2,801,359	7,588,243
Secretariat	12,584,305	13,396,000
IBRD/Trustee	874,000	913,250
Discount amortization	471,145	106,856
	<u>19,499,511</u>	<u>30,188,349</u>
Foreign exchange gains	4,685,481	1,391,482
Net Income	<u>\$ 486,006</u>	<u>\$ 4,860,649</u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

Statements of Changes in Net Trust Resources

Expressed in U.S. dollars

FOR THE YEARS ENDED

	JUNE 30, 2004			JUNE 30, 2003		
	BALANCE, BEGINNING OF FISCAL YEAR	CHANGES DURING FISCAL YEAR	BALANCE, END OF FISCAL YEAR	BALANCE, BEGINNING OF FISCAL YEAR	CHANGES DURING FISCAL YEAR	BALANCE, END OF FISCAL YEAR
CONTRIBUTIONS — NOTE 4:						
Unrestricted	\$5,929,472,632	\$560,900,705	\$6,490,373,337	\$4,207,435,972	\$1,722,036,660	\$5,929,472,632
Temporarily restricted:						
Restrictions on IoC - Note 6	652,098,990	(149,801,016)	502,297,974	210,937,600	441,161,390	652,098,990
Temporarily restricted: Pro Rata Right & Advance Payment - Note 6	222,365,199	(9,350,937)	213,014,262	192,102,810	30,262,389	222,365,199
Total Contributions Committed	6,803,936,821	401,748,752	7,205,685,573	4,610,476,382	2,193,460,439	6,803,936,821
Contributions receivable	(1,781,196,985)	406,396,335	(1,374,800,650)	(263,492,489)	(1,517,704,496)	(1,781,196,985)
Unamortized discounts	(2,321,241)	(2,660,311)	(4,981,552)	—	(2,321,241)	(2,321,241)
Contributions paid in - Notes 6 and 10	5,020,418,595	805,484,776	5,825,903,371	4,346,983,893	673,434,702	5,020,418,595
GRANTS AND FEES — NOTE 7:						
IBRD/IA	(1,652,274,670)	(348,955,205)	(2,001,229,875)	(1,612,814,670)	(39,460,000)	(1,652,274,670)
UNDP	(1,056,994,764)	(16,651,882)	(1,073,646,646)	(1,068,687,964)	11,693,200	(1,056,994,764)
UNEP	(199,918,949)	(99,200,129)	(299,119,078)	(198,659,610)	(1,259,339)	(199,918,949)
EAs	(23,510,467)	(1,236,000)	(24,746,467)	(15,671,867)	(7,838,600)	(23,510,467)
Secretariat	(2,745,600)	—	(2,745,600)	(2,745,600)	—	(2,745,600)
Total grants and fees	(2,935,444,450)	(466,043,216)	(3,401,487,666)	(2,898,579,711)	(36,864,739)	(2,935,444,450)
Deficit	(51,774,572)	486,006	(51,288,566)	(55,203,821)	4,860,649	(50,343,172)
Reclassification of Net Trust Resources - Note 9	—	—	—	—	(1,431,400)	(1,431,400)
Deficit	(51,774,572)	486,006	(51,288,566)	(55,203,821)	3,429,249	(51,774,572)
TOTAL NET TRUST RESOURCES	\$2,033,199,573	\$339,927,566	\$2,373,127,139	\$1,393,200,361	\$639,999,212	\$2,033,199,573

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

Statements of Cash Flows

Expressed in U.S. dollars

FOR THE YEARS ENDED

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash contributions received	\$ 1,003,345,563	\$ 510,075,898
Cash used for grants and fees	(368,972,424)	(416,996,673)
Net cash provided by financing activities	<u>634,373,139</u>	<u>93,079,225</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (Purchases)/Sales of securities	(164,241,146)	212,046,236
Net cash (used)/provided in investing activities	<u>(164,241,146)</u>	<u>212,046,236</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	486,006	4,860,649
Adjustments to reconcile to net cash provided by operating activities:		
Decrease/(Increase) in investment income receivable	3,504,824	(1,867,135)
Decrease in other receivables	—	45,283
Decrease in accrued one-time fee	—	(36,000)
Unrealized loss on investments	1,592,051	7,340,754
Investment income on GEF grants	—	(1,380,754)
Amortization of discount on contributions	471,145	106,856
Net cash provided in operating activities	<u>6,054,026</u>	<u>9,069,653</u>
Net increase in cash	<u>476,186,019</u>	<u>314,195,114</u>
Cash and cash equivalents, beginning of year	<u>392,774,294</u>	<u>78,579,180</u>
Cash and cash equivalents, end of year	<u>\$ 868,960,313</u>	<u>\$ 392,774,294</u>

The Notes to Special Purpose Financial Statements are an integral part of these Statements.

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

Note 1: Organization and Operations

The Global Environment Facility (the “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 funding 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”).

Incremental costs of activities concerning land degradation as they relate to the 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 focal areas.

Under the Instrument, contributions to the GEF and all other assets and receipts of the GEF are held in the Global Environment Facility Trust Fund (the “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 (the “GET”) (a funding mechanism for the Global Environment Facility, established in 1991 as a pilot program) was terminated and all funds, receipts, assets and liabilities held in the GET were transferred to the Trust Fund at book value.

The Trust Fund is administered by the International Bank for Reconstruction and Development (“IBRD”) as Trustee (the “Trustee”). The resources of the Trust Fund, held in trust by the Trustee, are kept separate and apart from the resources of IBRD. Under the Instrument, the Trustee was authorized to accept contributions to the Trust Fund for the period

from July 1, 1994 to June 30, 1997 (“GEF-1”). In March 1998, the participants contributing to the Trust Fund (the “Contributing Participants”) agreed upon the terms of a second replenishment for the period from July 1, 1998 to June 30, 2002 (“GEF-2”). On July 14, 1998, by Resolution No. 98-2, the Executive Directors of IBRD authorized IBRD to act as Trustee in respect of the resources made available for the GEF-2. Upon effectiveness of the GEF-2 any GEF-1 funds not allocated by the Council at the end of the GEF-1 period were administered as part of the GEF-2.

Further, due to a delay in finalizing agreement between Contributing Participants on the third replenishment of the Trust Fund (“GEF-3”) beyond the period for which the Trustee is authorized to accept contributions under Resolution No. 98-2, an amendment to Resolution No. 98-2 was approved in July 2002 to authorize the Trustee to accept contributions to the GEF Trust Fund under such resolution until such time as a resolution for the GEF-3 becomes effective.

In August 2002, Contributing Participants reached agreement upon the terms of the GEF-3 to fund GEF operations during the period from July 1, 2002 to June 30, 2006. The total size of the GEF-3 was agreed at Special Drawing Rights (“SDR”) 2.365 billion (US \$3.0 billion).

On December 19, 2002, by Resolution No. 2002-0005, the Executive Directors of IBRD authorized IBRD to act as Trustee in respect of the resources made available for the GEF-3. On March 24, 2003, the GEF-3 became effective pursuant to the terms of Resolution No. 2002-0005. Upon effectiveness of the GEF-3, all funds receipts, assets and liabilities held by the Trustee under the GEF-2 became administered as part of the GEF-3.

Under the Instrument, there are three Implementing Agencies — IBRD, the United Nations Development Programme (“UNDP”) and the United Nations Environment Programme (“UNEP”) (jointly, the “IAs”, each individually, an “IA”). Specific responsibilities are assigned to each of the IAs, the GEF Secretariat (the “Secretariat”) and the Trustee.

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

In May 1999, the Council approved a proposal for the participation of four regional development banks (the “RDBs”) in the preparation of GEF projects and for its direct access to Project Development and Preparation Facility - Block B (the “PDF-B”) resources. Accordingly, arrangements allowing for direct access to such resources were entered into between the Secretariat, the Trustee, and the following RDBs: the European Bank for Reconstruction and Development (“EBRD”), Asian Development Bank (“ADB”) and Inter-American Development Bank (“IADB”). In May 2000, the Council similarly approved the direct access of the United Nations Industrial Development Organization (“UNIDO”) and the Food and Agriculture Organization of the United Nations (“FAO”) to PDF-B resources. Further, in May 2001, the Council approved i) the direct access of the International Fund for Agriculture and Development (“IFAD”) to PDF-B resources and ii) the expansion of direct access of UNIDO and FAO to include direct access to resources for expedited Enabling Activities on persistent organic pollutants. Arrangements for the implementation of these Council decisions have been entered into between the Secretariat, the Trustee and, respectively, UNIDO, FAO, and IFAD.

Further to its May 1999 decision, in October 2002, the Council approved a proposal to expand direct access to PDF-B resources by ADB and IADB to provide full access to allocations of GEF resources. On November 21, 2003, the Council also approved a proposal to expand direct access of all other executing agencies (namely, UNIDO, FAO, IFAD, EBRD and the African Development Bank and the African Development Fund), acting within their agreed scope for GEF operations, to include direct access to allocations of GEF resources for the implementation of medium and full size projects and, on a case by case basis, PDF-A grants. As of July 31, 2004, arrangements allowing for such direct access have been entered into between the Secretariat, the Trustee and IADB, ADB and UNIDO (as of July 20, 2004), respectively. Arrangements with the other agencies are being negotiated.

Note 2: Summary of significant accounting and related policies

These special purpose financial statements have been prepared for the specific purpose of presenting the financial position of the Trust Fund and the statements of income, changes in net trust resources, and cash flows. These special purpose financial statements are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America (U.S.) or with International Financial Reporting Standards. These special purpose financial statements report operations and balances of the Trust Fund and are prepared in accordance with the accounting policies outlined below.

Basis of Presentation - The Trust Fund’s special purpose financial statements are prepared, except as discussed below, on the accrual basis of accounting. Specifically, the effects of transactions and other events are recognized when they occur (and not when cash or its equivalent is received or paid) and they are recorded in the accounting records and reported in the special purpose financial statements in the periods to which they relate. This basis is consistently applied to all financial statement line items and note disclosures except for the investment income earned on the grant funds held by the IAs and administrative budget expense amounts, which are reported on a cash basis of accounting.

Use of Estimates - These special purpose financial statements include estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. In measuring Cumulative Grants and Fees, Grant Liability, and Income earned on GEF- Grant and Administrative Budget Funds, the Trustee relies on the information provided by the IAs. The Trustee records liabilities upon receipt of notification of project approval by the respective IAs. Significant reliance is placed upon the IAs to report such approvals and/or amendments to the Trustee on a timely basis. The Trustee records investment income earned on grant funds and administrative budget funds held by the IAs as

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

described in the preceding paragraph. Any adjustment from the information previously provided to the Trustee by the IA is recorded in the fiscal year in which such adjustment is reported to the Trustee.

Investment Portfolio - Amounts available for investment are managed by IBRD which maintains a single investment portfolio for all of the trust funds that are administered by IBRD and the International Development Association (the "IDA") (the "Portfolio"). The current composition of the Trust Fund's Portfolio is as follows:

Cash and Cash Equivalents - For the purposes of these special purpose financial statements, the investments with an original maturity of three months or less are treated as cash and cash equivalents. The amounts of cash and cash equivalents presented on the statements of financial position represent the pro rata portion of the Trust Fund's cash and cash equivalents in the total Portfolio.

Investments - For the purposes of these special purpose financial statements, investments with an original maturity over three months are treated as investments. Under the Portfolio's current investment strategy, a significant portion of the investments are actively traded and invested primarily in high-grade investments. The amounts of investments reported on the statements of financial position represent the Trust Fund's pro rata portion of the Portfolio's market value at the end of the period. Both realized and unrealized gains or losses are reported in the statements of income in the period in which they occur.

Contributions - The Trust Fund derives its funding primarily from contributions provided by the Contributing Participants. Contributions committed by Contributing Participants are recorded in full as Contributions Committed when the Trust Fund has received Instruments of Commitment ("IoCs") and Qualified IoCs from the Contributing Participants. Amounts not yet paid are recorded as Contributions

Receivable and are shown as a reduction of Contributions Committed on the statements of financial position. Such treatment does not increase the Trust Fund's net trust resources. The Contributions Receivables are settled through payment of cash or deposit of non-negotiable, non-interest bearing demand notes and are recorded and carried at their face amount.

Contributions Paid In are recorded net of discounts, which are negotiated with Contributing Participants who request such discounts for acceleration of encashment of their Contributions. The related contributions are recorded at the full undiscounted amounts. The unamortized discounts are recorded as a reduction of Contributions Committed. Discounts are amortized over the note encashment period, which represents the period over which the notes received are encashed by the Trustee.

Change in Accounting Policy for Discounts - Prior to July 1, 2002, discounts were amortized over a period of four years, which reflected the commitment period of a given replenishment. Donors pay their contributions either in cash or by the deposit of promissory notes or similar obligations in four annual installments over four years of the commitment period. As of July 1, 2002, the Trustee changed its policy to amortize discounts over the encashment period as the Trustee believes this is more reflective of the period to which the discount relates. The encashment period represents the period over which the contributions received are encashed by the Trustee. This change did not have a material effect on the financial position or results of operations for 2003.

Notes Receivable - Contributions Receivables, which are settled through deposit of demand notes, are recorded as Notes Receivable. Such treatment increases the Trust Fund's net trust resources. Notes Receivable are encashed by the Trustee based upon schedules as agreed with the Contributing Participants.

Temporarily Restricted Contributions - Contributions may be restricted either because a Contributing Participant has deposited a Qualified IoC

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

(i.e., an IoC deposited by a Contributing Participant whose legislative body has not yet authorized full payment of the contribution) or because a Contributing Participant restricts commitment of the payments made against a particular tranche (i.e., restrictions imposed on Contributions Paid In). In the case of a Qualified IoC, when the Contributing Participant's legislative body approves full payment, that Contributing Participant's contribution is reclassified as an unrestricted contribution committed. In the case of a restriction imposed on a payment against a particular tranche, when the restriction is lifted or the condition causing the restriction to be imposed is met, the payment is reclassified as an unrestricted contribution committed.

Grant and Fee Liabilities - The Trust Fund disburses grant funds to the three IAs and the executing agencies who have entered into arrangements with the Trustee and the Secretariat for their direct access to GEF resources (i.e., ADB, EBRD, IADB, UNIDO, FAO and IFAD) (together the "EAs"), and the Secretariat to fund GEF projects. Fees are paid to the IAs and the EAs to cover expenses associated with the project cycle management of GEF projects. Grant funds and fees become liabilities for the Trust Fund upon the following, as described below:

Grant Liability - Twice annually and by intervening mail intersessionals, the Secretariat prepares a work program in collaboration with the IAs and the EAs for approval by the Council. Following the approval by the Council or the Chief Executive Officer of the GEF (the "CEO") and endorsement by the CEO in the case of the Council-approved grants, and subject to the availability of resources in the Trust Fund, the Trustee commits funds to the IAs and the EAs based upon the information provided by the Secretariat. However, such commitments become liabilities for the Trust Fund only upon approval by the respective IAs and EAs of the GEF activities for which such resources have been provided. Grant funds authorized to be disbursed to the Secretariat become liabilities for the Trust Fund upon commitment by the Trustee.

Fee Liability - Fees become liabilities of the Trust Fund after they have been approved by the Council, requested by the respective IAs and EAs and committed by the Trustee.

The potential exposure to the Trust Fund arising from the Trustee's commitments of grants and fees is disclosed in these notes to the special purpose financial statements (see Note 7).

Cumulative Grants and Fees - Grants and fees become liabilities for the Trust Fund in accordance with the accounting policies outlined above. Grants and fees that have been disbursed are recorded together with grants and fees that have been committed but not yet disbursed as of year-end by the Trustee as a reduction of the Trust Fund's net trust resources in the statements of financial position.

Transfers and Donations - Funds transferred and donated to the Trust Fund by parties other than Contributing Participants are recorded as income in the statements of income when unconditionally pledged.

Administrative Budget - In accordance with the Instrument, the Trust Fund reimburses IBRD, UNDP and UNEP for reasonable administrative expenses incurred in the performance of their functions as IAs. In addition, the Trust Fund pays for the administrative expenses of the Secretariat and the Trustee. The Council approves the administrative budget in advance of the fiscal year. The IAs, Secretariat, and Trustee are required to report any unused funds remaining from prior year administrative budgets to the Trustee, at which time the current year administrative budget, less any unused funds, is recorded as an expense in the current year.

Foreign Exchange Gains/Losses - These special purpose financial statements are expressed in U.S. dollars for the purpose of reporting the Trust Fund's assets, liabilities, net trust resources, and income and expenses. Unrealized foreign exchange gains and losses result from the revaluation of assets and liabilities held in currencies other than the U.S. dollar as at

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

June 30, 2004 and 2003. Realized foreign exchange gains and losses result from the conversion of assets and liabilities held in currencies other than the U.S. dollar.

Note 3: Cash and Cash Equivalents and Investments

Amounts available for investment are managed by IBRD which maintains a single investment portfolio (the "Portfolio"). As noted above, investments with an original maturity of three months or less are treated as cash and cash equivalents. Investments with an original maturity over three months are treated as investments. The amount of cash and cash equivalents and investments recorded on the statements of financial position represent the Trust Fund's pro rata portion in the Portfolio at the end of the fiscal year. The relative weighting of cash and investments held by the Trust Fund at any point in time corresponds to the relative weighting of cash and investments in the Portfolio, which is determined in accordance with IBRD's portfolio investment strategy.

Cash and Cash Equivalents - As of June 30, 2004 and 2003, the Trust Fund held cash and cash equivalents of \$868,960,313 and \$392,774,294 respectively.

Investments - As part of its portfolio investment strategy, IBRD invests in the following financial instruments:

Time Deposits - Time deposits include certificates of deposits, banker's acceptances and other obligations issued or unconditionally guaranteed by banks and other financial institutions.

Government and Agency Obligations - These obligations include marketable bonds, notes and other obligations issued by governments. Obligations issued or unconditionally guaranteed by governments of

countries require a minimum credit rating of AA if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government of a country, a multilateral organization or any other official entity require a credit rating of AAA.

Repurchase Agreements and Securities Loans - Repurchase agreements are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. Securities loans are contracts under which securities are lent for a specified period of time at a fixed price.

Forward Transactions - Forward transactions are contracts for the delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date at a specified price or yield.

Since the Trust Fund carries its investments at market value, the carrying amount represents the fair value of the Portfolio as at June 30, 2004 and 2003. These fair values are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Unrealized gains and losses result from marking investments to market value as at June 30, and are estimates of the resulting gains or losses had the Portfolio been liquidated on, in the case of unrealized losses for fiscal year 2004, June 30, 2004.

Both realized and unrealized gains or losses are recorded in statements of income in the fiscal year they occur. For the years ended June 30, 2004 and 2003, the realized investment income is \$16,892,087 and \$39,613,066, respectively. For the years ended June 30, 2004, and 2003, the unrealized investment losses are \$1,592,051 and \$7,340,754, respectively.

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

Note 4: Contributions

As of June 30, 2004, cumulative contributions by Contributing Participants are as follows:

CONTRIBUTING PARTICIPANTS	CONTRIBUTIONS RECEIVABLE	CONTRIBUTIONS PAID IN	TOTAL CONTRIBUTIONS
Argentina	\$ 2,500,000	\$ 2,500,000	\$ 5,000,000
Australia	23,794,656	91,798,340	115,592,996
Austria	14,828,526	86,999,930	101,828,456
Bangladesh	—	2,730,132	2,730,132
Belgium	38,299,928	81,922,590	120,222,518
Brazil	—	11,211,115	11,211,115
Canada	59,056,962	243,986,335	303,043,297
China	5,510,588	24,715,425	30,226,013
Côte d'Ivoire	—	20,100,624	20,100,624
Czech Republic	2,938,980	13,822,790	16,761,770
Denmark	24,408,972	109,356,343	133,765,315
Egypt	2,345,191	8,971,001	11,316,192
Finland	21,801,217	83,974,611	105,775,828
France	99,748,900	527,955,593	627,704,493
Germany	146,833,123	756,863,913	903,697,036
Greece	4,011,134	12,401,963	16,413,097
IBRD	—	28,602,687	28,602,687
India	4,641,232	26,267,682	30,908,914
Indonesia	—	5,689,700	5,689,700
Ireland	3,455,934	9,874,692	13,330,626
Italy	15,077,856	233,053,661	248,131,517
Japan	225,515,967	1,094,516,946	1,320,032,913
Korea	1,107,540	13,845,969	14,953,509
Luxembourg	3,485,129	14,621,429	18,106,558
Mexico	2,535,500	18,400,110	20,935,610
Netherlands	45,840,741	246,908,752	292,749,493
New Zealand	3,863,481	14,277,683	18,141,164
Nigeria	4,408,470	12,351,409	16,759,879
Norway	16,715,964	101,658,194	118,374,158
Pakistan	4,408,470	18,213,606	22,622,076
Portugal	3,485,458	20,351,823	23,837,281
Slovak Republic	—	5,657,783	5,657,783
Slovenia	734,745	2,065,852	2,800,597
Spain	17,573,648	54,913,141	72,486,789
Sweden	—	246,504,001	246,504,001
Switzerland	39,589,994	173,717,975	213,307,969
Turkey	2,938,980	19,728,126	22,667,106
United Kingdom	107,676,000	456,020,361	563,696,361
United States	425,667,364	934,332,636	1,360,000,000
Total	\$ 1,374,800,650	\$ 5,830,884,923	\$ 7,205,685,573
Less unamortized discounts		(4,981,552)	
Contributions paid in		<u>\$ 5,825,903,371</u>	

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

At June 30, 2004 and 2003, the paid in amounts of \$5,825,903,371 and \$5,020,418,595 contain a note receivable balance of \$1,732,250,663 and \$1,930,111,450, respectively. Notes Receivable represent non-negotiable, non-interest-bearing demand notes, which have been deposited by Contributing Participants. Encashments of Notes Receivable represent the conversion of such notes into cash according to a pre-defined schedule, as agreed between the Contributing Participants and the Trustee.

The estimates of encashment of these non-negotiable, non-interest-bearing demand notes as at June 30, 2004 and 2003 are as follows:

Notes Receivable Encashment Schedule

JUNE 30, 2004		JUNE 30, 2003	
AMOUNT	ENCASHMENT DATE	AMOUNT	ENCASHMENT DATE
		\$ 659,707,000	June 2004
\$ 434,477,000	June 2005	402,924,000	June 2005
342,049,000	June 2006	259,526,000	June 2006
277,246,000	June 2007	196,246,000	June 2007
241,370,000	June 2008	165,139,000	June 2008
202,232,000	June 2009	133,526,000	June 2009
156,568,000	June 2010	100,903,000	June 2010
52,205,000	June 2011	8,087,000	June 2011
26,103,663	June 2012	4,053,450	June 2012
<u>\$ 1,732,250,663</u>		<u>\$ 1,930,111,450</u>	

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

Note 5: Contributions Receivable

Contributions committed by Contributing Participants are recorded in full as Contributions Committed when the Trust Fund has received IoCs and Qualified IoCs from the Contributing Participants. Amounts not yet paid are recorded as Contributions Receivable and are shown as a reduction of Contributions Committed on the statements of financial position.

Outstanding contributions receivable are as follows:

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
GEF-1 contributions due on:		
July 1, 2007 through June 30, 2008	\$ 500,000	\$ 500,000
July 1, 2006 through June 30, 2007	1,281,730	1,247,998
July 1, 2005 through June 30, 2006	1,281,730	1,247,998
July 1, 2004 through June 30, 2005	1,781,731	1,247,998
July 1, 2003 through June 30, 2004	—	1,247,998
	<u>4,845,191</u>	<u>5,491,992</u>
GEF-2 contributions due on:		
July 1, 2004 through June 30, 2005	157,214,709	108,283,042
July 1, 2003 through June 30, 2004	—	93,103,274
	<u>157,214,709</u>	<u>201,386,316</u>
GEF-3 contributions due on:		
July 1, 2005 through June 30, 2006	634,510,232	574,643,236
July 1, 2004 through June 30, 2005	578,230,518	505,153,021
July 1, 2003 through June 30, 2004	—	494,522,420
	<u>1,212,740,750</u>	<u>1,574,318,677</u>
Total	<u><u>\$ 1,374,800,650</u></u>	<u><u>\$ 1,781,196,985</u></u>

Note 6: Temporarily Restricted Contributions

Temporarily Restricted Contributions (Restrictions on IoC) - As of June 30, 2004, the Contributions Committed and the Contributions Receivable are restricted due to the deposit of Qualified IoCs by Canada and Spain for its contributions to the GEF-3 and the U.S. for its contributions to the GEF-2 and the GEF-3.

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

Temporarily Restricted Contributions (Restrictions on IoC)

	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
GEF-2		
United States	\$ 140,667,364	\$ 171,585,848
GEF-3		
Canada	59,056,962	88,013,142
Spain	17,573,648	—
United States	285,000,000	392,500,000
	<u>361,630,610</u>	<u>480,513,142</u>
Total	<u>\$ 502,297,974</u>	<u>\$ 652,098,990</u>

In addition to restrictions imposed on IoCs, as described above, as of June 30, 2004 and 2003, the Trust Fund has \$213,014,262 and \$222,365,199, respectively, of contributions with restrictions imposed on Paid In Contributions as described below.

Temporarily Restricted Contributions Due to Exercise of the Pro-rata Right by the Contributing Participants (Restrictions on Paid In Contributions) - The U.S., a Contributing Participant whose contribution to the GEF-2 represents 20.84% of the total amount in resources to be contributed pursuant to Attachment 1 of Resolution No. 98-2, and which has deposited a Qualified IoC, had not unqualified 100% as of June 30, 2002. In accordance with the provisions of Section 8(b) and (c) of Resolution No. 98-2, Contributing Participants to the GEF-2 have the right to instruct the Trustee to defer commitment of the fourth tranche of their Paid In Contributions to the GEF-2 until corresponding amounts of the U.S. contribution are unqualified (“Pro-rata Right”).

As of June 30, 2004, three Contributing Participants, Austria, France, and Japan, had exercised their Pro-rata Right to defer commitment of the fourth tranche of their contribution to the GEF-2, Austria in the amount of \$5,108,360; France in the amount of \$39,991,561; and Japan in the amount of \$112,758,039. Accordingly, as of June 30, 2004, the total amount of Paid In Contributions with respect to which commitment is deferred as a result of the exercise of the Pro-rata Right is \$157,857,960 as summarized in the table below.

Temporarily Restricted Contributions Due to Advance Payments by the Contributing Participants (Restrictions on Paid In Contributions) - Certain Contributing Participants pay their contributions to the GEF-3 in advance of the due dates specified in Resolution No. 2000-0005. Commitment of such contributions is restricted unless the Contributing Participant agrees to an early release. As of June 30, 2004, a total of \$55,156,302 was restricted due to advance payments by the Contributing Participants.

The table below summarizes balances for temporarily restricted contributions due to the exercise of the Pro-rata Right by Contributing Participants, and due to advance payments by Contributing Participants as of June 30, 2004 and 2003.

Temporarily Restricted Contributions Due to Exercise of the Pro-rata Right by Contributing Participants

CONTRIBUTING PARTICIPANT	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
Austria	\$ 5,108,360	\$ 4,809,992
France	39,991,561	37,655,747
Japan	112,758,039	102,580,208
	<u>\$ 157,857,960</u>	<u>\$ 145,045,947</u>
Sub-total	<u>\$ 157,857,960</u>	<u>\$ 145,045,947</u>

Temporarily Restricted Contributions Due to Advance Payments by Contributing Participants

CONTRIBUTING PARTICIPANT	<u>JUNE 30, 2004</u>	<u>JUNE 30, 2003</u>
Côte d’Ivoire	2,938,980	4,218,240
Korea	1,398,554	1,502,697
Sweden	50,818,768	71,598,315
	<u>55,156,302</u>	<u>77,319,252</u>
Sub-total	<u>55,156,302</u>	<u>77,319,252</u>
Total	<u>\$ 213,014,262</u>	<u>\$ 222,365,199</u>

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

Note 7: Grants and Fees Committed by Trustee

The resources of the Trust Fund to be disbursed to the IAs, EAs, and the Secretariat are approved by the Council or the CEO, as appropriate (and endorsed by the CEO in the case of Council approved grants), and, subject to the availability of resources in the Trust Fund, are committed by the Trustee. Grant commitments to the IAs and the EAs become payable upon approval by the respective IAs and EAs of the GEF activities for which such resources have been provided. However, it is reasonably possible that amounts committed by the Trustee to the IAs and the EAs for GEF activities which have not yet been approved by the respective IAs and the EAs may become payable by the Trust Fund in the next fiscal year. The grant funds commitments to the Secretariat become payable upon commitment by the Trustee.

The differences between the total Council allocations and the total Trustee commitments in the amounts of \$1,084,326,793 at June 30, 2004 and \$1,062,822,648 at June 30, 2003 represent the amounts that have been approved by the Council or the CEO, as applicable (and endorsed by the CEO if applicable), but have not been committed by the Trustee. The differences between the total Trustee commitments and the total IAs and EAs approvals in the amounts of \$784,326,788 and \$541,427,930, at June 30, 2004 and 2003, respectively, represent the amounts that have been committed by the Trustee but not yet approved by the IAs and the EAs.

For the fiscal years ended June 30, 2004 and 2003, the cumulative grants and fees approved by the Council (and endorsed by the CEO if applicable), and/or by the CEO, committed by the Trustee and approved by the respective IAs and EAs (ADB, EBRD, IADB and UNIDO) are as follows:

COUNCIL ALLOCATIONS GRANTS AND FEES	CUMULATIVE GRANTS AND FEES AS AT:	
	JUNE 30, 2004	JUNE 30, 2003
IBRD/IA	\$ 3,039,441,922	\$ 2,622,232,589
UNDP	1,831,584,773	1,542,549,030
UNEP	446,584,602	348,657,342
Secretariat	2,745,600	2,745,600
EAs	36,553,467	23,510,467
Total Council Allocations	\$ 5,356,910,364	\$ 4,539,695,028

CUMULATIVE GRANTS AND FEES AS AT:

	JUNE 30, 2004	JUNE 30, 2003
Of which Trustee Commitments are:		
TRUSTEE COMMITMENTS GRANTS AND FEES		
IBRD/IA	\$ 2,444,060,652	\$ 2,072,267,152
UNDP	1,499,982,064	1,236,328,855
UNEP	392,784,570	142,020,306
Secretariat	2,745,600	2,745,600
EAs	36,865,467	23,510,467
Total Trustee Commitments	\$ 4,376,438,353	\$ 3,476,872,380

Of which grants and fees approved by IAs and EAs are:

IBRD/IA	\$ 2,001,229,875	\$ 1,652,274,670
UNDP	1,073,646,646	1,056,994,764
UNEP	299,119,078	199,918,949
Secretariat	2,745,600	2,745,600
EAs	24,746,467	23,510,467
Total IA and EA approvals	\$ 3,401,487,666	\$ 2,935,444,450

Note 8: Grants, Fees, and Related Investment Income

For the fiscal years ended June 30, 2004 and 2003, grants approved and fees requested by the IAs and EAs are as follows:

	FOR THE YEARS ENDED	
	JUNE 30, 2004	JUNE 30, 2003
GRANTS		
IBRD/IA	\$ 301,308,955	\$ 30,771,000
UNDP	225,000	—
UNEP	90,507,419	750,000
UNIDO	828,000	6,408,600
IADB	—	350,000
IFAD	300,000	—
Sub-total	393,169,374	38,279,600

Notes to Special Purpose Financial Statements

Years Ended June 30, 2004 and 2003

Expressed in U.S. dollars

FEES	FOR THE YEARS ENDED	
	JUNE 30, 2004	JUNE 30, 2003
IBRD/IA	47,646,250	8,689,000
UNDP	16,426,882	7,383,000
UNEP	8,692,710	6,602,450
UNIDO	108,000	1,080,000
Sub-total	<u>72,873,842</u>	<u>23,754,450</u>
Total	<u>\$ 466,043,216</u>	<u>\$ 62,034,050</u>

Investment income earned by the IAs on GEF grant funds held by the IAs prior to disbursement is reported in the statement of income on a cash basis (i.e., when reported to the Trustee). For the fiscal years ended June 30, 2004 and 2003, the investment income amounts the IAs have reported to the Trustee are zero and \$1,380,754, respectively. During the fiscal year 2003, a total of \$25,169,311 was remitted to the Trustee in respect of investment income earned by the IAs since inception up to December 31, 2001 in the case of UNEP, and December 31, 2002 in the case of UNEP, respectively.

Note 9: Reclassification of Net Trust Resources

In fiscal year 2003, an amount of \$1,431,400 was recorded as an adjustment to Retained Earnings due to the difference between the previously reported amount and the actual amount of investment income remitted by the UNDP. During the year, UNDP remitted investment totaling \$17,644,800. This amount represented income earned by UNDP since inception up to December 31, 2001. UNDP had previously reported such amount to be \$19,076,200. The net adjustment has been recorded against Retained Earnings.

Note 10: Grant Disbursements with Repayment Provisions

While GEF financing has been made predominantly in the form of grants, under the Instrument, GEF financing may also be made available in the form of loans and guarantees, on such terms as may be approved by the Council. Pursuant to such authority, the Council has authorized a pro-

gram of GEF operations on terms other than grants, such terms to be approved on a project by project basis. IBRD as IA and the International Finance Corporation, acting as executing agency for IBRD as IA, have approved such GEF operations. The Trustee has committed funds for such operations. However, the repayment provisions under such operations are contingent on a number of factors. Accordingly, in recognition of the uncertain nature of the repayments, the Trustee has reported amounts committed to IBRD as IA for such GEF operations as grant liabilities and cumulative grants. At June 30, 2004 and 2003, the Trust Fund had transferred grant funds to IBRD as IA totaling \$64,375,000 and \$54,650,000 respectively with repayment provisions.

Note 11: Use of Trust Fund Resources

As noted in the FY03 Trust Fund financial statements, the IBRD performs various compliance reviews of trust fund activities as part of its regular control framework. These reviews include GEF-financed activities for which IBRD acts as the Implementing Agency. During fiscal year 2002, IBRD as Implementing Agency brought to the Trustee's and the CEO's attention that this work had identified certain matters which could result in ineligible expenditures in three recipient-executed GEF grants. The CEO then brought this matter to the attention of the GEF Council in a letter dated April 21, 2003.

See Note 12 for the resolution of this issue.

Note 12: Use of Trust Fund Resources

With respect to the three recipient-executed grants identified in Note 11, in one case, the recipient reimbursed the Trust Fund \$161,965 in June 2003, representing the full amount considered ineligible by the Bank's review, thereby closing this case. No irregularities were identified in the case of the second grant. With respect to the third grant, IBRD management has reviewed the findings of this work and, as a result of this review, in May 2005, IBRD deemed it appropriate to reimburse \$2.42 million to the Trust Fund.

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

World Bank Reference
TF050551

Schedule of Disbursements and
Independent Auditors' Report
June 30, 2004

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of cash receipts, disbursements and fund balance of the International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund as of June 30, 2004 and for the year then ended and for the period from March 14, 1991 (date of inception) to June 30, 2004. This financial statement is the responsibility of the Trust Fund administrator's management. Our responsibility is to express an opinion on this financial statement based on our audits. The financial statement of the International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund for the period from March 14, 1991 (date of inception) to June 30, 1997 was audited by other auditors whose report, dated October 2, 1997, expressed an unqualified opinion on that financial 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\$ 318.3 million of the related total for the period March 14, 1991 (date of inception) to June 30, 2004. 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 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. The Trust Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits include 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 audits and the report from 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, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America and International Financial Reporting Standards. This financial statement is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

In our opinion, based on our audits and the report of the other auditors, the financial statement referred to above presents fairly, in all material respects, the fund balance of the International Bank for Reconstruction and Development as an Implementing Agency of the Global Environment Facility Trust Fund at June 30, 2004 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, 2004, on the basis of accounting described in Note 2 to the financial statement.

As discussed in Note 9 to the financial statement, as part of its regular control framework, the International Bank for Reconstruction and Development ("IBRD") performs various compliance reviews of trust fund activities. These reviews include the Global Environment Facility Trust Fund ("GEF") - financed activities for which IBRD acts as an Implementing Agency. During fiscal year 2002, the Bank as an Implementing Agency brought to the Trustee's and the Chief Executive Officer ("CEO") of the GEF attention that this work had identified certain matters which could result in ineligible expenditures in three recipient-executed GEF grants. Of the three recipient-executed grants, in one case, the recipient reimbursed the GEF Trust Fund US\$161,965 in June 2003, representing the full amount considered ineligible by the Bank's review, thereby closing this case. No irregularities were identified in the case of the second grant.

As discussed in Note 10 to the financial statement, with respect to the third grant, in May 2005, IBRD has deemed it appropriate to reimburse US\$2.42 million to the GEF Trust Fund.

Deloitte & Touche LLP

May 26, 2005

Member of
Deloitte Touche Tohmatsu

Statement of Cash Receipts, Disbursements and Fund Balance

Expressed in U.S. dollars

	FOR THE YEAR ENDED JUNE 30, 2004	MARCH 14, 1991 (INCEPTION) TO JUNE 30, 2004
TRANSFERS IN FROM TRUSTEE FOR:		
Projects	\$ 104,969,697	\$1,101,492,918
Project Implementation Fees (Note 3)	18,399,000	154,044,674
Corporate Budget (Note 4)	2,768,702	126,346,671
Project Grant to EBRD (Note 5)	9,907,650	9,907,650
Project Implementation Fee for EBRD (Note 5)	—	942,000
	<hr/> 136,045,049	<hr/> 1,392,733,913
Investment Income (Note 6)	1,088,538	10,667,446
Return of Funds from Special Deposit Account (Note 7)	113,424	227,376
	<hr/> 137,247,011	<hr/> 1,403,628,735
Total Receipts		
Project Disbursements (Notes 8 and 9)	138,493,358	1,099,141,862
Project Implementation Fees (Note 3)	28,800,072	121,443,489
Corporate Budget Disbursements (Note 4)	2,847,274	126,129,945
Project Grant Transfer to EBRD (Note 5)	9,907,650	9,907,650
Project Implementation Fee Transfer to EBRD (Note 5)	942,000	942,000
	<hr/> 180,990,354	<hr/> 1,357,564,946
Total Disbursements		
(Disbursements over Receipts) / Excess of Receipts over Disbursements	\$ (43,743,343)	\$ 46,063,789
Fund Balance, Beginning of Period	89,807,132	—
Fund Balance, End of Period	\$ 46,063,789	\$ 46,063,789
Fund balance consists of:		
Cash and Investments		<hr/> \$ 46,063,789

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

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

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 “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 Trust Fund at book value. The 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 Trust Fund.

In addition to being Trustee of the Trust Fund, the International Bank for Reconstruction and Development (“IBRD”) is also one of the three Implementing Agencies of the GEF. The other two Implementing Agencies are the United Nations Development Programme (“UNDP”) and the United Nations Environment Programme (“UNEP”). Under the Instrument, the Implementing Agencies of the GEF shall be accountable to the Council for their GEF financed activities, including the preparation and cost effectiveness of GEF projects, and for the implementation of the operational policies, strategies and decisions of the Council within their respective areas of competence. The Instrument similarly assigns other responsibilities to the Secretariat of the GEF (“the Secretariat”) and the Trustee of the Trust Fund.

IBRD is a member of the World Bank Group, which also includes the International Finance Corporation, the International Development Association, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes. IBRD performs certain administrative, accounting, financial reporting and treasury services related to trust fund activities on behalf of the World Bank Group.

Note 2 - Basis of Accounting

The accompanying financial statement reports the cash receipts and disbursements of IBRD as an Implementing Agency (“IA”) of the GEF Trust Fund and has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash receipts and disbursements basis of accounting, receipts are recorded when collected rather than when pledged, and disbursements are recorded when paid rather than when incurred. 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.

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

Transactions recorded in periods subsequent to the financial statement date, including reimbursement of disbursements deemed by management not to be eligible in accordance with the relevant trust fund and/or grant 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 for Project Implementation Fees

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

Note 4 - Transfers for Corporate Budget

In accordance with the Instrument, and as approved annually by the Council, the Trust Fund provides corporate budget funds to IBRD as IA in order to reimburse IBRD as IA for administrative expenses incurred in the performance of its corporate functions as IA. On an annual basis, the Council reviews and approves the corporate budget of the GEF, including the budget for IBRD as IA. Using these funds, IBRD as IA reimburses IBRD for certain administrative, accounting, financial reporting, and treasury services performed by IBRD on behalf of IBRD as IA.

Note 5 - Transfers in from Trustee for EBRD Project Grants and Project Implementation Fees for EBRD

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

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

Note 6 - Investment Income

IBRD as IA invests and reinvests the funds pending their disbursement. Investment income earned on funds advanced to IBRD as IA for Projects and Corporate Budget is returned to the Trust Fund, and therefore is not reflected in the accompanying financial statement. Investment income earned on funds advanced to IBRD as IA for Project Implementation Fees is retained by IBRD as IA. For the year ended June 30, 2004, and the period from March 14, 1991 (date of inception) to June 30, 2004, the IBRD as IA earned \$1,088,538 and \$10,667,446 respectively, in investment income on funds received from the GEF Trust Fund and held by IBRD as IA to cover future project related expenses.

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

Note 7 - Return of Funds from Special Deposit Account

In order to ensure an adequate flow of funds to finance eligible expenditures, IBRD as IA may disburse funds before expenditures are made by GEF grant recipients. In such cases, the grant recipient maintains such advance disbursements in a separate special deposit account ("SA"). The grant recipient must document amounts advanced to the SA or refund any undocumented balances to IBRD as IA. In cases where refunds (reflows) are received after the project has been closed, these amounts are recorded as income by IBRD. IBRD as IA has recorded \$113,424 and \$227,376 for the year ended June 30, 2004, and the period March 14, 1991 (date of inception) to June 30, 2004, respectively, as project reflows.

Note 8 - Disbursements with Repayment Provisions

While GEF financing has been made predominantly in the form of grants, under the Instrument, GEF financing may also be made available in forms other than grants, including in the form of loans and guarantees, on such terms as may be approved by the Council. Pursuant to such authority, the Council has authorized a program of GEF operations on terms other than grants, such terms to be approved on a project by project basis by the Council. IBRD as IA, and IFC, acting as executing agency for IBRD as IA, have approved to implement and execute programs of such GEF operations other than grants, with repayment provisions. IBRD as IA has advanced funds to IFC for such operations. However, the repayment provisions under such operations are contingent on a number of factors. Accordingly, in recognition of the uncertain nature of the repayments, IBRD as IA has reported amounts advanced for such GEF operations as Project disbursements. At June 30, 2004, the Trust Fund had transferred grant funds to IBRD as IA for such operations totaling \$64,375,000 as grants with repayment provisions. As of June 30, 2004, IFC, acting as executing agency for IBRD as IA, had disbursed grants with repayment provisions totalling \$22,576,028 to grant recipients, and are included in the line item "Project Disbursements" in the accompanying financial statement. In

accordance with the cash receipts and disbursements basis of accounting, IBRD as IA has not established any receivables due from grant recipients, nor has it recorded any payable to the GEF Trust Fund.

Note 9 - Disbursements

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

Of the three recipient-executed grants, in one case, the recipient reimbursed the Trust Fund \$161,965 in June 2003, representing the full amount considered ineligible by the Bank's review, thereby closing this case. No irregularities were identified in the case of the second grant. The third grant is discussed further in Note 10.

Note 10 - Subsequent Event

With respect to the third grant identified in Note 9, IBRD management has reviewed the findings of this work. As a result of this review, in May 2005, IBRD has deemed it appropriate to reimburse \$2.42 million to the Trust Fund.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
GLOBAL ENVIRONMENT FACILITY TRUST FUND
THE SECRETARIAT

World Bank Reference
TF050495 & TF050496

Financial Statement and
Independent Auditors' Report
June 30, 2004

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

INDEPENDENT AUDITORS' REPORT

To: International Bank for Reconstruction and Development
as Secretariat for the
Global Environment Facility Trust Fund

We have audited the accompanying statement of cash receipts, disbursements and fund balance of the Global Environment Facility Trust Fund, International Bank for Reconstruction and Development as Secretariat as of June 30, 2004 and for the year then ended and for the period from March 14, 1991 (date of inception) to June 30, 2004. This financial statement is the responsibility of the Trust Fund administrator's management. Our responsibility is to express an opinion on this financial statement based on our audits. The financial statement of the Global Environment Facility Trust Fund, International Bank for Reconstruction and Development as 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 financial 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, 2004. 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 auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, 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. We believe that our audits and the report from 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, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America, or International Financial Reporting Standards. This financial statement is not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America or International Financial Reporting Standards.

In our opinion, based on our audits and the reports of the other auditors, the financial statement referred to above presents fairly, in all material respects, the fund balance of the Global Environment Facility Trust Fund, International Bank for Reconstruction and Development as Secretariat at June 30, 2004 and the cash receipts and disbursements for the year ended June 30, 2004, and for the period from March 14, 1991 (date of inception) to June 30, 2004, on the basis of accounting described in Note 2 to the financial statement.

Deloitte & Touche LLP

February 2, 2005

Statement of Cash Receipts, Disbursements and Fund Balance

Expressed in U.S. dollars

	YEAR ENDED JUNE 30, 2004	MARCH 14, 1991 (DATE OF INCEPTION) TO JUNE 30, 2004
TRANSFERS IN FROM TRUSTEE FOR:		
Corporate Budget (Note 3)	\$10,492,705	\$93,262,041
Monitoring and Evaluation (Note 4)	2,091,600	2,091,600
Grant Commitments (Note 8)	—	2,745,593
	<u>12,584,305</u>	<u>98,099,234</u>
Donor Contributions - Monitoring and Evaluation (Note 5)	235,544	531,966
Donor Contributions - WSSD (Note 5)	—	150,000
Total Receipts	<u>12,819,849</u>	<u>98,781,200</u>
Corporate Budget Disbursements (Note 7)	8,852,606	87,906,602
Monitoring and Evaluation Disbursements (Note 4)	2,161,155	2,161,155
Grant Commitments (Note 8)	417	1,960,737
Total Disbursements	<u>11,014,178</u>	<u>92,028,494</u>
Excess of Receipts over Disbursements	1,805,671	6,752,706
Fund Balance, Beginning of Period	<u>4,947,035</u>	<u>—</u>
Fund Balance, End of Period	<u>6,752,706</u>	<u>6,752,706</u>
Fund balance consists of:		
Cash and Investments		<u>\$ 6,752,706</u>

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

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

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 “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 Trust Fund at book value. The 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 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. The Secretariat is supported administratively by IBRD and operates in a functionally independent manner to discharge the responsibilities assigned to it under the Instrument. 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 Trust Fund and the implementing agencies.

IBRD is a member of the World Bank Group, which also includes the International Finance Corporation, the International Development Association, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes.

Note 2 - Basis of Accounting

The accompanying financial statement reports the cash receipts and disbursements of the Secretariat, and has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under the cash receipts and disbursements basis of accounting, receipts are recorded when collected rather than when pledged, and disbursements are recorded when paid rather than when incurred. 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.

Transactions recorded in periods subsequent to the financial statement date, including reimbursement 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

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

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 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. On an annual basis, the Council reviews and approves the corporate budget of the GEF, including the budget for the Secretariat. 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 - Monitoring and Evaluation Unit

At its May 2003 meeting, under the policy recommendations of the Third Replenishment of the GEF Trust Fund, the Council agreed that the Monitoring and Evaluation ("M&E") Unit should be made independent and report directly to the GEF Council. The M&E Unit operates within the Secretariat's office. The M&E Unit is responsible for all corporate M&E activities, including the development of M&E policies and guidelines, implementation of the annual project performance review, focal area and cross-cutting evaluations, country portfolio reviews and the evaluation of GEF's overall performance.

Prior to July 1, 2003, M&E activities had been undertaken by the Secretariat. Funding for M&E activities prior to July 1, 2003 were included in the line item 'Transfers in from Trustee for Corporate Budget', as described in Note 3. Similarly, corporate budget disbursements associated with M&E activities prior to July 1, 2003 are included in the 'Corporate Budget Disbursements' line item. Transfers in of \$2,091,600 and corporate budget disbursements of \$2,161,155 for the year ended June 30, 2004 represent amounts relating to the fiscal year ended June 30, 2004, and do not include any amounts which may have been received or disbursed by the Secretariat for M&E activities prior to July 1, 2003, given that the M&E Unit was made an independent unit effective July 1, 2003. Effective July 1, 2003, the corporate budget of the M&E Unit is reported separately from the corporate budget of the Secretariat.

Note 5 - Donor Contributions

Contributions received in various currencies are converted into U.S. dollars by IBRD. The M&E Unit has received Donor contributions totaling \$235,544 and \$531,966 for the year ended June 30, 2004, and for the period March 14, 1991 (date of inception) to June 30, 2004, respectively, to support a study of the Nature of Local Benefits in GEF Program areas.

During the year ended June 30, 2003, the M&E Unit received Donor contributions totaling \$150,000 to fund the development of lessons-learned case studies on environmental enterprises for presentation at the World Summit on Sustainable Development ("WSSD").

Note 6 - Investment Income

Funds held by the Secretariat are invested and reinvested by IBRD pending their disbursement. Investment income earned on funds held by the

Notes to the Statement of Cash Receipts, Disbursements and Fund Balance

June 30, 2004

Expressed in U.S. dollars

Secretariat is credited to the Trust Fund, and therefore is not reflected in the accompanying financial statement.

Note 7 - Corporate Budget Disbursements

In accordance with the Instrument, and as discussed in Note 3, the Secretariat receives funds from the Trust Fund, to be used by the Secretariat for expenses incurred by the Secretariat in providing administrative support for the GEF. Using these funds, the Secretariat reimburses IBRD for certain administrative, accounting, financial reporting, and treasury services performed by IBRD on behalf of the Secretariat.

Note 8 - Approved Grant Commitments

The GEF Administrator's Office, to which the Secretariat is the successor, was authorized by the contributing participants to commit \$2,600,000 with respect to the Programme for Measuring Incremental Costs for the Environment ("PRINCE") project. The Secretariat has also committed \$145,600 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. The cumulative commitments and related cumulative disbursements for both projects are provided below:

	INCEPTION TO	
	JUNE 30, 2004	JUNE 30, 2003
Approved Grant Commitments		
PRINCE	\$ 2,599,993	\$ 2,599,993
GEF Country Dialogue Workshops	145,600	145,600
Total Grant Commitments	\$ 2,745,593	\$ 2,745,593
Cumulative Disbursements	1,960,737	1,960,320
Commitments Awaiting Disbursements	\$ 784,856	\$ 785,273

BOARD OF AUDITORS

NEW YORK

FAX (212) 963-3684

AUDIT OPINION

I have audited the accompanying financial statements of the United Nations Development Programme (UNDP) Trust Fund for the Global Environment Facility (GEF) for the financial period ended 31 December 2003. The financial statements are the responsibility of UNDP management. My responsibility is to express an opinion on the financial statements 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, the specialized agencies and the International Atomic Energy Agency and in conformity with the International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes the examining, on a test basis, and where considered by the auditor to be necessary in the circumstances, 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. I believe that my audit provides a reasonable basis for the audit opinion.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Trust Fund for the GEF as at 31 December 2003 and income and expenditure for the financial period then ended.

Furthermore, in my opinion, the transactions of the Trust Fund for the GEF that have come to my notice or 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 GEF Council.

Without qualifying the audit opinion expressed above, I draw attention to the UNDP directives in respect of GEF nationally executed projects of \$71 million. Although we continue to note significant improvements, I am concerned about the adequacy of the assurance obtained by UNDP that funds have been properly used for the purposes intended.



Pramesh Bhana

Director, External Audit, South Africa
United Nations Board of Auditors
30 November 2004

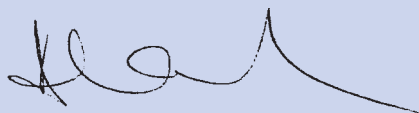
**Statement of Income and Expenditure for the
12 Months Ended 31 December 2003 for GEF Trustee**
In U.S. thousands of dollars

	<u>2003</u>	<u>2002</u>
INCOME		
Voluntary contributions — Note 1	\$215,689	\$160,666
Interest income	(96)	(379)
Other income	246	—
	<u>215,839</u>	<u>160,287</u>
EXPENDITURE		
Programme expenditure	129,466	115,943
Administrative costs	17,695	17,040
Other expenditure	18	545
	<u>147,179</u>	<u>133,528</u>
Excess (shortfall) of income over expenditure	68,660	26,759
Savings on prior biennium's obligations	(230)	261
Refunds to donors and transfers to/from Other Funds	(17,415)	(318)
Reserves & fund balances, beg. of period	<u>40,715</u>	<u>14,013</u>
Reserves & fund balances, end of period	<u>\$ 91,730</u>	<u>\$ 40,715</u>

Approved Project Commitments from GEF Funds
Cumulative to 31 December 2003
In U.S. thousands of dollars

Full-sized Technical assistance	\$ 933,952.4
Small Grants Programme	117,567.5
Medium-sized	61,294.0
Enabling Activity	81,831.7
PRIF and other	18,047.1
PDF-A	4,836.1
PDF-B	45,518.7
PDF-C	1,889.2
Total approved project commitments	<u>\$ 1,264,936.7</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, as GEF Trustee.



Darshak Shah, Chief
Comptroller's Division
Office of Finance and Administration
United Nations Development Programme

Notes to the Statement

Note 1: Voluntary contributions comprise:

	<u>2003</u>	<u>2002</u>
(IN U.S. THOUSANDS OF DOLLARS)		
GEF Trustee on behalf of the World Bank	\$ 215,468	\$ 160,666
UNEP	<u>220</u>	<u>—</u>
Total voluntary contributions	<u>\$ 215,688</u>	<u>\$ 160,666</u>

Note 2: This Statement of Income and Expenditure has been prepared on an accrual basis of accounting except for voluntary contributions which are on a cash basis in line with UNDP accounting policies. Therefore this statement includes the following unliquidated obligations:

	<u>2003</u>	<u>2002</u>
(IN U.S. THOUSANDS OF DOLLARS)		
Unliquidated obligations—Projects	\$9,343	\$8,790
Unliquidated obligations—Administrative	<u>—</u>	<u>244</u>
Total unliquidated obligations	<u>\$9,343</u>	<u>\$9,034</u>

Prior biennium's Administrative obligations not used are recorded as savings in the subsequent period.

Outstanding advances receivable/(payable) made to executing agencies are (as at 31 December):

	<u>2003</u>	<u>2002</u>
(IN U.S. THOUSANDS OF DOLLARS)		
Government	\$11,970	\$13,521
Executing Agencies	<u>(7,251)</u>	<u>(9,483)</u>
Total outstanding advances receivable/(payable)	<u>\$ 4,719</u>	<u>\$ 4,038</u>

Note 3: Unspent allocations and unexpended resources

The GEF Trust Fund has received letters of commitments from the World Bank as trustee to the Global Environment Facility for \$1,469,098,000 (2002: \$1,268,500,000). As of 31 December 2003, on the basis of those commitments, the GEF Trust Fund had in turn issued allocations of \$496,525,000 (2002: \$327,065,000) in excess of the fund balance of \$91,730,000.

BOARD OF AUDITORS

NEW YORK

FAX (212) 963-3684

AUDIT OPINION

We have audited the accompanying financial statements of the United Nations Environment Programme (UNEP) Trust Fund for the Global Environment Facility (GEF) for the financial period ended 31 December 2003. These financial statements are the responsibility of UNEP management. Our responsibility is to express an opinion on the financial 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, the specialized agencies and the International Atomic Energy Agency and in conformity with the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to 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 audit provides a reasonable basis for the audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Trust Fund for the GEF as at 31 December 2003 and the results of operations and cash flows for the financial period then ended.

Further, in our opinion, the financial resources of the Trust Fund for the GEF have been used in accordance with the Instrument for the establishment of the Global Environment Facility and the decisions taken by the GEF Council.



Sabiniano G. Cabatuan
Director, External Audit, Philippines
United Nations Board of Auditors
19 October 2004

Statement of Income and Expenditure and Changes in Reserves and Fund Balance
for the Biennium 2002–2003 Ended 31 December 2003

	2003	2002	2002–2003
	USD	USD	BIENNIUM
	USD	USD	USD
INCOME			
Voluntary contributions	\$52,075,179	\$59,939,358	\$112,014,537
Interest income	1,232,442	1,372,754	2,605,196
Miscellaneous income	17,411	11,557	28,968
Total Income	53,325,032	61,323,669	114,648,701
EXPENDITURE			
Staff and other personnel costs	11,757,132	8,374,068	20,131,200
Contractual services	20,058,586	13,753,355	33,811,941
Travel	2,274,253	1,599,765	3,874,018
Operating expenses	8,272,586	6,822,633	15,095,219
Acquisitions	2,268,917	658,271	2,927,188
Other expenditures	(8,512)	8,512	—
Total Expenditure	44,622,962	31,216,604	75,839,566
Excess/(shortfall) of income over expenditure	8,702,070	30,107,065	38,809,135
Prior year adjustment	(7,204,595)	(765,723)	(7,970,318)
Net excess/(shortfall) of income over expenditure	1,497,475	29,341,342	30,838,817
Provisional savings on or cancellation of prior periods' obligations	(821,254)	821,254	—
Reserves and fund balances, beginning of period	75,936,666	45,774,070	45,774,070
Reserves and fund balances, end of period	\$76,612,887	\$75,936,666	\$ 76,612,887



David Hastie
Chief, Accounts Section
Budget and Financial Management Service
4 May 2004

Statement of Assets, Liabilities, Reserves, and Fund Balance
as at 31 December 2003

	2003	2002
	USD	USD
ASSETS		
Cash and term deposits	\$ 71,925,456	\$62,140,197
Other accounts receivable	32,112,750	25,181,352
Deferred charges	72,430	16,876
Total Assets	<u>104,110,636</u>	<u>87,338,425</u>
LIABILITIES		
Interfund payable	21,256,030	3,292,633
Other accounts payable	3,238,861	3,579,559
Other liabilities	—	(36)
Reserve for obligations	3,002,858	4,529,605
Total Liabilities	<u>27,497,749</u>	<u>11,401,761</u>
RESERVES AND FUND BALANCES		
Cumulative surplus	76,612,887	75,936,664
Total Reserves and Fund Balances	<u>76,612,887</u>	<u>75,936,664</u>
Total Liabilities, Reserves, and Fund Balances	<u>\$104,110,636</u>	<u>\$87,338,425</u>



David Hastie
Chief, Accounts Section
Budget and Financial Management Service
4 May 2004

Statement of Cash Flows

for the Biennium 2002–2003 Ended 31 December 2003

	2003 USD	2002 USD
CASH FLOWS FROM OPERATING ACTIVITIES		
Net excess/(shortfall) of income over expenditure	\$1,497,477	\$29,341,342
(INCREASE)/DECREASE IN		
Other accounts receivable	(6,931,398)	(10,698,291)
Deferred charges	(55,554)	(5,171)
INCREASE/(DECREASE) IN		
Other accounts payable	(340,698)	2,315,027
Other liabilities	36	(36)
Reserves for obligations	(1,526,747)	(936,724)
Less: interest income	(1,232,442)	(1,372,754)
Net cash from operating activities	(8,589,326)	18,643,393
CASH FLOWS FROM INVESTING AND FINANCING ACTIVITIES		
Increase/(decrease) in interfund payable	17,963,397	(2,564,474)
Plus: interest income	1,232,442	1,372,754
Net cash flow from investing and financing activities	19,195,839	(1,191,720)
CASH FLOW FROM OTHER SOURCES		
Provisional savings on or cancellation of prior periods' obligations	(821,254)	821,254
Net cash flow from other sources	(821,254)	821,254
NET INCREASE/(DECREASE) IN CASH AND SHORT-TERM DEPOSITS	9,785,259	18,272,927
Cash and short-term deposits, beginning of period	62,140,197	43,867,270
Cash and short-term deposits, end of period	\$71,925,456	\$62,140,197



David Hastie
Chief, Accounts Section
Budget and Financial Management Service
4 May 2004



The GEF Family

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 SUMARDJA, Effendy (Indonesia) (from November 16, 2004)
Alternate: AISI, Robert G. (Papua New Guinea)
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Countries: Japan

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Countries: Algeria, Egypt, **Morocco**, Tunisia

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Alternate: MOEINI, Hossein (Iran)
Countries: I.R. **Iran**

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Macedonia, Poland, Romania, Ukraine

Member: WOROU, Theophile (Benin)
Alternate: T.B.D.
Countries: Benin, Côte d'Ivoire, Ghana, Guinea, **Nigeria**, Sierra Leone, Togo

Member: METSING, J.T. (Lesotho)
Alternate: KABWAZA, Raphael (Malawi)
Countries: Botswana, **Lesotho**, Malawi, Mozambique, South Africa, Swaziland, Zambia, Zimbabwe

Member: MONTEIRO, Carlos (Cape Verde)
Alternate: SARR, Momodou (The Gambia)
Countries: Burkina Faso, **Cape Verde**, Chad, Guinea-Bissau, Mali, Mauritania, Niger, Senegal, The Gambia

Member: MUDUULI, Mary (Uganda) (through December 22, 2004)
 WAISS, Aboubaker (Djibouti) (from December 23, 2004)
Alternate: T.B.D. (Eritrea)
Countries: Comoros, Djibouti, Eritrea, Ethiopia, Kenya,

* Countries in bold currently hold rotating Council Member position.

Madagascar, Mauritius, Sudan,
Tanzania, **Uganda**

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Alternate: MCMURRAY, Claudia
(USA)
Countries: United States

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Zealand)
Alternate: CONNELL, Sue
(Australia)
Countries: Australia, **New Zealand**,
Republic of Korea

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Guatemala, Honduras, **Mexico**,
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Countries: Italy

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Countries: Burundi, **Cameroon**,
Central African Republic, Congo,
D. R. of Congo

Member: TVERITINOV, Sergey
(Russian Federation)
Alternate: T.B.D.
Countries: Armenia, Belarus,
Russian Federation

Member: VASUDEV, Chander
Mohan (India)
Alternate: ALI KHAN, Akbar
(Bangladesh)
Countries: Bangladesh, Bhutan,
India, Maldives, Nepal, Sri Lanka

Member: WHEATLEY, Josceline (UK)
Alternate: HATHAWAY, Roy (UK)
Countries: United Kingdom

Member: ZHU, Guangyao (China)
Alternate: WU, Jinkang (China)
Countries: China

The Constituencies of the following new member countries have yet to be determined: Bosnia-Herzegovina, Equatorial Guinea, Gabon, Israel, Liberia, Libya, Malta, Palau, Sao Tome and Principe, Serbia and Montenegro, Seychelles, Syria and Timor-Leste DR.



GEF's Primary In-Country Contacts

GEF Operational Focal Points

A

AFGHANISTAN

Pir Mohammad AZIZI
Irrigation Deputy Minister
Ministry of Irrigation, Water
Resources and Environment
Kabul
Afghanistan
E-Mail: pmazizi@yahoo.com

ALBANIA

Pellumb ABESHI
Secretary General
Ministry of Environment
Rrugë e Durrësit
No. 27
Tirana
Albania
Tel: 355 4 270623
Fax: 355 4 270623
E-Mail: p_abeshi@abissnet.com.al

ANTIGUA AND BARBUDA

Diann BLACK LAYNE
Chief Environmental Officer
Ministry of Tourism and Environment
Environment Division
Factory Road
St. John's
Antigua and Barbuda
Tel: 268 462 4625, 6265
Fax: 268 462 7278
E-Mail:
mail@environmentdivision.info,
dblack@environmentdivision.info

ARGENTINA

Juan Carlos GARAGUSO
Director
Multilateral Cooperation
Ministry of Foreign Affairs
Buenos Aires
Argentina

Fax: 01154-11-48197272
E-Mail: jcg@mrecic.gov.ar

ARMENIA

Vardan AYVAZIAN
Minister
Ministry of Nature Protection of the
Republic of Armenia
Government Bldg. 3
Republic Sq.
Yerevan, 375010
Armenia
Tel: 374 1 52 10 99
Fax: 374 1 58 54 69
E-Mail: minister@mnpic.am,
interdpt@rambler.ru

AZERBAIJAN

Hussein BAGIROV
Minister
Ministry of Ecology and Natural
Resources
B. Aghayev Street
100-A
Baku, 370073
Azerbaijan
Tel: 994 12 414205
Fax: 994 12 925907
E-Mail: ecoministry@eko.baku.az

B

BAHAMAS, THE

Donald COOPER
Undersecretary
Ministry of Health & Environment
The BEST Commission
Nassau Court
PO Box CB 10980
Nassau
Bahamas
Tel: 242 322 4546 or 322 2576
Fax: 242 326 3509
E-Mail: dcooper@best.bs

BANGLADESH

Shoaib AHMED
Secretary
Ministry of Environment and Forests
Room No. 1311, Building-6
Bangladesh Secretariat
Dhaka-1000
Bangladesh
Tel: 88 02 7160481/7161881
Fax: 88 02 7169210
E-Mail: secretary@moef.gov.bd

BARBADOS

Leonard NURSE
Permanent Secretary
Ministry of Physical Development
and Environment
4th Floor
Sir Frank Walcott Building
Culloden Road
St Michael
Barbados
Tel: 246 4317663
Fax: 246 4378859
E-Mail: meenr@sunbeach.net

BELARUS

Vasily PODOLYAKO
First Deputy Minister
Ministry of Natural Resources and
Environmental Protection
10, Kollektornaja Street
Minsk, 220 048
Belarus
Tel: 375 172 206691
Fax: 375 172 205583
E-Mail: minproos@mail.belpak.by

BENIN

Zounveou Pascal YAHA
Secrétaire General du Ministère
Ministère de l'Environnement, de
l'Habitat et de l'Urbanisme
B.P. 01-3621
Cotonou
Benin

Tel: 229 31 46 59
Fax: 229 31 5081
E-Mail: pyaha@mehubenin.net,
pyahaz@yahoo.ca

BHUTAN

Nima OME
Officiating Director
Ministry of Foreign Affairs
Multilateral Department
Thimphu
Bhutan
Tel: 975 2 323297/322324
Fax: 975 2 323240
E-Mail: nome@mfa.gov.bt

BOLIVIA

Erwin AGUILERA ANTUNEZ
Viceministro de Recursos Naturales
y Medio Ambiente
Av. Mariscal Santa Cruz
No. 1092, Piso 6
Casilla Correo 12814
La Paz
Bolivia
Tel: 591 2 2330762
Fax: 591 2 2331273
E-Mail: vrnma@mnds.gov.bo

BOSNIA-HERZEGOVINA

Dragon DOKO
Minister
Ministry of Foreign Trade and
Economic Relations
Musala 9
71000 Sarajevo
Bosnia and Herzegovina
Tel: 387 33 47 31 23
Fax: 387 33 44 59 11

BRAZIL

Carlos COSTA
 General Coordinator for Social Operations
 Ministry of Planning, Budget and
 Management
 Secretariat of International Affairs
 Esplanada dos Ministerios
 Bloco K, 5 andar
 CEP 70040-906
 Brasilia DF
 Brazil
 Tel: 55 61 429 4463
 Fax: 55 61 225 4022
 E-Mail:
 carlos.lampert@planejamento.gov.br

BURKINA FASO

Jean-Baptiste KAMBOU
 Technical Adviser
 Ministry of Environment and Tourism 03
 BP 7044
 Ouagadougou 01
 Burkina Faso
 Tel: 226 311681
 Fax: 226 318724

BURUNDI

Etienne KAYENGEYENGE
 Director General
 Ministry of Environment and Tourism
 BP 2847
 Bujumbura
 Burundi
 Tel: 257 21 32 57
 Fax: 257 24 12 05
 E-Mail: kayengeyenge@yahoo.fr

C**CAMBODIA**

Lunh HEAL
 Secretary of State
 Ministry of Environment
 #48 Samdech Preah Sihanouk
 Tonle Bassac
 Chamkarmon
 Phnom Penh
 Cambodia
 Tel: 855 16 821 180
 Fax: 855 23 427 844
 E-Mail: moe@bigpond.com.kh

CAMEROON

Justin NANTCHOU NGOKO
 Director Attached to Minister's Cabinet
 Ministry of Environment and Forestry
 Department of Wildlife and Protected
 Areas
 BP 5506
 Yaounde
 Cameroon
 Tel: 237 222 9483
 Fax: 237 222 9462
 E-Mail: justinnantchou2000@yahoo.fr

CAPE VERDE

Maria Ivone Andrade LOPES
 Director General of Environment
 Ministry of Environment, Agriculture
 and Fisheries
 CP 115
 Praia
 Cape Verde
 Tel: 238 2618984
 Fax: 238 2617511
 E-Mail: sepa@mail.cvtelecom.cv

CENTRAL AFRICAN REPUBLIC

Gustave DOUNGOUBE
 Director General
 Ministry of Environment
 Sustainable Development and Social
 Economy
 POB 686
 Gangui

Central African Republic

Tel: 236 50 38 08/09 91 20
 Fax: 236 61 56 12
 E-Mail: gdoungoub2000@yahoo.fr

CHAD

Oualbadet MAGOMNA
 Ministry of Environment
 BP 447
 Ndjamena
 Chad
 Tel: 235 522296
 Fax: 235 523839
 E-Mail: oualbadet@yahoo.fr

CHILE

Ximena GEORGE-NASCIMENTO
 Secretaria de Relaciones Internacionales
 Comisión Nacional del Medio
 Ambiente (CONAMA)
 Obispo Donoso 6
 Providencia, Santiago
 Chile
 Tel: 562 240 5763
 Fax: 562 241 1803
 E-Mail: xgeorge-nascimento@conama.cl

CHINA

Zhao XIAO YU
 Director General
 Ministry of Finance
 Sanlihe St.
 Xicheng District
 Beijing, 100820
 People's Republic of China
 Tel: 86 10 68553101
 Fax: 86 10 68551125

COLOMBIA

Alvaro RODRIGUEZ
 Coordinator, International Affairs
 Ministry of Environment, Housing and
 Territorial Development
 Calle 37 No. 8-40
 piso 2
 Bogotá, DC
 Colombia
 Tel: 571 1 332 3400
 Fax: 571 1 288 9835

COMOROS

Fatouma ALI ABDALLAH
 Chef de Service Gestion des Ressources
 Naturelles
 Direction Générale de l'Environnement
 BP 860
 Moroni
 Comoros
 Tel: 269 73 63 88/730018
 Fax: 269 736388
 E-Mail: alfa@snpt.km,
 fatouma_ay@yahoo.fr

CONGO

Benjamin DZABA-BOUNGOU
 Ministère de l'Economie Forestière
 et de l'Environnement
 Direction Generale
 BP 958
 14 rue du pool
 Brazzaville
 Congo
 Tel: 242 66 10 44 1/52 76 54 4
 E-Mail: dzabadorl@yahoo.fr

CONGO, DR

Kasulu Keya MAKONGA
 Director de Developpement Durable
 Ministry of Foreign Affairs Environment
 and Nature Conservation
 35 Avenue Pumbu Commune de
 Gombe/Kinshasa
 Kinshasa/Gombe
 Democratic Republic of Congo
 Tel: 243 99 0595/814 510 594
 Fax: 243 88 43 675
 E-Mail: kaseyamak@yahoo.fr,
 minenv@micronet.cd

COOK ISLANDS

Vaitoti TUPA
 Director
 Environment Service
 PO Box 371
 Raratonga
 Cook Islands
 Tel: 682 21 256
 Fax: 682 22 256
 E-Mail: resources@environment.org.ck

COSTA RICA

Ricardo ULATE CHACON
 Director
 Ministry of Environment International
 Relations and Cooperation
 San Jose
 Costa Rica
 Tel: 506 253 2596
 Fax: 506 222 4580
 E-Mail: rulate@minae.go.cr

CÔTE D'IVOIRE

Alimata KONE
 Point Focal Operationnel FEM responsable
 des Fonds de l'Environnement
 Banque Nationale d'Investissement
 (NEMEF)
 Abidjan, 01
 Côte d'Ivoire
 Tel: 225 20209829
 Fax: 225 20215553
 E-Mail: alimat53@yahoo.fr

CROATIA

Gordana RUKLIĆ
 Expert Adviser
 Ministry of Environmental Protection,
 Physical Planning and Construction
 Ulica Republike Austrije 16
 10 000 Zagreb
 Croatia
 Tel: 385 1 3782 160
 Fax: 385 1 3782 157
 E-Mail: gordana.ruklic@mzopu.hr

CUBA

Jorge CHAMERO
 Director
 Ministry of Science Technology and
 Environment (CITMA)
 Capitolio Nacional
 Prado y San Jose
 La Habana, 10200
 Cuba
 Tel: 53 7 670606
 Fax: 53 7 338054
 E-Mail: chamero@citma.cu,
 dcicitma@ceniai.inf.cu,
 gricel@citma.cu

CZECH REPUBLIC

Michal PASTVINSKY
 Director
 Ministry of the Environment
 Vrsovicka 65
 Prague 10, 100 10
 Czech Republic
 Tel: 420 2 67122089
 Fax: 420 2 67311949
 E-Mail: pastvinsky@env.cz

D**DJIBOUTI**

Aboubaker Doulé WAISS
 Secretary General
 Ministry of Home, Urbanism,
 Environment and Land Planning
 Djibouti
 Republic of Djibouti
 Tel: 253 35 8522
 Fax: 253 35 1618
 E-Mail: aboubaker_douale@hotmail.com,
 adouale@yahoo.fr

DOMINICA

Colmore S. CHRISTIAN
 Permanent Secretary
 Ministry of Agriculture and the
 Environment
 Government Headquarters
 Kennedy Avenue
 Roseau
 Dominica
 Tel: 767 448 2401
 Fax: 767 448 7999

E**EAST TIMOR**

Jose TEIXEIRA
 Secretary of State for Tourism,
 Environment and Investment
 Ministry of Development and
 Environment
 East Timor
 Tel: 670 390 333 9178
 Fax: 670 390 333 9179

ECUADOR

Fabian VALDIVIESO
 Minister
 Ministry of Environment
 Av. Eloy Alfaro y Amazonas
 Edif MAG, Piso 7
 Quito
 Ecuador
 Tel: 593 2 256 3462
 Fax: 593 2 250 0041
 E-Mail: fvaldivieso@ambiente.gov.ec

EGYPT

M.S. KHALIL
 Chief Executive Officer
 Egyptian Environmental Affairs Agency
 (EEAA)
 PO Box 955
 Maadi Post Office
 Cairo
 Egypt
 Tel: 202 25 6445
 Fax: 202 525 6490

EL SALVADOR

Hugo Cesar BARRERA GUERRERO
 Ministro
 Ministerio de Medio Ambiente y
 Recursos Naturales
 Km. 5 1/2 carretera a Santa Tecla,
 Calle y Colonia Las Mercedes
 Edificio Marn
 Instalaciones ISTA
 San Salvador
 El Salvador
 Tel: 503 245 0313
 Fax: 503 245 0130
 E-Mail: hbarrera@marn.gov.sv

EQUATORIAL GUINEA

Santiago-Francisco ENGONGA ESONO
 Ministry of Fisheries and the
 Environment
 Direccion General de Medio
 Malabo
 Equatorial Guinea
 Tel: 240 092806

ERITREA

Mogos WOLDEYOHANNIS
 Director General
 Department of Environment (DoE)
 Ministry of Land, Water and
 Environment
 PO Box 5713
 Asmara
 Eritrea
 Tel: 291 1 120311/125887

ESTONIA

Allan GROMOV
 Director General
 Ministry of Environment
 Toompuiestee 24
 Tallinn, 15 172
 Estonia
 Tel: 372 2 6262840
 Fax: 372 2 6262845
 E-Mail: allan@ekm.envir.ee

ETHIOPIA

Tewelde Berhan EGZIABHER
 General Manager
 Environment Protection Authority
 P.O. Box 12760
 Addis Ababa
 Ethiopia
 Tel: 251 1 627728
 Fax: 251 1 610077
 E-Mail: esid@telecom.net.et

F**FIJI**

Cama TUILOMA
 Chief Executive Officer
 Ministry for Local Government, Housing,
 Squatter Settlement and Environment
 Level 2&3
 FFA House
 Gladstone Road
 Suva
 Fiji
 Tel: 679 3311 699/3304 304 ext 302
 Fax: 679 3312 879
 E-Mail: camatuiloma@connect.com.fj

G

GABON

Director General
Ministry of Environment
BP 165
Libreville
Gabon
Tel: 241 7 61210
Fax: 241 7 65974

GAMBIA

Momodou SARR
Executive Director
National Environment Agency (NEA)
5 Fitzgerald Street
PBM 48
Banjul
Gambia
Tel: 220 4223860/4228056
Fax: 220 4229701
E-Mail: msarr@gamtel.gm

GEORGIA

Malkhaz ADEISHVILI
Head
Ministry of Environment
68 a Kostava Str.
Tbilisi, 380079
Georgia
Tel: 995 32 331299
Fax: 995 32 333952
E-Mail: madeishvili@caucasus.net

GHANA

Edward NSENKYIRE
Chief Director
Ministry of Environment and Science
PO Box MB 232
Accra
Ghana
Tel: 233 21 673 336
Fax: 233 21 66 828
E-Mail: mest@ghana.com

GREECE

Nicholas SYMEONIDIS
Director
International Organizations and Policies
Ministry of Economy and Finance
Syntagma Square

GR-101 80
Athens
Greece
Tel: 302 10 3286301
Fax: 302 10 3286309
E-Mail: nsyms@ath.forthnet.gr

GRENADA

Timothy ANTOINE
Permanent Secretary
Ministry of Finance
The Carenage
St. George's
Grenada
Tel: 473 4402731
Fax: 473 4404115

GUATEMALA

Juan Mario DARY FUENTES
Minister
Ministry of Environment and Natural
Resources
20 calle 28-58 zona 10
CP 1010
ciudad de Guatemala
Guatemala
Tel: 502 512 2595/2654
E-Mail: marnguatemala@marn.gob.gt

GUINEA

Sékou Mohamed CAMARA
Directeur du Fonds de Sauvegarde
Ministère de L'Environnement
BP 761
Conakry
Republic of Guinea
Tel: 224 21 10 83
E-Mail: sekuba1@yahoo.fr

GUINEA-BISSAU

Matilde LOPES
General Director of Environment
Secretary of State of Energy and
Natural Resources
PO Box 399
Bissau
Guinea-Bissau
Tel: 245 20 3264
Fax: 245 20 1168
E-Mail: conceicao@hotmail.com

GUYANA

Doorga PERSAUD
Executive Director
Environmental Protection Agency
IAST Building
University of Guyana Campus
Turkeyen
Guyana
Tel: 592 222 4224
Fax: 592 222 2442
E-Mail: dpersaud@epaguyana.org

H

HAITI

Yves-André WAINRIGHT
Minister
Ministry of Environment
181 Haut de Turgeau
Port au Prince, HT 6113
Haiti
Tel: 509 245 7572/244 2338
Fax: 509 245 7360
E-Mail: yawainright@email.com

HONDURAS

Gerardo SALGADO
Vice Minister
Natural Resources and Energy
Avenida de la FAO, Edificio DEFOMIN
Tegucigalpa DC
Honduras
Tel: 504 232 5813
Fax: 504 231 1918
E-Mail: gsalgado@serna.gob.hn

HUNGARY

Laszlo BECKER
Hungarian Ministry of Environment and
Water
PO Box 351
1394 Budapest
Hungary
Tel: 36 1 4573385
Fax: 36 1 2013134
E-Mail: becker@mail.ktm.hu

I

INDIA

Sudhir MITAL
Joint Secretary
Ministry of Environment and Forests
Room 414
Paryavaran Bhawan
CGO Complex
Lodhi Road
New Delhi, Delhi 110 003
India
Tel: 91 11 243 63956
Fax: 91 11 243 69192
E-Mail: mital_sudhir@nic.in

INDONESIA

Effendy SUMARDJA
Special Assistant to the Minister for
International Relations
Ministry of Environment
Jalan D.I. Panjaitan
Kebun Nanas
Jakarta, 13410
Indonesia
Tel: 62 21 8580066
Fax: 62 21 8580066
E-Mail: eas@menlh.go.id

J

JAMAICA

Barnaby LEONI
Senior Director
Ministry of Land and Environment
16A Half Way Tree Road
Kingston 5
Jamaica
Tel: 011 876 929 2792
Fax: 011 876 920 7267
E-Mail: mle@cwjamaica.com

JORDAN

Kamal KHDIER
Advisor
Ministry of Planning and International
Cooperation
PO Box 555
Amman, 11118
Jordan

Tel: 962 6 4644466
Fax: 962 6 4649341
E-Mail: kamal.k@mop.gov.jp

K

KAZAKHSTAN

Aitkul SAMAKOVA
Minister
Ministry of Environment Protection
31 Pobedy Avenue
473000
Astana
Kazakhstan
Tel: 7 3172 59 19 50
Fax: 7 3172 59 19 73

KENYA

Ratemo W. MICHEKA
Director General
National Environment Management
Authority
PO Box 67839
Nairobi, 00200
Kenya
Tel: 254 2 609013
Fax: 254 2 608997
E-Mail: dgnema@swiftkenya.com

KIRIBATI

Tererei ABETE-REEMA
Deputy Director, Environment and
Conservation Division
Ministry of Environment, Lands and
Agriculture Development
PO Box 234
Bikenibeu
Tarawa
Kiribati
Tel: 686 28593
Fax: 686 28334
E-Mail: mesd2@tskl.net.ki

KOREA, DPR

Hung Sik RI
Secretary General
National Coordinating Committee for
Environment of DPR Korea
Zungsongdong Central District
PO Box 44
Sungri Street
Pyongyang
DPR Korea
Tel: 85 02 381 8370
Fax: 85 02 381 4660

KOREA, REPUBLIC OF

Houng-Seob KIM
Director of Global Environment Office
Ministry of Environment
Government Complex Gwacheon 1
Joongang-Dong
Gwacheon, Gyeonggi-Do 427-729
Republic of Korea
Tel: 82 2 504 9245
Fax: 82 2 504 9206
E-Mail: kimhs55@me.go.kr

KYRGYZSTAN

Kanat DJANUZAKOV
Deputy Minister
Ministry of Ecology and Emergencies
2/1 Toktonaliev Street
Bishkek
Kyrgyz Republic
Tel: 996 312 54 11 77
Fax: 996 312 54 11 77
E-Mail: min-eco@elcat.kg

L

LAO PDR

Xayaveth VIXAY
Deputy Director General
Science Technology and Environment
Agency (STEA)
Department of Environment
PO Box 2279
Vientiane
Lao PDR
Tel: 856 21 218712
Fax: 856 21 213472
E-Mail: xayaveth@yahoo.com

LATVIA

Ingrida APENE
Senior Desk Officer
Ministry of Environmental Protection
and Regional Development
25 Peldu Street
Riga, LV-1494
Latvia
Tel: 371 2 7026508
Fax: 371 2 7820442
E-Mail: ingrida.apene@vidm.gov.lv

LEBANON

Nancy KHOURY
Ministry of Environment
P.O. Box 70-1091
Antelias
Lebanon
Tel: 961 4 522222
Fax: 961 4 525080
E-Mail: n.khoury@moe.gov.lb

LESOTHO

Stanley M. DAMANE
Ministry of Tourism, Environment and
Culture
The National Environment Secretariat
PO Box 10093
Sixth Floor, New Post Office Building
Kingsway
Maseru 100
Lesotho
Tel: 266 223 20534/22311767
Fax: 266 223 11139
E-Mail: stanleydamane@hotmail.com

LIBERIA

Fodee KROMAH
Executive Director
National Environmental Commission
PO Box 2897
Liberia
Tel: 231 22 7297
Fax: 231 22 6104
E-Mail: necolib@yahoo.com

LIBYA

Mohamed AMER
Head Office
Environmental General Authority (EGA)
PO Box 83618
Tripoli

Libya

Tel: 218 91 2135291
Fax: 218 21 3612836

M

MADAGASCAR

Bernard KOTO
Secretary General
Ministry of Environment and Forests
BP 243
Nanisana, Antananarivo-101
Madagascar
Tel: 261 20 22 00 305
Fax: 261 20 222 30 488
E-Mail: minenv@dts.mg,
foretmin@dts.mg

MALAWI

Raphael KABWAZA
Director of Environmental Affairs
Ministry of Natural Resources and
Environmental Affairs
Lingadzi House
Private Bag 394
Lilongwe 3
Malawi
Tel: 265 1 77 1111
Fax: 265 1 77 3379
E-Mail: rkabwaza@sdpn.org.mw

MALAYSIA

Nadzri YAHYA
Deputy Director
Ministry of Science Technology and
Environment
Parcel C, Block C5
Level 5
Federal Government Administrative
Centre
Putrajaya
Malaysia
Tel: 60 3 88892975
Fax: 60 3 88858028
E-Mail: nadzri@moste.gov.my

MALDIVES

Abdullahi MAJEED
Deputy Minister
Ministry of Environment and
Construction
Izzuddeen Magu
Male, 20-02
Maldives
Tel: 960 324861
Fax: 960 322286

MALI

Yaya-Nouhoum TAMBOURA
Secretariat Technique Permanent
du Cade
Institutionnel de la Gestion des
Questions Environnementales
(STP/CIGQE)
BP 2357
Mali
Tel: 223 223 1074
Fax: 223 223 5867
E-Mail: stp@timbagga.com.ml

MALTA

Godwin CASSAR
Director General
Malta Environmental & Planning
Authority
St Francis Ravelin
Floriana
Malta
Tel: 356 21 2290 0000
Fax: 356 2290 1500

MARSHALL ISLANDS

Yumiko CRISOSTOMO
Director
Office of Environmental Planning and
Policy Coordination (OEPPC)
PO Box 15
Majuro, 96960
Marshall Islands
Tel: 692 625 7944
Fax: 692 625 3805
E-Mail: yumikocrisostomo@yahoo.com,
oeppc@ntamar.net

MAURITANIA

El Hadrami Ould BAHNEINE
Directeur
Direction de l'Environnement et de
l'Aménagement Rural
BP 170
Nouakchott
Mauritania
Tel: 222 29 0115
Fax: 222 25 8386

MAURITIUS

Guy WONG SO
Director
Ministry of Economic Development,
Financial Services and Corporate
Affairs
Emmanuel Anquetil Building
9th Floor
Port Luis
Mauritius
Tel: 230 201 1260
Fax: 230 212 4124
E-Mail: med@mail.gov.mu

MICRONESIA

John MOOTEB
Deputy Assistant Secretary
Sustainable Development Unit
Development of Economic Affairs
PO Box PS 12
Palikir, Pohnpei 96941
Micronesia
Tel: 691 320 2646
Fax: 691 320 5854
E-Mail: fsmdea@mail.fm

MOLDOVA

Violeta IVANOV
Chief of Environmental Strategies
and Policies Division
Ministry of Ecology and Natural
Resources
9 Cosmonautilor
MD2005
Chisinau
Moldova
Tel: 373 22 20 4612
Fax: 373 22 22 6265
E-Mail: ecopolicy@mediu.moldova.md

MONGOLIA

Navaan-Yunden OYUNDARI
Head of International Cooperation
Ministry for Nature and the
Environment
Enkh Taivny gudamj 7A
Ulanbaatar
Mongolia
Tel: 976 11 311 311
Fax: 976 11 322 127

MOROCCO

Taha BALAFREJ
Directeur du Partenariat
Ministère de l'Aménagement du
Territoire, de l'Eau et de
l'Environnement
Quartier Administratif
Rue Quarzuzute
Hassan
Rabat
Morocco
Tel: 212 7772759
Fax: 212 7772640
E-Mail: balafrej@minenv.gov.ma,
dpcc@minenv.gov.ma

MOZAMBIQUE

Evaristo BAQUETE
National Director of Environmental
Management
Ministry for Coordination of
Environmental Management (MICOA)
Av. Acordos de Lusaka 2115
CP 2020 Maputo
Maputo
Mozambique
Tel: 258 1 465947
Fax: 258 1 465849
E-Mail: ebaquete@teledata.mz

MYANMAR

Yin Yin LAY
Director
The National Commission for
Environmental Affairs
37 Thantaman Road
Yangon, Dagon Township
Myanmar
Tel: 95 1 221594
Fax: 95 1 221546

N

NAMIBIA

Toefilus NGHITILA
Director
Ministry of Environment and Tourism
Directorate of Environmental Affairs
Capital Center Building, 6th Floor
Levinson Arcade Street
Arcade
Windhoek
Republic of Namibia
Tel: 264 61 249015, 2842111
Fax: 264 61 240339
E-Mail: nghitila@dea.met.gov.na

NAURU

Tyrone DEIYE
Secretary
Island Department of Industry and
Economic Development
Government Offices
Yaren District
Nauru
Tel: 674 444 3181
Fax: 674 444 3745
E-Mail: tdeiye@cenpac.net.nr

NEPAL

Madhav Prasad GHIMIRE
Joint Secretary
Ministry of Finance
Foreign Aid Coordination Division
Singhadurbar
Kathmandu, 44600
Nepal
Tel: 977 425 9837
Fax: 977 425 9891
E-Mail: mghimire@mof.gov.np

NICARAGUA

Marlon José Pérez MIRANDA
Asesor
Ministerio del Ambiente y los Recursos
Naturales (MARENA)
Aptdo. Postal No. 5123
Managua
Nicaragua
Tel: 505 2631273/2631667
Fax: 505 2631274

E-Mail: ecomarlon@yahoo.com,
lgarcia@marena.gob.ni

NIGER

Yakoubou Mahaman SANI
Commissaire Charge du Développement
Ministère des Finances et de l'Economie
BP 862
Niamey
Niger
Tel: 227 723258
Fax: 227 724020
E-Mail: sani.yakoubou@caramail.com

NIGERIA

Alhaji Aliyu ABDULLAHI
Director, PRS
Federal Ministry of Environment
Abuja
Nigeria
Tel: 234 9 523 4014/4119
Fax: 234 9 523 4014
E-Mail: caowolabi@yahoo.com

NIUE

Sauni TONGATULE
Director
Department of Environment
Alofi, South Pacific
Niue
Tel: 683 4021
E-Mail: tongatules@mail.gov.nu

P

PAKISTAN

Jawed Ali KHAN
Director
Ministry of Environment, Local
Government and Rural Development
CDA Block-4
Civic Centre
Melody
Islamabad
Pakistan
Tel: 92 51 9202574
Fax: 92 51 9202211

PALAU

Yousau BELLS
National Environment Planner
Office of Environmental Response
and Coordination
PO Box 7086
Koror, PW 96940
Republic of Palau
Tel: 680 488 6950 ext. 241, 243,
249, 235
Fax: 680 488 8638
E-Mail: ybells@palau-oerc.net,
admin@palau-oerc.net

WEST BANK & GAZA

Said JALALA
Director-General
Environment Quality Authority
El Nasser-Elthawra St.
Gaza
Palestine
Fax: 970 8 283 9355
E-Mail: said.Jalala@hotmail.com

PANAMA

Eduardo REYES
General SubAdministrator
National Environment Authority
Building 804
PO Box C 0843
Balboa
Ancon
Republic of Panama
Tel: 507 315 0527
Fax: 507 315 0663
E-Mail: e.reyes@anam.gob.pa

PAPUA NEW GUINEA

Wari IAMO
Director
Department of Environment and
Conservation
PO Box 6601
Boroko National Capital District
Waigani
Papua New Guinea
Tel: 675 3011606
Fax: 675 3011691

PARAGUAY

Luis MOLINAS BELEN
Jefe de Departamento
Secretaria del Ambiente
Departamento de Cooperación Técnica
y Convenios Internacionales
Dirección de Planificación Estratégica
Madame Lynch No. 3500
Asuncion
Paraguay
Tel: 595 211 611764
Fax: 595 211 611764
E-Mail: ccdparag@rieder.net.py

PERU

Mariano CASTRO
National Environment Council (CONAM)
Av. San Borja Norte 226
San Borja
Lima
Peru
Tel: 51 1 2255370

POLAND

Maciej NOWICKI
President
ECOFUND
ul. Belwederska 18A
00-762
Warsaw
Poland
Tel: 48 22 8400901
Fax: 48 22 8400942
E-Mail: ekofund@waw.pdi.net

R

ROMANIA

Silviu STOICA
General Director
Ministry of Environment and Water
Management
General Directorate for Implementation
of the European Funds
12 Libertatii Blvd., Sector 5
Bucharest, RO-040129
Romania
Tel: 40 213357172
Fax: 40 213357172
E-Mail: silviu@mappm.ro

RUSSIAN FEDERATION

Valentine G. STEPANKOV
Ministry of Natural Resources
4-6 B Grouzinskaya Str.
Moscow
Russian Federation
Tel: 7 095 252 0300
Fax: 7 095 943 0013

RWANDA

Cyprien BISHANGARA
Directeur de l'Environnement
Ministère des Terres, de la
Reinstallation et de
l'Environnement
BP 3502
Kigali
Rwanda
Tel: 250 82628
Fax: 250 82629
E-Mail: bishangara@yahoo.fr

S

SAMOA

Aiono Mose Pouvi SUA
Chief Executive Officer
Ministry of Foreign Affairs and Trade
PO Box L1859
Apia, Samoa Western South Pacific
Samoa
Tel: 658 21171/25313
Fax: 658 21504
E-Mail: mfa@mfa.gov.ws

SÃO TOME AND PRINCIPE

Lourenco MONTEIRO DE JESUS
INDES
BP 408
São Tome
São Tome and Principe
Tel: 239 12 22555
Fax: 239 12 25734
E-Mail: gefamb@cstome.net

SENEGAL

Fatima DIA TOURE
Director
Ministry of Environment
23 Rue Colmette
BP 6557
Dakar-Etoile
Senegal
Tel: 221 821 0725
Fax: 221 822 6212
E-Mail: fdtoure@sentoo.sn

SERBIA AND MONTENEGRO

Boro VUCINIC
Minister
Ministry of Environmental Protection
and Physical Planning of Montenegro
PC Vektra
81000 Podgorica
Montenegro
Serbia and Montenegro
Tel: 381 81 482 169
Fax: 381 81 234 131
E-Mail: ministar.ur.pr.@cg.yu

SEYCHELLES

Sylvestre RADEGONDE
Principal Secretary
Ministry of Foreign Affairs
P.O. Box 656
Maison Quéau de Quinssy
Mont Fleuri
Mahé
Republic of Seychelles
Tel: 248 28 35 00
Fax: 248 22 48 45
E-Mail: mfapese@seychelles.net,
copprotocol@mfa.gov.sc

SIERRA LEONE

Stephen JUSU
Director of Environment
Ministry of Lands, Country Planning
and the Environment
Environment Protection Department
3rd Floor
Youyi Building
Freetown
Sierra Leone
Tel: 232 240367/232 76630784
Fax: 232 22235055
E-Mail: jususyiril@yahoo.com

SLOVAK REPUBLIC

Katarina NOVAKOVA
Director General
Ministry of Environment
Foreign Aid and EU Affairs Division
Nam. L. Stura 1
Bratislava
Slovak Republic
Tel: 4212 5956 2351
Fax: 4212 5956 2508
E-Mail:
novakova.katarina@enviro.gov.sk

SLOVENIA

Emil FERJANCIC
Head
Ministry of Environment and Physical
Planning
Dunajska 48
Ljubljana, SI 1000
Slovenia
Tel: 386 1 4787332
Fax: 386 1 4787422
E-Mail: emil.ferjancic@gov.si

SOLOMON ISLANDS

Steve LIKAVEKE
Permanent Secretary
Ministry of Natural Resources
Department of Forests, Environment
and Conservation
PO Box G24
Honiara
Solomon Islands
Tel: 677 22453/28611
E-Mail: sdlikaveke@solomon.com.sb

SOUTH AFRICA

Crispian OLVER
Director General
Department of Environmental Affairs
and Tourism
Private Bag X447
Pretoria, 0001
South Africa
Tel: 27 12 3103828
Fax: 27 12 3204746
E-Mail: colver@ozone.pwv.gov.za

SRI LANKA

Poddiwela Marage LEELARATNE
Secretary
Ministry of Environment & Natural
Resources
82 Sampathpaya
Rajamalwatta Road
Battaramulla
Sri Lanka
Tel: 94 11 2877290
Fax: 94 11 2877292
E-Mail: forest@sri.lanka.net

ST. KITTS AND NEVIS

Hilary HAZEL
Ministry of Finance and Development
and Planning
PO Box 186
Church Street
Basseterre
St. Kitts
Tel: 869 4652521
Fax: 869 4667398
E-Mail: planningstk@caribsurf.com

ST. LUCIA

Martin SATNEY
Permanent Secretary
Ministry of Physical Development,
Environment and Housing
Graham Louisy Administrative Building
PO Box 709
Castries
St. Lucia
Tel: 758 468 4418
Fax: 758 452 2506
E-Mail: ps@planning.gov.lc

ST. VINCENT AND THE GRENADINES

Edmund JACKSON
Acting Environmental Services
Coordinator
Ministry of Health and the Environment
Ministerial Building
Kingstown
St. Vincent and the Grenadines
Tel: 784 456 1111
Fax: 784 457 2684
E-Mail: mohesvg@vincysurf.com

SUDAN

Nadir Mohammed AWAD
Secretary General
Higher Council for Environment and
National Resources (HCENR)
PO Box 10488
Khartoum
Sudan
Tel: 249 11 784279
Fax: 249 11 787617
E-Mail: nadirawad@yahoo.com

SURINAME

Margaret KERKHOFFS-ZERP
Policy Officer
Ministry of Labour, Technological
Development and Environment
Wagenwegstraat no. 22
Suriname
Tel: 597 475241
Fax: 011 597 410465
E-Mail: arbeid@sr.net

C.H.N. MIJNALS

Ministry of Natural Resources
Vigilantiastraat 24
Paramaribo
Suriname
Tel: 597 439653
Fax: 597 439655
E-Mail: bambusi@sr.net

SWAZILAND

Jameson D. VILAKATI
Executive Director
Ministry for Tourism Environment
and Communications
PO Box 2652
Mbabane, H100
Swaziland
Tel: 268 4047893
Fax: 268 4041719
E-Mail: sea@realnet.co.sz

SYRIA

Imad HASSOUN
Deputy Minister
Ministry of Local Administration
and Environment
Mazraa
Eman Mosque seq.
Joul Jammal Str.
PO Box 3773
Damascus
Syrian Arab Republic
Tel: 963 11 3316104
Fax: 963 11 3316104
E-Mail: imad@gmz.net,
imadhassoun51@yahoo.co.uk

T

TAJIKISTAN

Abdudovkhit KARIMOV
Chairman
State Committee for Environmental
Protection and Forestry
12 Bokhtar Str.
Tajikistan

TANZANIA

Raphael MOLLEL
Senior Permanent Secretary
Vice President's Office
PO Box 5380
Dar es Salaam
Tanzania
Tel: 255 22 2113983
Fax: 255 22 2113856
E-Mail: mollelraphael@yahoo.com

THAILAND

Plodprasop SURASWADI
Permanent Secretary
Office of the Permanent Secretary
Ministry of the National Resources and
Environment
92 Soi Phahon Yothin 7
Phahon Yothin Road
Bangkok, 10400
Thailand
Tel: 66 2 2982014
Fax: 66 2 2982659

THE FORMER YUGOSLAV REPUBLIC OF MACEDONIA

Gordana KOZUBAROVA
Head of Department of European
Integration
Ministry of Environment and Physical
Planning
Skopje 1000, Drezdanska-52
The Former Yugoslav Republic of
Macedonia
Tel: 389 2 3066 930 ext. 132
Fax: 389 2 3066 931
E-Mail: g.kozuharova@moepp.gov.mk

TOGO

Djiwonou FOLLY
Ingénieur des Travaux des Eaux et Forêts
Ministère de l'Environnement et des
Ressources
BP 355
Lome
Togo
Tel: 228 214604
Fax: 228 210333
E-Mail: sedjame@tg.refer.org

TONGA

Uilou SAMANI
Director of Environment
Department of Environment
PO Box 917
Nuku'alofa
Tonga
Tel: 676 2 5050
Fax: 676 2 5051
E-Mail: usdoe@kalianet.to

TRINIDAD AND TOBAGO

Dave MCINTOSH
Managing Director/Chief Executive
Officer
Environmental Management Authority
8 Elizabeth Street
St. Clair
Port of Spain
Trinidad and Tobago
Tel: 868 628 8042 ext. 222
Fax: 868 628 9123
E-Mail: dmcintosh@ema.co.tt

TURKEY

Hasan Z. SARIKAYA
Undersecretary of Environment and
Forestry
Eskisehir Yolu
No 98
Iskitler 06060
Ankara
Turkey
Tel: 90 312 34 67 22
Fax: 90 312 34 60 83

TURKMENISTAN

Makhtumkuli AKMURADOW
Deputy Minister
Ministry of Nature Protection
102 Kemine Street
Ashgabad, 744000
Turkmenistan
Tel: 99 312 395407, 398586
Fax: 99 312 393184
E-Mail: makhtum@untuk.org

TUVALU

Panapasi NELESONE
Secretary to Government
Office of the Prime Minister
Private Mail Bag
Vaiaku
Funafuti
Tuvalu
Tel: 688 20 102
Fax: 688 20 113
E-Mail: sg@tuvalu.tv

U

UKRAINE

Anatoliy GRITSENKO
Deputy State Secretary
Ministry of the Environment and
Natural Resources
5 Khreshchatyk Street
Kyiv, 01601
Ukraine
Tel: 380 44 2262428
Fax: 380 44 2298383
E-Mail: mep@mep.freenet.kiev.ua

UNITED STATES

Helen WALSH
Senior Advisor, Office of Multilateral
Institutions
US Department of Treasury
1500 Pennsylvania Avenue NW
Room 2105 NYC
Washington, DC 20020
USA
Tel: 202 622 1265
Fax: 202 622 2023
E-Mail: helen.walsh@do.treas.gov

URUGUAY

Luis SANTOS
Ministry of Environment
Direccion Nacional de Medio Ambiente
Unidad de Cambio Climatico
Rincon 422, 3 Piso,
Montevideo, CP 1100
Uruguay
Tel: 598 2 917 0710 ext. 4306
Fax: 598 2 917 0710 4321
E-Mail: lsantos@cambioclimatico.gub.uy

UZBEKISTAN

Sergey MYAGKOV SANIGMI
72 K. Makhsumov Street
Tashkent, 700052
Uzbekistan
Tel: 998 71 2358329
Fax: 998 71 1331150
E-Mail: sanigmi@Albatros.uz

V

VANUATU

Ernest BANI
Head
Environment Unit
PMB 9063
Port Vila
Vanuatu
Tel: 678 25302
Fax: 678 23565
E-Mail: environ@vanuatu.com.vu

VENEZUELA

Oscar BERNALETTE
Director General
Ministry of External Relations
Torre MRE, Piso 14, Ala A
Esquina de Carmelitas
Caracas
Venezuela
Tel: 580 212 8606657
Fax: 580 212 8641662
E-Mail: dgseci@mre.gov.ve

VIETNAM

Truong Manh TIEN
Director General
Ministry of Natural Resources and
Environment
Department of Environment
83 Nguyen Chi Tanh Street
Ha Noi
Vietnam
Tel: 844 773 4244
Fax: 844 773 4245
E-Mail: nvtai@yahoo.com,
nvtai@monre.gov.vn

Y

YEMEN

Mahmoud M. SHIDIWAH
Chairman
Environment Protection Authority (EPA)
PO Box 19719, Sana'a
Republic of Yemen
Tel: 011 967 1 207 816/7
Fax: 011 967 1 207 327

Z

ZAMBIA

K. NKOWANI
Acting Director
Department of Environment and
Natural Resources
Kwacha House
Cairo Road
PO Box 34011
Lusaka
Zambia
Tel: 260 1 220416
Fax: 260 1 229420

ZIMBABWE

Margaret SANGARWE
Permanent Secretary
Ministry of Environment & Tourism
14th Floor
Karigamombe Centre
Private Bag
Causeway
Harare, 7753
Zimbabwe
Tel: 263 4 757874
Fax: 263 4 773276
E-Mail: msangarwe@hotmail.com

NGO Regional Contacts

CENTRAL NGO FOCAL POINT

Liliana HISAS
GEF NGO Regional Focal Point for
South America
Fundacion Ecologica Universal - FEU
Av. Corrientes 1393 7 floor
Buenos Aires (C1043ABA)
Argentina
Tel: 54 11 43730552
Fax: 54 11 43731243
E-Mail: lhisas@feu999.org

AFRICA

EASTERN AFRICA

Lucy MULENKEI
Indigenous Information Network
Box 74908-00200
City Square
Nairobi
Kenya
Tel: 254 273958
Fax: 254 2729607
E-Mail: iin@iin.co.ke

WESTERN AFRICA

Djimingue NANASTA
GEF NGO Regional Focal Point for
Western Africa
ENDA Tiers Monde-Programme
Energie
54, rue Carnot
BP 3370
Dakar
Senegal
Tel: 221 822 5983
Fax: 221 821 7595
E-Mail: energy2@enda.sn

ASIA

PACIFIC

Rex HOROI
Executive Director
Foundation of the Peoples of the
South Pacific International
Suva
Fiji
Tel: 679 331 2250
Fax: 679 331 2298
E-Mail: rex.horoi@fsp.org.fj

WESTERN ASIA

Khadija RAZAVI
GEF NGO Regional Focal Point for
Western Asia
Centre for Ecodevelopment Studies
and Applications (CENESTA)
West 10 Juybar Street Fatemi Place
14157 Tehran
Iran
Tel: 98 21 8957922
Fax: 98 21 2954217
E-Mail: Khadija@cenesta.org

EUROPE

Roman PUKALOV
GEF NGO Regional Focal Point for
Europe
Greenpeace
Moscow, Novaya Bashilovka 6
Russia
E-Mail:
baikal.russia@diala.greenpeace.org

LATIN AMERICA AND THE CARIBBEAN

CARIBBEAN

Mr. Joth SINGH
Executive Director
Caribbean Conservation Association
(CCA) Chelford
Bush Hill
The Garrison
St. Michael
Barbados
Tel: 246 426 5373
Fax: 246 429 8483
E-Mail: ccadirector@caribsurf.com

MESOAMERICA

Jesus CISNEROS
GEF NGO Regional Focal Point for
Mesoamerica
Oficina Regional para Mesoamérica,
Unión Mundial para la
Naturaleza (UICN-ORMA)
IUCN Mesoamerica Regional Office
P.O. Box 146-2150
Moravia
Costa Rica
Tel: 506 2410101
Fax: 506 2409934
E-Mail: jesus.cisneros@iucn.org

SOUTH AMERICA

German ROCHA
GEF NGO Regional Focal Point
for South America
Instituto Biodiversidad
Calle 70 No. 13-29
Bogota
Colombia
Tel: 571 211773/2495336
Fax: 2491044
E-Mail: insbiodiversidad@yahoo.es

Scientific and Technical Advisory Panel Members

Ms. Yolanda Kakabadse
Chairperson, STAP
Fundacion Futuro Latinoamericano
Mariano Echeverria 843
Quito
Ecuador
E-Mail: yolandak@uio.satnet.net

Dr. Habiba Gitay
Vice Chairperson, STAP
Millennium Ecosystem Assessment
Capacity Building Coordinator
(visiting Fellow at the Australian
National University)
9910 Chase Hill Court
Vienna, VA 22182
USA
E-Mail: habiba.gitay@anu.edu.au

Dr. Cristian Samper
Director
Smithsonian Institute
National Museum for Natural History
10th & Constitution Avenue, NW
Suite 421
Washington, DC 20560-0106
USA
E-Mail: samperc@si.edu

Prof. Brian Huntley
Chief Executive
National Botanical Institute
Kirstenbosch
Private Bag X7
Claremont 7735, Cape Town
South Africa
E-Mail: Huntley@nbi.ac.za
laidler@nbi.ac.za
Huntley@sanbi.org
laidler@sanbi.org

Dr. Peter J. Schei
DG PJS
Fridtjof Nansen Institute
PO Box 326
NO-1326
Lysaker
Norway
E-Mail: pjs@fni.no

Prof. Peter Henricke
President
Wuppertal Institute for Climate,
Environment and Energy
Doppersberg 19
42103 Wuppertal
Germany
E-Mail:
Peter.henricke@wupperinst.org
sylvia.borbonus@wupperinst.org

**Dr. Anjali Rambaud-Measson
Shanker**
IED Innovation Energie
Développement
2, Chemin de la Chauderaie
69340 Francheville
France
E-Mail: a.shanker@ied-sa.fr

Dr. Timothy O. Williams
Chief Programme Officer
(Agriculture)
Special Advisory Services Division
Commonwealth Secretariat
Marlborough House
Pall Mall
London, SW1Y 5HX
UK
E-Mail: t.williams@commonwealth.int
wiltmt@aol.com

Prof. Anne R. Kapuscinski
Director
Institute for Social, Economic and
Ecological Sustainability (ISEES)
University of Minnesota
186 McNeal Hall
1985 Buford Avenue
St. Paul, MN 55108
USA
E-Mail: iseess@umn.edu
kapuso01@umn.edu

Mrs. Angela Cropper
2 Mt. Anne Drive, Second Avenue
Cascade
Port of Spain
Trinidad and Tobago
E-Mail:
acropper@thecropperfoundation.org
Copy to: Keisha Garcia at
kgarcia@thecropperfoundation.org

Prof. Anand Patwardhan
Indian Institute of Technology
Shailesh J. Mehta School of
Management
Powai
Mumbai 400076
India
E-Mail: anand@iitb.ac.in
apat@yahoo.com
edtifac@tifac.org.in

Prof. Thomas B. Johansson
Professor and Director
International Institute for Industrial
Environmental Economics
Lund University
P.O. Box 196
221 00 Lund
Sweden
E-Mail:
thomas.b.johansson@iiee.lu.se

Prof. Saburo Matsui
Professor
Graduate School of Global
Environmental Studies
Department of Technology & Ecology
Kyoto University
Yoshida Honmachi
Sakyo-ku, Kyoto City
Kyoto 606-8501
Japan
E-Mail:
matsui@eden.env.kyoto-u.ac.jp

Prof. Sani Ibrahim
Associate Professor
School of Chemical Sciences
Universiti Sains Malaysia
11800 USM, Pulau Pinang
Malaysia
E-Mail: sani@usm.my
sanihim@yahoo.com

Prof. Hubertus Savenije
Department Water Management
(Hydrology and Ecology)
Delft University of Technology
Stevinweg 1 - Room 4.94
2628 CN Delft
The Netherlands
E-Mail: h.h.g.savenije@citg.tudelft.nl

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The Difference GEF Makes, 2000 Annual Report of the Global Environment Facility

GEF Digest* (quarterly); a newsletter for non-governmental organizations

The New Delhi Statement of the First GEF Assembly** (1998)

Keeping the Promise (1997); Harrison Ford narrates this video introduction to the GEF (15 and 30-minute versions)

Thematic Publications

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Keeping the Promise on Water: GEF's Contributions to Sustaining Our Planet's Ecosystems

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Working Papers

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Assistant Editor: Carollyne Hutter
Production: Rick Ludwick, Monika Lynde
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www.theGEF.org

For more information contact:

Global Environment Facility
1818 H Street NW
Washington, DC 20433 USA
Tel: 202-473-0508
Fax: 202-522-3240
Email: Secretariat@theGEF.org