

The World Bank Group



Trust Funds Division

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

**ADMINISTERED BY THE
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

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

**FINANCIAL STATEMENT AND
INDEPENDENT AUDITORS' REPORT**
June 30, 2009

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

STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

Expressed in U.S. dollars

| | For the year ended June 30, 2009 | March 14, 1991 (date of inception) to June 30, 2009 (Unaudited, refer Note 12) |
|---|--|---|
| Transfers in from Trustee for: | | |
| Corporate budget (Note 5) | \$ 12,890,308 | \$ 153,160,426 |
| Evaluation office (Note 6) | 3,907,168 | 19,716,047 |
| Grant commitments (Note 7) | 1,000,000 | 4,348,600 |
| | <u>17,797,476</u> | <u>177,225,073</u> |
| Investment income, net (Note 3) | - | 15,100 |
| Donor contributions (Note 8) | - | 595,674 |
| Donor contributions - Evaluation office (Note 8) | - | 653,099 |
| Donor contributions - WSSD (Note 8) | - | 150,000 |
| Other receipts (Note 11) | 98,793 | 98,793 |
| Total receipts | <u>17,896,269</u> | <u>178,737,739</u> |
| Corporate budget disbursements (Note 5 and 9) | 13,532,608 | 147,896,208 |
| Evaluation office disbursements (Note 6 and 9) | 4,477,866 | 20,452,496 |
| Grant commitments disbursements (Note 7) | 286,964 | 2,665,921 |
| Return to Trustee - Unutilized funds (Note 10) | 614,811 | 2,093,629 |
| Refund to donor | - | 18,702 |
| Total disbursements | <u>18,912,249</u> | <u>173,126,956</u> |
| Excess of (disbursements over receipts)/receipts over disbursements | (1,015,980) | 5,610,783 |
| Fund Balance: | | |
| Beginning of period | 6,626,763 | - |
| End of period | <u>\$ 5,610,783</u> | <u>\$ 5,610,783</u> |
| Fund balance consists of: | | |
| Trust Fund's share of the cash and investments in the Pool (Note 4) | <u>\$ 5,610,783</u> | <u>\$ 5,610,783</u> |

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

TRUST FUND FOR THE SECRETARIAT OF THE GLOBAL ENVIRONMENT FACILITY

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 1 - Organization and operation of the Global Environment Facility

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

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

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

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

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 1 - Organization and operation of the Global Environment Facility (continued)

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

IBRD performs certain administrative, accounting, financial reporting and treasury services related to Trust Fund activities on behalf of the Secretariat.

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

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

Note 2 - Significant accounting policies

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting - modified to record the share in pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, investment income, net including realized and unrealized investment income is credited to the GEF Trust Fund and as such is not reflected in the accompanying Statement of Receipts, Disbursements and Fund Balance.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 2 - Significant accounting policies (continued)

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS). Receipts, with the exception of investment income, net as described above, are recorded when collected (i.e., when credited to the trust fund) rather than when pledged/earned, and disbursements are recorded when paid (i.e., when debited from the trust fund). This financial statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS; however certain information pertaining to the fair value of financial instruments is presented in accordance with the pertinent U.S. GAAP pronouncements as described below.

In accordance with policies adopted for the administration of this Trust Fund, certain transactions, including donor contributions not credited to the Trust Fund at the financial statement date due to timing or other reasons, reposting of disbursements in the ordinary course of business as deemed necessary, and any refunds of previous disbursements deemed by management not to be eligible in accordance with the Instrument, are reported in the Statement of Receipts, Disbursements and Fund Balance in the period in which the transaction is credited/debited to the Trust Fund.

IBRD is an international organization which conducts its operations in the currencies of all of its members. Contributions and disbursements in currencies other than the reporting currency of U.S. dollars, if applicable, are converted at the rates of exchange on the transaction dates. Transaction gains or losses, if any, on disbursements, are borne by IBRD.

Financial Accounting Standards Board's (FASB's) Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) became effective for financial statements issued for fiscal years beginning after November 15, 2007. FAS 157 defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and expands disclosure requirements about fair value measurements. FAS 157 also requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. Notes 3 and 4 provide further details on the fair value measurement of the Pool pursuant to FAS 157, which has been applied for the Pool from July 1, 2008.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 2 - Significant accounting policies (continued)

FASB's Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (FAS 159) also became effective for financial statements issued for fiscal years beginning after November 15, 2007. FAS 159 provides an option for most financial assets and financial liabilities to be reported at fair value with changes in fair value reported in earnings. IBRD has not elected to apply FAS 159 to any of the financial assets or financial liabilities of the Trust Fund and accordingly, FAS 159 did not have an impact on the Trust Fund's financial statement.

Note 3 - Investment income, net

As described in Note 2, the Pool is divided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD. Generally, the Pool is invested in liquid financial instruments such as money market instruments, government and agency obligations, mortgage-backed securities and other high-grade bonds. The Pool may also include securities pledged as collateral under repurchase agreements with other counterparties and receivables from resale agreements for which it has accepted collateral. Additionally, the Pool also includes derivative contracts such as currency forward contracts, plain vanilla swaps and callable swaps linked to interest rates or foreign exchange rates.

The Pool is a trading portfolio and is reported at fair value, including the derivative contracts for which gains/losses are included in investment income, net. Share in pooled cash and investments represents the Trust Fund's allocated share of the Pool's fair value at the end of the reporting period. Investment income earned and realized/unrealized gains/losses on funds held by the Secretariat is credited to the GEF Trust Fund and therefore is not reflected in the accompanying financial statement, except investment income in the amount of US\$15,100 (unaudited, see Note 12) on contributions received towards the GEF Third Assembly and Associated Meetings.

Note 4 - Fair value of financial instruments

Effective July 1, 2008, FAS 157 was applied to the cash and investments held in the Pool. As discussed in Notes 2 and 3, the cash and investments of all trust funds administered by the World Bank Group are managed in a pooled investment portfolio, as such all investment decisions are made and consequences monitored at the Pool level.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 4 - Fair value of financial instruments (continued)

The ensuing disclosure on fair value measurement and fair value hierarchy is therefore at the Pool level pursuant to FAS 157, followed by the fair value amount of the Trust Fund's share in the pooled cash and investments at the end of the reporting period.

Fair Value Measurements (FAS 157)

IBRD has an established and documented process for determining fair values of the financial instruments in the Pool. Fair value is based upon quoted market prices for identical and similar instruments, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves.

Summarized below are the techniques applied in determining the fair values of financial instruments.

Investment securities

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include some government securities, mutual funds, futures and exchange-traded equity securities. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, whether internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads and prepayment speeds. Unless quoted prices are available, money market instruments are reported at face value, which approximates fair value.

Securities purchased under resale agreements and securities sold under agreements to repurchase

Securities purchased under resale agreements and securities sold under agreements to repurchase are reported at face value which approximates fair value.

Derivative contracts

Derivative contracts include currency forward contracts, plain vanilla swaps and callable swaps linked to interest rates or foreign exchange rates. Derivatives are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, or basis spreads.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 4 - Fair value of financial instruments (continued)

Fair Value Hierarchy

FAS 157 establishes a three level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to observable market-based inputs or inputs that are corroborated by market data (Level 2) and the lowest priority to unobservable inputs that are not corroborated by market data (Level 3). When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement of the instrument in its entirety. Thus, a Level 3 fair value measurement of the instrument may include inputs that are observable (Level 2) and unobservable (Level 3). Additionally, FAS 157 requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial instruments representing the Pool investments recorded at fair value are categorized based on the inputs to the valuation techniques as follows:

- Level 1: Financial instruments whose values are based on unadjusted quoted prices for identical instruments in active markets.
- Level 2: Financial instruments whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the instrument.
- Level 3: Financial instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

continued

NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 4 - Fair value of financial instruments (continued)

The following table presents the Pool's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of June 30, 2009:

In millions of U.S. dollars

| | Fair Value Measurement on a Recurring Basis as of June 30, 2009 | | | |
|--|--|------------------|---------------|------------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Investment portfolio - Trading | \$ 6,015 | \$ 14,882 | \$ 145 | \$ 21,042 |
| Securities purchased under resale agreements and securities sold under repurchase agreements | (477) | (206) | - | (683) |
| Derivatives, net | - | (5) | - | (5) |
| Total of financial instruments in the Pool at fair value | \$ 5,538 | \$ 14,671 | \$ 145 | \$ 20,354 |

As noted above, financial instruments in the Pool categorized as Level 3 is less than 1 % of the total Pool fair value at June 30, 2009 and is deemed immaterial. As such, no additional disclosure relating to (i) the changes in the fair value of the Pool's Level 3 financial instruments from July 1, 2008 to June 30, 2009, and (ii) the portion of gains or losses included in the Excess of (disbursements over receipts)/receipts over disbursements line item for the period from July 1, 2008 to June 30, 2009 attributable to the unrealized gains and losses on the Pool's Level 3 financial instruments still held at June 30, 2009, and where the amounts are included in the Statement of Receipts, Disbursements and Fund Balance has been presented.

As of June 30, 2009, the Pool does not have any financial instruments measured at fair value on a non-recurring basis.

Trust Fund's Share of the Cash and Investments in the Pool

The Trust Fund's share of the cash and investments in the Pool, which was allocated based on the specific investment horizons, risk tolerances and other eligibility requirements pursuant to the agreements, has a fair value of US\$5,610,783 as of June 30, 2009. As noted in Note 3, the Trust Fund did not receive any investment income during the year ended June 30, 2009, as any net investment income earned is credited to the GEF Trust Fund in accordance with the terms of the Instrument.

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NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 5 - Transfers in from Trustee for corporate budget

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

Note 6 - Evaluation office

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

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

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

Effective July 1, 2003, the corporate budget of the EO was reported separately from the corporate budget of the Secretariat. Funding for EO activities prior to July 1, 2003 is included in the line item 'Transfers in from Trustee for corporate budget', as described in Note 5. Similarly, corporate budget disbursements associated with EO activities prior to July 1, 2003 are included in the 'Corporate budget disbursements' line item (unaudited, see Note 12).

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NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 6 - Evaluation office (continued)

Transfers in from Trustee for EO and EO disbursements for the year ended June 30, 2009 amounting to US\$3,907,168 and US\$4,477,866 respectively, do not include any amounts which may have been received or disbursed by the Secretariat for EO activities prior to July 1, 2003, given that EO was made an independent unit effective July 1, 2003.

Note 7 - Grant commitments

Cumulative funds received for grant commitments totaling US\$4,348,600 (unaudited, see Note 12) include US\$1,000,000 received during the year ended June 30, 2009 to organize and finance Familiarization Seminars. Also included in those cumulative funds are amounts received before July 1, 2008, in the amount of US\$748,600 (unaudited, see Note 12) 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 and an amount of US\$2,600,000 (unaudited, see Note 12) that was previously authorized by the contributing participants with respect to the Programme for Measuring Incremental Costs for the Environment (PRINCE) project, which has been completed.

Note 8 - Donor contributions

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

From March 14, 1991 (date of inception) through June 30, 2009, GEF Secretariat, through IBRD, has received donor contributions totaling US\$505,075 (unaudited, see Note 12), all of which were received prior to July 1, 2008, to support the preparation and organization of the third meeting of the Assembly and associated meetings (GEF Third Assembly). The amounts committed by the donors and received by IBRD in this regard are as follows:

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NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 8 - Donor contributions (continued)

| Donor | Amounts Committed | | Amounts Received | | Contributions received in / converted to US\$ (Unaudited, see Note 12) | |
|--------------|-------------------|-----------|------------------|-----------|--|----------------|
| | | | | | | |
| Denmark | Dkk | 400,000 | Dkk | 400,000 | US\$ | 68,010 |
| Finland | US\$ | 100,000 | US\$ | 100,000 | | 100,000 |
| Norway | NKr | 500,000 | NKr | 500,000 | | 79,596 |
| South Africa | Zar | 1,500,000 | Zar | 1,500,000 | | 207,469 |
| Sweden | US\$ | 50,000 | US\$ | 50,000 | | 50,000 |
| Total | | | | | US\$ | 505,075 |

In addition, from March 14, 1991 (date of inception) through June 30, 2009, GEF Secretariat also received contribution in the amount of US\$90,599 (unaudited, see Note 12) from Norway, all of which were received prior to July 1, 2008, to support participation by the GEF focal points representatives to the United Nations Climate Change conference 2007.

The EO, through IBRD, has received donor contributions totaling US\$653,099 (unaudited, see Note 12) for the period March 14, 1991 (date of inception) to June 30, 2009, all of which were received prior to July 1, 2008, to support a study of the Nature of Local Benefits in GEF Program areas as follows:

| Donor | Amounts Committed | | Amounts Received | | Contributions received in / converted to US\$ (Unaudited, see Note 12) | |
|--------------|-------------------|-----------|------------------|-----------|--|----------------|
| | | | | | | |
| Canada | Can\$ | 249,980 | Can\$ | 249,980 | US\$ | 173,525 |
| Norway | NKr | 1,680,000 | NKr | 1,680,000 | | 244,030 |
| Sweden | SKr | 1,915,560 | SKr | 1,915,560 | | 235,544 |
| Total | | | | | US\$ | 653,099 |

From March 14, 1991 (date of inception) through June 30, 2009, the EO unit also received contributions from McArthur Foundation in the amount of US\$50,000 (unaudited, see Note 12) and from Netherlands Minister for Development Cooperation in the amount of US\$100,000 (unaudited, see Note 12), all of which were received prior to July 1, 2008, to fund the development of lessons-learned case studies on environmental enterprises for presentation at the World Summit on Sustainable Development (WSSD).

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NOTES TO FINANCIAL STATEMENT

June 30, 2009

Note 9 - Administrative arrangements

IBRD is periodically reimbursed for expenditures made from its own resources in executing activities for the Secretariat and EO. For the fiscal year ended June 30, 2009 and from July 1, 2001 to June 30, 2009, amounts for direct staff costs, related benefits and overheads are included within corporate budget disbursements of US\$3,948,928 and US\$30,733,298 (unaudited, see Note 12) respectively, and evaluation office disbursements of US\$992,415 and US\$3,828,685 (unaudited, see Note 12) respectively. These amounts were paid to IBRD for their estimated costs incurred for activities consistent with the purpose of the Secretariat and EO in accordance with the administration agreements. Amounts of this nature that were reimbursed to IBRD prior to July 1, 2001, are not practicably determinable and therefore not presented.

Note 10 - Return to Trustee - unutilized funds

During the year ended June 30, 2009, unutilized funds from the trust fund established for 'Second GEF Assembly' activities and the trust fund for 'Review of GEF Related Administrative Expenses in the Implementing Agencies', in the amounts of US\$602,720 and US\$12,091, respectively, were returned to the Trustee. From March 14, 1991 (date of inception) through June 30, 2009, US\$2,093,629 (unaudited, see Note 12) was returned to the Trustee.

Note 11 - Other receipts

Other receipts in the amount of US\$98,793 received during the year ended June 30, 2009, represents reimbursement of staff costs from United Nations Foundation (UNF) for a staff assigned to UNF under the Bank's External Service With Pay (ESWP) program.

Note 12 - Inception to date amounts

The Statement of Receipts, Disbursements and Fund Balance for the period July 1, 2008 to June 30, 2009 was audited by KPMG LLP, who have expressed an unqualified audit opinion thereon, dated December 15, 2009. In addition, the Statement of Receipts, Disbursements and Fund Balance for the period March 14, 1991 (date of inception) to June 30, 2008 was audited by other auditors, who expressed an unqualified audit opinion thereon, dated January 12, 2009. As a result, activity from inception to June 30, 2009 has been subject to audit, albeit by different audit firms for the periods indicated above.