

**GEF**

**Global Environment Facility**

GEF/C.21/Inf.3/Corr.1

May 13, 2003

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GEF Council  
May 14-16, 2003

TRUSTEE REPORT ON THE FINANCIAL  
STATUS AND MANAGEMENT  
OF THE GEF TRUST FUND

CORRIGENDUM

The tables in document GEF/C.21/Inf.3, *Trustee Report on the Financial Status and Management of the GEF Trust Fund*, should be replaced with the tables in this corrigendum.

**Revised Table 1: Status of GEF-3 Instruments of Commitment  
and Qualified Instruments of Commitment  
as of May 12, 2003**

*(in SDR millions)*

**I. Instruments of Commitment Received:**

<u>Country</u>	<u>Pledge as Agreed</u>
Australia	27.60
Belgium	32.97
Canada	80.91 <i>a/</i>
China	8.44
Cote d'Ivoire	4.00
Czech Republic	4.50
Denmark	27.95
Finland	20.94
France	128.84
Germany	231.62
Greece	4.50
India	7.99
Ireland	4.50
Japan	333.41
Korea	4.35
Mexico	4.00
New Zealand	4.00
Nigeria	4.50
Norway	19.96
Slovenia	1.13
Sweden	56.98
Turkey	4.00
United Kingdom	149.91
United States	394.36 <i>b/</i>
<b>Total Commitments Received:</b>	<b>1,561.36</b>

**II. Instruments of Commitment Not Yet Received:**

<u>Country</u>	<u>Pledge as Agreed</u>
Austria	17.70
Italy	82.99
Luxembourg	4.00
Netherlands	62.39
Pakistan	4.00
Portugal	4.00
Spain	15.12
Switzerland	45.94
<b>Total Commitments Not Yet Received:</b>	<b>236.14</b>

*a/ Canada deposited a Qualified IOC in the amount of CAD 158.94 million, of which CAD 39.74 million is unqualified. The unqualified amount represents the first tranche of its GEF-3 contribution (25% of its contribution).*

*b/ The United States deposited a Qualified IOC in the amount of USD 500 million, of which USD 107.5 million is unqualified. The unqualified amount represents the first installment of its GEF-3 contribution (21.5% of its contribution).*

**Revised Table 2: Status of Contributing Participants' Contributions to the GEF-3  
as of May 12, 2003**

(Amount expressed in millions)

Contributing Participants	Commitment		IOCs received and Installment Paid			IOCs received and Installment Amount due <sup>a/</sup>			IOCs yet to be received Installment Amount expected <sup>a/</sup>		
	Currency	Amount	Amount	USD Eq <sup>a/</sup>	%	Amount	USD Eq <sup>a/</sup>	%	Amount	USD Eq <sup>a/</sup>	%
Australia	AUD	68.16	17.04	10.24	25.0%						
Austria	EUR	24.38							6.10	6.54	25.0%
Belgium	EUR	41.98				10.50	11.26	25.0%			
Canada	CAD	158.94	39.74	27.13	25.0%						
China	XDR	7.50	1.85	2.34	24.6%						
Cote d'Ivoire	XDR	4.00	4.00	5.46	100.0%						
Czech Republic	XDR	4.00	1.00	1.32	25.0%						
Denmark	DKK	298.18	74.55	9.50	25.0%						
Finland	EUR	30.00	3.79	3.64	12.6% <sup>b/</sup>						
France	EUR	164.00	41.00	44.05	25.0%						
Germany	USD	293.67	73.42	73.42	25.0%						
Greece	EUR	5.73				1.43	1.54	25.0%			
India	INR	426.39				106.60	2.24	25.0%			
Ireland	EUR	5.73	1.43	1.54	25.0%						
Italy	EUR	118.90							29.73	31.88	25.0%
Japan	JPY	48,754.33	12,188.58	101.70	25.0%						
Korea	USD	5.51	1.09	1.09	19.7% <sup>b/</sup>						
Luxembourg	EUR	5.73							1.43	1.54	25.0%
Mexico	USD	5.07	1.27	1.27	25.0%						
Netherlands	EUR	92.76							23.19	24.87	25.0%
New Zealand	NZD	12.14	3.03	1.67	25.0%						
Nigeria	XDR	4.00				1.00	1.36	25.0%			
Norway	NOK	228.32	57.08	7.80	25.0%						
Pakistan	XDR	4.00							1.00	1.36	25.0%
Portugal	EUR	5.73							1.43	1.54	25.0%
Slovenia	XDR	1.00	0.25	0.35	25.0%						
Spain	EUR	21.67							5.42	5.81	25.0%
Sweden	SEK	764.67	764.67	88.67	100.0%						
Switzerland	CHF	99.07							24.77	17.95	25.0%
Turkey	XDR	4.00	1.00	1.36	25.0%						
United Kingdom	GBP	117.83				29.46	46.34	25.0%			
United States	USD	500.00	107.50	107.50	21.5%						
<b>Total</b>				<b>490.03</b>			<b>62.74</b>			<b>91.48</b>	

<sup>a/</sup> Valued on the basis of March 31, 2003 exchange rates.

<sup>b/</sup> Finland and Korea have made arrangements with the Trustee to pay the balance of the first tranche along with the next tranche on November 30, 2003.

Finland will pay EUR 3.71 million (eq USD 3.98 million, valued on the basis of March 31, 2003 exchange rates) and Korea will pay USD 0.29 million.

<sup>c/</sup> Refers to installment amount due by April 24, 2003.

<sup>d/</sup> Trustee expects IOC and corresponding first installment payments by June 30, 2003.

**Revised Table 3: Schedule of Projected Available Resources**  
**as of May 12, 2003**

Based on Cumulative GEF Council Approved Work Program and Corporate Budget  
*(Expressed in USD eq. millions) a/*

	Projected Funding Situation through <u>30-Jun-2003</u>
1. Cumulative GEF resources available for Council allocation	5,046.5 <i>b/</i>
2. Amount approved by the Council for the work program and Corporate Budget of the GEF as of May 12, 2003	<u>4,541.5</u> <i>c/</i>
<b>3. Net Funding Situation at May 12, 2003 ( 1 - 2 )</b>	<b>504.9</b>
4. Work program, IA fees & corporate budget scheduled for May 2003 Council meeting	328.0 <i>d/</i>
5. Estimated additional resources projected to be paid and become available by June 30, 2003	<u>154.2</u>
<b>5. Projected Funding Situation at June 30, 2003 ( 3 - 4 + 5 )</b>	<b>331.1</b>

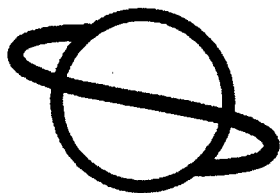
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*a/ Valued on the basis of March 31, 2003 exchange rates.*

*b/ Includes promissory notes, cash, note encashments, investment income and exchange rate losses from all GEF Replenishments, but does not include arrears or deferred contributions.*

*c/ Includes cumulative project allocations, cancellations, corporate budget allocations, Implementing Agency fees, and a one-time Implementing Agency fee provision.*

*d/ Includes the work program, IA fees & corporate budget scheduled for the May 2003 Council meeting.*



**GEF**

**Global Environment Facility**

GEF/C.21/Inf.3

May 1, 2003

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GEF Council  
May 14-16, 2003

**TRUSTEE REPORT ON THE FINANCIAL  
STATUS AND MANAGEMENT  
OF THE GEF TRUST FUND**

## I. INTRODUCTION

1. This report provides an update to the GEF Council on the financial status and management of the GEF Trust Fund ("the Trust Fund") as of April 15, 2003. Included in this report is information on the status of GEF-3 Instruments of Commitment (IOCs) and Qualified IOCs and payments by Contributing Participants as required under the GEF-3 Replenishment Resolution<sup>1/</sup> ("the Resolution"). The report also provides an update on developments and issues related to the fiduciary function of the Trustee role.

## II. Status of Funding of the GEF Trust Fund

2. The GEF-3 became effective on March 24, 2003 when Contributing Participants deposited with the Trustee IOCs or Qualified IOCs totaling not less than SDR 1,086 million (i.e., 60% of the total donor pledges). Thirty-two donors pledged a total of SDR 1,797.5 million (USD 2,280 million<sup>2/</sup>) in new funding to the GEF-3. To date, 23 donors have submitted IOCs or Qualified IOC to the Trustee, with a total commitment of SDR 1,556.9 million (USD 1,973.9 million). IOCs totaling SDR 240.6 million from nine donors have yet to be submitted to the Trustee. Table 1 presents the status of the IOCs and Qualified IOCs for the GEF-3.

3. Of the 23 donors who have submitted IOCs or Qualified IOCs for the GEF-3, 15 donors have paid USDeq. 287.9 million towards the first tranche of their GEF-3 contributions. Eight donors are expected to pay USDeq. 196.8 million for the first tranche by April 30, 2003. Ireland has paid the first tranche but the funds are held in a suspense account within the GEF Trust Fund pending submission of its IOC<sup>3/</sup>. The status of Contributing Participants' payments to the GEF-3 is presented in Table 2.

4. With respect to past replenishments, 99.7% of total donor contributions of SDR 1,444.3 million to the GEF-1, and 89.7% of total donor contributions of SDR 1,445.3 million to the GEF-2, have been paid. Donors who are in arrears on payments have made specific arrangements with the Trustee to clear arrears.<sup>4/</sup>

5. Upon the effectiveness of the GEF-3 and subject to donors' exercise of the pro rata right, if applicable, any payment received by the Trustee for the GEF-3 contributions become available for the work program, the administrative budget of the GEF, and any other expenses approved by the Council. Such resources currently available amount to USDeq. 340.5 million. This includes USDeq. 287.9 million as payments for the first tranche of the GEF-3, but excludes USDeq. 141.0

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<sup>1/</sup> Pursuant to paragraph 2(c) of the Resolution, at every Council meeting, the Trustee will inform the Council of the status of IOCs and Qualified IOCs deposited with the Trustee; pursuant to paragraph 3(f), the Trustee is required to make regular reports to the Council on the status of Contributing Participants' contributions.

<sup>2/</sup> Calculated by using the average daily exchange rate over the period from May 15, 2001 to November 15, 2001, as agreed by the donors at the May 7, 2001 GEF-3 replenishment meeting.

<sup>3/</sup> Upon submission of its IOC, Ireland's first tranche payment will become available for commitment.

<sup>4/</sup> Italy, Pakistan, and the United States are in arrears for their GEF-2 contributions; Argentina and Egypt are in arrears for their GEF-1 contributions.

million of GEF-2 fourth tranche payments withheld by three donors (Austria, France and Japan) due to the exercise of their pro rata rights in relation to the GEF-2 arrears of the United States.<sup>5/</sup>

6. The Trustee expects to receive an additional USDeq. 289.9 million by the end of June 30, 2003. This is composed of USDeq. 196.8 million from donors who have submitted IOCs for the GEF-3 but have not yet paid, and USDeq. 93.0 million from donors who have not yet submitted IOCs.

7. Consequently, assuming a work program of USD 328.0 million at the May 2003 Council meeting, the funding situation at the end of FY03 is projected to be USDeq. 302.4 million (Table 3).

8. The Trust Fund investment portfolio amounted to USD 939.6 million as of March 31, 2003. Investment income totaled USD 25.1 million from July 1, 2002 through March 31, 2003, and the Trustee received cash totaling USD 484.0 million from cash installment payments and note encashments against promissory notes. Disbursements amounted to USD 431.3 million, resulting in a net cash flow of USD 77.9 million through March 31, 2003.

9. Due to delayed effectiveness of the GEF-3, the Trustee was unable to request encashments on GEF-3 promissory notes in FY03 as set out in Attachment 3 of the Resolution.<sup>6/</sup> Nevertheless, the Trustee has started to notify donors of the necessity to bundle FY03 encashments with FY04 encashment requests.

### **Financial and Risk Management**

10. On a regular basis, the Trustee undertakes an assessment of the financial risks and controls associated with the resource management of the Trust Fund. Through this process, the Trustee seeks to reduce unnecessary business and financial risks, improve the integrity of data, enhance the Trustee's ability to project commitment authority and liquidity needs, and strengthen business processes.

11. Over the years, the Trustee has implemented a robust and effective automated system to handle business processes and accounting for the Trust Fund. More recently, the financial reporting system was completely revamped to clearly reflect the separate activities of the Trustee, the Implementing Agencies ("the IAs) and the Secretariat. The COSO workshop conducted in 1999 and 2002 with the IA's and the Secretariat played a key role in identifying issues and potential weaknesses in the control framework.

12. The Trustee, the IAs and the GEF Secretariat conducted a joint effort to reconcile and validate common data, such as Council allocations, Trustee Commitments, and commitments by the IAs. To date, the majority of the data has been reconciled, and the final validation is under

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<sup>5/</sup> The U.S. has paid 60.1% of its GEF-2 contribution, with USD 171.6 million in arrears.

<sup>6/</sup> Pursuant to paragraph 3(c)(ii) of the Resolution, the Trustee shall encash notes or similar obligations on an approximately pro rata basis among Contributing Participants. Donors agreed to an indicative encashment schedule which was included as Attachment 3 in the Resolution.

way to complete this exercise. The Trustee recognizes that the successful completion of this exercise required a tremendous amount of effort, determination and commitment from all parties involved.

13. In addition, the Trustee further systematized its controls for monitoring and reporting on commitment authority. This additional module was recently completed and eliminates manual reconciliation.

14. In FY03, the Trustee, in consultation with the IAs and the Secretariat, streamlined financial procedures on commitments and disbursements. This includes more formal procedures for commitment of funds by the Trustee, cash transfer requests, quarterly and semi-annual financial reporting on actual commitments made, and reporting of investment income earned by the IAs and the Executing Agencies ("the EAs). This streamlining enables the Trustee to fulfill its fiduciary responsibilities and aims to improve the integrity of data and achieve consistency across all IAs and EAs and to accommodate changes in business processes. The updated financial procedures will also be the basis for all the Financial Procedures Agreements entered into between the Trustee and the recipient agencies of the Trust Fund.

15. Most recently, the collaborative partnership amongst the Trustee, the IAs and EAs, and the Secretariat facilitated the identification of a potential misuse of GEF resources. In April 2003, the Trustee notified the Council, through the Secretariat, that an investigation, led by the World Bank, is currently underway in three recipient-executed GEF grants in two projects for which the World Bank is the IA. Looking forward, the Trustee will deepen this collaboration by convening annual financial consultation meetings with the agencies to: a) discuss key issues in connection with reporting requirements on financial and compliance audits; b) share knowledge and best practices of the financial management of GEF activities; c) explore ways to enhance accuracy and transparency of financial reporting; and d) assess and evaluate existing controls and procedures to improve the control framework for GEF funded projects. The first such financial consultation meeting will take place in June 2003.

16. The Trustee and World Bank's Treasury Department have embarked on the periodic review of the liquidity strategy for the World Bank's Trust Fund Portfolio, which includes the GEF Trust Fund, to assess the appropriateness of the investment strategy in the current investment climate. The Trustee will also be exploring ways to mitigate financial risks embedded in the management of the Trust Fund, namely the currency mismatch between promissory notes and project commitments. The Trust Fund is exposed to the risk of currency fluctuations from the time a promissory note is deposited until it is fully encashed. Thus, the US dollar value of total donor contributions for a replenishment is uncertain until all promissory notes are encashed.



**Table 1: Status of GEF-3 Instruments of Commitment  
and Qualified Instruments of Commitment  
as of April 15, 2003**

*(in SDR millions)*

**I. Instruments of Commitment Received:**

<u>Country</u>	<u>Pledge as Agreed</u>
Australia	27.60
Belgium	32.97
Canada	80.91 <i>a/</i>
China	8.44
Cote d'Ivoire	4.00
Czech Republic	4.50
Denmark	27.95
Finland	20.94
France	128.84
Germany	231.62
Greece	4.50
India	7.99
Japan	333.41
Korea	4.35
Mexico	4.00
New Zealand	4.00
Nigeria	4.50
Norway	19.96
Slovenia	1.13
Sweden	56.98
Turkey	4.00
United Kingdom	149.91
United States	<u>394.36</u> <i>b/</i>
<b>Total Commitments Received:</b>	<b>1,556.86</b>

**II. Instruments of Commitment Not Yet Received:**

<u>Country</u>	<u>Pledge as Agreed</u>
Austria	17.70
Ireland	4.50
Italy	82.99
Luxembourg	4.00
Netherlands	62.39
Pakistan	4.00
Portugal	4.00
Spain	15.12
Switzerland	<u>45.94</u>
<b>Total Commitments Not Yet Received:</b>	<b>240.64</b>

*a/ Canada deposited a Qualified IOC in the amount of CAD 158.94 million, of which CAD 39.74 million is unqualified. The unqualified amount represents the first tranche of its GEF-3 contribution (25% of its contribution).*

*b/ The United States deposited a Qualified IOC in the amount of USD 500 million, of which USD 107.5 million is unqualified. The unqualified amount represents the first installment of its GEF-3 contribution (21.5% of its contribution).*

**Table 2: Status of Contributing Participants' Contributions to the GEF-3**  
as of April 15, 2003

(Amount expressed in millions)

Contributing Participants	Commitment		IOCs received and Installment Paid			IOCs received and Installment Amount due <sup>d/</sup>			IOCs yet to be received Installment Amount expected <sup>e/</sup>		
	Currency	Amount	Amount	USD Eq <sup>v/</sup>	%	Amount	USD Eq <sup>v/</sup>	%	Amount	USD Eq <sup>v/</sup>	%
Australia	AUD	68.16				17.04	10.24	25.0%			
Austria	EUR	24.38							6.10	6.54	25.0%
Belgium	EUR	41.98				10.50	11.26	25.0%			
Canada	CAD	158.94	39.74	27.13	25.0%						
China	XDR	7.50	1.85	2.34	24.6%						
Cote d'Ivoire	XDR	4.00	4.00	5.46	100.0%						
Czech Republic	XDR	4.00	1.00	1.32	25.0%						
Denmark	DKK	298.18	74.55	9.50	25.0%						
Finland	EUR	30.00	3.79	3.64	12.6% <sup>c/</sup>						
France	EUR	164.00	41.00	44.05	25.0%						
Germany	USD	293.67	73.42	73.42	25.0%						
Greece	EUR	5.73				1.43	1.54	25.0%			
India	INR	426.39				106.60	2.24	25.0%			
Ireland <sup>b/</sup>	EUR	5.73							1.43	1.54	25.0%
Italy	EUR	118.90							29.73	31.88	25.0%
Japan	JPY	48,754.33				12,188.58	101.70	25.0%			
Korea	USD	5.51	1.09	1.09	19.7% <sup>c/</sup>						
Luxembourg	EUR	5.73							1.43	1.54	25.0%
Mexico	USD	5.07	1.27	1.27	25.0%						
Netherlands	EUR	92.76							23.19	24.87	25.0%
New Zealand	NZD	12.14	3.03	1.67	25.0%						
Nigeria	XDR	4.00				1.00	1.36	25.0%			
Norway	NOK	228.32	57.08	7.80	25.0%						
Pakistan	XDR	4.00							1.00	1.36	25.0%
Portugal	EUR	5.73							1.43	1.54	25.0%
Slovenia	XDR	1.00	0.25	0.35	25.0%						
Spain	EUR	21.67							5.42	5.81	25.0%
Sweden	SEK	764.67				191.17	22.17	25.0%			
Switzerland	CHF	99.07							24.77	17.95	25.0%
Turkey	XDR	4.00	1.00	1.36	25.0%						
United Kingdom	GBP	117.83				29.46	46.34	25.0%			
United States	USD	500.00	107.50	107.50	21.5%						
<b>Total</b>				<b>287.89</b>			<b>196.84</b>			<b>93.02</b>	

<sup>a/</sup> Valued on the basis of March 31, 2003 exchange rates.

<sup>b/</sup> Ireland has paid the first tranche of its GEF-3 contribution but has not yet deposited its IOC with the Trustee. Thus, its first tranche is not yet available for commitment.

<sup>c/</sup> Finland and Korea have made arrangements with the Trustee to pay the balance of the first tranche along with the next tranche on November 30, 2003.

Finland will pay EUR 3.71 million (eq. USD 3.98 million, valued on the basis of March 31, 2003 exchange rates) and Korea will pay USD 0.29 million.

<sup>d/</sup> Refers to installment amount due by April 24, 2003.

<sup>e/</sup> Trustee expects IOC and corresponding first installment payments by June 30, 2003.

**Table 3: Schedule of Projected Available Resources  
as of April 15, 2003**

Based on Cumulative GEF Council Approved Work Program and Corporate Budget  
(Expressed in USD eq. millions) *a/*

	Projected Funding Situation through <u>30-Jun-2003</u>
1. Cumulative GEF resources available for Council allocation	4,869.8 <i>b/</i>
2. Amount approved by the Council for the work program and Corporate Budget of the GEF as of April 15, 2003	<u>4,529.2</u> <i>c/</i>
3. Net Funding Situation at April 15, 2003 ( 1 - 2 )	340.5
4. Work program, IA fees & corporate budget scheduled for May 2003	328.0 <i>d/</i>
5. Estimated additional resources projected to be paid and become available by June 30, 2003	<u>289.9</u>
5. Projected Funding Situation at June 30, 2003 ( 3 - 4 + 5)	302.4

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*a/ Valued on the basis of March 31, 2003 exchange rates.*

*b/ Includes promissory notes, cash, note encashments, investment income and exchange rate losses from all GEF Replenishments, but does not include arrears or deferred contributions.*

*c/ Includes cumulative project allocations, cancellations, corporate budget allocations, Implementing Agency fees, and a one-time Implementing Agency fee provision.*

*d/ Includes the work program, IA fees & corporate budget scheduled for the May 2003 Council meeting.*