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Second Meeting for the Seventh Replenishment of the GEF Trust Fund  
October 3-5, 2017  
Addis Ababa, Ethiopia

## **GEF TRUST FUND FINANCIAL REPORT**

*Summary of Financial Information  
As of August 31, 2017*

(Prepared by the Trustee)



# Global Environment Facility Trust Fund

## Financial Report

Prepared by the Trustee

*Summary of Financial Information*

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## Introduction

The information contained in this report is prepared based on financial information as of August 31, 2017.

The Global Environment Facility (GEF) was established in 1994 as an independent financial mechanism for providing grants and concessional funding to cover the incremental or additional costs of measures to assist in the protection of the global environment and to promote environmental sustainable development. Today, the GEF is the largest funder of projects focused on global environmental challenges and a global partnership among 183 countries, international institutions, non-governmental organizations, and the private sector. It provides grants for projects related to the following main areas: (i) biodiversity, (ii) climate change (mitigation and adaptation), (iii) international waters, (iv) land degradation, and (v) chemicals and waste.

The report is produced by the Trustee in accordance with the Trustee's role in the GEF Trust Fund as set forth in Annex B of the GEF Instrument paragraph 4 (b) which states:

*"The responsibilities of the Trustee shall include in particular [...] the financial management of the Fund, including investment of its liquid assets, the disbursement of funds to the implementing and other executing agencies as well as the preparation of the financial report regarding the investment and use of the Fund's resources [...]"*

This report provides (i) a snapshot of the financial situation of the GEF Trust Fund since its inception to August 31, 2017, and some of the recent developments since the previous report; (ii) the details of financial activities of the GEF Trust Fund; (iii) the status of implementation of the GEF-6 Replenishment; and (iv) update on financial reserve and foreign exchange risk.



## GEF Trust Fund Financial Summary as of August 31, 2017

### ***Pledges and Contributions***

GEF Contributing Participants have pledged SDR 11,582 million (USDeq. 16,606 million)<sup>1</sup> to date, of which SDR 11,541 million (USDeq. 16,545 million) has been confirmed by Donors depositing Instruments of Commitments (IoCs) or Qualified Instruments of Commitment (QIoCs) with the Trustee. Of the total pledged amount, GEF-6 pledges total SDR 2,460 million (USDeq. 3,716 million)<sup>2</sup>, of which Donors have deposited SDR 2,440 million or 99% of the amount with the Trustee as IoCs or QIoCs.

### ***Investment Income***

As of August 31, 2017, cumulative investment income earned on the GEF Trust Fund balances amounts to USD 1,307 million. An investment income of USDeq. 134 million is projected to be earned over the GEF-6 period. Thus far in GEF-6, USD 138 million has been earned.

### ***Funding Approvals and Commitments***

As of August 31, 2017, cumulative funding decisions (approvals by the GEF Council/CEO) amount to USD 16,440 million net of USD 1,242 million in cancellations and reductions at endorsement, and USD 12 million pending decisions of intersessional and Council meetings. The GEF-6 funding decisions from April 1, 2017 to August 31, 2017 amount to USD 388 million.

Of the total funding decision amount of USD 16,440 million, cumulative commitments amount to USD 14,964 million.

### ***Cash Transfers***

Cash transfers were made on an as-needed basis to meet projected disbursement requirements. As of August 31, 2017, out of the cumulative commitment of USD 14,964 million (including administrative expenses and funding allocations to the GEF Secretariat), the Trustee has transferred USD 11,914 million. A balance of USD 3,050 million remains payable as of August 31, 2017.

### ***Funds Held in Trust and Funds Available for Council and CEO Funding Decisions***

**Funds Held in Trust** reflect financial activities related to new donor payments (cash and promissory notes), encashment of promissory notes, investment income, cash transfers, and the revaluation of the balance of promissory notes at month-end. As of August 31, 2017, Funds Held in Trust including the reserve amount of USD 150 million, total USD 4,863 million, 26% of which represents unencashed promissory notes.

**Funding availability to support Council or CEO decision amounts to USD 183 million as of August 31, 2017.** This represents a net increase of USD 26 million compared to March 31, 2017.

<sup>1</sup> Does not include co-financing under the GEF Pilot Program.

<sup>2</sup> Valued based on GEF-6 agreed exchange rates.



## 1. GEF Trust Fund Summary – Inception through August 31, 2017

	Total (in SDR millions)
<b><u>Donor Pledges and Contributions (in SDR millions)</u></b>	
Received IoCs	11,541.15
GEF-4 IoCs not yet deposited	4.00
GEF-5 IoCs not yet deposited	16.35
GEF-6 IoCs not yet deposited	20.45
<b>Total Donor Pledges and Contributions (in SDR millions)</b>	<b>11,581.95</b>

	Total (in USD millions)
<b><u>Cumulative Resources (in USD millions)</u></b>	
<b><u>Resources received</u></b>	
Cash Receipts	14,245.27
Unencashed promissory notes	1,267.60
Investment Income earned	1,306.84
<b>Total Resources Received</b>	<b>16,819.71</b>
<b><u>Resources not yet received</u></b>	
GEF-6 IoCs not yet deposited	30.89
GEF-5 IoCs not yet deposited	18.30
GEF-4 IoCs not yet deposited	5.65
Installments Receivable from GEF-6	747.66
Installment Receivables from previous replenishments	136.66
<b>Total resources not yet received</b>	<b>939.17</b>
<b>Total Cumulative Resources (A) (in USD millions)</b>	<b>17,758.88</b>

<b><u>Cumulative Funding Decisions (in USD millions)</u></b>	
Approvals by Council and CEO	17,669.07
Cancellations and reductions at endorsement	(1,241.54)
Pending Decisions of Intersessional and Council Meetings	12.19
<b>Total Funding Decisions Net of Cancellations (B) (in USD millions)</b>	<b>16,439.72</b>
<b>Cumulative Resources Net of Funding Decisions (A) - (B) (in USD millions)</b>	<b>1,319.17</b>

<b><u>Funds Available (in USD millions)</u></b>	
Funds Held in Trust with no restrictions	4,713.12
Approved Amounts Pending Cash Transfers to Agencies	4,529.99
<b>Total Funds Available to Support Council or CEO Decisions (in USD millions)</b>	<b>183.13</b> <sup>a/</sup>

<sup>a/</sup> Excludes the Fx reserve amount of USD 150 million.

Note: Totals may not add up accurately due to rounding



## 2. Cumulative Resources and Funding Decisions

*In USD millions*

		<u>August 31, 2017</u>	<u>March 31, 2017</u>
<b>1. Cumulative Resources</b>		<b>17,759</b>	<b>17,510</b>
<u>Resources not yet received</u>		<u>939</u>	<u>1,143</u>
GEF-6 IoCs not yet deposited with the Trustee	31	31	31
GEF-5 IoCs not yet deposited with the Trustee	18	17	17
GEF-4 IoCs not yet deposited with the Trustee	6	5	5
Installment Receivables from GEF-6	748	953	953
Installment Receivables from previous replenishments	137	137	137
<u>Resources received</u>		<u>16,820</u>	<u>16,366</u>
Cash receipts from installments and encashments	14,245	13,769	13,769
Unencashed promissory notes	1,268	1,326	1,326
Investment Income earned on undisbursed balances of GEF Trust Fund	1,307	1,271	1,271
<b>2. Cumulative Funding Decisions</b>		<b>16,440</b>	<b>16,093</b>
Approvals by Council and CEO	17,669	17,281	17,281
Cancellations	(1,242)	(1,201)	(1,201)
Pending decisions of Intersessional and Council Meetings	12	12	12
<b>3. Cumulative Resources Net of Funding Decisions (3 = 1 - 2)</b>		<b><u>1,319</u></b>	<b><u>1,417</u></b>

*Note: Totals may not add up accurately due to rounding.*

### Snapshot of cumulative resources and funding decisions:

- The table above shows cumulative resources and cumulative funding decisions of the GEF Trust Fund since inception.
- Of the cumulative resources of USDeq. 17,759 million, USDeq. 939 million (5%) represents resources not yet received. Of these, IoCs not yet deposited with the Trustee total USDeq. 55 million, GEF-6 installments receivables amount to USDeq. 748 million, and installment receivables from previous replenishments amount to USDeq. 137 million.
- Cumulative net funding decisions amounting to USDeq. 16,440 million represent about 93% of the total cumulative GEF resources.
- As of August 31, 2017, cumulative resources net of funding decisions amount to USDeq. 1,319 million.



## 2a. Cumulative Resources

Instruments of Commitment to be Deposited					
Status as of August 31, 2017					
(in USDeq. millions)					
Contributing Participant	Replenishment	Currency of Obligation	Amount in Currency of Obligation	USDeq.	Percentage
Nigeria	GEF-4	SDR	4.0	5.7	100.0%
<b>Total GEF-4 IoCs Not Yet Deposited</b>				<b>5.7</b>	<b>100.0%</b>
Greece	GEF-5	EUR	4.4	5.3	28.8%
Nigeria	GEF-5	NGN	921.9	3.0	16.5%
Pakistan	GEF-5	PKR	499.6	4.7	25.9%
Portugal	GEF-5	EUR	4.4	5.3	28.8%
<b>Total GEF-5 IoCs Not Yet Deposited</b>				<b>18.3</b>	<b>100.0%</b>
Brazil <i>a/</i>	GEF-6	USD	15.9	15.9	51.4%
Russian Federation	GEF-6	USD	15.0	15.0	48.6%
<b>Total GEF-6 IoCs Not Yet Deposited</b>				<b>30.9</b>	<b>100.0%</b>
<b>Total GEF-4, GEF-5 and GEF-6 IoCs Not Yet Deposited</b>				<b>54.8</b>	

*a/ An amount of USD 1.7 million has been received and negotiations around the IoC are ongoing.*

- As of August 31, 2017, IoCs to be deposited with the Trustee amount to USDeq. 54.8 million.
- Of this amount, USDeq. 30.9 million represents GEF-6 IoCs, USDeq. 18.3 million represents GEF-5 IoCs, and USDeq. 5.7 million represents GEF-4 IoCs.
- Austria has deposited its IoC for GEF-6 which is lower by EUR 248,000 compared to its GEF-6 pledge of EUR 50.53 million.

### STATUS OF QUALIFIED INSTRUMENTS OF COMMITMENT (QIOC) UNDER GEF-6

As of August 31, 2017, the following Contributing Participants have deposited QIoCs with the Trustee and are making payment arrangements in accordance with a payment schedule agreed with the Trustee.

Contributing Participant	USD Eq. (millions) <i>a/</i>
Canada	21.31
Finland	14.46
Netherlands	24.58
Norway <i>b/</i>	41.39
Spain	11.86
United States	171.85
<b>Total</b>	<b>285.44</b>

*a/ Based on exchange rates as of August 31, 2017.*

*b/ Negotiations regarding Norway's Promissory Note payments for its second and third installments are ongoing.*





## INSTALLMENT ARREARS BY REPLENISHMENT

As of August 31, 2017, installment arrears under IoCs and QIoCs deposited with the Trustee amounted to USDeq. 136.7 million, representing arrears under GEF-1, GEF-2 and GEF-3.

Contributing Participant	Repl.	Currency	Installment Receivable Amount	USD eq. (millions)
Egypt	GEF-1	SDR	0.5	0.8
United States	GEF-2	USD	135.0	135.0
Nigeria	GEF-3	SDR	0.7	0.9
				<b>136.7</b>

## RESTRICTED RESOURCES

Restricted resources represent funds received from Contributing Participants but not available for funding decisions by the GEF Council and the GEF CEO.

As of August 31, 2017, restricted resources amounted to USD 150 million for financial reserves. Approximately 70% of total GEF-6 resources i.e., installment receivables, unencashed notes balances and IOCs not yet deposited are in non-USD currencies. The significant strengthening of the US dollar against all major currencies over the past year would negatively impact the estimated value of cash available for making the payments against the approved funding decisions. The Trustee closely monitors the currency exchange rate movement and determines adequate reserve<sup>3</sup> levels. The Trustee is currently evaluating measures to address the financial risk to the GEF arising out of exchange rate movements.

<sup>3</sup> Please refer to section 5 for an update on the financial reserve and foreign exchange rate risk.



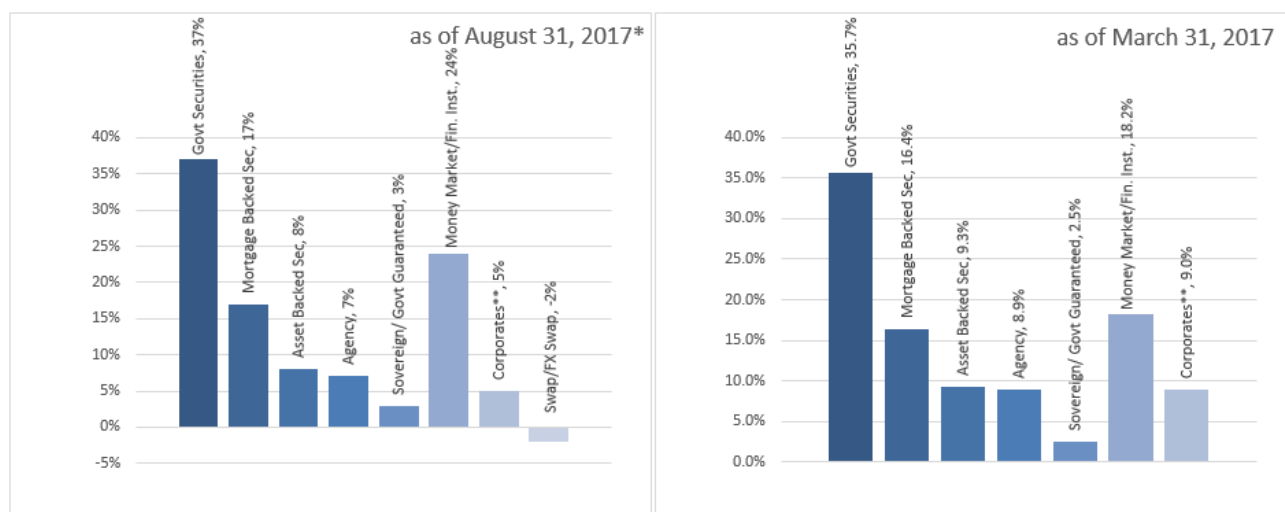
## 2b. Asset Mix and Investment Income

The undisbursed cash balance of the GEF Trust Fund is maintained in a commingled investment portfolio (“Pool”) for all trust funds managed by IBRD. The Pool is managed actively and conservatively with capital preservation as the over-arching objective.

### ASSET MIX

GEF Trust Fund assets are invested across three of the World Bank Trust Fund’s investment model portfolios, (“Model portfolio 0” for short term working capital needs, “Model portfolio 1” with an investment horizon of one year, and “Model portfolio 2” with a broader investment universe and an investment horizon of three years). The investment objectives for the GEF Trust Fund are to optimize investment returns subject to preserving capital and maintaining adequate liquidity to meet foreseeable cash flow needs, within a conservative risk management framework<sup>4</sup>. While future returns will depend on market conditions, the Trust Fund Investment Pool is actively monitored and adjusted to preserve donor funds over the investment horizons. Over shorter periods, however, market volatility may result in negative actual or ‘mark-to-market’<sup>5</sup> returns. Overall, the GEF Trust Fund cumulative returns have been driven by its investment in longer-term model portfolios, which may be exposed to higher volatility in returns over shorter periods, but are expected to have higher returns over longer periods.

By asset class, the largest allocations are to government securities, mortgage backed securities, agency, and asset backed securities.



\*estimated

\*\* The Corporate Securities category currently includes AAA-rated Euro Agency and government bonds/notes.

*Note: The negative position in swaps is primarily due to changes in foreign currency exchange (FX) rates in cross currency basis swaps. Such swap instruments are used to implement currency hedges on bond positions within the portfolio. These hedges remain in place.*

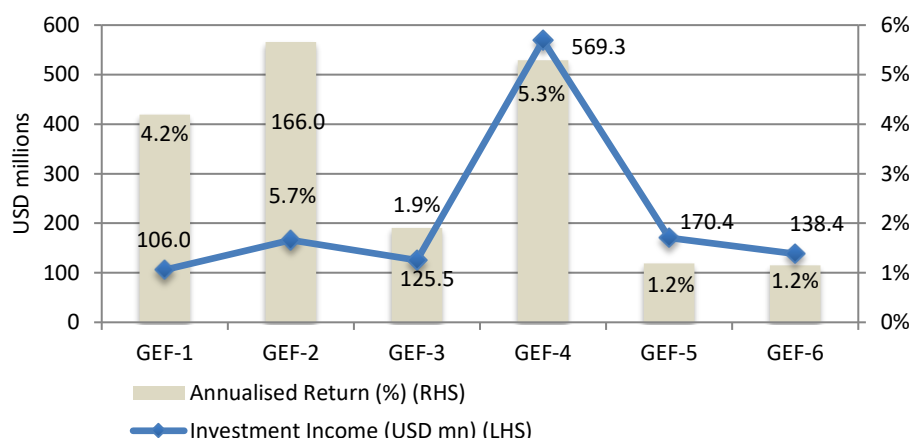
<sup>4</sup> Risk tolerance is defined as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio’s investment horizon, not to exceed 1% at portfolio’s investment horizon, with 99% confidence.

<sup>5</sup> Mark-to-market returns or losses represent unrealized returns or losses reported via accounting entries rather than the actual sale of a security.



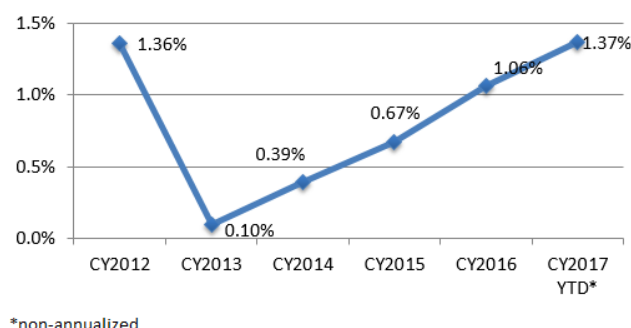
## INVESTMENT INCOME

Cumulative investment income earned since the beginning of GEF-1 phase is USD 1,276 million. Since the beginning of the GEF-6 replenishment period (July 30, 2014 to August 31, 2017), USD 138 million has been earned.



## INVESTMENT RETURNS

GEF Trust Fund investment returns remained modest for calendar year 2016 with a cumulative return of 1.06%. In the first eight months of 2017, investment return was 1.37%. The investment portfolio has maintained a defensive stance since early 2016, in terms of smaller risk positioning and shorter time horizons, in an environment of lingering volatility and reduced liquidity.



Returns are expected to be modest going forward as the risk of rising market yields remains elevated, with an adverse effect on total portfolio returns due to lower bond prices.

## DIVERSIFICATION OPPORTUNITIES

18. As a gradual move to higher interest rates in the coming years is expected, the outlook for fixed-income investments continues to be for modest returns, as further increases in market interest rates would result in further unrealized (i.e., mark-to-market) losses for fixed income returns in general. To provide additional investment opportunities to eligible trust funds, the World Bank designed Model Portfolio 4<sup>6</sup>. A review of the GEF's investment management strategy, including the impact of including an allocation to model portfolio 4, indicates that GEF would benefit from such diversification of investment. The Council reviewed this investment options during the 50<sup>th</sup> GEF Council Meeting and requested the Trustee to explore Environmental, Social and Corporate Governance (ESG) risks and opportunities for the GEF Trust Fund investment portfolio. As a result, the World Bank's Treasury is in the process of establishing a responsible investment policy that: i) formalizes existing and rigorous due diligence and risk management processes that take account of some ESG related factors, and expands on a more comprehensive and consistent consideration of these factors through ESG integration; and ii) meaningfully introduces ESG approaches to investment portfolio options in order to enhance alignment with clients' needs and institutional policies with regard to responsible investment of their funds. The Trustee will provide updates on this policy to the GEF Council once the policy has been finalized.

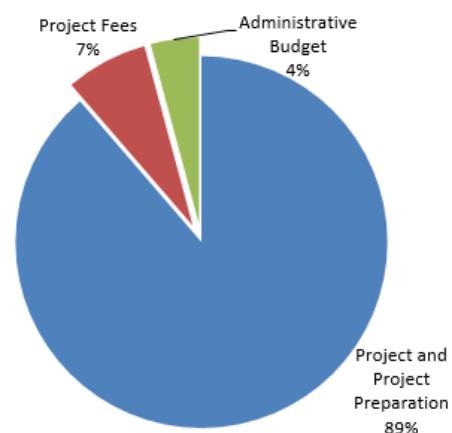
<sup>6</sup> Model portfolio 4 would feature a five-year investment horizon with a capital preservation constraint over the same horizon and include a limited allocation to equities.



## 2c. Funding Decisions, Trustee Commitments and Cash Transfers to Agencies

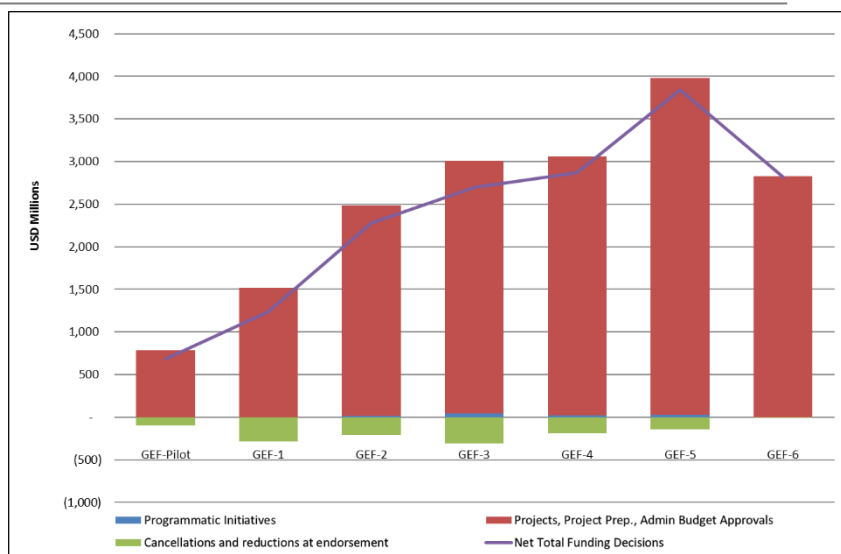
### CUMULATIVE FUNDING DECISIONS

Since inception to August 31, 2017 funding approvals made by the Council and CEO total USD 17,669 million, of which 89% was approved for Projects and Project Preparation activities, 7% for Agency Fees and 4% for Administrative budgets.



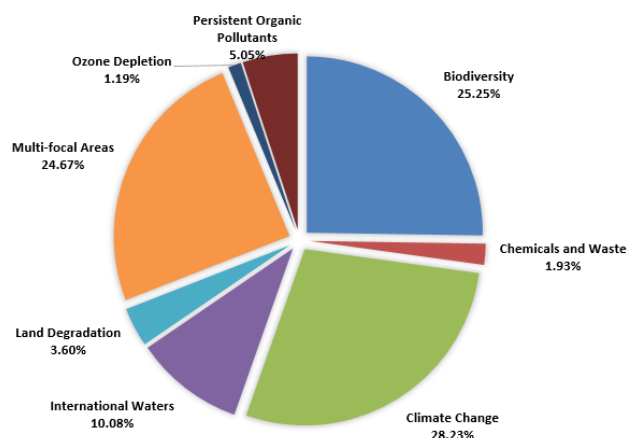
### FUNDING DECISIONS BY REPLENISHMENT

Funding decisions by replenishment show the cumulative Project/Program funding decisions of USD 16,427 million net of cancellations and reductions at endorsement, and excluding pending decisions on intersessional and Council meetings. Cumulative funding cancellations and reductions at endorsement totaled USD 1,242 million.



### FUNDING DECISIONS BY FOCAL AREA FOR PROJECTS

Funding decisions by Focal Area show cumulative gross funding decisions for projects and project preparation only, and exclude project fees, administrative budget. Projects in the areas of biodiversity and climate change represent approximately 53% of the cumulative funding approved to date.



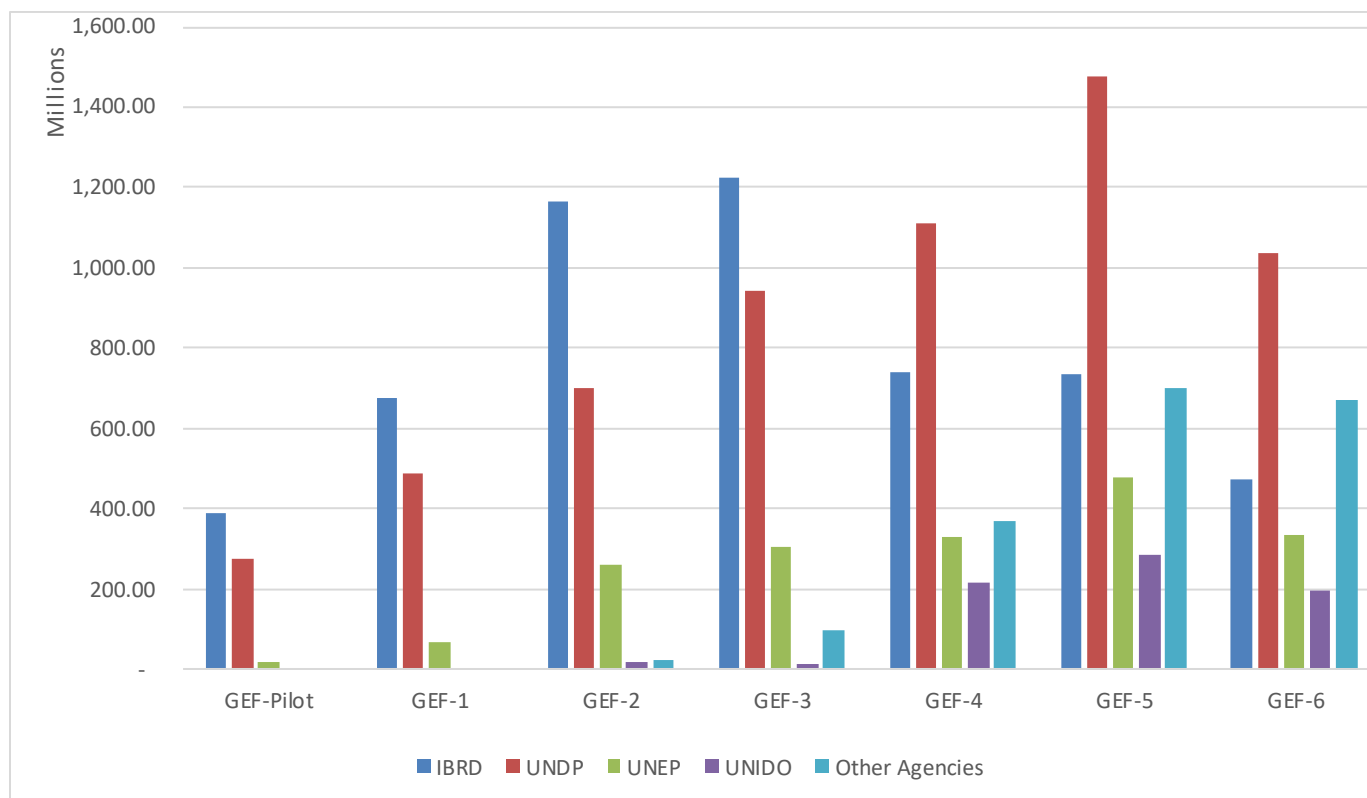
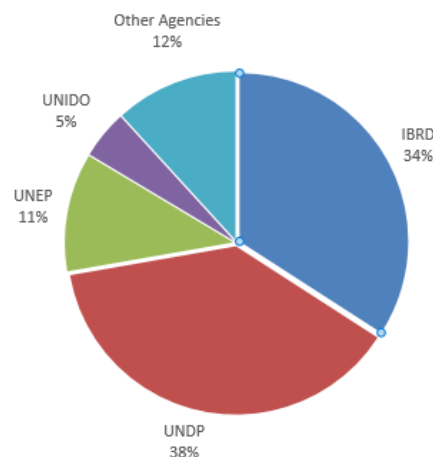


## FUNDING DECISIONS BY AGENCY FOR PROJECTS

Since inception to August 31, 2017, the majority (72%) of all project approvals after cancellations were for implementation by IBRD and UNDP. Implementation by UNEP and UNIDO stood at 11% and 5% of funding approvals respectively, while the remaining Agencies implemented 12% of funding approvals.

From the GEF Pilot phase to GEF-5, the share of funding approvals by Agency has changed – for example, IBRD's share fell from 57% to 20%, while UNDP's share remained same at 40%, and UNEP's share increased from 3% to 13%. The share of other Agencies increased from 1% in GEF-2 to 19% in GEF-5. These changes over time are shown in the chart below.

Looking at GEF-6 in isolation as of August 31, 2017, UNDP continues to be the implementing agency with the largest share (38%) of funding decisions followed by IBRD at 17%, UNEP at 12% and UNIDO at 7% of funding decisions.

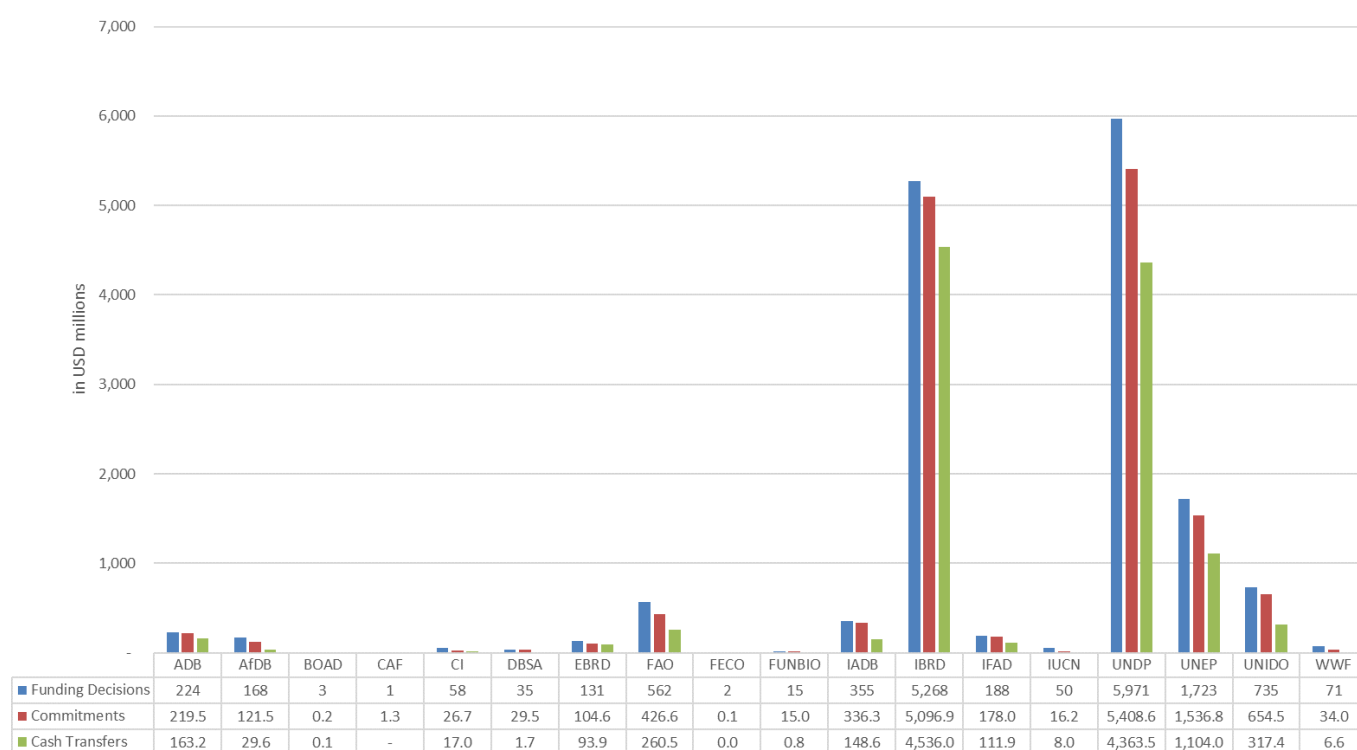




## NET FUNDING DECISIONS, TRUSTEE COMMITMENTS AND CASH TRANSFERS TO AGENCIES

Funding Decisions, Trustee Commitments and Cash Transfers shows the net cumulative funding decision (by Council and CEO), commitments and cash transfers to the GEF Agencies since inception.

As of August 31, 2017, cumulative funding decisions (net)<sup>7</sup> to Agencies comprising of Projects, Project Preparation Grants, and Agency Fees excluding administrative expenses and funding allocations to the GEF secretariat totaled USD 15,560 million<sup>8</sup>. Of this amount, USD 14,206 million had been committed following the approval or endorsement by the GEF CEO. At the request of Agencies, a total amount of USD 11,162 million had been transferred.



<sup>7</sup> Reflects Council and CEO approvals net of drops and subsequent cancellations.

<sup>8</sup> Excludes the program/umbrella balances.



### 3. Funding Availability

In USD millions

	As of Aug 31, 2017 (a)	As of Mar 31, 2017 (b)	Change (a) - (b)
<b>1. Funds Held In Trust</b>	<b>4,863</b>	<b>4,888</b>	<b>(25)</b>
a. Cash and investments	3,596	3,562	33
b. Unencashed promissory notes	1,268	1,326	(58)
<b>2. Restricted Funds</b>	<b>150</b>	<b>150</b>	<b>-</b>
a. Deferred Contribution in respect to the pro rata right	-	-	-
b. Pre-paid Contributions	-	-	-
c. Reserve to cover foreign exchange rate fluctuations	150	150	-
<b>3. Funds Held in Trust with no Restrictions ( 3 = 1 - 2 )</b>	<b>4,713</b>	<b>4,738</b>	<b>(25)</b>
<b>4. Approved Amounts Pending Cash Transfers to Agencies</b>	<b>4,530</b>	<b>4,581</b>	<b>(51)</b>
a. Trustee committed	3,050	2,807	243
b. Approved by Council but not yet CEO Endorsed	1,468	1,762	(294)
c. Requested amounts for financing pending decision	12	12	-
<b>5. Funds Available to Support Council or CEO Decisions ( 5 = 3 - 4 )</b>	<b>183</b>	<b>157</b>	<b>26</b>

*Note: Totals may not add up accurately due to rounding.*

#### Highlights for the period April 1, 2017 through August 31, 2017:

- **Funds Available to support Council or CEO Decisions** increased by USDeq. 26 million over the prior reporting period as a result of:
  - An decrease in **Funds Held in Trust** by USD eq. 25 million resulting from:
    - Higher cash installment receipts compared to cash transfers to agencies, offset by
    - Decrease in the values of promissory note balances and deposits of new promissory notes.
  - Decrease in **Approved Amounts Pending Cash Transfers to Agencies** by USD 51 million.



## 4. GEF-6 Specific Funding Decisions

In USD millions

<b>1. Target Replenishment Funding a/</b>			<b>4,433</b>
<b>2. Projected Available Resources during the GEF-6 Period</b>			<b>1,122</b>
Estimated Funds Available to Support Council or CEO Financing Decisions			<b>183</b>
	Potential Amount Available	of which Projected to be Available	
Receivables			884
Arrears b/	137	137	
Installments due in FY17 c/	28	28	
Installments due in FY18	714	714	
Installments due in FY19	5	5	
IoCs not yet Deposited with the Trustee			55
GEF-6 d/	31	31	
Previous Replenishments e/	24	24	
Projected Investment Income	-	- f/	-
<b>Total</b>	<b>939</b>	<b>939</b>	
<b>3. GEF-6 Specific Funding Decisions</b>			<b>2,776</b>
Approvals by Council			2,547
Projects and Fees		1,505	
Admin. Budget		97	
Special Initiatives		-	
Programmatic Initiatives		946	
Approvals by CEO			241
Projects and Fees (MSPs, EEAs)		194	
Project Preparation Activities and Fees		46	
Net Changes to Initial Approvals g/			(12)
Reductions (cancellations) on GEF-6		(12)	
Pending decisions on Intersessional and Council meetings			-
Projects, Fees, Admin Budget, Special Initiatives, Programmatic Initiatives		-	
<b>4. GEF-6 "Envelope" as of August 31, 2017 (4 = 2 + 3)</b>			<b>3,898</b>
<b>5. Excess or (Shortfall) due to Currency Changes in GEF-6 period ( 5 = 4 - 1 )</b>			<b>(535)</b>

a/ Represents the target replenishment level as agreed, including new resources from Donors, projected investment income, and carryover of amounts from previous replenishments.

b/ Includes arrears from the US for GEF-2 in the amount of USD 135 million, Egypt for GEF-1 in the amount of SDR 0.5 million, and Nigeria for GEF-3 in the amount of SDR 0.7 million.

c/ Trustee and Norway are negotiating the promissory note payment arrangements for its 2nd and 3rd installments.

d/ Represents GEF-6 IoCs not received by the Trustee as of August 31, 2017.

e/ GEF-5 IOCs not received from Greece, Nigeria, Pakistan and Portugal and GEF-4 IoC not received from Nigeria.

f/ The actual investment income received in the GEF-6 period as of Aug 2017 is USD 138 million, which is more than the USD 134 million projected to be earned over the GEF-6 period. Investment income earned through the rest of GEF-6 period will be included as part of funding availability.

g/ To fit the GEF Secretariat's STAR model, pre-GEF-6 project net changes were excluded from the calculation.

Note: Totals may not add up accurately due to rounding.





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## Highlights as of August 31, 2017:

- **Projected Available Resources** through the end of the GEF-6 period amount to USD 3,898 million.
- The value of projected resources to be available is based on the following assumptions:
  - Arrears from previous replenishments are paid;
  - All GEF-6 IoCs are received and paid in full during the remaining GEF-6 period.
- **GEF-6 Funding Decisions** amounted to USD 2,776 million.
- The **Target Replenishment Funding** amount represents the targeted new resources as agreed by Contributing Participants during replenishment discussions; it includes the carryover of arrears, deferred contributions, and paid-in funds not yet set aside.
- **The estimated changes to the GEF-6 Envelope Value** as measured against the Target Replenishment totals USD 535 million due to the revaluation of contribution receivables, unencashed promissory notes and the IoCs yet to be deposited with the Trustee. The change in the value of GEF-6 Envelope is majorly due to the significant strengthening of the US dollar against all major currencies between the time the GEF-6 reference FX rates were set, and the FX rates as of August 31, 2017. The magnitude of this estimated shortfall is continually shifting with changes in the value of the US dollar against all other major currencies. As of August 31, 2017 for instance, the shortfall reduced to USD 535 million from USD 677 million as of March 31, 2017.
- In order to provide a sense of the impact that a change in the US dollar has on the Envelope Value of GEF-6, the following two scenarios<sup>9</sup> are included below: (i) Scenario A - a 5% *appreciation in the USD*, and (ii) Scenario B - a 5% *depreciation in the USD* versus all other currencies between August 31, 2017 and the end of the GEF-6 replenishment period. The analysis shows that if the USD appreciates by a further 5% from current levels, the shortfall at the end of GEF-6 will be approximately USD 623 million, and if the USD depreciates by 5% from current levels, the shortfall will be approximately USD 440 million. These scenarios are presented for information purposes only and do not in any manner reflect the Trustee's view of the foreign exchange rate movements going forward. Looking back over previous replenishments, the change in the GEF's funding envelope in USD terms from the start to the end of a replenishment was positive in the first five replenishments as the GEF benefitted from a depreciating USD. Since the beginning of GEF-6, there has been a steep and prolonged appreciation of the USD against most other currencies. If this trend continues, the projected funding envelope in USD terms could be smaller than the target replenishment level for GEF-6. Since inception to August 31, 2017, the impact of FX movements on the GEF's funding resources has been positive, resulting in a net gain of USD 238 million. The changes in funding envelope in USD terms from the start to the end of each replenishment since GEF-1 are shown in the chart below.

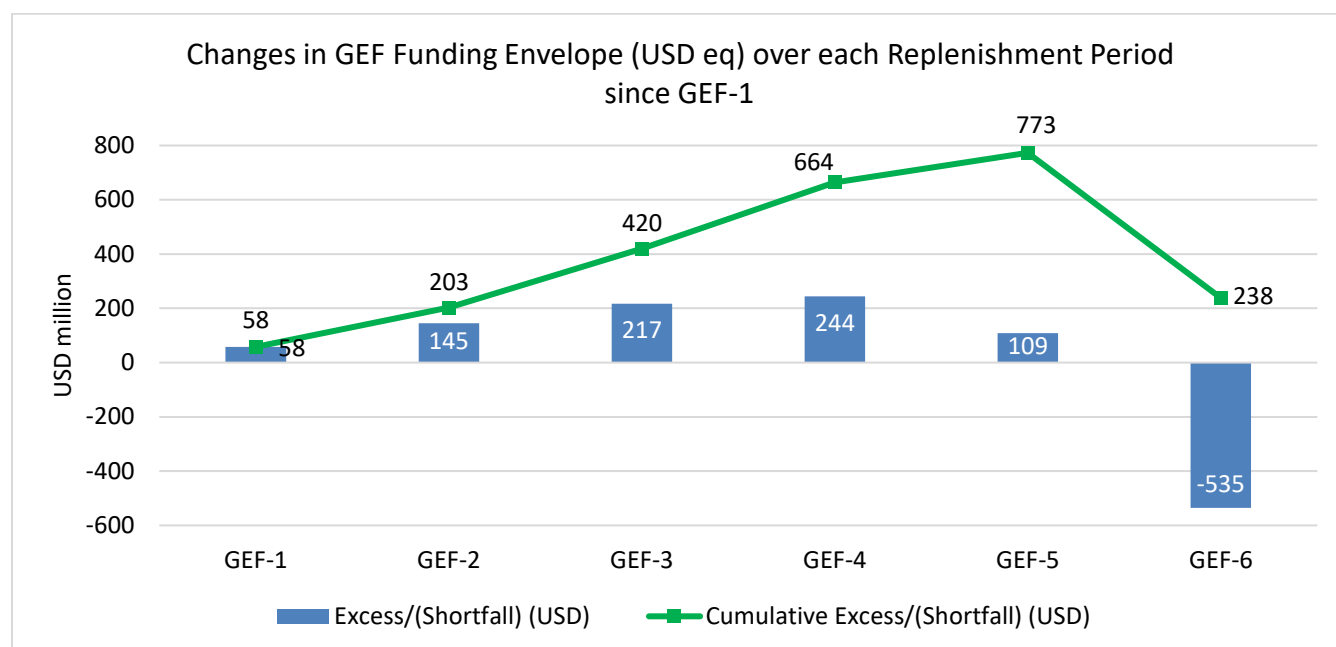
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<sup>9</sup> Scenarios are presented for information purposes only and do not in any manner reflect the Trustee's view of FX movements going forward.



Scenario Analysis of changes in GEF-6 Funding Envelope due to Changes in Foreign Exchange Rates					
Status as of August 31, 2017 (in USDeq. millions)					
Scenario A: 5% USD appreciation from 31 Aug 2017			Scenario B: 5% USD depreciation from 31 Aug 2017		
<b>1. Target Replenishment Funding</b>		<b>4,433</b>			<b>4,433</b>
<b>2. Projected Available Resources during the GEF-6 Period</b>		<b>1,034</b>			<b>1,217</b>
<u>Estimated Funds available to support Council or CEO Financing Decisions</u>		<b>123</b>			<b>250</b>
	Potential Amount Available	of which Projected to be Available		Potential Amount Available	of which Projected to be Available
<u>Receivables</u>		<b>858</b>			<b>911</b>
- Arrears	137	137		137	137
- Installments due	721	721		774	774
<u>IoCs not yet Deposited with the Trustee</u>		<b>54</b>			<b>56</b>
GEF-6	31	31		31	31
Previous Replenishments	23	23		25	25
<u>Projected Investment Income</u>	-	-		-	-
<u>Total</u>	<b>911</b>	<b>911</b>		<b>967</b>	<b>967</b>
<b>3. GEF-6 Specific Funding Decisions</b>		<b>2,776</b>			<b>2,776</b>
<u>Approvals by Council</u>		<b>2,547</b>			<b>2,547</b>
- Projects + Fees		1,505			1,505
- Admin. Budget		97			97
- Special Initiatives		-			-
- Programmatic Initiatives		946			946
<u>Approvals by CEO</u>		<b>241</b>			<b>241</b>
- Projects + Fees (MSPs, EEAs)		194			194
- Project Preparation Activities + Fees		46			46
<u>Net Changes to Initial Approvals</u>		<b>(12)</b>			<b>(12)</b>
- Reductions (cancellations) on GEF-6 projects, Administrative Budget and Special Initiatives		(12)			(12)
<b>4. GEF-6 "Envelope" as of August 31, 2017 ( 4 = 2 + 3 )</b>		<b>3,810</b>			<b>3,993</b>
<b>5. Changes in funding envelope due to currency changes in GEF-6 period ( 5</b>		<b>(623)</b>			<b>(440)</b>

Note: The totals in this table may not add up due to rounding.



## 5. Update on Financial Reserve and Foreign Exchange Risk

The Trustee makes funding commitments to GEF Agencies in USD against GEF resources which include non-USD promissory notes (PNs) that are encashed over a longer period. Adverse movements in FX rates might impact the value of future encashments of those PNs, thereby affecting the Trustee's ability to meet its legal obligations in making payments to the GEF Agencies against the funding commitments. In order to manage this risk and mitigate any negative impact of FX volatility on the level and predictability of funding available for GEF programming, the Trustee holds a defined level of financial reserve estimated at approximately 15% of unencashed promissory notes used for commitment purpose. The current financial reserve amount is USD 150 million and the Trustee closely monitors and adjusts this amount to insulate the GEF from adverse exchange rate fluctuations without unduly constraining the programming ability of the GEF.

The FX reserve is focused on limiting the negative impact of FX volatility on the programmed GEF's activities but does not directly address the FX volatility inherent in the GEF's funding structure. To facilitate a more comprehensive FX risk management solution, the Trustee is reviewing additional measures to manage the FX risk, including the establishment of an FX hedging program within an overarching Risk Management Framework. This review considers options to manage FX risks, including associated costs, possible collateral requirement and its impact on the GEF's programming ability. Additional details regarding the FX exposure management review for GEF is available in the GEF-7 replenishment document: "GEF-7 Additional Information on Financial Structure GEF/R.7/07".