



# Global Environment Facility

GEF/C.28/Inf.3  
May 17, 2006

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GEF Council  
June 5-9, 2006

## TRUSTEE REPORT

**(Prepared by the Trustee)**



**World Bank**

Trustee of The Global Environment Facility (GEF) Trust Fund

## **Trustee Report**

May 15, 2006

### **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 May 15, 2006. It is divided into four sections. Following this Section I of Introduction, Section II reports on the current payment status of contributions to GEF-1 through GEF-3. Section III presents the current funding status of the GEF Trust Fund. Section IV provides an update on the financial management of the GEF Trust Fund. Unless otherwise noted, all currency valuations are based on exchange rates as of April 30, 2006.

### **II. Payment Status of Contributions to GEF-1 through GEF-3**

#### **Status of Contributions to the GEF-3**

2. All thirty-two donors who have pledged contributions to the third replenishment of the GEF Trust Fund (GEF-3) have formalized their commitments.

3. The GEF-3 Resolution called for 100% of contributions to be paid to the Trustee by November 30, 2005.<sup>1</sup> As of the date of this report, a total of twenty-five out of thirty-two donors have paid at least 100% of their GEF-3 contributions. The detailed donor payment status is provided in Annex 1.

4. Seven donors, Belgium, Canada, Finland, Greece, Nigeria, Pakistan and the United States have not yet paid 100% of their GEF-3 contributions. Canada, Finland and Greece have notified the Trustee of their intent to pay in full their fourth installment by June 30, 2006. Total payments due from these donors is USD equivalent 58.58 million as shown in Table 1. Consequently, according to sub-paragraph 4(a)<sup>2</sup> of the GEF-3 Resolution, the Trustee sent a letter of notification in March, 2006 to the four donors who have not notified the Trustee of their intention to pay by June 30, 2006. The letter reminds these donors of their obligation to pay. The letter also notified them of the further requirements of the Resolution that, if the delay persists, their responsible Minister provides the Chief Executive Officer/Chairman of the GEF with a written communication stating the reasons for the delay and the measures being taken to address it.

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<sup>1</sup> According to sub-paragraph 3(a) of the GEF-3 Resolution, donors shall pay their GEF-3 contributions in “four equal installments” by November 30, 2002, November 30, 2003, November 30, 2004 and November 30, 2005, except as indicated in footnote f to Attachment 1 of the GEF-3 Resolution.

<sup>2</sup> Sub-paragraph 4(a) of the GEF-3 Resolution requires the Trustee to notify the Contributing Participant (donor) of any delay of payment if such delay continues for thirty (30) days. The Trustee is also required to remind a Contributing Participant that the responsible Minister of the Contributing Participant shall provide the CEO/Chairman of the GEF with a written communication stating the reasons for the delay and the measures being taken to address it, with a copy to the Trustee, if payment has not been made thirty (30) days before the date of the Council meeting following the date on which the delay was incurred.

<b>Table 1: GEF-3 Outstanding Payments</b> As of May 15, 2006 <i>(in millions)</i>					
Donor	Amount paid as a % of total contribution	Outstanding Contributions			
		Currency	Amount	As a % of total contribution	USD eq.
Belgium	75.00%	EUR	10.50	25.00%	12.61
Canada	94.24%	CAD	9.15	5.76%	8.10
Finland	96.71%	EUR	0.87	3.30%	1.08
Greece	75.00%	EUR	1.43	25.00%	1.78
Nigeria	25.00%	SDR	3.00	75.00%	4.38
Pakistan	75.00%	SDR	1.00	25.00%	1.46
U.S.	93.22%	USD	29.16	6.78%	29.16
<b>Total GEF-3 contributions not received</b>					<b>58.58</b>

5. Since the United States has not yet made a full payment of its contribution to the GEF-3, France, Germany and Japan exercised the pro rata right under the Resolution<sup>3</sup> deferring 6.78% of their contributions to the GEF-3 in proportion to the U.S. shortfall. The total amount deferred by these three donors that is unavailable for Council allocation is USD equivalent 62.40 million as shown in Table 2.

<sup>3</sup> According to Sub paragraph 8(b) of the GEF-3 Resolution, the Trustee shall promptly inform all Contributing Participants if a Contributing Participant has deposited a Qualified Instrument of Commitment and whose contribution represents more than 20 percent of the total amount of the resources to be contributed pursuant to the Second Replenishment has not unqualified the total amount thereof by November 30, 2005 or 30 days after the Effective Date, whichever is later.

<b>Table 2: GEF-3 Deferred Contributions</b> As of May 15, 2006 <i>(in millions)</i>				
Deferred Contributions				
<u>Donor</u>	<u>Currency</u>	<u>Amount</u>	<u>As a % of total contribution</u>	<u>USD eq.</u>
France	EUR	11.12	6.78%	13.80
Germany	USD	19.91	6.78%	19.91
Japan	JPY	3306.22	6.78%	<u>28.68</u>
<b>Total GEF-3 deferred contributions</b>				<b>62.40</b>

#### Status of Contributions to the GEF-2 and the GEF-1

6. The United States has not fully paid its contributions to the GEF-2. The amount in arrears is USD 140.67 million.

7. Two donors, Argentina and Egypt, have not yet paid their contributions to the GEF-1 in the amount of USD equivalent 4.83 million in total. Egypt has been paying in accordance with the restructured payment schedule agreed with the Trustee and is expected to clear its arrears by November, 2006. Argentina paid only a half of its pledged contribution to the GEF-1. The Government has agreed to a schedule to clear its arrears, but the Trustee has not received any of the scheduled payments for past four calendar years 2002, 2003, 2004 and 2005.

8. The United States' outstanding contribution to the GEF-2 represents 32.7% of its pledged contribution of USD 430 million. In proportion to the U.S. shortfall, Austria, France, and Japan have exercised the pro-rata right and deferred commitment of the fourth tranche of their contribution to the GEF-2. As a result, a total of USD equivalent 151.75 million is not available for Council allocation. Table 3 below shows the GEF-1 and GEF-2 arrears and the deferred contributions.

**Table 3: GEF-1 and GEF-2 Arrears and Deferred Contributions**

As of May 15, 2006

(in millions)

Donor	Arrears				USD eq.
	Repl.	Currency	Amount	As a % of total contribution	
Argentina	GEF-1	USD	2.50	50.0%	2.50
Egypt	GEF-1	SDR	1.60	39.9%	<u>2.33</u>
	Sub total				4.83
U.S.	GEF-2	USD	140.67	32.7%	<u>140.67</u>
	Sub total				140.67
<b>Total GEF-1 and GEF-2 arrears</b>					<b>145.50</b>
Donor	Deferred Contributions				USD eq.
	Repl.	Currency	Amount	As a % of total contribution	
Austria	EUR	4.20	25.0%	25%	5.21
France	EUR	32.88	25.0%	25%	40.80
Japan	JPY	12,188.58	25.0%	25%	<u>105.74</u>
<b>Total GEF-2 deferred contributions</b>					<b>151.75</b>
<b>Aggregated arrears and deferred contributions</b>					<b>297.25</b>

9. Consequently, as shown in Table 4 below, a total of USD equivalent 418.6 million is not available for Council allocation due to outstanding contributions, arrears and deferred contributions for the GEF-1 through the GEF-3.

**Table 4: Outstanding and Deferred Contributions**

As of May 15, 2006

(in millions)

Arrears and Outstanding Contributions					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Argentina	GEF-1	USD	2.5	50.00%	2.50
Egypt	GEF-1	SDR	1.6	39.90%	2.33
U.S.	GEF-2	USD	140.7	32.71%	140.67
Belgium	GEF-3	EUR	10.5	25.00%	13.02
Canada	GEF-3	CAD	9.15	5.76%	8.10
Finland	GEF-3	EUR	0.87	3.30%	1.08
Greece	GEF-3	EUR	1.43	25.00%	1.78
Nigeria	GEF-3	SDR	3.0	75.00%	4.38
Pakistan	GEF-3	SDR	1.0	25.00%	1.46
US	GEF-3	USD	29.2	6.78%	<u>29.16</u>
<b>Total arrears and outstanding contributions</b>					<b>204.49</b>
Deferred Contributions					
Donor	Repl.	Currency	Amount	As a % of total contribution	USD eq.
Austria	GEF-2	EUR	4.2	25.00%	5.2
France	GEF-2	EUR	32.9	25.00%	40.8
Japan	GEF-2	JPY	12,188.6	25.00%	105.7
France	GEF-3	EUR	11.1	0.00%	13.8
Germany	GEF-3	USD	19.9	6.78%	19.9
Japan	GEF-3	JPY	3,306.2	6.78%	<u>28.7</u>
<b>Total deferred contributions</b>					<b>214.2</b>
<b>Total Resources Not Available for Council Allocation</b>					<b>418.6</b>

### Status of Promissory Note Encashment

10. Many donors pay their GEF contributions by depositing promissory notes. The Trustee draws down the promissory notes (i.e., encashments) quarterly, based on pre-defined encashment schedules agreed between donors and the Trustee for each respective replenishment. Most donors using this payment method are current on their encashments. The exceptions are Brazil (GEF-1) and Cote d'Ivoire (GEF-1, GEF-2 and GEF-3)<sup>4</sup>. The Trustee is pursuing efforts to renegotiate the encashment schedules with these two donors.

### **III. Current Funding Status of the GEF Trust Fund**

11. Since inception of the GEF Trust Fund, cumulative resources made available for Council allocation amount to USD equivalent 7.26 billion, of which USD equivalent 6.57 billion (about 90%) has been allocated to the GEF work program, fees, corporate budgets, net of cancellations and dropped projects up to May 15, 2006, as shown in Annex 2.

12. The net GEF resources available for allocation as of the date of this report amount to USD equivalent 658.7 million. As shown in Annex 2, this amount does not include (i) arrears and deferred contributions of USD equivalent 418.6 million shown in Table 7; and (ii) a reserve of USD equivalent 35 million to cover potential fluctuations in exchange rates, which is discussed in paragraph 13 below.

13. During FY06, the Trustee implemented a reserve against resources available for commitment, to cover potential variability in cash flows from foreign exchange rate volatility. While this measure will not mitigate foreign exchange risk exposure, it will help to reduce the potential that the GEF and the Trustee may not have sufficient funds to disburse against commitments already made due to foreign exchange movements, in the absence of a foreign exchange hedging framework. A reserve amount of USD 35 million was set based upon simulations of movements in foreign exchange rates over a 12 month horizon (as predicted by today's forward rates).

14. Upon conclusion of the GEF-4 replenishment negotiations, the Trustee will calculate the reserve amount necessary to cover for potential variability in foreign exchange rates. The Trustee will also take into account risks in investment portfolio returns as a result of interest rate variability, which is likely to increase the estimated reserve amount. Based upon a hypothetical USD 2 billion of new resources, a reserve amount of approximately USD 100 million may be recommended. However, the actual estimate will change with variations in the amount and currency composition of new donor funds to be received as well as prevailing market conditions.

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<sup>4</sup>According to sub-paragraph 4 (b) of the GEF-1 Resolution and sub-paragraph 4(b) of the GEF-2 Resolution, recipient donors are permitted postponement of two years on encashments. Both Brazil and Cote d'Ivoire are overdue beyond the two year limit for the GEF-1. Cote d'Ivoire is also overdue for the GEF-2 and GEF-3.

#### **IV. Updates on Financial Management of the GEF Trust Fund**

15. The Trustee continues to collaborate with the Implementing and Executing Agencies to improve quality, consistency and timeliness of financial reporting on their GEF financial activities, and to ensure each entity's compliance with the agreed upon financial management policies and procedures. In this context, the Trustee recently notified the UNDP that it has failed to comply with the reporting requirement for investment income. Therefore, beginning in January 2006, the Trustee suspended both commitments and cash transfers of GEF funds to the UNDP. The Trustee continues to work with the UNDP on this issue, and the UNDP had already taken actions to rectify the situation to ensure full compliance of reporting requirements, including enhancement of its corresponding financial reporting system.

16. Since last reported to the Council in November 2005, the negotiations with the European Bank for Reconstruction and Development (EBRD) are ongoing on the legal instrument to grant direct and full access to allocations of the GEF resources by (i) entering into the Memorandum of Understanding (MOU) with the Secretariat and (ii) the Financial Procedures Agreement (FPA) with the Trustee. All other Executing Agencies have entered into an MOU with the Secretariat and an FPA with the Trustee.



Global Environment Facility Trust Fund													
Status of Payments on Contributions													
as of May 15, 2006													
(expressed in SDR millions)													
Contributing Participants	Pilot Phase		GEF-1			GEF-2			GEF-3			Total Contributions Paid	As % of total GEF Contributions Received by the Trustee
	Core Contri bution	Co-/Parallel Financing	Value of Contributions			Value of Contributions			Value of Contributions				
			Commitment	Paid	% Paid	Commitment	Paid	% Paid	Commitment	paid	% Paid		
Argentina	-	-	3.57	1.79	50.0%	*	*	*	*	*	*	1.79	0.03%
Australia	9.68	7.39	20.84	20.84	100.0%	23.47	23.47	100.0%	27.60	27.60	100.00%	88.98	1.69%
Austria	26.02	-	14.28	14.28	100.0%	14.70	14.70	100.0%	17.70	17.70	100.00%	72.70	1.38%
Bangladesh	-	-	2.00	2.00	100.0%	*	*	*	*	*	*	2.00	0.04%
Belgium	5.00	5.34	22.86	22.86	100.0%	24.92	24.92	100.0%	32.97	24.73	75.00%	82.85	1.58%
Brazil	4.00	-	4.00	4.00	100.0%	*	*	*	*	*	*	8.00	0.15%
Canada	6.33	-	61.78	61.78	100.0%	74.60	74.60	100.0%	80.91	76.25	94.24%	218.96	4.17%
China	4.00	-	4.00	4.00	100.0%	6.00	6.00	100.0%	8.44	8.44	100.00%	22.44	0.43%
Cote d'Ivoire	2.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	14.00	0.27%
Czech Republic	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.50	4.500	100.00%	12.50	0.24%
Denmark	16.25	-	25.08	25.08	100.0%	20.90	20.90	100.0%	27.95	27.95	100.00%	90.18	1.72%
Egypt	4.00	-	4.00	2.40	60.1%	*	*	*	*	*	*	6.40	0.12%
Finland	20.44	-	15.45	15.45	100.0%	16.07	16.07	100.0%	20.94	20.25	96.71%	72.21	1.37%
France	110.08	-	102.26	102.26	100.0%	105.54	105.54	100.0%	128.84	128.84	100.00%	446.72	8.50%
Germany	110.02	-	171.30	171.30	100.0%	160.32	160.32	100.0%	231.62	231.62	100.00%	673.26	12.81%
Greece	-	-	3.57	3.57	100.0%	4.00	4.00	100.0%	4.50	3.38	75.00%	10.95	0.21%
India	4.00	-	6.00	6.00	100.0%	6.56	6.56	100.0%	7.99	7.99	100.00%	24.55	0.47%
Indonesia	4.00	-	*	*	*	*	*	*	*	*	*	4.00	0.08%
Ireland	-	-	1.71	1.71	100.0%	4.00	4.00	100.0%	4.50	4.50	100.00%	10.21	0.19%
Italy	65.14	-	81.86	81.86	100.0%	65.97	65.97	100.0%	82.99	82.99	100.00%	295.96	5.63%
Japan	27.36	19.08	295.95	295.95	100.0%	300.67	300.67	100.0%	333.41	333.41	100.00%	976.47	18.58%
Korea	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.35	4.35	100.00%	12.35	0.24%
Luxembourg	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	12.00	0.23%
Mexico	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	16.00	0.30%
Netherlands	37.74	-	50.97	50.97	100.0%	53.05	53.05	100.0%	62.39	62.39	100.00%	204.15	3.89%
New Zealand	-	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	12.00	0.23%
Nigeria	4.00	-	*	*	*	4.00	4.00	100.0%	4.50	1.13	25.00%	9.13	0.17%
Norway	19.56	3.29	22.29	22.29	100.0%	22.83	22.83	100.0%	19.96	19.96	100.00%	87.93	1.67%
Pakistan	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	3.00	75.00%	15.00	0.29%
Portugal	4.50	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	16.50	0.31%
Slovak Republic	-	-	4.00	4.00	100.0%	*	*	*	*	*	*	4.00	0.08%
Slovenia	-	-	*	*	*	1.00	1.00	100.0%	1.13	1.13	100.00%	2.13	0.04%
Spain	10.00	-	13.97	13.97	100.0%	12.03	12.03	100.0%	15.12	15.12	100.00%	51.12	0.97%
Sweden	24.54	-	41.60	41.60	100.0%	42.12	42.12	100.0%	56.98	56.98	100.00%	165.24	3.14%
Switzerland	30.06	10.68	31.97	31.97	100.0%	31.97	31.97	100.0%	45.94	45.94	100.00%	150.62	2.87%
Turkey	4.00	-	4.00	4.00	100.0%	4.00	4.00	100.0%	4.00	4.00	100.00%	16.00	0.30%
United Kingdom	54.73	-	96.04	96.04	100.0%	101.23	101.23	100.0%	149.91	149.91	100.00%	401.91	7.65%
United States	-	109.69	306.92	306.92	100.0%	313.35	210.84	67.3%	339.15	316.15	93.22%	943.60	17.96%
Total	615.45	155.46	1,444.27	1,440.89		1,445.30	1,342.79		1,742.29	1,700.20		5,254.79	

\* Designates a country which is not contributing to the replenishment.

**GLOBAL ENVIRONMENT FACILITY TRUST FUND**

**Schedule of Projected Available Resources  
Updated as of May 15, 2006**

Based on Cumulative GEF Council Approved Work Program and Corporate Budget  
(Expressed in current US\$ millions) a/

	<u>USDeq</u>
1. Total GEF resources available for Council allocation	7,259.1 b/
2. Amount approved by the Council for the work program, fees and Corporate Budget of the GEF up to May 15, 2006	<u>6,565.4</u> c/
<b>3. Net Funding Situation as at May 15, 2006</b>	<b>693.7</b>
4. Projected additional donor resources to be paid and make available by June 30, 2006	0.0
5 Recommended reserve for fluctuations in exchange rates	35.0
<b>6. Projected available resources for June 2006 Council Meeting (3+4-5)</b>	<u><u>658.7</u></u>

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a/ Valued on the basis of April 30, 2006 exchange rates.

b/ Includes promissory notes, cash, note encashments, investment income and exchange rate losses from the Pilot Phase, GEF-1, GEF-2, and GEF-3, but does not include arrears and deferred contributions.

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