



Global Environment Facility

GEF/R.4/Inf.2
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Meeting on the Fourth Replenishment of the GEF Trust Fund
June 9-10, 2005
Washington, D.C.

TRUSTEE REPORT
ON THE FINANCIAL MANAGEMENT OF GEF RESOURCES
AND THE STATUS OF THE GEF TRUST FUND
AS OF MAY 31, 2005

(Prepared by Trustee)

I. Introduction

1. This note provides a broad overview of the financial management of GEF resources as well as an update on the status of the GEF Trust Fund since the March 3rd GEF-4 planning meeting in Paris. Unless otherwise noted, all currency valuations are based on exchange rates as of May 31, 2005.

FINANCIAL MANAGEMENT OF GEF RESOURCES

2. This section provides basic information on the donor contribution process after replenishment discussions are concluded. This includes a description of the general rules and procedures for contribution installment payments and encashment of promissory notes. In addition, a description of Council Allocation Authority is provided, along with the impact of exchange rates on this Authority. Finally, this section provides a general explanation of the investment income management for the GEF Trust Fund.

II. Donor Contributions

3. Towards the end of replenishment discussions, donors make pledges to the GEF in national currencies. These pledges, however, must receive legislative approval before a donor country can formalize its pledge by submitting either an Instrument of Commitment or a Qualified Instrument of Commitment to the Trustee. Once the Trustee receives this document, a donor is considered to have made a commitment to the replenishment in the form of a contribution.

4. Replenishment contributions are normally paid to the Trustee in four annual installments of equal amounts by November 30th. Under the GEF-3 Replenishment Resolution, however, upon the written request of a donor the Trustee may agree to allow a donor country to postpone the payment of any installment, or part thereof, up to, but not beyond, June 30 of the calendar year following the year in which the installment is due. Payments made pursuant to these agreements with the Trustee are deemed to be timely.

5. Donors can choose to pay their contributions either in cash or by depositing non-negotiable, non-interest bearing promissory notes or similar obligations. Promissory notes are normally encashed (drawn down), on an approximately pro rata basis among donors, over a period of ten years. An indicative encashment schedule is agreed upon by donors during the replenishment negotiations. The Trustee may agree to encash promissory notes on a basis other than pro rata provided that the revised encashment schedule is no less favorable to the GEF Trust Fund than the indicative schedule. In addition, at the written request of a donor country experiencing exceptionally difficult budgetary circumstances, the Trustee may permit postponement of encashment for i) up to two years for a donor country that is also a recipient of the GEF and ii) up to 45 days for all other donor countries.

6. The flexibility in the timeliness of promissory note encashments is based on the principle of maintaining the present value of the cash flows. Thus, the present value of the revised

encashment schedule must be more than or equal to the present value of the indicative encashment schedule.

III. Council Allocation Authority

7. To assist the GEF in managing its pipeline of projects in the work program, the Trustee calculates the unallocated balance in the the GEF Trust Fund. This balance represents the ‘authority’ of the Council to approve additional amounts for project, fee, or corporate budget allocations.

8. To derive the Council allocation authority, the Trustee sums all the resources received into the GEF Trust Fund since inception. These resources include i) *released* cash installment payments, *released* promissory note encashments, and *released* outstanding balances on promissory notes, ii) investment income earned on the GEF Trust Fund by the Trustee, and iii) investment income earned by the Implementing Agencies in their GEF Accounts and returned to the GEF Trust Fund. The total resources are reduced by the total of all amounts allocated by the Council or endorsed by the CEO for work programs, fees and corporate budgets. Dropped projects and/or cancelled amounts against projects are also taken into account and increase the Council Allocation Authority.

9. The following resources are not included in the calculation of Council Allocation authority: i) pledges not yet formalized, ii) unpaid contributions (including arrears) to the GEF Trust Fund, and iii) donor contributions paid but not released. Paid-in contributions that are not yet released for allocation represent either deferred amounts associated with the exercise of the pro rata right or prepayments of installment amounts. These amounts are released for allocation when either the condition for release of the deferred contributions is met or until such time the advance payments become due, respectively.

IV. Impact of Exchange Rates on Council Allocation Authority

10. Donor contributions to GEF replenishments are typically committed and paid in national currencies. The operating currency of the GEF is the USD, which means that the programming and allocation of GEF resources are stated in USD. As such, the USD equivalent value of paid in contributions to the GEF will fluctuate with exchange rate movements over the span of the encashment period of the promissory notes.

11. The majority of donor contributions to the GEF are currently in the form of promissory notes, which are encashed over a period of up to ten years. The unencashed promissory notes are included as components of Council Allocation Authority which is expressed in USD equivalents. As such, the USD value of the balance of unencashed non-USD promissory notes depends on the exchange rate on the day a restatement into USD is made. Due to this factor, the value of the Council Allocation Authority (or funding situation) which is reported on a monthly basis will fluctuate with exchange rate movements.

V. Investment Income Management

12. Before January 2005, GEF funds pending disbursement have been invested in a single portfolio together with other trust funds administered by the World Bank. As a result of a comprehensive review of the trust fund investment portfolio, the World Bank implemented a new trust fund investment strategy in January 2005 which splits the commingled trust fund portfolio into two tranches: a short horizon portfolio and a longer three-year horizon portfolio with potentially higher returns depending on market conditions. The GEF's resources are included in the longer horizon portfolio along with a number of other funds with a size and cash flow profile that meet the eligibility requirements. The investment objective for the longer horizon portfolio has been formulated as one of enhancing investment returns, subject to maintaining adequate liquidity for disbursements and preserving capital over a three year investment horizon¹.

13. During the GEF-3 negotiations, donors agreed to include projected investment income for the replenishment period into the aggregate size of the replenishment. For the four year period from July 1, 2002 through June 30, 2006, investment income was estimated to reach USD 130 million (SDR 105 million). However, actual investment income earned will depend largely on market conditions. Table 1 below presents actual investment income earned during the GEF-3 period to date (May 31, 2005).

<u>Fiscal year</u>	<u>Investment income in USD</u>
2003	35,781,843
2004	23,942,225
2005*	40,272,339
2006	Not yet available
Total	99,996,407
Estimate**	130,000,000

*figures reflect period from July 2005 through May 2005 only
** estimate made at the beginning of the replenishment

¹ The trust fund investment strategy aims to minimize the probability of cumulative negative total returns over a three year horizon to 1% or less.

STATUS OF THE GEF TRUST FUND

VI. Current Funding Situation

14. Since inception of the GEF Trust Fund, cumulative resources made available for Council allocation amount to USD eq. 6.62 billion as of May 31, 2005. Of this amount, USD eq. 6.09 billion (approximately 92%) has been allocated to the GEF work program, fees and corporate budgets. Consequently, the Council Allocation Authority amounts to USD eq. 531.3 million as of the date of this report. The Trustee expects that an additional USD eq. 16.1 million will be paid by the end of FY05 (June 30, 2005), bringing the available resources at the beginning of FY06 to USD eq. 547.4 million. The current funding status is presented in Annex 1.

VII. Status of Commitments and Installment Payments

15. In 2002, 32 donors agreed to a third replenishment of the GEF Trust Fund in the amount of SDR 2.36 billion. This amount was comprised of: (i) pledges² from donors totaling SDR 1.81 billion, (ii) a carryover³ from the GEF-2 replenishment totaling SDR 450 million, and (iii) projected investment income during the years FY03-FY06 of SDR 105 million.

16. As of the date of this report, the Trustee has received Instruments of Commitment formalizing pledges from all donors except Italy, whose pledge to the GEF-3 is SDR 82.99 million. Since the March consultations, Italy has notified the Trustee that its Government has approved Italy's pledge to the GEF-3. The Trustee expects to receive Italy's Instrument of Commitment by June 30, 2005. Italy's payments to the GEF-3 will be expected soon after the Trustee receives Italy's Instrument of Commitment.

17. The GEF-3 Resolution requires that 75% of committed contributions be paid by November 30, 2004. As of today, out of the 31 donors who have deposited Instruments of Commitment, 24⁴ have paid at least 75% of their GEF-3 contributions. The current status of donor payments to the GEF Trust Fund is presented in Annex 2.

18. The GEF-3 Resolution allows donors, under paragraph 3 (a) (iii), to request an extension on each installment due date up to June 30th of the same fiscal year in which the payment is due. Donors who request extensions under this provision are not deemed to be in arrears. Two donors, Greece and Mexico, have not yet paid the third installment of their GEF-3 contributions but have availed themselves of the provision to delay payment of the third tranche until June 30, 2005.

² This includes a conditional pledge of SDR 55.2 million by the U.S.

³ The carryover was comprised of i) arrears from the GEF-1 and the GEF-2, ii) paid contributions deferred due to the exercise of the pro rata right, and iii) unallocated funds at the close of the GEF-2 commitment period.

⁴ Since the Trustee report to donors at the March 3rd planning meeting, both Canada and the United Kingdom have paid the third installment of their GEF-3 contributions.

19. Upon receipt of the payments from Greece and Mexico, detailed in Table 2 below, the GEF Council will have an additional USD eq 2.90 million available for allocation by June 30, 2005.

Outstanding Payments				
Donor	Currency	Amount	As a % of total contribution	USD eq.
Greece	EUR	1.43	25.0%	1.80
Mexico	USD	1.11	25.0%	1.11
Total to be paid by June 30, 2005				2.90

VIII. Arrears to the GEF-3 and Corresponding Deferred Contributions

20. Five donors have not utilized the provision under paragraph 3 (a) (iii) and have not yet paid at least 75% of their contributions. These five donors are considered to be in arrears to the GEF-3. However, the Trustee expects Belgium to pay its third tranche by June 30, 2005, and both Finland and Spain have plans to clear their arrears in FY06. Total arrears as of today amount to USD eq. 21.03 million, composed of payments from the five donors as shown in Table 3 below:

Donor	Amount paid as a % of total contribution	Arrears			
		Currency	Amount	As a % of total contribution	USD eq.
Belgium	50.0%	EUR	10.50	25.0%	13.16
Finland	70.3%	EUR	1.42	4.7%	1.78
Nigeria	25.0%	SDR	2.00	50.0%	2.97
Spain	66.7%	EUR	1.81	8.3%	2.26
U.S.	74.8%	USD	0.86	0.2%	0.86
Total GEF-3 arrears					21.03

21. U.S. arrears of USD 860,000 represent 0.20% of its GEF-3 contribution (USD 430 million). Three donors, Austria, France, and Germany, have exercised the pro rata right under the Resolution and have deferred commitment of their contributions in proportion to the U.S. shortfall. The total amount deferred from the GEF-3 and not available for Council allocation is USD eq. 1.06 million as shown in Table 4 below.

Donor	Currency	Deferred Contributions		
		Amount	As a % of total contribution	USD eq.
Austria	EUR	0.05	0.20%	0.06
France	EUR	0.33	0.20%	0.41
Germany	USD	0.59	0.20%	<u>0.59</u>
Total GEF-3 deferred contributions				1.06

IX. Arrears from Previous Replenishments and Corresponding Deferred Contributions

22. Since the last report to donors, Pakistan has cleared its arrears to the GEF-2. As of today, the total amount of arrears is USD eq. 145.54 million. Of this amount, arrears to the GEF-1 are USD eq. 4.87 million, and arrears to the GEF-2 are USD 140.67 million, detailed in Table 5 below.

Donor	Repl.	Currency	Arrears		
			Amount	As a % of total contribution	USD eq.
Argentina	GEF-1	USD	2.50	50.0%	2.50
Egypt	GEF-1	SDR	1.60	39.9%	<u>2.37</u>
Sub total					4.87
U.S.	GEF-2	USD	140.67	32.7%	<u>140.67</u>
Sub total					140.67
Total GEF-1 and GEF-2 arrears					145.54

23. As shown in Table 5 above, U.S. arrears to the GEF-2 represent 32.7% of its contribution (USD 430 million). Consequently three donors, Austria, France, and Japan, have deferred their paid-in contributions totaling USD eq. 159.53 million as shown in Table 6 below.

Table 6: GEF-2 Deferred Contributions				
As of May 31, 2005				
<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>
Austria	EUR	4.20	25.0%	5.26
France	EUR	32.88	25.0%	41.22
Japan	JPY	12,188.58	25.0%	<u>113.05</u>
Total GEF-2 deferred contributions				159.53

X. Summary of GEF Resources Pledged but Not Available

24. In summary, the total amount not available for Council allocation as of today is USD eq. 441.86 million as shown in Table 7 below.

Table 7: Summary of GEF Resources Not Available for Allocation	
As of May 31, 2005	
<i>(in millions)</i>	
<u>Description</u>	<u>USD eq.</u>
GEF-3 contribution (3 tranches) from delayed Instrument of Commitment	111.80
GEF-3 third tranche to be paid by June 30, 2005	2.90
GEF-3 Arrears	21.03
GEF-2 Arrears	140.67
GEF-1 Arrears	4.87
GEF-3 Deferred Contributions	1.06
GEF-2 Deferred Contributions	<u>159.53</u>
Total	441.86

GLOBAL ENVIRONMENT FACILITY TRUST FUND

**Schedule of Projected Available Resources
Updated as of May 31, 2005**

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	6,617.7 b/
2. Amount approved by the Council for the work program, fees and Corporate Budget of the GEF up to April 30, 2005	<u>6,086.3</u> c/
3. Net Funding Situation as at May 31, 2005 (1 -2)	531.3
4. Expected GEF-3 third tranche to be paid and made available by June 30, 2005	<u>16.1</u>
7. Projected available resources for Council allocation at June 30, 2006 (3+4)	547.4

a/ Valued on the basis of May 31, 2005 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.

Global Environment Facility Trust Fund

Status of Contribution Payments

as of May 31, 2005

(Expressed in millions)

Contributing Participants	GEF-1				GEF-2				GEF-3			
	Currency	Commitment	Paid	% Paid	Currency	Commitment	Paid	% Paid	Currency	Commitment	paid	% Paid
Argentina	USD	5.00	2.50	50% <i>a/</i>	*	*	*	*	*	*	*	*
Australia	AUD	42.76	42.76	100%	AUD	43.27	43.27	100.0%	AUD	68.16	51.12	75.0%
Austria	EUR	16.82	16.82	100%	EUR	16.80	16.80	100.0%	EUR	24.38	18.29	75.0%
Bangladesh	SDR	2.00	2.00	100%	*	*	*	*	*	*	*	*
Belgium	EUR	27.27	27.27	100%	EUR	30.94	30.94	100.0%	EUR	41.98	20.99	50.0% <i>d/</i>
Brazil	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*
Canada	CAD	111.11	111.11	100%	CAD	141.66	141.66	100.0%	CAD	158.94	119.21	75.0%
China	SDR	4.00	4.00	100%	SDR	6.00	6.00	100.0%	SDR	7.50	5.66	75.4%
Cote d'Ivoire	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.0%	SDR	4.00	4.00	100.0%
Czech Republic	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.0%	SDR	4.00	3.00	75.0%
Denmark	SDR	25.08	25.08	100%	DKK	193.16	193.16	100.0%	DKK	298.18	223.64	75.0%
Egypt	SDR	4.00	2.40	60% <i>b/</i>	*	*	*	*	*	*	*	*
Finland	EUR	20.86	20.86	100%	EUR	14.89	14.89	100.0%	EUR	30.00	21.08	70.3% <i>e/</i>
France	EUR	122.98	122.98	100%	EUR	131.50	131.50	100.0%	EUR	164.00	123.00	75.0%
Germany	SDR	171.30	171.30	100%	EUR	198.99	198.99	100.0%	USD	293.67	220.25	75.0%
Greece	USD	5.00	5.00	100%	EUR	4.50	4.50	100.0%	EUR	5.73	2.86	49.8% <i>d/</i>
India	SDR	6.00	6.00	100%	INR	323.83	323.83	100.0%	INR	426.39	319.79	75.0%
Ireland	EUR	2.08	2.08	100%	EUR	4.69	4.69	100.0%	EUR	5.73	4.30	75.0%
Italy	EUR	82.53	82.53	100%	EUR	73.85	73.85	100.0%		<i>c/</i>	-	-
Japan	JPY	45,698.09	45,698.09	100%	JPY	48,754.33	48,754.33	100.0%	JPY	48,754.33	36,565.75	75.0%
Korea	SDR	4.00	4.00	100%	KRW	4,933.67	4,933.67	100.0%	USD	5.51	4.41	79.9%
Luxembourg	SDR	4.00	4.00	100%	EUR	4.97	4.97	100.0%	EUR	5.73	4.30	75.0%
Mexico	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.0%	USD	5.07	2.54	50.0% <i>d/</i>
Netherlands	SDR	50.97	50.97	100%	SDR	53.05	53.05	100.0%	SDR	64.76	49.16	75.9%
New Zealand	NZD	10.35	10.35	100%	NZD	8.31	8.31	100.0%	NZD	12.14	9.10	75.0%
Nigeria	*	*	*	*	SDR	4.00	4.00	100.0%	SDR	4.00	1.00	25.0%
Norway	NOK	220.00	220.00	100%	NOK	228.32	228.32	100.0%	NOK	228.32	171.24	75.0%
Pakistan	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.0%	SDR	4.00	3.00	75.0%
Portugal	EUR	4.45	4.45	100%	EUR	4.90	4.90	100.0%	EUR	5.73	4.30	75.0%
Slovak Republic	SDR	4.00	4.00	100%	*	*	*	*	*	*	*	*
Slovenia	*	*	*	*	SDR	1.00	1.00	100.0%	SDR	1.00	0.75	75.0%
Spain	EUR	13.10	13.10	100%	EUR	14.81	14.81	100.0%	EUR	21.67	14.45	66.7% <i>e/</i>
Sweden	SEK	450.04	450.04	100%	SEK	448.07	448.07	100.0%	SEK	764.67	764.67	100.0%
Switzerland	SDR	31.97	31.97	100%	CHF	64.38	64.38	100.0%	CHF	99.07	74.30	75.0%
Turkey	SDR	4.00	4.00	100%	SDR	4.00	4.00	100.0%	SDR	4.00	3.00	75.0%
United Kingdom	GBP	89.55	89.55	100%	GBP	85.25	85.25	100.0%	GBP	117.83	88.37	75.0%
United States	USD	430.00	430.00	100%	USD	430.00	289.33	67.3%	USD	430.00	321.64	74.8%

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

a/ Argentina and the Trustee have agreed on a schedule to clear its arrears to the GEF-1.

b/ Egypt and the Trustee have agreed on a schedule to clear Egypt's arrears to the GEF-1.

c/ The Trustee expects to receive Italy's Instrument of Commitment before June 30, 2005.

d/ The Trustee expects these countries to pay their third installments by June 30, 2005.

e/ The Trustee expects these countries to clear their arrears in conjunction with the payment of the fourth tranche.