

**GLOBAL ENVIRONMENT FACILITY TRUST FUND**

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

**WORLD BANK REFERENCE  
TF029840**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT  
June 30, 2009 and 2008**

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## Independent Auditors' Report

To: Global Environment Facility Council and International Bank for Reconstruction and Development as Trustee for the Global Environment Facility Trust Fund

We have audited the accompanying statement of financial position of the Global Environment Facility Trust Fund (GEF), as administered by the International Bank for Reconstruction and Development as Trustee ("the Trustee"), as of June 30, 2009, and the related statements of activities, cash flows, and changes in net trust resources for the year then ended ("the 2009 financial statements"). These financial statements are the responsibility of the GEF Trustee's management. Our responsibility is to express an opinion on these financial statements based on our audit. The accompanying financial statements of the GEF as of June 30, 2008 and for the year then ended, were audited by other auditors whose report dated January 26, 2009, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of GEF's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the Global Environment Facility Trust Fund as of June 30, 2009, the change in net trust resources and its cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

KPMG LLP

November 5, 2009

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

## Statements of Financial Position

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Expressed in U.S. dollars

	Notes	June 30, 2009	June 30, 2008
<b>ASSETS</b>			
Share in Pooled Cash and Investments	7	\$ 2,902,340,602	\$ 2,633,154,726
Promissory Demand Notes	11, 12	1,045,986,116	1,309,668,073
Investment Income Receivable from Agencies	14	8,374,771	13,360,702
Advances to Agencies		818,384	1,273,907
IoC Receivables	8, 12	336,504,192	688,549,954
<b>Total Assets</b>		<b>\$ 4,294,024,065</b>	<b>\$ 4,646,007,362</b>
<b>LIABILITIES</b>			
Grant Liabilities			
IBRD/IA	15	\$ 1,106,189,332	\$ 1,129,202,686
UNDP		609,723,313	660,647,710
UNEP		134,532,314	98,485,354
EAs		126,790,053	77,128,357
Total Grant Liabilities		<b>1,977,235,012</b>	<b>1,965,464,107</b>
Fee Liabilities			
IBRD/IA	15	8,493,516	8,294,672
UNDP		2,652,879	2,083,279
UNEP		1,309,838	319,524
EAs		5,667,561	4,714,387
Total Fee Liabilities		<b>18,123,794</b>	<b>15,411,862</b>
Administrative Budget Liabilities			
Secretariat	15	842,898	630,000
Total Administrative Budget Liabilities		<b>842,898</b>	<b>630,000</b>
<b>Total Liabilities</b>		<b>1,996,201,704</b>	<b>1,981,505,969</b>
<b>NET TRUST RESOURCES (Partially Restricted)</b>	<b>10</b>	<b>2,297,822,361</b>	<b>2,664,501,393</b>
<b>Total Liabilities and Net Trust Resources</b>		<b>\$ 4,294,024,065</b>	<b>\$ 4,646,007,362</b>

The Notes to the Financial Statements are an integral part of these Statements.

GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

Statements of Activities

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Expressed in U.S. dollars

For the Years Ended

	Notes	June 30, 2009	June 30, 2008
<b>INCOME</b>			
Contributions	8, 9, 10	\$ 170,067,314	\$ 533,272,998
Amortization of Discount	8	20,772,609	31,124,483
Investment Income from Share in Pooled Cash and Investments		154,280,578	188,127,689
Income Earned on GEF Grant Funds	14	10,343,348	15,161,131
<b>Total Income</b>		<b>355,463,849</b>	<b>767,686,301</b>
<b>EXPENSES</b>			
Grant Expenses	13, 15	550,022,057	736,694,721
Fee Expenses	13, 15	34,304,127	17,283,665
Administrative Budget:			
UNDP	15	-	218,000
UNEP (STAP)		1,815,463	1,296,161
Secretariat and Evaluation Office		16,459,741	16,350,988
IBRD/Trustee	15	2,419,000	2,400,000
Total Administrative Budget		20,694,204	20,265,149
Provision for Doubtful Receivables and Promissory Demand Notes	12	1,305,733	19,274,724
Audit Fees for Implementing Agencies		52,883	32,070
<b>Total Expenses</b>		<b>606,379,004</b>	<b>793,550,329</b>
Foreign Exchange (Losses) Gains		(115,763,877)	185,586,123
<b>Net (Decrease) Increase in Net Trust Resources</b>		<b>\$ (366,679,032)</b>	<b>\$ 159,722,095</b>

The Notes to the Financial Statements are an integral part of these Statements.

**GLOBAL ENVIRONMENT FACILITY TRUST FUND**

**Administered by the International Bank for Reconstruction and Development as Trustee**  
**Statements of Cash Flows**

**Page 3**

*Expressed in U.S. dollars*

**For the Years Ended**

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ (366,679,032)	\$ 159,722,095
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Foreign Exchange Loss / (Gain)	115,763,877	(62,450,427)
Amortization of Discount	(20,772,609)	(31,124,483)
Provision for Doubtful Receivables and Promissory Demand Notes	1,305,733	19,274,724
Changes in Assets and Liabilities		
(Increase) in Share in Pooled Cash and Investments	(269,185,876)	(161,096,368)
Decrease in IoC Receivables	334,322,104	194,613,189
Decrease (Increase) in Promissory Demand Notes	185,108,614	(84,151,991)
Increase (Decrease) in Grant and Fee Liability	14,482,837	(34,856,174)
Increase in Administrative Budget Liability	212,898	630,000
Decrease (Increase) in Investment Income Receivable	4,985,931	(1,987,055)
Decrease in Advances to Agencies	455,523	1,426,490
<b>Net Cash Flows Used in Operating Activities</b>	<u><b>366,679,032</b></u>	<u><b>(159,722,095)</b></u>
<b>Net Increase in Cash</b>	-	-
Cash and Cash Equivalents, Beginning of Year	-	-
<b>Cash and Cash Equivalents, End of Year</b>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>

**The Notes to the Financial Statements are an integral part of these Statements.**

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

## Statements of Changes in Net Trust Resources

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*Expressed in U.S. dollars*

For the Years Ended

	<u>June 30, 2009</u>		<u>June 30, 2008</u>
Net Trust Resources, Beginning of Year	\$ 2,664,501,393	\$	2,504,779,298
Net Income (Loss)	(366,679,032)		159,722,095
Net Trust Resources, End of Year	<u>\$ 2,297,822,361</u>	\$	<u>2,664,501,393</u>

**The Notes to the Financial Statements are an integral part of these Statements.**

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

Notes to the Financial Statements

For the Years Ended June 30, 2009 and 2008

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## NOTE 1: ORGANIZATION AND OPERATIONS

In 1994, Global Environment Facility (the "GEF") was formally established as a financial mechanism by the Instrument for the Establishment of the Restructured Global Environment Facility (the "Instrument"). Further, the GEF Trust Fund (the "Trust Fund") was established pursuant to the terms of the Instrument. Since 1994, the Instrument has been amended twice upon approval by the Assembly of the GEF (governing body of the GEF in which member countries participate) and adoption by the Implementing Agencies (see Note 3) and the Trustee of the Trust Fund (the "Trustee"). The amendments became effective as of June 19, 2003 and September 14, 2007, respectively.

The GEF provides funding to eligible countries for incremental costs of measures to achieve global environmental benefits in six focal areas specified in the Instrument, as amended: biological diversity, climate change, international waters, land degradation (primarily desertification and deforestation), ozone layer depletion, and persistent organic pollutants ("POPs"). 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 GEF Council (the "Council") are eligible for funding insofar as they achieve global environmental benefits in the focal areas.

The Trust Fund is administered by the International Bank for Reconstruction and Development ("IBRD") as Trustee. The resources of the Trust Fund, held in trust by the Trustee, are kept separate and apart from the resources of IBRD.

The responsibilities of the Trustee include the mobilization of resources for the Trust Fund, financial management of the Trust Fund, the investment of funds as well as the disbursement of funds to the Implementing and executing agencies, in accordance with the provisions of the Instrument and such decisions made by the Council.

## NOTE 2: SUMMARY OF REPLENISHMENTS

As of June 30, 2009, there have been four replenishment cycles under which the Trustee was authorized to accept contributions to the Trust Fund, as follows:

GEF-1: July 1, 1994 – June 30, 1998

GEF-2: July 1, 1998 – June 30, 2002

GEF-3: July 1, 2002 – June 30, 2006

GEF-4: July 1, 2006 – June 30, 2010

On October 19, 2006, the World Bank Executive Directors adopted IBRD Resolution No. 2006-0008 entitled "Global Environment Facility Trust Fund Fourth Replenishment of Resources" (the "GEF-4 Resolution"), thereby authorizing the IBRD, as Trustee of the Trust Fund, to manage the resources made available under the fourth replenishment of resources to the Trust Fund (the "GEF-4"). Pursuant to the terms of the GEF-4 Resolution, the Advance Contribution Scheme became effective on November 30, 2006, and the GEF-4 became effective on February 8, 2007.

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

Notes to the Financial Statements

For the Years Ended June 30, 2009 and 2008

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## NOTE 3: IMPLEMENTING AND EXECUTING AGENCIES AND OTHER BODIES

Under the Instrument, there are three Implementing Agencies - IBRD, the United Nations Development Programme (“UNDP”) and the United Nations Environment Programme (“UNEP”) (jointly, the “IAs”, each individually, an “IA”). Specific responsibilities are assigned to each of the IAs, the GEF Secretariat (the “Secretariat”), the Trustee and the Scientific and Technical Advisory Panel (“STAP”). GEF resources are allocated to each of those parties pursuant to the terms of the Instrument. In addition, the GEF Council decided in 2003 that the GEF Monitoring and Evaluation Unit shall operate functionally independent and report directly to the GEF Council.

Further, in May 1999, the Council approved a proposal for the participation of four regional development banks in the preparation of GEF projects and direct access by such banks to GEF resources for the Project Development and Preparation Facility. Since then, the scope of direct access to GEF resources was expanded over time, as approved by the Council, to provide full direct access to the following organizations, (jointly, the “Executing Agencies” or “EAs”, each individually, an “EA”):

- African Development Bank/African Development Fund (collectively “AfDB”)
- Asian Development Bank (“ADB”)
- European Bank for Reconstruction and Development (“EBRD”)
- Food and Agriculture Organization of the United Nations (“FAO”)
- Inter-American Development Bank (“IADB”)
- International Fund for Agriculture and Development (“IFAD”)
- United Nations Industrial Development Organization (“UNIDO”)

Effective during the year ended June 30, 2007, arrangements allowing for expanded direct access have been entered into between the Secretariat, the Trustee and each of the EAs.

## NOTE 4: BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The accompanying financial statements include the assets, liabilities, results of activities and cash flows of the Trust Fund as of and for the fiscal years ended June 30, 2009 and 2008, respectively. These financial statements do not include the assets, liabilities, results of activities and cash flows of the Implementing Agencies, the Secretariat, the STAP, the GEF Evaluation Office, nor the Executing Agencies. Furthermore, for purposes of these statements, amounts relating to UNEP include the STAP, and similarly, amounts relating to the Secretariat include the Evaluation Office.

The financial statements are prepared based on historical cost except for shares in pooled cash and investments which are recorded at fair value.



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Notes to the Financial Statements

For the Years Ended June 30, 2009 and 2008

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At the date of authorization of these financial statements, the IASB has issued a number of new standards and revisions to existing standards. Except for IFRS 7 “Financial Instruments: Disclosures”, and the revisions to IAS 1 “Presentation of Financial Statements”, none of the new or revised standards are relevant to these financial statements. IFRS 7 has been adopted in these financial statements. It is anticipated that the revisions to IAS 1 will relate primarily to presentational matters; however the Trustee is currently evaluating the potential impact of IAS 1, which is applicable for annual periods beginning on or after January 1, 2009.

In March 2009, IASB issued amendments to IFRS 7, Financial Instruments: Disclosures-Improving Disclosures about Financial Instruments, for implementation for annual period beginning on or after January 1, 2009.

The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The GEF has elected not to adopt these amendments in these financial statements.

## NOTE 5: SUMMARY OF SIGNIFICANT ACCOUNTING AND RELATED POLICIES

*Use of Estimates in the preparation of financial statements* – The preparation of the financial statements requires management to make estimates and assumptions based upon information available as at the date of the financial statements. Actual results could materially differ from those estimates. Areas in which management makes estimates and assumptions in determining the amounts to be recorded include, present value calculations related to IoC receivables, allowances for receivables, liabilities for grants, liabilities for fees, administrative expenses, and investment income earned by Implementing and Executing Agencies on GEF grant funds and administrative budget.

*Foreign Exchange Gains / Losses* – The financial statements are presented in U.S. dollars, which is the functional currency of the Trust Fund. Transactions in currencies other than the U.S. dollar are recorded at the market rates of exchange in effect on the date of the transaction. At the end of each reporting period, assets and liabilities that are not denominated in U.S. dollars are revalued at the market rate of exchange prevailing at the end of the respective reporting period. Any adjustment resulting from currency exchange rate changes affecting monetary items is recognized as foreign currency exchange gains/losses.

*Contributions and IoC Receivables* – The Trust Fund derives its funding primarily from contributions, arising in the course of ordinary activities; provided by the participants contributing to the Trust Fund (“Contributing Participants”). Contributing Participants provide Instruments of Commitments (“IoCs”) as a means of indicating their commitment to contribute to the Trust Fund. Upon receipt of unqualified IoCs, or when qualified IoCs become unqualified (in the case that Contributing Participants have deposited qualified IoCs), contributions are recorded as income and an IoC receivable at their fair value, and the subsequent measurement basis is at amortized cost, using the effective interest rate method.

Contributing Participants satisfy their obligations under the IoCs through the payment of cash or by depositing non-negotiable, non-interest-bearing demand notes, or similar obligations with the Trustee.

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Notes to the Financial Statements

For the Years Ended June 30, 2009 and 2008

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*IoC Receivables* – Contributing Participants satisfy their obligations under the IoCs to make payments to the GEF Trust Fund through payment of cash or deposit of promissory demand notes or similar obligations in accordance with the payment schedules set forth in the respective replenishment resolutions. IoC receivables are individually assessed at each date of the statement of financial position for impairment.

*Promissory Demand Notes and Similar Obligations* – Contributing Participants satisfy their obligations under the promissory demand notes or similar obligations deposited with the Trustee by making cash payments in accordance with the indicative, non binding encashment schedule. Promissory demand note receivables are individually assessed at each date of the statement of financial position for impairment.

*Grant Liabilities* – The Trust Fund disburses grant funds to the three IAs as well as the seven EAs who have entered into arrangements with the Trustee for their direct access to GEF resources (i.e. ADB, AfDB, EBRD, FAO, IADB, IFAD, and UNIDO), to fund GEF projects.

The Council has delegated to the Chief Executive Officer of the GEF (the “CEO”) its authority to approve projects whose funding size is \$1 million or less or enabling activities which are subject to expedited processes. In such cases, the Trustee recognizes grant liabilities to the IAs and EAs upon CEO approval, and notification to the IAs and EAs, as this is when the Trust Fund becomes obligated to fund the grant. Grant liabilities are payable to the IAs and EAs upon their request, and assuming they have also approved the projects.

Grants exceeding \$1 million or grants for enabling activities which are not subject to expedited processes must be approved by the Council and further endorsed by the CEO. In such cases, the Trustee recognizes grant liabilities to the IAs and EAs upon Council approval, CEO endorsement, and notification to the IAs and EAs, as this is when the Trust Fund becomes obligated to fund the grant.

*Fee Liabilities* – Fees are paid to the IAs and the EAs to cover expenses associated with the project cycle management of GEF projects. The Trust Fund recognizes fee liabilities upon approval by the Council and the CEO as applicable, and notification to the IAs and EAs. Fee liabilities are payable to the IAs and EAs upon their request.

*Administrative Budget* – In accordance with the Instrument, the Council may approve administrative budgets of the IAs, EAs, STAP, Secretariat and Evaluation Office for reasonable administrative expenses incurred in the performance of their respective functions. In addition, the Trustee is reimbursed annually from the resources of the Trust Fund for the reasonable expenses incurred by it for the administration of the Trust Fund and for expenses incurred in administratively supporting the Secretariat.

The Council approves the administrative budget amounts, including Special Initiatives, payable to the IAs, EAs, Secretariat, Evaluation Office, STAP and Trustee, as applicable, in respect of each fiscal year of the GEF. Funds are transferred to the applicable IAs, EAs, Secretariat, Evaluation Office, STAP through UNEP, and Trustee in the fiscal year to which the administrative budget authorization relates. The transfer of funds to the IAs, EAs, Secretariat, Evaluation Office, STAP and Trustee is recorded as an advance in the Trust Fund, given that

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Notes to the Financial Statements

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the IAs, EAs Secretariat, Evaluation Office, STAP and Trustee are only entitled to reimbursement of actual expenses incurred, up to the amount authorized. The actual amount of expenses reported by each of those entities is recorded as an expense of the Trust Fund. Administrative budget liabilities are payable to the IAs and EAs upon their request.

*Share in Pooled Cash and Investments* – The Trustee maintains all trust fund assets separate and apart from the funds of IBRD, but for administrative and investment purposes, commingles the GEF's assets with other trust fund assets.

Cash paid into the Trust Fund, but not yet disbursed, is managed by the Trustee, which maintains an investment portfolio (the "Pool") administered by the World Bank Group. The Pool is a trading portfolio actively managed and invested in accordance with the investment strategy established for all trust funds administered by the World Bank Group. The objectives of the investment strategy are foremost to maintain adequate liquidity to meet foreseeable cash flow needs and preserve capital and then to maximize investment returns.

The Pool is subdivided into sub-portfolios to which allocations are made based on fund specific investment horizons, risk tolerances and other eligibility requirements set by the Bank. Generally, the Pool is invested in financial instruments such as money market deposits, government and agency obligations, asset backed securities, and mortgage backed securities. Based on the Trustee's investment strategy for trust funds, each sub portfolio is invested in a combination of these asset types consistent with the applicable risk tolerance for that sub-portfolio.

Share in Pooled Cash and Investments represents the Trust Fund's pro rata share of the Pool's fair value at the end of the reporting period. The pooled investments are classified as held for trading, and are reported at fair value. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are traded in the market and are reported at fair value. Regular way purchases and sales within the Pool are accounted for at the trade date. The corresponding proportionate interest income and investment gains or losses accrue to the Trust Fund in the period in which they occur.

*Promissory Demand Notes and similar obligations* – Promissory demand notes, and similar obligations received in settlement of IoC receivables are non-negotiable, non-interest-bearing, and payable on demand. These notes or similar obligations are recorded at face value upon receipt, and are typically encashed (drawn down) by the Trustee based upon indicative encashment schedules provided by the Trustee to the Contributing Participants.

## NOTE 6: FAIR VALUE OF FINANCIAL INSTRUMENTS

The Pool is held in a trading portfolio which is reported at fair value. The Trust Fund's share in the Pool is not traded in any market, however, the underlying assets within the Pool are traded in the market and are reported at fair value.

The fair value is the amount for which a financial asset could be exchanged, or a financial liability settled, between knowledgeable, willing parties. If an active market exists, the market

price is applied. If an active market does not exist, generally accepted valuation techniques, based on observable market data at the reporting date, are used instead.

The most frequently used valuation estimation technique is the discounted cash flow method. The Trustee applies valuation techniques to unlisted trading portfolio assets including mortgage backed securities, asset backed securities, corporate and agency securities. The valuation models are based on daily LIBOR rates and swap curves, as well as credit spreads and prepayment rates provided by external pricing service agents. The fair values recognized in the financial statements are therefore determined in whole using valuation techniques based on assumptions supported by prices from observable current market transactions in the same instrument or available observable market data. At the reporting date, the majority of assets within the Pool are priced using observable market data. The pooled cash and investments portfolio holds numerous securities each with different credit spreads and prepayment rates based on the characteristics of each security.

The pool includes securities pledged under repurchase agreements with other counterparties. The Trust Fund's proportionate share of the fair value of those securities at June 30, 2009 was \$132,103,702 (2008: \$548,771,126). There are no significant terms and conditions associated with the use of collateral.

The Trust Fund's proportionate share of collateral that the Trustee has accepted and is permitted to sell or re-pledge in the absence of default at June 30, 2009 is Nil (2008: \$25,100,708). The Trustee has not sold or re-pledged any collateral during this period. The terms and conditions associated with collateral have no significant unusual requirements from the usual practice of recourse when a default occurs.

The fair value of IoC receivables are estimated using a discounted cash flow method. The present value of each cash flow is computed using an estimated discount rate, based upon estimated donor specific risk free interest rates. Subsequent to initial recognition, IoC receivables are measured at amortized cost, using the effective interest rate method. As of June 30, 2009, the carrying value of the IoC receivables is a reasonable estimation of its fair value.

All other financial assets and financial liabilities (Promissory demand notes, Investment Income Receivables from Agencies, Advances to Agencies, Grant Liabilities, Fee Liabilities and Administrative Budget Liabilities) are short term in nature, and the carrying value is therefore deemed a reasonable estimate of fair value.

#### NOTE 7: FINANCIAL RISK MANAGEMENT

The Trust Fund is exposed to market, credit, and liquidity risks.

The risk management policies adopted by the Trustee to manage these risks are summarized below:

*Market risk* – Market risk refers to the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, currency rates, or changes in interest rates. The Trust Fund portfolio is exposed to market risk primarily related to interest rates. The Trustee manages

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Notes to the Financial Statements

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the asset allocation of the Pool so as to minimize the probability of incurring negative returns over the applicable investment horizon. The asset allocation of the Pool is managed to optimize total returns within the specified risk tolerance.

*Interest rate risk* – In order to manage the interest rate risk, the Trustee uses a value at risk (VAR) computation to estimate the potential loss in the fair value of the Pool's financial instruments with respect to unfavorable movement in interest rate and credit spreads. The VAR is measured using a parametric / analytical approach. It assumes that the movements in the market risk factors are normally distributed. In constructing the covariance matrix of market risk factors, a time decay factor is applied to weekly market data for the past three years. This approach takes into account historical market observations for the past three years, while giving more weight to recent market volatility. The absolute VAR of the Trust Fund's share of the portfolio over a twelve month horizon, at a 95% confidence level at June 30, 2009 is estimated to be \$80,975,035 or 279 basis points (2008: \$116,991,464 or 447 basis points). The computation does not purport to represent actual losses in fair value of the Trust Fund's share in the Pool. The Trustee cannot predict future movements in such market rates and does not claim that these VAR results are indicative of future movements in such market rates or to be representative of the actual impact that future changes in market rates may have on the Trust Fund's future results or financial position.

*Currency risk* – Currency risk refers to the risk that the value of a financial instrument will fluctuate because of changes in currency exchange rates when there is a mismatch between assets and liabilities denominated in any one currency. The Trustee maintains its Share in Pooled Cash and Investments of the Trust Fund in U.S. dollars. The majority of the Trust Fund's currency risk arises from IoCs and promissory demand notes when they are denominated in currencies other than in U.S. dollars. Cash contributions received in other currencies are converted into U.S. dollars on receipt. Commitments for grants, fees and administrative budgets, are denominated in U.S. dollars.

The following table details the sensitivity of the Statement of Activities to a strengthening or weakening of the major currencies in which the Trust fund holds financial instruments. The percentage movement applied in each currency is based on the average movements in the previous three reporting periods. The average movement in the previous reporting periods is based on the beginning and ending exchange rates in each period.

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

Administered by the International Bank for Reconstruction and Development as Trustee

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Currency	As at June 30, 2009		As at June 30, 2008	
	% Change	Amount \$ Thousands	% Change	Amount \$ Thousands
Australian Dollar	14.3	\$ 6,469	10.6	\$ 7,628
Canadian Dollar	7.6	2,717	6.6	3,468
Danish Kroner	11.0	1,851	8.8	3,311
Euro	11.0	15,634	8.7	25,135
Japanese Yen	11.3	31,779	9.2	34,572
Korean Won	10.4	-	7.3	231
Mexican Peso	10.4	115	5.1	216
Norwegian Kroner	14.3	3,387	8.6	2,599
New Zealand Dollar	14.2	717	14.2	1,177
Pounds Sterling	8.8	13,900	3.7	9,095
Swedish Kronor	14.0	13,873	8.8	14,709
Special Drawing Rights	4.9	1,435	3.9	1,299
South African Rand	4.7	38	6.8	131
Swiss Franc	8.5	7,441	7.7	9,296
		<u>\$ 99,356</u>		<u>\$ 112,867</u>

*Credit Risk* – Credit risk refers to the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Trust Fund’s maximum exposure to credit risk at June 30, 2009 is equivalent to the gross value of the assets (including discount on IoC Receivables and allowance for uncollectible receivables) amounting to \$4,332,963,194 (2008: \$4,704,413,367). The Trustee does not hold any collateral or credit enhancements except for the repurchase agreements and resale agreements included in Note 6.

The Trustee invests its share in pooled cash and investments in liquid instruments such as money market deposits, government and agency obligations, and mortgage-backed securities. The Trustee is limited to investments with minimum credit ratings as follows:

- Money market deposits: issued or guaranteed by financial institutions whose senior debt securities are rated at least A-.
- Government and agency obligations: issued or unconditionally guaranteed by government agencies rated at least AA- if denominated in a currency other than the home currency of the issuer, otherwise no rating is required. Obligations issued by an agency or instrumentality of a government, a multilateral organization or any other official entity require a minimum credit rating of AA-.
- Mortgage-backed securities and corporate securities: minimum rating must be AAA.

At the reporting date, approximately 86.8% of the Trust Fund’s share of the investment pool is held in securities rated at least AA and approximately 93.2% is held in securities rated at least AA-. At the reporting date, the Trust Fund’s approximate proportionate weightings in investment types are: Money market deposits – 11% (consisting primarily overnight deposits), Government and agency obligations – 55% (which are secured by the U.S. Government),

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Mortgage backed securities / asset backed securities and corporate securities – 34 % (which are all rated at least AAA).

The Trustee identifies the concentration of credit risk based mainly on the extent to which the pool of cash and investments are held by an individual counterparty. The concentration of credit risk with respect to the pool of cash and investments is limited because the Trustee has policies that limit the amount of credit exposure to any individual issuer.

In addition, the Trust Fund is subject to the risk of non payment by Contributing Participants. IoC receivables result from unqualified IoCs being provided to the Trustee by Contributing Participants, and promissory demand notes receivable or similar obligations result from Contributing Participants providing promissory demand notes or similar obligations to the Trustee. Each receivable is subject to the risk of non payment. The Trustee assesses the uncollectibility of receivables as described in Note 12.

*Liquidity risk* – Liquidity risk refers to the risk that an entity will encounter difficulty in obtaining liquid funds to meet its commitments. As a policy, the Trustee makes commitments for administrative budgets, trustee fees and grants only if there are sufficient underlying Trust Fund assets. The Trustee maintains a significant portion of the Pool in short-term money market deposits to meet disbursement requirements of the Trust Fund.

## NOTE 8: IoC RECEIVABLES AND CONTRIBUTIONS

The Trustee records an IoC receivable upon receipt of an unqualified IoC, or when a qualified IoC becomes unqualified. The receivable is initially recorded at fair value and subsequently remeasured at amortized cost using the effective interest rate method, net of any allowance for receivables (see Note 12).

The breakdown of IoC receivables is as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Gross IoC Receivables Due Within 1 Year	\$ 351,865,075	\$ 366,355,347
Gross IoC Receivables Due Beyond 1 Year	-	358,589,147
<b>Gross IoC Receivables</b>	<b>351,865,075</b>	<b>724,944,494</b>
Less Unamortized Discount	(7,378,447)	(28,151,056)
Less Allowance for Receivables	(7,982,436)	(8,243,484)
<b>Net IoC Receivables</b>	<b><u>\$ 336,504,192</u></b>	<b><u>\$ 688,549,954</u></b>

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Contributions and IoC receivables as of and for the years ended June 30, 2009 and 2008 are presented below.

Contributing Participants	Contributions for the Year Ended June 30, 2009	Contributions for the Year Ended June 30, 2008	IoC Receivable as at June 30, 2009	IoC Receivable as at June 30, 2008
Argentina	\$ -	\$ -	\$ 2,500,000	\$ 2,500,000
Australia	-	-	12,155,098	28,748,850
Austria	-	32,194,015	8,607,969	19,258,981
Belgium	49,696,030	15,678,104	-	-
Canada	31,442,070	35,795,707	-	-
China	-	-	2,377,500	4,755,000
Czech Republic	-	-	-	-
Denmark	-	-	14,696,958	32,798,000
Egypt	-	-	825,746	869,043
Finland	-	-	10,987,694	24,583,243
France	-	-	43,060,000	86,120,000
Germany	-	17,537,000	69,365,750	138,731,500
Greece	-	-	2,023,120	4,526,414
India	-	-	2,250,000	4,500,000
Ireland	-	-	2,006,878	4,488,496
Japan	-	-	87,756,512	158,805,090
Korea	-	-	-	3,153,063
Luxembourg	-	-	1,691,229	3,783,861
Mexico	-	-	1,101,525	2,815,651
Netherlands	-	-	-	-
New Zealand	-	-	1,367,730	3,197,880
Nigeria	-	-	4,656,690	4,900,860
Norway	8,929,214	10,517,781	-	-
Portugal	-	-	2,023,120	4,526,414
Slovenia	-	-	1,691,229	3,783,861
South Africa	-	-	797,613	1,931,847
Spain	-	-	-	-
Sweden	-	-	-	-
Switzerland	-	73,541,199	20,368,484	43,221,200
Turkey	-	-	1,552,230	3,267,240
United Kingdom	-	266,908,472	58,002,000	139,678,000
United States	80,000,000	81,100,720	-	-
<b>Total Contributions</b>	<b>\$ 170,067,314</b>	<b>\$ 533,272,998</b>	<b>\$ 351,865,075</b>	<b>\$ 724,944,494</b>
Less Unamortized Discount			(7,378,447)	(28,151,056)
Less Allowance for Receivables			(7,982,436)	(8,243,484)
<b>Net IoC Receivable</b>			<b>\$ 336,504,192</b>	<b>\$ 688,549,954</b>



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## NOTE 9: QUALIFIED INSTRUMENTS OF COMMITMENT

In accordance with the Instrument and the respective Replenishment Resolution, when a Contributing Participant's contribution is subject to enactment by its legislature of the necessary appropriate legislation, it shall deposit a qualified IoC with the Trustee. Qualified IoCs are not included as Contributions until such time as they become unqualified. The following qualified IoCs had been received as at June 30, 2009 and 2008, respectively.

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>GEF-2</b>		
United States	\$ 140,667,364	\$ 140,667,364
<b>GEF-3</b>		
United States	28,059,280	28,059,280
<b>GEF-4</b>		
Belgium	-	54,719,837
Canada	31,442,463	71,813,149
Norway	8,929,214	22,583,131
United States	80,800,000	160,800,000
	<u>121,171,677</u>	<u>309,916,117</u>
<b>Total</b>	<u>\$ 289,898,321</u>	<u>\$ 478,642,761</u>

## NOTE 10: TEMPORARILY RESTRICTED CONTRIBUTIONS

In accordance with the provisions of the respective Replenishment Resolution, Contributing Participants to the GEF-2, GEF-3 and GEF-4 respectively, have the right to instruct the Trustee to defer commitment in respect of their paid in contributions in the case that a Contributing Participant whose contribution represents more than 20% of the total amount to be contributed to the relevant replenishment has not unqualified its IoC in accordance with the schedule set out in the Replenishment Resolution ("Pro-rata Right"). Other Contributing Participants may exercise their Pro-rata rights up to the percentage amount corresponding to the percentage of the IoC unqualified by the Contributing Participant whose contribution exceeds 20%.

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As of June 30, 2009 and 2008, the Trust Fund has \$246,548,649 and \$239,616,105, respectively, of contributions with restrictions imposed on Paid In Contributions as described below.

As of June 30, 2009, 32.7 % of the U.S. contribution to the GEF-2 remains qualified. As a result, three Contributing Participants, Austria, France, and Japan, have continued to exercise their Pro-rata Right to defer commitment of part of their Paid In Contributions to the GEF-2: Austria 25%; France 25%; and Japan 25%. The deferred commitment resulting from exercising the Pro-rata Right for the GEF-2 amounted to \$179,129,316 as of June 30, 2009 (\$173,496,624 as of June 30, 2008).

As of June 30, 2009, 6.53% of the U.S. contribution to the GEF-3 remains qualified. As a result, three Contributing Participants, France, Germany, and Japan have exercised the Pro-rata Right to defer commitment of their contributions to the GEF-3 corresponding to the qualified portion of the U.S. contribution: France 6.53%; Germany 6.53%; and Japan 6.53%. The deferred commitment resulting from exercising the Pro-rata Right for the GEF-3 amounted to \$67,419,333 as of June 30, 2009 (\$66,119,481 as of June 30, 2008).

Accordingly, as of June 30, 2009 and 2008 respectively, the total amount of Paid In Contributions (expressed in U.S. dollar equivalents as at June 30, 2009 and 2008 respectively) with respect to which commitment is deferred as a result of the exercise of the Pro-rata Right is \$246,548,649 (\$239,616,105 as of June 30, 2008) as summarized in the table below.

<u>Contributing Participant</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
<b>GEF-2</b>		
Austria	\$ 5,931,660	\$ 6,635,580
France	46,436,424	51,947,112
Japan	126,761,232	114,913,932
<b>Sub-total</b>	<b>179,129,316</b>	<b>173,496,624</b>
<b>GEF-3</b>		
France	15,125,733	16,920,729
Germany	19,180,000	19,180,000
Japan	33,113,600	30,018,752
<b>Sub-total</b>	<b>67,419,333</b>	<b>66,119,481</b>
<b>Total</b>	<b>\$ 246,548,649</b>	<b>\$ 239,616,105</b>

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## NOTE 11: PROMISSORY DEMAND NOTES AND SIMILAR OBLIGATIONS

Promissory demand notes and similar obligations are presented on the statement of financial position net of any allowance for receivables (see Note 12). The promissory notes and similar obligations are payable to the Trustee upon demand, due to the demand feature associated with these promissory notes.

As at June 30, 2009 and 2008, respectively, the balance of promissory notes and similar obligations are as detailed in the table below.

<u>Contributing Participants</u>	<u>As at June 30, 2009</u>	<u>As at June 30, 2008</u>
Austria	\$ 6,827,058	\$ 8,621,198
Australia	32,954,024	43,467,840
Canada	35,765,792	52,824,343
Cote d'Ivoire	15,177,223	15,973,030
Denmark	1,648,145	4,904,253
France	11,138,135	29,080,465
Germany	210,943,013	239,283,830
Italy	-	18,785,011
Japan	193,252,942	215,912,721
Luxembourg	4,832,997	6,213,075
Netherlands	68,623,667	108,989,363
New Zealand	3,684,417	5,082,360
Norway	23,749,425	30,089,253
Pakistan	2,893,052	3,044,747
Portugal	4,750,251	5,885,106
Sweden	98,885,627	167,544,299
Switzerland	66,694,195	78,252,867
Turkey	4,128,932	4,900,860
United Kingdom	100,059,747	91,269,197
United States	183,555,720	201,555,720
Subtotal	<u>1,069,564,362</u>	<u>1,331,679,538</u>
Less Allowance for receivables	(23,578,246)	(22,011,465)
Net Promissory Demand Notes	<u>\$ 1,045,986,116</u>	<u>\$ 1,309,668,073</u>

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## NOTE 12: ALLOWANCE FOR RECEIVABLES

Provisions for uncollectibility of receivables have been assessed as detailed in the table below. IoC receivables and promissory demand notes and similar obligations respectively, are presented on the statement of financial position net of any allowance for receivables.

	<b>Allowance for IoC Receivables</b>	
	<i>For the years ended</i>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Opening Allowance</b>	\$ 8,243,484	\$ 3,822,354
Gross Income Statement Provision	-	4,421,130
Reversal for Amounts Collected	(261,048)	-
<b>Provision for Doubtful Receivables</b>	(261,048)	4,421,130
<b>Write-offs</b>	-	-
<b>Closing Balance</b>	<b>\$ 7,982,436</b>	<b>\$ 8,243,484</b>

	<b>Allowance for Promissory Demand Notes</b>	
	<i>For the years ended</i>	
	<b>June 30, 2009</b>	<b>June 30, 2008</b>
<b>Opening Allowance</b>	\$ 22,011,465	\$ 7,157,871
Gross Income Statement Provision	1,566,781	14,853,594
Reversal for Amounts Collected	-	-
<b>Provision for Doubtful Promissory Demand Notes</b>	1,566,781	14,853,594
<b>Write-offs</b>	-	-
<b>Closing Balance</b>	<b>\$ 23,578,246</b>	<b>\$ 22,011,465</b>

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## NOTE 13: GRANTS AND FEES

For the fiscal years ended June 30, 2009 and 2008, respectively, grants and fees expenses are as follows:

	For the year ended	
	June 30, 2009	June 30, 2008
<b>Grants</b>		
IBRD/IA	\$ 217,886,646	\$ 294,371,966
UNDP	159,125,603	333,600,656
UNEP	76,015,408	30,826,931
UNIDO	31,007,832	29,452,460
EBRD	-	626,370
ADB	3,997,744	18,136,869
GEFSec	1,000,000	-
IFAD	35,401,984	10,501,165
IADB	9,319,920	3,446,204
FAO	16,266,920	15,632,100
AfDB	-	100,000
<b>Sub-total</b>	<b><u>550,022,057</u></b>	<b><u>736,694,721</u></b>
<b>Fees</b>		
IBRD/IA	9,066,243	6,669,819
UNDP	13,233,481	5,816,739
UNEP	3,971,732	516,390
UNIDO	2,814,281	518,930
EBRD	11,250	51,387
ADB	655,546	210,000
GEFSec	-	-
IFAD	2,474,518	1,955,050
IADB	4,500	-
FAO	2,072,576	636,300
AfDB	-	909,050
<b>Sub-total</b>	<b><u>34,304,127</u></b>	<b><u>17,283,665</u></b>
<b>Total</b>	<b><u>\$ 584,326,184</u></b>	<b><u>\$ 753,978,386</u></b>

# GLOBAL ENVIRONMENT FACILITY TRUST FUND

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## NOTE 14: INVESTMENT INCOME EARNED ON GEF FUNDS

In accordance with financial procedure agreements between the Trustee and the respective IAs and EAs, investment income earned on GEF funds (other than fees) prior to disbursement by the IAs and EAs shall be returned to the Trustee upon the Trustee's request. For the years ended June 30, 2009 and 2008, the EAs and IAs had earned a total of \$10,343,348 and \$15,161,131 respectively. As at June 30, 2009 and 2008, a total of \$8,374,771 and \$13,360,702 respectively, was receivable from the EAs and IAs. Amounts receivable from the EAs and IAs are payable to the Trustee upon its demand.

## NOTE 15: ADMINISTRATIVE RELATIONSHIPS

IBRD serves as Trustee of the Trust Fund. IBRD also acts as an IA for the GEF. The Trust Fund transfers funds (resulting in a decrease in the corresponding liability), based on decisions by the Council or the CEO as applicable, to separate accounts established for (i) IBRD as Trustee, and (ii) IBRD as IA to carry out their respective responsibilities and roles for the GEF.

Amounts transferred from the Trust Fund to IBRD as Trustee, and IBRD as IA are as follows:

Transfers to:	For the year ended June 30, 2009				Liability at June 30, 2009	
	Grants	Fees	Administrative Budget	Total	Grants	Fees
IBRD as IA	\$ 244,200,000	8,867,399	-	\$ 253,067,399	\$ 1,106,189,332	\$ 8,493,516
IBRD as Trustee	\$ -	-	2,884,000	\$ 2,884,000	\$ -	\$ -
	<u>\$ 244,200,000</u>	<u>8,867,399</u>	<u>2,884,000</u>	<u>\$ 255,951,399</u>	<u>\$ 1,106,189,332</u>	<u>\$ 8,493,516</u>

Transfers to:	For the year ended June 30, 2008				Liability at June 30, 2008	
	Grants	Fees	Administrative Budget	Total	Grants	Fees
IBRD as IA	\$ 332,660,000	13,593,446	-	\$ 346,253,446	\$ 1,129,202,686	\$ 8,294,672
IBRD as Trustee	\$ -	-	2,400,000	\$ 2,400,000	\$ -	\$ -
	<u>\$ 332,660,000</u>	<u>13,593,446</u>	<u>2,400,000</u>	<u>\$ 348,653,446</u>	<u>\$ 1,129,202,686</u>	<u>\$ 8,294,672</u>

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In accordance with the Instrument and decisions of the Council, IBRD also provides administrative support to the Secretariat and the Evaluation Office. The Trust Fund provides administrative budget funds to the Secretariat and the Evaluation Office as approved by the Council in order to cover administrative expenses incurred by the Secretariat and Evaluation Office in the performance of their corporate management activities.

	<u>For the year ended June 30, 2009</u>				<u>Liability at June 30, 2009</u>	
	<u>Grants</u>	<u>Fees</u>	<u>Administrative Budget</u>	<u>Total</u>	<u>Grants</u>	<u>Administrative Budget</u>
For the year ended June 30, 2009	<u>N/A</u>	<u>N/A</u>	<u>\$ 18,905,955</u>	<u>\$ 18,905,955</u>	<u>N/A</u>	<u>\$ 842,898</u>
For the year ended June 30, 2008	<u>N/A</u>	<u>N/A</u>	<u>\$ 15,188,704</u>	<u>\$ 15,188,704</u>	<u>N/A</u>	<u>\$ 630,000</u>

# **GLOBAL ENVIRONMENT FACILITY TRUST FUND**

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## **NOTE 16: APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were authorized for issue on November 5, 2009 by IBRD's management, in its capacity as Trustee.