

54<sup>th</sup> GEF Council Meeting  
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Hanoi, Viet Nam

## **GEF TRUST FUND FINANCIAL REPORT**

*Summary of Financial Information  
As of March 31, 2018*

(Prepared by the Trustee)



# Global Environment Facility Trust Fund

## Financial Report

Prepared by the Trustee

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## Introduction

The information contained in this report is prepared based on financial information as of March 31, 2018.

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 March 31, 2018, 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 March 31, 2018

### *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 March 31, 2018, cumulative investment income earned on the GEF Trust Fund balances amounts to USD 1,328 million. An investment income of USDeq. 134 million is projected to be earned over the GEF-6 period. Thus far in GEF-6, USD 160 million has been earned.

### *Funding Approvals and Commitments*

As of March 31, 2018, cumulative funding decisions (approvals by the GEF Council/CEO) amount to USD 17,032 million net of USD 1,251 million in cancellations and reductions at endorsement, and inclusive of USD 12 million pending decisions of intersessional and Council meetings. The GEF-6 funding decisions from January 1, 2018 to March 31, 2018 amount to USD 18 million.

Of the total funding decision amount of USD 17,032 million, cumulative commitments amount to USD 15,532 million.

### *Cash Transfers*

Cash transfers were made on an as-needed basis to meet projected disbursement requirements. As of March 31, 2018, out of the cumulative commitment of USD 15,532 million (including administrative expenses and funding allocations to the GEF Secretariat), the Trustee has transferred USD 12,358 million. A balance of USD 3,174 million remains payable as of March 31, 2018.

### *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 March 31, 2018, Funds Held in Trust, including the reserve amount of USD 150 million and deferred contribution from Japan USDeq. 141 million, total USD 4,877million, 30% of which represents unencashed promissory notes.

**Funding availability to support Council or CEO decision is at a negative USD 91 million as of March 31, 2018.** This represents a net decrease of USD 105 million compared to December 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.



## **UPDATE ON ACTIVITIES SINCE MARCH 31, 2018**

### ***GEF-7 Replenishment***

Contributing Participants completed the negotiations under the seventh replenishment of the GEF Trust Fund (“GEF-7”) in April 2018. Contributing Participants to the GEF-7 agreed to provide resources to the GEF Trust Fund for grant and other financing to GEF recipient countries for the period between July 1, 2018 and June 30, 2022. The agreed total envelope for the GEF-7 period was USDeq. 4.065 billion. This funding envelope included USDeq 3.3 billion from new pledges from donors, USDeq 573 million of resources carried over from previous replenishments, and USD 149.5 million of projected investment income.

### ***Contribution Receipts and IOC deposits since April 1, 2018***

- Pakistan has deposited its GEF-5 IOC in the amount of SDR 4 million;
- The GEF-6 third installment payment from Spain (USDeq. 6.7 million) was received in April 2018. The final installment payments for GEF-6 were received in May 2018 from Canada (USDeq. 19.6million), France (USD 70.3 million), United States (USD 139.6 million), United Kingdom (USDeq. 56.3 million) and Finland (USDeq. 14.2 million) .
- Deferred contributions were subsequently released following the receipt of installments from the United States and Canada.



## 1. GEF Trust Fund Summary – Inception through March 31, 2018

In USD 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>

	<b>Total (in USD millions)</b>
<b><u>Cumulative Resources (in USD millions)</u></b>	
<b><u>Resources received</u></b>	
Cash Receipts	14,492.13
Unencashed promissory notes	1,457.63
Investment Income earned	1,328.44
<b>Total Resources Received</b>	<b>17,278.20</b>
<b><u>Resources not yet received</u></b>	
GEF-6 IoCs not yet deposited	30.89
GEF-5 IoCs not yet deposited	18.28
GEF-4 IoCs not yet deposited	5.82
Installments Receivable from GEF-6	361.00
Installment Receivables from previous replenishments	136.71
<b>Total resources not yet received</b>	<b>552.70</b>
<b>Total Cumulative Resources (A) (in USD millions)</b>	<b>17,830.90</b>

<b><u>Cumulative Funding Decisions (in USD millions)</u></b>	
Approvals by Council and CEO	18,270.85
Cancellations and reductions at endorsement	(1,251.00)
Pending Decisions of Intersessional and Council Meetings	12.19
<b>Total Funding Decisions Net of Cancellations (B) (in USD millions)</b>	<b>17,032.03</b>
<b>Cumulative Resources Net of Funding Decisions (A) - (B) (in USD millions)</b>	<b>798.87</b>

<b><u>Funds Available (in USD millions)</u></b>	
Funds Held in Trust with no restrictions	4,585.59
Approved Amounts Pending Cash Transfers to Agencies	4,676.46
<b>Total Funds Available to Support Council or CEO Decisions (in USD millions) <sup>a/</sup></b>	<b>-90.86 <sup>b/</sup></b>

a/ Excludes the FX reserve amount of USD 150 million.

b/ Negative due to a contributing participant exercising deferral rights

Note: Totals may not add up accurately due to rounding



## 2. Cumulative Resources and Funding Decisions

In USD millions

	<u>March 31, 2018</u>	<u>December 31, 2017</u>
<b>1. Cumulative Resources</b>	<b>17,831</b>	<b>17,773</b>
<u>Resources not yet received</u>	<u>553</u>	<u>548</u>
GEF-6 IoCs not yet deposited with the Trustee	31	31
GEF-5 IoCs not yet deposited with the Trustee	18	18
GEF-4 IoCs not yet deposited with the Trustee	6	6
Installment Receivables from GEF-6	361	356
Installment Receivables from previous replenishments	137	137
<u>Resources received</u>	<u>17,278</u>	<u>17,225</u>
Cash receipts from installments and encashments	14,492	14,373
Unencashed promissory notes	1,458	1,528
Investment Income earned on undisbursed balances of GEF Trust Fund	1,328	1,324
<b>2. Cumulative Funding Decisions</b>	<b>17,032</b>	<b>17,014</b>
Approvals by Council and CEO	18,271	18,250
Cancellations	(1,251)	(1,248)
Pending decisions of Intersessional and Council Meetings	12	12
<b>3. Cumulative Resources Net of Funding Decisions (3 = 1 - 2)</b>	<b><u>799</u></b>	<b><u>759</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. 17,831 million, USDeq. 553 million (3%) 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. 361 million, and installment receivables from previous replenishments amount to USDeq. 137 million.
- Cumulative net funding decisions amounting to USDeq. 17,032 million represent about 96% of the total cumulative GEF resources.
- As of March 31, 2018, cumulative resources net of funding decisions amount to USDeq. 799 million.





## 2a. Cumulative Resources

Instruments of Commitment to be Deposited					
Status as of March 31, 2018					
(in USDeq. millions)					
Contributing Participant	Replenishment	Currency of Obligation	Amount in Currency of Obligation	USDeq.	Percentage
Nigeria	GEF-4	SDR	4.0	5.8	100.0%
<b>Total GEF-4 IoCs Not Yet Deposited</b>				<b>5.8</b>	<b>100.0%</b>
Greece	GEF-5	EUR	4.4	5.5	29.9%
Nigeria	GEF-5	NGN	921.9	3.0	16.5%
Pakistan	a/ GEF-5	PKR	499.6	4.3	23.6%
Portugal	GEF-5	EUR	4.4	5.5	29.9%
<b>Total GEF-5 IoCs Not Yet Deposited</b>				<b>18.3</b>	<b>100.0%</b>
Brazil	b/ 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>55.0</b>	

a/ Pakistan has deposited GEF-5 IOC in May 2018

b/ An amount of USD 3.34 million has been received and payment arrangements are being finalized with Brazil.

- As of March 31, 2018, IoCs to be deposited with the Trustee amount to USDeq. 55 million.
- Of this amount, USDeq. 30.9 million represents GEF-6 IoCs, USDeq. 18.3 million represents GEF-5 IoCs, and USDeq. 5.8 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 March 31, 2018, 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) a/
Canada	20.91
Finland	15.02
Spain	12.33
United States	171.85
<b>Total</b>	<b>220.11</b>

a/ Based on exchange rates as of March 31, 2018.

Note: Payments except last installment from Spain were received subsequent to March 31, 2018



#### INSTALLMENT ARREARS BY REPLENISHMENT

As of March 31, 2018, 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 March 31, 2018, restricted resources amounted to USD 291 million representing USD 150 million for financial reserves and USDeq. 141 million of deferred contribution from Japan. Approximately 80% 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.

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

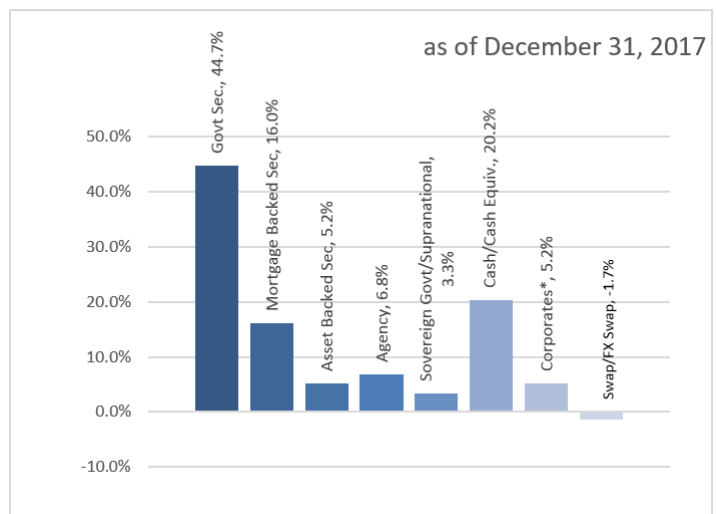
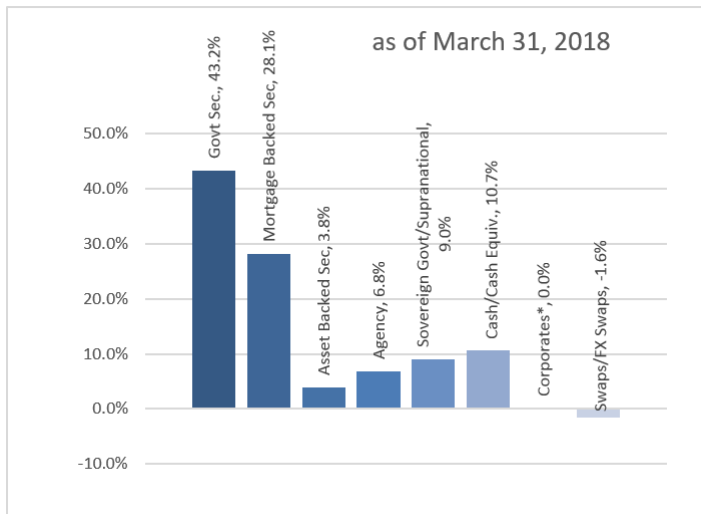


## 2b. Asset Mix and Investment Income

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<sup>6</sup> and cash and cash equivalents.

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

<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.

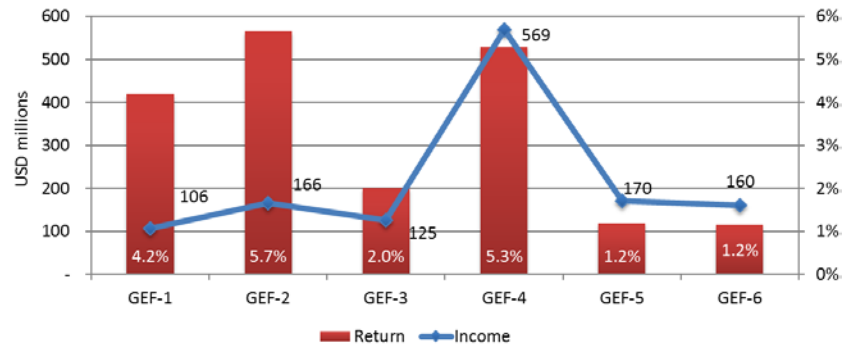
<sup>5</sup> Mark-to-market returns or losses represent unrealized returns or losses reported via accounting entries rather than the actual sale of a security.

<sup>6</sup> The negative position in swaps as of March 31, 2018 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.



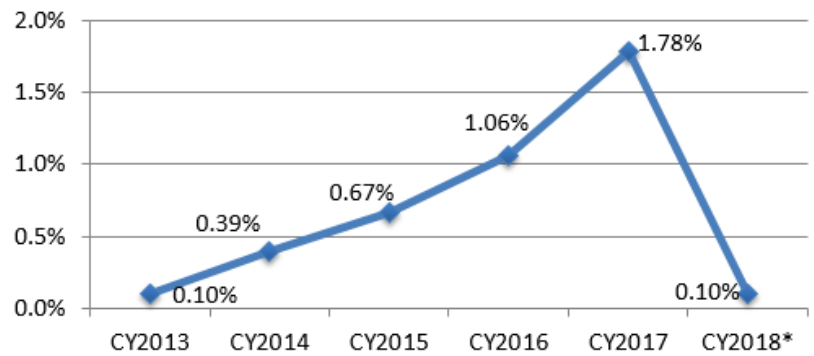
### INVESTMENT INCOME

Cumulative investment income earned since the beginning of GEF Pilot phase is USD 1,328 million. Since the beginning of the GEF-6 replenishment period (July 30, 2014 to March 31, 2018), USD 160 million has been earned.



### INVESTMENT RETURNS

GEF Trust Fund investment returns for calendar year 2017 posted an increase compared to the previous years with a return 1.78%. For the first three months of 2018, the investment return was 0.10%. 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.



\*non-annualized investment returns as of March 31, 2018

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

As a gradual move to higher interest rates in the coming years is expected, the outlook for fixed-income investors (such as the GEF Trust Fund) continues to be dim, as further increases in market interest rates could result in low or even negative investment returns. To mitigate this exposure to interest rate rises, the World Bank has worked with eligible trust funds to introduce options for diversification into their portfolios. For some of the larger trust funds with stable levels of liquidity, one of the options has been making allocations to model portfolios that feature a five-year investment horizon. These model portfolios retain the same capital preservation constraint that is currently applied to most trust fund clients and to introduce diversification, include a limited allocation to equities. A review of the GEF's investment management strategy, including the impact of including an allocation to such a model portfolio, indicates that GEF Trust Fund investment portfolio would likely benefit from such a change in investment strategy. The Council reviewed the investment options presented at its 50th meeting and requested the Trustee to explore any Environmental, Social and Corporate Governance (ESG) risks and opportunities that may arise if such a change in strategy is implemented for the GEF Trust Fund investment portfolio.



*Environmental, Social and Corporate Governance (ESG) Investing*

As the Trustee updated in the last iteration of the report, the World Bank is committed to working with clients to implement responsible investment strategies and policies that align with its overarching fiduciary mandate. Over the past two years, the World Bank has been exploring the establishment and implementation of a Responsible Investment policy with focus on Integration. An integration approach as opposed to Alignment or Impact is more appropriate for the management of assets administered by the World Bank as it would involve having environmental, social and governance (ESG) considerations reflected in the entire investment process such that resulting portfolios reflect a wider Responsible Investment approach as opposed to targeting a single issue.

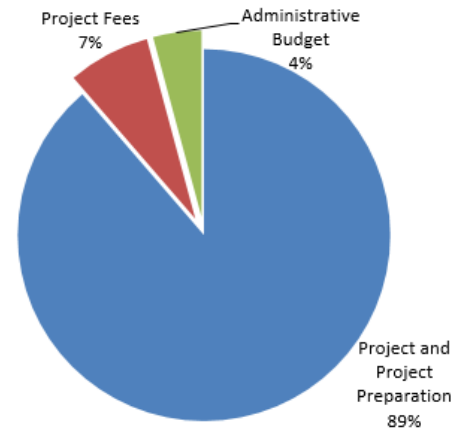
Efforts are underway to bring discipline to different perspectives that will give the institution a consistent way of looking at the ESG investments. In terms of timing, the World Bank is aiming to have Responsible Investment policy by September 2018 which will be translated into the World Bank's investment process after that.



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

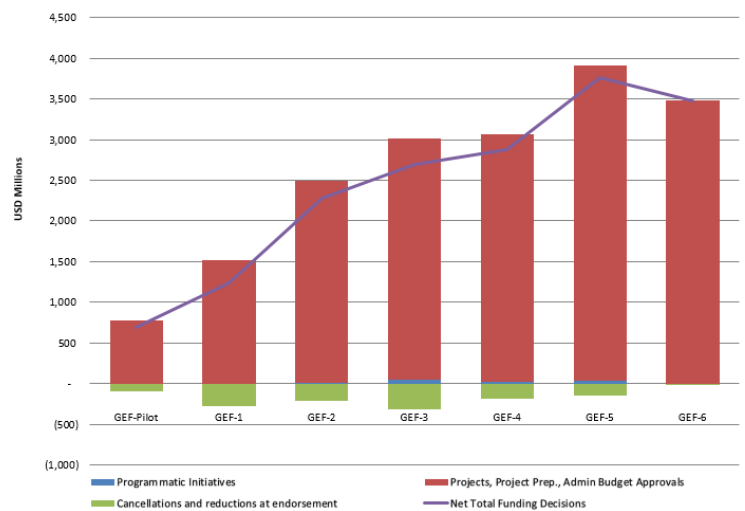
### CUMULATIVE FUNDING DECISIONS

Since inception to March 31, 2018 funding approvals made by the Council and CEO total USD 18,270 million, of which 89% was approved for Projects and Project Preparation activities, 7% for Agency Fees and 4% for Administrative budgets.



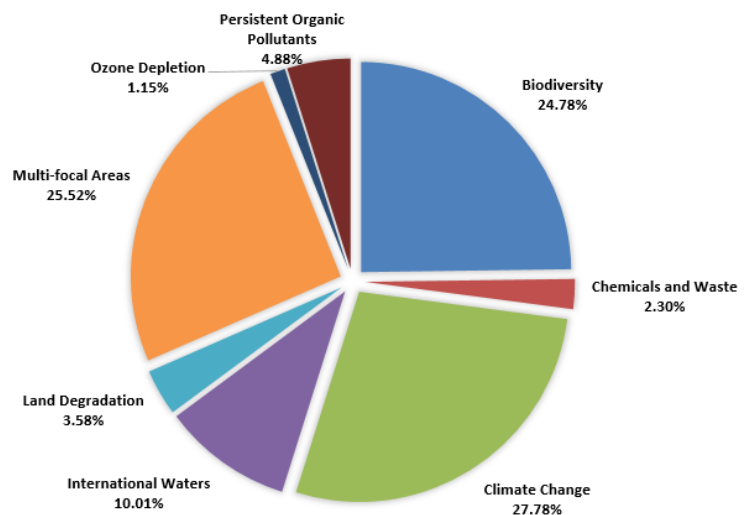
### FUNDING DECISIONS BY REPLENISHMENT

Funding decisions by replenishment show the cumulative Project/Program funding decisions of USD 17,032 million net of cancellations and reductions at endorsement, and including pending decisions on intersessional and Council meetings. Cumulative funding cancellations and reductions at endorsement totaled USD 1,251 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, and administrative budget. Projects in the areas of biodiversity and climate change represent approximately 53% of the cumulative funding approved to date.



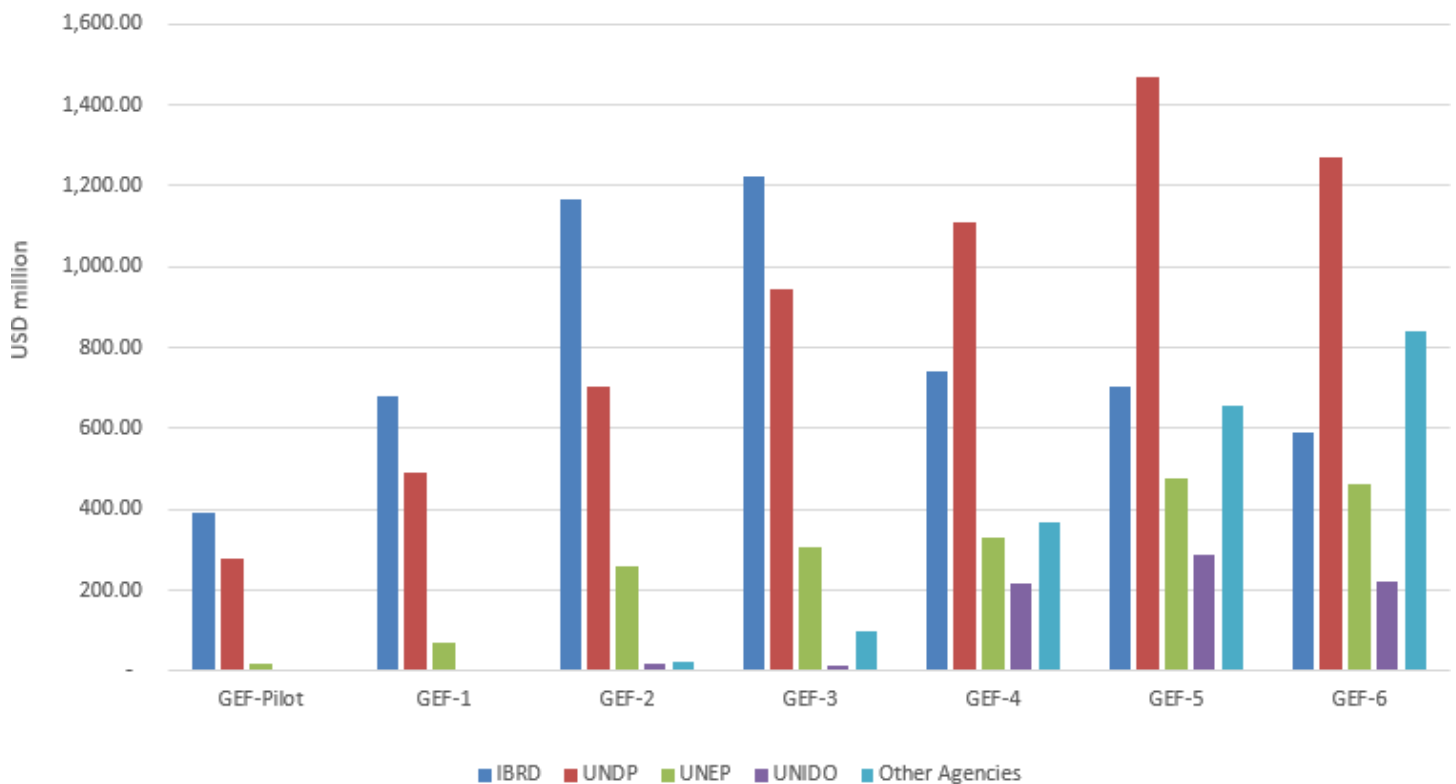
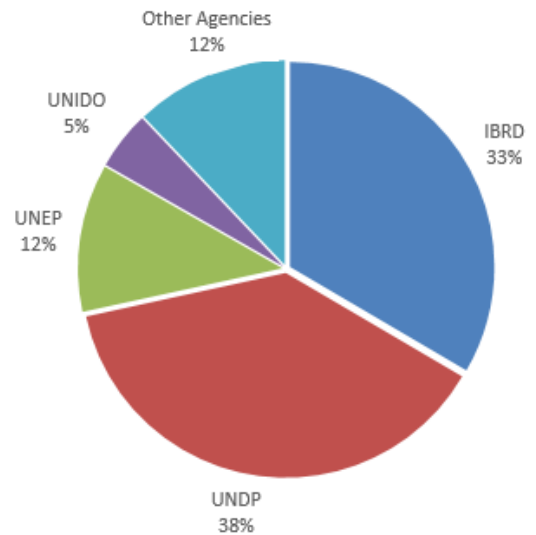


### FUNDING DECISIONS BY AGENCY FOR PROJECTS

Since inception to March 31, 2018, the majority (71%) of all project approvals after cancellations were for implementation by IBRD and UNDP. Implementation by UNEP and UNIDO stood at 12% and 5% of funding 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 increased from 40% to 41%, and UNEP’s share increased from 3% to 13%. The share of other Agencies increased from 1% in GEF-2 to 18% in GEF-5. These changes over time are shown in the chart below.

Looking at GEF-6 in isolation as of March 31, 2018, UNDP continues to be the implementing agency with the largest share (38%) of funding decisions followed by IBRD at 17% and UNEP and UNIDO at 14% and 7%, respectively

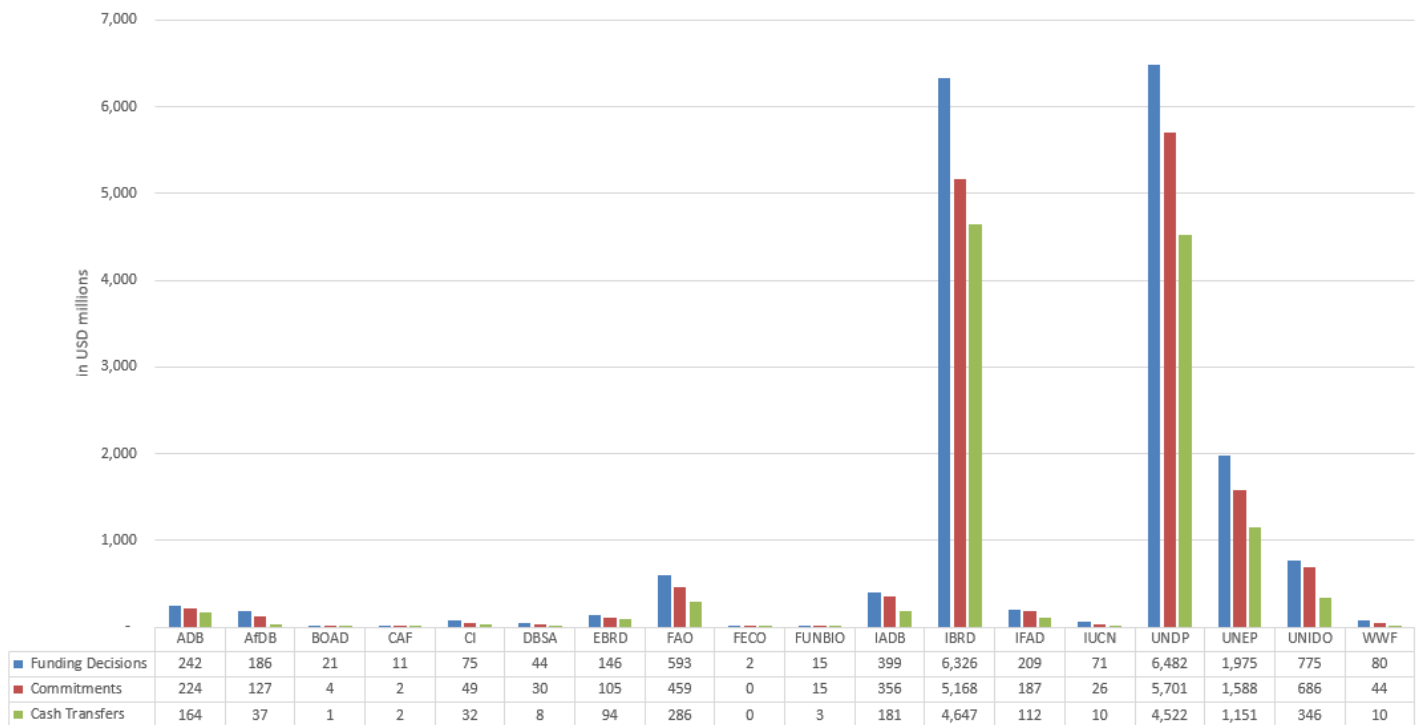




## FUNDING DECISIONS, TRUSTEE COMMITMENTS AND CASH TRANSFERS TO AGENCIES

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

As of March 31, 2018, cumulative funding decisions (gross)<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 17,650<sup>8</sup> million. Of this amount, USD 14,773 million had been committed following the approval or endorsement by the GEF CEO. At the request of Agencies, a total amount of USD 11,607 million had been transferred.



<sup>7</sup> Reflects initial Council and CEO approvals prior to drops and subsequent cancellations.

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





### 3. Funding Availability

In USD millions

	As of Mar 31, 2018 (a)	As of Dec 31, 2017 (b)	Change (a) - (b)
<b>1. Funds Held In Trust</b>	<b>4,877</b>	<b>4,987</b>	<b>(110)</b>
a. Cash and investments	3,419	3,459	(40)
b. Unencashed promissory notes	1,458	1,528	(70)
<b>2. Restricted Funds</b>	<b>291</b>	<b>150</b>	<b>141</b>
a. Deferred Contribution in respect to the pro rata right a/	141	-	141
b. Reserve to cover foreign exchange rate fluctuations	150	150	-
<b>3. Funds Held in Trust with no Restrictions ( 3 = 1 - 2 )</b>	<b>4,586</b>	<b>4,837</b>	<b>(251)</b>
<b>4. Approved Amounts Pending Cash Transfers to Agencies</b>	<b>4,676</b>	<b>4,822</b>	<b>(146)</b>
a. Trustee committed	3,173	3,074	99
b. Approved by Council but not yet CEO Endorsed	1,491	1,736	(245)
c. Requested amounts for financing pending decision	12	12	-
<b>5. Funds Available to Support Council or CEO Decisions ( 5 = 3 - 4 )</b>	<b>(91)<sup>b/</sup></b>	<b>15</b>	<b>(105)</b>

a/ In March 2018, Japan deferred its 4th installment to the GEF-6 amounting to USDeq. 141 million.

b/ Negative due to a contributing participant exercising deferral rights

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

#### Highlights for the period January 1, 2018 through March 31, 2018:

- **Funds Available to support Council or CEO Decisions** decreased by USDeq. 105 million over the prior reporting period as a result of:
  - A net decrease in **Funds Held in Trust** by USD eq. 110 million driven by cash transfers;
  - Increase in **Restricted Funds** by USD 141 million due to deferral of contribution by Japan;
  - Offset by a net decrease in **Approved Amounts Pending Cash Transfers to Agencies** by USD 146 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>125</b>
Estimated Funds Available to Support Council or CEO Financing Decisions			-91
	Potential Amount Available	of which Projected to be Available	
Receivables			216
Arrears b/	137	-	
Installments past due c/	28	28	
Installments due in FY18 b/ i/	327	188	
Installments due in FY19 i/	6	-	
Release of Restricted Contributions			
Deferred Contributions d/ i/	141	-	0
IoCs not yet Deposited with the Trustee i/			0
GEF-6 e/	31	-	
Previous Replenishments f/	24	-	
Projected Investment Income	-	- g/	-
<b>Total</b>	<b>694</b>	<b>216</b>	
<b>3. GEF-6 Specific Funding Decisions</b>			<b>3,371</b>
Approvals by Council			3,089
Projects and Fees		2,033	
Admin. Budget		97	
Special Initiatives		-	
Programmatic Initiatives		959	
Approvals by CEO			294
Projects and Fees (MSPs, EEAs)		234	
Project Preparation Activities and Fees		60	
Net Changes to Initial Approvals h/			(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 March 31, 2018 (4 = 2 + 3)</b>			<b>3,496</b>
<b>5 Funding expected to be carried forward from GEF-6 to GEF-7 i/</b>			<b>488</b>
<b>6. Changes in funding envelope (USDeq.) in GEF-6 period ( 6 = 5 + 4 - 1)</b>			<b>(449)</b>
<p>a/ Represents the target replenishment level as agreed, including new resources from Donors, projected investment income, and carryover of amounts from previous replenishments.</p> <p>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, and 4th Installment from the US for GEF-6 in the amount of USD 139.6 million which may not become available for programming in GEF-6.</p> <p>c/ The Trustee and Norway are negotiating the payment arrangements for Norway's 2nd, 3rd and 4th installments.</p> <p>d/ In March 2018, Japan deferred its 4th installment to the GEF-6 amounting to JPY 15 billion. This may not become available for programming in GEF-6.</p> <p>e/ Represents GEF-6 IoCs not received by the Trustee as of March 31, 2018.</p> <p>f/ GEF-5 IoCs not received from Greece, Nigeria, Pakistan and Portugal and GEF-4 IoC not received from Nigeria.</p> <p>g/ The investment income over the GEF 6 period thus far is USD 160 million, which is more than the projected amount of USD 134 million.</p> <p>h/ To fit the GEF Secretariat's STAR model, pre-GEF-6 project net changes were excluded from the calculation.</p> <p>i/ Includes contribution arrears, GEF-6 installments that may not become available for programming before June 30, 2018, Deferred Contributions, IoCs not yet deposited with the Trustee and any funds unprogrammed at the end of GEF-6 period.</p>			

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



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**Highlights as of March 31, 2018:**

- 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.
- *Projected Available Resources* through the end of the GEF-6 period amount to USD 3,496 million.
- Projected resources in the amount of USD 216 million is based on installments received and will become available for programming during the remaining GEF-6 period.
- USD 125 million is projected to be available for programming after offsetting the current negative funding availability of USD 91 million.
- *GEF-6 Funding Decisions* amount to USD 3,371 million.
- *Funds expected to be carried forward* from GEF-6 to GEF-7 amount to USD 488 million, which include Contribution Arrears from previous replenishments, GEF-6 contribution receivables that may not become available for programming in GEF-6, Deferred Contributions restricted for programming, and IoCs not yet deposited with the Trustee. Receipts resulting from shifting payment schedule of anticipated contributions subsequent to finalization of work program are carried forward to GEF-7. In addition, internal resources from potential cancellation of pre GEF-5 projects and reflows from Non-grant instruments are expected to become available during GEF-7 period, resulting in a total carry forward and internal resources of USD 573 million for GEF-7.
- *The estimated changes to the GEF-6 Envelope Value* as measured against the Target Replenishment totals USD 449 million (shortfall) due to the revaluation of GEF-6 contributions, receivables and unencashed promissory notes. The change is 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 March 31, 2018. The magnitude of this estimated shortfall is continually shifting with changes in the value of the US dollar against all other major currencies.



## 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 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.

During the second GEF-7 replenishment meeting in Addis Ababa in October 2017, the Trustee presented options to manage FX risk, including the option of hedging and the option to introduce a second operating currency. Following the meeting, the Trustee explored the option of a second operating currency and worked with GEF agencies to determine their demand for EUR. All GEF agencies expressed little or no demand for EUR, with approximately 96% of cumulative funding allocations expected to be disbursed in USD<sup>9</sup>. In addition, a second operating currency would likely involve an increase in administrative costs, complex implementation, and have a negative impact on investment returns. As such, based on the Trustee's analysis, the GEF-7 participants agreed with the recommendation that this option not be explored any further.

During the third GEF-7 replenishment meeting in Brasilia in January 2018, the Trustee presented further detail on the option of hedging for the GEF Trust Fund as part of the trust fund Pool, including a proposed FX risk management framework, hedging costs and collateral requirements. GEF-7 Participants had differing views on the hedging proposal presented and, on balance, expressed a preference to defer the decision to a later date. Hence the option of hedging will not be pursued any further at this stage. The Trustee will continue holding an FX reserve to address FX risk in GEF-7.

<sup>9</sup> Based on GEF cumulative funding allocations.