

53rd GEF Council Meeting
November 28-30, 2017
Washington, DC

GEF TRUST FUND FINANCIAL REPORT

*Summary of Financial Information
As of September 30, 2017*

(Prepared by the Trustee)



Global Environment Facility Trust Fund

Financial Report

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Introduction

The information contained in this report is prepared based on financial information as of September 30, 2017.

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

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

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

This report provides (i) a snapshot of the financial situation of the GEF Trust Fund since its inception to September 30, 2017, and some of the recent developments since the previous report; (ii) the details of financial activities of the GEF Trust Fund; (iii) the status of implementation of the GEF-6 Replenishment; and (iv) update on financial reserve and foreign exchange risk .



GEF Trust Fund Financial Summary as of September 30, 2017

Pledges and Contributions

GEF Contributing Participants have pledged SDR 11,582 million (USDeq. 16,606 million)¹ 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)², 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 September 30, 2017, cumulative investment income earned on the GEF Trust Fund balances amounts to USD 1,309 million. An investment income of USDeq. 134 million is projected to be earned over the GEF-6 period. Thus far in GEF-6, USD 141 million has been earned.

Funding Approvals and Commitments

As of September 30, 2017, cumulative funding decisions (approvals by the GEF Council/CEO) amount to USD 16,422 million net of USD 1,242 million in cancellations and reductions at endorsement, and USD 12 million pending decisions of intersessional and Council meetings. The GEF-6 funding decisions from April 1, 2017 to September 30, 2017 amount to USD 370 million.

Of the total funding decision amount of USD 16,422 million, cumulative commitments amount to USD 15,106 million.

Cash Transfers

Cash transfers were made on an as-needed basis to meet projected disbursement requirements. As of September 30, 2017, out of the cumulative commitment of USD 15,106 million (including administrative expenses and funding allocations to the GEF Secretariat), the Trustee has transferred USD 11,916 million. A balance of USD 3,190 million remains payable as of September 30, 2017.

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

Funds Held in Trust reflect financial activities related to new donor payments (cash and promissory notes), encashment of promissory notes, investment income, cash transfers, and the revaluation of the balance of promissory notes at month-end. As of September 30, 2017, Funds Held in Trust including the reserve amount of USD 150 million, total USD 4,861 million, 26% of which represents unencashed promissory notes.

Funding availability to support Council or CEO decision amounts to USD 183 million as of September 30, 2017. This represents a net increase of USD 26 million compared to March 31, 2017.

¹ Does not include co-financing under the GEF Pilot Program.

² Valued based on GEF-6 agreed exchange rates.



1. GEF Trust Fund Summary – Inception through September 30, 2017

	Total (in SDR millions)
<u>Donor Pledges and Contributions (in SDR millions)</u>	
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
Total Donor Pledges and Contributions (in SDR millions)	11,581.95

	Total (in USD millions)
<u>Cumulative Resources (in USD millions)</u>	
<u>Resources received</u>	
Cash Receipts	14,247.58
Unencashed promissory notes	1,262.98
Investment Income earned	1,309.23
Total Resources Received	16,819.79
<u>Resources not yet received</u>	
GEF-6 IoCs not yet deposited	30.89
GEF-5 IoCs not yet deposited	18.24
GEF-4 IoCs not yet deposited	5.65
Installments Receivable from GEF-6	744.88
Installment Receivables from previous replenishments	136.66
Total resources not yet received	936.33
Total Cumulative Resources (A) (in USD millions)	17,756.12

<u>Cumulative Funding Decisions (in USD millions)</u>	
Approvals by Council and CEO	17,651.38
Cancellations and reductions at endorsement	(1,241.76)
Pending Decisions of Intersessional and Council Meetings	12.19
Total Funding Decisions Net of Cancellations (B) (in USD millions)	16,421.81
Cumulative Resources Net of Funding Decisions (A) - (B) (in USD millions)	1,334.30

<u>Funds Available (in USD millions)</u>	
Funds Held in Trust with no restrictions	4,711.00
Approved Amounts Pending Cash Transfers to Agencies	4,528.27
Total Funds Available to Support Council or CEO Decisions (in USD millions)	182.73 ^{a/}

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

Note: Totals may not add up accurately due to rounding



2. Cumulative Resources and Funding Decisions

In USD millions

	<u>September 30, 2017</u>	<u>March 31, 2017</u>
1. Cumulative Resources	17,756	17,510
<u>Resources not yet received</u>	<u>936</u>	<u>1,143</u>
GEF-6 IoCs not yet deposited with the Trustee	31	31
GEF-5 IoCs not yet deposited with the Trustee	18	17
GEF-4 IoCs not yet deposited with the Trustee	6	5
Installment Receivables from GEF-6	745	953
Installment Receivables from previous replenishments	137	137
<u>Resources received</u>	<u>16,820</u>	<u>16,366</u>
Cash receipts from installments and encashments	14,248	13,769
Unencashed promissory notes	1,263	1,326
Investment Income earned on undisbursed balances of GEF Trust Fund	1,309	1,271
2. Cumulative Funding Decisions	16,422	16,093
Approvals by Council and CEO	17,651	17,281
Cancellations	(1,242)	(1,201)
Pending decisions of Intersessional and Council Meetings	12	12
3. Cumulative Resources Net of Funding Decisions (3 = 1 - 2)	<u>1,334</u>	<u>1,417</u>

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. 17,756 million, USDeq. 936 million (5%) represents resources not yet received. Of these, IoCs not yet deposited with the Trustee total USDeq. 55 million, GEF-6 installments receivables amount to USDeq. 745 million, and installment receivables from previous replenishments amount to USDeq. 137 million.
- Cumulative net funding decisions amounting to USDeq. 16,422 million representing about 92.5% of the total cumulative GEF resources.
- As of September 30, 2017, cumulative resources net of funding decisions amount to USDeq. 1,334 million.



2a. Cumulative Resources

Instruments of Commitment to be Deposited					
Status as of September 30, 2017					
(in USDeq. millions)					
Contributing Participant	Replenishment	Currency of Obligation	Amount in Currency of Obligation	USDeq.	Percentage
Nigeria	GEF-4	SDR	4.0	5.7	100.0%
Total GEF-4 IoCs Not Yet Deposited				5.7	100.0%
Greece	GEF-5	EUR	4.4	5.2	28.7%
Nigeria	GEF-5	NGN	921.9	3.0	16.5%
Pakistan	GEF-5	PKR	499.6	4.7	26.0%
Portugal	GEF-5	EUR	4.4	5.2	28.7%
Total GEF-5 IoCs Not Yet Deposited				18.2	100.0%
Brazil <i>a/</i>	GEF-6	USD	15.9	15.9	51.4%
Russian Federation	GEF-6	USD	15.0	15.0	48.6%
Total GEF-6 IoCs Not Yet Deposited				30.9	100.0%
Total GEF-4, GEF-5 and GEF-6 IoCs Not Yet Deposited				54.8	

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

- As of September 30, 2017, IoCs to be deposited with the Trustee amount to USDeq. 54.8 million.
- Of this amount, USDeq. 30.9 million represents GEF-6 IoCs, USDeq. 18.2 million represents GEF-5 IoCs, and USDeq. 5.7 million represents GEF-4 IoCs.
- Austria has deposited its IoC for GEF-6 which is lower by EUR 248,000 compared to its GEF-6 pledge of EUR 50.53 million.

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

As of September 30, 2017, the following Contributing Participants have deposited QIoCs with the Trustee and are making payment arrangements in accordance with a payment schedule agreed with the Trustee.

Contributing Participant	USD Eq. (millions) <i>a/</i>
Canada	21.69
Finland	14.40
Netherlands	24.48
Norway	13.57
Spain	11.81
United States	171.85
Total	257.80

a/ Based on exchange rates as of September 30, 2017.



INSTALLMENT ARREARS BY REPLENISHMENT

As of September 30, 2017, installment arrears under IoCs and QIoCs deposited with the Trustee amounted to USDeq. 136.7 million, representing arrears under GEF-1, GEF-2 and GEF-3.

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

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 September 30, 2017, restricted resources amounted to USD 150 million for financial reserves. Approximately 70% of total GEF-6 resources i.e., installment receivables, unencashed notes balances and IOCs not yet deposited are in non-USD currencies. The significant strengthening of the US dollar against all major currencies over the past year would negatively impact the estimated value of cash available for making the payments against the approved funding decisions. The Trustee closely monitors the currency exchange rate movement and determines adequate reserve³ levels. The Trustee is currently evaluating measures to address the financial risk to the GEF arising out of exchange rate movements.

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



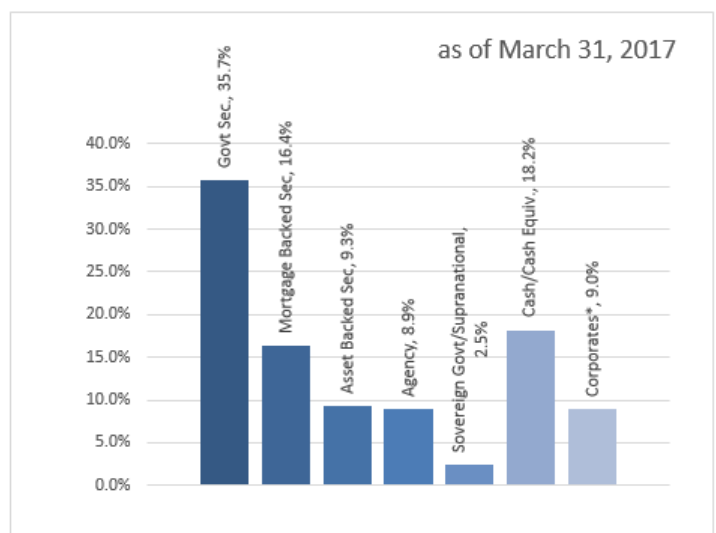
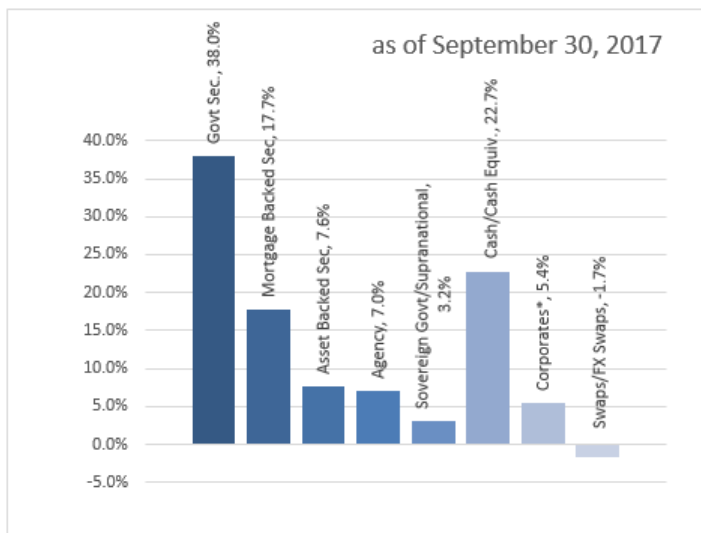
2b. Asset Mix and Investment Income

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 framework⁴. 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’⁵ 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, cash and cash equivalents, and mortgage backed securities⁶.



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

⁴ 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.

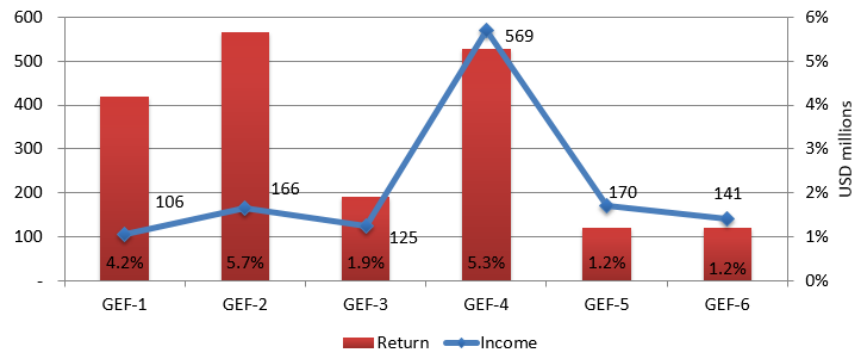
⁵ Mark-to-market returns or losses represent unrealized returns or losses reported via accounting entries rather than the actual sale of a security.

⁶ The negative position in swaps as of September 30, 2017 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.



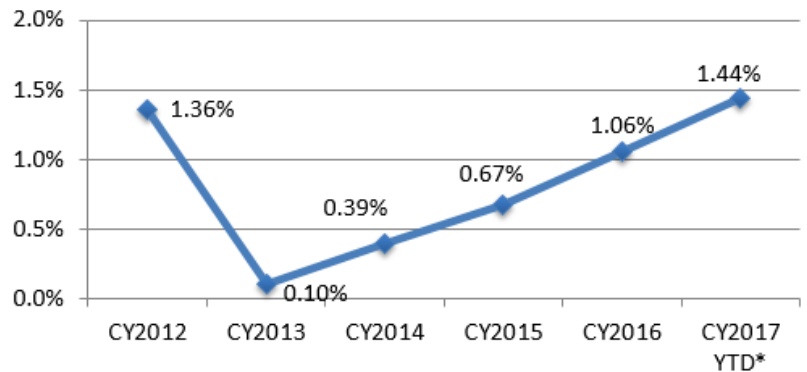
INVESTMENT INCOME

Cumulative investment income earned since the beginning of GEF Pilot phase is USD 1,309 million. Since the beginning of the GEF-6 replenishment period (July 30, 2014 to September 30, 2017), USD 141 million has been earned.



INVESTMENT RETURNS

GEF Trust Fund investment returns remained modest for calendar year 2016 with a cumulative return of 1.06%. In the first nine months of 2017, investment return was 1.44%. 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

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

The World Bank is committed to working with clients to implement responsible investment strategies and policies that align with its overarching fiduciary mandate. As such, the World Bank's Treasury has been examining several aspects of ESG Integration within the World Bank's investment process, with a focus on making sure any implementation is done in a sustainable, efficient and scalable way. The World Bank has been consulting with industry experts, other MDBs and large asset managers to develop a coherent approach to ESG investments, and is in the process of harmonizing an approach across the World Bank Group. This approach would involve establishing a responsible investment policy that:

- a) Formalizes existing and rigorous due diligence and risk management processes that take account of some Environmental, Social and Corporate Governance (ESG) related factors, and expands on a more comprehensive and consistent consideration of these factors through ESG integration; and
- b) Meaningfully introduces ESG approaches to investment portfolio options in order to enhance alignment with clients' needs and institutional policies with regard to responsible investment of their funds.

ESG integration has historically been primarily applied to the field of equity investing and its introduction into the fixed income space is still nascent and evolving. The World Bank is continuously monitoring ongoing developments in this area to see how the metrics available, despite being in their infancy, can be meaningfully and practically applied to the World Bank's investment portfolio. To that end, the World Bank recently announced a partnership with the Government Pension Investment Fund (GPIF), the world's largest pension fund, focused on developing a joint research program to explore practical solutions for integrating sustainability considerations into fixed income portfolios.

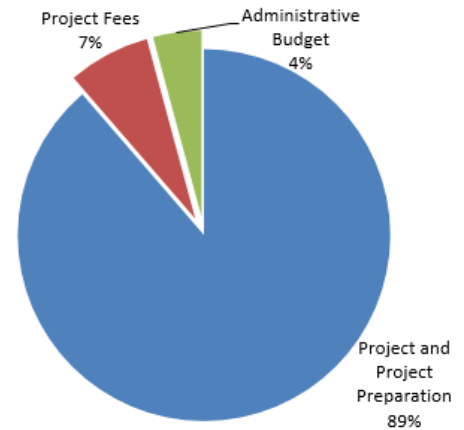
The Trustee is committed to working with the GEF to implement a responsible investing strategy that aligns with its overall mandate, and will provide an update on the progress at the third GEF-7 Replenishment Meeting in January 2018, and to the GEF Council in June 2018.



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

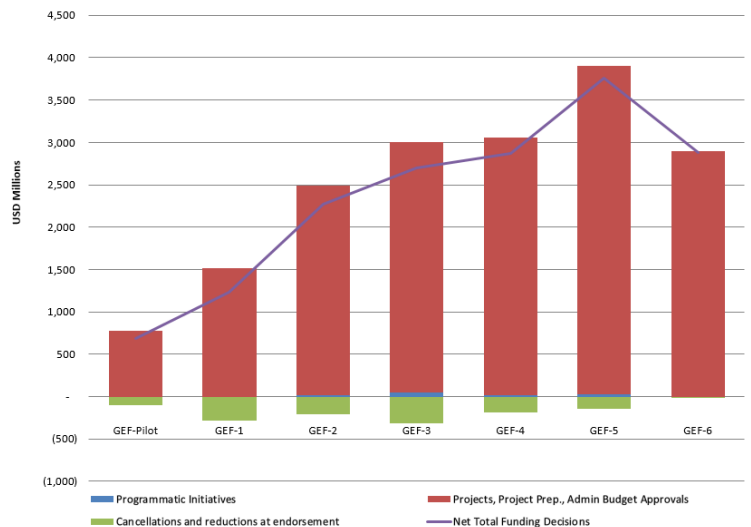
CUMULATIVE FUNDING DECISIONS

Since inception to September 30, 2017 funding approvals made by the Council and CEO total USD 17,651 million, of which 89% was approved for Projects and Project Preparation activities, 7% for Agency Fees and 4% for Administrative budgets.



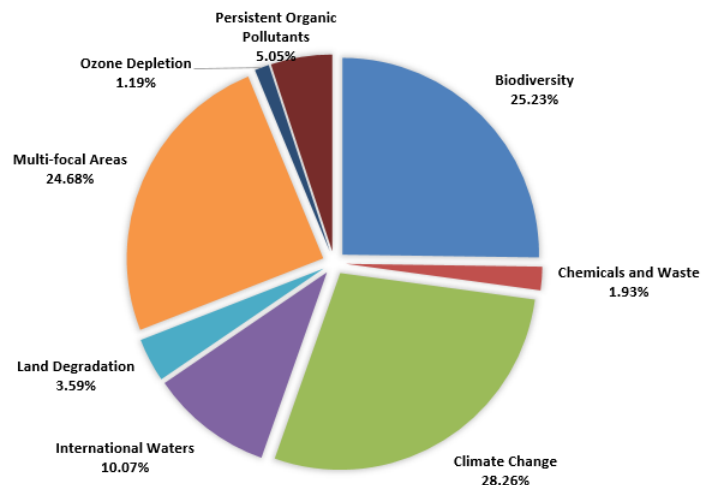
FUNDING DECISIONS BY REPLENISHMENT

Funding decisions by replenishment show the cumulative Project/Program funding decisions of USD 16,422 million net of cancellations and reductions at endorsement, and excluding pending decisions on intersessional and Council meetings. Cumulative funding cancellations and reductions at endorsement totaled USD 1,242 million.



FUNDING DECISIONS BY FOCAL AREA FOR PROJECTS

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



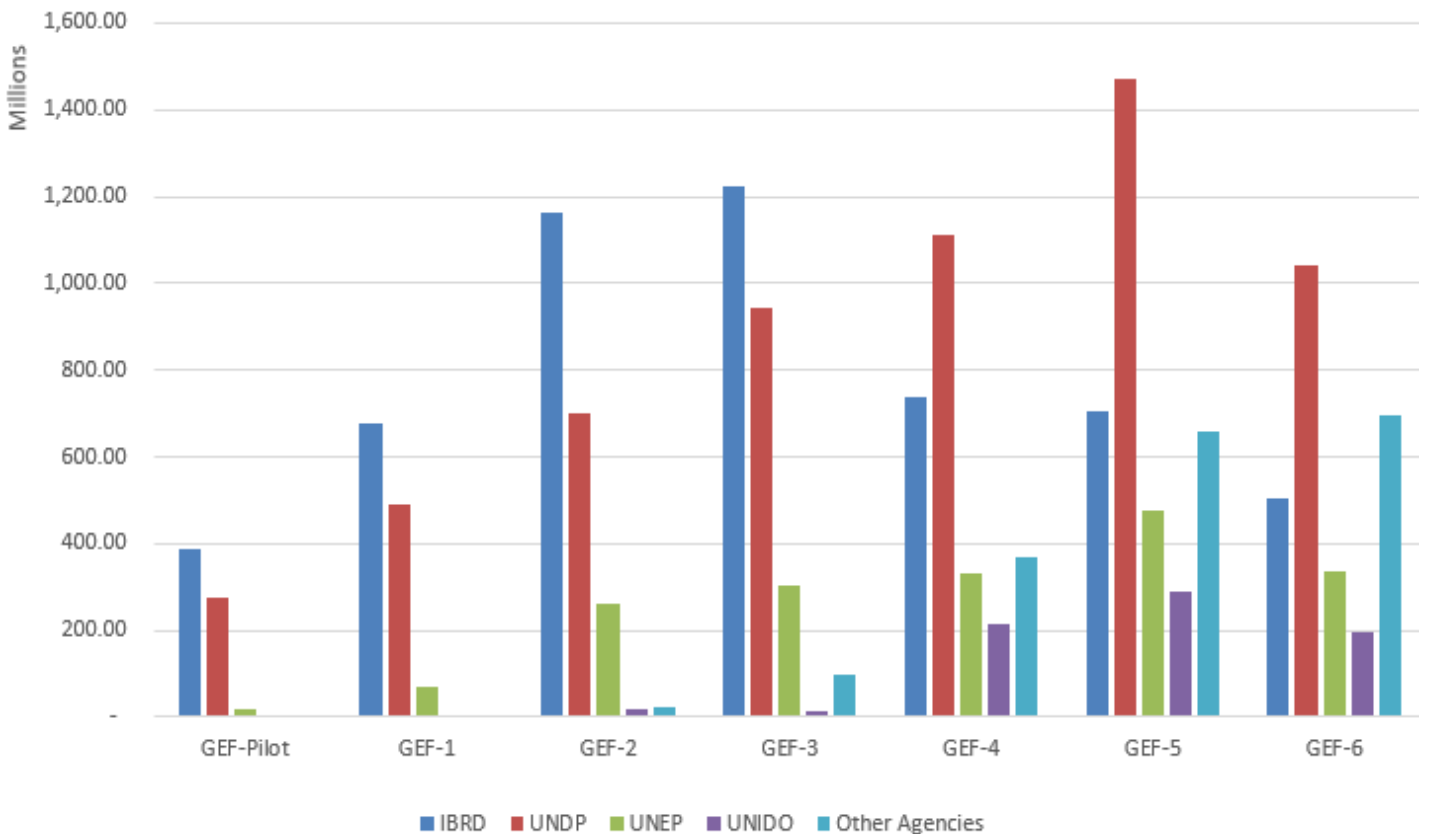
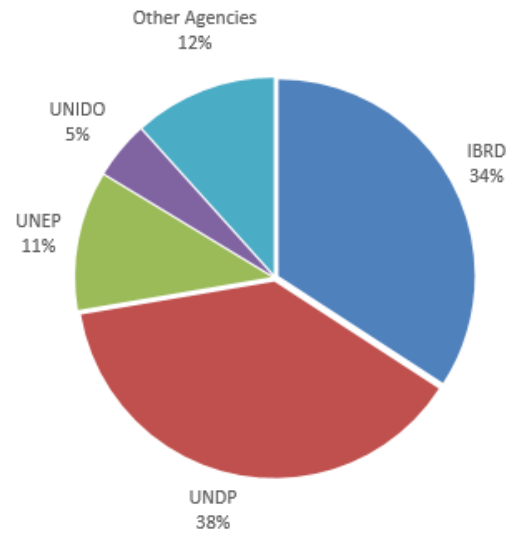


FUNDING DECISIONS BY AGENCY FOR PROJECTS

Since inception to September 30, 2017, the majority (72%) of all project approvals after cancellations were for implementation by IBRD and UNDP. Implementation by UNEP and UNIDO stood at 11% and 5% of funding respectively, while the remaining Agencies implemented 11% 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 September 30, 2017, UNDP continues to be the implementing agency with the largest share (38%) of funding decisions followed by IBRD at 18% and UNEP and UNIDO at 12% and 7%, respectively

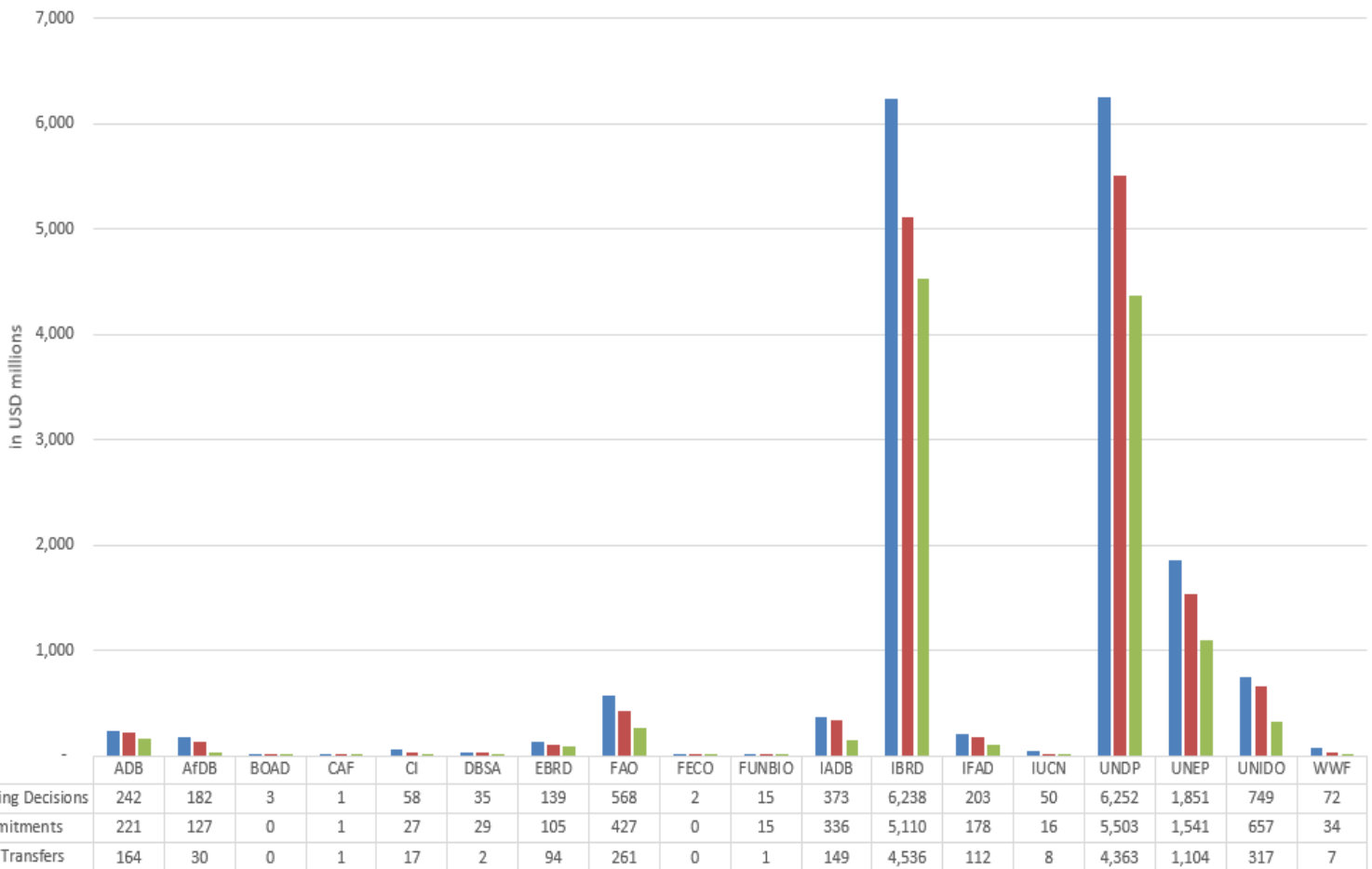




FUNDING DECISIONS, TRUSTEE COMMITMENTS AND CASH TRANSFERS TO AGENCIES

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

As of September 30, 2017, cumulative funding decisions (gross)⁷ to Agencies comprising of Projects, Project Preparation Grants, and Agency Fees excluding administrative expenses and funding allocations to the GEF secretariat totaled USD 17,033⁸ million. Of this amount, USD 14,328 million had been committed following the approval or endorsement by the GEF CEO. At the request of Agencies, a total amount of USD 11,165 million had been transferred.



⁷ Reflects initial Council and CEO approvals prior to drops and subsequent cancellations.

⁸ Excludes the program/umbrella balances.



3. Funding Availability

In USD millions

	As of Sep 30, 2017 (a)	As of Mar 31, 2017 (b)	Change (a) - (b)
1. Funds Held In Trust	4,861	4,888	(27)
a. Cash and investments	3,598	3,562	36
b. Unencashed promissory notes	1,263	1,326	(63)
2. Restricted Funds	150	150	-
a. Deferred Contribution in respect to the pro rata right	-	-	-
b. Reserve to cover foreign exchange rate fluctuations	150	150	-
3. Funds Held in Trust with no Restrictions (3 = 1 - 2)	4,711	4,738	(27)
4. Approved Amounts Pending Cash Transfers to Agencies	4,528	4,581	(53)
a. Trustee committed	3,190	2,807	383
b. Approved by Council but not yet CEO Endorsed	1,326	1,762	(436)
c. Requested amounts for financing pending decision	12	12	-
5. Funds Available to Support Council or CEO Decisions (5 = 3 - 4)	183	157	26

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

Highlights for the period April 1, 2017 through September 30, 2017:

- **Funds Available to support Council or CEO Decisions** increased by USDeq. 26 million over the prior reporting period as a result of:
 - An decrease in **Funds Held in Trust** by USD eq. 27 million resulting from:
 - Increase in cash and investments receipts which was surpassed by
 - Decrease in the values of promissory note balances and deposits of new promissory notes.
 - Offset by a decrease in **Approved Amounts Pending Cash Transfers to Agencies** by USD 53 million.



4. GEF-6 Specific Funding Decisions

In USD millions

1. Target Replenishment Funding a/			4,433
2. Projected Available Resources during the GEF-6 Period			1,119
Estimated Funds Available to Support Council or CEO Financing Decisions			183
	Potential Amount Available	of which Projected to be Available	
Receivables			882
Arrears b/	137	137	
Installments past due c/	27	27	
Installments due in FY18	712	712	
Installments due in FY19	5	5	
IoCs not yet Deposited with the Trustee			55
GEF-6 d/	31	31	
Previous Replenishments e/	24	24	
Projected Investment Income	-	- f/	-
Total	936	936	
3. GEF-6 Specific Funding Decisions			2,777
Approvals by Council			2,547
Projects and Fees		1,505	
Admin. Budget		97	
Special Initiatives		-	
Programmatic Initiatives		946	
Approvals by CEO			242
Projects and Fees (MSPs, EEAs)		195	
Project Preparation Activities and Fees		46	
Net Changes to Initial Approvals g/			(12)
Reductions (cancellations) on GEF-6		(12)	
Pending decisions on Intersessional and Council meetings			-
Projects, Fees, Admin Budget, Special Initiatives, Programmatic Initiatives		-	
4. GEF-6 "Envelope" as of September 30, 2017 (4 = 2 + 3)			3,896
5. Changes in the funding envelope due to currency changes in the GEF-6 period (5 = 4 - 1)			(537)
<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.</p> <p>c/ Trustee and Norway are negotiating the payment arrangements for Norway's 2nd and 3rd installments.</p> <p>d/ Represents GEF-6 IoCs not received by the Trustee as of September 30, 2017.</p> <p>e/ GEF-5 IOCs not received from Greece, Nigeria, Pakistan and Portugal and GEF-4 IoC not received from Nigeria.</p> <p>f/ The investment income in the GEF 6 period is USD 141 million, which is more than the projected amount of USD 134 million.</p> <p>g/ To fit the GEF Secretariat's STAR model, pre-GEF-6 project net changes were excluded from the calculation.</p>			

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



Highlights as of September 30, 2017:

- **Projected Available Resources** through the end of the GEF-6 period amount to USD 3,896 million.
- The value of projected resources to be available is based on the following assumptions:
 - Arrears from previous replenishments are paid;
 - All GEF-6 IoCs are received and paid in full during the remaining GEF-6 period.
- **GEF-6 Funding Decisions** amounted to USD 2,777 million.
- The **Target Replenishment Funding** amount represents the targeted new resources as agreed by Contributing Participants during replenishment discussions; it includes the carryover of arrears, deferred contributions, and paid-in funds not yet set aside.
- **The estimated changes to the GEF-6 Envelope Value** as measured against the Target Replenishment totals USD 537 million due to the revaluation of contribution receivables, unencashed promissory notes and the IoCs yet to be deposited with the Trustee. 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 September 30, 2017. The magnitude of this estimated shortfall is continually shifting with changes in the value of the US dollar against all other major currencies. As of September 30, 2017 for instance, the shortfall stood at USD 537 million while it was USD 677 million as of March 31, 2017.
- In order to provide a sense of the impact that a change in the US dollar has on the Envelope Value of GEF-6, the following two scenarios⁹ are included below: (i) Scenario A - a 5% *appreciation in the USD*, and (ii) Scenario B - a 5% *depreciation in the USD* versus all other currencies between September 30, 2017 and the end of the GEF-6 replenishment period. The analysis shows that if the USD appreciates by a further 5% from current levels, the shortfall at the end of GEF-6 will be approximately USD 623 million, and if the USD depreciates by 5% from current levels, the shortfall will be approximately USD 441 million. These scenarios are presented for information purposes only and do not in any manner reflect the Trustee's view of the foreign exchange rate movements going forward.

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



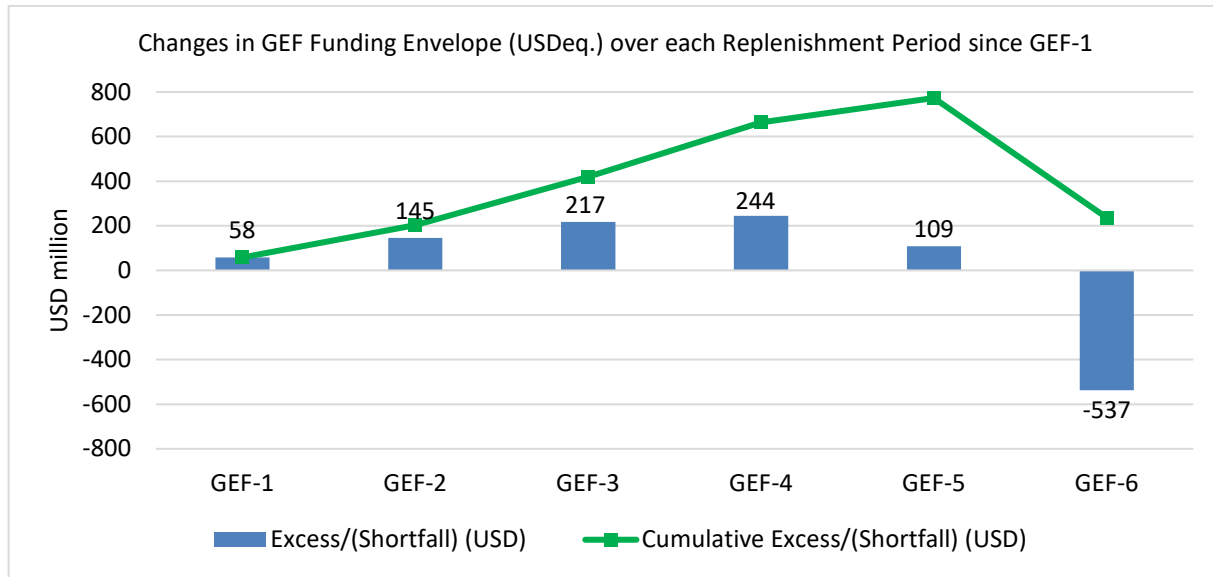
Scenario Analysis of changes in GEF-6 Funding Envelope due to Changes in Foreign Exchange Rates					
Status as of September 30, 2017					
(in USDeq. millions)					
			<i>Scenario A: 5% USD appreciation from 30 Sep 2017</i>		
			<i>Scenario B: 5% USD depreciation from 30 Sep 2017</i>		
1. Target Replenishment Funding			4,433		4,433
2. Projected Available Resources during the GEF-6 Period			1,033		1,215
<u>Estimated Funds available to support Council or CEO Financing Decisions</u>		123			249
	Potential Amount Available	of which Projected to be Available		Potential Amount Available	of which Projected to be Available
<u>Receivables</u>		856			909
- Arrears	137	137		137	137
- Installments due	720	720		773	773
<u>IoCs not yet Deposited with the Trustee</u>		54			56
GEF-6	31	31		31	31
Previous Replenishments	23	23		25	25
<u>Projected Investment Income</u>	-	-	-	-	-
<u>Total</u>	910	910		965	965
3. GEF-6 Specific Funding Decisions			2,777		2,777
<u>Approvals by Council</u>		2,547			2,547
- Projects + Fees		1,505		1,505	
- Admin. Budget		97		97	
- Special Initiatives		-		-	
- Programmatic Initiatives		946		946	
<u>Approvals by CEO</u>		242			242
- Projects + Fees (MSPs, EEAs)		195		195	
- Project Preparation Activities + Fees		46		46	
<u>Net Changes to Initial Approvals</u>		(12)			(12)
- Reductions (cancellations) on GEF-6 projects, Administrative Budget and Special Initiatives		(12)		(12)	
4. GEF-6 "Envelope" as of September 30, 2017 (4 = 2 + 3)			3,810		3,992
5. Changes in funding envelope in GEF-6 period (5 = 4 - 1)			(623)		(441)

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

- Looking back over previous replenishments, the change in the GEF's funding envelope in USD terms from the start to the end of a replenishment was positive in the first five replenishments. Since the beginning of GEF-6, there has been a steep and prolonged appreciation of the USD against most other currencies. If this trend continues, the projected funding envelope in USD terms could be smaller than the target replenishment level for GEF-6. Since inception to September 30, 2017, the change in GEF funding envelope from the start to the end of the



replenishment has been positive, resulting in a net gain of USD 236 million. The changes in funding envelope in USD terms from the start to the end of each replenishment since GEF-1 are shown in the chart below.



5. Update on Financial Reserve and Foreign Exchange Risk

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

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. Participants requested the Trustee to further explore the option of employing a second operating currency (EUR and SDR) and present a comparative analysis between this option and that of hedging as part of the World Bank’s trust fund investment pool. The Trustee agreed to further develop the FX risk management framework including hedging costs and collateral requirement and present it for discussion at the 3rd GEF-7 replenishment meeting in January 2018. The Trustee remains committed to identifying the most appropriate and cost effective FX management solution for the GEF and will report to the GEF-7 Replenishment Participants on progress throughout the GEF-7 replenishment process.