



**Convention to Combat  
Desertification**

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**Conference of the Parties**

**Eleventh session**

Windhoek, Namibia, 16–27 September 2013

Item 9 (b) of the provisional agenda

**Programme and budget**

**Financial performance for the Convention trust funds**

**Unaudited financial statements for the Convention trust  
funds for the Global Mechanism for the biennium 2012–2013  
ended 31 December 2012**

**Note by the secretariat**

*Summary*

By its decision 10/COP.10, the Conference of the Parties (COP) requested the Executive Secretary to report to the COP at its eleventh session on the financial status of the Convention's trust funds.

This document contains the financial statements of the Global Mechanism of the United Nations Convention to Combat Desertification for the biennium 2012–2013 as at 31 December 2012.

## I. Background

1. This document presents the financial statements for the biennium 2012–2013 as at 31 December 2012 for the Global Mechanism (GM) of the United Nations Convention to Combat Desertification (UNCCD). In accordance with paragraph 21 of the “Financial rules for the Conference of the Parties to the United Nations Convention to Combat Desertification in those countries experiencing serious drought and/or desertification, particularly in Africa, its subsidiary bodies and the Convention secretariat”,<sup>1</sup> during the second year of the financial period the UNCCD shall provide the Parties with an interim statement of accounts for the first year of the financial period.

2. The International Fund for Agricultural Development (IFAD) prepared the financial statements contained in this document for the consideration of the Global Mechanism. However, in preparing the statements, IFAD included provisions in the amounts of (a) USD 645,533 for disputed invoices from the Food and Agriculture Organization of the United Nations (FAO) arising from activities claimed to have been undertaken by FAO on behalf of the GM between 2007 and 2009; and (b) USD 3,719,894 (Core Budget Administration Account) and USD 477,654 (Special Resources for the Convention to Combat Desertification Finance Account) for a total of USD 4,197,548 for financial liabilities linked to the appeals filed by current and former GM staff against IFAD.

3. The UNCCD responded to these draft financial statements highlighting that the GM was not a party to the court cases before the Administrative Tribunal of the International Labour Organization. In addition, the UNCCD was in consultation with FAO in regard to the outstanding invoices and their validity. Therefore, on both counts, the UNCCD could not agree to make such financial provisions in the financial statements.

4. On 5 July 2013, the secretariat received a letter from IFAD stating that it intended to withhold GM funds in the revised amount of USD 3,729,275 for legal cases involving GM staff and USD 645,533 for the FAO invoices and transfer them into an escrow account “pending full settlement of such underlying events”.

5. The UNCCD Executive Secretary and the President of the Bureau of the COP at its tenth session sent letters on this subject to the President of IFAD on 29 July and 13 September 2013. At the time of submission of this document, no response had been received from IFAD.

6. As the UNCCD does not agree with the information contained in the financial statements, they are being submitted to the Conference of the Parties unsigned by the UNCCD and unaudited.

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<sup>1</sup> Decision 2/COP.1.

**GLOBAL MECHANISM  
OF THE UN CONVENTION TO  
COMBAT DESERTIFICATION**

**Core Budget Administration Account**

**Financial Statements**

For the year ended 31 December 2012

- Appendix A** - Balance Sheet
  - Appendix B** - Statement of Comprehensive Income
  - Appendix C** - Statement of Changes in Retained Earnings
  - Appendix D** - Cash Flow Statement
  - Appendix E** - Notes to the Financial Statements
- Independent Auditor's Report
- Appendix F** - Statement of Resources Available for Commitment

## Appendix A

## Balance Sheet

As at 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Assets</b>			
Contributions receivable	3a	838 816	1 213 597
Provisions on Contributions Receivable	3a	(802 057)	(800 070)
Other receivables	4	2 952 836	1 958 088
<b>Total Assets</b>		<b>2 989 595</b>	<b>2 371 615</b>
<b>Liabilities and equity</b>			
Payables and liabilities	5 & 5a	6 964 285	2 542 492
Deferred contribution revenues	3a	(3 470 828)	254 270
Retained earnings		(503 863)	(425 147)
<b>Total Liabilities and equity</b>		<b>2 989 595</b>	<b>2 371 615</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

**Statement of Comprehensive Income****Appendix B**

For the years ending 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Revenues</b>			
Operational revenues		6 231 130	2 786 405
<b>Total Revenues</b>		<b>6 231 130</b>	<b>2 786 405</b>
<b>Operating Expenses</b>			
Staff salaries and benefits	6	(5 117 928)	(2 490 423)
Duty Travel		(33 693)	(37 065)
Consultants and other non-staff costs		(77 232)	(9 606)
Office and general expenses		(105 648)	(48 892)
Service charges		(185 570)	(196 413)
Institutional Contracts	5b	(709 070)	-
Provisions on receivables	3b	(1 987)	(4 007)
<b>Total Operating Expenses</b>		<b>(6 231 130)</b>	<b>(2 786 405)</b>
Actuarial gain/(loss) of the after-service medical scheme	5a	(203 233)	469 769
Impact of foreign exchange rate movements	7	124 517	(235 489)
<b>Total Comprehensive income /(loss)</b>		<b>(78 716)</b>	<b>234 280</b>
<b>Total Comprehensive Income / (loss)</b>		<b>(78 716)</b>	<b>234 280</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Appendix C

**Statement of changes in Retained Earnings**

For the years ended 31 December 2012 and 2011 (expressed in United States dollars)

	<b>Total Retained Earnings</b>
<b>Retained Earnings as at 1 January 2011</b>	<b>(659 427)</b>
2011 Total Comprehensive Income/(Losses)	<b>234 280</b>
<b>Retained Earnings as at 31 December 2011</b>	<b>(425 147)</b>
2012 Total Comprehensive Income/(Losses)	<b>(78 716)</b>
<b>Retained Earnings as at 31 December 2012</b>	<b>(503 863)</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

**Cash Flow Statement****Appendix D**

For the years ended 31 December 2012 and 2011 (expressed in United States dollars)

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Contributions to Core Budget Administration Account	2 880 813	2 633 246
Payments of operating and administrative expenses	(1 387 813)	(2 266 914)
Payments from / (to) other funds	(1 493 517)	(477 593)
Other income	517	111 221
<b>Net cash flows from operating activities</b>	<b>-</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>-</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Notes to the Financial Statements

### Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dryland areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building; establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and “matching” resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

In order to meet the requirements of individual donors, from 2000, separate financial statements have been prepared for the three accounts of the Global Mechanism, namely the Core Budget Administration Account (CBAA), which contains contributions from the UNCCD; the Voluntary Contributions Administrative Expenses Account (VCAE), which contains voluntary contributions from donors as well as Technical Assistance Grants (TAG) contributions from IFAD; and the Special Resources for CCD Finance account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

At its 10<sup>th</sup> session (2011), the Conference of the Parties of the UNCCD (COP), decided that the accountability and the legal representation of the GM shall be transferred from IFAD (the “Fund”) to the UNCCD secretariat with immediate effect and that the Executive Secretary of the UNCCD must ensure that all accounts and staff managed by the Global Mechanism are under one administrative regime administered by the United Nations Office at Geneva and managed under the Financial Regulations and Rules of the United Nations. Accordingly, IFAD is no longer authorised to undertake any actions with respect to the financial and human resources management of the GM except at the request and on behalf of the Executive Secretary of the UNCCD. The Executive Board of IFAD approved the revised Memorandum of Understanding signed between UNCCD and IFAD in 2012 which reflects the COP decision and a President’s Bulletin (PB/2012/01) was issued to revise the housing arrangements accordingly. Furthermore, the COP decision foresees the review by the COP of the housing of the GM. This, however, does not impact on the operation of the GM.

### Note 2: Summary of Significant Accounting and Related Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.



**(a) Basis of Preparation**

The Financial Statements of the Global Mechanism are prepared in accordance with International Financial Reporting Standards (IFRS). Revenues and expenses are recognised as they occur and reported in the period to which they relate. The excess of revenues over expenses is transferred to retained earnings.

**(b) Administrative and Operating Expenses, including Service Charge**

According to the President's Bulletin released on 14 February 2012 (PB/2012/01), the President's Bulletin - Accounts of the Global Mechanism (GM) of 4 October 1999 shall continue to apply to the three accounts held by the GM and PB 99/10 shall hereafter be interpreted and applied in accordance with the COP decision and measures agreed between the Executive Secretary of the UNCCD and the President of IFAD. The 1999 PB on the accounts of the GM, defines the use of funds in the following way: the CBAA is used for administrative costs of GM such as staff and office costs. It can also be used for operating costs directly relating to GM such as (a) employment of consultants to prepare action plans; (b) marketing functions of the GM; and (c) organisation of financing conferences.

In 2012, as has been the case previously, operating expenses have been financed from the contributions received from the UNCCD, as permitted by the terms of the related letter of agreement.

The service charge has been charged to the CBAA in accordance with IFAD's rules and regulations.

**(c) Donor Contributions**

Contributions are recorded in receivables and as resources available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received and interest earned thereon, where specified in the donor agreements, are recorded as revenue in the period in which the related expenditures occur. Contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

**(d) Translation and Conversion of Currencies**

The Global Mechanism conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars and in Euro. The Financial Statements are expressed in United States dollars solely for the purpose of summarising the financial position.

The Global Mechanism has translated all items in its Balance Sheet in currencies other than United States dollars at market rates of exchange ruling as at the balance sheet date.

Revenue and expense items in currencies other than the United States Dollar have been recorded at the rates of exchange ruling when the transaction occurred. The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States dollar are credited or charged to an exchange rate adjustment account and included in the Statement of Comprehensive Income.

**(e) Provisions**

Provisions are established when the Global Mechanism has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. From 2007, management started setting up provisions on receivable amounts due for non current biennium approved budgets. UNCCD confirmed the uncertainty for liquidation. Employee

entitlements to annual leave and service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service separation entitlements based on the length of service rendered by employees as at the balance sheet date.

**(f) Taxation**

Under the terms of the Headquarters Agreement between IFAD and the Government of Italy, exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to officials identified in the list sent by IFAD to the Government of Italy which includes a list of GM staff at the request of the UNCCD.

**(g) Resources available for commitment**

Resources available for commitment are those resources that have been contributed by UNCCD less related costs. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes. In practice, resources available may be defined as cash, amounts receivable from UNCCD less liabilities and balances owed to IFAD and other funds administered by IFAD.

It is expected that adequate resources will be made available by UNCCD to meet commitments before they are fully due.

**Note 3a: Statement of Contributions and Deferred Revenue**

<i>Donor</i>	<i>Approved budget (USD)</i>	<i>Received</i>	<i>Received in 2012</i>	<i>Receivable*</i>	<i>Recognised revenues</i>	<i>Recognised in 2012</i>	<i>Deferred revenues</i>
UNCCD 1999	986 974	986 974	-	-	725 686		261 288
UNCCD 2000	1 404 000	1 404 000	-	-	1 418 621		(14 621)
UNCCD 2001	1 458 000	1 386 946	-	-	1 499 141		(41 141)
UNCCD 2002	1 876 284	1 200 200	-	162 092	1 794 067		82 217
UNCCD 2003	1 930 284	1 570 000	-	360 284	2 152 115		(221 831)
UNCCD 2004	1 969 920	1 603 743	-	366 177	1 881 744		88 176
UNCCD 2005	2 027 160	2 701 000	-	(673 840)	1 842 062		185 098
UNCCD 2006	2 068 200	2 004 723	-	-	2 007 782		60 418
UNCCD 2007	2 128 680	1 589 950	-	288 477	2 528 284		(399 604)
UNCCD 2008	2 743 751	2 450 888	-	291 987	1 686 733		1 057 018
UNCCD 2009	2 655 905	2 635 825	-	4 893	3 113 290		(457 385)
UNCCD 2010	2 523 129	2 500 633		1 987	2 770 760		(246 790)
			21 350				
UNCCD 2011	2 688 674	2 297 643	354 272	36 759	2 786 405		(97 731)
UNCCD 2012**	2 505 191	2 505 191	2 505 191	-	6 231 130	6 231 130	(3 725 939)
<b>Balance at 31 December 2012</b>	<b>28 966 993</b>	<b>26 837 716</b>	<b>2 880 813</b>	<b>838 816</b>	<b>31 792 287</b>	<b>6 231 130</b>	<b>(3 470 828)</b>
<b>Balance at 31 December 2011</b>	<b>26 460 961</b>	<b>21 719 348</b>	<b>2 629 239</b>	<b>1 213 597</b>	<b>26 206 690</b>	<b>2 786 405</b>	<b>254 270</b>

\* From 2007 management started setting up provisions to partially cover old outstanding receivables. The provision amounts to USD 802,057 as at 31/12/2012; this represents all old receivables until year 2010.

\*\* 2012 GM budget was approved at Euro 1,795,387 plus Euro 143,631 of service fees.

**Note 4: Other Receivables**

Other receivables represent receivables due from IFAD and other GM funds, and arisen during the course of operations. This comprises the following balances (in terms of US dollars):

	<i>2012</i>	<i>2011</i>
IFAD	2 832 331	1 941 284
GM Funds	120 505	16 287
Other	-	517
<b>Total</b>	<b>2 952 836</b>	<b>1 958 088</b>

The receivable from IFAD above is netted off against payables to IFAD and other GM accounts.

For operational purposes, IFAD management transfers the net balance due to IFAD from the GM funds on a regular basis.

## Note 5: Payables and Liabilities

This comprises the following balances, in terms of US dollars:

	2012	2011
Staff benefits	881 366	771 179
Administrative costs	49 954	23 276
Duty travel	2 796	17 111
Consultants	17 232	6 510
After Service Medical Coverage (Note 5a)	1 647 510	1 286 174
Food and Agriculture Organization of the United Nations (FAO) - Disputed Invoices (Note 5b)	645 533	-
Legal cases with GM staff*	3 719 894	438 242
<b>Total</b>	<b>6 964 285</b>	<b>2 542 492</b>

\*This relates to litigation cases involving former and current staff members of the GM.

## Note 5a: After Service Medical Coverage Scheme

The Global Mechanism, through IFAD, participates in a multi-employer After-Service Medical Coverage Scheme (ASMCS) administered by the Food and Agriculture Organization of the United Nations (FAO) for staff receiving a United Nations pension and eligible former staff on a shared-cost basis. The ASMCS operates on a pay-as-you-go basis, meeting annual costs out of annual budgets and staff contributions. Since 2006, an independent valuation is performed on an annual basis.

The latest actuarial valuation report for the ASMCS was issued as of 31 December 2012. The principal actuarial assumptions used were as follows: discount rate, 4.0 per cent; return on invested assets, 4.0 per cent; expected salary increase, 3.0 per cent; medical cost increase, 5.0 per cent; inflation, 2.5 per cent; and exchange rate Euro: US\$1.326. The results determined GM CBAA's liability as at 31 December 2012 to be US\$ 1,647,510. The GM provides for the full annual current service costs of this medical coverage, including interest costs and current service charge.

	2012	2011
Past Service Liability	(1 286 174)	(1 551 578)
Interest cost and current service charge	(158 103)	(204 365)
Actuarial Gain/(Loss)	(203 233)	469 769
<b>Provision at 31 December</b>	<b>(1 647 510)</b>	<b>(1 286 174)</b>

Effective 1st January 2012 GM early adopted IAS 19 Revised. Changes determined by IAS 19 revised, pertain to improvement to the presentation and disclosure of items arising from defined benefit plans. In particular, service costs are to be disclosed as operating expenditure. The interest costs are recognized as operating expenses, while re-measurements on liabilities are recognised in Other Comprehensive Income. IAS 19 revised has been applied retrospectively; however prior year balances have not been restated because of the immateriality of the changes.

**Note 5b: FAO Disputed Invoices**

Arising from activities undertaken by the Food and Agriculture Organisation (FAO) on behalf of GM between 2007 and 2009, there is an obligation of payment for some disputed invoices relating to these activities in the amount of USD 645,533. This is the main reason for the increase in the Institutional Contract costs compared to 2011.

**Note 6: Staff Salaries and Benefits**

Until the COP decision and revision of the MoU, the IFAD benefits applicable to IFAD staff were extended to the GM staff. As of 1 April 2013, the Global Mechanism-staff are under United Nations contracts and are under the Rules and Regulations of the United Nations. As such, they have access to the social security programs offered by the United Nations.

The 2012 staff salaries and benefit cost includes US\$ 3,281,652 provision for the possible future outflow of resources resulting from legal cases initiated by certain staff members of the Global Mechanism in 2012 whose salary costs were budgeted against the CBAA account.

**Note 7: Net Foreign Exchange (Losses)/Gains**

The movements in the foreign exchange rate account are explained as follows, in terms of US dollars:

	2012	2011
As at 1 January	(635 760)	(400 271)
Net foreign exchange rate movements	124 517	(235 489)
<b>As at 31 December</b>	<b>(511 243)</b>	<b>(635 760)</b>

**Appendix F****Statement of Resources Available for Commitment**

As at 31 December 2012 and 2011 (expressed in United States dollars)

	2012	2011
Contributions receivable	838 816	1 213 597
Provisions on contributions receivable	(802 057)	(800 070)
Other receivables	2 952 836	1 958 088
	<b>2 989 595</b>	<b>2 371 615</b>
Less: Payables and liabilities	(6 964 285)	(2 542 492)
	<b>(6 964 285)</b>	<b>(2 542 492)</b>
<b>Resources Available for Commitment</b>	<b>(3 974 690)</b>	<b>(170 877)</b>

**Note 8: Events after the Balance sheet date**

As stated by the President of IFAD to the President of the UNCCD in a letter dated 18 September 2012, it is IFAD's intention to claim from the COP all financial liabilities linked to the appeals filed by current and former GM staff against IFAD. Accordingly, a provision of USD 3.28 million has been made in the financial statements. Between the Balance sheet date and the date of the financial statements being authorized by Management of the GM, the GM staff members have been granted UN contracts, under the UN Rules and Regulations in accordance with the decision of the COP. This may have a positive impact on the legal liabilities included in the balance sheet date, although to management's knowledge, to date these cases are still pending before the Tribunal.

**GLOBAL MECHANISM  
OF THE UN CONVENTION TO  
COMBAT DESERTIFICATION**

**Special Resources for the  
Convention to Combat Desertification (CCD) Finance Account**

**Financial Statements**  
For the year ended 31 December 2012

- Appendix A** - Balance Sheet
  - Appendix B** - Statement of Comprehensive Income
  - Appendix C** - Statement of Changes in Retained Earnings
  - Appendix D** - Cash Flow Statement
  - Appendix E** - Notes to the Financial Statements
- Independent Auditor's Report
- Appendix F** - Balance Sheet at Nominal Value
  - Appendix G** - Statement of Resources Available for Commitment at Nominal value

## Appendix A

## Balance Sheet

As at 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Assets</b>			
Cash		-	173 915
Contributions Receivable	5	3 596 412	7 088 304
Other receivables	3	17 385 192	14 139 429
<b>Total Assets</b>		<b>20 981 604</b>	<b>21 401 648</b>
<b>Liabilities and equity</b>			
Payables and liabilities	6	2 074 682	1 683 438
Other payables	3	12 693 366	9 314 618
Deferred contributions revenue	5	6 580 620	10 442 219
Deferred interest income		498	26 846
Retained earnings	Appendix C	(367 562)	(65 473)
<b>Total Liabilities, and equity</b>		<b>20 981 604</b>	<b>21 401 648</b>

The accompanying notes in Appendix E form an integral part of the financial statements.



**Statement of Comprehensive Income****Appendix B**

For the years ending 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Revenues</b>			
Contributions revenue	5	4 330 438	3 270 896
Interest income		1 019	80 648
<b>Total Revenues</b>		<b>4 331 457</b>	<b>3 351 544</b>
<b>Expenses</b>			
Staff costs		(1 374 890)	(871 273)
Office and general expenses	8	(1 193 260)	(995 398)
Consultants and other non staff costs		(1 570 281)	(1 047 902)
Institutional Contracts		(193 025)	(436 971)
<b>Total Expenses</b>		<b>(4 331 457)</b>	<b>(3 351 544)</b>
Impact of foreign exchange movements	10	118 962	11 562
Adjustment for changes in fair value	9	-	(696)
Actuarial gain/(loss) of the after-service medical scheme		(421 051)	-
<b>Total Comprehensive Income /(loss)</b>		<b>(302 089)</b>	<b>10 866</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Appendix C

**Statement of changes in Retained Earnings**

For the years ending 31 December 2012 and 2011 (expressed in United States dollars)

	<b>Total</b>
<b>Retained Earnings as at 1 January 2011</b>	<b>(76 339)</b>
2011 Total Comprehensive Income/(Losses)	10 866
<b>Retained Earnings as at 31 December 2011</b>	<b>(65 473)</b>
2012 Total Comprehensive Income/(Losses)	(302 089)
<b>Retained Earnings as at 31 December 2012</b>	<b>(367 562)</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

**Cash Flow Statement****Appendix D**

For the years ended 31 December 2012 and 2011 (expressed in United States dollars)

	2012	2011
<b>Cash flows from operating activities</b>		
Contributions	3 763 189	1 445 652
Operating expenses paid	(4 196 568)	(3 394 676)
Payments to/(from) other funds	387 876	2 106 796
Other Income	(128 412)	106 143
Grant disbursements	-	(90 000)
<b>Net cash flows from operating activities</b>	<b>(173 915)</b>	<b>173 915</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>173 915</b>	<b>-</b>
<b>Cash and cash equivalents at end of year</b>	<b>-</b>	<b>173 915</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Notes to the Financial Statements

### Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dry-land areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building; establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and “matching” resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

In order to meet the requirements of individual donors, from 2000, separate financial statements have been prepared for the three accounts of the Global Mechanism, namely the Core Budget Administration Account (CBAA), which contains contributions from the UNCCD; the Voluntary Contributions Administrative Expenses Account (VCAEA), which contains voluntary contributions from donors as well as Technical Assistance Grant (TAG) contributions from IFAD; and the Special Resources for CCD Finance account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

At its 10th session (2011), the Conference of the Parties of the UNCCD (COP), decided that the accountability and the legal representation of the GM shall be transferred from the Fund to the UNCCD secretariat with immediate effect and that the Executive Secretary of the UNCCD must ensure that all accounts and staff managed by the Global Mechanism are under one single administrative regime administered by the United Nations Office at Geneva and managed under the Financial Regulations and Rules of the United Nations. Accordingly, IFAD is no longer authorised to undertake any actions with respect to the financial and human resources management of the GM except at the request and on behalf of the Executive Secretary of the UNCCD. The Executive Board of IFAD approved the revised Memorandum of Understanding signed between UNCCD and IFAD in 2012 which reflects the COP decision, and a President’s Bulletin (PB/2012/01) was issued to revise the housing arrangements accordingly. Furthermore, the COP decision foresees the review by the COP of the housing of the GM. This, however, does not impact on the operation of the GM.

### Note 2: Summary of Significant Accounting and Related Policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

**(a) Basis of Preparation**

The Financial Statements of the Global Mechanism are prepared in accordance with International Financial Reporting Standards (IFRS). Revenues and expenses are recognised as they occur and reported in the period to which they relate. The excess of revenues over expenses is transferred to the retained earnings and to date all the amounts have related to foreign exchange rate movements as well as the impact of changes in fair value.

The use of funds is restricted in accordance with the individual agreements with Donors. Additional financial data for funds is drawn up, as and when, requested to meet specific donor requirements.

The President's Bulletin - Accounts of the Global Mechanism (GM) of 4 October 1999, defines the use of funds in the SRCF to provide financing assistance for development programmes. This bulletin has been updated as per the resolution contained in document EB 2006/89/R.56 Procedures governing the Global Mechanism's Special Resources for the CCD Finance (SRCF) Account. The revised resolution authorized GM to use IFAD contributions to the SRCF account for grant and other various expenses.

**(b) Translation and Conversion of Currencies**

The Global Mechanism conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars and in Euro. The Financial Statements are expressed in United States dollars solely for the purpose of summarising the financial position.

The Global Mechanism has translated all items in its Balance Sheet in currencies other than United States dollars at market rates of exchange ruling at the balance sheet date.

Revenue and expense items in currencies other than the United States dollar have been recorded at the rates of exchange ruling when the transaction occurred.

The exchange adjustments arising from the translation of assets and liabilities in currencies other than the reporting currency are credited or charged to an exchange rate adjustment account and included in the Statement of Comprehensive Income.

**(c) Contributions and Interest Accruing Thereon**

Contributions are recorded in receivables and as resources available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received and interests earned thereon, where specified in the donor agreements, are recorded as revenues in the period in which the related expenditures occur. Contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

Interest is recognised in the Statement of Comprehensive Income in the period in which the related expenditures occur, except to the extent that it is restricted by donor agreements. Interest income on contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

From 2005, contribution receivables and deferred contribution revenues are stated at fair value in accordance with IAS 39. The fair value reported in these financial statements represents management's best estimate of the present value of expected cash flows. The fair value is calculated by applying a discount factor to the estimated future cash flows. The discount rate is calculated with reference to the estimated forward interest curve for the year.

**(d) Grants**

The Global Mechanism records grants as expenditures in the Statement of Comprehensive Income and as undisbursed grants in the balance sheet for amounts not disbursed. Cancellations of undisbursed balances shall be recognised as an offset to the expense in the period in which they occur. These grants are deducted from resources available on approval by the appropriate authority.

Undisbursed grants are stated at fair value in accordance with IAS 39. The fair value reported in these financial statements represents management's best estimate of the present value of expected cash flows. The fair value is calculated by applying a discount factor to the estimated future cash flows. The discount rate is calculated with reference to the estimated forward interest curve for the year. For operational purposes, management provides information regarding assets and liabilities on both a nominal and fair value basis and has also therefore included a Balance Sheet (Appendix F) at nominal value. Likewise, undisbursed grants are recorded in nominal terms within Appendix G Statement of Resources available for commitment.

**(e) Provisions**

Provisions are established when the Global Mechanism has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Employee entitlements to annual leave and service leave are recognised when they accrue to employees. An accrual is made for the estimated liability for annual leave and long service separation entitlements based on the length of service rendered by employees as at the balance sheet date.

**(f) Taxation**

Under the terms of the Headquarters Agreement between IFAD and the Government of Italy, exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to officials identified in the list sent by IFAD to the Government of Italy which includes a list of GM staff at the request of the UNCCD.

**(g) Resources available for commitment**

Resources available for commitment are those resources that have been contributed by Donors and others or have been derived, or are to be derived, from interest earned. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes. In practice, resources available may be defined as cash, accrued interest and liabilities, undisbursed grants and balances owed to and from IFAD.

**Note 3: Other Receivables and Payables**

Other receivables and payables primarily represent mainly payments to/receipts from IFAD and other GM accounts (SRCF and VCAE) during the normal course of operations. This comprises the following balances (in terms of US dollars):

	<i>2012</i>	<i>2011</i>
Payable due to IFAD	(12 693 366)	(9 314 618)
Receivables from other GM accounts	17 176 438	14 059 087

	2012	2011
Other receivables	208 754	80 342
<b>Total</b>	<b>4 691 826</b>	<b>4 824 811</b>

The payable to IFAD above is netted off against receivables to IFAD from other GM accounts.

For operational purposes, IFAD management transfers the net balance due to IFAD from the GM accounts on a regular basis.

#### Note 4: Grants

The SRCF Account is used to support the development of national, regional and sub-regional Action Programmes in accordance with Article 9 of the United Nations Convention to Combat Desertification in those Countries Experiencing Serious Drought and/or Desertification, particularly in Africa. Resources held in the SRCF Account are also used for the implementation of initiatives, activities and the design of projects and programmes derived from such Action Programmes, either in their totality or on a cost sharing arrangement with one or several other sources of funding. The above types of financing are provided on a grant basis the details of which are outlined below, in terms of US dollars:

	<i>NFS</i>		<i>NAP</i>		<i>SRAP</i>		<i>RAP</i>	
	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>
Denmark	-	-	175 000	-	-	-	50 000	-
IBRD 1	-	-	247 417	-	450 000	-	123 777	-
IBRD 2	-	-	302 260	-	217 915	-	42 100	-
IDRC	-	-	11 523	-	-	-	-	-
IFAD TAG 447	-	-	891 283	-	542 282	-	150 000	-
IFAD TAG 561	-	-	149 488	-	82 643	-	-	-
IFAD TAG 581	60 000	-	505 250	-	47 500	-	100 000	-
IFAD TAG 702	-	-	-	-	40 000	-	-	-
Norway 4	-	-	-	-	-	-	-	-
<b>At 31 December 2012</b>	<b>60 000</b>	<b>-</b>	<b>2 282 221</b>	<b>-</b>	<b>1 380 340</b>	<b>-</b>	<b>465 877</b>	<b>-</b>
<b>At 31 December 2011</b>	<b>60 000</b>	<b>-</b>	<b>2 282 221</b>	<b>-</b>	<b>1 380 340</b>	<b>-</b>	<b>465 877</b>	<b>-</b>

	<i>Enabling Activities</i>		<i>Strategic Initiatives</i>		<i>Total</i>	
	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>
Denmark	-	-	-	-	225 000	-
IBRD 1	-	-	41 543	-	862 737	-
IBRD 2	-	-	-	-	562 275	-

	<i>Enabling Activities</i>		<i>Strategic Initiatives</i>		<i>Total</i>	
	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>	<i>Effective</i>	<i>Un-disbursed</i>
IDRC	-	-	-	-	11 523	-
IFAD TAG 447	641 122	-	265 064	-	2 489 751	-
IFAD TAG 561	501 477	-	47 007	-	780 615	-
IFAD TAG 581	-	-	39 565	-	752 315	-
IFAD TAG 702	-	-	-	-	40 000	-
Norway 4	-	-	85 000	-	85 000	-
<b>At 31 December 2012 at Nominal Value</b>	<b>1 142 599</b>	<b>-</b>	<b>478 179</b>	<b>-</b>	<b>5 809 216</b>	<b>-</b>
Fair Value Adjustment						
<b>At 31 December 2012 at Fair Value</b>						
<b>As at 31 December 2011 at Nominal Value</b>	<b>1 142 599</b>	<b>-</b>	<b>478 179</b>	<b>-</b>	<b>5 809 216</b>	<b>-</b>
Fair Value Adjustment						
<b>As at 31 December 2011 at Fair Value</b>						
<b>Total effectiveness 01/01/2012</b>					<b>5 809 216</b>	
- Closing of Grant					-	
- Cancellation of Grants					-	
<b>Total effectiveness 31/12/2012</b>					<b>5 809 216</b>	

NFS – National Financial Strategies, NAP – National Action Plan, RAP – Regional Action Plan, SRAP – Sub-Regional Action Plan

### Note 5: Statement of Contributions and Deferred Contributions Revenue (amounts in US dollars)

	<i>Currency</i>	<i>Received</i>	<i>Receivable</i>	<i>Recognised Revenue</i>		<i>Deferred revenues</i>
				<i>Prior years</i>	<i>2012</i>	
IFAD TAG 447	USD	2 320 000	-	2 320 000	-	-
IFAD TAG 561	USD	1 000 000	-	1 000 000	-	-
IFAD TAG 581	USD	925 000	-	925 000	-	-
IFAD TAG 879	USD	930 941	-	930 941	(4 731)	4 731
IFAD TAG 1039	USD	1 250 000	-	1 203 972	-	46 028
IFAD TAG 1167	USD	1 250 000	-	672 692	542 909	34 399
IFAD TAG 1191	USD	100 000	50 000	100 000	-	50 000
		<b>7 775 941</b>	<b>50 000</b>	<b>7 152 605</b>	<b>538 178</b>	<b>135 159</b>
CDB	USD	4 500	10 500	-	-	15 000
Commission Ocean Indien	USD	50 784	-	-	-	50 784
Denmark 1	USD	250 000	-	250 000	-	-
Denmark 3	USD	1 407 061	-	889 583	427 773	89 705
EC 2	USD	3 360 799	589 300	1 814 884	878 041	1 257 174
EC 3	USD	1 186 196	1 938 048	348 198	736 989	2 039 057
ENEA	USD	14 724	-	14 724	-	-



	Currency	Received	Receivable	Recognised Revenue		Deferred revenues
				Prior years	2012	
FAO	USD	29 700	69 300	-	20 644	78 356
IBRD 1	USD	781 424	-	781 424	-	-
IBRD2	USD	500 302	-	500 302	-	-
IBRD 6	USD	205 000	-	178 663	26 337	-
IDRC	USD	11 523	-	11 523	-	-
ILC 1	USD	5 000	-	5 000	-	-
Finland 6	USD	155 001	-	155 001	-	-
Finland 7	USD	263 000	-	263 000	-	-
Finland 8	USD	479 680	-	479 680	-	-
Finland 9	USD	261 483	-	-	205 205	56 278
Finland 10	USD	260 200	-	-	-	260 200
Norway 4	USD	3 857 889	-	3 857 889	-	-
Norway 5	USD	2 901 520	950 480	-	1 334 064	2 517 936
Publicare	USD	13 844	-	-	-	13 844
Spain 3	USD	638 000	-	605 610	32 390	-
Spain 4	USD	716 850	-	646 675	45 764	24 411
UNDP Kyrgyzstan	USD	204 200	15 750	65 216	85 052	69 682
		<b>17 558 680</b>	<b>3 573 378</b>	<b>10 867 365</b>	<b>3 792 260</b>	<b>6 472 428</b>
<b>At 31 December 2012 at Nominal Value</b>		<b>25 334 621</b>	<b>3 623 378</b>	<b>18 019 970</b>	<b>4 330 438</b>	<b>6 607 585</b>
Fair Value Adjustment			(26 966)			(26 966)
<b>At 31 December 2012 at Fair Value</b>			<b>3 596 412</b>			<b>6 580 620</b>
<b>At 31 December 2011 at Nominal Value</b>		<b>21 385 934</b>	<b>7 202 042</b>	<b>14 761 122</b>	<b>3 270 896</b>	<b>10 555 957</b>
Fair Value Adjustment			(113 738)			(113 738)
<b>At 31 December 2011 at Fair Value</b>			<b>7 088 304</b>			<b>10 442 219</b>

\*Credit is due to prior year over-accrual.

## Note 6: Payables and Liabilities

Payables and liabilities are made up as follow:

	2012	2011
Principal and interest payable to donors (Note 7)	15 893	181 441
Staff costs	190 788	231 666
Administrative costs	45 369	62 636
Duty travel costs	681 458	605 174
Accrual consultants and other contracts	242 469	602 521
Accruals Legal Cases*	477 654	-
After Service Medical Coverage (Note 6a)	421 051	-
<b>Total</b>	<b>2 074 682</b>	<b>1 683 438</b>

\* This relates to litigation cases involving former and current staff members of the GM.

#### **Note 6a: After Service Medical Coverage Scheme**

The Global Mechanism, through IFAD, participates in a multi-employer After-Service Medical Coverage Scheme (ASMCS) administered by the Food and Agriculture Organization of the United Nations (FAO) for staff receiving a United Nations pension and eligible former staff on a shared-cost basis. The ASMCS operates on a pay-as-you-go basis, meeting annual costs out of annual budgets and staff contributions. Since 2006, an independent valuation is performed on an annual basis.

The latest actuarial valuation report for the ASMCS was issued as of 31 December 2012. The principal actuarial assumptions used were as follows: discount rate, 4.0 per cent; return on invested assets, 4.0 per cent; expected salary increase, 3.0 per cent; medical cost increase, 5.0 per cent; inflation, 2.5 per cent; and exchange rate Euro: US\$1.326. The GM SRCF's liability as at 31 December 2012 is equal to US\$ 421,051, due to the SRCF portion of the actuarial loss of the After Service Medical Coverage Scheme. The GM provides for the full annual current service costs of this medical coverage, including interest costs and current service charge.

Effective 1st January 2012 GM early adopted IAS 19 Revised. Changes determined by IAS 19 revised, pertain to improvement to the presentation and disclosure of items arising from defined benefit plans. In particular, service costs are to be disclosed as operating expenditure. The interest costs are recognized as operating expenses, while re-measurements on liabilities are recognised in Other Comprehensive Income. IAS 19 revised has been applied retrospectively; however prior year balances have not been restated because of the immateriality of the changes.

**Note 7: Principal and Interest Payable to Donors**

Donor	Principal Payable		Interest Payable			
	2012	2011	Prior Years	2012 Payments	2012 Interest	2012
IBRD 1*	-	-	23			23
IBRD 2**	-	-	21			21
IBRD 6	12 217	12 217	20			20
Denmark 3	-	-	335		42	377
European Commission 2	-	-	792		314	1 106
European Commission 3	-	-	547		50	597
Finland 7	-	-	29			29
Finland 8	-	-	47			47
Finland 9	-	-	43		26	69
TAG 447	-	2 955	-			-
TAG 561	-	35 793	2 474	(2 474)		-
TAG 581	-	90 000	5	(5)		-
TAG 702	-	1 857	-			-
TAG 1039	-	32 900	37	(15)		22
TAG 879	-	-	1 346		21	1 367
<b>Total</b>	<b>12 217</b>	<b>175 722</b>	<b>5 719</b>	<b>(2 494)</b>	<b>452</b>	<b>3 676</b>

**Total Principal + Interest 2012**

**15 893**

**Total Principal + Interest 2011**

**181 441**

\* IBRD 1 interest earned from 2007 onwards was set as payable to donor

\*\* IBRD 2 interest earned from 2008 onwards was set as payable to donor

**Note 8: Office and General Expenses**

Office and general expenses are detailed in the table below:

	2012	2011
Duty Travel	952 997	773 271
IT Maintenance	(1 094)*	71 005
Office & Building Supplies	(3 099)*	10 552
Other Administrative Expenses	244 456	140 570
	<b>1 193 260</b>	<b>995 398</b>

\* Due to prior year over accrual.

**Note 9: Adjustment for changes in fair value**

The adjustment relates to undisbursed grants, contributions receivables and deferred revenues, as follows, in terms of US dollars:

	At 1 January 2012	Movement	At 31 December 2012
Contributions Receivable	(113 738)	86 772	(26 966)
Deferred Revenues	113 738	(86 772)	26 966

	<i>At 1 January 2012</i>	<i>Movement</i>	<i>At 31 December 2012</i>
	-	-	-

**Note 10: Impact of foreign exchange rate movements**

Foreign exchange gains/losses are the result of the revaluation of transactions effected in currencies other than the United States Dollar. The movement on the balances is shown below, in terms of US dollars:

	<i>At 1 January</i>	<i>Movement</i>	<i>At 31 December</i>
Revaluation of Inter-unit accounts and balances with IFAD	38 540	(126 988)	(88 446)
Revaluation of Operations accounts	(4 056)	7 325	3 269
Revaluation of Miscellaneous Receivables	(3)	-	(3)
Accumulated Surplus	30 065	3 267	33 331
Operations Gains/Losses	926	(2 566)	(1 640)
<b>2012 Net (Gain)/Loss</b>	<b>65 473</b>	<b>(118 962)</b>	<b>(53 489)</b>
<b>2011 Net (Gain)/Loss</b>	<b>77 036</b>	<b>11 562</b>	<b>65 473</b>

**Balance Sheet at Nominal Value<sup>2</sup>****Appendix F**

As at 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Assets</b>			
Cash		-	173 915
Contributions Receivable	5	3 623 377	7 202 042
Other receivables	3	17 385 192	14 139 429
<b>Total Assets</b>		<b>21 008 569</b>	<b>21 515 386</b>
<b>Liabilities and Equity</b>			
Payables and liabilities	6	2 074 682	1 683 438
Other payables	3	12 693 366	9 314 618
Deferred contributions revenue	5	6 607 585	10 555 957
Deferred interest income		498	26 846
Retained earnings		(367 562)	(65 473)
<b>Total Liabilities and Equity</b>		<b>21 008 569</b>	<b>21 515 386</b>

**Statement of Resources Available for Commitment at Nominal Value<sup>3</sup>****Appendix G**

As at 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
Cash		-	173 915
Contributions Receivable		3 623 377	7 202 042
Other receivables	3	17 385 192	14 139 429
		<b>21 008 569</b>	<b>21 515 386</b>
Less:			
Payables and liabilities	6	(2 074 682)	(1 683 438)
Other payables	3	(12 693 366)	(9 314 618)
		<b>(14 768 048)</b>	<b>(10 998 056)</b>
<b>Resources Available for Commitment</b>		<b>6 240 521</b>	<b>10 517 330</b>

<sup>2</sup> Presented for information purposes only.

<sup>3</sup> Presented for information purposes only.

**GLOBAL MECHANISM  
OF THE UN CONVENTION TO  
COMBAT DESERTIFICATION**

**Voluntary Contributions Administrative Expenses Account**

**Financial Statements**

For the year ended 31 December 2012

- Appendix A** - Balance Sheet
- Appendix B** - Statement of Comprehensive Income
- Appendix C** - Statement of Changes in Retained Earnings
- Appendix D** - Cash Flow Statement
- Appendix E** - Notes to the Financial Statements

Report of the External Auditor

- Appendix F** - Statement of Resources Available for Commitment at Nominal Value

**Balance Sheet****Appendix A**

As at 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Assets</b>			
Cash	3	8 236 958	5 761 847
Other receivables	5	9 243 643	8 814 770
<b>Total Assets</b>		<b>17 480 601</b>	<b>14 576 617</b>
Payables and liabilities	6	40 564	233 494
Undisbursed grants		-	2 500
Other payables	5	17 296 947	14 108 083
Deferred contribution revenues	4	88 436	103 099
Principal and interest payable to donors	7	143 090	148 067
Retained earnings	Appendix C	(88 436)	(18 626)
<b>Total Liabilities and equity</b>		<b>17 480 601</b>	<b>14 576 617</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Appendix B

## Statement of Comprehensive Income

For the years ended 31 December 2012 and 2011 (expressed in United States dollars)

	Notes	2012	2011
<b>Revenues</b>			
Contributions revenue	4	22 216	697 328
Interest income		857	2 736
<b>Total Revenues</b>		<b>23 073</b>	<b>700 064</b>
<b>Expenses</b>			
Staff salaries and benefits		(16 515)	(353 220)
Consultants and other non staff costs		12 431	(127 492)
Office and general expenses		(9 644)	(124 052)
Institutional Contracts and Cooperating institutions		(9 345)	(95 300)
<b>Total Expenses</b>		<b>(23 073)</b>	<b>(700 064)</b>
Foreign exchange rate movements	8	(69 811)	32 788
<b>Total Comprehensive Income</b>		<b>( 69 811)</b>	<b>32 788</b>

The accompanying notes in Appendix E form an integral part of the financial statements



## Appendix C

**Statement of changes in Retained Earnings**

For years ending 31 December 2012 and 2011 (expressed in United States dollars)

<b>Retained Earnings as at 1 January 2011</b>	<b>(51 414)</b>
2011 Total comprehensive income	32 788
<b>Retained Earnings as at 31 December 2011</b>	<b>(18 626)</b>
2012 Total comprehensive income	(69 811)
<b>Retained Earnings as at 31 December 2012</b>	<b>(88 436)</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

**Appendix D****Cash Flow statement**

For the years ended 31 December 2012 and 2011 (expressed in United States dollars)

	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Contributions received from/ (returned to) donors	-	(104 497)
Interest income received	3 907	2 736
Payments for operating expenses and receipts from/ to other funds	2 471 216	(2 910 624)
Grant disbursements	-	(2 500)
Other income / (disbursements)	-	37 942
<b>Net cash flows from operating activities</b>	<b>2 475 123</b>	<b>(2 976 943)</b>
Effect of Exchange Rate movements on cash	(12)	27
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>2 475 111</b>	<b>(2 976 916)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>5 761 847</b>	<b>8 738 762</b>
<b>Cash and cash equivalents at end of year</b>	<b>8 236 958</b>	<b>5 761 847</b>

The accompanying notes in Appendix E form an integral part of the financial statements.

## Appendix E

### Notes to the Financial Statements

#### Note 1: Brief Description of the Global Mechanism

The United Nations Convention to Combat Desertification (UNCCD) created the Global Mechanism as a means of mobilising resources to protect dryland areas. At the First Conference of the Parties of the UNCCD held in October 1997, IFAD was selected to house the Global Mechanism by a ministerial-level assembly of over 113 countries that had ratified the Convention. The Global Mechanism has a Collaborative Institutional Arrangement to support it, involving UNDP, IFAD and the World Bank.

The Global Mechanism aims to mobilise funds by enhancing the cost-effectiveness of existing aid flows. The basis for implementation of the Convention comprises national, sub-regional and regional Action Plans. In addition, the Global Mechanism is involved in partnership building; establishing broad contacts among international organisations, the NGO community, research centres, governments, regional development banks, the private sector and individuals committed to combating desertification. Moreover, the Global Mechanism is developing a database, collecting and managing data on desertification and “matching” resource needs and resource availability. Part of this involves accessing new and innovative sources of funds and making them available for Convention implementation.

In order to meet the requirements of individual donors, separate financial statements are prepared for the three accounts of the Global Mechanism, namely the Core Budget Administration Account (CBAA), which contains contributions from the UNCCD; the Voluntary Contributions Administrative Expenses Account (VCAE), which contains voluntary contributions from donors as well as Technical Assistance Grant (TAG) contributions from IFAD; and the Special Resources for CCD Finance account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

At its 10th session (2011), the Conference of the Parties of the UNCCD (COP), decided that the accountability and the legal representation of the GM shall be transferred from the Fund to the UNCCD secretariat with immediate effect and that the Executive Secretary of the UNCCD must ensure that all accounts and staff managed by the Global Mechanism are under one administrative regime administered by the United Nations Office at Geneva and managed under the Financial Regulations and Rules of the United Nations. Accordingly, IFAD is no longer authorised to undertake any actions with respect to the financial and human resources management of the GM except at the request and on behalf of the Executive Secretary of the UNCCD. The Executive Board of IFAD approved the revised Memorandum of Understanding signed between UNCCD and IFAD in 2012 which reflects the COP decision, and a President’s Bulletin (PB/2012/01) was issued to revise the housing arrangements accordingly. Furthermore, the COP decision foresees the review by the COP of the housing of the GM. This, however, does not impact on the operation of the GM.

#### Note 2: Summary of Significant Accounting and Related Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**(a) Basis of Preparation**

The Financial Statements of the Global Mechanism are prepared in accordance with International Financial Reporting Standards (IFRS). Revenues and expenses are recognised as they occur and reported in the period to which they relate. The excess of revenues over expenses is transferred to the retained earnings and to date all the amounts have related to foreign exchange rate movements.

The use of funds is restricted in accordance with the individual agreements with Donors. Additional financial data for funds is drawn up as and when requested to meet specific donor requirements.

The President's Bulletin - Accounts of the Global Mechanism (GM) of 4 October 1999, defines the use of funds in the VCAE to provide financing assistance for development programmes.

**(b) Translation and Conversion of Currencies**

The Global Mechanism conducts its operations in several currencies, and at the present time maintains its accounting records in United States dollars. The Financial Statements are expressed in United States dollars solely for the purpose of summarising the financial position.

The Global Mechanism has translated all items in its Balance Sheet in currencies other than United States dollars at market rates of exchange ruling at the balance sheet date.

Revenue and expense items in currencies other than the United States dollar have been recorded at the rates of exchange ruling when the transaction occurred.

The exchange adjustments arising from the translation of assets and liabilities in currencies other than the reporting currency are credited or charged to an exchange adjustment account and included in the Statement of Comprehensive Income.

**(c) Contributions and Interest Accruing Thereon**

Contributions are recorded in receivables and as resources available on the date of receipt of formal communication from the Donor or actual receipt of funds, whichever occurs earlier. Contributions received and interests earned thereon, where specified in the donor agreements, are recorded as revenue in the period in which the related expenditures occur. Contributions for which no direct expenditure have been incurred are deferred to future periods to be matched against the related costs.

Interest is recognised in the Statement of Comprehensive Income in the period in which the related expenditure occurs, except to the extent that it is restricted by donor agreements. Interest income on contributions for which no direct expenditures have yet been incurred are deferred until future periods to be matched against the related costs.

From 2005, contribution receivables, deferred contribution revenues and undisbursed grants are stated at fair value in accordance with IAS 39. The fair value reported in these financial statements represents management's best estimate of the present value of expected cash flows. The fair value is calculated by applying a discount factor to the estimated future cash flows. The discount rate is calculated with reference to the estimated forward interest curve for the year. Since 31 December 2010, there has been no fair value adjustment as the amount of contribution receivables has been zero.

**(d) Grants**

The Global Mechanism records grants as expenses in the Statement of Comprehensive Income and as undisbursed grants in the balance sheet for amounts not disbursed.

Cancellations of undisbursed balances shall be recognised as an offset to the expense in the period in which they occur. These grants are deducted from resources available on approval by the appropriate authority.

**(e) Provisions**

Provisions are established when GM has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligations, and a reliable estimate of the amount of the obligation can be made. Employee entitlements to annual leave and long-service entitlements are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service separation entitlements as a result of services rendered by employees up to the balance-sheet date.

**(f) Taxation**

Under the terms of the agreement between the Parties of the UN Convention and the Agreement Establishing IFAD and the Agreement with the Government of Italy covering the permanent Headquarters of the Fund, the exemptions from any form of direct taxation and social insurance on salaries, emoluments and indemnities paid to IFAD officials apply equally to all employees of the organisation including those working for the Global Mechanism.

**(g) Resources Available for Commitment**

Resources available for commitment are those resources that have been contributed by Donors and others or have been derived, or are to be derived, from interest earned. Uncommitted resources available are the aforementioned resources less any commitments made for budgetary purposes that do not constitute expenses or accruals for accounting purposes.

In practice, resources available may be defined as cash, accrued interest and receivables less liabilities, undisbursed grants and balances owed to and from IFAD.

**Note 3: Cash composition**

The three GM accounts share two bank accounts at Popolare di Sondrio Bank in Euro and Wells Fargo Bank in US dollars which are currently recorded under the VCAE account. An analysis of the cash is shown below, in terms of US dollars:

	<i>2012</i>	<i>2011</i>
Banca Popolare di Sondrio EUR*	247 147	(119 326)
Wachovia Bank Washington USD	7 989 811	5 881 173
<b>Total Cash/Bank</b>	<b>8 236 958</b>	<b>5 761 847</b>

\* Original balances in EUR. The balance as of 31 December 2011 does not represent a bank overdraft but is due to inter-fund transactions with other GM accounts.

**Note 4: Statement of Contributions and Deferred Contribution Revenues**  
(amounts in US dollars)

<i>Donor</i>	<i>Currency</i>	<i>Local</i>	<i>USD</i>	<i>Received</i>	<i>Receivable</i>	<i>Recognised Revenue</i>		<i>Reval.</i>	<i>Deferred</i>
		<i>currency</i>	<i>Equivalent</i>			<i>Prior years</i>	<i>2012</i>	<i>of EUR</i>	
Canada 1	CAD	50 000	30 523	30 523	-	30 523	-	-	-
Canada 2	CAD	68 413	44 951	44 951	-	44 951	-	-	-
Canada 4	CAD	37 630	24 452	24 452	-	24 452	-	-	-
Canada 5	CAD	185 764	122 198	122 198	-	122 198	-	-	-
Canada 6	CAD	100 000	70 267	70 267	-	70 267	-	-	-
Canada 7	CAD	18 750	10 434	10 434	-	10 434	-	-	-
Canada 8	CAD	241 000	184 033	184 033	-	184 033	-	-	-
Canada 9	CAD	140 000	107 011	107 011	-	107 011	-	-	-
CHC	USD	-	133 427	133 427	-	133 427	-	-	-
Bothends	USD	-	26 192	26 192	-	26 192	-	-	-
Denmark	USD	-	100 000	100 000	-	100 000	-	-	-
Denmark-Danida*	EUR	1 322 983	1 774 848	1 774 848	-	1 774 848	-	-	-
European Union*	EUR	987 506	1 324 789	1 324 789	-	1 324 789	-	-	-
Finland 1	FIM	1 000 000	150 739	150 739	-	150 739	-	-	-
Finland 2	EUR	350 000	426 173	426 173	-	426 434	-	-	-
Finland 3	EUR	200 000	280 513	280 513	-	280 513	-	-	-
Finland 4	EUR	100 000	128 720	128 720	-	128 720	-	-	-
Finland 5	EUR	100 000	134 422	134 422	-	134 422	-	-	-
IFAD TAG 447	USD	-	180 000	180 000	-	180 000	-	-	-
IFAD TAG 561	USD	-	250 000	250 000	-	250 000	-	-	-
IFAD TAG 581	USD	-	325 000	325 000	-	325 000	-	-	-
IFAD TAG 702	USD	-	1 250 000	1 250 000	-	1 250 000	-	-	-
IFAD TAG 879	USD	-	300 000	300 000	-	300 000	-	-	-
IBRD1	USD	-	350 000	350 000	-	350 000	-	-	-
IBRD 2	USD	-	397 158	397 158	-	397 158	-	-	-
IBRD 3	USD	-	1 210 601	1 210 601	-	1 210 601	-	-	-
IBRD 4	USD	-	330 000	330 000	-	330 000	-	-	-
IBRD 5	USD	-	310 000	310 000	-	310 000	-	-	-
IBRD-ILWI	USD	-	25 000	25 000	-	25 000	-	-	-
IDB	USD	-	32 000	32 000	-	32 000	-	-	-

<i>Donor</i>	<i>Currency</i>	<i>Local currency</i>	<i>USD Equivalent</i>	<i>Received</i>	<i>Receivable</i>	<i>Recognised Revenue</i>		<i>Reval. of EUR Contrib.</i>	<i>Deferred revenues</i>
						<i>Prior years</i>	<i>2012</i>		
Italy 1	EUR	160 000	150 508	150 508	-	150 508	-	-	-
Italy 2	EUR	160 000	192 496	192 496	-	192 496	-	-	-
Italy 3	EUR	160 000	212 888	212 888	-	212 888	-	-	-
Italy 4	EUR	160 000	202 344	202 344	-	202 344	-	-	-
Italy 5	EUR	150 000	180 983	180 983	-	180 983	-	-	-
Italy 6	EUR	300 000	435 000	435 000	-	435 000	-	-	-
Italy 7	EUR	400 000	582 800	582 800	-	519 385	44 483	-	18 932

Donor	Currency	Local currency	USD Equivalent	Received	Receivable	Recognised Revenue		Reval. of EUR Contrib.	Deferred revenues
						Prior years	2012		
Ministerial Meetings	USD	-	252 086	252 086	-	252 086	-	-	-
Netherlands	EUR	226 890	242 938	242 938	-	242 938	-	-	-
Norway 1	NOK	5 200 000	552 503	552 503	-	552 503	-	-	-
Norway 2	NOK	3 000 000	382 099	382 099	-	382 099	-	-	-
NORAD	NOK	2 100 312	312 593	312 593	-	312 593	-	-	-
OPEC 1	USD	-	350 000	350 000	-	350 000	-	-	-
OPEC 2	USD	-	300 000	300 000	-	258 779	(8 124)*	-	49 345
Pooled Contr.	USD	-	560 700	560 700	-	560 700	-	-	-
Spain 1	USD	-	923 242	923 242	-	923 242	-	-	-
Spain 2	USD	-	819 480	819 480	-	819 480	(13 309)*	-	13 309
Sweden 1	SEK	5 000 000	497 535	497 535	-	497 535	-	-	-
Sweden 2	SEK	3 000 000	318 943	318 943	-	318 943	-	-	-
Sweden 3	SEK	3 000 000	364 601	364 601	-	364 601	-	-	-
Sweden 4	SEK	3 000 000	381 604	381 604	-	381 604	-	-	-
Sweden MFA	SEK	900 000	119 588	119 588	-	119 588	-	-	-
Sweden 5	USD	-	390 885	390 885	-	390 885	-	-	-
Sweden 6	SEK	3 000 000	421 980	421 980	-	421 980	-	-	-
Sweden 7	SEK	9 000 000	1 298 970	1 298 970	-	1 298 970	(834)*	-	834
Swiss 1	USD	-	151 517	151 517	-	151 517	-	-	-
Swiss 2	USD	-	115 585	115 585	-	109 569	-	-	6 016
<b>At 31 December 2012 at Nominal Value</b>			<b>20 747 319</b>	<b>20 747 319</b>	<b>-</b>	<b>20 636 667</b>	<b>22 216</b>	<b>-</b>	<b>88 436</b>
Fair value adjustment						-			
<b>At 31 December 2012 at Fair Value</b>						<b>-</b>			
<b>At 31 December 2011 at Nominal Value</b>			<b>20 747 319</b>	<b>20 747 319</b>	<b>-</b>	<b>19 946 892</b>	<b>697 328</b>	<b>-</b>	<b>103 099</b>
Fair value adjustment									
<b>At 31 December 2011 at Fair Value</b>						<b>-</b>			<b>103 099</b>

\* Due to prior year over-accruals.

## Note 5: Other Receivables and Payables

Other receivables and payables primarily represent payments to/receipts from IFAD and other GM accounts during the normal course of operations. This comprises the following balances, in terms of US dollars:

	2012	2011
Receivable from IFAD	9 243 643	8 769 963
Other receivables	-	44 807



	<i>2012</i>	<i>2011</i>
Payable to other GM Funds	(17 296 947)	(14 108 083)
<b>Total</b>	<b>(8 053 304)</b>	<b>(5 293 313)</b>

The VCAE payable to other GM accounts (namely CBAA and SRCF) is due to the fact that the two GM bank accounts are set up under VCAE account which holds funds on behalf of the other accounts.

For operational purposes, IFAD management transfers the net balance due to IFAD from all the three GM funds on a regular basis.

**Note 6: Payables and Liabilities (amounts in US Dollars)**

	<i>2012</i>	<i>2011</i>
Staff costs	-	107 018
Consultants	5 026	34 627
Institutional Contracts and Cooperating institutions	32 842	27 142
Duty travel	2 338	63 468
Administrative expenditures	358	1 239
<b>Total</b>	<b>40 564</b>	<b>233 494</b>

**Note 7: Principal and Interest Payable to Donors**

Donor	Principal Payable		Interest Payable		
	2012	2011	Prior Years	2012 Interest	2012
Canada 1	1 428	1 428	1 637	-	1 637
Canada 6	79	79	28	-	28
Canada 7	3 156	3 156	1 839	-	1 839
European Union*	-	-	67 581	-	67 581
Finland 2	-	-	-	-	-
Finland 3	-	-	2	-	2
Italy 1	2 750	250	91	-	91
Norway 1	492	492	287	-	287
Norway 2	41 688	41 688	22 021	-	22 021
Sweden 2	-	-	-	-	-
Sweden 4	-	-	-	-	-
Sweden 5	-	-	-	-	-
Sweden 6	-	-	-	-	-
Switzerland 2	-	4 415	1 600	(1 600)**	-
IBRD 2	-	-	-	-	-
IBRD 3	-	-	-	-	-
IBRD 5	-	-	10	-	10
IFAD	-	2 500	-	-	-
<b>Total</b>	<b>49 593</b>	<b>54 008</b>	<b>95 100</b>	<b>(1 600)</b>	<b>93 497</b>

\*Euro 51,259.58 payable to the European Union subject to Euro- US dollar exchange rate fluctuation.

\*\*Switzerland agreed to leave the unused principal and interest to GM.

**Total Principal + Interest 2012** **143 090**

**Total Principal + Interest 2011** **149 108**

**Note 8: Impact of foreign exchange rate movements**

Foreign exchange gains/losses are the result of the revaluation of transactions effected in currencies other than the United States Dollar.

Nella nota mancherebbe il prospetto di movimentazione dei valori in valuta come inserito l'anno scorso

**Statement of Resources Available for Commitment at Nominal Value**  
As at 31 December 2012 and 2011 (expressed in United States dollars)

**Appendix F**

	2012	2011
Cash	8 236 958	5 761 847
Other receivables	9 243 643	8 814 770
	<b>17 480 601</b>	<b>14 576 617</b>
Less: Payables and accrued liabilities	(40 564)	(233 494)
Undisbursed grants	-	(2 500)
Other payables	(17 296 947)	(14 108 083)
Principal and interest payable to donors	(143 090)	(148 067)
	<b>(17 480 601)</b>	<b>(14 492 144)</b>
<b>Resources Available for Commitment</b>	<b>-</b>	<b>84 473</b>