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Item 6 of the provisional agenda
Programme and budget

Programme and budget

Note by the secretariat*

Addendum

**Audited financial statements for the Convention's trust funds for the
biennium 2006–2007 for the years ended 31 December 2006
and 2005 (Global Mechanism)**

Summary

By its decision 23/COP.7, the Conference of the Parties (COP) requested the Executive Secretary to report to the COP at its eighth session on the financial status of the Convention's trust funds.

This document contains the audited "Financial Statements for the years ended 31 December 2006 and 2005" for the Core Budget Administration Account of the Global Mechanism of the United Nations Convention to Combat Desertification, as received from the Global Mechanism.

* The submission of this document was delayed due to the short time available between the fifth session of the Committee for the Review of the Implementation of the Convention and the eighth session of the Conference of the Parties.

The International Fund for Agricultural Development (IFAD)
as Administrators for the Global Mechanism of the UN Convention
to Combat Desertification (the Global Mechanism)
Rome

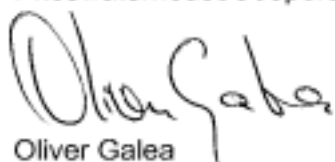
We have audited the accompanying financial statements of the Core Budget Administration Account of the Global Mechanism as at and for the year ended 31 December 2006. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of the Core Budget Administration Account of the Global Mechanism as at 31 December 2006, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Rome, 9 March 2007

PricewaterhouseCoopers SpA



Oliver Galea
(Partner)

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

Core Budget Administration Account

Financial Statements

For the years ended 31 December 2006 and 2005

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The Notes to the Financial Statements (Appendix F) form an integral part of the Financial Statements.

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Balance Sheet**Appendix A**

As at 31 December 2006 and 2005 (expressed in United States dollars)

	2006	2005
Assets		
Cash	285 078	1 785 078
Contributions receivable (Note 3)	1 128 125	1 064 648
Interfund receivables (Note 4)	1 185 199	-
Other receivables	45 294	2 827
Total Assets	2 643 696	2 852 553
Liabilities, Deferred Revenues and Retained Earnings		
Payables and liabilities (Note 5)	635 495	609 955
Interfund payables (Note 4)	1 689 922	1 910 000
Deferred contribution revenues (Note 3)	399 604	339 186
Retained earnings	(81 325)	(6 588)
Total Liabilities, Deferred Revenues and Retained Earnings	2 643 696	2 852 553

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Statement of Revenues and Expenses

Appendix B

For the years ending 31 December 2006 and 2005 (expressed in United States dollars)

	2006	2005
Total Revenues	2 007 782	1 842 062
Operating Expenses		
Staff salaries and benefits (Note 6)	(1 792 407)	(1 545 185)
Consultants and other non staff costs	(53 513)	(72 566)
Office and general expenses	(7 555)	(73 332)
Service charges	(153 200)	(150 160)
Bank charges	(1 107)	(819)
Total Operating Expenses	(2 007 782)	(1 842 062)
Total Revenues less Operating Expenses	-	-
Total foreign exchange rate movements (Note 7)	(74 737)	130 583
Transfer to Retained Earnings (Appendix C)	(74 737)	130 583

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Statement of Total Recognised Gains and Losses

Appendix C

For the years ended 31 December 2006 and 2005 (expressed in United States dollars)

	Total Retained Earnings
Retained Earnings as at 1 January 2005	(137 171)
Total revenues less expenses before the effect of foreign exchange rate movements	-
Net operating exchange gains	11
Net foreign exchange rate movements	<u>130 572</u>
Total foreign exchange rate movements	130 583
Retained Earnings as at 31 December 2005	(6 588)
Total revenues less expenses before the effect of foreign exchange rate movements	-
Net operating exchange gains	-
Net foreign exchange rate movements	<u>(74 737)</u>
Total foreign exchange rate movements	(74 737)
Retained Earnings as at 31 December 2006	(81 325)

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Statement of Cash Flows

Appendix D

For the years ended 31 December 2006 and 2005 (expressed in United States dollars)

	2006	2005
Cash flows from operating activities		
Contributions to Core Budget Administration Account	2 004 723	2 701 000
Payments of operating and administrative expenses	(2 044 223)	(1 877 930)
Payments to other funds	(1 460 559)	(827 242)
Net cash flows used in operating activities	(1 500 059)	(4 172)
Effects of exchange rate movements on cash	59	992
Net decrease in cash	(1 500 000)	(3 180)
Cash at beginning of year	1 785 078	1 788 258
Cash at end of period	285 078	1 785 078
Reconciliation of total revenues less expenses to net cash flows used in operating activities		
Total revenues less expenses before the effect of foreign exchange rate movements	-	-
Adjustments to reconcile total revenues less expenses to net cash flows provided by operations:		
- increase in other assets	(42 467)	(2 827)
- increase/(decrease) in liabilities	6 025	(33 053)
- increase in net interfund payables	(1 460 559)	(827 242)
- increase in deferred revenues	60 418	185 099
- (increase) /decrease in contributions receivable	(63 476)	673 840
- net operating foreign exchange rate movements	-	11
	(1 500 059)	(4 172)

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Statement of Resources Available for Commitment

Appendix E

As at 31 December 2006 and 2005 (expressed in United States dollars)

	2006	2005
Cash	285 078	1 785 078
Contributions receivable	1 128 125	1 064 648
Interfund receivables	1 185 199	-
Other receivables	45 294	2 827
	2 643 696	2 852 553
Less: Payables and liabilities	(635 495)	(609 955)
Interfund payables	(1 689 922)	(1 910 000)
	(2 325 417)	(2 519 955)
Resources Available for Commitment (Note 2(h))	318 279	332 598

Note to Resources Available for Commitment	2006	2005
Resources available	318 279	332 598
Cumulative exchange rate movements	81 325	6 588
Deferred contribution revenues (Note 3)	399 604	339 186

Global Mechanism of the UN Convention to Combat Desertification Core Budget Administration Account

Notes to the Financial Statements

Appendix F

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 Managing Director of the Global Mechanism reports directly to the President of IFAD.

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 TAG contributions from IFAD; and the Special Resources for CCD Finance account (SRCF), which contains TAG contributions from IFAD and contributions from other donors.

Note 2: Summary of Significant Accounting and Related Policies

The principal accounting policies applied in the preparation of these consolidated 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) (formerly called International Accounting Standards). 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.

(b) Administrative and Operating Expenses, including Service Charge

The President's Bulletin - Accounts of the Global Mechanism (GM) of 4 October 1999, 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 2006, as 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.

Global Mechanism of the UN Convention to Combat Desertification Core Budget Administration Account

(d) Translation and Conversion of Currencies

IFAD, on behalf of 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 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 Revenue and Expenses.

(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 long service leave are recognised 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) Statement of Cash Flows

For the purpose of the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and deposits held at call with banks.

(h) Resources Available for Commitment

Resources available for commitment are those resources that have been contributed by UNCCD. 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.

Note 3: Statement of Contributions and Deferred Revenue

Donor	USD	Received	Receivable	Recognised Revenues	Recognised in year	Deferred Revenues
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	1 458 000	-	1 499 141		(41 141)
UNCCD 2002	1 876 284	1 876 284	-	1 794 067		82 217
UNCCD 2003	1 930 284	1 930 284	-	2 152 115		(221 831)
UNCCD 2004	1 969 920	1 969 920	-	1 881 744		88 176
UNCCD 2005	2 027 160	2 027 160	-	1 842 062		185 098
UNCCD 2006	2 068 200	940 075	1 128 125 ¹	2 007 782	2 007 782	60 418
Balance at 31 December 2006	13 720 822	12 592 697	1 128 125	13 321 218	2 007 782	399 604
Balance at 31 December 2005	11 652 622	10 587 974	1 064 648	11 313 436	1 842 062	339 186

Note 4: Interfund Receivables and Payables

Interfund receivables and payables represent receivables due from/payables due to IFAD and other GM funds, during the course of operations.

Note 5: Payables and Liabilities

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

	2006	2005
Staff salaries and benefits	521 645	523 620
Duty travel	56 615	33 119
Consultants	22 430	22 430
Administrative expenditures	34 805	30 786
Total	635 495	609 955

Note 6: Staff Salaries and Benefits

The Global Mechanism had 14 employees as at 31 December 2006 (31 December 2005: 14 employees). These employees are on IFAD's payroll and are therefore part of the benefit system offered by IFAD. These benefits include the participation in the United Nations Joint Staff Pension Fund and in the After Service Medical Coverage administered by FAO. For further information regarding these benefits, refer to the Financial Statements of IFAD.

IFAD charges the Global Mechanism for the costs incurred on behalf of the employees of the Global Mechanism.

¹ UNCCD receivables are intended to be encashed within one year.

Note 7: Net Foreign Exchange (Losses)/Gains

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

	2006	2005
As at 1 January	(6 588)	(137 171)
Net foreign exchange rate movements:	(74 737)	130 583
As at 31 December	(81 325)	(6 588)

**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Annex 1

Statement of The Core Budget Administration Account

As at 31 December 2006 and 2005 (expressed in United States dollars)

	2006	2005
Total Amount of Contribution	2 068 200	2 027 160
Amount available to commit brought forward from prior year	332 598	16 917
Expenses		
Staff Costs		
Professional and general service	(1 792 407)	(1 430 939)
Temporary Support Staff		(114 246)
	(1 792 407)	(1 545 185)
Other Operating Expenses		
Consultants and other non staff costs	(45 142)	(63 719)
Office and general expenses	(7 555)	(73 332)
External audit fees	(8 371)	(8 847)
Service charges	(153 200)	(150 160)
Bank charges	(1 107)	(819)
	(215 375)	(296 877)
Total amount expended in the period	(2 007 782)	(1 842 062)
	393 016	202 015
Net foreign exchange rate movements	(74 737)	130 583
Total Amount Available for Commitment	318 279	332 598
