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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 2004–2005 for the years ended 31 December 2005
and 2004 (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 2005 and 2004" 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 International Fund for Agricultural Development (IFAD)
as Administrators for the Global Mechanism of the UN Convention
to Combat Desertification (the Global Mechanism)
Rome

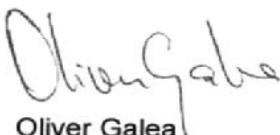
We have audited the accompanying financial statements of the Core Budget Administration Account of the Global Mechanism as at and for the year ended 31 December 2005. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is to express an opinion on 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 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Rome, 17 March 2006

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 2005 and 2004

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The Notes and Annex to the Financial Statements form an integral part of the Financial Statements.

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION
CORE BUDGET ADMINISTRATION ACCOUNT**

Appendix A

STATEMENT OF THE CORE BUDGET ADMINISTRATION ACCOUNT

For years ending 31 December 2005 and 2004

(US Dollars)

2005 2004

	2005	2004
Total Revenues	1 842 062	1 881 744
Operating Expenses		
Staff Salaries and Benefits	(1 545 185)	(1 526 457)
Office and General Expenses	(73 332)	(155 397)
Consultants and Other Non Staff Costs	(72 566)	(52 934)
Bank Charges	(819)	(1 036)
Service Charges	(150 160)	(145 920)
Total Expenses	(1 842 062)	(1 881 744)
Total Revenues less Expenses	-	-
Add: Net Foreign Exchange Rate Movements	130 583	(85 744)
Transfer to Retained Earnings	130 583	(85 744)

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION
CORE BUDGET ADMINISTRATION ACCOUNT**

Appendix B

**STATEMENT OF CHANGES IN RETAINED EARNINGS
For years ending 31 December 2005 and 2004
(US Dollars)**

Opening Balance as at 1 January 2004	(51 427)
Total Revenues less Expenses	-
Net exchange rate movements	(85 744)
Retained Earnings as at 31 December 2004	(137 171)
Total Revenues less Expenses	-
Net exchange rate movements	130 583
Retained Earnings as at 31 December 2005	(6 588)

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION
CORE BUDGET ADMINISTRATION ACCOUNT**

Appendix C

BALANCE SHEET

As at 31 December 2005 and 2004

(US Dollars)

	2005	2004
Assets		
Cash	1 785 078	1 788 258
Contributions Receivable (Note 3)	1 064 648	1 738 489
Interfund Receivables	-	1 159 755
Other Receivables	2 827	-
Total Assets	2 852 553	4 686 502
Liabilities, Deferred Revenues and Retained Earnings		
Payables and Accrued Liabilities (Note 5)	609 955	660 955
Interfund Payables	1 910 000	4 008 630
Deferred Contribution Revenues (Note 3)	339 186	154 088
Retained Earnings	(6 588)	(137 171)
Total Liabilities, Deferred Revenues and Retained Earnings	2 852 553	4 686 502

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION
CORE BUDGET ADMINISTRATION ACCOUNT**

Appendix D

STATEMENT OF CASH FLOWS

For the years ended 31 December 2005 and 2004

(US Dollars)

	2005	2004
Cash flows from Operating Activities		
Contributions to Core Budget Administration Account	2 701 000	1 700 000
Operating and Administrative Expenses Paid	(1 877 930)	-
Cash Payments to Other Funds	(827 242)	-
Net Cash (used in)/provided by Operating Activities	(4 172)	1 700 000
Net Exchange Movements in Cash	992	-
Net (Decrease)/Increase in Cash	(3 180)	1 700 000
Cash at beginning of the year	1 788 258	88 258
Cash at the end of the year	1 785 078	1 788 258
Reconciliation of total revenues less expenses to net cash provided by operating activities		
Total Revenues less Expenses	-	-
Increase in Other Assets	(2 827)	-
Decrease in Accrued Liabilities	(33 053)	(33 921)
(Decrease)/Increase in Interfund Payables/Receivables	(827 242)	2 001 409
Increase in Deferred Revenues	185 099	88 177
Increase/(Decrease) in Contribution Receivables	673 840	(269 921)
Net exchange rate movements	11	(85 744)
	(4 172)	1 700 000

**GLOBAL MECHANISM OF THE UN CONVENTION
TO COMBAT DESERTIFICATION
CORE BUDGET ADMINISTRATION
ACCOUNT**

Appendix E

**STATEMENT OF RESOURCES AVAILABLE FOR COMMITMENT
As at 31 December 2005 and 2004
(US Dollars)**

	2005	2004
Cash	1 785 078	1 788 258
Contributions Receivable	1 064 648	1 738 489
Interfund Receivables	-	1 159 755
Other Receivables	2 827	-
	2 852 553	4 686 502
Less:		
Accrued Liabilities	(609 955)	(660 955)
Interfund Payables	(1 910 000)	(4 008 630)
	(2 519 955)	(4 669 585)
Resources Available (Note 2(g))	332 598	16 917

	2005	2004
Reconciliation of Resources Available		
Resources Available	332 598	16 917
Plus cumulative exchange movements	6 588	137 171
Deferred Contribution Revenues (Note 3)	339 186	154 088

Global Mechanism of the UN Convention to Combat Desertification NOTES TO THE FINANCIAL STATEMENTS

Core Budget Administration Account

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 Policies

(a) Basis of Accounting

The Financial Statements of the Global Mechanism are prepared in accordance with International Financial Reporting Standards (IFRS) (formerly called International Accounting Standards). Revenue 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 exchange rate movements.

Some of the prior year’s information has been reclassified to conform to the current year’s presentation.

(b) Administration 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 2005, 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.

Administrative expenses in the Statement of Revenues and Expenses (Appendix A) have been reclassified according to the nature of expenses rather than budget categories as previously. The prior year figures have been restated accordingly.

(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 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.

(d) Translation and Conversion of Currencies

- (i) 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.
- (ii) The Global Mechanism has translated all items in its Balance Sheet at market rates of exchange at year-end.
- (iii) 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.
- (iv) The exchange adjustments arising from the translation of assets and liabilities in currencies other than the United States Dollar are credited or charged to the Statement of Revenue and Expenses.

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

	2005	2004
Opening balance at 1 January	(137 171)	(51 427)
Exchange movements for the year on:		
Payables and Accrued Liabilities	130 583	(85 744)
Closing balance at 31 December	(6 588)	(137 171)

(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. A provision is also made for the estimated liability applicable to the Global Mechanism for After Service Medical Coverage.

(f) 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.

(g) 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	0	725 686		261 288
UNCCD 2000	1 404 000	1 404 000	0	1 418 621		(14 621)
UNCCD 2001	1 458 000	1 458 000	0	1 499 141		(41 141)
UNCCD 2002	1 876 284	1 876 284	0	1 794 067		82 217
UNCCD 2003	1 930 284	1 930 284	0	2 152 115		(221 831)
UNCCD 2004	1 969 920	1 969 920	0	1 881 744		88 176
UNCCD 2005	2 027 160	962 512	1 064 648 ¹	1 842 062	1 842 062	185 098
Balance at 31 December 2005	11 652 622	10 587 974	1 064 648	11 313 436	1 842 062	339 186
Balance at 31 December 2004	9 625 463	7 886 974	1 738 489	9 471 375	1 881 744	154 088

¹ UNCCD receivables are encashed within one year.

Note 4: Staff Salaries and Benefits

The Global Mechanism had 14 employees as at 31 December 2005 (31 December 2004: 15 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.

Note 5: Payables and Accrued Liabilities

This comprises the following balances:

	2005	2004
Staff salaries and benefits	(523 620)	(569 862)
Staff travel	(33 119)	(25 965)
Consultants	(22 430)	(4 790)
Administrative expenditures	(30 786)	(60 338)
Total	(609 955)	(660 955)

Note 6: 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.

**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 2005 and 2004
(US Dollars)**

	2005	2004
Total Amount of Contribution	2 027 160	1 969 921
Amount available to commit brought forward from prior year	16 917	14 484
Expenses		
Staff Costs		
Professional and General Service	(1 430 939)	(1 416 904)
Temporary Support Staff	(114 246)	(109 553)
	(1 545 185)	(1 526 457)
Operating Expenses		
External Auditor's Fees	(8 847)	(6 796)
Office and General Expenses	(64 485)	(148 601)
Consultants and Other non Staff Costs	(72 566)	(52 934)
Bank Charges	(819)	(1 036)
Service Charge	(150 160)	(145 920)
	(296 877)	(355 286)
Total amount expended in the period	(1 842 062)	(1 881 744)
	202 015	102 661
Add: Net Exchange Rate Movements	130 583	(85 744)
Total Amount Available for Commitment	332 598	16 917
