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Desertification**

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Item 7 (b) of the provisional agenda

Programme and budget

Financial performance for the Convention trust funds

Financial performance for the Convention trust funds

Note by the secretariat

Addendum

**Audited financial statements for the Convention trust funds for
the biennium 2008–2009, including the audit report of
PricewaterhouseCoopers SpA as at 31 December 2008
for the Global Mechanism**

Summary

In decision 1/COP.ES-1, the Conference of the Parties (COP) requested the Executive Secretary to report to the COP at its ninth session on the financial status of the Convention trust funds.

This document contains the audited financial statements as at and for the year ended 31 December 2008 for the Core Budget Administration Account of the Global Mechanism of the United Nations Convention to Combat Desertification, as submitted by the Global Mechanism.

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

FINANCIAL STATEMENTS AS AT 31 DECEMBER 2008

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

Core Budget Administration Account

Financial Statements

For the year ended 31 December 2008

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 - Appendix B** - Statement of Revenues and Expenses
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- Report of the External Auditor
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**Global Mechanism of the UN Convention to Combat Desertification
Core Budget Administration Account**

Balance Sheet

Appendix A

As at 31 December 2008 and 2007(expressed in United States dollars)

	2008	2007
Assets		
Cash	-	-
Contributions receivable (Note 3)	802 916	1 401 965
Provisions on Contributions Receivable (note 2 - e)	(214 723)	(449 768)
Interfund receivables (Note 4)	692 693	69 500
Other receivables	38 945	37 617
Total Assets	1 319 831	1 059 314
Liabilities and equity		
Payables and liabilities (Note 5)	742 005	806 762
Interfund payables (Note 4)	107 365	739 327
Deferred contribution revenues (Note 3)	1 057 017	-
Retained earnings	(586 556)	(486 775)
Total Liabilities and equity	1 319 831	1 059 314

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

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

Appendix B

Statement of Revenues and Expenses

For the years ending 31 December 2008 and 2007 (expressed in United States dollars)

	2008	2 007
Revenues		
Operational revenues	1 686 733	2 528 284
Exceptional revenues on receivables (Note 2 – c)	-	96 266
Impact of foreign exchange rate movements	(99 781)	(110 969)
Total Revenues	1 586 952	2 513 581
Operating Expenses		
Staff salaries and benefits (Note 6)	(1 581 508)	(2 296 294)
Consultants and other non-staff costs	(150 000)	-
Office and general expenses	-	(15 279)
Service charges	(190 270)	(157 680)
Bank charges	-	(10)
Provisions on receivables	235 045	(449 768)
Total Operating Expenses	(1 686 733)	(2 919 031)
Total Revenues less Operating Expenses	(99 781)	(405 450)

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

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

Statement of Total Retained Earnings

Appendix C

For the years ended 31 December 2008 and 2007 (expressed in United States dollars)

	Total Retained Earnings
Retained Earnings as at 1 January 2007	(81 325)
Total revenues less operating expenses	<u>(405 450)</u>
Retained Earnings as at 31 December 2007	(486 775)
Total revenues less operating expenses	<u>(99 781)</u>
Retained Earnings as at 31 December 2008	(586 556)

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

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

Cash Flow statement

Appendix D

For the years ended 31 December 2008 and 2007 (expressed in United States dollars)

	2008	2007
Cash flows from operating activities		
Contributions to Core Budget Administration Account	3 342 801	1 951 096
Payments of operating and administrative expenses	(1 992 598)	(2 404 684)
Payments from / (to) other funds	(1 349 144)	64 573
Other income	(1 329)	103 937
Net cash flows from operating activities	(270)	(285 078)
Effects of exchange rate movements on cash	270	-
Net decrease in cash and cash equivalents	-	(285 078)
Cash and cash equivalent at beginning of the period	-	285 078
Cash and cash equivalent at end of the period	-	-

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

Global Mechanism of the UN Convention to Combat Desertification

Core Budget Administration Account

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 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 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.

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.

(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 2008, 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. In 2007 a provision of USD 449 768 was set as portion of receivable amounts due for the biennium 2004-2005. In 2008 such provision was reduced to USD 214 723 due to decrease of receivables amounts due for previous years until 2005. UNCCD confirmed the uncertainty for liquidation. Employee entitlements to annual leave and long 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 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 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. The amount of receivable is displayed with reference to each specific biennium to which is related.

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	Received in 2008	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	1 386 946	71 054	-	1 499 141		(41 141)
UNCCD 2002	1 876 284	1 200 200	513 992	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	63 477	-	2 007 782		60 418
UNCCD 2007	2 128 680	1 589 950	250 253	288 477	2 528 284		(399 604)
UNCCD 2008*	2 743 751	-	2 444 025	299 726	1 686 733	1 686 733	1 057 017
Balance at 31 December 2008	18 593 253	14 447 536	3 342 801	802 916	17 536 235	1 686 733	1 057 017
Balance at 31 December 2007	15 849 502	12 496 440		1 401 965	15 849 502	2 528 284	-

In 2007 was set a provision of USD 449 768 to partially cover old outstanding receivables, in 2008 the provision was reduced to USD 214 723 due to partial encashment of old outstanding receivables

*2008 GM budget was approved at EUR 1 847 880 of which EUR 136 880 as overhead for IFAD. USD amounts presented are translated as at 31/12/2008

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

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:

	2008	2007
Staff salaries and benefits	588 929	794 044
Duty travel	3 076	4 619
Consultants	150 000	-
Administrative expenditures	-	8 099
Total	742 005	806 762

Note 6: Staff Salaries and Benefits

The Global Mechanism-CBAA had 12 employees as at 31 December 2008 (31 December 2007: 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.

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

Note 7: Net Foreign Exchange (Losses)/Gains

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

	2008	2007
As at 1 January	(486 775)	(81 325)
Net foreign exchange rate movements:	(99 781)	(405 450)
As at 31 December	(586 556)	(486 775)

Note 8: Contingent Liabilities

The Global Mechanism has contingent liabilities in respect of an appeal presented by a former Global Mechanism staff to the International Labour Organization Administrative Tribunal.

AUDITORS' REPORT

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

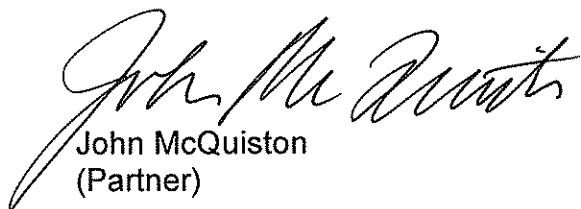
We have audited the accompanying financial statements (Appendices A through E) of the Core Budget Administration Account of the Global Mechanism as at and for the year ended 31 December 2008. These financial statements are the responsibility of the Global Mechanism's management. Our responsibility is 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 of 31 December 2008, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Rome, 15 April 2009

PricewaterhouseCoopers SpA


John McQuiston
(Partner)

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

Appendix F

Statement of Resources Available for Commitment

As at 31 December 2008 and 2007 (expressed in United States dollars)

	2008	2007
Cash	-	-
Contributions receivable	802 916	1 401 965
Provisions on Contributions Receivable	(214 723)	(449 768)
Interfund receivables	692 693	69 500
Other receivables	38 945	37 617
	1 319 831	1 059 314
Less: Payables and liabilities	(742 005)	(806 762)
Interfund payables	(107 365)	(739 327)
	(849 370)	(1 546 089)
Resources Available for Commitment	470 461	(486 775)

Note to Resources Available for Commitment	2008	2007
Resources available	470 461	(486 775)
Cumulative retained earnings	586 556	486 775
Deferred contribution revenues (Note 3)	1 057 017	-