

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.2/8
May 1, 2009

Joint Meeting of the CTF and SCF Trust Fund Committee
Washington, D.C.
May 12, 2009

TRUSTEE REPORT FINANCIAL STATUS OF THE STRATEGIC CLIMATE FUND

I. Introduction

1. This report of the Trustee to the Committee of the Strategic Climate Fund (SCF) provides information on the financial status of the SCF Trust Fund. The paper is divided into six sections. Following this Section I of introduction, Section II presents the status of pledges, contributions and total receipts to the SCF; Section III reports on the total funding decisions made by the SCF Trust Fund Committee; Section IV shows funding availability of the Pilot Program for Climate Resilience (PPCR) which is currently the only targeted program officially established under the SCF; Section V reports on the activities undertaken by the Trustee to implement the SCF Trust Fund; and Section VI presents the reporting templates that the Trustee intends to use to report on the financial status of each targeted program to the SCF Trust Fund Committee, using the PPCR as an example.

II. Status of Pledges, Contributions and Total Receipts

2. Table 1 shows the status of pledges, contributions and total receipts to the SCF Trust Fund. Pledges represent a donor's expression of interest to make a contribution and are not legally binding. The total amount pledged by eight countries to the SCF is US\$ eq. 1.7 billion¹ as of April 15, 2009. Since the last meeting of the SCF Trust Fund Committee in January 2009, there have been no new pledged resources to the SCF.

3. Effective contributions represent countersigned Contribution Agreements. Table 1 shows the amount of contribution specified in the agreement ("Total"), the amount of contribution received by the Trustee ("Receipts") and the amount of the contribution yet to be paid-in ("Outstanding").

4. To make a contribution to the SCF, each contributor needs to enter into a Contribution Agreement with the Trustee. Contributors may make contributions in the form of (i) a Grant Contribution or (ii) a Capital Contribution². Grant or Capital Contributions to the Trust Fund may be made by means of payment in cash, or with the agreement of the Trustee, by the delivery to the Trustee of promissory notes payable on demand or similar obligations in a form acceptable to the Trustee.

5. As of the date of this report, the Trustee has entered into Contribution Agreements with Canada and the United Kingdom. The Trustee received CAD 85 million in cash from the Government of Canada and GBP 100 million from the Government of the United Kingdom in form of promissory notes for the SCF. The total receipts for the PPCR amount to USD eq. 95.8 million. The Trustee is negotiating with the remaining contributors to formalize their pledges to the SCF through a Contribution Agreement.

¹ This includes the amount pledged under the Strategic Climate Fund and allocated to the Clean Technology Fund.

² Capital contribution may be used for any purposes, except that no more than 10% of the contribution will be used for financing grants.

STRATEGIC CLIMATE FUND
Table 1. Status of Pledges, Contributions and Receipts
as of April 15, 2009
(in millions)

<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution c/</u>		
		<u>Currency</u>	<u>Amount a/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Australia	Grant	AUD	50.0	-	-	-
Canada	Grant	CAD	100.0	100.0	85.0	15.0
Germany	Grant	EUR	50.0	-	-	-
Japan	Grant	USD	200.0	-	-	-
Netherlands	Grant	USD	50.0	-	-	-
Norway	Grant	USD	50.0	-	-	-
Switzerland	Grant	USD	20.0	-	-	-
United Kingdom b/	Capital	GBP	800.0	800.0	100.0	700.0

a/ Total value amounts to USD eq. 1.7 billion.

b/ Includes allocation of GBP 385 million to the Clean Technology Fund, GBP 3.5 million to Readiness Fund of the Forest Carbon Partnership Facility (FCPF), GBP 11.5 million to Carbon Fund of the FCPF and GBP 50 million to the Congo Basin Fund.

c/ Represents countersigned contribution agreement.

6. Tables 1a through 1e show the details by contributor to each established and planned sub-program of the SCF.

STRATEGIC CLIMATE FUND
Table 1a. Status of Pledges, Contributions and Receipts - PPCR
as of April 15, 2009
(in millions)

<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution b/</u>		
		<u>Currency</u>	<u>Amount a/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Australia	Grant	AUD	40.0	-	-	-
Canada	Grant	CAD	100.0	100.0	85.0	15.0
Germany	Grant	EUR	50.0	-	-	-
Japan	Grant	USD	50.0	-	-	-
United Kingdom	Capital	GBP	225.0	225.0	17.5	207.5

a/ Total value amounts to USD eq. 546 million.

b/ Represents countersigned contribution agreement.

STRATEGIC CLIMATE FUND
Table 1b. Status of Pledges, Contributions and Receipts - FIP
as of April 15, 2009
(in millions)

<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution b/</u>		
		<u>Currency</u>	<u>Amount a/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Australia	Grant	AUD	10.0	-	-	-
Norway	Grant	USD	50.0	-	-	-
United Kingdom	Capital	GBP	100.0	100.0 c/	12.0	88.0

a/ Total value amounts to USD eq. 204 million.

b/ Represents countersigned contribution agreement.

c/ Represents provisional allocation.

STRATEGIC CLIMATE FUND
Table 1c. Status of Pledges, Contributions and Receipts - SREP
as of April 15, 2009
(in millions)

<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution b/</u>		
		<u>Currency</u>	<u>Amount a/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Netherlands	Grant	USD	50.0	-	-	-
Switzerland	Grant	USD	20.0	-	-	-
United Kingdom	Capital	GBP	25.0	25.0 c/	5.0	20.0

a/ Total value amounts to USD eq. 107 million.

b/ Represents countersigned contribution agreement.

c/ Represents provisional allocation.

STRATEGIC CLIMATE FUND
Table 1d. Status of Pledges, Contributions and Receipts - Other Programs
as of April 15, 2009
(in millions)

<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution c/</u>		
		<u>Currency</u>	<u>Amount a/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
United Kingdom b/	Capital	GBP	450.0	450.0	65.5	384.5

a/ Total value amounts to USD eq. 662 million.

b/ Includes allocation of GBP 385 million to the Clean Technology Fund, GBP 3.5 million to Readiness Fund of the Forest Carbon Partnership Facility (FCPF), GBP 11.5 million to Carbon Fund of the FCPF and GBP 50 million to the Congo Basin Fund.

c/ Represents countersigned contribution agreement.

STRATEGIC CLIMATE FUND						
Table 1e. Status of Pledges, Contributions and Receipts - Unallocated						
as of April 15, 2009						
(in millions)						
<u>Donor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution a/</u>		
		<u>Currency</u>	<u>Amount</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Japan	Grant	USD	150.0	-	-	-

a/ Represents countersigned contribution agreement.

III. Funding Decisions

7. The cumulative funding decisions made by the SCF Trust Fund Committee amount to about USD 5 million, of which USD 1.2 million represents the strategic plan preparation budget for the PPCR approved in November 2008. Table 2 shows the summary at the SCF level; Table 2a details the amount approved specifically for the PPCR.

STRATEGIC CLIMATE FUND	
Table 2: SCF - Cumulative Funding Decisions	
Inception to April 15, 2009	
(in USD millions)	
Administrative Budget a/	<u>3.7</u>
Total	3.7

a/ Represents the Trustee, the Administrative Unit and the MDBs Administrative Budget.

STRATEGIC CLIMATE FUND	
Table 2a: PPCR - Cumulative Funding Decisions	
Inception to April 15, 2009	
(in USD millions)	
Projects	-
Strategic Plan Preparation Budget	1.2
MBD Fees	<u>-</u>
Total	1.2

IV. Funding Availability

8. Funding availability refers to funds held in trust³ with no restrictions less funding decisions pending disbursement. The Trustee reports the schedule of funds available for each targeted programs under the SCF as funding decisions for programs and projects are made by each Sub-Committee⁴. Net funding availability in the PPCR sub-account is presented in Table 3. The total funds available to support PPCR Sub-Committee's funding decisions amount to USD 90.9 million.

STRATEGIC CLIMATE FUND		
Table 3. PPCR – Schedule of Funds Available		
as of April 15, 2009		
(in USD millions)		
<u>1. Funds held in Trust</u>		95.8
a. Cash	70.0	
b. Unencashed Promissory notes a/	25.8	
<u>2. Liquidity Reserve b/</u>		-
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>		95.8
<u>4. Funding Decisions pending disbursement</u>		4.9
a. Projects	-	
b. Strategic Plan Preparation Budget	1.2	
c. MBD Fees	-	
d. SCF Administrative Budget c/	3.7	
<u>5. Funds available to support PPCR Sub-Committee funding decisions (5 = 3 - 4)</u>		90.9
<hr/> a/ Valued on the basis of exchange rates of April 15, 2009. b/ Represents amount reserved to cover foreign exchange fluctuations and minimum liquidity requirements. c/ Once the SCF Trust Fund earns sufficient investment income, the Trustee will reimburse the amount used for the SCF administrative budget to the PPCR sub-account.		

³ Funds held in trust represent cash and investments as well as promissory notes and other instruments accepted by the Trustee.

⁴ Administrative budget for the SCF is approved by the SCF Trust Fund Committee. The approved budget will not be allocated to each sub-program; instead, the administrative budget will be allocated to the SCF Trust Fund itself.

V. Update on Trustee Activities

9. **Investment Management:** As presented last November, the funds of the SCF Trust Funds held in trust by the World Bank will be commingled with other trust fund assets administered by the World Bank Group in an investment portfolio (the “Pool”). The Pool is managed in accordance with the World Bank’s policies and procedures for the investment of trust funds administered by the World Bank. The overall strategy is geared towards (i) maintaining adequate liquidity to meet foreseeable cash flow needs; (ii) preserving capital (low probability of negative total returns over the course of a fiscal year); and (iii) maximizing investment returns. Investment income earned on the Trust Funds will be reported periodically by the Trustee to the Trust Fund Committee.

10. **Financial Procedures Agreement:** The Trustee held a two-day meeting with all the MDBs in Washington, DC to discuss the Financial Procedures Agreement setting out the terms and conditions for making commitments and cash transfers to the MDBs as well as reporting requirements to the Trustee. The Trustee and the MDBs discussed business process flows between the Trustee and the MDBs, reporting requirements to the Trustee and accounting and audit arrangements. The discussion also covered a wide range of legal issues, including sovereign guarantees and default provisions. The Trustee expects to conclude an agreement with each of the MDBs in the coming months.

11. **Accounting and Reporting:** Since the last Trust Fund Committee meetings, the Trustee had continued to evaluate the most appropriate basis of accounting for the SCF. The options that were considered include the special purpose basis of accounting, the cash basis of accounting,⁵ International Financial Reporting Standards (IFRS) and U.S. GAAP. After careful consideration, the Trustee has decided to use the special purpose basis of accounting, based on the following: (i) the preparation of financial statements under the IFRS or the U.S. GAAP will result in significant reporting requirements and efforts, which outweigh the benefits of preparing the financial statements under the IFRS or the U.S. GAAP; and (ii) cash basis financial statements will not adequately reflect the reality of the unique financial characteristics of the SCF. While the special purpose financial statements are subject to the same level of note disclosure and effort to prepare as the IFRS or the U.S. GAAP statements, it allows the Trustee some flexibility to tailor its financial statements to best reflect the complex structure and operations of the SCF. The Trustee will furnish the SCF Trust Fund Committee and each Contributor with copies of annual audited financial statements and auditor’s report as soon as practicable, after reach year end. However, the special purpose basis financial statements cannot be distributed beyond the SCF Trust Fund Committee members and Contributors to the SCF Trust Fund.⁶

12. The MDBs would also prepare annual audited special purpose financial statements. After consultations with the MDBs, the Trustee has decided that the fiscal

⁵ This method is modified to record the share in pooled cash and investments at fair value - consistent with other trust funds administered by the World Bank Group.

⁶ Under special purpose financial statements, external auditors will not permit their audit opinion to be disseminated to the public.

year end of the SCF Trust Fund for financial statement purposes will be December 31st, to be in line with the other MDBs.

13. Going forward, the Trustee will continue to define the specific accounting policies to be applied to different transactions, within the context of special purpose financial statements. In addition, the Trustee will discuss these items with the Trustee's external auditor and will provide an update to the SCF Trust Fund Committee if there are any changes to the approach.

14. **Systems Development:** In previous communications, the Trustee informed the Trust Fund Committees of the need to develop a stand-alone system for the Climate Investment Funds (CTF and SCF) to ensure the Trustee's ability to manage the complex and unique financial characteristics of the CIF, including management of the approved outgoing financing in the form of loans and guarantees, but also the incoming loans and capital contributions from the donors, in the case of the SCF. In addition, the system must support the SCF Trust Fund Committee in its decision-making on lending that is no more concessional than the incoming financing. The Trustee system will serve as a hub for the Committees, the Administrative Unit, and the MDBs. The system is expected to communicate electronically with the systems of the MDBs as well as the Administrative Unit system. All development will be coordinated with the MDBs and the Administrative Unit to ensure that applications that require 'cross-communication' with other systems are uniform and system-to-system communication can take place.

VI. **Reporting Framework for the Sub-Accounts**

15. Annex 1 through 3 represents the reporting templates that will be included in the next Trustee Report to provide the SCF Trust Fund Committee with additional financial information on the financial transactions of the Trust Fund.

Annex I

PILOT PROGRAM FOR CLIMATE RESILIENCE	
Cumulative Other Receipts	
as of xxx	
(in USD millions)	
<u>Investment Income</u>	-
<u>Reflows from MDBs</u> a/	-
ADB	-
AfDB	-
EBRD	-
IADB	-
IBRD	-
IFC	-
<u>Return of other funds from MDBs</u> b/	-
ADB	-
AfDB	-
EBRD	-
IADB	-
IBRD	-
IFC	-
Total Other Receipts	-
<hr/> a/ Includes principal repayment and any payment of interest, fee and dividend.	
b/ Includes return of unused funds	

PILOT PROGRAM FOR CLIMATE RESILIENCE	
Schedule of Cash Transfers	
as of xxx	
(in USD millions)	
<u>Projects, Project Preparation Grants, Fees and Strategic Plan Preparation Budget</u>	
ADB	-
AfDB	-
EBRD	-
IADB	-
IBRD	-
IFC	-
<u>Administrative Budget</u>	
ADB	-
AfDB	-
EBRD	-
IADB	-
IBRD	-
IFC	-
Administrative Unit	-
External Audit	-
Trustee	-
Total Cash Transfers	-

PILOT PROGRAM FOR CLIMATE RESILIENCE		
Schedule of Commitments and Cash Transfers by MDBs		
as of xxx		
(in USD millions)		
<u>Cumulative Commitments</u>		
ADB		-
AfDB		-
EBRD		-
IADB		-
IBRD		-
IFC		-
Total Commitments to the MDBs	(1)	-
<u>Cumulative Cash Transfers</u>		
ADB		-
AfDB		-
EBRD		-
IADB		-
IBRD		-
IFC		-
Total Cash Transferred to the MDBs	(2)	-
Liability to MDBs	(1) - (2)	-