

CLIMATE INVESTMENT FUNDS

SCF/TFC.5/4
March 5, 2010

Meeting of the SCF Trust Fund Committee
Manila, Philippines
March 16, 2010

TRUSTEE REPORT ON FINANCIAL STATUS OF THE SCF

Proposed Trust Fund Committee Decision

The Trust Fund Committee welcomes the report of the Trustee on the SCF Trust Fund document, SCF/TFC.5/4, and takes note of the status of pledges, contributions and total receipts to the SCF; the funding availability of the SCF Trust Fund; and the update of activities undertaken by the Trustee to manage the SCF Trust Fund.

The Trust Fund Committee encourages all contributors that have not yet completed a Contribution Agreement with the Trustee to do so expeditiously and to take steps to advance their payments to the Trust Fund.

The Trust Fund Committee welcomes the analysis prepared by the Trustee and the MDBs on the costs of keeping track of investment income to be earned on administrative budgets of the MDBs, and agrees [that given the small projected gain to the Trust Fund (less than USD500/year per MDB), and in the interest of cost effectiveness, the investment income earned on the MDB Administrative budget may be retained by the MDBs] [that the MDBs should be requested to return the investment income earned on the Administrative Budget to the SCF Trust Fund].

Introduction and Portfolio Summary

1. This report of the Trustee provides the Trust Fund Committee of the Strategic Climate Fund (SCF) with information on the financial status of the SCF Trust Fund. The paper is divided into five sections. Following this Section I of introduction and portfolio summary, 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), the Forest Investment Program (FIP) and the Scaling-Up Renewable Energy in Low Income Countries Program (SREP), which are the SCF targeted programs established under the SCF; and Section V reports on the update of activities undertaken by the Trustee to manage the SCF Trust Fund.

2. Table 1 presents an overall portfolio summary of the SCF Trust Fund as of January 31, 2010. The total pledges including contributions effective amount to USD 2.5 eq. billion, as further described in Section II. The funding decisions made by the SCF Trust Fund Committee and funding availability are discussed in detail in Section III and Section IV, respectively.

3. As shown in Table 2a through 2c, the considerable increase in the total pledges to the SCF is mainly driven by expectations as to the reallocation of the CTF pledge made by the U.S. to the SCF; it is important to note that the U.S. allocation across programs/fund is indicative and based only on an extrapolation of current U.S. allocation.

STRATEGIC CLIMATE FUND

Table 1: Portfolio Summary

Updated as of January 31, 2010

(in USD millions) a/

<u>1. Pledges / Contributions Effective</u>	2,511
a. Pledges	976
b. Contributions effective	1,535
<u>2. Resource Envelope</u>	2,512
a. Pledges	976
b. Resources received from Contributors b/	621
c. Installment receivables	914
d. Investment income	2
<u>3. Funding Decisions c/</u>	20
a. SCF Trust Fund Committee approved funding	20
of which disbursed	8
<u>4. Funding Availability</u>	200
a. Funds held in Trust with no restrictions d/	200
b. (-) Amounts set aside or committed pending disbursements for projects	-

a/ Valued on the basis of exchange rates of January 31, 2010.

b/ Includes funds transferred to the Clean Technology Fund.

c/ Funding Decisions include projects, fees and administrative budgets.

d/ Funds held in Trust with no restrictions represent the balance in the trust fund account, excluding the pledges and receivables.

Status of Pledges, Contributions and Total Receipts

4. Table 2 shows the status of pledges, contributions and total receipts to the SCF Trust Fund. Pledges represent a donor's expression of intent to make a contribution. The total amount pledged by ten countries to the SCF is USD eq. 2.5 billion¹ as of January 31, 2010. Since the last meeting of the SCF Trust Fund Committee in October 2009, Norway and the United States made additional pledges to the SCF. As shown in Table 2a through 2c, the considerable increase in the total pledges to the SCF is mainly driven by expectations as to the reallocation of the CTF pledge made by the U.S. to the SCF; it is important to note that the U.S. allocation across programs/fund is indicative and based only on an extrapolation of current U.S. allocation.

5. Effective contributions represent conversion of pledges into commitments by way of countersigned Contribution Agreements/Arrangements. Table 2 shows the amount of contribution specified in the agreement/arrangement ("Total"), the amount of

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

contribution received by the Trustee (“Receipts”) and the amount of the contribution yet to be paid-in (“Outstanding”).

6. To make a contribution to the SCF, each contributor needs to enter into a Contribution Agreement/Arrangement 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.

7. In December 2009, the Program for Scaling-Up Renewable Energy in Low Income Countries (SREP) was launched when the pledges for the SREP exceeded the minimum threshold of USD 250 million with the announcement of financial support of USD 50 million by the United States.

8. Tables 2a through 2c show the contribution details by contributor to each program. Since the last Trust Fund Committee meetings in October 2009, Denmark (PPCR and FIP), Germany (PPCR) and Norway (PPCR and SREP)³ have entered into Contribution Agreements with the Trustee⁴. Since last reported, the Trustee received payments totaling USD eq. 38 million from the following donors: Canada (CAD 15 million – its final payment), Denmark (DKK 65 million), Germany (EUR 3 million) and Norway (NOK 45 million).

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

³ Norway has also entered into its Contribution Agreement for FIP with the Trustee in February 2010.

⁴ The Contribution Agreement with Japan will be finalized shortly (the Trustee is waiting for countersignature of the Agreement from Japan.)

STRATEGIC CLIMATE FUND
Table 2. Status of Pledges, Contributions and Receipts
as of January 31, 2010
(in millions)

Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Total	Receipts	Outstanding
Australia	Grant	AUD	50	50	36	14
Canada	Grant	CAD	100	100	100	-
Denmark	Grant	DKK	130	65	65	-
Germany	Grant	EUR	50	50	3	47
Japan	Grant	USD	200	-	-	-
Netherlands	Grant	EUR	54	-	-	-
Norway c/	Grant	NOK	195	195	45	150
	Grant	USD	150	-	-	-
Switzerland	Grant	USD	20	-	-	-
United Kingdom d/	Capital	GBP	800	800	300	500
United States e/	Grant	USD	508	-	-	-

a/ Total value amounts to USD eq. 2.5 billion.

b/ Represents countersigned contribution agreement/arrangement.

c/ Norway's pledge to Forest Investment Program was made in USD and to Pilot Program for Climate Resilience and Scaling Up Renewable Energy in NOK.

d/ 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.

e/ The total pledge made by the US to the CIFs remains \$2 billion; the allocation across the programs is indicative and based on an extrapolation of current U.S. allocations.

STRATEGIC CLIMATE FUND
Table 2a. PPCR - Status of Pledges, Contributions and Receipts
as of January 31, 2010
(in millions)

Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Australia	Grant	AUD	40	40	26	14
Canada	Grant	CAD	100	100	100	-
Denmark	Grant	DKK	38	38	38	-
Germany	Grant	EUR	50	50	3	47
Japan	Grant	USD	100	-	-	-
Norway	Grant	NOK	45	45	45	-
United Kingdom	Capital	GBP	225	225	23	202
United States c/	Grant	USD	290	-	-	-

a/ Total value amounts to USD eq. 967 million.

b/ Represents countersigned contribution agreement/arrangement.

c/ The total pledge made by the US to the CIFs remains \$2 billion; the allocation across the programs is indicative and based on an extrapolation of current U.S. allocations.

STRATEGIC CLIMATE FUND
Table 2b. FIP - Status of Pledges, Contributions and Receipts
as of January 31, 2010
(in millions)

Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Australia	Grant	AUD	10	10	10	-
Denmark c/	Grant	DKK	54	27	27	-
Japan	Grant	USD	60	-	-	-
Norway d/	Grant	USD	150	-	-	-
United Kingdom e/	Capital	GBP	100	100	12	88
United States f/	Grant	USD	168	-	-	-

a/ Total value amounts to USD eq. 558 million.

b/ Represents countersigned contribution agreement/arrangement.

c/ Denmark's pledge to Forest Investment Program was made in USD, but the contribution was made effective in DKK.

d/ USD 50 million will be released after January 2010, with a higher level of funding to be released over the following two years contingent upon (i) the significant participation of other donors; (ii) operational progress of the program; and (iii) outcome of UNFCCC deliberations on financing for REDD.

e/ The UK pledge is GBP 50 million, with up to a further GBP 50 million available contingent upon (i) operational progress of the program and (ii) the outcome of wider deliberations on interim forest financing.

f/ The total pledge made by the US to the CIFs remains \$2 billion; the allocation across the programs is indicative and based on an extrapolation of current U.S. allocations.

STRATEGIC CLIMATE FUND
Table 2c. SREP - Status of Pledges, Contributions and Receipts
as of January 31, 2010
(in millions)

Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Japan	Grant	USD	40	-	-	-
Netherlands	Grant	EUR	54	-	-	-
Norway	Grant	NOK	150	150	-	150
Switzerland	Grant	USD	20	-	-	-
United Kingdom	Capital	GBP	50	50 c/	15	35
United States d/	Grant	USD	50	-	-	-

a/ Total value amounts to USD eq. 292 million.

b/ Represents countersigned contribution agreement/arrangement.

c/ Represents provisional allocation.

d/ The total pledge made by the US to the CIFs remains \$2 billion; the allocation across the programs is indicative and based on an extrapolation of current U.S. allocations.

Funding Decisions

9. The SCF Trust Fund Committee approves allocation of SCF resources for administrative budget, while the SCF Sub-Committees approve SCF financing for programs and projects under the respective targeted programs. The cumulative funding

decisions made by the SCF Trust Fund Committee amount to approximately USD 20 million (Table 3). In accordance with the Contribution Agreements/Arrangements, commitments and transfers of the administrative budgets are applied first, against the investment income earned, and second, against all other programs on a pro rata basis calculated based on the cash balance of funds in each program. Accordingly, the USD 20 million approved for administrative budget was allocated against the investment income earned in the fund to date followed by the cash balance of each program on a pro rata basis.

STRATEGIC CLIMATE FUND	
Table 3: SCF - Cumulative Funding Decisions	
Inception to January 31, 2010 (in USD millions)	
Administrative Budget a/	20
Total	20
a/ Represents FY09 and FY10 Administrative Budget for the Trustee, the Administrative Unit and the MDBs.	

Funding Availability

10. Funding availability refers to funds held in trust⁵ with no restrictions less funding decisions pending disbursement. The Trustee reports the schedule of funds available for each targeted program under the SCF as funding decisions for programs and projects are made by each Sub-Committee⁶. As show in Table 4a through 4c, the total funds available for PPCR, FIP and SREP as of January 31, 2010 amount to USD 146 million, USD 31 million and USD 24 million, respectively.

⁵ Funds held in trust represent cumulative receipts less cumulative disbursements.

⁶ Administrative budget for the SCF is approved by the SCF Trust Fund Committee.

STRATEGIC CLIMATE FUND
Table 4a. PPCR – Schedule of Funds Available
as of January 31, 2010
(in USD millions)

<u>1. Funds held in Trust</u>		161
a. Cash	133	
b. Unencashed Promissory Notes a/	27	
<u>2. Financial Reserve</u> b/		-
<u>3. Funds set aside for Administrative Budget</u> c/		15
<u>4. Funds held in Trust with no restrictions (4 = 1 - 2 - 3)</u>		146
<u>5. Funding Decisions pending disbursement</u>		-
a. Projects	-	
b. MDB Fees	-	
<u>6. Funds available to support PPCR Sub-Committee funding decisions (6 = 4 - 5)</u>		<u>146</u>

a/ Valued on the basis of exchange rates of January 31, 2010.

b/ Represents amount reserved to cover foreign exchange fluctuations and minimum liquidity requirements.

c/ Calculated on a pro rata basis based on the cash balance of funds in each program.

STRATEGIC CLIMATE FUND
Table 4b. FIP – Schedule of Funds Available
as of January 31, 2010
(in USD millions)

<u>1. Funds held in Trust</u>		33
a. Cash	18	
b. Unencashed Promissory Notes a/	14	
<u>2. Financial Reserve</u> b/		-
<u>3. Funds set aside for Administrative Budget</u> c/		2
<u>4. Funds held in Trust with no restrictions (4 = 1 - 2 - 3)</u>		31
<u>5. Funding Decisions pending disbursement</u>		-
a. Projects	-	
b. MDB Fees	-	
<u>6. Funds available to support FIP Sub-Committee funding decisions (6 = 4 - 5)</u>		<u>31</u>

a/ Valued on the basis of exchange rates of January 31, 2010.

b/ Represents amount reserved to cover foreign exchange fluctuations and minimum liquidity requirements.

c/ Calculated on a pro rata basis based on the cash balance of funds in each program.

STRATEGIC CLIMATE FUND
Table 4c. SREP – Schedule of Funds Available
as of January 31, 2010
(in USD millions)

<u>1. Funds held in Trust</u>		24
a. Cash	7	
b. Unencashed Promissory notes a/	18	
<u>2. Financial Reserve</u> b/		-
<u>3. Funds set aside for Administrative Budget</u> c/		1
<u>4. Funds held in Trust with no restrictions (4 = 1 - 2 - 3)</u>		24
<u>5. Funding Decisions pending disbursement</u>		-
a. Projects	-	
b. MDB Fees	-	
<u>6. Funds available to support SREP Sub-Committee funding decisions (6 = 4 - 5)</u>		<u>24</u>

a/ Valued on the basis of exchange rates of January 31, 2010.

b/ Represents amount reserved to cover foreign exchange fluctuations and minimum liquidity requirements.

c/ Calculated on a pro rata basis based on the cash balance of funds in each program.

Update on Trustee Activities

11. **Investment Management:** Table 5 illustrates the composition of instruments in which the SCF Trust Fund portfolio was invested as of January 31, 2010. Assets held in trust by the World Bank (as the Trustee) are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. The assets in the Pool are managed in accordance with the investment strategy established for all trust funds administered by the World Bank. The Pool is actively managed so that the probability of incurring negative returns is no more than 1% over the applicable investment horizon.

STRATEGIC CLIMATE FUND
Table 5. Asset Mix of the Trust Fund Portfolio
as of January 31, 2010

<u>Asset Class</u>	<u>Percentage</u>
Govt	16.4%
Mortgage-backed Security	0.0%
Asset-backed Security	7.6%
Agency	4.6%
Sovereign/Govt Gtd	10.9%
Money Markets/Fin. Inst	60.3%
Corporates	0.2%
	<u>100.0%</u>

12. As of January 31, 2010, the SCF Trust Fund has earned investment income of approximately USD 1.6 million on the undisbursed balance of the Trust Fund. The investment income return over the period of April 2009 through January 2010 was approximately 1.08%

13. **Investment Income Earned on Administrative Budgets:** At its meeting in October 2009, the SCF Trust Fund Committee requested the Trustee and the MDBs to provide additional information on the issue concerning investment income earned on the MDB administrative budgets. The Trustee requested all the MDBs to submit estimated income earned against the MDB administrative budgets not yet expensed and costs associated with keeping track of the income separately from other incomes. Based on the data submitted by the MDBs using their own assumptions on interest rates and annual holding balance for FY10, the average projected income to be earned on the administrative budget is USD 1,058 and estimated cost associated with keeping track of the investment income separately is USD 588, resulting in a **net gain of USD 470.00** per year to the SCF Trust Fund.

14. The Trustee and the MDBs have agreed that despite the manual efforts and higher expected costs for some MDBs to separate the investment income earned on the administrative budgets from that of their corporate earnings, the MDBs will return all investment income earned on the unspent administrative budget to the Trust Fund if the Committee requests to do so.

15. **Accounting and Reporting:** At the October SCF Trust Fund Committee meeting, the Trustee agreed to provide each Committee member and Contributor with copies of the calendar year 2009 audited cash-based financial statements and auditors' reports for the SCF Trust Fund. The Trustee is currently working with its external auditors to finalize the CY09 audited financial statements, and as soon as it is completed, the Trustee

will be sending the audited financial statements, including the auditor's reports, by email and by courier. In addition, the audited financial statements will be posted on the CIF website for public dissemination.

16. **Systems Development:** The Trustee, the CIF Administrative Unit, and the MDBs have begun discussions on development of an automated system platform for sharing of data electronically across the MDBs, CIF Administrative Unit and the Trustee. The Trustee and the CIF Administrative Unit visited each MDB for a meeting with their operational, accounting and Information Technology (“IT”) staff to ensure the functional specifications for the system are in line with those of the MDBs. The Trustee’s IT team has initiated its work of designing the Trustee system based on the outcome of the meetings.