

CLIMATE INVESTMENT FUNDS

CTF/TFC.4/9
October 13, 2009

Meeting of the CTF Trust Fund Committee
Washington, D.C.
October 27, 2009

TRUSTEE REPORT FINANCIAL STATUS OF THE CLEAN TECHNOLOGY FUND

Proposed Trust Fund Committee Decision

The Trust Fund Committee welcomes the report of the Trustee on the CTF Trust Fund (CTF/TFC.4/9) and takes note of the status of pledges, contributions and total receipts to the CTF; the funding availability of the CTF Trust Fund; and the update of activities undertaken by the Trustee to manage the CTF 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 agrees to the Trustee's proposal that the first audit for the CTF Trust Fund should take place after December 31, 2010, and should cover all financial activities since inception of the Trust Fund.

The Trust Fund Committee welcomes the progress that has been made to conclude the Financial Procedures Agreement with the MDBs and notes its expectation that all the agreements will be finalized quickly so as to allow operational work to proceed under the Fund. The Committee also welcomes the steps that have been taken to initiate the development of the business systems required to manage the CTF.

Introduction

1. This report provides the Trust Fund Committee of the Clean Technology Fund (CTF) with information on the financial status of the CTF 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 CTF; Section III discusses the endorsed CTF Investment Plans; Section IV reports on the total funding decisions made by the CTF Trust Fund Committee; Section V shows funding availability of the CTF Trust Fund; and Section VI reports on the update of activities undertaken by the Trustee to manage the CTF Trust Fund.

Status of Pledges, Contributions and Total Receipts

2. Table 1 below shows the status of pledges, contributions and total receipts to the CTF 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 countries¹ to the CTF is USD eq. 4.9 billion as of September 30, 2009. Since the last meeting of the CTF Trust Fund Committee in May 2009, there have been no new pledged resources to the CTF.

3. Effective contributions represent conversion of pledges into legally binding commitments by way of 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 CTF, each contributor needs to enter into a Contribution Agreement with the Trustee. Contributors may make contributions in the form of (i) a Grant Contribution, (ii) a Capital Contribution, or (iii) a Loan Contribution. 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. Loan Contributions may be made by means of payment in cash.

5. Since the last meeting of the CTF Trust Fund Committee in May 2009, Australia, Spain and Sweden have entered into Contribution Agreements with the Trustee for the CTF. The Trustee is negotiating with the remaining four contributors to formalize their pledges to the CTF through a Contribution or Loan Agreement.

6. Since last reported, the Trustee received payments totaling USD eq. 366 million from the following donors: Australia (AUD 50 million), Spain (EUR 10 million), Sweden (SEK 300 million) and the United Kingdom (GBP 170 million).

¹ This includes the amount allocated to the CTF by the United Kingdom through the Strategic Climate Fund.

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Table 1. Status of Pledges, Contributions and Receipts
as of September 30, 2009
(in millions)

Contributor	Contribution Type	Pledges		Effective Contribution c/		
		Currency	Amount a/	Total	Receipts	Outstanding
Australia	Grant	AUD	100	100	50	50
France	Loan	EUR	203	-	-	-
Germany	Loan	EUR	500	-	-	-
Japan	Grant	USD	1,000	-	-	-
Spain	Capital	EUR	80	80	10	70
Sweden	Grant	SEK	600	600	300	300
United Kingdom	b/ Capital	GBP	385	385	230	155
United States	Grant	USD	1,980	-	-	-

a/ Total value amounts to USD eq. 4.9 billion.

b/ Amount pledged under the Strategic Climate Fund and allocated to the Clean Technology Fund.

c/ Represents countersigned contribution agreement.

Investment Plan endorsed by the CTF Trust Fund Committee

7. The CTF Investment Plan, developed under the leadership of, and agreed with, the government, outlines the proposed use of CTF resources in major sectors of the economy through a joint MDB program. Investment plans are submitted to the CTF Trust Fund Committee to endorse the further development of activities for CTF financing and to facilitate prioritization of the pipeline of projects. Table 2 presents the current Investment Plan balance of USD 713 million, representing the total envelope of CTF financing for the Investment Plans endorsed by the CTF Trust Fund Committee to date (USD 1.1 billion) less the project amounts approved (USD 137 million) and *under consideration for approval when this report was issued* (USD 200 million).

8. If the three new Investment Plans (Morocco, South Africa and Ukraine) which have been submitted to the CTF Trust Fund Committee for review at the October 2009 meeting are endorsed by the Trust Fund Committee, the total endorsed amount will increase to USD 2.2 billion. As the CTF Trust Fund Committee may endorse an Investment Plan up to the amount pledged to the CTF (USD eq. 4.9 billion as of September 30, 2009), the balance remaining for Investment Plans is USD 2.7 billion.

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Table 2. Investment Plan Balances				
Inception to September 30, 2009				
(in USD millions)				
<u>Country</u>	<u>Endorsed amount</u>	<u>Project Approved</u>	<u>Amount to be Approved</u>	<u>Balance</u>
Egypt	300	-	-	300
Mexico	500	16	200	284
Turkey	250	122	-	128
	1,050	137	200	713

Funding Decisions

9. The cumulative funding decisions made by the CTF Trust Fund Committee as of the date of this report amount to USD 152.1 million, as show in Table 3. The approved projects include IBRD’s harder concessional loan project² and two IFC private sector projects³.

10. It is important to note that this table does not include the project currently under review by the CTF Trust Fund Committee for approval by mail: *Urban Transport Transformation Project – Mexico* (USD 200 million). If this project is approved, the total amount of the funding decisions made by the Committee will be USD 352.1 million.

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Table 3: Cumulative Funding Decisions	
Inception to September 30, 2009	
(in USD millions)	
Projects and Fees	137.3
Administrative Budget a/	<u>14.8</u>
Total	152.1
a/ Represents FY09 and FY10 Administrative Budget for the Trustee, the Administrative Unit and the	

² “Private Sector Renewable Energy and Energy Efficiency Project – Turkey”

³ “Private Sector Wind Development – Mexico” and “Commercializing Sustainable Energy Finance Program - Turkey”

Funding Availability

11. Table 4 shows the funds held in trust for the CTF as of September 30, 2009 (USD eq. 456 million), based on the cumulative receipts and disbursements since inception. This amount is brought forward to Table 5 to calculate the Funding Availability for the CTF Trust Fund. Funding availability for the CTF Trust Fund Committee refers to funds held in trust with no restrictions less funding decisions pending disbursement. Accordingly, the net funding availability in the CTF Trust Fund as of September 30, 2009 amounts to USD eq. 88 million, taking into consideration the IBRD's project for Mexico (USD 200 million) currently under review by the Committee.

12. In case of guarantees, and specific loan projects which may be approved by the Trust Fund Committee for up-front transfer of lump-sum amounts up to the full amount of the projects, the transfer of funds made by the Trustee to the MDBs will be contingent upon the availability of cash at the time the funding decision is made.

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Table 4: Schedule of Receipts and Disbursements		
Updated as of September 30, 2009		
(in USD millions)		
<u>1. Cumulative Receipts</u>		
a. Cash receipts and encashed promissory notes	187.6	
b. Unencashed promissory notes a/	277.1	
c. Investment income earned on undisbursed balance	0.6	
		465.3
<u>2. Cumulative Disbursements</u>		
a. Projects	5.0	
b. Administrative Budget	4.3	
		9.3
<u>3. Funds held in Trust (3 = 1 - 2)</u>		<u>456.1</u>
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a/ Valued on the basis of exchange rates of September 30, 2009		

CLEAN TECHNOLOGY FUND
Table 5. Schedule of Funds Available
Updated as of September 30, 2009
(in USD millions)

<u>1. Funds held in Trust</u>		456
a. Cash and Investments	179	
b. Unencashed Promissory Notes ^{a/}	277	
<u>2. Financial Reserve</u> ^{b/}		25
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>		431
<u>4. Funding decisions pending disbursement</u>		143
a. Projects and Fees	132	
b. Administrative Budget	11	
<u>5. Amounts pending CTF Trust Fund Committee funding decisions</u>		200
<u>6. Funds available to support CTF Trust Fund Committee funding decisions (6 = 3 - 4 - 5)</u>		88

a/ Valued on the basis of exchange rates of September 30, 2009.

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

Update on Trustee Activities

13. **Investment Management:** Table 6 illustrates the composition of instruments in which the CTF Trust Fund portfolio was invested as of September 30, 2009. 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.

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Table 6. Asset Mix of the Trust Fund Portfolio

as of September 30, 2009

<u>Asset Class</u>	<u>Percentage</u>
Govt	34.4%
MBS	0.0%
ABS	9.1%
Agency	5.4%
Sovereign/Govt Gtd	13.1%
Money Markets/Fin. Inst	37.7%
Corporates	0.4%
	<hr/> 100.0%

14. As of September 30, 2009, the CTF Trust Fund has earned investment income of approximately USD 0.6 million on the undisbursed balance of the Trust Fund. The investment income return over the period of June through September 2009 was approximately 0.46%.

15. The Trustee has established a financial reserve of USD 25 million in order to mitigate the variability in cash flows resulting from exchange rate volatility. While commitments to the MDBs are made in US dollars in part against non-USD promissory notes, there may be some foreign exchange movements on the future encashments of those promissory notes thereby posing a risk that the Trustee may not be able to meet its legal obligations to the MDBs when required. The foreign exchange reserve helps to reduce the likelihood that the CTF Trust Fund may not have sufficient funds to disburse against Trustee commitments in US dollars at the time MDBs request fund transfers. The reserve represents about 5% of the Funds held in Trust amount. The size of this financial reserve will most likely be expanded when Loan Contributions are deposited in the Trust Fund to meet minimum liquidity requirements. It is important to note that the reserve represents a virtual restriction set on the CTF Trust Fund resources available to support funding decisions, thereby protecting commitments made by the Trustee from the effect of exchange rate volatility. It is not a cash amount held in a separate account.

16. **Financial Procedures Agreement:** Financial Procedures Agreements set out the terms and conditions for making commitments and cash transfers from the Trustee to the MDBs as well as reporting requirements of the MDBs to the Trustee. The Trustee entered into a Financial Procedures Memorandum with the IBRD as Implementing Entity in August 2009 and expects to conclude agreements with the remaining MDBs in the coming months.

17. There was a discussion among the MDBs and the Trustee regarding whether the investment income earned against the MDB Administrative Budget not yet expensed

should be reported and returned to the CTF Trust Fund. It was concluded, in the interest of cost effectiveness, that the investment income earned on the MDB Administrative Budget may be retained by the MDBs. The decision was mainly due to the fact that: (a) it is not possible for some MDBs to effectively separate the investment income earned on the Administrative Budget from that of their corporate earnings; in some cases, due to the design of the CTF financing mechanism that is to be set up within the MDBs, the Administrative Budget is absorbed into the core budget systems of the relevant institutions; and where it is possible to separate, it is costly to do so; and (b) the level of the expected investment income to be earned on the Administrative Budget of each MDB would not warrant the costs of returning to the CTF Trust Fund.

18. **Accounting and Reporting:** After consultations with the MDBs, the Trustee had decided and reported in the last Trustee Report to the Trust Fund Committee that the fiscal year end of the CTF Trust Fund for financial statement purposes will be December 31. Considering the fact that there has been minimal financial activity in the CTF Trust Fund to date and the Financial Procedures Agreements have not been concluded with other MDBs as at the date of this report, the Trustee believes that it is not cost effective for the Trustee and the MDBs to perform an audit for the calendar year 2009. The Trustee proposes to arrange for the first external audit for the CTF Trust Fund as of December 31, 2010; such audit would cover all financial activities since inception of the Trust Fund. The external audits of each MDB's CTF activities, arranged for by each MDB, will also be from inception to December 31, 2010, pursuant to the Financial Procedure Agreements to be entered into between the Trustee and each MDB.

19. Pro-forma financial statements for the MDBs have been developed by the Trustee, and circulated to the MDBs for comment. The purpose of these statements is to facilitate discussion amongst the MDBs to ensure, to the extent possible, that the accounting and audited financial statements are prepared in a consistent manner. The MDBs have provided comments to the Trustee, and they are currently being evaluated. A meeting will be held among accounting departments from all the MDBs to discuss the preparation of the financial statements.

20. **Systems Development:** Following the approval of the systems development budget for FY10 in May 2009, the Trustee began internal discussions to identify issues and lay out the broad business requirements for managing the innovative features of the CTF and SCF Trust Funds. Based on the outcome of the meetings and further discussions, a work program with a timeline for project delivery is being prepared. The Trustee, in collaboration with the CIF Administrative Unit, plans to visit each MDB for a meeting with their business, accounting and IT staff in the next six months in order to ensure the functional specifications for the system are in line with those of the MDBs. In addition, the Trustee, the CIF Administrative Unit, and the MDBs will begin discussions on development of an automated system platform for sharing of data electronically across the MDBs, CIF Administrative Unit and the Trustee.