

CLIMATE INVESTMENT FUNDS

SCF/TFC.4/4
October 13, 2009

Meeting of the SCF Trust Fund Committee
Washington, D.C.
October 28, 2009

TRUSTEE REPORT FINANCIAL STATUS OF THE STRATEGIC CLIMATE FUND

Proposed Trust Fund Committee Decision

The Trust Fund Committee welcomes the report of the Trustee on the SCF Trust Fund document (SCF/TFC.4/4) and takes note of the status of pledges, contributions and total receipts to the SCF and its targeted programs; the funding availability of the targeted programs; 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 pledges that were made by contributor countries to the Forest Investment Program and the Program for Scaling-Up Renewable Energy in Low Income Countries. The Trust Fund particularly welcomes the establishment of the FIP Sub-Committee and looks forward to the prompt operationalization of the program. The Trust Fund Committee calls upon CIF contributors and other potential donors to make pledges to the Program for Scaling Up Renewable Energy in Low Income Countries to enable the program to move towards becoming fully operational as early as possible and requests the CIF Administrative Unit, in collaboration with the MDBs, to seek to mobilize additional resources for the program.

The Trust Fund Committee agrees to the Trustee's proposal that the first audit for the SCF Trust Fund should take place after December 31, 2010, and should cover all financial activities since inception of the Trust Fund. The Committee also welcomes the steps that have been taken to initiate the development of the business systems required to manage the SCF.

Introduction

1. This report 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, 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) and the Forest Investment Program (FIP), which are the SCF targeted programs officially established under the SCF; and Section V reports on the update of activities undertaken by the Trustee to manage the SCF Trust Fund.

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. Denmark and the United States are the latest expected contributors to the SCF; the total amount pledged by ten contributors to the SCF is USD eq. 2 billion¹ as of September 30, 2009.

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 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. On July 9, 2009, a pledging meeting took place for the Forest Investment Program (FIP) and the Program for Scaling-Up Renewable Energy in Low Income Countries (SREP) at the World Bank Office in Brussels, Belgium. The meeting was convened to launch pledging for the programs, following the decision made by the SCF Trust Fund Committee that the minimum funding level of USD 250 million should be reached before steps are taken to operationalize the targeted programs.

6. A total of seven countries announced pledges to one or both of the programs, as shown in Table 1b and 1c. Since the pledges for the FIP exceeded the minimum

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.

threshold established by the SCF Trust Fund Committee, steps have been taken to establish the Sub-Committee of the FIP. Norway and the United Kingdom indicated that their higher level of pledging for the FIP was contingent upon significant contributions from other donors and the performance and results achieved under the program.

7. Since the last Trust Fund Committee meetings in May 2009, Australia has entered into a Contribution Agreement with the Trustee. As of the date of this report, the Trustee received payments totaling USD eq. 582 million from the following donors: Australia (AUD 35.9 million), Canada (CAD 85 million) and the United Kingdom (GBP 300 million)³.

STRATEGIC CLIMATE FUND						
Table 1. Status of Pledges, Contributions and Receipts						
as of September 30, 2009						
(in millions)						
Contributor	Contribution Type	Pledges		Effective Contribution d/		
		Currency	Amount a/	Total	Receipts	Outstanding
Australia	Grant	AUD	50.0	50.0	35.9	14.1
Canada	Grant	CAD	100.0	100.0	85.0	15.0
Denmark	Grant	DKK	130.0	-	-	-
Germany	Grant	EUR	50.0	-	-	-
Japan	Grant	USD	200.0	-	-	-
Netherlands	Grant	EUR	54.4	-	-	-
Norway b/	Grant	USD	176.0	-	-	-
Switzerland	Grant	USD	20.0	-	-	-
United Kingdom c/	Capital	GBP	800.0	800.0	300.0	500.0
United States	Grant	USD	20.0	-	-	-

a/ Total value amounts to USD eq. 2 billion.

b/ Norway's pledge to Forest Investment Program was made in USD and to Scaling Up Renewable Energy in NOK.

c/ 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.

d/ Represents countersigned contribution agreement.

³ This includes the amount paid under the Strategic Climate Fund and transferred to the Clean Technology Fund.

8. Tables 1a through 1d show the details by contributor to each targeted program of the SCF.

STRATEGIC CLIMATE FUND						
Table 1a. PPCR - Status of Pledges, Contributions and Receipts						
as of September 30, 2009 (in millions)						
Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Australia	Grant	AUD	40.0	40.0	25.9	14.1
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	23.0	202.0

a/ Total value amounts to USD eq. 614 million.
b/ Represents countersigned contribution agreement.

STRATEGIC CLIMATE FUND						
Table 1b. FIP - Status of Pledges, Contributions and Receipts						
as of September 30, 2009 (in millions)						
Contributor	Contribution Type	Pledges		Effective Contribution b/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Australia	Grant	AUD	10.0	10.0	10.0	-
Denmark	Grant	USD	10.0	-	-	-
Norway c/	Grant	USD	150.0	-	-	-
United Kingdom d/	Capital	GBP	100.0	100.0	12.0	88.0
United States	Grant	USD	20.0	-	-	-

a/ Total value amounts to USD eq. 330 million.
b/ Represents countersigned contribution agreement.
c/ 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.
d/ 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.

STRATEGIC CLIMATE FUND
Table 1c. SREP - Status of Pledges, Contributions and Receipts a/
as of September 30, 2009
(in millions)

<u>Contributor</u>	<u>Contribution Type</u>	<u>Pledges</u>		<u>Effective Contribution c/</u>		
		<u>Currency</u>	<u>Amount b/</u>	<u>Amount</u>	<u>Receipts</u>	<u>Outstanding</u>
Netherlands	Grant	EUR	54.4	-	-	-
Norway	Grant	NOK	150.0	-	-	-
Switzerland	Grant	USD	20.0	-	-	-
United Kingdom	Capital	GBP	50.0	50.0 d/	15.0	35.0

a/ The SCF Trust Fund Committee has agreed that pledges should amount to a minimum of USD 250 million before steps are taken to operationalize the SREP.
b/ Total value amounts to USD eq. 206 million.
c/ Represents countersigned contribution agreement.
d/ Represents provisional allocation.

STRATEGIC CLIMATE FUND
Table 1d. Status of Pledges, Contributions and Receipts - Unallocated
as of September 30, 2009
(in millions)

<u>Contributor</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>
Denmark	Grant	DKK	79.2	-	-	-
Japan	Grant	USD	150.0	-	-	-

a/ Total value amounts to USD eq. 166 million.
b/ Represents countersigned contribution agreement.

Funding Decisions

9. The cumulative funding decisions made by the SCF Trust Fund Committee amount to approximately USD 20 million, of which USD 7 million represents the Country Programming budget approved as part of the CIF Administrative Budget— USD 4 million for the PPCR, USD 2 million for the FIP and USD 1 million for the SREP. 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. Table 2 shows the cumulative funding decisions made at the SCF level and specifically for the PPCR, the FIP and the SREP.

STRATEGIC CLIMATE FUND
Table 2: SCF - Cumulative Funding Decisions
 Inception to September 30, 2009
 (in USD millions)

Administrative Budget a/			12.4
Sub-Total			<u>12.4</u>
	PPCR	FIP	SREP
Projects	-	-	-
MDB Fees	-	-	-
Country Programming Budget	<u>4.0</u>	<u>2.2</u>	<u>1.1</u>
Sub-Total	4.0	2.2	1.1
Total			<u>19.7</u>

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 trust⁴ 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-Committee⁵. Net funding availability in the PPCR sub-account is presented in Table 3a and in the FIP sub-account in Table 3b. The total funds available amount to USD 112.2 million for PPCR Sub-Committee's funding decisions and USD 25.3 million for FIP Sub-Committee's funding decisions.

⁴ Funds held in trust represent cumulative receipts less cumulative disbursements.

⁵ Administrative budget for the SCF is approved by the SCF Trust Fund Committee.

STRATEGIC CLIMATE FUND
Table 3a. PPCR – Schedule of Funds Available
as of September 30, 2009
(in USD millions)

<u>1. Funds held in Trust</u>		128.6
a. Cash and Investments	101.2	
b. Unencashed Promissory Notes a/	27.4	
<u>2. Financial Reserve</u> b/		-
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>		128.6
<u>4. Funding Decisions pending disbursement</u>		16.4
a. Projects	-	
b. MDB Fees	-	
c. Country Programming Budget	4.0	
d. Administrative Budget c/	12.4	
<u>5. Funds available to support PPCR Sub-Committee funding decisions (5 = 3 - 4)</u>		<u>112.2</u>

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.

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.

STRATEGIC CLIMATE FUND
Table 3b. FIP – Schedule of Funds Available
as of September 30, 2009
(in USD millions)

<u>1. Funds held in Trust</u>		27.5
a. Cash and Investments	13.2	
b. Unencashed Promissory Notes a/	14.3	
<u>2. Financial Reserve</u> b/		-
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>		27.5
<u>4. Funding Decisions pending disbursement</u>		2.2
a. Projects	-	
b. MDB Fees	-	
c. Country Programming Budget	2.2	
<u>5. Funds available to support PPCR Sub-Committee funding decisions (5 = 3 - 4)</u>		<u>25.3</u>

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

11. **Investment Management:** Table 4 illustrates the composition of instruments in which the SCF 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.

STRATEGIC CLIMATE FUND

Table 4. 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%
	<u>100.0%</u>

12. As of September 30, 2009, the SCF Trust Fund has earned investment income of approximately USD 1 million on the undisbursed balance of the Trust Fund. The investment income return over the period of May through September 2009 was approximately 0.4%.

13. **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. 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 SCF 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 SCF 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 SCF Trust Fund.

14. **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 SCF Trust Fund for financial statement purposes will be December 31. Considering the fact that there has been minimal financial activity in the SCF Trust Fund to date and the Financial Procedures Agreements have not been concluded with the MDBs, 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 SCF 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 SCF 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.

15. 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.

16. **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.