

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.11/Inf.4
October 2, 2013

Joint Meeting of the CTF and SCF Trust Fund Committees
Washington D.C.
October 29, 2013

REPORT ON THE FINANCIAL STATUS OF THE CTF

(PREPARED BY THE TRUSTEE)

Clean Technology Fund (CTF)

Financial Report

Prepared by the Trustee

As of June 30, 2013



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Introduction

The information contained in this report is prepared based on financial information as of June 30, 2013.

The Climate Investment Funds (CIF) was established in 2008 and its financial architecture is rooted in two trust funds. The Clean Technology Fund (CTF) provides middle income countries with resources to explore options to scale up the demonstration, deployment, and transfer of low-carbon, clean technologies. The Strategic Climate Fund (SCF) finances three programs that pilot new approaches with the potential for scaling up: the Forest Investment Program (FIP), Pilot Program for Climate Resilience (PPCR), and Program for Scaling Up Renewable Energy in Low-Income Countries (SREP).

This report is produced by the Trustee in accordance with the Trustee's role as set forth in the Governance Framework for the CTF Trust Fund which states:

"The Trustee will provide to the CTF Trust Fund Committee regular reports on the financial status of the Trust Fund, as agreed between the Trustee and the CTF Trust Fund Committee."

This report provides (i) a snapshot of the financial situation of the CTF Trust Fund since its inception to June 30, 2013 and some of the recent developments from January 1, 2013 to June 30, 2013; (ii) the status of pledges and contributions, and (iii) the details of financial activities of the CTF Trust Fund.



CTF Trust Fund Financial Summary as of June 30, 2013¹

Pledges and Contributions:

As of June 30, 2013, nine donors pledged USDeq. 4.9 billion to the CTF Trust Fund, of which USDeq. 4.3 billion was confirmed through signed Contribution/Loan Agreements or Contribution Arrangements. Of the total amount of Contribution/Loan Agreements and Contribution Arrangements, the Trustee has received USDeq. 4.2 billion in cash and promissory notes, of which USDeq. 135 million was received between January 1, 2013 and June 30, 2013.

Investment Income:

As of June 30, 2013, the CTF Trust Fund earned investment income of approximately USD 55 million on the undisbursed balance of the Trust Fund since inception. During the first six months of calendar year 2013, the CTF Trust Fund had negative investment returns of 0.23%. Rising global interest rates and a sell-off in risk assets dominated the financial markets in the second quarter of 2013, triggered by increased expectations that the period of low interest rates (so-called “quantitative easing”) in the United States was coming to an end. As a result, most fixed income sectors saw negative total returns during the second quarter of 2013, erasing gains earned from January through April, which were modest given the sustained period of low rates.

Funding Approvals and Trustee Commitments:

As of June 30, 2013, CTF Trust Fund Committee endorsed 16 Investment Plans for a total amount of proposed CTF funding of USD 5.6 billion.²

As of June 30, 2013, cumulative funding decisions by the CTF Trust Fund Committee amounted to USDeq. 2.5 billion. This represents an increase of USDeq. 124 million since December 31, 2012. Of the total amount approved USDeq. 2.4 billion was for projects and project preparation activities, USD 13 million was for MDB costs for project implementation and supervision services (MPIS costs), and USD 31 million was for administrative expenses of the CTF.

Based on the funding decisions by the CTF Trust Fund Committee, the Trustee has committed a total of USDeq. 2.5 billion to the MDBs.

Cash Transfers:

Cash transfers were made to MDBs on an as-needed basis to meet their projected disbursement requirements. The Trustee has transferred USDeq. 840 million, of which USDeq. 145 million has been transferred between January 1, 2013 and June 30, 2013. As a result, USDeq. 1.7 billion remains payable to MDBs as of June 30, 2013.

Funds Held in Trust and Funds Available for CTF Trust Fund Committee decisions:

Funds Held in Trust reflect financial activities related to donor payments (cash and promissory notes), encashment of promissory notes, investment income, cash transfers, and the revaluation of the balance of promissory notes at month-end. Funds Held in Trust as of June 30, 2013 amounted to USDeq. 3.4 billion.

Funds available to support CTF Trust Fund Committee decisions amounted to USD 1.6 billion as of June 30, 2013. This represents a decrease of USD 35 million as compared to December 31, 2012. The receipt of new funds from donors between January 1, 2013 and June 30, 2013 was offset by the funding approvals by the CTF Trust Fund Committee during the same period.

¹ Figures may not add due to rounding.

² At its meeting in May 2013, the CTF Trust Fund Committee agreed that an over-programming rate of 30% based on CTF pledged resources is a reasonable target.



Update on Trustee Activity

Updates and improvements to the CTF cash flow model

Following the process established by the World Bank Chief Risk Officer, the Trustee has been updating the CTF cash flow model on a regular basis. All updates to the model have been verified by independent reviewers within the World Bank to confirm accuracy of the outputs of the model.

As suggested by the CTF Contributors, the Trustee will (i) conduct an in-depth assessment of the CTF cash flow model to ensure its accuracy and applicability, and (ii) continue carrying out necessary refinements to the model as needed.

The Trustee will also work with the Senior Risk Officer in the CIF Administration Unit (once hired), to provide a more fine grained picture of CTF portfolio risk including risks resulting from lower seniority level of CTF loans, counterparty risk, interdependencies between sectors/countries and risks resulting from the increasing diversity of financial instruments (local currency loans, guarantees, risk sharing facilities, capital contributions, etc.).



1. CTF Trust Fund Summary – Inception through June 30, 2013

In USD millions

	Total	% of Total
<u>Donor Pledges and Contributions</u>		
Contributions	4,263	88%
Pledges	602	12%
Total Pledges and Contributions	4,866	100%
<u>Cumulative Resources</u>		
<u>Resources received</u>		
Cash Receipts	3,559	72%
Unencashed promissory notes	648	13%
Investment Income earned	55	1%
Reflows	11	0%
Total Resources Received	4,274	87%
<u>Resources not yet received</u>		
Contributions not yet paid	56	1%
Pledges	602	12%
Total resources not yet received	658	13%
Total Potential Resources (A)	4,932	100%
<u>Cumulative Funding Decisions</u>		
Projects	2,424	98%
MPIS Costs	13	1%
Administrative Budgets	31	1%
Other a/	1	0%
Total Funding Decisions Net of Cancellations (B)	2,469	100%
Principal Repayments and Interest Payments net of Reflows (C)	10	
Total Potential Resources Net of Funding Decisions (A) - (B) - (C)	2,454	
<u>Funds Available</u>		
Funds Held in Trust with no restrictions	3,320	
Amounts Pending Cash Transfers	1,733	
Total Funds Available to Support CTF Trust Fund Committee decisions	1,587	

2. Pledges and Contributions

In USD millions

Contributor	Contribution Type	Currency	Pledges Outstanding and Contributions			Historical Value of Total in USD eq. a/ (1)	Current Value of Total in USD eq. b/ (2)	FX changes (3) = (2) - (1)	Receipts in USD eq. b/
			Pledges Outstanding	Contributions Finalized	Total				
Australia	Grant	AUD	-	100	100	84	86	2	86
Canada	Loan	CAD	-	200	200	193	199	6	199
France	c/ Loan	EUR	-	203	203	300	265	(35)	265
Germany	d/ Loan	EUR	-	500	500	739	615	(124)	615
Japan	e/ Grant	USD	-	1,000	1,000	1,000	1,068	68	1,068
Spain	Capital	EUR	-	80	80	118	109	(9)	70
Sweden	Grant	SEK	-	600	600	92	80	(13)	80
United Kingdom	f/ Capital	GBP	-	610	610	1,135	951	(183)	934
United States	g/ Grant	USD	602	890	1,492	1,492	1,492	-	890
						5,154	4,866	(289)	4,207

a/ Represents pledges valued on the basis of exchange rates as of September 25, 2008, the CIF official pledging date.

b/ Represents realized amounts plus unrealized amounts valued on the basis of exchange rates as of June 30, 2013.

c/ France pledged USD 500 million, including: 1) concessional loan of USD 300 million to the CTF and 2) USD 200 million from the French Development Agency (ADF) to co-finance the CTF projects. The second co-financing commitment was fulfilled with ADF loans to solar power projects of South Africa (USD 144 million in January 2012) and Morocco (USD 124 million in July 2011) under the CTF.

d/ The EUR 500 million pledge was committed in USD in the amount of USD 615 million.

e/ The USD 1 billion pledge was committed in JPY in the amount of JPY 93 billion.

f/ Represents the amount pledged under the Strategic Climate Fund and allocated to the Clean Technology Fund.

g/ The total pledge made by the United States to the CIF is USD 2 billion; the allocation across the programs is indicative.

- The above table shows the total pledges outstanding and contributions finalized to the CTF. Pledges represent a Contributor's expression of intent to make a contribution and form the basis for the endorsement of CTF Investment Plans by the CTF Trust Fund Committee.
- The total pledges to the CTF now amount to USDeq. 5.2 billion, valued at the exchange rates available on the date of the Climate Investment Funds (CIF) pledging meeting. The current value of the pledges amounts to USDeq. 4.9 billion as of June 30, 2013 (a difference of USDeq. 289 million due to exchange rate movements).
- As of June 30, 2013, the Trustee had entered into Contribution/Loan Agreements and Contribution Arrangements with nine donors and received USDeq. 4.2 billion in cash and promissory notes from these donors.
- Of the total amount received from donors, USDeq. 2.1 billion (50%) was received as grant contributions, USDeq. 1.1 billion (26%) as loan contributions and USDeq. 1 billion (24%) as capital contributions.
- Pledges and unpaid donor contributions amount to USD eq. 658 million.³

³ GBP 11 million was received from the United Kingdom at the end of June, which was applied to the CTF Trust Fund after the cut-off date.



3. Asset Mix and Investment Income

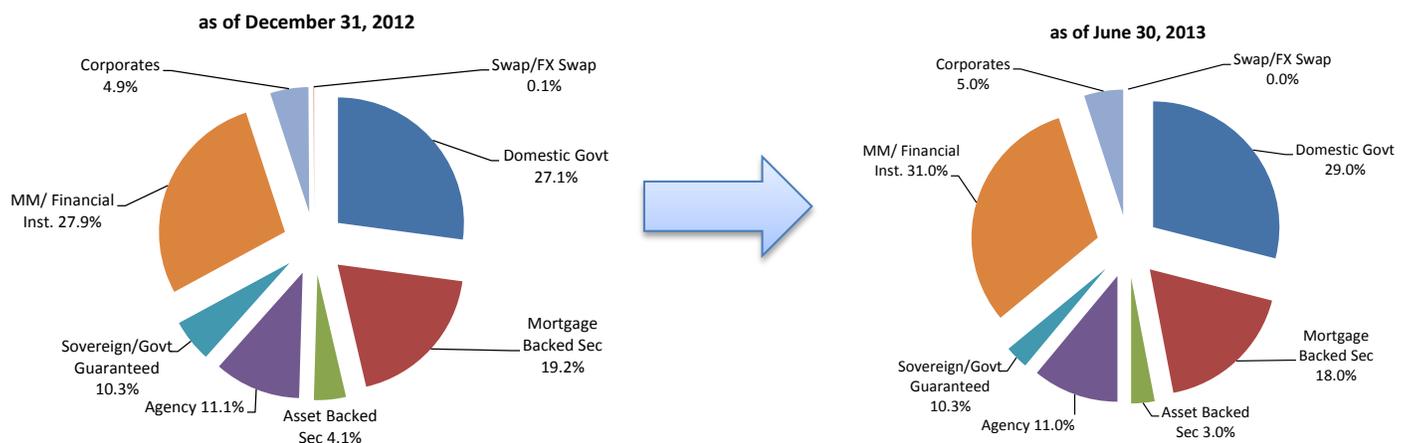
The undisbursed cash balance of the CTF Trust Fund is maintained in a commingled investment portfolio (“Pool”) for all trust funds managed by IBRD. The Pool is managed actively and conservatively with capital preservation as the over-arching objective.

ASSET MIX

CTF Trust Fund assets are invested across three of the World Bank Trust Fund’s investment model portfolios, (“Tranche 0” for short term working capital needs, “Tranche 1” with an investment horizon of one year, and “Tranche 2” with an investment horizon of three years). The latter two tranches aim to optimize investment returns subject to capital preservation with a high degree of confidence (based on statistical models) over the respective investment horizon. Although actual future returns will depend on market conditions, the Trust Fund Investment Pool portfolio is actively monitored and adjusted to preserve donor funds over the investment horizons. Over shorter periods however, market volatility may result in negative actual or ‘mark-to-market’⁴ returns.

Overall, the CTF Trust Fund cumulative returns have been driven by its investment in longer term tranches, which may be exposed to higher volatility in returns over shorter periods, but are expected to gain higher returns over longer periods.

The portfolio allocation by asset class has the largest allocations to government securities, mortgage backed securities (MBS), and money-market instruments. Allocations have been relatively stable over time.

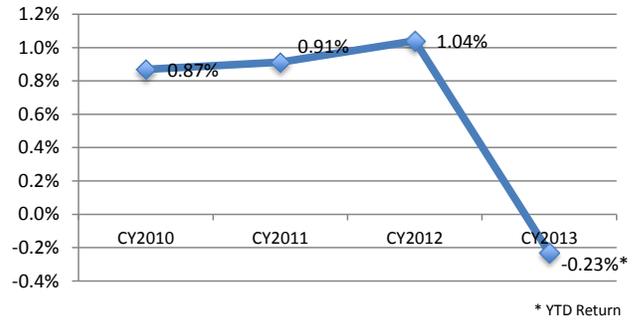


⁴ Mark-to-market returns or losses represent returns or losses generated through an accounting entry rather than the actual sale of a security.



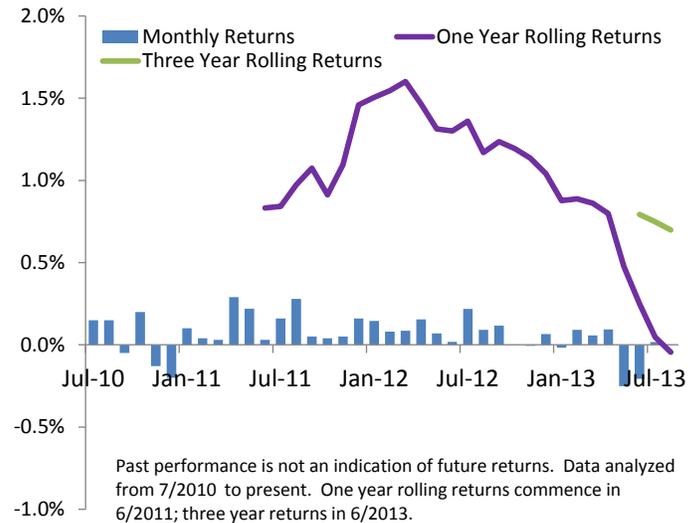
INVESTMENT RETURNS

Rising global interest rates and a sell-off in risk assets dominated the financial markets in the second quarter of 2013, triggered by increased expectations that the period of low interest rates (so-called “quantitative easing”) in the United States was coming to an end. As a result, most fixed income sectors saw negative total returns during the quarter. During the first six months of 2013, the CTF Trust Fund investment portfolio had total negative returns of 0.23%, as the negative returns in the May and June erased all gains earned from January through April, which had been modest given the sustained period of low rates.



CTF TRUST FUND INVESTMENT PORTFOLIO: ONE AND THREE YEAR ROLLING RETURNS

CTF Trust Fund investment portfolio average one year and three year rolling returns were 1.01% and 0.75%, respectively. Rolling returns demonstrate the ability to achieve investment goals consistently and over time.



ADJUSTMENTS FOR CHANGES IN MARKET CONDITIONS

Current low interest rates are reflected in lower coupon returns on fixed income instruments. As the market price of these instruments falls when interest rates increase, there is also a smaller cushion against price losses when interest rates increase. Given the challenging environment for fixed income investments, the World Bank treasury has taken steps since 2011 to reduce the interest rate sensitivity of the Trust Fund Investment Pool portfolio to limit the impact of potential future interest rate increases (known as “duration”). The duration of both Tranches 1 and 2 has been reduced. Additionally, efforts have been underway to enable investments in a broader universe of assets in order to achieve greater diversification of portfolio risks and increase returns. Diversification opportunities include new emerging market sovereigns, covered bonds, and commercial paper.

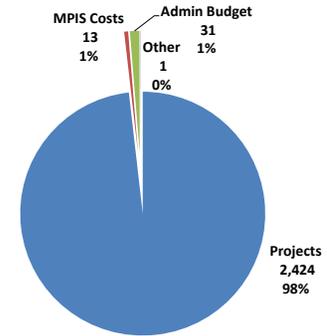


4. Cumulative Funding Decisions

In USD millions

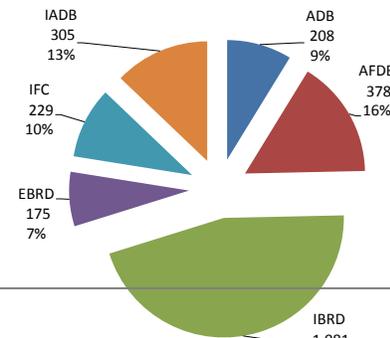
FUNDING DECISIONS BY ACTIVITY

Since inception to June 30, 2013, funding approvals made by the CTF Trust Fund Committee totaled USD eq. 2.4 billion. Projects, including project preparation grants, represent about 98%, MPIS costs 1%, and administrative budgets for the Administrative Unit, the Trustee and the MDBs 1%.



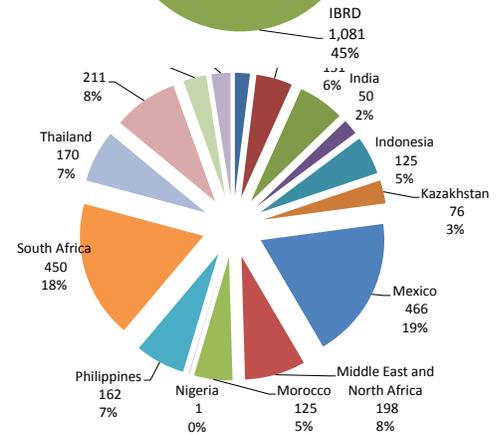
PROJECT AND MPIS FUNDING DECISIONS BY AGENCY

The pie chart shows the projects and MPIS funding decisions by MDB.



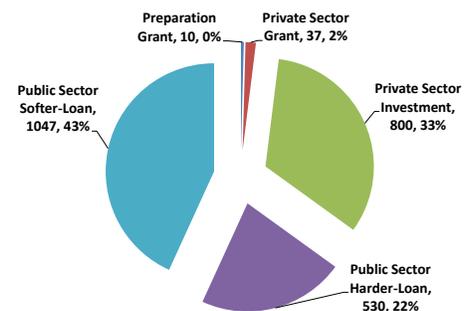
PROJECT FUNDING DECISIONS BY COUNTRY/REGION

The pie chart shows the breakdown of the cumulative project approvals by country/regional programs.



PROJECT FUNDING DECISIONS BY FINANCING PRODUCT

The pie chart shows the breakdown of the cumulative project funding decisions by financing type.⁵



⁵ Public sector harder concessional loan has terms of 0.75% interest, 20 years maturity and 10 years grace on principal repayments; public sector softer concessional loan has terms of 0.25% interest, 40 years maturity and 10 years grace on principal repayments. Private sector investment terms are negotiated on a case by case basis.

5. Funds Available

In USD millions

	As of June 30, 2013 (a)	As of Dec. 31, 2012 (b)	Change (c) = (a) - (b)
1. Cumulative Receipts	4,274	4,134	140
a. Cash receipts and encashed promissory notes	3,559	3,360	199
b. Unencashed promissory notes	648	713	(64)
c. Investment income earned on undisbursed balance	55	60	(5)
d. Reflows	11	0	10
2. Cumulative Cash Transfers	840	695	145
a. Projects	778	638	140
b. MPIS Costs	13	12	1
c. Administrative Budget	28	28	(0)
d. Debt service payments to Loan Contributors	21	17	4
3. Funds held in Trust (3 = 1 - 2)	3,434	3,439	(5)
a. Cash and Investments	2,786	2,726	
b. Unencashed promissory notes	648	713	
4. Restricted Funds	114	124	(10)
a. Financial Reserve	114	124	
b. Reflows in excess of debt service payments	-	-	
5. Funds held in Trust with no restrictions (5 = 3 - 4)	3,320	3,315	5
6. Funding Decisions pending cash transfer	1,733	1,693	40
a. Projects and MPIS Costs	1,725	1,690	34
b. Administrative Budget	8	3	6
7. Amounts pending Committee funding decisions	-	-	-
8. Funds available to support Committee funding decisions (8 = 5 - 6 - 7)	1,587	1,622	(35)

Highlights for the period January 1, 2013 through June 30, 2013:

- **Funds Held in Trust** represent cumulative receipts less cumulative cash transfers, and amount to USDeq. 3.4 billion as of June 30, 2013. Funds Held in Trust decreased by USDeq. 5 million primarily due to:
 - Cumulative receipts during the reporting period increased by USDeq. 199 million.
 - Cash transfers to recipients increased by USDeq. 145 million
- **Funding Decisions Pending Cash Transfer** arising from the CTF Trust Fund Committee approvals amounting to USDeq. 1.7 billion, an increase of USDeq. 40 million since December 31, 2012.
- **Funding Availability** currently amounts to **USD 1.6 billion** representing a decrease of USD 35 million over the prior reporting period.
- The amount of Funds Available includes EUR 113 million for funding decisions in Euro.