

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.2/6/Rev1
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 CLEAN TECHNOLOGY FUND

I. Introduction

1. This report of the Trustee to the Committee of the Clean Technology Fund (CTF) provides information on the financial status of the CTF Trust Fund. The paper is divided into seven sections. Following this Section I of introduction, Section II presents 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; Section VI reports on the activities undertaken by the Trustee to implement the CTF Trust Fund; and Section VII presents the reporting templates that the Trustee intends to use to report on the financial status of the CTF Trust Fund to the Trust Fund Committee.

II. 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 US\$ eq. 4.7 billion as of April 15, 2009. Since the last meeting of the CTF Trust Fund Committee in January 2009, there have been no new pledged resources to the CTF.

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 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. The United Kingdom has entered into a Contribution Agreement with the Trustee for the Strategic Climate Fund, which provides for an allocation of GBP 385 million to the CTF. The Trustee is negotiating with the remaining contributors to formalize their pledges to the CTF through a Contribution or Loan Agreement.

6. In March 2009, the Trustee received GBP 60 million from the Government of the United Kingdom in form of promissory notes. Spain's contribution of EUR 10 million, which was paid in January 2009, is being held in its Balance Account with the World Bank and will be transferred to the CTF Trust Fund upon the countersignature by Spain of a Contribution Agreement.

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

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

Donor	Contribution Type	Pledges		Effective Contribution c/		
		Currency	Amount a/	Amount	Receipts	Outstanding
Australia	Grant	AUD	100	-	-	-
France	Loan	EUR	203	-	-	-
Germany	Loan	EUR	500	-	-	-
Japan	Grant	USD	1,000	-	-	-
Spain	Capital	EUR	80	-	-	-
Sweden	Grant	SEK	600	-	-	-
United Kingdom	b/ Capital	GBP	385	385	60	325
United States	Grant	USD	2,000	-	-	-

a/ Total value amounts to USD eq. 4.7 billion.

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

c/ Represents countersigned contribution agreement.

III. Investment Plan endorsed by the CTF Trust Fund Committee

7. Table 2 presents the total amount of the CTF Investment Plans endorsed by the CTF Trust Fund Committee in January 2009. The Trust Fund Committee may endorse a CTF resource envelope for individual projects in an Investment Plan, up to the amount pledged to the CTF. Subsequently the Committee may authorize the designated MDB to proceed with development and preparation of individual investment operations for CTF co-financing. Prior to appraisal, the MDB will seek approval from the Trust Fund Committee for allocation of financing for each investment operation. As of the date of this report, the total endorsed amount is USD 1.1 billion for three investment plans, of which USD 100 million was approved by the Trust Fund Committee for project financing. The remaining balance of the investment plans is USD 950 million.

CLEAN TECHNOLOGY FUND
Table 2. Investment Plan Balances
Inception to April 15, 2009
(in USD millions)

CTF Investment Plans	CTF Financing Plan	Project Approved	Balance
Egypt	300	-	300
Mexico	500	-	500
Turkey	250	100	150
Total	1,050	100	950

IV. Funding Decisions

8. The cumulative funding decisions made by the CTF Trust Fund Committee as of the date of this report amount to US\$ 106.5 million, as show in Table 3, which includes the first approved project “*Private Sector Renewable Energy and Energy Efficiency Project (Turkey)*”. The project was approved by the CTF Trust Fund Committee on a contingent basis subject to availability of funds in the CTF Trust Fund. The designated MDB may seek project approval from its Board because the criteria in the “Information Note Prepared by the Trustee” dated January 26, 2009” has been met. It should be noted that the Trustee will commit the approved amount of the project to the designated MDB only when sufficient funds are deposited in the CTF Trust Fund (in the form of cash, promissory notes and other instruments accepted by the Trustee) to cover the project financing. Consequently, the MDB can enter into a legally binding agreement with a recipient country only after the Trustee commits the funds to the MDB.

9. The above process is an interim measure to move forward with the project while Contribution Agreements with the Contributors are being negotiated. Going forward, funding decisions should be made against the available funds in the Trust Fund. Funding availability is discussed in the next section.

CLEAN TECHNOLOGY FUND	
Table 3: Cumulative Funding Decisions	
Inception to April 15, 2009	
(in USD millions)	
Projects	100.0
Investment Plan Preparation Budget	3.0
MBD Fees	-
Administrative Budget a/	3.5
Total	106.5
a/ Represents the Trustee, the Administrative Unit and the MDBs Administrative Budget.	

V. Funding Availability

10. Funding availability for the Trust Fund Committee refers to funds held in trust² with no restrictions less funding decisions pending disbursement. Net funding availability in the CTF Trust Fund is presented in Table 4. The current available amount is negative

² Funds held in trust represent cash and investments as well as promissory notes and other instruments accepted by the Trustee.

as the funding decisions have been made against the expected contribution amounts on a contingent basis subject to availability of funds in the CTF Trust Fund.

<p style="text-align: center;">CLEAN TECHNOLOGY FUND Table 4. Schedule of Funds Available as of April 15, 2009 (in USD millions)</p>		
<u>1. Funds held in Trust</u>		88
a. Cash and investments	-	
b. Unencashed Promissory notes a/	88	
<u>2. Liquidity Reserve</u> b/		-
<u>3. Funds held in Trust with no restrictions (3 = 1 - 2)</u>		88
<u>4. Funding decisions pending disbursement</u>		106
a. Projects	100	
c. Investment Plan Preparation Budget	3	
d. MBD Fees	-	
e. Administrative Budget	3	
<u>5. Funds available to support CTF Trust Fund Committee funding decisions (5 = 3 - 4)</u> c/		(18)
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/ Funding decisions can be made on a contingent basis through the interim arrangement described in the "Information Note Prepared by the Trustee" dated January 26, 2009.		

VI. Update on Trustee Activities

11. **Investment Management:** As presented last November, the funds of the CTF 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. As of the date of this report, no investment income has been earned in the CTF Trust Fund as the funds held in trust are represented by promissory notes only.

12. **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.

13. **Accounting and Reporting:** Since the last Trust Fund Committee meetings, the Trustee had continued to evaluate the most appropriate basis of accounting for the CTF. The options that were considered include the special purpose basis of accounting, the cash basis of accounting,³ 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 CTF. 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 CTF. The Trustee will furnish the CTF 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 CTF Trust Fund Committee members and Contributors to the CTF Trust Fund.⁴

14. The MDBs would also prepare annual audited special purpose financial statements. After consultations with the MDBs, the Trustee has decided that the fiscal year end of the CTF Trust Fund for financial statement purposes will be December 31st, to be in line with the other MDBs.

15. 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 CTF Trust Fund Committee if there are any changes to the approach.

16. **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 CTF. In addition, the system must support the CTF 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

³ 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.

⁴ Under special purpose financial statements, external auditors will not permit their audit opinion to be disseminated to the public.

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.

VII. Reporting Framework for the CTF Trust Fund

17. Annex 1 through 5 represents the reporting templates that will be included in the next Trustee Report to provide the CTF Trust Fund Committee with additional financial information on the financial transactions of the Trust Fund.

Annex I

CLEAN TECHNOLOGY FUND 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		-
a/ Includes principal repayment and any payment of interest, fee and dividend. b/ Includes return of unused funds to the Trustee.		

CLEAN TECHNOLOGY FUND Schedule of Cash Transfers as of xxx (in USD millions)	
<u>Projects, Project Preparation Grants, Fees and Investment 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	-
<u>Loan principal and interest repayments to Loan Contributors</u>	
Interest	-
Principal	-
Total Cash Transfers	-

CLEAN TECHNOLOGY FUND 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)	-

CLEAN TECHNOLOGY FUND		
Funding Limits for Financing Product Decisions		
as of xxx		
(in USD millions) a/		
<u>1. Receipts</u>		-
1.1 Contribution Receipts		-
of which		
1.1.1. Loan Contributions	-	
1.1.2. Capital Contributions	-	
1.1.3. Grant Contributions	-	
1.2. Other Receipts b/		-
<u>2. Less: Liquidity Reserve c/</u>		-
<u>3. Set Aside d/</u>		-
of which		
3.1. Guarantees	-	
3.1.1. Loan Guarantees	-	
3.1.2. Contingent Finance	-	
3.2. Loans	-	
3.2.1. Harder concessional loans	-	
3.2.2. Softer concessional loans	-	
3.3. Grants	-	
3.3.1. Preparation grants	-	
3.3.2. Grant financing	-	
3.4. Other Set Asides e/	-	
<u>4. Net funds available for funding decisions</u>	(1) - (2) - (3)	-
of which		
4.1. Available for Project Funding Decisions	-	
4.1.1. of which maximum amount can be used for Softer concessional loans and grants	-	
4.1.1.1. of which maximum amount can be used for grants	-	
4.2. Available for Administrative Budget and MDB Fees (1.2) - (3.4)	-	
a/ Exchange rates as of xxx.		
b/ Includes investment income, reflows and return of other funds from MDBs.		
c/ Represents amount reserved to cover foreign exchange fluctuations and minimum liquidity requirements.		
d/ The set aside process temporarily reserves funding for Committee's approved amount.		
e/ Includes Administrative Budget (including investment plan preparation budget) and MDB Fees.		

CLEAN TECHNOLOGY FUND Net Defaults to be Shared as of xxx (in USD millions)		
Reflows due as of xxx	(1)	-
Less: Reflows received	(2)	-
Outstanding reflows	(3) = (1)-(2)	-
Cumulative investment income	(4)	-
Interest payments in excess of 0.75%	(5)	-
Guarantee fees in excess of 0.75%	(6)	-
CTF net income	(7) = (4)+(5)+(6)	-
Less: Cumulative administrative budget	(8)	-
Net defaults to be shared	(9) = (3) - ((7)-(8))	-