



ADAPTATION FUND

AFB/EFC.13/5
21 October 2013

Ethics and Finance Committee
Thirteenth Meeting
Bonn, Germany, 29-30 November 2013

**ADAPTATION FUND TRUST FUND:
FINANCIAL REPORT PREPARED BY THE TRUSTEE
(AS AT 30 SEPTEMBER 2013)**



Adaptation Fund Trust Fund

Financial Report

Prepared by the Trustee

As of September 30, 2013



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Introduction

This report is produced by the World Bank as interim trustee (“Trustee”) for the Adaptation Fund, in accordance with the Trustee’s role in the Adaptation Fund Trust Fund as set forth under paragraph 23 in the Appendix of Decision 1/CMP.4 of the CMP¹. The report also includes estimates of potential resources available to the Adaptation Fund through 2020, based on assumptions and observed information at the time of preparation of the report. It should be noted that these estimates do not include any additional donations for which pledges have not yet been made, nor additional resources that may become available from any other instruments.

The information contained in this Financial Report is based on financial information as of September 30, 2013.

¹ The decision states that: “The Trustee shall prepare and furnish the Adaptation Fund Board with financial reports of the Trust Fund annually (or at any other such frequency agreed between the Trustee and the Adaptation Fund Board), and provide records and accounts of the Trust Fund for audit by its external auditors annually (or at any other such frequency agreed between the Trustee and the Adaptation Fund Board), in accordance with the policies and procedures of the Trustee. Furthermore, the Trustee shall prepare and furnish the Adaptation Fund Board with reports on the sale of the CERs for the Adaptation Fund and on the status of commitments and transfers of Trust Fund funds annually (or at any other such frequency agreed between the Trustee and the Adaptation Fund Board).”



Adaptation Fund Trust Fund Summary as of September 30, 2013

AF Trust Fund Financial Summary

Certified Emission Reduction (CER) Sales and Donations:

Since the start of the CER monetization program in May 2009, the Trustee has generated revenues of USDeq. 188.61 million through CER sales. The Trustee has generated revenues of USDeq. 0.6 million from CER sales during calendar year 2013 to date. As of September 30, 2013, cumulative donations to the Adaptation Fund amounted to USDeq. 151.3 million.

Investment Income:

As of September 30, 2013, the Adaptation Fund Trust Fund had earned cumulative investment income of approximately USD 2.6 million on the undisbursed balance of the Trust Fund. The Adaptation Fund Trust Fund liquid portfolio has returned 0.24% through the calendar year to September 30, 2013. Pursuant to the Report of the 17th meeting of the AF Board, dated April 16, 2012, the Trust Fund balance has been allocated to a longer term investment portfolio in accordance with the Trustee's procedures for trust fund investments.

Funding Approvals and Commitments

Cumulative net funding decisions (approvals by the AF Board) to end-September 2013 amounted to USD 212.2 million. As of September 30, 2013, approved amounts (committed by the Trustee) pending transfers to recipients totaled USD 129.89 million, representing an increase of USD 3.6 million since March 31, 2013.

Cash Transfers

Based on Adaptation Fund Board decisions, the Trustee has transferred a total of USD 82.3 million up to September 30, 2013, including USD 61.4 million related to projects and programs, further detailed in Section 6.

Funds Held in Trust

Funds Held in Trust² reflect proceeds from CER monetization, donations received and investment income, less cash transfers made to date. Funds Held in Trust as of September 30, 2013 amounted to USDeq. 260.3 million.

Funds available to support AF Board funding decisions

Funds available amounted to USD 127.4 million as of September 30, 2013. This represents an increase of USDeq. 3.5 million over the prior reporting period as a result of CER proceeds and donations received exceeding the volume of transfers in respect of funding decisions made by the AF Board.

Estimate of Funds available from 2013-2020

If current CER prices and estimated CER issuance levels remain unchanged, it is estimated that the Adaptation Fund would receive only USDeq. 30-60 million in additional CER proceeds to 2020. These additional proceeds, plus outstanding pledges of USDeq. 11.1 million, when added to the amount currently available, would result in approximately USD 170-200 million for new funding commitments to 2020, or approx. USD 25 million per year.

² Funds Held in Trust represents balance of cash, investments and unencashed promissory notes (if any) as of the reporting date.



1. AF Trust Fund Summary – Inception through September 30, 2013

In USD millions

	Total	% of Total
<u>CER Sales Proceeds and Pledged Donations</u>		
CER Sales Proceeds	188.61	53.7%
Donations	151.32	43.1%
Pledges	11.05	3.1%
Total CER Sales Proceeds and Donations	350.98	100.0%
<u>Cumulative Resources</u>		
<u>Resources received</u>		
CER Sales Proceeds	188.61	47.0%
Donations	151.32	37.7%
Investment Income earned	2.60	0.6%
Total Resources Received	342.53	85.3%
<u>Resources not yet received</u>		
Potential CER Proceeds Available up to 2020 (see p. 10)	47.98	11.9%
Pledges	11.05	2.8%
Total resources not yet received	59.02	14.7%
Total Potential Resources (A) (in USD millions)	401.56	100.0%
<u>Cumulative Funding Decisions</u>		
Programs and Projects (MIE)	155.55	73.3%
Programs and Projects (NIE)	34.40	16.2%
Operational Expenses	22.23	10.5%
Total Funding Decisions Net of Cancellations (B)	212.18	100.0%
Total Potential Resources Net of Funding Decisions (A) - (B)	189.38	
Total Potential Resources Net of Funding Decisions and Operational Reserve	186.38	
<u>Funds Available</u>		
Funds Held in Trust with no restrictions	257.25	
Approved Amounts Pending Cash Transfers	129.89	
Total Funds Available to Support AF Board Decisions	127.35	



2. CER Sales Proceeds and Donations

Calendar Year		CER balance a/	CER sales	Proceeds USD (millions)
2009	Q2	5,044,100	1,120,000	18.55
	Q3	5,461,361	80,000	1.52
	Q4	5,225,632	850,000	16.06
2010	Q1	4,161,678	1,720,000	27.95
	Q2	2,174,188	2,465,000	41.84
	Q3	1,306,693	1,240,000	20.92
	Q4	1,888,232	560,000	9.51
2011	Q1	3,005,041	480,000	8.18
	Q2	3,403,530	1,015,000	18.59
	Q3	4,966,292	390,000	4.80
	Q4	6,255,615	40,000	0.42
2012	Q1	7,514,701	400,000	2.31
	Q2	7,034,418	1,931,000	9.41
	Q3	6,280,769	1,614,000	6.23
	Q4	8,217,077	965,000	1.70
2013	Q1	9,035,889	1,498,000	0.25
	Q2	10,528,786	144,303	0.08
	Q3	10,932,978	300,000	0.29
Total			16,812,303	188.61

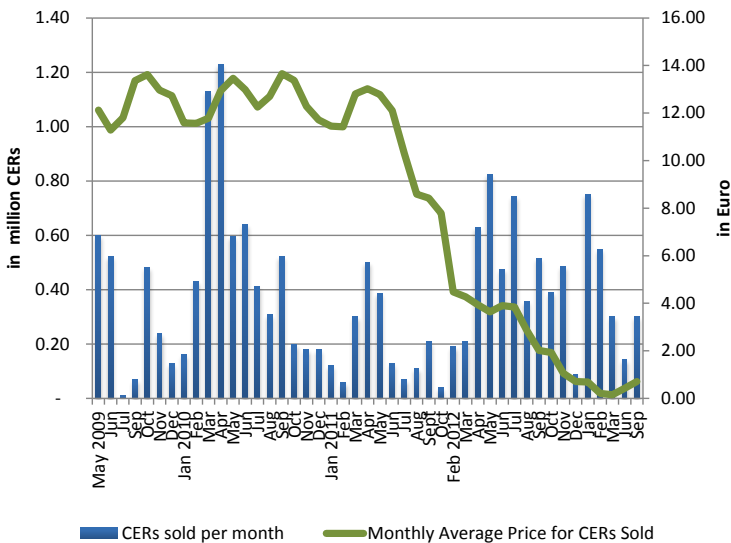
CER SALES PROCEEDS

This table shows the proceeds from CER sales received into the Adaptation Fund Trust Fund.

The Trustee has generated revenues of USDeq. 188.61 million through CER sales since the start of the CER monetization program in May 2009.

CER prices have increased slightly but remain at historically low levels, reflecting continued oversupply and weak demand.

a/ in CDM, Swiss, and Bluenext registries, at month-end



CER SALES VS. MONTHLY AVERAGE PRICE

This chart presents the number of CERs sold per month and the monthly average price obtained for CERs sold between May 2009 and September 2013. During the last quarter, the Trustee sold 300,000 CERs and generated USDeq. 0.29 million in CER proceeds. The average price achieved by the trustee during the quarter was EUR 0.71.

DONATIONS

Donor	Currency	Pledged Donation in Currency of Contribution	Effective (or signed) Donation	Receipts in Currency of Contribution	Receipts in USD eq. a/
Brussels Capital Region	EUR	1,200,000	1,200,000	1,200,000	1,586,400
Finland b/	USD	67,534	67,534	67,534	67,534
France b/	USD	53,340	53,340	53,340	53,340
Germany	EUR	10,000,000	10,000,000	10,000,000	13,883,000
Japan b/	USD	8,088	8,088	8,088	8,088
Monaco	EUR	10,000	10,000	10,000	12,197
Norway b/	USD	87,700	87,700	87,700	87,700
Spain	EUR	45,000,000	45,000,000	45,000,000	57,055,000
Sweden	SEK	400,000,000	400,000,000	400,000,000	59,383,765
Switzerland b/	USD	77,668	77,668	77,668	77,668
Switzerland	CHF	13,000,000	3,000,000	3,000,000	3,189,793
United Kingdom c/	GBP	10,000,000	10,000,000	10,000,000	15,915,000
Others	GBP	-	326	326	504
Others	EUR	-	412	412	566
Total Donations Received					151,320,555

a/ Represents actual USD receipts.

b/ Donation corresponds to the Donor's pro-rata share of the balance in the Administrative Trust Fund

c/ In addition to the donation reflected in this table, the Trustee executed an agreement with the United Kingdom under which the UK waived its right to be reimbursed USD 990,300 from the AF Trust Fund in respect of their reimbursable contribution to the Administrative Trust Fund in 2008.

HIGHLIGHTS FOR THE PERIOD APRIL 1, 2013 THROUGH SEPTEMBER 30, 2013:

- The Trustee executed a donation agreement with Sweden and the Brussels Capital Region for SEK 100 million and EUR 1.2 million, respectively. Both contributions were received in the Adaptation Fund Trust Fund. Switzerland made a pledge to donate an additional CHF 10 million; the agreement is being processed.
- The Trustee executed a donation agreement with France for the transfer of their pro-rata share of the remaining balance in the AF Administrative Trust Fund.
- The Trustee executed an agreement with the United Kingdom under which the UK waived its right to be reimbursed USD 990,300 from the AF Trust Fund in respect of its reimbursable contribution to the Administrative Trust Fund in 2008. This resulted in a decrease in the amount of AF funding decisions pending cash transfer, and increase in funds available for new commitments by the AF Board.

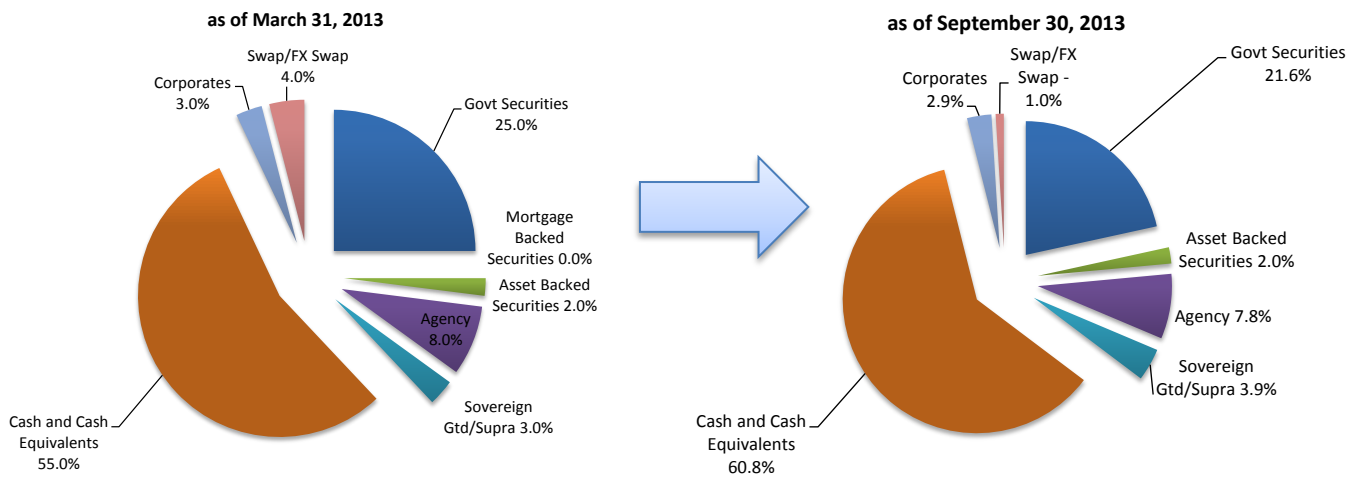


3. Asset Mix and Investment Income

The undisbursed cash balance of the Adaptation Fund Trust Fund is maintained in a commingled investment portfolio (“Pool”) for all trust funds managed by IBRD and is allocated across seven asset classes. The Pool is actively managed so that the probability of incurring negative returns is no more than 1% over the applicable investment horizon.

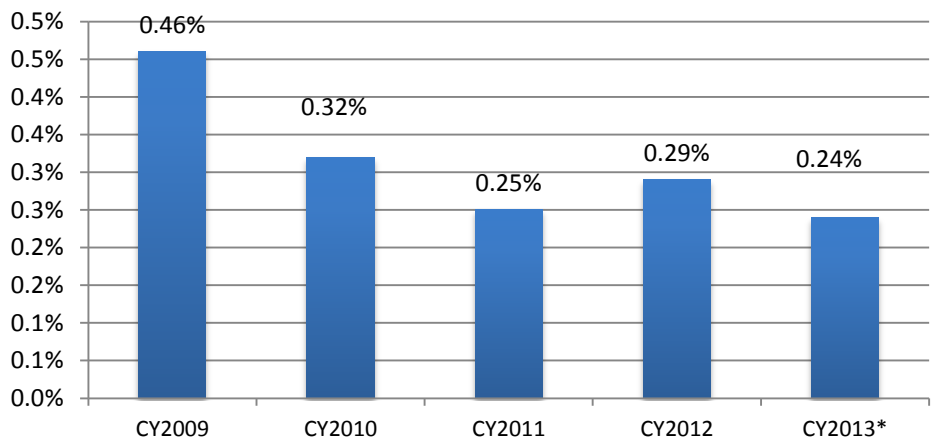
ASSET MIX

The portfolio allocation by asset class is dominated by government securities and money-market instruments. In 2012, the Adaptation Fund Board approved an updated investment strategy, reflecting the Fund’s mandate, current risk profile and projected liquidity needs. Based on projections that the Fund’s resources would remain undisbursed for at least one year and at a sizable level (above USD 100 million), its balance would be eligible for investment in a longer term tranche.



INVESTMENT RETURNS

The portfolio’s performance continues to be modest as the level of fixed income yields continued to fall to historically low levels. Contributors to performance were high-quality sovereign bonds in the United States and Europe.

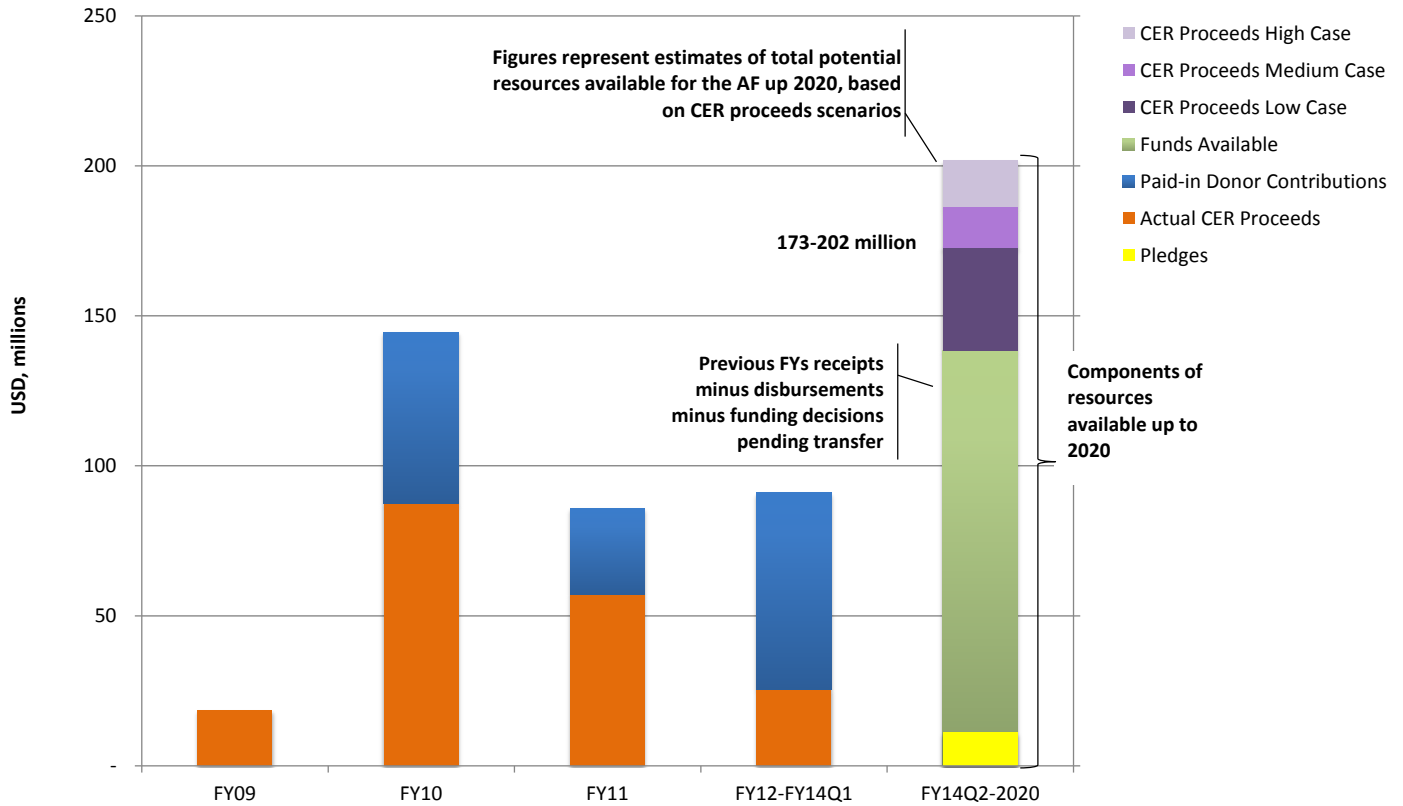


* non-annualized



4. Cumulative Resources - Potential Resources Available

ESTIMATED RESOURCES AVAILABLE THROUGH DECEMBER 31, 2020:



- Under current CER market conditions, the estimates of potential resources available for the Adaptation Fund for the period up to end-2020 (estimated as at September 30, 2013) range from approximately USD 170-200 million.

The details of the estimated potential resources available up to 2020 are presented below. An average of independent analysts' estimates of CER issuance from 2013 to 2020 is used, resulting in a new issuance estimate of approximately 2.4 billion CERs.

		Low	Medium	High
Actuals				
Total CER Proceeds (in USD millions)	(1)	188.61	188.61	188.61
Donations	(2)	151.32	151.32	151.32
Investment Income	(3)	2.60	2.60	2.60
Cash Inflow (in USD millions)	(4) = (1) + (2) + (3)	342.53	342.53	342.53
Funding Decisions a/	(5)	215.18	215.18	215.18
Funds Available (in USD millions)	(6) = (4) + (5)	127.35	127.35	127.35
Estimated Resources for Apr. 2013-2020				
Pledges	(7)	11.05	11.05	11.05
CER price				
CER Price in Euro b/	(8)	0.60	0.75	0.90
USD/EUR Exchange Rate c/	(9)	1.22	1.35	1.49
CER Price in USD	(10) = (8) x (9)	0.73	1.01	1.34
Total CER Proceeds beyond Oct. 2013 (in USD millions) d/	(11)	34.37	47.98	63.53
Total Potential Resources (in USD millions)	(12) = (6) + (7) + (11)	172.77	186.38	201.93

a/ Includes Operational Reserve (USD 3 million).
b/ "Medium" represents current spot closing price, "Low" represents 20% decrease from medium, "High" represents 20% increase from medium value.
c/ "Medium" represents current value, "Low" represents 10% decrease from medium, and "High" represents 10% increase from medium value.
d/ Based on a compilation of analysts' forecasts, averaging to 2.4 billion CERs to be issued for the 2013-2020 period. Estimates should be considered indicative and for illustrative purposes only.



5. Cumulative Funding Decisions

In USD millions

Table 2: Cumulative Funding Decisions			
Inception to September 30, 2013 (in USD millions)			
<u>1. Programs and Projects</u>	<u>MIE/NIE</u>	<u>MIE</u>	<u>NIE</u>
Argentina	UCAR	-	5.67 a/
Argentina	WB	4.30	-
Benin	FNE	-	0.03 a/
Cambodia	UNEP	4.95	-
Colombia	UNDP	8.52	-
Cook Islands	UNDP	5.38	-
Djibouti	UNDP	4.66	-
Ecuador	WFP	7.45	-
Egypt	WFP	6.90	-
Eritrea	UNDP	6.52	-
Georgia	UNDP	5.32	-
Guatemala	UNDP	5.43	-
Honduras	UNDP	5.62	-
Jamaica	PIOJ	-	10.00 a/
Lebanon	IFAD	7.86	-
Madagascar	UNEP	5.10	-
Maldives	UNDP	8.99	-
Mauritania	WFP	7.80	-
Mauritius	UNDP	9.12	-
Mongolia	UNDP	5.50	-
Nicaragua	UNDP	5.50	-
Pakistan	UNDP	3.91	-
Papua New Guinea	UNDP	6.53	-
Rwanda	MINIRENA	-	0.03 a/
Samoa	UNDP	8.73	-
Senegal	CSE	-	8.62
Solomon Islands	UNDP	5.53	-
South Africa	SANBI	-	0.06
Sri Lanka	WFP	7.99	-
Tanzania	UNEP	5.01	-
Turkmenistan	UNDP	2.93	-
Uruguay	ANII	-	10.00 a/
Sub-Total by IE type		155.55	34.40
Percent of total Programs and Projects		82%	18%
			189.96
2. Operational Expenses			22.23
AF Administrative Trust Fund b/			0.69
Administrative Budget - Trustee			6.17
Administrative Budget - AF Board and Secretariat			15.03
Reimbursable deposit c/			0.34
3. Total Funding Decisions (3 = 1 + 2)			212.18
a/ Includes approved Project Formulation Grant amounts.			
b/ Represents reimbursable contributions from UNEP and Australia to the Administrative Trust Fund			
c/ Required as of 2013 to be deposited with the clearing agent for CER trades on exchanges			

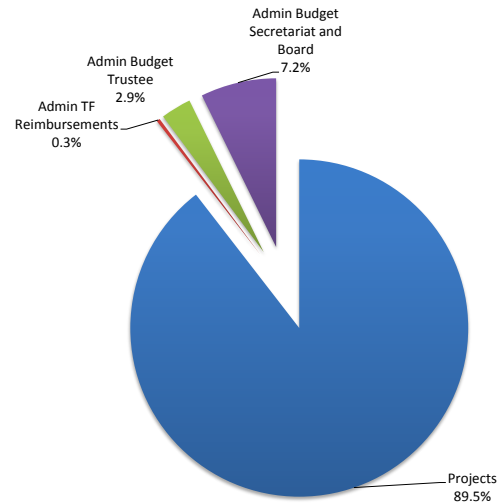
SNAPSHOT OF FUNDING DECISIONS:

- The cumulative funding decisions made by the Adaptation Fund Board up to September 30, 2013 amount to USD 212.2 million. The breakdown of funding decisions by National Implementing Entities (NIEs) and Multilateral Implementing Entities (MIEs) is presented in the table above.



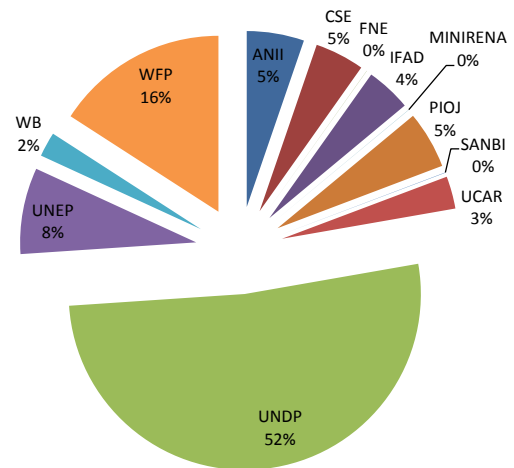
CUMULATIVE FUNDING DECISIONS

Since inception to September 30, 2013 funding approvals made by the AF Board totaled USD 212.2 million. AF Board, Secretariat and Trustee Expenses represent about 10% of total funding decisions. Administrative Trust Fund reimbursements were to UNEP and Australia for their contributions to AF Secretariat and Board expenses.



FUNDING DECISIONS BY NIE/MIE

Funding decisions by MIE/NIE show the cumulative funding decisions related to programs and projects. To date, cumulative funding decisions to MIEs/NIEs total USD 190 million.



PROJECT CONCEPTS AT ENDORSED STAGE

This table shows the additional project and program concepts endorsed by the Board.

These endorsements are not reflected in the calculation of funds available.

In USD millions

<u>1. Project Concepts</u>	<u>MIE/NIE</u>	<u>MIE</u>	<u>NIE</u>
Belize	WB	6.00	-
Benin	FNE	-	9.08
Cuba	UNDP	6.07	-
El Salvador	UNDP	5.43	-
Fiji	UNDP	5.73	-
Ghana	UNDP	8.29	-
Mali	UNDP	8.53	-
Myanmar	UNDP	7.91	-
Niger	BOAD	-	9.91
Paraguay	UNEP	7.13	-
Peru	IDB	6.95	-
Rwanda	MINIRENA	-	9.93
Seychelles	UNDP	6.46	-
South Africa	SANBI	-	9.93
Uzbekistan	UNDP	5.42	-
Sub-Total by IE type		73.91	38.86

6. Funds Available

In USD millions

	As of September 30, 2013 (a)	As of March 31, 2013 (b)	Change since last report (a) - (b)
1. Cumulative Receipts	342.53	324.94	17.60
a. Cash receipts from CER proceeds	188.61	188.24	0.37
b. Cash receipts from Donors and Other Sources	151.32	134.50	16.82
c. Investment Income earned on undisbursed balances	2.60	2.19	0.41
2. Cumulative Cash Transfers	82.29	71.69	10.59
a. Projects and Programmes	61.40	54.79	6.61
b. Operational Expense	20.89	16.91	3.98
3. Funds Held in Trust with no Restrictions (3 = 1 - 2)	260.25	253.24	7.00
4. Operational Reserve	3.00	3.00	-
5. Funding Decisions Pending Cash Transfer	129.89	126.34	3.56
6. Funds available to support AF Board funding decisions (6 = 3 - 4 - 5)	127.35	123.91	3.45

Highlights for the period April 1, 2013 through September 30, 2013:

- **Funds Held in Trust** represent cumulative receipts less cumulative cash transfers, and amount to USDeq. 260.3 million as of September 30, 2013. Funds Held in Trust increased by USDeq. 7 million due to:
 - The receipt of CER proceeds amounting to USDeq. 0.4 million.
 - The receipt of donations amounting to USD 16.8 million
 - Investment income of USDeq. 0.4 million earned during the quarter
 - Cash transfers of USD 10.6 million for projects, programs and operational expenses during the last two quarters.
- **New Funding decisions** arising from AF Board approvals amounted to USD 14.2 million.
- **Funding Availability** increased by USDeq. 3.5 million over the prior reporting period as a result of the factors outlined above.



Annex – Detailed CER Monetization Record

Calendar Quarter	Sale Method	Quantity	Quarterly Average Market Price	Quarterly Average Price Achieved by the Trustee	Total Euro	Actual USD	Fees	
2009	Q2	OTC	1,100,000	11.62	11.85	13,030,000	18,244,887	-
		Exchange	20,000	11.62	10.79	215,700	302,455	480
	Q3	OTC	-	-	-	-	-	-
		Exchange	80,000	12.74	13.16	1,044,000 a/	1,519,280	1,920
2009	Q4	OTC	400,000	12.72	12.41	4,965,000	7,372,659	-
		Exchange	450,000	12.72	13.02	5,860,600	8,689,141	10,800
2010	Q1	OTC	1,300,000	11.69	11.93	15,505,000	21,219,352	-
		Exchange	420,000	11.69	11.59	4,867,200	6,734,673	10,080
	Q2	OTC	1,570,000	13.02	13.17	20,684,500	26,768,710	-
		Exchange	895,000	13.02	13.07	11,693,600	15,068,497	12,270
	Q3	OTC	700,000	12.90	13.51	9,454,000	12,049,753	-
		Exchange	540,000	12.90	12.67	6,839,600	8,866,433	7,560
	Q4	OTC	-	-	-	-	-	-
		Exchange	560,000	12.47	12.48	6,991,500	9,511,362	7,840
2011	Q1	OTC	300,000	11.89	12.83	3,847,500	5,437,099	-
		Exchange	180,000	11.89	11.44	2,059,000	2,746,051	2,520
	Q2	OTC	500,000	12.49	13.02	6,509,000	9,357,538	-
		Exchange	315,000	12.49	12.53	3,946,900	5,662,845	4,350
		Auction	200,000	12.49	12.52	2,504,000	3,567,699	2,000
	Q3	OTC	-	-	-	-	-	-
2011		Exchange	390,000	9.07	8.81	3,434,600	4,803,998	5,460
	Q4	OTC	-	-	-	-	-	-
		Exchange	40,000	6.21	7.79	311,400	418,332	560
	2012	Q1	OTC	-	-	-	-	-
	Exchange	400,000	4.16	4.37	1,748,100	2,306,972	5,600	
Q2	OTC	250,000	3.82	3.67	921,500	1,158,337	-	
	Exchange	1,681,000	3.82	3.81	6,411,770	8,251,269	23,534	
Q3	OTC	-	0.18	-	-	-	-	
	Exchange	1,614,000	2.91	2.95	5,006,550	6,224,091	22,596	
Q4	OTC	6,000	0.18	1.05	6,300	8,027	-	
	Exchange	959,000	0.18	1.38	1,317,480	1,698,951	13,426	
2013	Q1	OTC	1,498,000	0.16	0.13	190,280	254,006	-
		Exchange	-	-	-	-	-	-
	Q2	OTC	144,303	0.28	0.43	62,050	82,030	-
		Exchange	-	-	-	-	-	-
	Q3	OTC	300,000	0.60	0.71	212,000	286,740	-
		Exchange	-	-	-	-	-	-
Total		16,812,303			139,639,130	188,611,184	130,996	

a/ net of EUR 10,000 exchange fees



Glossary

Term	Definition
ANII	Agencia Nacional de Investigación e Innovación – Uruguay
BOAD	Banque Ouest Africaine de Developpement
CSE	Centre de Suivi Ecologique - Senegal
FNE	Fonds National pour l’Environnement – Benin
IDB	InterAmerican Development Bank
IFAD	International Fund for Agricultural Development
MINIRENA	Ministry of Natural Resources - Rwanda
PIOJ	Planning Institute of Jamaica
SANBI	South African National Biodiversity Institute
UCAR	Unidad para el Cambio Rural
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WB	World Bank
WFP	United Nations World Food Programme