



ADAPTATION FUND

AFB/EFC.12/8
30 May 2013

Adaptation Fund Board
Ethics and Finance Committee
12th Meeting
Bonn, Germany, 1-2 July 2013

Agenda Item: 10 a)

**ADAPTATION FUND TRUST FUND: FINANCIAL REPORT
PREPARED BY THE TRUSTEE**

(AS AT 31 MARCH 2013)



Adaptation Fund Trust Fund

Financial Report

Prepared by the Trustee

As of March 31, 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 March 31, 2013². An update on the financial status of the Adaptation Fund would be made available by the Trustee prior to the Twenty-first Meeting of the Adaptation Fund Board.

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).”

² The end of the most recent quarter prior to publication of the report.



Adaptation Fund Trust Fund Summary as of March 31, 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. 188.24 million through CER sales. The Trustee generated revenues of USDeq. 0.25 million from CER sales during 2013 to date. As of March 31, 2013, cumulative donations to the Adaptation Fund amounted to USDeq. 134.5 million.

Investment Income:

As of March 31, 2013, the Adaptation Fund Trust Fund earned cumulative investment income of approximately USD 2.19 million on the undisbursed balance of the Trust Fund. The Adaptation Fund Trust Fund liquid portfolio has returned 0.08% through the calendar year to March 31, 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 Bank's procedures for trust fund investments.

Funding Approvals and Commitments

Cumulative net funding decisions (approvals by the AF Board) to end-March 2013 amounted to USD 198.03 million. As of March 31, 2013, committed amounts pending transfers to recipients totaled USD 126.34 million, representing a decrease of USD 3.4 million since December 31, 2012.

Cash Transfers

Based on Adaptation Fund Board decisions, the Trustee has transferred a total of USD 71.69 million up to March 31, 2013, including USD 54.79 million related to projects and programs further detailed in Section 6.

Funds Held in Trust

Funds Held in Trust³ reflect proceeds from CER monetization, donations received, investment income and cash transfers. Funds Held in Trust as of March 31, 2013 amounted to USDeq. 253.24 million.

Funds available to support AF Board funding decisions

Funds available amounted to USD 123.91 million as of March 31, 2013. This represents an increase of USDeq. 0.09 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

At current CER prices and estimated CER issuance levels, it is estimated that the Adaptation Fund would receive only approx. USDeq. 5-10 million in cumulative additional revenue to 2020. If outstanding pledges of USDeq. 17.2 million are also paid, the Fund would have resources totaling USD 146 to 152 million, or approximately USD 19 million per year for new funding commitments.

³ 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 March 31, 2013

In USD millions

	Total	% of Total
<u>CER Sales Proceeds and Pledged Donations</u>		
CER Sales Proceeds	188.24	55.4%
Donations	134.50	39.6%
Pledges	17.21	5.1%
Total CER Sales Proceeds and Donations	339.96	100.0%
<u>Cumulative Resources</u>		
<u>Resources received</u>		
CER Sales Proceeds	188.24	53.8%
Donations	134.50	38.4%
Investment Income earned	2.19	0.6%
Total Resources Received	324.94	92.9%
<u>Resources not yet received</u>		
Potential CER Proceeds Available up to 2020 (see p. 10)	7.73	2.2%
Pledges	17.21	4.9%
Total resources not yet received	24.94	7.1%
Total Potential Resources (A) (in USD millions)	349.88	100.0%
<u>Cumulative Funding Decisions</u>		
Programs and Projects (MIE)	150.13	75.8%
Programs and Projects (NIE)	28.67	14.5%
Operational Expenses	19.23	9.7%
Total Funding Decisions Net of Cancellations (B)	198.03	100.0%
Total Potential Resources Net of Funding Decisions (A) - (B)	151.85	
Total Potential Resources Net of Funding Decisions and Operational Reserve	148.85	
<u>Funds Available</u>		
Funds Held in Trust with no restrictions	250.24	
Approved Amounts Pending Cash Transfers	126.34	
Total Funds Available to Support AF Board Decisions	123.91	



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
2011	Q4	1,888,232	560,000	9.51
	Q1	3,005,041	480,000	8.18
	Q2	3,403,530	1,015,000	18.59
2012	Q3	4,966,292	390,000	4.80
	Q4	6,255,615	40,000	0.42
	Q1	7,514,701	400,000	2.31
2013	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	9,283,631	1,498,000	0.25
Total			16,368,000	188.24

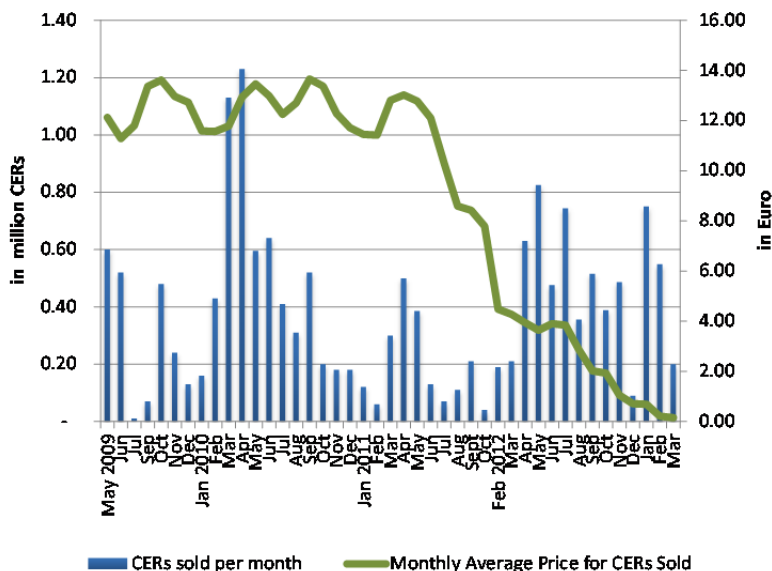
CER SALES PROCEEDS

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

The Trustee has generated revenues of USDeq. 188.24 million through CER sales since the start of the CER monetization program in May 2009.

The average price achieved to date by the Trustee has been EUR 8.82, compared with average market price of EUR 8.63. CER prices have continued to decline to record lows, reflecting 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 March 2013. During the last quarter, the Trustee sold 1.5 million CERs and generated USDeq. 0.25 million in CER proceeds. In accordance with AF Board guidance, sales during the period focused on industrial gas derived CERs, at an average price of EUR 0.13.



DONATIONS

Donor	Currency	Pledged Donation in Currency of Contribution	Effective (or signed) Donation	Receipts in Currency of Contribution	Receipts in USD eq. a/
Australia	AUD	15,000,000	-	-	-
Brussels Capital Region	EUR	1,200,000	-	-	-
Finland b/	USD	67,534	67,534	67,534	67,534
France b/	USD	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	300,000,000	300,000,000	300,000,000	44,205,343
Switzerland b/	USD	77,668	77,668	77,668	77,668
Switzerland	CHF	3,000,000	3,000,000	3,000,000	3,189,793
United Kingdom	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					134,502,393

a/ Represents actual USD receipts.

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

HIGHLIGHTS FOR THE PERIOD JANUARY 1, 2013 THROUGH MARCH 31, 2013:

- The Trustee is in the process of finalizing a donation agreement with the Brussels Capital Region for an amount of EUR 1.2 million.

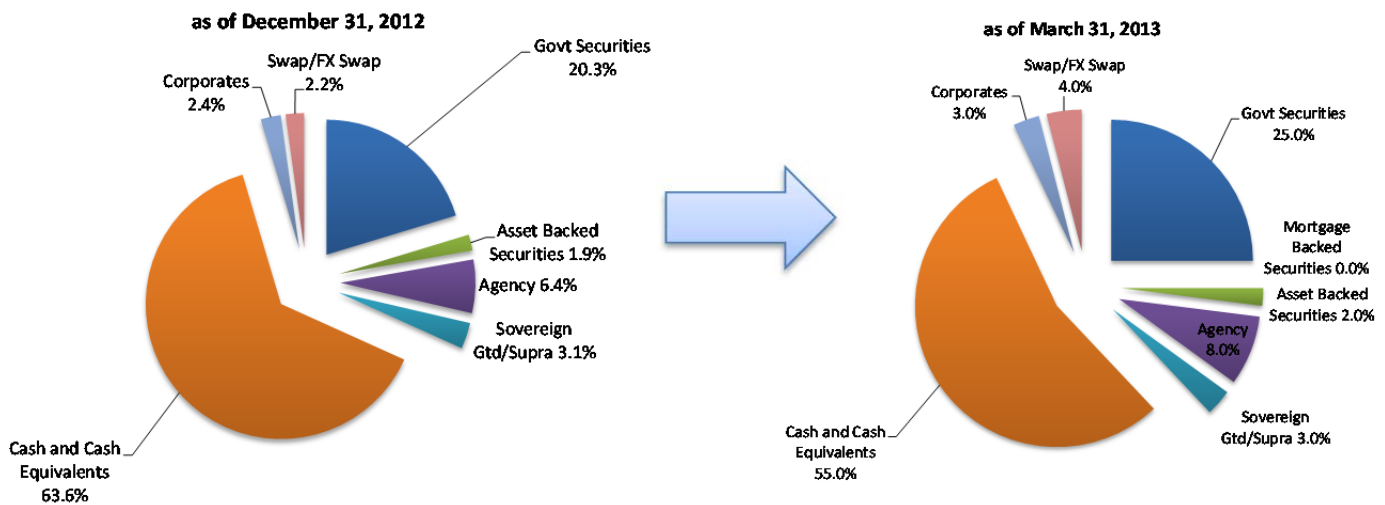


3. Asset Mix and Investment Income

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.

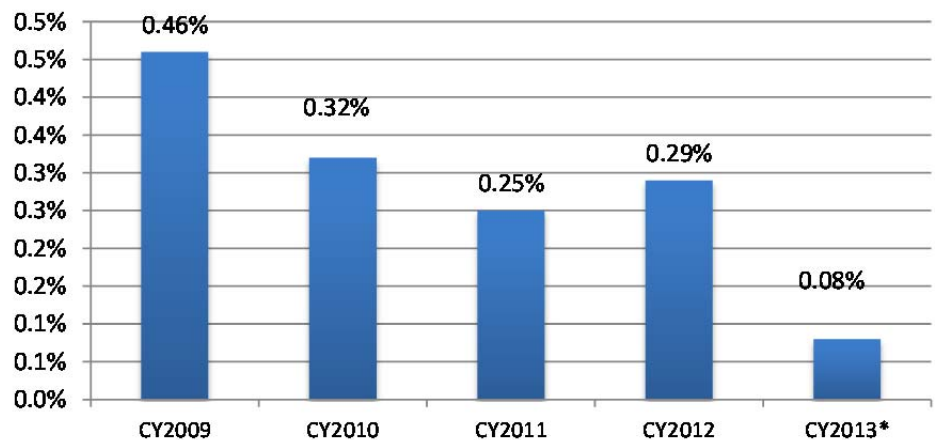
ASSET MIX

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.

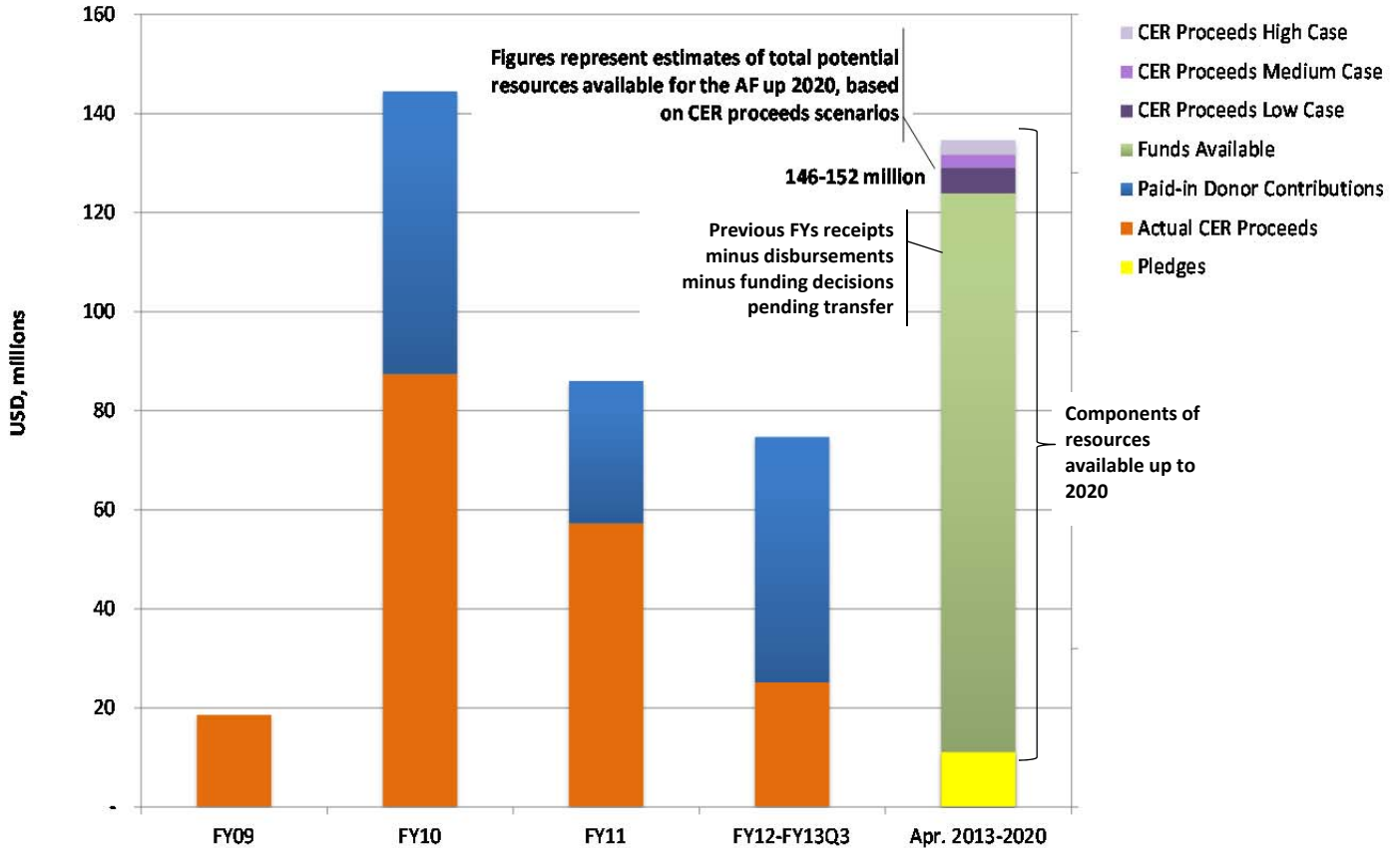


* non-annualized



4. Cumulative Resources - Potential Resources Available

ESTIMATED RESOURCES AVAILABLE THROUGH DECEMBER 31, 2020:



- This chart shows the potential resources available to support Adaptation Fund Board funding decisions up to the end of 2020.
- Since December 2012, CER prices have continued to decline to record lows.
- The Adaptation Fund Board instructed the Trustee to sell only industrial-gas derived CERs until further notice; such CERs typically attract low prices.
- **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 March 31, 2013) range from approximately USD 146 million to USD 152 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 an estimate of approximately 2.4 billion CERs.

		Low	Medium	High
Actuals				
Total CER Proceeds (in USD millions)	(1)	188.24	188.24	188.24
Donations	(2)	134.50	134.50	134.50
Investment Income	(3)	2.19	2.19	2.19
Cash Inflow (in USD millions)	(4) = (1) + (2) + (3)	324.94	324.94	324.94
Funding Decisions a/	(5)	201.03	201.03	201.03
Funds Available (in USD millions)	(6) = (4) + (5)	123.91	123.91	123.91
Estimated Resources for Apr. 2013-2020				
Pledges	(7)	17.21	17.21	17.21
CER price				
CER Price in Euro b/	(8)	0.12	0.15	0.18
USD/EUR Exchange Rate c/	(9)	1.15	1.28	1.41
CER Price in USD	(10) = (8) x (9)	0.14	0.19	0.25
Total CER Proceeds beyond Apr. 2013 (in USD millions) d/	(11)	5.15	7.73	10.68
Total Potential Resources (in USD millions)	(12) = (6) + (7) + (11)	146.26	148.85	151.80

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

<u>1. Programs and Projects</u>	<u>MIE/NIE</u>	<u>MIE</u>	<u>NIE</u>	
Argentina	UCAR	-	0.03	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	-	
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	-	
Samoa	UNDP	8.73	-	
Senegal	CSE	-	8.62	
Solomon Islands	UNDP	5.53	-	
Sri Lanka	WFP	7.99	-	
Tanzania	UNEP	5.01	-	
Turkmenistan	UNDP	2.93	-	
Uruguay	ANII	-	10.00	a/
	Sub-Total by IE type	150.13	28.67	178.80
	Percent of total Programs and Projects	84%	16%	
2. Operational Expenses				19.23
AF Administrative Trust Fund b/				1.68
Administrative Budget - Trustee				5.58
Administrative Budget - AF Board and Secretariat				11.63
Reimbursable deposit c/				0.34
3. Total Funding Decisions (3 = 1 + 2)				198.03
a/ Includes approved Project Formulation Grant amounts.				
b/ Represents reimbursable contributions from UNEP, Australia and the United Kingdom to the Administrative Trust Fund				
c/ Required as of 2013 to be deposited with the clearing agent for CER trades on exchanges				

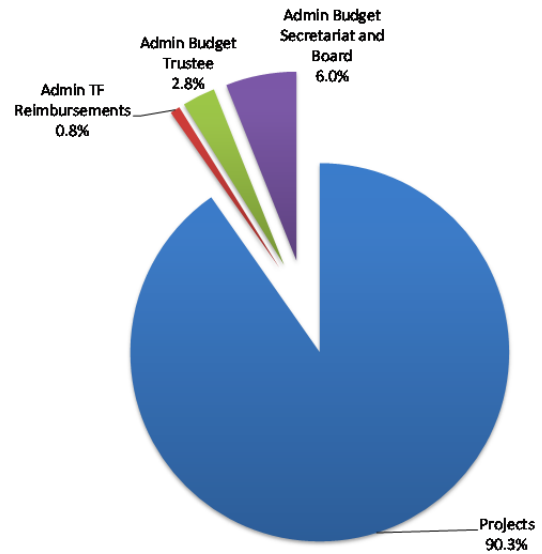
SNAPSHOT OF FUNDING DECISIONS:

- The cumulative funding decisions made by the Adaptation Fund Board up to March 31, 2013 amount to USD 198.03 million. The breakdown of funding decisions by National Implementing Entities (NIEs) and Multilateral Implementing Entities (MIEs) is presented in the table above.



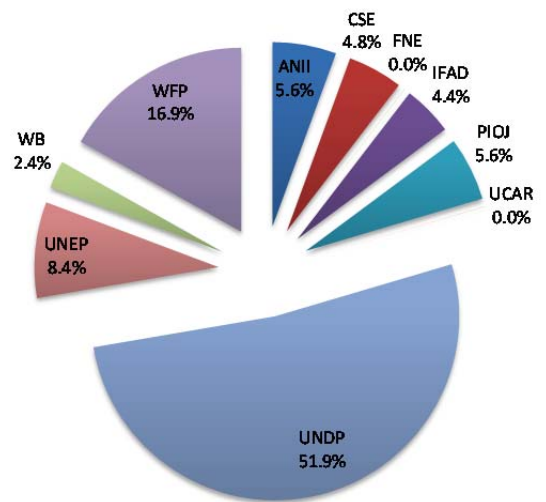
CUMULATIVE FUNDING DECISIONS

Since inception to December 31, 2012, funding approvals made by the AF Board totaled USD 198.03 million. AF Board, Secretariat and Trustee Expenses represent about 10% of total funding decisions. Administrative Trust Fund reimbursements were to UNEP, Australia and UK (pending transfer) 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 178.8 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

1. Project Concepts

	MIE/NIE	MIE	NIE
Belize	WB	6.00	-
Argentina	UCAR	-	5.64
Paraguay	UNEP	7.13	-
Peru	IDB	6.95	-
Benin	FNE	-	9.08
Guatemala	UNDP	5.43	-
Myanmar	UNDP	7.91	-
Cuba	UNDP	6.07	-
Seychelles	UNDP	6.46	-
El Salvador	UNDP	5.43	-
Fiji	UNDP	5.73	-
Niger	BOAD	-	9.91
Sub-Total by IE type		57.09	24.63

2. Total Project Concepts

81.72

6. Funds Available

In USD millions

	As of March 31, 2013 (a)	As of December 31, 2012 (b)	Change since last report (a) - (b)
1. Cumulative Receipts	324.94	324.48	0.46
a. Cash receipts from CER proceeds	188.24	187.99	0.25
b. Cash receipts from Donors and Other Sources	134.50	134.50	0.00
c. Investment Income earned on undisbursed balances	2.19	1.99	0.20
2. Cumulative Cash Transfers	71.69	67.92	3.77
a. Projects and Programmes	54.79	50.37	4.42
b. Operational Expense	16.91	17.55	(0.64)
3. Funds Held in Trust with no Restrictions (3 = 1 - 2)	253.24	256.56	(3.32)
4. Operational Reserve	3.00	3.00	-
5. Funding Decisions Pending Cash Transfer	126.34	129.74	(3.40)
6. Funds available to support AF Board funding decisions (6 = 3 - 4 - 5)	123.91	123.82	0.09

Highlights for the period January 1, 2013 through March 31, 2013:

- **Funds Held in Trust** represent cumulative receipts less cumulative cash transfers, and amount to USDeq. 253.24 million as of March 31, 2013. Funds Held in Trust decreased by USDeq. 3.32 million due to:
 - The receipt of CER proceeds amounting to USDeq. 0.25 million.
 - Investment income of USDeq. 0.2 million earned during the quarter
 - Cash transfers of USD 3.77million for projects, programs and operational expenses during the quarter.
- **New Funding decisions** arising from AF Board approvals amounted to USD 0.37 million.
- **Funding Availability** increased by USDeq. 0.09 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	-	-	-	-	-	-
		Exchange	390,000	9.07	8.81	3,434,600	4,803,998	5,460
2011	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
2012	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
2012	Q3	OTC	-	-	-	-	-	-
		Exchange	1,614,000	2.91	2.95	5,006,550	6,224,091	22,596
2012	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	253,976	-
		Exchange	-	-	-	-	-	-
Total		16,368,000			139,365,080	188,242,384	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
PIOJ	Planning Institute of Jamaica
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