



June 30, 2016

# Adaptation Fund Trust Fund

Administered by the International Bank for Reconstruction and Development as  
Interim Trustee

**World Bank Reference: TF069013**

**Independent Auditor's Report and Statement of Receipts,  
Disbursements and Fund Balance**

**The World Bank Group**

Trust Funds Division, Accounting and Business Services Department  
Finance and Accounting Vice Presidency

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## **Independent Auditors' Report**

International Bank for Reconstruction and Development;  
As Interim Trustee of the Adaptation Fund Trust Fund – TF069013:

We have audited the accompanying statement of receipts, disbursements, and fund balance (the Statement) of the Adaptation Fund Trust Fund – TF069013 (the Trust Fund) under administration by the International Bank for Reconstruction and Development (the Interim Trustee) for the year ended June 30, 2016, and for the period from February 27, 2009 (date of inception) to June 30, 2016, and the related notes to the Statement.

### ***Management's Responsibility for the Statement***

Management is responsible for the preparation and fair presentation of the Statement in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the Statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our *audit opinion*.

### ***Opinion***

In our opinion, the Statement referred to above presents fairly, in all material respects, the receipts, disbursements, and fund balance of the Trust Fund for the year ended June 30, 2016 and for the period from February 27, 2009 (date of inception) to June 30, 2016, in accordance with the modified cash basis of accounting described in Note 2.



***Basis of Accounting***

We draw attention to Note 2 to the Statement, which describes the basis of accounting. The Statement is prepared on the modified cash basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles or International Financial Reporting Standards. Our opinion is not modified with respect to this matter.

*KPMG LLP*

Washington, District of Columbia  
October 14, 2016

# STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

Expressed in U.S. dollars

	Notes	For the fiscal year ended June 30, 2016	February 27, 2009 (date of inception) to June 30, 2016
Proceeds from monetization of Certified Emission Reductions	4	\$ 2,328,510	\$ 196,524,445
Contributions :			
Brussels Capital Region		-	2,253,630
Government of the Republic of Austria		-	690,250
Government of Flanders		-	1,216,500
Government of France		-	5,617,340
Government of Japan		-	5,693
Government of Switzerland		-	14,230,096
Government of Walloon		1,395,150	1,395,150
Kingdom of Belgium		1,645,500	1,645,500
Kingdom of Norway		-	2,527,081
Kingdom of Spain		-	57,092,250
Kingdom of Sweden		-	59,411,748
Luxembourg		-	2,105,296
Principality of Monaco		-	12,252
Republic of Finland		-	6,870,534
Republic of Germany		54,616,200	171,571,700
Republic of Italy		2,172,800	2,172,800
United Kingdom		-	15,857,000
Other		1,528	58,621
Total contributions		<u>59,831,178</u>	<u>344,733,441</u>
Net investment income	5	1,500,046	5,570,110
<b>Total receipts</b>		<u><b>63,659,734</b></u>	<u><b>546,827,996</b></u>
Cash transfers for projects	6	24,556,556	156,118,280
Cash transfers for project supervision fees	7	1,326,264	13,628,343
Administrative budget disbursements, net	8	(216,453)	30,009,684
Advances repaid to donors of the Trust Fund for the Secretariat for the Adaptation Fund Board	9	-	691,340
<b>Total disbursements</b>		<u><b>25,666,367</b></u>	<u><b>200,447,647</b></u>
Excess of receipts over disbursements before foreign currency adjustments		37,993,367	346,380,349
Foreign currency adjustments	2	<u>4,857</u>	<u>88,815</u>
Excess of receipts over disbursements after foreign currency adjustments		37,998,224	346,469,164
<b>Fund Balance:</b>			
Beginning of period		<u>308,470,940</u>	-
End of period		<u><b>\$ 346,469,164</b></u>	<u><b>\$ 346,469,164</b></u>
Fund balance consists of:			
Trust Fund's share of the cash and investments in the Pool	3	<u><u>\$ 346,469,164</u></u>	<u><u>\$ 346,469,164</u></u>

The accompanying notes are an integral part of this Statement of Receipts, Disbursements and Fund Balance.

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

*All amounts expressed in U.S. dollars unless otherwise noted*

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## Note 1 - Organization

The Adaptation Fund (AF) was established under the Kyoto Protocol (KP) to the United Nations Framework Convention on Climate Change (UNFCCC), by the Conference of the Parties serving as the meeting of the Parties to the KP, herein referred to as the CMP, at their December 2007 meeting in Bali, Indonesia. The purpose of the AF is to finance climate change adaptation projects in eligible developing countries who are parties to the KP. The KP also established the Clean Development Mechanism (CDM). Under the CDM, Certified Emission Reductions (CERs) are issued for emission-reduction projects in developing countries. Two percent of all CERs issued by the CDM are transferred to the AF, with the exception of CERs issued in respect of projects in Least Developed Countries. The AF is funded by the proceeds of the sale of these CERs as well as contribution from donors.

At its December 2007 meeting, the CMP also established the Adaptation Fund Board (AFB) as the operating body of the AF with the mandate to supervise and manage the AF under the authority and guidance of the CMP. Legislation was enacted by the Republic of Germany in February 2011, conferring legal capacity to the AFB.

At its December 2007 meeting, the CMP invited the International Bank for Reconstruction and Development (IBRD) to serve as the interim Trustee (the Trustee) and the Global Environment Facility Secretariat (GEF) to provide secretariat (Secretariat) services to the AFB to support and facilitate its activities. Both invitations were made and accepted on an interim basis. At the request of the AFB, the CMP and IBRD have agreed to extend IBRD's role as interim Trustee, on three occasions. The current mandate will expire automatically on May 30, 2017 unless the CMP and IBRD agree to extend it again. The Secretariat mandate contains no automatic expiration.

The Trustee performs two core functions on behalf of the AF: (1) the sale ("monetization") of the CERs in accordance with the guidelines developed by IBRD as Trustee and approved by the AFB; and (2) management of the Adaptation Fund Trust Fund (the Trust Fund). The Trustee established the Trust Fund on February 27, 2009 (date of inception, hereinafter referred to as "Inception"), to hold AF funds and then transfer them for projects, programs and other activities as instructed by the AFB. The Trustee also manages the investment of the Trust Fund balances, and provides accounting and financial reporting services for the Trust Fund.

The Trustee does not hold CERs in the Trust Fund. Once monetized, CERs are transferred directly to buyer accounts in exchange for cash proceeds that are deposited in the Trust Fund.

The AF's activities are carried out by implementing entities (the IEs), who are responsible to the AFB for the execution of programs. IBRD also serves as an IE. Each IE implements projects related to the AF and administers funds transferred to it by IBRD, as Trustee, at the instruction of the AFB. In its capacity as IE of the AF, IBRD established a

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

*All amounts expressed in U.S. dollars unless otherwise noted*

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separate trust fund (Adaptation Fund – Implementing Agency Fund) to receive AF funds transferred by the Trustee from the Trust Fund.

The Statement of Receipts, Disbursements and Fund Balance (Statement) reports solely the receipts, disbursements and fund balance of the Trust Fund, and does not include the activities or financial position of the AF, the AFB or the IEs.

## **Note 2 - Significant Accounting Policies**

### *Basis of preparation*

This Statement has been prepared on the cash receipts and disbursements basis of accounting, modified to record the Trust Fund's share in the pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes the Trust Fund's share of realized and unrealized investment income/loss (see Notes 3 and 5).

The modified cash basis of accounting is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (U.S. GAAP) or International Financial Reporting Standards (IFRS); therefore, the Statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS. Receipts, with the exception of net investment income, as described above and in Note 5, are reported when collected (i.e., when credited to the Trust Fund) rather than when pledged/earned, and disbursements are reported when paid (i.e., when debited to the Trust Fund) rather than when incurred. For example, the following transactions may be incurred in one period and reported in a different period: (1) contributions not credited to the Trust Fund at the period end date due to timing or other reasons, (2) distributions, including approved grant payments, not debited to the Trust Fund at period end date due to timing or other reasons; and (3) any refunds of previous disbursements deemed by the Trustee, to be ineligible in accordance with the Administration Agreements (Agreements).

### *Treatment of foreign currency transactions*

The Statement is presented in U.S. dollars, which is the Trust Fund's functional and presentation currency. Transactions in currencies other than U.S. dollars are reported as follows:

- (i) Contributions/cash proceeds from monetization of CERs received by the Trust Fund in various currencies are converted into U.S. dollars by IBRD, as Trustee, upon receipt of funds and receipt of countersigned Agreements. Foreign currency transaction gains or losses, if any, on such conversion are borne by the Trust Fund and are reported in contributions in the Statement.

## NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

All amounts expressed in U.S. dollars unless otherwise noted

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- (ii) Cash transfers/disbursements in currencies other than U.S. dollars, if any, are reported at the rates of exchange prevailing on the date of the transaction and hence do not result in any exchange gain/loss to the Trust Fund.
  - (iii) At the end of each reporting period, fund balances that are not denominated in U.S. dollars are revalued at the market rates of exchange prevailing at the end of the respective reporting period. Any adjustment resulting from currency exchange rate changes is reported as a foreign currency adjustment.

### *Use of estimates*

The preparation of the Statement requires management to make estimates and assumptions based upon information available as of the date of the Statement. Actual results could differ from these estimates. Areas in which management makes estimates and assumptions in determining the amounts to be recorded include the fair value of Trust Fund's share of the pooled cash and investments (see Note 3 and 5).

### **Note 3 - Trust Fund's share of the cash and investments in the Pool**

Amounts paid into the Trust Fund but not yet disbursed, are managed by IBRD, which maintains an investment portfolio (the Pool) for all of the trust funds administered by IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) (collectively the World Bank Group). IBRD, on behalf of the World Bank Group, maintains all trust fund assets separate and apart from the funds of the World Bank Group.

The Pool is a trading portfolio and is reported at fair value, with realized and unrealized gains/losses included in net investment income. The share in pooled cash and investments represents the Trust Fund's share of the Pool's fair value at the end of each reporting period. The Trust Fund's share in the Pool is not traded in any market; however, the underlying assets within the Pool are reported at fair value. All investment decisions are made, and performance is monitored, at the Pool level.

Generally, the Pool includes cash and liquid financial instruments such as government and agency obligations, time deposits, money market securities, and asset-backed securities. Additionally, the Pool includes equity securities, derivative contracts such as currency forward contracts, currency swaps, interest rate swaps, and contracts to purchase or sell mortgage-backed securities to-be-announced (TBAs). Payables and receivables associated with the investment activities are also included in the Pool. The Pool may also include securities pledged as collateral under repurchase agreements, receivables from resale agreements and derivatives for which it has accepted collateral.

## **NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE**

**June 30, 2016**

*All amounts expressed in U.S. dollars unless otherwise noted*

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The Pool is divided into sub-portfolios to which allocations are made based on fund-specific investment horizons, risk tolerances and/or other eligibility requirements for trust funds with common characteristics as determined by IBRD, on behalf of the World Bank Group. An individual sub-portfolio may hold all or a portion of the types of financial instruments held by the Pool.

The Trust Fund's share of the cash and investments in the Pool has a fair value of \$346,469,164 as of June 30, 2016.

### **Note 4 - Proceeds from monetization of Certified Emission Reductions**

Cash proceeds from the monetization of CERs executed by IBRD as Trustee are recorded as receipts by the Trust Fund. The Trustee monetized 2.04 million tons of CERs, generating cash proceeds of \$2,328,510 and 25.84 million tons of CERs, generating \$196,524,445 for the fiscal year ended June 30, 2016 and for the period from Inception to June 30, 2016, respectively.

### **Note 5 - Net investment income**

Net investment income consists of the Trust Fund's allocated share of the following: interest income earned by the Pool, realized gains/losses from sales of securities, and unrealized gains/losses resulting from recording the assets held by the Pool at fair value.

# NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

All amounts expressed in U.S. dollars unless otherwise noted

## Note 6 - Cash transfers for projects

The Trust Fund made cash transfers for projects which represent payments made by IBRD as Trustee, from the Trust Fund to the IEs as follows:

<b>Implementing entity</b>	<b>For the fiscal Year ended June 30, 2016</b>	<b>February 27, 2009 (date of inception) to June 30, 2016</b>
International Cooperation Agency, Chile	\$ 1,809,899	\$ 1,839,899
Banco Central Republica, Argentina	1,899,611	1,899,611
National Agency for Research and Innovation, Mexico	-	5,471,794
Agency for Agricultural Development, Morocco	-	2,666,862
The Ecological Monitoring Centre, Senegal	190,347	8,628,837
Fundecooperación for sustainable development, Costa Rica	20,000	1,524,877
Fundacion Natura of Panama	20,000	20,000
International Bank for Reconstruction and Development	1,903,505	3,428,310
International Fund for Agricultural Development	-	1,464,700
Micronesia Conservation Trust of Micronesia	20,000	20,000
Ministry of Natural Resources, Rwanda	3,523,791	6,653,051
Ministry of Planning and International Cooperation, Jordan	-	1,748,527
National Bank for Agriculture and Rural Development, India	609,032	1,607,285
National Environment Fund, Benin	20,000	49,000
National Environment Management Authority, Kenya	-	4,646,906
Planning Institute of Jamaica	-	5,550,750
South African National Biodiversity Institute	20,000	1,085,978
Unit for Rural Change, Argentina	-	2,276,738
United Nations Development Programme	10,439,920	79,252,737
United Nations Environment Programme	100,000	10,087,898
United Nations World Food Programme	3,960,451	16,174,520
West African Development Bank	20,000	20,000
<b>Total</b>	<b>\$24,556,556</b>	<b>\$156,118,280</b>

## NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

All amounts expressed in U.S. dollars unless otherwise noted

### Note 7 - Cash transfers for project supervision fees

The Trust Fund made cash transfers for project supervision fees which represent payments made by IBRD as Trustee, from the Trust Fund to the IEs as follows:

Implementing entity	For the fiscal Year ended June 30, 2016	February 27, 2009 (date of inception) to June 30, 2016
National Agency for Research and Innovation, Mexico	\$ -	\$ 297,750
Banco Central Republica Argentina	92,377	92,377
Agency for Agricultural Development, Morocco	-	271,060
The Ecological Monitoring Centre, Senegal	-	325,000
Fundecooperación for sustainable development, Costa Rica	-	146,682
International Bank for Reconstruction and Development	90,000	265,154
International Fund for Agricultural Development	-	124,500
International Cooperation Agency, Chile	100,075	100,075
Ministry of Natural Resources, Rwanda	150,659	301,319
Ministry of Planning and International Cooperation, Jordan	-	146,166
National Bank for Agriculture and Rural Development, India	55,755	132,717
National Environment Management Authority, Kenya	-	310,000
Planning Institute of Jamaica	-	459,610
South Africa National Biodiversity Institute	-	37,336
Unit for Rural Change, Argentina	-	75,535
United Nations Development Programme	593,931	8,264,473
United Nations Environment Programme	-	848,972
United Nations World Food Programme	243,467	1,429,617
<b>Total</b>	<b>\$1,326,264</b>	<b>\$13,628,343</b>

### Note 8 - Administrative budget disbursements, net

Upon approval by the AFB, the Trust Fund transfers administrative budget to the Trustee and the Secretariat as reimbursement for the fees, costs and expenses incurred by the Trustee and the Secretariat in connection with performing their functions under their respective terms and conditions. Any adjustments to the approved amount based on actual expenses are recorded in the Trust Fund when received.

Included in administrative budget disbursements, net are cash transfers made by the trustee to entities with whom the Secretariat has entered into an agreement to provide logistical support and other services, including the distribution of daily subsistence allowance to Board members.

## NOTES TO THE STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE

June 30, 2016

All amounts expressed in U.S. dollars unless otherwise noted

The details of funds transferred towards administrative budget from the Trust Fund are as follows:

	For the fiscal Year ended June 30, 2016	February 27, 2009 (date of inception) to June 30, 2016
Secretariat	\$ -	\$21,561,907
Trustee	-	7,644,256
Adaptation Fund Board daily subsistence allowance payments	62,184	744,183
Reimbursable deposit with clearing agent for monetization activities	(278,637) *	59,338
<b>Total</b>	<b>\$(216,453)</b>	<b>\$30,009,684</b>

\*Represents US\$ equivalent of €250,000 returned to the Trust Fund from the Deutsche Bank acting as the clearing agent, after the CER trading was terminated in 2016.

### Note 9 - Advances repaid to donors of the Trust Fund for the Secretariat for the Adaptation Fund Board

The Trust Fund for the Secretariat for the Adaptation Fund Board (a separate trust fund administered by the World Bank Group: reference no. TF071015) was established to receive advances from donors to fund AF activities prior to funds becoming available from the monetization of CERs. In accordance with the respective agreements, some advances made to the Trust Fund for the Secretariat for the Adaptation Fund Board are reimbursable and have been repaid from the Trust Fund (i.e., advances were received by and recorded in TF071015, and returned to the donors from this Trust Fund). There are no such refund of funds during the fiscal year ended June 30, 2016.

### Note 10 - Subsequent events

Management has evaluated subsequent events through October 14, 2016, the date the Statement was available to be issued, and there are no subsequent events that would require adjustment to or disclosure in this Statement.