

30th LDCF/SCCF Council Meeting
June 17, 2021
Virtual Meeting

STATUS REPORT FOR THE LEAST DEVELOPED COUNTRIES FUND

(Financial Report prepared by the Trustee)



Least Developed Countries Fund (LDCF)

Financial Report

Prepared by the Trustee

As of March 31, 2021



Table of Contents

Introduction	3
LDCF Trust Fund Financial Summary as of March 31, 2021	4
1. LDCF Trust Fund Summary – Inception through March 31, 2021.....	5
2. Pledges and Contributions - Inception through March 31, 2021	6
3. Investment Management - Asset Mix and Investment Income.....	7
4. Cumulative Funding Decisions, Trustee Commitments and Cash Transfers.....	10
5. Funds Available	11
Annex I - Cumulative Funding Decisions Details by Activity and Agency.....	12



Introduction

The information contained in this report is prepared based on financial information of the Least Developed Countries Fund as of March 31, 2021.

The LDCF was established following the decision of the Conference of the Parties to the United Nations Framework Convention on Climate Change (the “UNFCCC”) at its Seventh Session (“COP 7”) in November 2001 to invite the Global Environment Facility (“GEF”) to operate such a fund (Decision 7/CP.7 of the UNFCCC). At its May 15-17, 2002 biannual meeting, the GEF Council (the “Council”) approved the arrangements proposed for the establishment of such a fund and invited IBRD to act as its Trustee (GEF/C.19/6).

The report is produced by the Trustee in accordance with the Trustee’s role as set forth in the paper entitled Arrangements for the Establishment of the New Climate Change Funds (GEF/C.19/6) which states:

“[...] the World Bank would be responsible for the financial management of each fund, including: [...] (iv) the preparation of financial reports regarding the investment and use of the funds’ resources; and (v) regular reporting to the Council on the status of the funds’ resources.”

This report provides (i) a snapshot of the financial situation of the LDCF Trust Fund since its inception to March 31, 2021; (ii) the status of pledges and contributions, and (iii) the details of financial activities of the LDCF Trust Fund.



LDCF Trust Fund Financial Summary as of March 31, 2021

Pledges and Contributions:

As of March 31, 2021, 25 donors pledged and signed Contribution Agreements amounting to USDeq. 1,772.26 million. The Trustee has received USDeq. 1,580.01 million in cash to date from these donors.

Investment Income:

As of March 31, 2021, the LDCF Trust Fund earned investment income of approximately USD 88.72 million on the undisbursed balance of the Trust Fund and USD 1.76 million as investment income from external agencies.

Funding Approvals and Trustee Commitments:

As of March 31, 2021, cumulative funding decisions by the Council and the CEO amounted to USD 1,592.86 million. Of the cumulative amount approved, USD 1,437.41 million was for projects and project preparation activities, USD 138.69 million was for fees, and USD 16.76 million was for administrative expenses and corporate activities of the LDCF.

Funding approved by the Council and the CEO is committed by the Trustee and transferred following established procedures for all financial transactions as agreed between the Trustee and the Agencies. The Trustee has committed a total amount of USD 1,227.29 million, of which USD 1,096.55 million relates to projects and project preparation activities, USD 113.98 million to fees, and USD 16.76 million to cover corporate activities and administrative expenses.

Cash Transfers:

Cash transfers were made to Agencies on an as-needed basis to meet their projected disbursement requirements. Out of the cumulative commitments of USD 1,227.29 million, upon request from Agencies, the Trustee transferred USD 926.59 million. The balance USD 300.7 million remains payable as of March 31, 2021.

Funds Held in Trust and Funds Available for Council and CEO Funding 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, if any, at month-end. Funds Held in Trust as of March 31, 2021 amounted to USD 743.9 million.

Funds available to support Council or CEO decision amounted to USD 77.63 million as of March 31, 2021. This represents an increase of USD 21.54 million compared to funds available as of September 30, 2020. Receipt of new funds from donors from October 1, 2020 to March 31, 2021 exceeded new funding approvals by the Council and CEO and fund transfers during the same period.



1. LDCF Trust Fund Summary – Inception through March 31, 2021

In USD millions

	Total	% of Total
<u>Donor Pledges and Contributions</u>		
Contributions	1,649.95	93.1%
Pledges	122.30	6.9%
Total Pledges and Contributions	1,772.26	100.0%

<u>Cumulative Resources</u>		
<u>Resources received</u>		
Cash Receipts	1,580.01	84.8%
Investment Income earned	88.72	4.8%
Investment Income Received from external grants	1.76	0.1%
Total Resources Received	1,670.49	89.7%
<u>Resources not yet received</u>		
Contributions not yet paid	69.94	3.8%
Pledges	122.30	6.6%
Total resources not yet received	192.24	10.3%
Total Potential Resources (A)	1,862.74	100.0%

<u>Cumulative Funding Decisions</u>		
Projects	1,437.41	90.2%
Fees	138.69	8.7%
Administrative Budgets	16.76	1.1%
Total Funding Decisions Net of Cancellations (B)	1,592.86	100.0%
Total Potential Resources Net of Funding Decisions (A) - (B)	269.87	

<u>Funds Available</u>		
Funds Held in Trust	743.90	
Approved Amounts Pending Cash Transfers	666.27	
Funding Decisions Pending Council Approval	-	
Total Funds Available to Support Council / CEO Decisions	77.63	

Note: The totals in the table may not add up due to rounding.

2. Pledges and Contributions - Inception through March 31, 2021

In USD millions

1	Total Pledges Outstanding and Contributions Finalized			Pledges Outstanding		Contribution Agreements Finalized				
	2	3 = 5 + 7	4 = 6 + 9 + 11	5	6	7 = 8 + 10		Paid (Receipts)		Unpaid
						8	9	10	11	
Contributing Participant	Currency	Amount	USDeq. a/	Amount	USDeq. b/	Total Contributions	Amount Paid in	USDeq. c/	Amount Due in Currency	USDeq. b/
Australia	AUD	46.50	42.97	-	-	46.50	46.50	42.97	-	-
Austria	EUR	1.90	2.67	-	-	1.90	1.90	2.67	-	-
Belgium	d/ EUR	134.19	161.87	-	-	134.19	119.19	144.27	15.00	17.60
Canada	e/ CAD	73.50	60.70	-	-	73.50	73.50	60.70	-	-
Czech Republic	EUR	0.02	0.03	-	-	0.02	0.02	0.03	-	-
Denmark	DKK	736.40	115.65	-	-	736.40	736.40	115.65	-	-
Finland	EUR	40.60	51.49	-	-	40.60	40.60	51.49	-	-
France	EUR	55.85	63.95	-	-	55.85	55.85	63.95	-	-
Germany	EUR	415.00	507.80	100.00	g/ 117.34	315.00	315.00	390.47	-	-
Hungary	EUR	1.00	1.34	-	-	1.00	1.00	1.34	-	-
Iceland	USD	1.18	1.18	-	-	1.18	1.18	1.18	-	-
Ireland	f/ EUR	14.73	17.55	-	-	14.73	14.73	17.55	-	-
	USD	8.00	8.00	-	-	8.00	8.00	8.00	-	-
Italy	USD	3.00	3.00	-	-	3.00	3.00	3.00	-	-
Japan	USD	1.08	1.08	-	-	1.08	1.08	1.08	-	-
Luxembourg	f/ EUR	1.00	1.58	-	-	1.00	1.00	1.58	-	-
	USD	4.12	4.12	-	-	4.12	4.12	4.12	-	-
Netherlands	f/ EUR	55.20	73.17	-	-	55.20	55.20	73.17	-	-
	USD	57.20	57.20	-	-	57.20	34.70	34.70	-	22.50
New Zealand	NZD	8.10	5.81	-	-	8.10	8.10	5.81	-	-
Norway	f/ NOK	180.00	30.16	-	-	180.00	180.00	30.16	-	-
	USD	2.00	2.00	-	-	2.00	2.00	2.00	-	-
Portugal	EUR	0.05	0.06	-	-	0.05	0.05	0.06	-	-
Romania	EUR	0.15	0.21	-	-	0.15	0.15	0.21	-	-
Spain	EUR	1.35	1.77	-	-	1.35	1.35	1.77	-	-
Sweden	SEK	1,487.00	185.11	-	-	1,487.00	1,227.00	155.27	260.00	29.84
Switzerland	f/ CHF	21.75	21.76	-	-	21.75	21.75	21.76	-	-
	USD	4.97	4.97	4.97	h/ 4.97	-	-	-	-	-
United Kingdom	GBP	122.00	186.84	-	-	122.00	122.00	186.84	-	-
United States	USD	158.20	158.20	-	-	158.20	158.20	158.20	-	-
			<u>1,772.26</u>		<u>122.30</u>			<u>1,580.01</u>		<u>69.94</u>

a/ Represents (1) the actual US dollar value of paid-in cash contributions and (2) March 31, 2021 value of pledges outstanding, contribution amounts pending FX, and unpaid amounts.

b/ Valued at the exchange rates available on March 31, 2021.

c/ Represents the (1) actual US dollar value of paid-in cash contributions and (2) March 31, 2021 value of contribution amount pending FX.

d/ Includes contribution of EUR 11.75 million received from the Walloon Government of Belgium.

e/ Includes CAD 6 million received from the Government of Quebec.

f/ Contributions made in more than one currency.

g/ Pledge made in January 2021 at the Climate Adaptation Summit 2021.

h/ Represents the balance of Switzerland's pledge of USD 9,937,500 made during the 25th Council meeting in December 2018.

Note: The totals in the table may not add up due to rounding.

- The above table shows the total pledges and contributions to the LDCF. As of March 31, 2021, the Trustee had entered into Contribution Agreements/Contribution Arrangements with 25 donors for a total of USD eq. 1,772.26 million and received USD 1,580.01 million in cash. In addition, a total amount of USDeq. 122.3 million had been pledged by Germany and Switzerland, which are pending finalization of the respective contribution agreements.

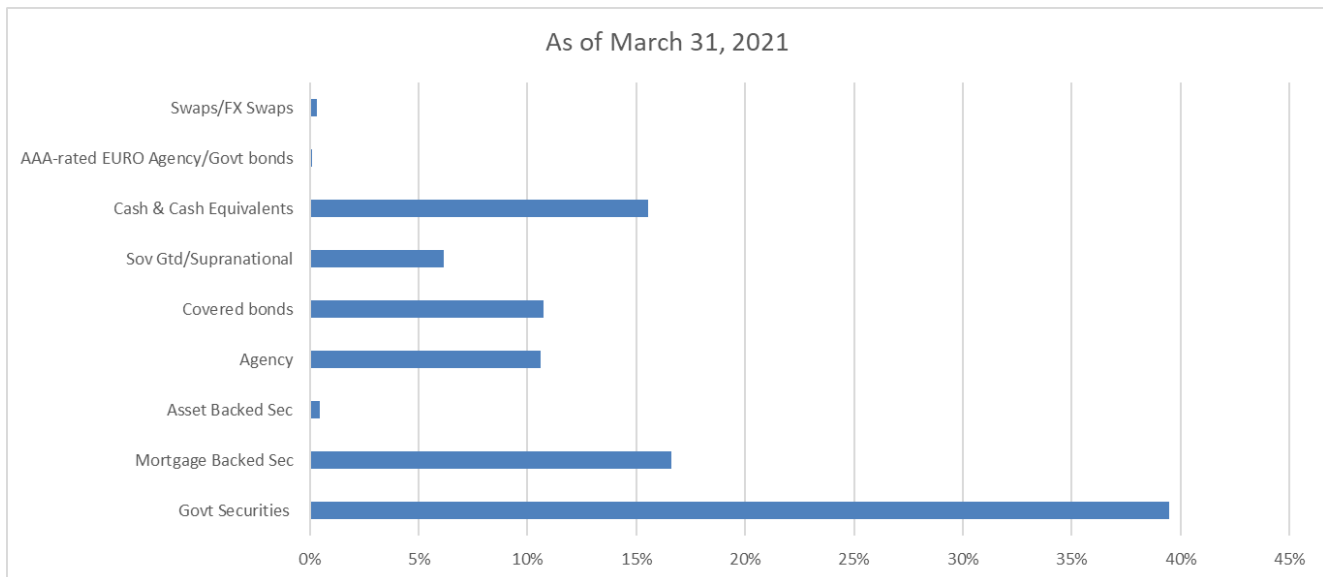


3. Investment Management - Asset Mix and Investment Income

LDC Trust Fund assets are invested across three of the World Bank Trust Fund’s investment model portfolios, (“Model Portfolio 0” for short term working capital needs, “Model Portfolio 1” with an investment horizon of one year, and “Model Portfolio 2” with a broader investment universe and an investment horizon of three years). The investment objectives for the LDC Trust Fund are to optimize investment returns subject to preserving capital and maintaining adequate liquidity to meet foreseeable cash flow needs, within a conservative risk management framework¹. While future returns will depend on market conditions, the Trust Fund Investment Pool 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’² returns. Overall, the LDC Trust Fund cumulative returns have been driven by its investment in longer-term model portfolios, which may be exposed to higher volatility in returns over shorter periods, but are expected to have higher returns over longer periods.

By asset class, the largest allocations as of March 31, 2021 are to government securities, mortgage backed securities, and cash and cash equivalents.

Asset Mix



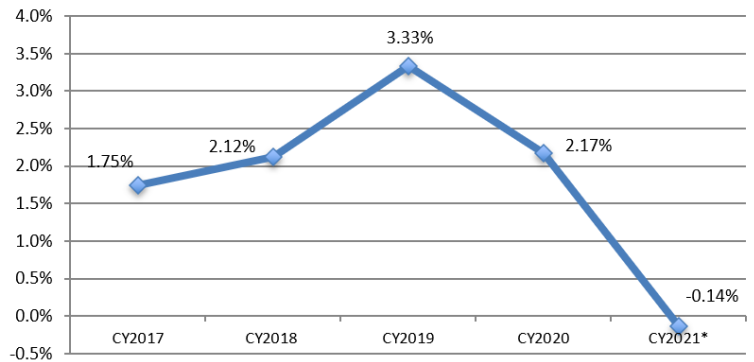
¹ Risk tolerance is defined as the expected maximum loss, as measured by the Conditional Value-at-Risk (CVaR), at the portfolio’s investment horizon, not to exceed 1% at portfolio’s investment horizon, with 99% confidence.

² Mark-to-market gains or losses represent unrealized gains or losses resulting from changes in the value of securities in the portfolio which have not yet been sold.



INVESTMENT RETURNS

The LDCF Trust Fund liquid portfolio (which totaled approximately USD 743.9 million at end-March 2021) earned USD 88.72 million in investment income since inception. During the six-month period from October 2020 to March 2021, the LDC portfolio generated a return of 0.08%. Returns for the first three months of CY21 were -0.14% due to steepening of the yield curve which negatively affected returns under Model Portfolio 2.



*YTD and non-annualized

COVID-19 IMPACT ON INVESTMENT PERFORMANCE

Since the outbreak of the COVID-19 pandemic in early 2020, financial markets have reacted drastically with volatility spiking rapidly and liquidity strained momentarily following landslide sell-offs across almost all asset classes. Central banks around the world have since responded with unprecedented large-scale monetary easing measures including committing to ultra-low interest rates for the foreseeable future, which led directly to the stabilization of market sentiments. Fast forward to one year after the start of COVID-19, global vaccine rollout has been the main market play and acted as a tailwind for optimism about the global economic recovery. In the U.S., the passage of the 1.9 trillion American Rescue Plan in March under the new US administration further bolstered the US economic recovery. Vaccine rollout has been relatively slower in Europe, but the European economies are expected to follow similar economic recovery trajectory as vaccination scales up.

With preservation of capital as the primary investment objective for the WBTF Pool, the World Bank Treasury has not only consistently delivered positive returns while keeping the risk profiles of each model portfolio within respective prescribed risk tolerances, but has also dynamically adjusted asset allocations to capitalize on market opportunities as well as to rigorously manage risk profiles despite the heightened volatility in financial markets through 2020.

- Performance and Risk

At end-March 2021, the WBTF Pool had a total size of US\$34.4 billion and posted total returns of 0.44% (equivalent to US\$143 million in gross income) for FY21 with all³ constituent model portfolios also recording positive performances ranging from 19 basis points for the very short duration portfolios to almost 4% for the longest duration model portfolios.

For the first three months of 2021, investment returns have been 0.004% (equivalent to US\$1 million in gross income), reflecting the fact that the markets are trading more in a “global recovery” mode, which tends to be less positive for fixed income assets. Under this context, funds investing in model portfolios that have allocations to longer term fixed income assets are likely to record lower to slightly negative returns during the first quarter of CY2021. This compares to the returns

³ Except the EUR Cash Model Portfolio that has structurally negative yields



of 0.67% (equivalent to US\$208 million in gross income) for the same three-month period in 2020 when markets were initially responding to the emerging COVID-19 pandemic and a flight-to-quality led to strong fixed income performance.

The *risk tolerance* or the risk-taking capacity of the model portfolios in the WBTF Pool is expressed by a measure called Conditional Value-at-Risk (CVaR), with a limit stipulated at the 99% confidence level. This means that the measure stipulates a maximum estimated average loss to the portfolio in the worst 1% of loss events over a given investment horizon. Despite the heightened volatility in financial markets through 2020, all model portfolios in the WBTF Pool remained in compliance with their risk tolerance levels, as verified by the office of the World Bank Chief Risk Officer.

- *Dynamic Asset Allocation and Risk Management*

To generate the investment returns and manage risk, World Bank Treasury adjusts the asset allocation of the model portfolio in the WBTF Pool dynamically. This approach allows World Bank Treasury to (1) take advantage of attractive market sectors on an opportunistic basis should risk premia temporarily deviate from their expected levels or market dislocations cause pricing anomalies, and (2) adjust exposure to certain market sectors should volatility, liquidity or valuation outlooks increase the likelihood of the model portfolios breaching their risk limits. Having reduced exposure to market sectors such as Mortgage-Backed Securities in response to (i) reduced market liquidity, and (ii) increased price volatility in the asset class induced by unprecedented interest rate and economic conditions in early 2020, allocations remained stable as World Bank Treasury looked for stabilization before further changes. With the US election having passed, vaccine rollout continuing and more clarity about the new US administration's intentions, opportunities for increasing the expected returns of the different model portfolios are beginning to emerge as divergence of opinion on inflation outlook, curve steepness and other areas become apparent.

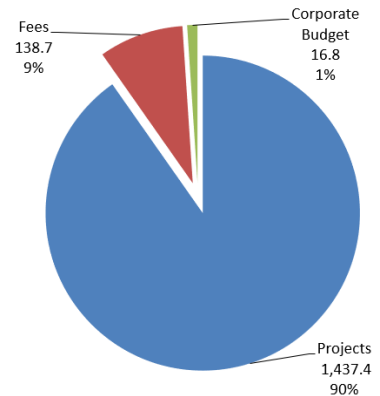
Overall, the WBTF Pool has consistently delivered investment returns in line with the risk return profiles of each model portfolios and met the overarching investment objective of capital preservation and liquidity on demand. The Trustee will continue to monitor the market conditions and the portfolio performance to keep LDC Trust Fund updated through the semi-annual Trustee reports submitted to Council.



4. Cumulative Funding Decisions, Trustee Commitments and Cash Transfers

FUNDING DECISIONS BY ACTIVITY

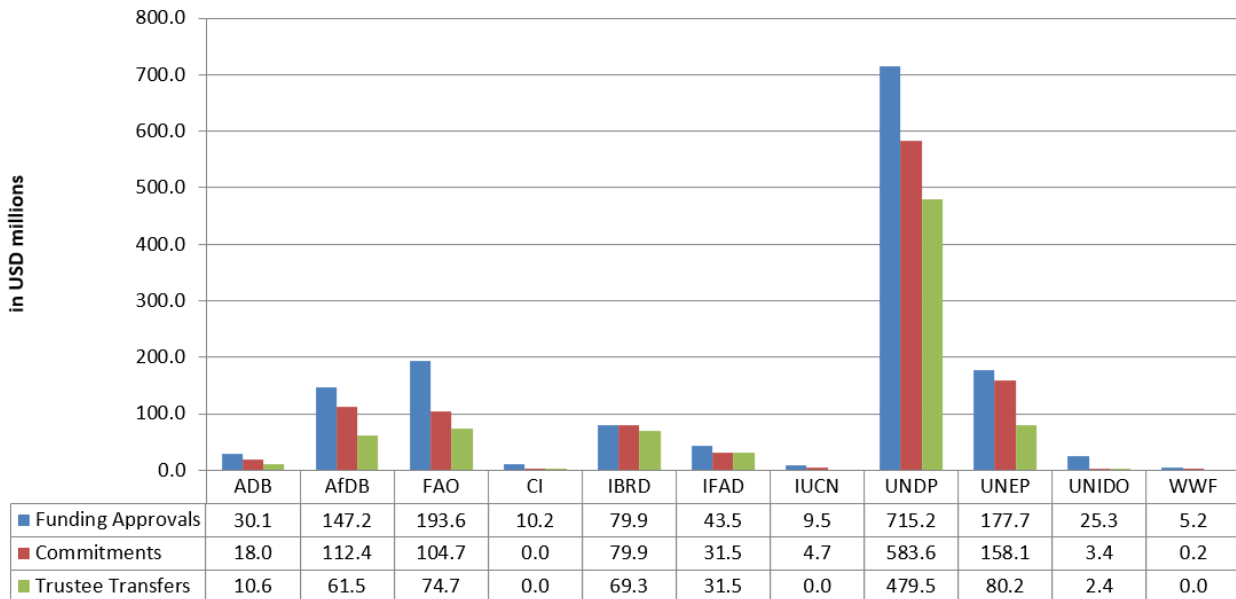
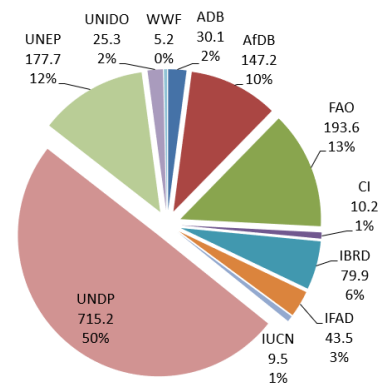
Since inception to March 31, 2021 funding approvals made by the LDCF/SCCF Council totaled USD 1,592.86 million. Projects represent about 90%, fees for Agencies 9%, and corporate budgets for the Secretariat, the Trustee, STAP and Independent Evaluation Office 1%.



PROJECT FUNDING DECISIONS BY AGENCY

The pie chart shows project funding decisions by Agency. Of the total USD 1,437.41 million of approved projects to date, 50% has been allocated to UNDP, 13% to FAO and 12% to UNEP.

The bar chart below shows the projects funding decisions, commitments and transfers by Agency. Details of funding approvals, commitments and cash transfers can be found in Annex 1.





5. Funds Available

In USD millions

	As of March 31, 2021 (a)	As of September 30, 2020 (b)	Change (c) = (a) - (b)
1. Funds held in Trust	743.90	698.38	45.52
a. Cash and investments	743.90	698.38	45.52
b. Unencashed promissory notes	-	-	-
2. Approved Amounts Pending Cash Transfers to Agencies	666.27	642.30	23.97
a. Trustee committed	300.70	284.16	16.55
b. Approved by Council/CEO pending Endorsement	365.40	355.57	9.84
c. Umbrella set-aside	0.16	2.57	(2.41)
3. Funding Decisions Pending Council Approval	-	-	-
4. Funds Available to Support Council or CEO Decisions (4 = 1 - 2 - 3)	77.63	56.09	21.54

Note: The totals in the table may not add up due to rounding.

Highlights for the period October 1, 2020 through March 31, 2021:

- **Funds Held in Trust** represent cumulative receipts and investment income less cumulative cash transfers, and amount to USD 743.9 million as of March 31, 2021. Funds Held in Trust increased by USD 45.52 million primarily due to:
 - Contributions received from donors during the period October 1, 2020 to March 31, 2021 valued at USDeq. 84.97 million,
 - Offset by the net decrease in investment income from funds held in trust and the investment income received from agencies during the period October 1, 2020 to March 31, 2021 amounting to USD 0.05 million, and
 - Cash transfers to Agencies amounting to USD 39.4 million.
- **Funding Decisions Pending Cash Transfer to agencies** arising from the LDCF/SCCF Council approvals amounted to USD 666.27 million, representing a net increase of USD 23.97 million compared to September 30, 2020.
- **Funding Availability** amounts to USD 77.63 million representing a net decrease of USD 21.54 million over the prior reporting period as a result of new funding decisions made by the LDCF/SCCF Council and the CEO from October 1, 2020 to March 31, 2021 exceeding donor payments received and investment income earned during the same period.



Annex I - Cumulative Funding Decisions Details by Activity and Agency

In USD millions

Entity	Cumulative Net Amounts			
	Funding Approvals (1)	Commitments (2)	Cash Transfers (3)	Amount Due (4) = (2) - (3)
<u>Projects</u>				
ADB	30.10	18.04	10.55	7.49
AfDB	147.22	112.45	61.45	51.00
CI	10.23	0.03	0.00	0.00
FAO	193.58	104.69	74.68	30.01
IBRD	79.88	79.88	69.31	10.57
IFAD	43.49	31.49	31.49	0.00
IUCN	9.53	4.72	0.00	0.00
UNDP	715.17	583.56	479.52	104.04
UNEP	177.73	158.08	80.23	77.85
UNIDO	25.30	3.43	2.40	1.03
WWF	5.18	0.18	0.00	0.18
<i>Sub-total</i>	1,437.41	1,096.55	809.64	286.91
<u>Fees</u>				
ADB	2.59	1.38	0.86	0.52
AfDB	13.69	11.24	3.45	7.79
CI	0.92	0.17	0.00	0.00
FAO	18.46	11.82	11.47	0.34
IBRD	7.84	7.84	7.24	0.60
IFAD	4.80	4.04	3.09	0.94
IUCN	0.86	0.49	0.00	0.00
UNDP	69.56	60.48	58.50	1.97
UNEP	17.13	15.68	15.68	0.00
UNIDO	2.39	0.76	0.28	0.49
WWF	0.47	0.10	0.00	0.10
<i>Sub-total</i>	138.69	113.98	100.57	13.41
<u>Corporate Budget and Workshop</u> ^{a/}				
Secretariat ^{b/}	11.02	11.02	11.02	0.00
Evaluation	0.42	0.42	0.42	0.00
STAP	1.02	1.02	0.64	0.38
Trustee	4.31	4.31	4.31	0.00
<i>Sub-total</i>	16.76	16.76	16.38	0.38
Total for LDCF	1,592.86	1,227.29	926.59	300.70

a/ Includes amounts allocated to cover administrative expenses to manage the LDCF and Corporate Activities, including audit.

b/ USD 700,000 loan from the LDCF Trust Fund to the Adaptation Fund Secretariat Trust Fund has been reimbursed and is included in Secretariat amounts.

Note: The totals in the table may not add up due to rounding.