

29th LDCF/SCCF Council Meeting
December 10, 2020
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 September 30, 2020



Table of Contents

Introduction	3
LDCF Trust Fund Financial Summary as of September 30, 2020	4
1. LDCF Trust Fund Summary – Inception through September 30, 2020	5
2. Pledges and Contributions - Inception through September 30, 2020.....	6
3. Asset Mix and Investment Income	7
4. Cumulative Funding Decisions, Trustee Commitments and Cash Transfers	9
5. Funds Available	10
Annex I - Cumulative Funding Decisions Details by Activity and Agency – as of September 30, 2020.....	11



Introduction

The information contained in this report is prepared based on financial information of the Least Developed Countries Fund as of September 30, 2020.

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 September 30, 2020 and some of the recent developments from October 1, 2020 to November 10, 2020 ; (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 September 30, 2020

Pledges and Contributions:

As of September 30, 2020, 25 donors pledged and signed Contribution Agreements amounting to USDeq. 1,597.62 million. The Trustee has received USDeq. 1,495.04 million in cash to date from these donors.

Investment Income:

As of September 30, 2020, the LDCF Trust Fund earned investment income of approximately USD 88.79 million on the undisbursed balance of the Trust Fund and USD 1.75 million as investment income from external agencies. Of this, USD 4.53 million was earned during the period April 1, 2020 to September 30, 2020 and USD 0.43 million received from external agencies.

Funding Approvals and Trustee Commitments:

As of September 30, 2020, cumulative funding decisions by the Council and the CEO amounted to USD 1,529.48 million. Of the cumulative amount approved, USD 1,379.71 million was for projects and project preparation activities, USD 133.01 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 1,171.34 million, of which USD 1,044.42 million relates to projects and project preparation activities, USD 110.16 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 1,171.34 million, upon request from Agencies, the Trustee transferred USD 887.19 million. The balance USD 284.16 million remains payable as of September 30, 2020.

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 September 30, 2020 amounted to USD 698.38 million.

Funds available to support Council or CEO decision amounted to USD 56.09 million as of September 30, 2020. This represents a decrease of USD 28.77 million compared to funds available as of September 30, 2019. New funding approvals by the Council and CEO and fund transfers exceeded receipt of new funds from donors and increase in investment income from April 1, 2020 to September 30, 2020 during the same period.

Updates for the period October 1 to November 10, 2020: Contribution payments were received from Ireland (EUR 2 million or USDeq. 2.34 million), the Netherlands (USD 8 million), Sweden (SEK 130 million or USDeq. 14.8 million) and Switzerland (CHF 0.70 million or USDeq. 0.76 million).



1. LDCF Trust Fund Summary – Inception through September 30, 2020

In USD millions

	Total	% of Total
<u>Donor Pledges and Contributions</u>		
Contributions	1,587.05	99.3%
Pledges	10.57	0.7%
Total Pledges and Contributions	1,597.62	100.0%
<u>Cumulative Resources</u>		
<u>Resources received</u>		
Cash Receipts	1,495.04	88.6%
Investment Income earned	88.79	5.3%
Investment Income Received from external grants	1.75	0.1%
Total Resources Received	1,585.57	93.9%
<u>Resources not yet received</u>		
Contributions not yet paid	92.01	5.5%
Pledges	10.57	0.6%
Total resources not yet received	102.58	6.1%
Total Potential Resources (A)	1,688.15	100.0%
<u>Cumulative Funding Decisions</u>		
Projects	1,379.71	90.2%
Fees	133.01	8.7%
Administrative Budgets	16.76	1.1%
Total Funding Decisions Net of Cancellations (B)	1,529.48	100.0%
Total Potential Resources Net of Funding Decisions (A) - (B)	158.67	
<u>Funds Available</u>		
Funds Held in Trust	698.38	
Approved Amounts Pending Cash Transfers	642.30	
Funding Decisions Pending Council Approval	-	
Total Funds Available to Support Council / CEO Decisions	56.09	

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



2. Pledges and Contributions - Inception through September 30, 2020

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	114.19	138.04	-	-	114.19	111.49	134.88	2.70	3.16	
Canada	e/ CAD	73.50	60.33	7.50 g/	5.60	66.00	66.00	54.73	-	-	
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	35.60	45.40	-	-	35.60	35.60	45.40	-	-	
France	EUR	55.85	63.95	-	-	55.85	55.85	63.95	-	-	
Germany	EUR	315.00	389.64	-	-	315.00	290.00	360.36	25.00	29.28	
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	12.73	15.21	-	-	12.73	12.73	15.21	-	-	
	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	34.70	34.70	-	-	34.70	19.20	19.20	-	15.50	
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	183.78	-	-	1,487.00	1,097.00	140.47	390.00	43.31	
Switzerland	f/ CHF	21.75	21.75	-	-	21.75	21.05	20.99	0.70	0.76	
	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>1,597.62</u>		<u>10.57</u>			<u>1,495.04</u>		<u>92.01</u>	

a/ Represents (1) the actual US dollar value of paid-in cash contributions and (2) September 30, 2020 value of pledges outstanding, contribution amounts pending FX, and unpaid amounts.

b/ Valued at the exchange rates available on September 30, 2020.

c/ Represents the (1) actual US dollar value of paid-in cash contributions and (2) September 30, 2020 value of contribution amount pending FX.

d/ Includes contribution of EUR 9.05 million received and EUR 2.7 million pending receipt 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 at the G-7 Summit in August 2019 and also announced during the Council meeting in December 2019.

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.

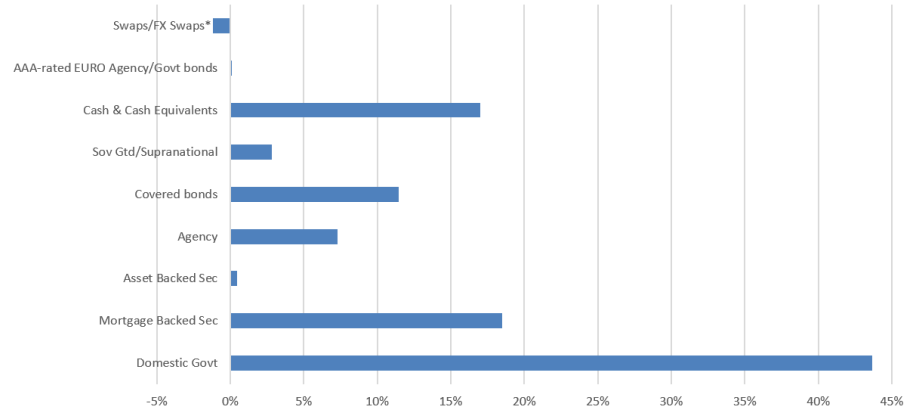
- The above table shows the total pledges and contributions to the LDCF. As of September 30, 2020, the Trustee had entered into Contribution Agreements/Contribution Arrangements with 25 donors for a total of USD eq. 1,587.05 million and received USD 1,495.04 million in cash. In addition, a total amount of USDeq. 10.57 million had been pledged by Canada and Switzerland, which are pending finalization of the respective contribution agreements.



3. Asset Mix and Investment Income

ASSET MIX

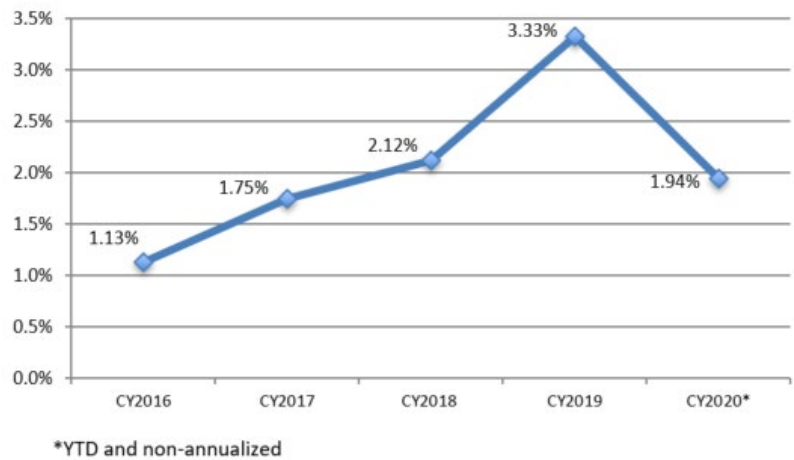
Funds held in trust by the World Bank (as the Trustee) are maintained in a commingled investment portfolio (the “Pool”) for all trust funds administered by the World Bank. The assets in the Pool are managed in accordance with the investment strategy established for all trust funds administered by the World Bank. The chart reflects the asset mix of the portfolio in which LDCF funds are invested as of September 30, 2020.



*The negative position in swaps is primarily due to changes in foreign currency exchange (FX) rates in cross currency basis swaps. Such swap instruments are used to implement currency hedges on bond positions within the portfolio. These hedges remain in place

INVESTMENT RETURNS

LDCF Trust Fund assets are invested across three of the World Bank Trust Fund’s investment model portfolios, (“Tranche 0” for short term working capital needs, “Tranche 1” with an investment horizon of one year, and “Tranche 2” with an investment horizon of three years). The risk constraint of Model Portfolio 1 is expressed as the 1-year 99% Conditional VaR being no worse than -25bps. The risk constraint of Model Portfolio 2 is expressed as the 3-year 99% Conditional VaR being no worse than -100bps. The LDCF Trust Fund liquid portfolio (which totaled approximately USD 698.38 million at end-September 2020) earned USD 88.79 million in investment income since inception.



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. However, at the macro level, massive unemployment, credit downgrades and subdued consumer demand are still the greatest headwinds to economic recovery and long-term sustainable growth.



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 throughout the pandemic-induced volatile period.

- Performance and Risk

At end-June 2020, the WBTF Pool had a total size of US\$31.8 billion and posted total returns of 1.19% in the first 6 months of 2020 with all¹ constituent model portfolios also recording positive performances ranging from 62 basis points for the very short duration portfolios to over 2% for the model portfolios with durations in the 3-5 year area. In terms of investment income, this translates into US\$367 million generated for development purposes over the period.

For the full fiscal year 2020, the WBTF Pool had total returns of 2.52%, translating into US\$757 million of investment income earned over the period. All² constituent model portfolios had positive returns, ranging from 1.8% for the short duration portfolios, to almost 5% for the longer duration portfolios.

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 February and March, 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. Throughout February and March, World Bank Treasury reduced exposure to some 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. Furthermore, the aftermath of the financial markets crisis continues to present some opportunities to adjust asset allocations to increase the expected returns on the model portfolios and consequently, the WBTF Pool as a whole.

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. With COVID-19 remaining an overbearing menace to both public health and global economic activity, we expect markets to continue to reflect an outlook for depressed growth going forward with interest rates remaining low. In addition to that, the U.S. Presidential election in November and its aftermath will likely keep market volatility through the rest of 2020. 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.

¹ Except the EUR Cash Model Portfolio that has structurally negative yields

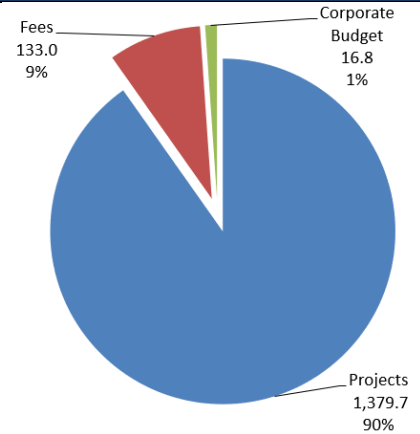
² Except the EUR Cash Model Portfolio that has structurally negative yields



4. Cumulative Funding Decisions, Trustee Commitments and Cash Transfers

FUNDING DECISIONS BY ACTIVITY

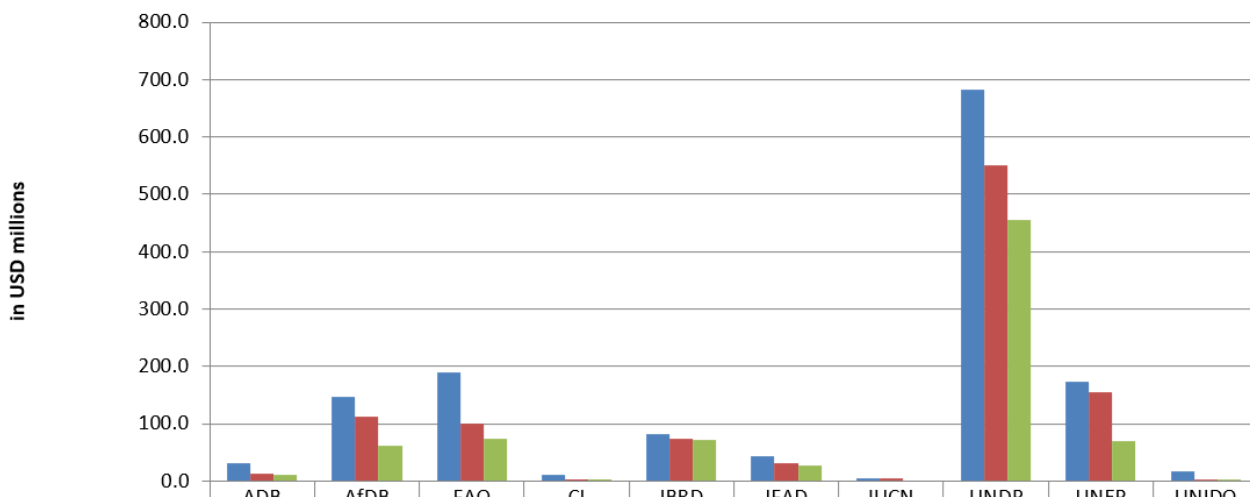
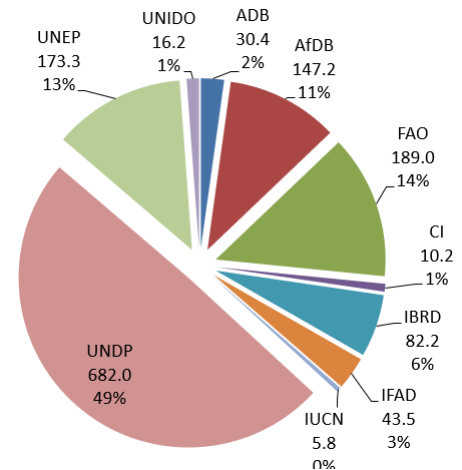
Since inception to September 30, 2020 funding approvals made by the LDCF/SCCF Council totaled USD 1,529.48 million. Projects represent about 90%, fees for Agencies 9%, and corporate budgets for the Secretariat, the Trustee, STAP and Independent Evaluation Office 1%.



PROJECT FUNDING DECISIONS BY AGENCY

The pie chart shows project funding decisions by Agency. Of the total USD 1,379.71 million of approved projects to date, 49% has been allocated to UNDP, 14% to FAO and 13% 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.



	ADB	AfDB	FAO	CI	IBRD	IFAD	IUCN	UNDP	UNEP	UNIDO
Funding Approvals	30.4	147.2	189.0	10.2	82.2	43.5	5.8	682.0	173.3	16.2
Commitments	13.7	112.4	100.3	0.0	73.9	31.5	4.6	550.4	154.4	3.2
Trustee Transfers	10.6	61.5	74.7	0.0	72.0	27.1	0.0	454.5	70.2	2.4

5. Funds Available

In USD millions

	As of September 30, 2020 (a)	As of March 31, 2020 (b)	Change (c) = (a) - (b)
1. Funds held in Trust	698.38	688.88	9.50
a. Cash and investments	698.38	688.88	9.50
b. Unencashed promissory notes	-	-	-
2. Approved Amounts Pending Cash Transfers to Agencies	642.30	604.02	38.27
a. Trustee committed	284.16	269.30	14.86
b. Approved by Council/CEO pending Endorsement	355.57	334.45	21.12
c. Umbrella set-aside	2.57	0.27	2.30
3. Funding Decisions Pending for the Council Approval	-	-	-
4. Funds Available to Support Council or CEO Decisions (4 = 1 - 2 - 3)	56.09	84.86	(28.77)

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

Highlights for the period April 1, 2020 through September 30, 2020:

- **Funds Held in Trust** represent cumulative receipts and investment income less cumulative cash transfers, and amount to USD 698.38 million as of September 30, 2020. Funds Held in Trust increased by USD 9.5 million primarily due to:
 - Contributions received from donors during the period April 1, 2020 to September 30, 2020 valued at USDeq. 35.55 million,
 - Investment income earned from funds held in trust and received from agencies during the period April 1, 2020 to September 30, 2020 amounting to USD 4.96 million,
 - Offset by cash transfers to Agencies amounting to USD 31.02 million.
- **Funding Decisions Pending Cash Transfer to agencies** arising from the LDCF/SCCF Council approvals amounted to USD 642.3 million, representing a net increase of USD 38.27 million compared to March 31, 2020.
- **Funding Availability** amounts to USD 56.09 million representing a net decrease of USD 28.77 million over the prior reporting period as a result of new funding decisions made by the LDCF/SCCF Council and the CEO from April 1, 2020 to September 30, 2020 exceeding donor payments received and investment income earned during the same period.



Annex I - Cumulative Funding Decisions Details by Activity and Agency as of September 30, 2020

In USD millions

Entity	Cumulative Net Amounts			
	Funding Approvals	Commitments	Cash Transfers	Amount Due
	(1)	(2)	(3)	(4) = (2) - (3)
Projects				
ADB	30.40	13.65	10.55	3.10
AfDB	147.22	112.45	61.45	51.00
CI	10.23	0.03	0.00	0.00
FAO	189.03	100.25	74.68	25.57
IBRD	82.18	73.88	71.98	1.89
IFAD	43.49	31.49	27.05	4.44
IUCN	5.78	4.63	0.00	0.00
UNDP	681.97	550.43	454.52	95.91
UNEP	173.26	154.38	70.23	84.15
UNIDO	16.17	3.23	2.40	0.83
<i>Sub-total</i>	<u>1,379.71</u>	<u>1,044.42</u>	<u>772.87</u>	<u>271.55</u>
Fees				
ADB	2.60	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	18.02	11.47	11.47	0.00
IBRD	7.84	7.50	7.24	0.26
IFAD	4.80	4.04	3.09	0.94
IUCN	0.52	0.42	0.00	0.00
UNDP	66.40	57.99	56.17	1.82
UNEP	16.70	15.38	15.37	0.00
UNIDO	1.52	0.58	0.28	0.30
<i>Sub-total</i>	<u>133.01</u>	<u>110.16</u>	<u>97.94</u>	<u>12.22</u>
Corporate Budget and Workshop ^{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>	<u>16.76</u>	<u>16.76</u>	<u>16.38</u>	<u>0.38</u>
Total for LDCF	1,529.48	1,171.34	887.19	284.16

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.