

**STRATEGIC CLIMATE FUND**  
**ADMINSTERED BY THE**  
**INTERNATIONAL BANK FOR RECONSTRUCTION**  
**AND DEVELOPMENT**  
**AS TRUSTEE**

**WORLD BANK REFERENCE**  
**TF069012**

**FINANCIAL STATEMENT AND**  
**INDEPENDENT AUDITORS' REPORT**  
**December 31, 2009**

**THE WORLD BANK GROUP**  
Trust Funds Division  
Controller's Vice Presidency  
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KPMG LLP  
2001 M Street, NW  
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## Independent Auditors' Report

International Bank for Reconstruction and Development  
as Trustee of the Strategic Climate Fund

We have audited the accompanying statement of receipts, disbursements and fund balance of the Strategic Climate Fund, administered by the International Bank for Reconstruction and Development as Trustee, for the period from March 2, 2009 (date of inception) to December 31, 2009. This financial statement is the responsibility of the Trustee's management. Our responsibility is to express an opinion on this financial 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 financial statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trustee's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by the Trustee's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 2, the financial statement was prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements and fund balance of the Strategic Climate Fund, administered by the International Bank for Reconstruction and Development as Trustee, for the period from March 2, 2009 (date of inception) to December 31, 2009, on the basis of accounting described in note 2.

**KPMG LLP**

March 16, 2010

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**STRATEGIC CLIMATE FUND**

Administered by the International Bank for Reconstruction and Development as Trustee

**STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE****Page 1**

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*Expressed in U.S. dollars*

	March 2, 2009 (date of inception) to December 31, 2009
Contributions (Note 3)	\$ 287,005,569
Investment income, net (Note 4)	1,199,337
<b>Total receipts</b>	<u>288,204,906</u>
Fund transfers (Note 6)	120,267,500
Administrative budget disbursements (Note 7)	6,301,035
<b>Total disbursements</b>	<u>126,568,535</u>
Excess of receipts over disbursements	161,636,371
<b>Fund balance:</b>	
Beginning of period	<u>-</u>
End of period	<u>\$ 161,636,371</u>
Fund balance consists of:	
Trust Fund's share of the cash and investments in the pool (Note 5)	<u>\$ 161,636,371</u>

The accompanying notes are an integral  
part of this financial statement.

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**STRATEGIC CLIMATE FUND**

Administered by the International Bank for Reconstruction and Development as Trustee

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Note 1 - Organization

In July 2008, the World Bank Board of Executive Directors approved the creation of the Climate Investment Funds (CIF) Program. The CIF Program is designed to provide interim scaled up funding to help developing countries in their efforts to mitigate rises in greenhouse gas emissions and to adapt to climate change.

The CIF Program is jointly implemented by the African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), World Bank, which is comprised of the International Bank for Reconstruction and Development (IBRD)/International Development Association (IDA), and the International Finance Corporation (IFC).

The CIF Program consists of two trust funds: the Strategic Climate Fund (SCF) and the Clean Technology Fund (CTF). Each of the multilateral development banks (MDBs) listed above will administer funds and implement projects related to the SCF and CTF respectively.

The SCF (the Trust Fund) finances targeted programs in developing countries to pilot new climate or sectoral approaches with scaling-up potential. Three programs have been established under the SCF: the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP), and the Scaling-Up Renewable Energy Program in Low Income Countries (SREP).

The CTF finances scaled-up demonstration, deployment, and transfer of low-carbon technologies for significant greenhouse gas reductions. The focus is on piloting investment in countries or regions with opportunities for large greenhouse gas abatement.

The SCF is governed by the SCF Trust Fund Committee which oversees the operations and activities of the SCF. The SCF Trust Fund Committee is comprised of donor and recipient representatives, together with representatives from the World Bank, and other MDBs. The World Bank and the MDB representatives are non voting members. Decision making is by consensus of the voting members of the SCF Trust Fund Committee. The SCF Trust Fund Committee approves the allocation of SCF resources.

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**STRATEGIC CLIMATE FUND**

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Note 1 – Organization (continued)

SCF Sub-Committees for PPCR, FIP, and SREP have been established by the SCF Trust Fund Committee. Each SCF Sub-Committee approves programming priorities, operational criteria and financing modalities for the SCF Programs, SCF Program financing for programs and projects, and periodic reports to the SCF Trust Fund Committee on the operations of the SCF Programs.

The MDB Committee facilitates collaboration, coordination and information exchange among the MDBs. The MDB Committee is comprised of representatives of the MDBs, and is responsible for items such as the identification of specific areas by which MDBs may harmonize their climate change programs, reviewing recommendations proposed by the Administrative Unit on program criteria for approval by the SCF Trust Fund Committee or SCF Sub-Committees, and serving as a forum to ensure effective operational coordination amongst the MDBs.

The Administrative Unit supports the work of the CIF Program, including the SCF, and also supports the SCF Trust Fund Committee and other bodies of the CIF Program. The Administrative Unit is housed in the Washington, D.C. offices of the World Bank and comprises a small team of professional and administrative staff employed by the World Bank. The Administrative Unit's responsibilities include the preparation of documentation for review by the SCF Trust Fund Committee, the formulation of recommendations on program criteria and priorities, evaluating the SCF's activities, performance, status of implementation, and managing relationships amongst various bodies.

IBRD serves both as a Trustee and as an implementing entity for the CIF Program. In its capacity as the Trustee, IBRD established both the SCF and the CTF Trust Funds to receive donor contributions. These Trust Funds hold the assets of the SCF and CTF, pursuant to the terms entered into with the contributors. In accordance with the decisions taken by the SCF Trust Fund Committees, the SCF Sub-Committee, or the MDB Committee where relevant, and the availability of funds, the Trustee makes commitments and transfers of the SCF and CTF resources, as applicable, as agreed with the MDBs. In addition, in its capacity as an Implementing Entity of the SCF and CTF, IBRD has established separate trust funds to receive funds from the SCF and CTF Trustee respectively.

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**STRATEGIC CLIMATE FUND****Administered by the International Bank for Reconstruction and Development as Trustee****Notes to the Financial Statement  
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Note 1 – Organization (continued)

This financial statement reports solely upon the activities of the IBRD as the Trustee to the SCF. Separate financial statements will be prepared for the IBRD as the Trustee to the CTF, IBRD as Implementing Entity (IE) to the SCF and IBRD as IE to the CTF. In addition, this statement does not include any activities undertaken by the respective MDBs as IEs to the SCF and CTF. Separate financial statements will be prepared by the MDBs to report their SCF and CTF activities respectively.

Note 2 - Significant accounting policies

The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting - modified to record the share in pooled cash and investments at fair value (modified cash basis of accounting). Accordingly, net investment income includes realized and unrealized investment income (loss).

The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (U.S. GAAP) or International Financial Reporting Standards (IFRS). Receipts, with the exception of investment income, net as described above, are recorded when collected (i.e., when credited to the trust fund) rather than when pledged/earned, and disbursements are recorded when paid (i.e., when debited from the trust fund). In accordance with policies adopted for the administration of this Trust Fund, certain transactions, including: (i) donor contributions not credited to the Trust Fund at the financial statement date due to timing or other reasons; (ii) reposting of disbursements in the ordinary course of business as deemed necessary; and (iii) any refunds of previous disbursements deemed by management not to be eligible in accordance with the relevant agreements, are reported in the Statement of Receipts, Disbursements and Fund Balance in the period in which the transaction is credited/debited to the Trust Fund. This financial statement is not intended to be a presentation in conformity with U.S. GAAP or IFRS; however certain information pertaining to the fair value of financial instruments is presented in accordance with the applicable U.S. GAAP requirements as described below.

U.S. GAAP defines fair value, establishes a consistent framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value and requires disclosure about fair value measurements. It also requires that the valuation techniques used

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Note 2 - Significant accounting policies (continued)

to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. Notes 4 and 5 provide further details on the fair value measurement of the pooled cash and investments.

Transactions in currencies other than the Trust Fund's reporting currency of U.S. dollars are recorded at the market rates of exchange in effect on the date of the transaction. Transaction gains or losses on disbursements, if any are borne by IBRD. Transactions and fund balance at the end of each reporting period that are not denominated in U.S. dollars are translated using the rate in effect for that date. The use of different exchange rates may result in a translation adjustment.

Note 3 – Contributions

Cash contributions are received either as a result of the direct receipt of cash from contributors, or as a result of promissory note encashments. Conversions of contributions received in various currencies into U.S. dollars are initiated by IBRD upon the later of the receipt and identification of funds, or the receipt of the signed Contribution Agreement/Arrangement. The Trust Fund accepts contributions from contributors in accordance with the provisions of the SCF Standard Provisions and the Contribution Agreements/Arrangements entered into between the Trustee and the contributors. Contributors may make contributions in the form of (i) a Grant Contribution or (ii) a Capital Contribution. Grant Contributions may be used for any purposes under the Contribution Agreements/Arrangements. Capital Contributions to the SCF may be used for any purposes, except that no more than ten percent (10%) of the contribution shall be used for financing grants. The term Capital Contribution defines the permitted use of funds vis-à-vis Grant Contributions, and does not mean that share capital or equity instruments have been issued to Contributors in return for contributions received.

Upon termination of the SCF Trust Fund, any remaining unallocated funds, including related reflows, returns of other funds, and investment income, if any, held by the SCF Trust Fund will be returned to Contributors on a pro-rata basis, to be calculated using specific measurements which differ for Grant Contributors and Capital Contributors, as defined in the relevant Contribution Agreements/Arrangements.

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**STRATEGIC CLIMATE FUND**

Administered by the International Bank for Reconstruction and Development as Trustee

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Note 3 – Contributions (continued)

The amounts committed by the contributors and received by the Trust Fund for the period from March 2, 2009 (date of inception) to December 31, 2009, are as follows:

Contributors	Type of Contribution	Received as	Amounts Committed	Amounts Received as of December 31, 2009	Amounts in US \$
Australia	Grant	Cash	A\$ 50,000,000	A\$ 35,937,653	US \$ 28,343,683
Canada	Grant	Cash	CAN\$ 100,000,000	CAN\$ 100,000,000	83,878,271
Denmark	Grant	Cash	DKr 65,000,000	DKr 65,000,000	12,471,220
Germany	Grant	Cash	€ 50,000,000	€ 3,000,000	4,322,700
Norway	Grant	Cash	NKr 195,000,000	NKr 45,000,000	7,712,875
United Kingdom	Capital	Promissory Notes	£ 800,000,000	£ 91,100,000 *	150,276,820
<b>Total</b>					US \$ <u>287,005,569</u>

\* GBP 300,000,000 was received in Promissory Notes but only GBP 91,100,000 was encashed at December 31, 2009.

Note 4 - Investment income, net

Amounts paid into the Trust Fund, but not yet disbursed, are managed by the Trustee, which maintains an investment portfolio (the “Pool”) for all of the trust funds administered by the IBRD, IDA, IFC, the Multilateral Investment Guarantee Agency, and the International Centre for Settlement of Investment Disputes (the World Bank Group). 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 as Trustee. Generally, the Pool is invested in liquid financial instruments such as money market instruments, government and agency obligations, mortgage-backed securities, and other high-grade bonds. The Pool may also include securities pledged as collateral under repurchase agreements with other counterparties and receivables from resale agreements for which it has accepted collateral. Additionally, the Pool includes derivative contracts such as currency forward contracts, plain vanilla swaps and callable swaps linked to interest rates or foreign exchange rates.

The Pool is a trading portfolio and is reported at fair value, for which gains/losses are included in investment income, net. Share in pooled cash and investments represents the Trust Fund’s allocated share of the Pool’s fair value at the end of the reporting period.

Net investment income consists of the Trust Fund’s allocated share of: 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. Investment income, net in the amount of



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Note 4 - Investment income, net (continued)

US\$1,199,337 was credited to the Trust Fund during the period from March 2, 2009 (date of inception) to December 31, 2009 based on its allocated share of the cash and investments in the Pool.

Note 5 - Fair value of financial instruments

As discussed in Note 4, the cash and investments of all trust funds administered by the World Bank Group are managed in a pooled investment portfolio. As such, all investment decisions are made and performance monitored at the Pool level. The ensuing disclosure on fair value measurement and fair value hierarchy is therefore at the Pool level. The fair value amount of the Trust Fund's share in the pooled cash and investments at the end of the reporting period is also disclosed.

*Fair Value Measurements*

IBRD has an established and documented process for determining fair values of the financial instruments in the Pool. Fair value is based upon quoted market prices for identical and similar instruments, where available. Financial instruments for which quoted market prices are not readily available are valued based on discounted cash flow models. These models primarily use market-based or independently-sourced market parameters such as yield curves, interest rates, volatilities, foreign exchange rates and credit curves.

The techniques applied in determining the fair values of financial instruments are summarized below.

*Investment securities*

Where available, quoted market prices are used to determine the fair value of trading securities. Examples include some government securities, futures and money market securities. For instruments for which market quotations are not available, fair values are determined using model-based valuation techniques, either internally-generated or vendor-supplied, that include the standard discounted cash flow method using market observable inputs such as yield curves, credit spreads and prepayment speeds. Unless quoted prices are available, money market instruments are reported at face value, which approximates fair value.

Note 5 - Fair value of financial instruments (continued)*Securities purchased under resale agreements and securities sold under repurchase agreements*

Securities purchased under resale agreements and securities sold under repurchase agreements are reported at face value which approximates fair value.

*Derivative contracts*

Derivative contracts include currency forward contracts, plain vanilla swaps and callable swaps linked to interest rates or foreign exchange rates. Derivatives are valued using the standard discounted cash flow methods using market observable inputs such as yield curves, foreign exchange rates, or basis spreads.

*Fair Value Hierarchy*

U.S. GAAP establishes a three-level fair value hierarchy under which financial instruments are categorized based on the priority of the inputs to the valuation technique. It also requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial instruments representing the entire Pool of investments for all trust funds administered by the World Bank Group are recorded at fair value and are categorized based on the inputs to the valuation techniques as follows:

- Level 1: Financial instruments whose values are based on unadjusted quoted prices for identical instruments in active markets.
- Level 2: Financial instruments whose values are based on quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; or pricing models for which all significant inputs are observable, either directly or indirectly for substantially the full term of the instrument.
- Level 3: Financial instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

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Note 5 - Fair value of financial instruments (continued)

The following table presents the Pool's fair value hierarchy for those financial instruments measured at fair value on a recurring basis as of December 31, 2009:

*In millions of U.S. dollars*

	<i>Fair Value Measurement on a Recurring Basis as of December 31, 2009</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Investment securities	5,177	16,710	86	21,973
Securities purchased under resale agreements and securities sold under repurchase agreements	(212)	-	-	(212)
Derivatives, net	-	63	-	63
<b>Total of financial instruments in the Pool at fair value</b>	<b>4,965</b>	<b>16,773</b>	<b>86</b>	<b>21,824</b>

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Level 3 financial instruments are not significant, and therefore, further disclosures are not provided.

As of December 31, 2009, the Pool does not have any financial instruments measured at fair value on a non-recurring basis.

*Trust Fund's Share of the Cash and Investments in the Pool*

The Trust Fund's share of the cash and investments in the Pool, which was allocated based on the specific investment horizons, risk tolerances and other eligibility requirements pursuant to the agreements, has a fair value of US\$161,636,371 as of December 31, 2009.

Note 6 – Fund transfers

Pursuant to the Contribution Arrangement dated February 25, 2009 between the IBRD as Trustee to the SCF and the United Kingdom of Great Britain and Northern Ireland, funds in the amounts of US\$ 95,555,000 and US\$ 24,712,500 were transferred to the CTF and the Congo Basin Fund respectively, for their use in executing programs and other activities.

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**STRATEGIC CLIMATE FUND****Administered by the International Bank for Reconstruction and Development as Trustee****Notes to the Financial Statement  
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Note 7 – Transfer of administrative budget

Upon approval by the SCF Trust Fund Committee and, when relevant, by the MDB Committee, the Trustee transfers administrative budget funds to assist in the defrayment of costs incurred by the Trustee, the Administrative Unit and the MDBs for the administration, supervision, and oversight in support of the SCF. The administrative budget transferred is subject to an annual adjustment based on actual costs incurred. The Trustee transferred administrative budget in the amount of US\$6,301,035 during the period from March 2, 2009 (date of inception) to December 31, 2009, broken down as follows:

<u>Administrative budget transferred to:</u>	<u>Amount</u>	
Administrative Unit	US\$	5,335,305
Trustee		965,730
<b>Total</b>	<b>US\$</b>	<b>6,301,035</b>