

The Adaptation Fund

AFB/B.4/10
December 1, 2008

Adaptation Fund Board
Fourth Meeting
Bonn, December 15-17, 2008

Agenda Item 8

BUDGET ESTIMATE FOR TRUSTEE SERVICES FOR THE ADAPTATION FUND FOR THE PERIOD JULY 1, 2008 – JUNE 30, 2009

(Prepared by the Invited Trustee)

1. In its decision 1/CMP.3, the CMP invited the World Bank to serve as the Trustee for the Adaptation Fund on an interim basis, and requested the Adaptation Fund Board to present the necessary legal arrangements to be concluded between the CMP and the Trustee for adoption by the CMP at its fourth session.

2. The Trustee will perform two core functions for the Adaptation Fund: (a) monetization of CERs for the Adaptation Fund, and (b) trust fund management, including financial management of the resources of the Trust Fund; investment management; and accounting and financial reporting. The Trustee will perform its functions consistent with its Articles of Agreement, by-laws, policies and procedures. Decision 1/CMP.3 further provides that the Trustee shall be accountable to the Adaptation Fund Board for the performance of its fiduciary responsibilities and in particular for the monetization of certified emission reductions (CERs) in accordance with guidance provided by the Adaptation Fund Board.

3. The Invited Trustee hereby proposes to the Adaptation Fund Board a budget for the period July 1, 2008 – June 30, 2009 for services to be provided to the Adaptation Fund, for mutual agreement with the Adaptation Fund Board. As stipulated in the Legal Arrangements regarding the services to be provided by the Trustee to the Adaptation Fund, and in the Roles and Responsibilities of the Trustee, the Trustee is required to submit a budget estimate to the Adaptation Fund Board, for mutual agreement and approval by the Board. This estimate reflects the Trustee's best estimate of the fees, costs and expenses for the year, on a cost-recovery basis. It is subject to review and adjustment at the end of the period, based upon actual fees, costs and expenses incurred during the period July 1, 2008 – June 30, 2009.

4. Fees, costs and expenses incurred by the Trustee with respect to services provided and work undertaken up to June 30, 2008, estimated at \$377,000 will not be charged to the Adaptation Fund and constitute an in-kind contribution of the World Bank to the Adaptation Fund.

5. **The Adaptation Fund Board is hereby requested to agree to an estimated budget comprising US\$ 890,000 for Trustee services and US\$ 475,000 for CER Monetization services (for a total of US\$ 1,365,000) for the period July 1, 2008 to June 30, 2009.** This estimate does not include the costs and expenses referred to in paragraph 3 above and represents a downward revision from the estimate of US\$ 944,100 presented to the Adaptation Fund Board in June 2008. The June estimate did not include an estimate of CER monetization costs. The estimate presented herein is subject to adjustment at the end of the period to reflect full cost recovery as well as any realized savings.

6. The proposed budget reflects the following components:

- i. ***CER Monetization (US\$ 475,000)***: The CER Monetization budget estimate is based on: cost measures of the resources, including staff costs, system development changes, travel, and expenses deployed by the World Bank as Trustee of the AF to prepare and execute the CER Monetization Program. The budget estimate comprises three distinct and separate items:

- Costs for the preparation and execution of transactions

- Settlement costs: The tasks associated with the settlement of transactions will be outsourced by the Trustee to a specialized provider, or “Settlement Agent”, recruited through a competitive selection process as per the rules applicable by the World Bank for its procurement. Estimates are based upon initial quotes received from service providers currently submitting proposals to the World Bank
 - exchange membership fees required to allow the Trustee to trade on the ECX and Bluenext exchanges. Estimates are based upon initial price conditions announced by ECX and Bluenext
- ii. **Financial management (US\$ 140,000):** This estimate assumes that sales of CERs begin in January 2009. The final cost will depend on the level and financing and the number of funding initiatives approved by the Adaptation Fund Board, and the complexity of operational procedures for recording allocations, commitments and making cash transfers.
 - iii. **Investment management (US\$ 10,500):** Investment management fees are calculated based on a cost of 3.5 basis points against the average annual balance of the portfolio. The projected average portfolio size for the Adaptation Fund Trust Fund is estimated at \$60 million over the period January-July 2009.
 - iv. **Relationship management (US\$ 198,600):** These costs include staff time related to participation in Adaptation Fund Board and related meetings; work in collaboration with the Adaptation Fund Board and the Secretariat to develop best practice operational policies relating to financial transactions; and development of robust and efficient reporting and transactional processes and procedures for the Trust Fund. These costs are normally higher in the early years of a trust fund when significant senior staff time is required to establish the trust fund and put in place its policy and transactional framework.
 - v. **Accounting and reporting (US\$ 147,500):** The estimate is based on the assumption that an audited financial statement will be required for FY09; also included would be costs associated with establishing the accounting model to be used for the Adaptation Fund.
 - vi. **Legal services (US\$ 170,400):** Costs include the legal work to establish the Adaptation Fund Trust Fund and legal advice related to establishment of the CER monetization program. Also included are costs of contractual services for outside legal counsel on the issues of providing legal personality to the Adaptation Fund and selling CERs under security trading regulations.
 - vii. **External audit (US\$ 90,000):** This covers an external audit of the financial statements of the Trust Fund during FY09.
 - viii. **Travel (US\$ 133,000):** Four staff to attend four Board meetings each; and four staff to attend the COP/MOP meeting in December 2008.

**Table 1: Budget Estimate for Services Provided by the Trustee
1 July 2008 to 30 June 2009
(USD)**

Trustee Services	FY09 Budget (June 2008 Estimate)	FY09 Proposed Budget (Current Estimate)
Financial Management	140,100	140,000
Investment Management	10,500	10,500
Relationship Management	274,200	198,600
Accounting and Reporting	147,500	147,500
Legal Services	157,800	170,400
External Audit	90,000	90,000
Travel	124,000	133,000
<u>Sub-Total*</u>	<u>944,100</u>	<u>890,000</u>
CER Monetization	n/a	475,000
<u>Total</u>		<u>1,365,000</u>

* does not include costs amounting to US\$ 377,000 incurred by the Invited Trustee prior to June 2008, which will not be billed to the Adaptation Fund
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