



ADAPTATION FUND

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Ethics and Finance Committee  
Fourth Meeting  
Bonn, Germany, March 16, 2011

Agenda Item 11.b

**AF BOARD, SECRETARIAT AND TRUSTEE  
ADMINISTRATIVE BUDGET UPDATE**

## **AF BOARD, SECRETARIAT AND TRUSTEE ADMINISTRATIVE BUDGET UPDATE**

The purpose of this paper is to present: i) an update on the Board-approved AF Board and Secretariat Budget for FY11, for information; and ii) a proposed Trustee budget for the remainder of the FY11 fiscal year, for approval.

### **I. AF BOARD AND SECRETARIAT ADMINISTRATIVE BUDGET UPDATE**

Funding to cover the salary and expenses of a two year contract for the AF Board Secretariat Manager's salary in the amount of US\$ 398,370 was included in the FY09 AF Board and Secretariat budget, and approved by the AF Board at its third meeting in September 2008<sup>1</sup>. The AF Board Secretariat Manager's contract became effective on February 21, 2009. Until June 30, 2010, the AF Board approved amount was funded from the multi-donor Administrative Trust Fund, which was closed on June 30, 2010. According to the Standard Provisions of the Administrative Trust Fund, no disbursements from the Trust Fund are possible after the closing date of the fund.

To date, four donors (Switzerland, Finland, Japan and Norway) have agreed to the transfer of their undisbursed balances, totaling US\$ 238,595, to the AF Trust Fund as a donation.

Therefore, effective July 1, 2010 the AF Board authorized amounts for the AF Board and Secretariat budget, including amounts in respect of the balance of the AF Board Secretariat Manager's contract, are being funded from the main AF Trust Fund. Such amounts are transferred to the AF Board Secretariat by the Trustee, in accordance with AF Board decisions.

### **II. BUDGET ESTIMATE FOR TRUSTEE SERVICES FOR THE PERIOD APRIL 1, 2011 TO JUNE 30, 2011 (3 MONTHS)**

#### *a) Introduction*

The Trustee hereby presents to the Adaptation Fund Board a proposed budget for the three month period for the remainder of the 2011 fiscal year, i.e. from April 1, 2011 to June 30, 2011, for Trustee services to be provided to the Adaptation Fund.

Since the terms of service of the World Bank as interim trustee were scheduled to automatically expire three months after the Sixth Session of the CMP, the FY11 trustee budget presented to and approved by the Adaptation Fund Board at its 10<sup>th</sup> AFB meeting in June 2010 covered only the 9-month period up to the end of March 2011. With the CMP's decision to extend the terms of service of the Bank as interim trustee, a proposed budget for the remainder of the 2011 fiscal year must be presented for mutual agreement and approval by the Adaptation Fund Board.

#### *b) Update on FY 2011 trustee budget to date*

**At the 10<sup>th</sup> Meeting of the Adaptation Fund Board, the Board approved a budget estimate of US\$ 913,000 for Trustee services for the period July 1, 2010 – March 31,**

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<sup>1</sup> AFB.B.3.11\_Revised\_Budgets

2011, as described in Document AFB/EFC.1/7/Rev.1, *Board and secretariat and trustee budget for FY11*.

**As at end-January 2011, the trustee estimates that the actual costs and expenses incurred by the trustee for the 9-month period up to the end of March 2011 will be approximately US\$ 782,000, or US\$ 131,000 less than the approved budget estimate.** This is mainly due to: (i) lower than expected financial and program management costs; and (ii) lower than expected external audit costs<sup>2</sup>. Investment management costs, calculated as a fixed percentage (0.035%) of the average fund balance in the trust fund, are expected to be higher due to the higher fund balances in the trust fund over the year.

c) *Proposed budget from April 1, 2011 to June 30, 2011*

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 in advance to the Adaptation Fund Board, for mutual agreement and approval by the Board. The estimate presented herein reflects the Trustee's best estimate of the fees, costs and expenses for the remainder of the current fiscal year, on a full cost-recovery basis. It will be subject to adjustment at the end of the fiscal year, based upon actual fees, costs and expenses incurred during the full year period from July 1, 2010 to June 30, 2011.

Table 1 shows the AF Board approved estimate of the costs, fees and expenses for the 9-month period from July 2010 to March 2011, the estimate of the actual costs expected to be incurred to the end of March 2011, and the estimated costs, fees and expenses for trustee services for the remaining 3 months of FY11. It also shows the total estimate for the full 2011 fiscal year, in column 4.

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<sup>2</sup> Lower audit costs can be attributed to the lower than expected number of transactions audited.

<b>Table 1: Estimated Trustee Budget</b>				
FY11 Q1 to Q3 (approved) and Q4 (proposed)				
(USD)				
	1	2	3	4
	AF Board-approved	Estimate of actual costs incurred	Estimate for balance of FY	Total
<b>Trustee Services</b>	<b>Jul 1, 2010-Mar 31, 2011</b>	<b>Jul 1, 2010-Mar 31, 2011</b>	<b>Apr 1 - Jun 30, 2011</b>	<b>FY11</b>
	<b>(9 months)</b>	<b>(9 months)</b>	<b>(3 months)</b>	<b>(12 months)</b>
CER Monetization	520,000	510,000	168,000	678,000
Financial and Program Management	182,000	90,000	50,000	140,000
Investment Management a/	35,000	52,500	17,500	70,000
Accounting and Reporting	41,000	47,000	8,000	55,000
Legal Services	45,000	40,000	15,000	55,000
External Audit	90,000	42,479	-	42,479
<b>Total</b>	<b>913,000</b>	<b>781,979</b>	<b>258,500</b>	<b>1,040,479</b>
<p>a/ Investment Management fees are calculated based on a cost of 3.5 basis points against the average annual trust fund balance; the projected average balance is revised to \$197 million for FY11. Slower than expected project approvals and cash transfers to Implementing Entities has resulted in higher average cash balance in the trust fund.</p>				

To facilitate comparison with previous budgets, the proposed full year FY11 budget represents a decrease of 3.2% from the FY10 actual trustee administrative budget of US\$ 1,075,100, and a decrease of 28.9% from the AF Board-approved FY10 trustee administrative budget of US\$ 1,462,500.

**The Adaptation Fund Board is hereby requested to approve an estimated budget of US\$ 258,500 for the period April 1, 2011 to June 30, 2011, comprising US\$ 168,000 for CER Monetization services, and US\$ 90,500 for all other Trustee services.**