



ADAPTATION FUND

AFB/EFC.1/7/Rev.1
June 13, 2010

Adaptation Fund Board
Ethics and Finance Committee
First Meeting
Bonn, June 14, 2010

Agenda item 6 c)

**BOARD AND SECRETARIAT, AND TRUSTEE BUDGET
FOR THE FISCAL YEAR JULY 1, 2010 – JUNE 30, 2011**

SECTION I: OVERVIEW OF THE DOCUMENT

I. Background

1. During the Board deliberations on budgetary issues in FY10 (Fiscal Year 2010: July 1, 2009 to June 30, 2010), the Board requested the secretariat and the trustee to harmonize the presentation of the budget for the Board and the secretariat, and that for the trustee, respectively. The following presentation of the budgets is meant to address this request.

II. Budget Overview

2. Table 1, below, presents an overview of the budgets of the Board and secretariat, and of the trustee, for the period for which the Board is expected to make a decision in the current meeting. For the Board and the secretariat, the budget covers the whole Fiscal Year 2011, i.e. July 1, 2010 to June 30, 2011. The proposed trustee budget does not cover the full fiscal year, as the mandate of the trustee is scheduled to expire three months after CMP.6 (i.e. at the end of March 2011), unless otherwise agreed between the CMP and the World Bank.

Table 1. Approved FY10 and proposed FY11 budget of the Board, secretariat and trustee.

All amounts in US\$		Approved FY10	Revised FY10	Proposed FY11
BOARD AND SECRETARIAT				
01	Personnel	1,109,999	881,024	742,716
02	Travel	1,186,500	767,550	1,079,900
03	General operations	69,784	69,784	166,686
04	Meetings	340,000	500,000	500,000
05	Audit	25,000	0	0
Sub-total Board and secretariat		2,731,283	2,218,358	2,489,302
TRUSTEE				
01	CER monetization	610,000	610,000	610,000 c/
02	Financial and program management	253,000	253,000	253,000 c/
03	Investment management	20,000	20,000 a/	20,000 c/, d/
04	Accounting and reporting	55,000	55,000	55,000 c/
05	Legal services	32,100	32,100	32,100 c/
06	External audit	0	0 b/	0 c/
07	Travel	105,000	105,000	105,000 c/, e/
Sub-total Trustee		1,075,100	1,075,100	1,075,100 c/
GRAND TOTAL BOARD, SECRETARIAT AND TRUSTEE		3,806,383	3,293,458	3,564,402

a/ Investment management fees are calculated based on a cost of 3.5 basis points against the average annual balance of the portfolio; the original projected average portfolio size was \$50 million and the revised FY10 average portfolio size is \$56 million.

b/ External audit costs for the FY10 financial statements will be included in the FY11 budget.

c/ The proposed Trustee budget does not cover the full fiscal year, as the mandate of the Trustee is scheduled to expire three months after CMP.6 (i.e. at the end of March 2011) unless otherwise agreed between the CMP and the World Bank.

d/ 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 is \$132 million for FY11.

e/ Travel costs for 3 representatives to attend each Board meeting are included in the amounts on lines 1,2,5 above

**SECTION II: ADAPTATION FUND BOARD AND SECRETARIAT PROPOSED BUDGET
FOR THE PERIOD JULY 1, 2010 – JUNE 30, 2011**

I. Background

3. The Adaptation Fund Board (“the Board”), at its 6th meeting in June 2009, approved the Board and secretariat budget of US\$ 2,288,933 for the period July 1, 2009 – June 31, 2010 (decision B.6/6). In subsequent meetings, the Board amended the budget to include US\$ 72,750 to develop publications and organize a side-event at CMP 5 (decision B.7/9), and US\$ 369,600 to cover the cost of the Accreditation Panel experts travel and fees (decision B.8/2 paragraphs (e) and (f)). The revised budget approved for the period July 1, 2009 – June 30, 2010 totals US\$ 2,731,283. Details of the revised budget for FY10 can be found in Table 2, which also includes an update of the actual expenses for FY10, as well as the proposed budget for FY11 (July 1, 2010 – June 30, 2011).

4. Actual FY10 budget expenditure will be known after the close of the fiscal year by June 30, 2010 and will be reported to the Board thereafter.

II. FY10 Current Estimates vs. Approved Budget

5. **Budget under-run.** Based on current estimates, the FY10 budget stands at US\$ 2,218,358, an overall reduction of 19% over the revised approved FY10 budget. The under-run is mainly due to unspent funds in the travel, personnel (mostly related to the Accreditation Panel work) and audit components, partially offset by an increase in spending for meeting logistics, translation and interpretation. The unused travel funds relate to committee meetings and related travel of experts which did not materialize, as well as some Board member expenses which were eventually covered by other sources. Audit costs were covered under the Single Audit of the World Bank and the External Audit of the Adaptation Fund Trust Fund.

III. Budget proposal for FY11

6. The overall budget request for FY11 amounts to US\$ 2,489,302 and consists of the following components:

7. Personnel component.

- a) **Full-time staff.** An amount of US\$ 80,000 is included in the FY11 request to cover the remaining period of the AFB Manager’s contract for FY11 (from February through June 2011)¹. Due to the increased workload imposed by the project review process, the secretariat proposes to hire a Junior Professional Associate (JPA) (US\$ 66,795), and to renew the current contract of a Short Term Temporary (STT) (US\$ 24,807) for another year.

¹ The AFB Manager’s salary of US\$ 398,370 was set aside in the FY09 budget in the original administrative trust fund (multi donor trust fund). Salary expenses are not prepaid but expensed each month. Since this trust fund is closing on June 30, 2010, the unspent balance in this line item will be transferred to the new administrative trust fund to cover the AFB Manager’s salary expenses until February 2011.

- b) **GEF staff cross-support.** The request for US\$ 248,477 is to cover the cost of staff in the GEF secretariat that services the Adaptation Fund Board (AFB). This amount represents an increase of 3% over the amount requested in FY10 to account for inflation and is derived by estimating an average of 2 months per year for 8 GEF staff members. This amount will be revised next year to more accurately capture the costs related to GEF staff involved in AFB activities.
- c) **Consultants.** Although the budget allocated in FY10 for a consultant was not used, the need is still there and the request for the FY11 budget includes inflation. In addition, an allocation of US\$ 50,000 is requested for completion of the website design and its maintenance. On the budgetary line corresponding to the communications strategy an amount of US\$50,000 is requested to hire a communications consultant to implement the communications strategy for the Adaptation Fund. Finally, an estimated budget of \$198,175 is requested to cover the fees of fiduciary standards experts.

8. Travel component. The current FY10 estimates were taken into account for the budget request of travel for secretariat staff and Board members. The FY11 request also includes funding for committee meetings and travel of experts (for committee meetings and Accreditation Panel). Per diem allowances of Board members and alternates according to UN rules are paid separately, from the Adaptation Fund Trust Fund, and are therefore not included in this budget. Finally, a new line item for US\$ 43,400 was added to cover additional travel costs required to implement the awareness raising programme on accreditation of NIEs (Decision B.9/9).

9. Other components. The FY11 budget request is US\$ 666,686. This amount includes an increase of 34% for office space leased from the World Bank. It also includes two new requests for support of general operations: communications support to the Chair, and implementation of the communications strategy. For the latter, US\$ 50,000 is requested to cover individual outreach measures to specific audiences, as well as for the production of print information material, multimedia content, branding and promotional material.

IV. Recommendation

- 10. The Board is requested to:
 - a) Approve the proposed budget of US\$ 2,489,302 to cover the costs of the operations of the Board and secretariat over the period July 1, 2010 – June 30, 2011, from the resources made available under the Adaptation Fund Trust Fund;
 - b) Note that the unspent balance of the Manager of the secretariat's salary, originally approved in the FY09 budget, will be transferred from the original administrative trust fund to the new administrative trust fund to cover salary expenses until February 2011.
 - c) Note that a separate document also presented to the Board discusses results-based monitoring. As projects start implementation, there may be a request for additional budget to cover RBM costs at a later date.

Table 2. Proposed FY 2011 Budget for the Board and secretariat

All amounts in US\$		Approved FY10	Estimated FY10	Proposed FY11
PERSONNEL COMPONENT				
Full-time staff:				
01	Program Manager (GG)	0	0	80,000
02	Program Manager (GF)	306,961	306,961	0
03	Program Assistant (GC)	151,348	151,348	0
04	Short-term Temporary (STT)	0	0	24,807
05	Junior Professional Associate (JPA)	0	0	66,795
sub-total AFB staff		458,309	458,309	171,602
GEF staff cross-support:				
01	Head of the Secretariat (GJ)			
02	Operations Advisor (GH)			
03	Communications Advisor (GH)			
04	Monitoring Officer (GF)			
05	Information Officer (GF)			
06	Finance & Admin Officer (GF)			
07	Human Resources Assistant (GD)			
08	Executive Assistant (GD)			
sub-total GEF staff		241,240	241,240	248,477
Consultants				
01	AFB Secretariat Support	23,750	0	24,463
02	Design and Operation of dedicated Web site	50,000	20,000	50,000
03	Adaptation Fund Logo competition	600	375	0
04	Communications Strategy	86,500	86,500	50,000
05	Fiduciary Standards Experts (fees & conting.)	249,600	74,600	198,175
sub-total Consultants		410,450	181,475	322,638
SUB-TOTAL PERSONNEL COMPONENT		1,109,999	881,024	742,716
TRAVEL COMPONENT				
01	AF Secretariat staff	157,500	157,500	157,500
02	Awareness Raising	0	0	43,400
03	Board - 24 eligible members	720,000	576,000	576,000
04	Committee meetings	135,000	0	135,000
05	Logo Competition Prize winner travel	9,000	4,050	0
06	2 Experts to attend 3 committee meetings	45,000	0	45,000
07	Fiduciary Standards Experts/Staff (travel)	120,000	30,000	123,000
SUB-TOTAL TRAVEL COMPONENT		1,186,500	767,550	1,079,900
GENERAL OPERATIONS COMPONENT				
01	Office Space, Equipment and Supplies	69,784	69,784	93,511
02	Support to Chair (communications)	0	0	23,175
03	Publications and Outreach	0	0	50,000
SUB-TOTAL GENERAL OPERATIONS COMPONENT		69,784	69,784	166,686
MEETINGS COMPONENT				
01	Logistics, translation, interpretation, etc.	340,000	500,000	500,000
AUDIT COMPONENT				
01	Trust Fund audit fees	25,000	0	0
GRAND TOTAL ALL COMPONENTS		2,731,283	2,218,358	2,489,302

SECTION III: BUDGET ESTIMATE FOR TRUSTEE SERVICES FOR THE PERIOD JULY 1, 2010 TO MARCH 31, 2011 AND RECONCILIATION OF FY10 BUDGET

11. The trustee hereby presents to the Adaptation Fund Board:
- a) A report and reconciliation of actual fees and expenses expected to be incurred by the trustee for the provision of trustee services to the Adaptation Fund for the full fiscal year from July 1, 2009 to June 30, 2010.
 - b) A proposed budget for the period July 1, 2010 to March 31, 2011 for trustee services to be provided to the Adaptation Fund, for mutual agreement and approval by the Adaptation Fund Board. **It should be noted that the proposed trustee budget does not cover the full fiscal year, as the mandate of the trustee is scheduled to expire three months after CMP.6 (i.e. at the end of March 2011) unless otherwise agreed between the CMP and the World Bank.**

I. Reconciliation of FY10 budget:

12. In its decision 1/CMP.4, the CMP adopted the Legal Arrangements between the CMP and the World Bank as the trustee for the Adaptation Fund on an interim basis. These arrangements specify that the trustee will perform two core functions for the Adaptation Fund: (a) monetization of Certified Emission Reductions (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 arrangements also specify that 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 CERs in accordance with guidance provided by the Adaptation Fund Board.

13. **At the sixth meeting of the Adaptation Fund Board, the Board approved a budget estimate of US\$ 1,462,500** for trustee services for the period July 1, 2009 - June 30, 2010, as described in Document AFB/B.6/12, *Budget Estimate for Trustee Services to the Adaptation Fund for the Period July 1, 2009 – June 30, 2010*. 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, this budget estimate reflected the trustee's estimate of the fees, costs and expenses for the year, on a full cost-recovery basis, and is subject to adjustment at the end of the period, based upon the actual fees, costs and expenses incurred during the period. This report provides the Adaptation Fund Board with information on the actual costs and expenses expected to be incurred during the period.

14. **Actual costs and expenses incurred by the trustee during the period are expected to be US\$ 1,075,100, or US\$ 387,400 less than the approved budget estimate.** This is mainly due to: (i) the delay in disbursements for projects and programs resulting in lower financial management costs; (ii) lower legal costs as external legal counsel was not required during the fiscal year; and (iii) the decision to schedule the external audit after the close of the FY10 fiscal year, with the audit costs to be covered under the FY11 budget.

Table 3 shows the actual costs, fees and expenses incurred during the period by functions, and shows the variance from the approved budget.

Table 3: Reconciliation of actual costs incurred with approved budget			
July 1, 2009 to June 30, 2010 (USD)			
Trustee Services	FY10 Approved	FY10 Revised	Difference
CER Monetization	675,000	610,000	(65,000)
Financial and Program Management	330,000	253,000	(77,000)
Investment Management a/	17,500	20,000	2,500
Accounting and Reporting	55,000	55,000	-
Legal Services	190,000	32,100	(157,900)
External Audit b/	90,000	-	(90,000)
Travel	105,000	105,000	-
Total	1,462,500	1,075,100	(387,400)
a/ Investment Management fees are calculated based on a cost of 3.5 basis points against the average annual balance of the portfolio; the original projected average portfolio size was \$50 million and the revised FY10 average portfolio size is \$56 million. b/ External audit costs for the FY10 financial statements are covered under the FY11 budget.			

II. Proposed budget from July 1, 2010 to March 31, 2011

15. **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 for the upcoming fiscal year 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 full cost-recovery basis. It will be subject to adjustment at the end of the period, based upon actual fees, costs and expenses incurred during the period July 1, 2010 to March 31, 2011. **The estimate covers only the period from July 1, 2010 until the currently scheduled end-date of the agreement between the CMP and the Bank for the provision of trustee services, i.e. until the end of March, 2011.**

16. **The Adaptation Fund Board is hereby requested to approve an estimated budget of US\$ 913,000 for the period July 1, 2010 to March 31, 2011, comprising US\$ 520,000 for CER Monetization services, and US\$ 393,000 for all other trustee services.**

17. To facilitate comparison with previous budgets, if the proposed budget were annualized over the full fiscal year, it would represent a decrease of 19% from the FY10 approved budget (i.e. the annualized amount for the full year would be US\$ 1,186,000, representing a decrease of US\$ 276,500 from the FY10 approved amount). These

annualized amounts are indicative only, but are presented to facilitate comparison of budget figures.

18. CER monetization activities are expected to continue to increase over the coming year. In addition, increased activity is expected related to the management of donations and associated agreements, and the expected commencement of disbursements for projects and programs to implementing entities. In annualized terms, the expected cost for CER monetization represents an increase of 2.7% over the approved FY10 amount. The expected costs for all other trustee services represents a decrease of 36.4% from the FY10 approved amounts, driven mainly by lower expected legal and program management costs. These estimates will be subject to adjustment at the end of the period to reflect full cost recovery, as well as any realized savings.

19. The proposed budget reflects the following components:

- i. ***CER Monetization (US\$ 520,000)***: This cost is comprised almost exclusively of World Bank Treasury staff time and expenses. The Treasury Unit staff costs cover the management of CER monetization procedures and systems, selection of dealers and management of over-the-counter transactions, daily sales on exchanges, settlement of sales transactions and participation in Adaptation Fund Board meetings. The budget estimate includes all exchange fees and costs for the preparation, execution, and settlement of transactions as well as annual membership fees and trading license fees. The estimate also includes travel costs of Treasury staff to attend the regular Board meetings. **Indicators used to track overall costs of CER monetization can be found in Annex 1.**
- ii. ***Financial and program management (US\$ 182,000)***: Costs are based on staff time required for management of financial transactions, including maintaining receipts of sales and other cash proceeds on a daily basis in the Adaptation Fund Trust Fund, recording allocations and commitments, and making cash transfers to implementing entities. This estimate also covers travel costs to attend the regular Board meetings and staff time associated with implementation of the financial reporting for the Trust Fund; collaboration with the Adaptation Fund Board and secretariat to develop policies relating to donations and other financial transactions; the negotiation and management of donations and agreements; and maintenance of systems for reporting and transactional processes and procedures for the Trust Fund.
- iii. ***Investment management (US\$ 35,000)***: Investment management fees are calculated as a flat fee of 3.5 basis points (i.e. 0.035%) on the average annual balance of the undisbursed cash in the Trust Fund. The projected average for the cash balances held in the Adaptation Fund Trust Fund is estimated to be US\$132 million over the period (i.e. the balance equals net inflows from CER monetization, donations and investment income earned, less all disbursements). In the event that disbursements take place more rapidly, the average balance would be lower, and investment management fees would reduce accordingly.
- iv. ***Accounting and reporting (US\$ 41,000)***: Costs are based on the management of the accounting model for the Trust Fund, maintenance of appropriate records and accounts to identify receipts of CER sales proceeds

and other contributions as well as Trust Fund liabilities to implementing entities, and preparation of financial statements and arrangement of external audits. As a large portion of the systems and Trust Fund related start-up fees were incurred during FY09, the estimated costs for FY11 are expected to be in line with those incurred in FY10.

- v. **Legal services (US\$ 45,000):** These costs include the review of issues pertaining to the acceptance of donations, drafting donation agreement templates, funds transfer agreements and other legal agreements as needed, and participation in Adaptation Fund Board meetings. The estimate also covers staff time to provide policy advice and legal review of financial and operational documents and to amend the existing legal documents as required as well as travel costs to attend the regular Board meetings.
- vi. **External audit (US\$90,000):** This covers the external audit of the financial statements of the Trust Fund during FY10. This audit will cover the period from inception of the Trust Fund to June 30, 2010.

Table 4: Proposed Trustee Budget		
July 1, 2010 to March 31, 2011 (USD)		
Trustee Services	FY11 (Q1-Q3)	Annualized a/
CER Monetization	520,000	693,000
Financial and Program Management	182,000	242,000
Investment Management b/	35,000	46,000
Accounting and Reporting	41,000	55,000
Legal Services	45,000	60,000
External Audit	90,000	90,000
Total	913,000	1,186,000
<p>a/ Annualized figures are presented for comparison purposes only.</p> <p>b/ 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 is \$132 million for FY11.</p>		

Adaptation Fund CER Monetization Costs

