

The Adaptation Fund

AFB/B.6/12
May 18, 2009

Adaptation Fund Board
Sixth Meeting
Bonn, June 15-17, 2009

Agenda Item 8.c

BUDGET ESTIMATE FOR TRUSTEE SERVICES TO THE ADAPTATION FUND JULY 1, 2009 – JUNE 30, 2010

**Budget Estimate for Trustee Services
to the Adaptation Fund
July 1, 2009 – June 30, 2010**

**Presented to the Adaptation Fund Board for Mutual Agreement
June 15-17, 2009**

1. 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 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 certified emission reductions (CERs) in accordance with guidance provided by the Adaptation Fund Board.
2. The Adaptation Fund Board, at its meeting of December 15-17, 2009 approved the Budget Estimate of US\$ 1,365,000 for Trustee Services for the period July 1, 2008 – June 30, 2009. The final actual amounts for the 2008-2009 fiscal year will be provided to the Adaptation Fund Board after the close of the Trustee fiscal year (June 30, 2009) and will be used to finally adjust the 2009 estimate amount.
3. This paper presents to the Adaptation Fund Board:
 - An update of the estimate of actual expenses for the fiscal year ending June 30, 2009. This is still in the form of an estimate. Actual fees and expenses will be confirmed once all fees and expenses are known after the closing of the Bank's fiscal year on June 30, 2009. The Bank will provide this information not later than the September 2009 Adaptation Fund Board meeting.
 - A proposed budget for the period July 1, 2009 – June 30, 2010 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 will be subject to review and adjustment at the end of the period, based upon actual fees, costs and expenses incurred during the period July 1, 2009 – June 30, 2010.

4. **The Adaptation Fund Board is hereby requested to agree to an estimated budget comprising US\$ 787,500 for Trustee services and US\$ 675,000 for CER Monetization services (for a total of US\$ 1,462,500) for the period July 1, 2009 to June 30, 2010.**
5. The budget estimate for FY10 of US\$ 1,462,500 represents an increase of US\$97,500 (or 7.1%) over the estimate for FY09. The increase in the overall estimate is due entirely to increased activity related to monetization of CERs, as this will be a constant activity in FY10. The amount of US\$ 787,500 for Trustee services represents a decrease of US\$ 92,500 (or -10.5%) from the FY09 estimate. These estimates will be 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\$ 675,000)***: 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 costs for the preparation, execution, and settlement of transactions. The tasks associated with the settlement of transactions may 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.
 - ii. ***Financial management (US\$150,000)***: Final FY10 costs 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 ultimately developed for recording allocations, commitments and making cash transfers. This is expected to be higher in FY10 as the Adaptation Fund Trust Fund becomes operational, proceeds from CER monetization are received, and disbursements begin for programs and projects.
 - iii. ***Investment management (US\$17,500)***: Investment management fees are calculated based on a cost of 3.5 basis points (ie. 0.035%) on the average annual balance of the portfolio. The projected average portfolio size for the Adaptation Fund Trust Fund is estimated to be \$50 million over the period (ie. the balance equals net inflows from CER monetization, less all disbursements).
 - iv. ***Program management (US\$180,000)***: 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 policies relating to financial transactions; and development and maintenance of robust and efficient systems for reporting and transactional processes and procedures for the Trust Fund. These costs are estimated to be lower in FY10 than the previous year.

- v. **Accounting and reporting (US\$55,000):** As a large portion of the systems and Trust Fund related start-up fees will be charged against the FY09 budget, estimated costs for FY10 are expected to be significantly lower than in FY09.
- vi. **Legal services (US\$ 190,000):** Costs include (a) the legal costs related to establishment of the CER monetization program and making the Adaptation Fund Trust Fund operational; (b) costs of contractual services for outside legal counsel on the issues of legal capacity for the Adaptation Fund Board and selling CERs under security trading regulations; and travel expenses relating to Board meetings.
- vii. **External audit (US\$90,000):** This covers the external audit of the financial statements of the Trust Fund during FY10.
- viii. **Travel (US\$105,000):** Travel costs are expected to lower in FY10 than in FY09. This includes the cost of three staff (in addition to legal advisor) to attend four Board meetings each; and three staff to attend the COP/MOP meeting in December 2009, if required.

**Table 1: Budget Estimate for Services Provided by the Trustee
1 July 2009 to 30 June 2010
(USD)**

Trustee Services	FY09 Approved Budget Estimate	FY09 Current Indicative Estimate*	FY10 Proposed Budget Estimate
Financial Management	140,000	140,000	150,000
Investment Management	10,500	500	17,500
Program Management**	198,600	198,600	180,000
Accounting and Reporting	147,500	147,500	55,000
Legal Services	170,400	170,400	190,000
External Audit	90,000	90,000	90,000
Travel	133,000	133,000	105,000
<u>Sub-Total</u>	<u>890,000</u>	<u>880,000</u>	<u>787,500</u>
CER Monetization	475,000	475,000	675,000
<u>Total</u>	<u>1,365,000</u>	<u>1,355,000</u>	<u>1,462,500</u>

* pending final accounting after close of IBRD fiscal year (June 30, 2009).

** "Relationship Management" heading used in the FY09-10 approved Budget Estimate