



ADAPTATION FUND

AFB/B.7/Inf.6  
September 9, 2009

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Adaptation Fund Board  
Seventh Meeting  
Bonn, September 14-16, 2009

## **RECONCILIATION OF BUDGET FOR THE TRUSTEE SERVICES**

## RECONCILIATION OF FY09 BUDGET FOR THE TRUSTEE SERVICES

(JULY 1, 2008 – JUNE 30, 2009)

### PREPARED BY THE WORLD BANK AS TRUSTEE FOR THE ADAPTATION FUND

1. The purpose of this report is to provide the Adaptation Fund Board with information on actual costs incurred for the Trustee services from July 1, 2008 to June 30, 2009.
2. At the Fourth Meeting of the Adaptation Fund Board, the Board approved Document AFB/B.4/10, *Budget Estimate for the Trustee Services for the Period July 1, 2008 – June 30, 2009*. The estimated budget therein included US\$ 890,000 for Trustee services and US\$ 475,000 for CER Monetization services, for a total of US\$ 1,365,000. 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 such information on the actual costs and expenses incurred during the period.
3. Actual costs and expenses incurred were US\$ 1,335,600, or US\$ 29,400 less than the approved budget estimate. The table below shows the actual costs, fees and expenses incurred during the period by functions, and show the differences from the approved budget.

<b>Table 1: Reconciliation of Actual Costs and Fees Incurred with Approved Budget</b>			
<b>July 1, 2008 to June 30, 2009</b>			
<b>(USD)</b>			
	<b>Approved Budget</b>	<b>Actual Costs</b>	<b>Difference</b>
Financial Management	140,000	138,000	(2,000)
Investment Management	10,500	600	(9,900)
Program Management	198,600	211,000	12,400
Accounting and Reporting	147,500	147,000	(500)
Legal Services	170,400	251,000	80,600
External Audit	90,000	-	(90,000)
Travel	133,000	117,000	(16,000)
CER Monetization	475,000	471,000	(4,000)
External Legal Services		133,000	
Treasury's staff costs		338,000	
<b>TOTAL</b>	<b>1,365,000</b>	<b>1,335,600</b>	<b>(29,400)</b>

4. **Program Management** costs were US\$ 12,400 higher than expected due to additional staff time and costs related to conclusion of the arrangements to accept the Trustee mandate, including the design, establishment and approval of the Adaptation Fund Trust Fund, and fees and expenses of the Central Units of the Bank. The amounts reported in Table 1 under Financial Management, Program Management, and Accounting and Reporting, include one-time fees to cover costs associated with the set-up and administration of trust funds by the central units of the Bank. Trust fund services are provided by several central units within the Bank, in addition to Bank-wide services provided by units such as Internal Audit and Human Resources: (a) The Partnerships and Trust Fund Operations Department provides advice and guidance on new partnership and trust fund proposals, manages related review processes; develops policies and business processes for trust funds and partnerships, provides centralized support and training, develops risk management frameworks for trust funds, and administers selected programmatic funds; (b) The Finance and Risk Unit is responsible for providing financial advisory reviews on trust funds with financial innovations and the financial risk management reviews of all trust funds; (c) The Corporate Resource Management Unit provides advice on resource-related planning and budgeting; (d) The Trust Fund Quality Assurance and Compliance Unit has a downstream role on quality and compliance as well as an ex-post role in reviewing trust fund-related activities, and advising on controls, compliance and risk issues; (e) The Operations Policy and Country Services unit advises on the applicability of operational policies to trust funds.

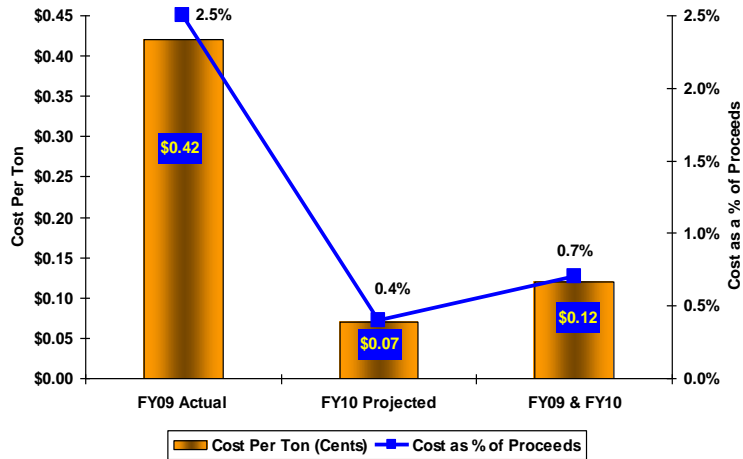
5. **Legal Services:** These expenses covered staff costs related to the finalization of the legal arrangements between the World Bank and the Conference of the Parties acting as the Meeting of the Parties to the Kyoto Protocol for the Bank's services as Trustee for the Adaptation Fund, providing legal representation for the Trustee at meetings of the Adaptation Fund Board, and providing legal advice to the Trustee concerning the process for monetization of CERs. External legal costs were higher than expected due to the need for financial regulatory and tax advice on the process for monetizing CERs under different jurisdictions (i.e., US, UK, France and Switzerland) as well as the review and negotiation of legal agreements between the Trustee and third parties for settlement and related services. Costs for external legal services (Linklaters) were therefore allocated equally to the Legal Services and CER monetization budget line items.

6. **External Audit:** During the Fiscal Year 2009 an external audit was not undertaken for the financial statements of the Adaptation Fund Trust Fund as CER sales proceeds were only received into the Fund beginning in May 2009.

7. **CER Monetization:** This cost includes Treasury staff time and expenses, and external legal services required to provide advice on complicated title, transfer and other issues related to CER sales. The Treasury Unit staff costs were for the development and management of CER monetization procedures and systems, selection of a Settlement Agent through a competitive selection process, and preparation of CER sales transactions. The two large over-the-counter sales did not generate any additional costs or external fees. Costs were therefore exclusively in respect of Bank (Treasury) staff time and expenses. **Indicators used to track overall costs of CER monetization can be found in Annex 1.**

# Annex 1: CER Monetization Program Monetization Costs

Adaptation Fund CER Monetization Costs



Due to start-up costs and low volume of sales in FY09, the monetization costs per ton are relatively high. In FY10 and in subsequent years, these costs are expected to fall.

Monetization costs as a percent of proceeds may fall even more if CER prices continue to increase.

