



ADAPTATION FUND

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Ethics and Finance Committee
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Bonn, 18-19 March 2014

Agenda item: 10 c)

**BOARD AND SECRETARIAT, AND TRUSTEE
ADMINISTRATIVE BUDGET FOR FISCAL YEAR 2015**

SECTION I: DOCUMENT STRUCTURE

Budget overview

1. This document presents the budgets of the Adaptation Fund Board (the Board) and the Adaptation Fund Board secretariat (the secretariat), and of the interim trustee (the Trustee), for fiscal year 2015 (FY15), i.e. 1 July, 2014 to 30 June, 2015. Table 1 below presents an overview of the budgets of the Board and secretariat, and of the Trustee, for FY15, which are explained in detail in the next two sections of the document: Section II covers the Board and secretariat budget for FY15, and Section III covers the Trustee budget for FY15.

Table 1: Approved FY14 and proposed FY15 budget of the Board and secretariat, and the Trustee¹

All amounts in US\$		Approved FY14	Actual Estimate FY14	Proposed FY15
BOARD AND SECRETARIAT				
01	Personnel	1,239,491	1,287,101	1,468,938
02	Travel	773,400	543,400	414,000
03	General operations	263,870	263,870	293,870
04	Meetings	630,000	400,000	340,000
Sub-total secretariat administrative services (a)		2,906,761	2,494,371	2,516,808
05	Accreditation (b)	432,000	438,975	460,000
Sub-total secretariat (a) + (b)		3,338,761	2,933,346	2,976,808
06	Readiness Programme (c)	467,000	236,150	433,850
Sub-total secretariat (a) + (b) + (c)		3,805,761	3,169,496	3,410,658
TRUSTEE				
01	CER Monetization	455,000	338,000	246,000
02	Financial and Program Management	210,000	210,000	210,000
03	Investment Management	70,000	101,000	101,000
04	Accounting and Reporting	56,000	56,000	56,000
05	Legal Services	20,000	12,000	40,000
	External Counsel	-	-	150,000
06	External Audit	60,000	60,000	60,000
Sub-total trustee		871,000	777,000	863,000
GRAND TOTAL ALL COMPONENTS		4,676,761	3,946,496	4,273,658

¹ Decimal points in the table are rounded up.

Recommendation

2. The Board is requested to approve, from the resources available in the Adaptation Fund Trust Fund:

- a) The proposed budget of **US\$ 2,976,808** to cover the costs of the operations of the Board and secretariat over the period 1 July 2014 to 30 June 2015, comprising **US\$ 2,516,808** for secretariat services and **US\$ 460,000** for accreditation services.
- b) An additional allocation of **US\$ 203,000** to the secretariat for the readiness programme over the period 1 July 2014 to 30 June 2015, for activities to be carried out by the secretariat. Amounts already approved by the Board but not disbursed in FY14 would be disbursed in FY15; and
- c) The proposed budget of **US\$ 863,000** for trustee services to be provided to the Adaptation Fund over the period 1 July, 2014 to 30 June, 2015, comprising **US\$ 246,000** for CER Monetization services, **US\$ 150,000** for external legal counsel related to AAUs and ERUs, and **US\$ 467,000** for all other trustee services.

SECTION II: BOARD AND SECRETARIAT PROPOSED BUDGET FOR THE PERIOD 1 JULY 2014 – 30 JUNE 2015

Background

3. The Board, at its twentieth meeting in April 2013, approved the Board and secretariat budget of **US\$ 3,360,613** (Decision B.20/13). At its twenty-first meeting, the Board reduced the budget to **US\$ 3,338,761** to reflect the adjustment of staff cost for the Chief Executive Officer of the Global Environment Facility in her role as Head of the secretariat from 15% to 10% of her entire staff cost (Decision B.21/22). At its twenty-second meeting, the Board approved an increase of the secretariat budget of US\$ 467,000 to launch the Readiness Programme. Details of the revised budget for FY14 can be found in Table 3 and 4 which also includes an estimate of the actual expenses for FY14, as well as the proposed budget for FY15 (1 July 1, 2014 – 30 June, 2015).

Table 2: Approved amendments to FY14 originally approved budget

All amounts in US\$	
Originally approved budget for FY14 (at AFB20)	3,360,613
Adjustment of staff cost for the CEO of GEF (at AFB21)	3,338,761
Approval of the readiness programme (at AFB22)	467,000
Revised budget	3,805,761

FY14 current estimates vs. approved budget

4. Budget slight under-run. Based on the estimated actual expenditure as of 31 December 2013, the estimated FY14 expenditure as of 30 June 2014 will be US\$ 2,933,346, which is 88% of the revised approved FY14 budget (US\$ 3,338,761). The final actual expenditure for FY14 will be reported in the reconciliation budget as of 30 June, 2014.

5. Readiness Programme. Since the amount of US\$467,000 was approved at AFB22, a few activities have launched in the programme, including recruitment of a program analyst (coordinator) and preparation of a Climate Finance Readiness Seminar, targeting organizations working in the field to help build the capacity of national entities to access climate finance. The seminar will take place on 1-2 May 2014 in Washington DC. The majority of the funds remain unspent and available for the planned expenses of the programme.

Budget proposal for FY15

6. Going forward, the Board and secretariat administrative budget will be reported in three distinct parts; (1) the main secretariat services, (2) the accreditation services, and (3) the readiness programme. One of the performance measures for the effectiveness and efficiency of funding institutions is the ratio of administrative costs to funds used for programming (i.e. projects, technical assistance, capacity building etc.). Since the accreditation services provided by the Fund are a major component of the Fund's overall programmatic work rather than conventional administrative services, it is deemed most appropriate to track these costs separately and report these costs as a programme outside of the main administrative costs.

7. In the FY15 budget, the secretariat will propose strengthening of communications/fundraising components. Due to the ongoing slump in CER prices, that source of revenue for the Fund remains unstable and unlikely to be highly productive for the foreseeable future. Therefore the Fund's continued operations, at least in the near-term, will rely primarily on voluntary contributions. As the secretariat was not originally structured to conduct fundraising, this new funding reality requires the addition of a full time communications expert (an Extended Term Consultant) who can conduct significantly more active and effective communications and support in fundraising activities than before. In the overall FY15 budget, increased amounts in communications-related items are proposed including the upgrade in design and functionality of the Fund's websites, work on communications and partnership strategies, and knowledge management and publications that continue to tell the Fund's audiences, including donors, of the Fund's successes, relevance, and importance in the sector. The ultimate goal of the strengthened communications activities will be to strengthen brand visibility, enhance communications with donors and potential donors, and helping establish partnerships that increase brand strengthening. These will all drive toward supporting fundraising results. The communications expert will also provide some support to marketing initiatives, including at the 2014 Carbon Expo.

8. The budget request for the **secretariat services** for FY15 amounts to **US\$ 2,516,808** and consists of the following components:

a) Personnel component.

- i. Full-time staff: An amount of **US\$ 920,740** is estimated to cover the staff cost (salary, benefits, overhead and staff training cost²) of a Manager, two Adaptation Officers, an Operations Officer (Accreditation), a Junior Professional Associate and a Program Assistant. The contract of the Manager will expire in September 2014.
- ii. GEF secretariat staff cross-support: The estimate of **US\$ 179,198** is to cover the cost of staff (salary, benefits and overhead) in the GEF secretariat, which provides cross-support to the Board. The percentage time charged of six project co-reviewers will be reduced from 8 per cent to 6 per cent following a recent change of the review

² The World Bank promotes continued training and learning of staff members. Within the Global Environment Facility (GEF) secretariat, the practice is that staff members excluding consultants are granted annual training budget up to US\$ 3,000 upon their request.

- modality that co-reviewers review only first-submitted proposals, due to the incorporation of the environmental and social safeguards to the review process.
- iii. GEF Evaluation Office (EO) cross-support: For FY13, the Board approved a provisional work programme and budget of **US\$ 17,000** for the Evaluation Function (Decision B.18/36) which would become operational after the first funded project had completed a final evaluation. This has not yet happened, therefore no activities were undertaken. It is proposed that the Board notes explicitly that its decision of FY13 should be maintained and applied in FY15. Potentially, an overall evaluation may be conducted in FY15. If it is the case, the budget will be amended accordingly.
- iv. Consultants: The estimate of **US\$ 352,000** includes the secretariat support (US\$ 35,000); the support for website and IT systems (US\$ 85,000); the communications strategy and knowledge management (US\$ 127,000); the result based management (RBM) (US\$ 85,000); and the environmental and social safeguards (US\$ 20,000). Reflecting increasing needs of the World Bank legal support in FY14, an additional US\$10,000 from FY14 is proposed for secretariat support. With US\$ 85,000, the secretariat is planning a redesign/rebuilding of the Fund website as well as its maintenance, to strengthen the Fund's communication and awareness raising capacity. As mentioned above, employment of a full-time communication/fundraising expert is proposed. US\$ 127,000 will cover nine months of the staff cost (salary, benefits and overhead). Since the communication expert will also engage in the readiness programme, three months of the staff cost will be covered by the readiness programme. An increased amount of US\$ 85,000 is proposed for RBM. The Fund's portfolio is maturing with an increasing number of projects under-implementation and with the work needed to improve the Fund's results tracking system. The RBM budget also includes portfolio monitoring, specifically examining three projects under implementation. This was budgeted under the secretariat staff travel until FY14 however it will moved to the RBM budget for FY15. The additional funding will help to support more comprehensive monitoring as well as roll out the revised results tracking system. The consultancy fees of the environmental and social safeguards will cover 15 days of two recently recruited environmental and social safeguard experts on their work related to project/programme review.

b) Travel component

In FY15, travel cost is allocated to cover two Board meetings for both secretariat staff and Board members (US\$ 200,000). Other than the Board meetings, the travel for secretariat staff (US\$ 174,000) will include participation in COP20 in Lima, Peru. The awareness raising travel (US\$ 40,000) remains the same level from FY14 and will cover travels for five international events and meetings including ones for the Standing Committee on Finance, the UNFCCC Subsidiary Bodies (SBs) and the Green Climate Fund Board meetings. *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 budget³. The total request amounts to **US\$ 414,000**. The reduction from FY14 is mainly associated with the reduced number of the Board meetings.

c) *Other components*

- i. General operations: The FY15 budget estimate is **US\$ 293,870**. This amount includes US\$ 200,000 for office space lease⁴ as well as a series of office equipment rentals and fees for six full time staff members and one Extended-Term Consultant of the secretariat, such as PCs, telephones, remote access systems, audio-conference systems and so on. It also includes US\$ 23,870 for communications support to the Chair. In line with the strengthening of communication activities, US\$ 70,000 is proposed for production of publications and outreach. With this amount, production of more publications is planned, including "Adaptation Stories"⁵ for up to three ongoing projects in three UN languages, story videos, FAQ materials targeting donors, press and partners.
- ii. Meetings: The estimated amount of **US\$ 340,000** consists of meeting organizations and translation. US\$ 240,000 will cover two Board meetings and others and US\$ 100,000 will cover translation of meeting reports into five UN languages and other publications.

³ This is included in the cash transfer amounts reported by the Trustee and are US\$ 107,381 for FY13 and estimated at US\$ 75,414 for FY14.

⁴ The secretariat occupies 1 Workstation (70sf) and 5 offices (100 sf).

⁵ "Adaptation Story – Senegal" has been published in December 2014.

Table 3: Approved FY14 budget, FY14 estimate and proposed FY15 budget of the Board and secretariat

All amounts in US\$		Approved FY14	Estimate FY14	Proposed FY15
PERSONNEL COMPONENT				
Full-time staff (including benefits):				
01	Senior Program Manager (GH)	243,185	243,185	251,057
02	Program Manager (GG)	169,441	169,441	180,186
03	Program Manager (GF)	156,569	156,569	169,441
04	Operations Officer (Accreditation) (GF)	153,696	153,696	156,569
05	Program Assistant (GC)	85,680	85,680	85,680
06	Junior Professional Associate (JPA)	77,807	77,807	77,807
sub-total AFB staff		886,378	886,378	920,740
GEF staff cross-support (including benefits):				
01	Head of the AFB Secretariat (GJ) - 10%			
02	Accounting support (GF) - 14%			
03	AF database, KM strategy (GF) - 2%			
04	AF database (GF) - 3%			
05	Communications and outreach (GG) - 2%			
06	HR support (GD) - 5%			
07	IT support (GF) - 5%			
08	Review of projects (1@GF) - 6%			
10	Review of projects (5@GG) - 6%			
11	Head of Operations and Business Strategy (GH) - 2%			
sub-total GEF staff		176,413	223,023	179,198
GEF Evaluation Office cross-support:				
01	Evaluation report	3,000	3,000	3,000
02	EO staff cost	8,000	8,000	8,000
03	Travel to AFB meetings	6,000	6,000	6,000
sub-total GEF EO cross-support		17,000	17,000	17,000
Consultants & others				
01	AFB Secretariat Support (Legal support etc.)	25,000	33,000	35,000
02	Design and Operation of dedicated Web sites	35,000	20,000	85,000
03	Communications Strategy & KM	89,700	89,700	127,000
04	Result Based Management (RBM)	10,000	11,000	85,000
05	Environment and social safeguards		7,000	20,000
sub-total Consultants		159,700	160,700	352,000
SUB-TOTAL PERSONNEL COMPONENT		1,239,491	1,287,101	1,468,938
TRAVEL COMPONENT				
01	AF Secretariat staff	330,000	200,000	174,000
02	Awareness Raising	43,400	43,400	40,000
03	Board - 24 eligible members	400,000	300,000	200,000
SUB-TOTAL TRAVEL COMPONENT		773,400	543,400	414,000
GENERAL OPERATIONS COMPONENT				
01	Office Space, Equipment and Supplies	200,000	200,000	200,000
02	Support to Chair (communications)	23,870	23,870	23,870
03	Publications and Outreach	40,000	40,000	70,000
SUB-TOTAL GENERAL OPERATIONS COMPONENT		263,870	263,870	293,870
MEETINGS COMPONENT				
01	Logistics, interpretation, report writing etc.	480,000	300,000	240,000
02	Translation	150,000	100,000	100,000
SUB-TOTAL MEETINGS COMPONENT		630,000	400,000	340,000
TOTAL ALL COMPONENTS		2,906,761	2,494,371	2,516,808

9. The budget request for the **accreditation services** for FY15 amounts to **US\$ 460,000**, which consists of consultancy fees and travels. The consultancy fees will cover 80 days of four Accreditation Experts and 15 days of the above mentioned environmental and social safeguard experts on their work related to accreditation. The travel cost is to cover experts' participation in the Accreditation Panel meetings in Washington DC. The safeguard experts are also expected to provide assistance on the readiness programme. Another 30 days of the experts' fees will be allocated in the readiness programme.

Table 4: Approved FY14 budget, FY14 estimate and proposed FY15 budget for the accreditation services

All amounts in US\$		Approved FY14	Estimate FY14	Proposed FY15
05	Accreditation Panel (fees & conting.)	272,000	278,975	300,000
04	Accreditation Panel/Staff (travel)	160,000	160,000	160,000
TOTAL ACCREDITATION		432,000	438,975	460,000
GRAND TOTAL ALL COMPONENTS & ACCREDITATION		3,338,761	2,926,346	2,976,808

10. The budget request for the **readiness programme** for FY14 amounts to **US\$ 236,150** and FY15 to **US\$ 433,850**. Similar to the main secretariat administrative budget, it consists of personnel, travel, general operations and meeting components.

a) Personnel component

- i. Secretariat support (Coordinator): For daily operation of the readiness programme, the secretariat recruited a programme analyst (coordinator) dedicated to the readiness programme. An amount of **US\$ 133,000** (US\$ 55,000 for FY14 and US\$ 78,000 for FY15) is estimated to cover the staff cost (salary, benefits and overhead).
- ii. Website: The proposed amount of **US\$ 40,000** is to cover the cost to build web platforms/areas for readiness 'knowledge exchange'.
- iii. Knowledge exchange (Communication strategy): The amount of **US\$ 73,000** (US\$ 30,000 for FY14 and US\$ 43,000) will cover three months staff cost of a full time communication expert to engage in knowledge exchange activities particularly for the readiness programme, including establishing the web platforms and producing publications.
- iv. Environmental and social safeguards: The estimate of **US\$ 55,850** (US\$ 14,000 for FY14 and US\$ 41,850) will cover the cost of 30 days of two environment and social safeguard experts. In particular, the experts will support the secretariat in developing manuals and guidelines for undertaking project environmental and social risk assessment and for formulating risk management plans, update of the accreditation toolkit, and other information

tools. They will also participate as resource persons in the seminars and workshops planned under the readiness programme.⁶

The total request for the personnel component amounts to **US\$ 301,850**.

b) Travel component

In the travel component of the readiness programme, travel cost for the secretariat staff, meeting participants and Board members are allocated. **US\$ 98,000** for the secretariat (US\$ 38,000 for FY14 and US\$ 60,000 for FY15) is to cover participation in two regional workshops and awareness raising events. **US\$ 187,500** for meeting participants (US\$ 87,500 for FY14 and US\$ 100,000 for FY15) is to cover participants' travel to a Climate Finance Readiness Seminar, a meeting for accredited National Implementing Entities to be held in DC, and two regional workshops outside of DC. **US\$ 6,000** is allocated in FY15 in case participation of one Board member in two regional workshops is deemed necessary, who is resided in the respective region. The total request for the travel component amounts to **US\$ 291,500**.

c) Other components

- i. General operations: The estimate for general operations is **US\$ 45,000** (US\$ 5,000 for FY14 and US\$ 40,000). This amount includes **US\$ 7,000** (US\$ 2,000 for FY14 and US\$ 5,000 for FY15) for office space, a series of office equipment rentals and fees for a readiness programme coordinator, such as PCs, telephones, remote access systems, audio-conference systems. **US\$ 38,000** (US\$ 3,000 for FY14 and US\$ 35,000 for FY15) is proposed for publications and outreach for production of readiness/accreditation 'manuals', readiness communications/marketing materials which to be distributed to the readiness programme participants and to advertise the programme.
- ii. Meetings: The estimate for the meetings component (logistics) is **US\$ 31,650** (US\$ 6,650 for FY14 and US\$ 25,000), which to cover organization of the Climate Finance Readiness Seminar and the NIE meeting being held in Washington DC as well as two regional workshops.

⁶ See document AFB/B.23/5.

Table 5: Proposed FY14 and 15 budget of the readiness programme

All amounts in US\$		Proposed FY14	Proposed FY15	Proposed FY14-15 total
PERSONNEL COMPONENT				
Consultants & others				
01	Secretariat support (Coordinator)	55,000	78,000	133,000
02	Web site	-	40,000	40,000
03	Knowledge exchange (Communications Strategy)	30,000	43,000	73,000
04	E&S Safeguard (Fees)	14,000	41,850	55,850
sub-total Consultants				
SUB-TOTAL PERSONNEL COMPONENT		99,000	202,850	301,850
TRAVEL COMPONENT				
01	AF Secretariat staff	38,000	60,000	98,000
02	Meeting participants	87,500	100,000	187,500
03	Board members	-	6,000	6,000
SUB-TOTAL TRAVEL COMPONENT		125,500	166,000	291,500
GENERAL OPERATIONS COMPONENT				
01	Office Space, Equipment and Supplies	2,000	5,000	7,000
02	Publications and Outreach	3,000	35,000	38,000
SUB-TOTAL GENERAL OPERATIONS COMPONENT		5,000	40,000	45,000
MEETINGS COMPONENT				
01	Logistics	6,650	25,000	31,650
SUB-TOTAL MEETINGS COMPONENT		6,650	25,000	31,650
GRAND TOTAL ALL COMPONENTS		236,150	433,850	670,000

11. At its twenty-second meeting in November 2013, the Board approved funding for a Readiness Program comprising two components: i) an amount of US\$ 467,000 to be implemented by the secretariat, and ii) an amount of US\$ 503,000 to be implemented by implementing entities, yet to be determined by the Board. As part of this decision, the Board approved an increase in the Administrative Budget of the Board, secretariat and trustee for FY14 of US\$ 467,000 for the programme described in AFB/B.22/6, and authorized the trustee to transfer such amount to the secretariat. The secretariat now estimates that the total cost of the readiness programme to be implemented by the secretariat for FY14 and FY15 will amount to **US\$ 670,000**. It is therefore requested that the Board approve an allocation of US\$ 203,000 to the secretariat from the allocation of US\$ 503,000 approved at AFB22 and already set aside by the Trustee, for readiness activities to be carried out by the secretariat. As shown in Table 5, it is expected that US\$ 236,150 of the approved amount will be disbursed by the secretariat in FY14, and the balance of US\$ 433,850 in FY15. Actual amounts disbursed by the secretariat in FY14 will be reported in the reconciliation of the FY14 administrative budget, after closure of the FY14 fiscal year. The remaining US\$ 300,000 is to be implemented by implementing entities as small grants.

SECTION III: ADAPTATION FUND – TRUSTEE ESTIMATED COSTS AND EXPENSES FOR FY15, AND REVISED ESTIMATE OF COSTS AND EXPENSES FOR FY14

BACKGROUND

12. In its decision 1/CMP.4, the CMP adopted the Legal Arrangements between the CMP and the World Bank as the interim trustee for the Adaptation Fund. These arrangements specify that the Trustee will perform two core functions for the Adaptation Fund: (a) monetization of Certified Emission Reductions (CERs); and (b) trust fund management, including financial management of the resources of the Trust Fund, entering into agreements to receive additional contributions and donations; investment management; accounting and financial reporting, and arranging an annual external audit. The arrangements also specify that the Trustee will perform its functions consistent with its Articles of Agreement, by-laws, policies and procedures, and be reimbursed for costs and expenses incurred in the provision of its trustee services to the Adaptation Fund.

13. The following sections present the Trustee's revised estimate of costs and expenses for the period July 1, 2013 to June 30, 2014 and an estimate of costs and expenses for trustee services to be provided during the period of July 1, 2014 to June 30, 2015.

14. Annual trustee costs have decreased since inception, reflecting economies that have been found in the delivery of trustee services, including CER monetization, legal services, travel, and financial transactions processing. Nevertheless, conditions in carbon markets and CER monetization remain challenging, there has been an increase in the number of donation agreements processed, and in response to the decision by the CMP to add AAUs and ERUs to the Adaptation Fund Share of Proceeds, there will be additional costs associated with the arrangements required to monetize these credits. In addition, in the event that the review of the Adaptation Fund or the process to select a permanent trustee has not been completed by May 31, 2015 and the World Bank is asked to continue its interim trustee role, there will be additional costs related to the extension and amendments to the Terms and Conditions between the World Bank and the CMP.

15. In summary:

- a) The trustee's revised cost estimate for **FY14 of US\$ 777,000** represents a **decrease of 11%** from the FY14 approved budget.
- b) The trustee's proposed budget for FY15 reflects a **decrease of 1%** from the FY14 approved budget but an increase of 11% from the FY14 revised budget.
- c) The total cumulative costs of all trustee services to the Adaptation Fund since the Adaptation Fund trust fund was created in 2008 represents approximately **3% of the total cash proceeds** received into the Adaptation Fund trust fund.
- d) The proposed budget of trustee services to the Adaptation Fund amounts to approximately **0.3% of the funds held in trust**.

REVISED ESTIMATE OF COSTS AND EXPENSES FOR FY14 (FROM JULY 1, 2013 TO JUNE 30, 2014)

16. The Adaptation Fund Board approved a budget of US\$ 871,000 for trustee services in FY14. The revised estimate of costs, expenses and fees expected to be incurred by the trustee during this period (July 1, 2013 to June 30, 2014) is US\$ 777,000 or US\$ 94,000 less than the approved budget estimate (see Table 6). CER monetization costs are expected to be lower by approximately US\$ 117,000. This is partly due to savings in staff costs required for daily sales, as well as lower exchange fees and costs for the preparation, execution, and settlement of transactions during this period. Investment management fees are calculated as a flat fee of 3.5 basis points (i.e. 0.035%) of the average annual balance of the undisbursed cash in the Trust Fund. These are expected to be higher because the average annual balance is projected to be US\$ 288 million during the year (up from US\$ 200 million) due to an increase in donations received.

ESTIMATED COSTS AND EXPENSES FROM JULY 1, 2014 TO JUNE 30, 2015

Table 6: Trustee FY14 revised and FY15 estimated budgets (US\$)

Trustee Services	FY14 Approved	FY14 Revised	Difference	FY15 Estimate
	(1)	(2)	(3) = (2) - (1)	(4)
CER Monetization	455,000	338,000	(117,000)	246,000
Financial and Program Management	210,000	210,000	-	210,000
Investment Management	70,000	101,000	31,000	101,000
Accounting and Reporting	56,000	56,000	-	56,000
Legal Services	20,000	12,000	(8,000)	40,000
External Counsel	-	-	-	150,000
External Audit	60,000	60,000	-	60,000
TOTAL	871,000	777,000	(94,000)	863,000

17. The estimates in Table 6 reflect the Trustee's best estimate of the fees, costs and expenses for the fiscal year, on a full cost-recovery basis. These will be subject to adjustment at the end of the period, based upon revised estimates of the fees, costs and expenses incurred in the provision of trustee services to the Adaptation Fund during the period.

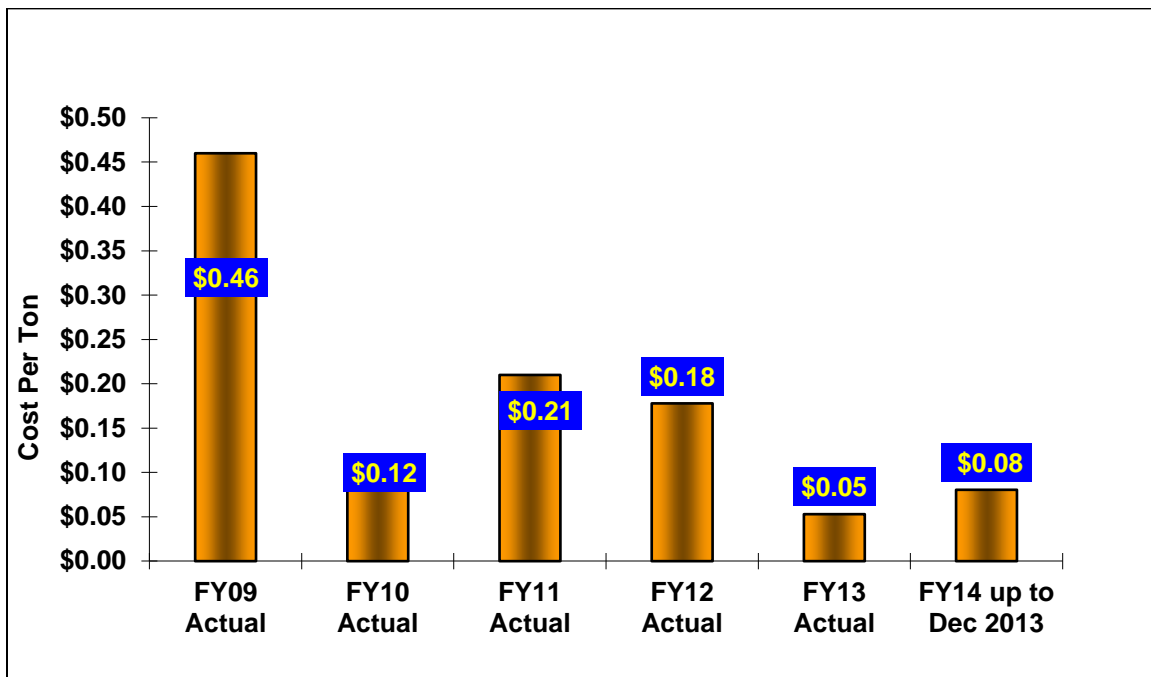
18. **The Adaptation Fund Board is hereby requested to approve an estimated budget of US\$ 863,000 for the period July 1, 2014 to June 30, 2015.** This amount comprises US\$ 246,000 for CER Monetization services, and US\$ 617,000 for financial and program management, investment management, accounting and reporting, legal services, and the external audit. Tables including detailed costs for each of the service components are presented below. Gross labour costs indicated in the tables include all related overhead amounts.

19. The proposed budget is comprised of the following components:
- a) **CER Monetization (US\$ 246,000):** This cost is comprised of World Bank Treasury staff time and expenses, and exchange and settlement and other trading-related reimbursable fees. The Treasury Unit staff costs cover the management of CER monetization procedures and systems, daily sales on exchanges, settlement of sales transactions, and selection of dealers and management of over-the-counter transactions. 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 as needed. The costs associated with monetization of AAUs and ERUs are not reflected in this estimate and will depend upon the level of activity and date of commencement of such monetization. As an amendment to the Terms and Conditions of Services will be required and approved by the CMP, such activity would not be expected to commence before early 2015. Up-front costs associated with preparation of such monetization activities will also comprise the development/modification of a trading platform, IT systems adjustments, and external legal opinions required (the latter included below under Legal Costs). The evolution of the overall costs of CER monetization are presented in Chart 1, and detailed in Table 7.

Table 7: CER Monetization Costs FY14 and FY15 (US\$ unless indicated)

<u>CER Monetization - FY14 Revised</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Traders	40.00	251,000	15,000	266,000
Back Office	10.00	47,000	-	47,000
Exchange Trading Costs	-	-	-	25,000
TOTAL	50.00	298,000	15,000	338,000
<u>CER Monetization - FY15 Estimated</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Traders	28.00	188,000	15,000	203,000
Back Office	6.00	28,000	-	28,000
Exchange Trading Costs	-	-	-	15,000
TOTAL	34.00	216,000	15,000	246,000

Chart 1: Adaptation Fund CER Monetization Costs (US\$)



- b) **Financial and program management (US\$ 210,000):** Costs are based on staff time required for management of financial transactions, including processing of receipts of CER sales proceeds, donations, and other cash proceeds on a daily basis in the Adaptation Fund Trust Fund, recording allocations and commitments, and processing cash transfers to implementing entities using World Bank financial systems and procedures. Estimates include staff time associated with implementation of the financial reporting for the Trust Fund; collaboration with the Adaptation Fund Board and Secretariat; the execution and management of donation agreements; and maintenance of systems for reporting and transactional processes and procedures for the Trust Fund. Estimates also include travel costs for one trustee representative to attend regular Adaptation Fund Board meetings. Activities in FY15 are expected to include establishment of arrangements to respond to the CMP decision to add to the Adaptation Fund a share of the proceeds levied on transfers of AAUs and issuance of ERUs, and associated amendments that may be required to the Terms and Conditions between the World Bank and the CMP. The estimate also includes expected staff time and expenses associated with the review of the Adaptation Fund arrangements, as mandated by the CMP.

Table 8: Financial and Program Management Costs FY14 and FY15 (US\$ unless indicated)

<u>Financial and Program Management - FY14 Revised</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Financial Officers	11.50	105,000	25,000	130,000
Finance Officers/Analysts	17.00	80,000	-	80,000
TOTAL	28.50	185,000	25,000	210,000
<u>Financial and Program Management - FY15 Estimated</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Financial Officers	11.50	105,000	25,000	130,000
Finance Officers/Analysts	17.00	80,000	-	80,000
TOTAL	28.50	185,000	25,000	210,000

- c) **Investment management (US\$ 101,000):** Investment management fees are calculated as a flat fee of 3.5 basis points (i.e. 0.035%) of the average annual balance of the undisbursed cash in the Trust Fund. The projected average annual balance over the next fiscal year is US\$ 288 million. The cash balance equals net inflows from CER monetization, donations and investment income earned, less all cash transfers. In the event that cash transfers take place more rapidly, the average balance would be lower, and investment management fees would be reduced accordingly.
- d) **Accounting and reporting (US\$ 56,000):** 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. A significant portion of these costs are those associated with the preparation of annual financial statements and arrangement of the annual external audit.

Table 9: Accounting and Reporting Costs FY14 and FY15 (US\$ unless indicated)

<u>Accounting and Reporting - FY14 Revised</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Accountants	11.00	56,000	-	56,000
TOTAL	11.00	56,000	-	56,000
<u>Accounting and Reporting - FY15 Estimated</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Accountants	11.00	56,000	-	56,000
TOTAL	11.00	56,000	-	56,000

- e) **Legal services (US\$ 190,000):** These costs include drafting, negotiation and processing of donation agreements, funds transfer agreements and other legal agreements as needed. The estimate also covers staff time to provide policy advice and legal review on issues raised by the Adaptation Fund secretariat and others as they may impact the Adaptation Fund Trust Fund and the services of the Trustee. Depending on the role that is decided for the Trustee, there is a possibility that additional legal costs (beyond the estimate provided) may be incurred in connection with the implementation of the CMP's decision to add to the Adaptation Fund a share of the proceeds levied on transfers of AAUs and issuance of ERUs. Currently, the Terms and Conditions only contemplate the monetization of CERs. An estimate of US\$ 150,000 in respect of external legal expenses related to necessary external legal opinions covering the monetization of AAUs and ERUs is therefore included in the FY15 budget estimates. No travel costs for legal services are expected in FY15.

Table 10: Legal Service Costs FY14 and FY15 (US\$ unless indicated)

<u>Legal Services - FY14 Revised</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Counsel	1.80	12,000	-	12,000
TOTAL	1.80	12,000	-	12,000
<u>Legal Services - FY15 Estimated</u>				
	<u>Staff Weeks</u>	<u>Gross Labour</u>	<u>Travel</u>	<u>Total</u>
Senior Counsel	6.00	40,000	-	40,000
External Counsel				150,000
TOTAL	6.00	40,000	-	190,000

- f) **External audit (US\$ 60,000):** This covers the external auditor's costs associated with the external audit of the FY14 financial statements for the Adaptation Fund Trust Fund. In addition to the external audit, the trustee prepares a Single Audit of trust funds, in which the Adaptation Fund is included; this is provided at no cost to the Adaptation Fund.