

Update on World Bank Cost Recovery



Recap of the Cost Recovery Issue

- The World Bank charges an **indirect or cost recovery rate** on all World Bank trust funds to cover its costs of corporate services such as HR, Legal, communications, Accounting, IT and office space.
- The cost recovery rate has not been applied uniformly across different types of World Bank Trust Funds in the past.
- The World Bank has proposed an increase in the cost recovery rate for Financial Intermediary Funds (FIFs).
- Historically, the CIF Trust Funds have been charged a cost recovery rate of **17% on personnel** (staff and consultant) costs.
- In 2022, the World Bank proposed to increase the cost recovery rate to **28.2% of cumulative direct costs**.
- The TFCs **requested more information** from the World Bank and pending such information, approved the FY23 and FY24 (July 2023 to June 2024; current fiscal year) budgets based on the historical rate.

Recap of Cost Recovery Issue (cont..)

- In the June 2023 TFC meetings, the World Bank proposed **two cost recovery options** for World Bank-hosted Financial Intermediary Funds (FIFs) – 22% and 17% with some variations in services.
- Simplifying the math, the 22% referred to by the World Bank equates to 28.2% of CIF Secretariat direct expenses, while the 17% equates to 20.48% of CIF Secretariat direct expenses.
- TFCs noted the proposal and requested the CIF Secretariat to –
 - explore with the World Bank and other FIF secretariats the **methodology for the cost recovery options**, and if other options of services and cost recovery fees could apply to FIFs on a common, fair and transparent basis.
 - consult with the World Bank to prepare a paper setting out the new options that will apply from July 1 2023, and their implications for service levels, with a recommendation, for discussion and decision by the Committees at their next joint meeting in November 2023.

Latest World Bank Proposal on FIF Cost Recovery

- To fulfil the TFC request, the CIF Secretariat has had discussions since July with the World Bank and other FIF Secretariats.
- Meanwhile, the World Bank engaged Price Waterhouse Coopers (PwC) to evaluate its cost recovery methodology.
- Considering the PwC evaluation findings, effective July 1, 2023, the WB intends to implement a single 17% fee on the total annual expenses of FIF Secretariats – this will be equivalent to **20.48% of FIF Secretariat direct expenses**.
- As is currently the case with the CIF, bespoke services like communications, legal, and IT solutions will be subject to direct charge.
- The World Bank communicated this updated proposal to the CIF Secretariat last week and the TFCs have been informed.

Next Steps

- Due to the limited time before the TFC Meetings, the Secretariat is unable to submit a detailed assessment report for this session.
- Secretariat will evaluate the proposal and undertake further consultations to submit an assessment report over the next few weeks, including the additional budget needed to cover the increased costs when the new rate is applied.
- Until the TFCs approve the new cost recovery rate, the historical rate will continue to apply to CIF Secretariat Trust Funds

CIF



CLIMATE INVESTMENT FUNDS

Investing in the future

