CLIMATE INVESTMENT FUNDS

June 6, 2017

Meeting of the Joint CTF-SCF Trust Fund Committee
Washington D.C.
Wednesday, June 7, 2017

Responses to Comments from Switzerland

Response to Comments from Daniel Menebhi (Switzerland)
on the Papers to be presented to the Joint Meeting

<table>
<tr><th>Comments</th><th>Response</th></tr>
<tr><td colspan="2">FY18 CIF Business Plan and Budget</td></tr>
<tr><td>(C) Paragraph 29 p.11 says “FY18 budget is lower than the FY17 approved budget by 3.5%. While technically correct this statement is misleading, since the budget for administrative services (i.e. excluding multi-year activities) is actually higher by 6.25% (or even 8.5% compared to projected utilization)!</td><td>It is correct to say that the administrative costs are higher by 6.25%. However, compared to the projected utilization, it is not 8.5% but about 6.4%. We would suggest that we revise this statement in the document to read as follows: “The proposed overall FY18 budget is lower than the FY17 approved budget by 3.5%. However, the budget for the administrative services have increased by 6.3% from the approved budget of FY17, or 6.4% compared to the projected utilization.”</td></tr>
<tr><td>Q) Cost coverage by investment income:
i. To what extent are administrative costs still covered by investment income in SCF and its programs, notably SREP?
ii. In overall CIF?
iii. What provisions have been made to avoid a shortfall?
iv. Are these provisions still adequate?</td><td>i. Please see a summary of cumulative investment income and administrative expenses in Table 1 below. Note that the practice of administrative cost allocation changed in February 2016. Until February 2016, the investment income was allocated to each sub-program directly based on respective cash balances. The overall approved administrative budgets were pro-rated to each sub-program based on each sub-programs cash balances. Since February 2016, administrative expenses and investment income have been allocated to a dedicated Admin Account and then used to cover the actual administrative budgets for each sub-program. Overall, investment income has been sufficient to cover admin expenses for CTF, but not for SCF (noting that investment income in CTF is also to be available to repay loan contributors).
ii. See above.
iii. The notion of a shortfall in this context is not appropriate. The annual budget will either be covered by the available investment income or with available resources in the Trust Fund. In addition, according to the forecasts, investment income for the SCF will be insufficient to cover administrative expenses. Consequently, we will continue to make provisions at the Trust Fund level to cover these administrative expenses.
iv. See above.</td></tr>
<tr><td>(C) We noticed and understood from your explanation that the biggest vector of cost increase at the level of administration services is the decision of the WB to increase the rate charged for</td><td>For questions I, ii, iii, please refer to the FAQ for Contributors prepared by the World Bank on this issue. In addition, see specific responses below:</td></tr>
</table>

non-salary staff costs from 50% on salaries to 70%. According to your table 1 p.11, the CIF Administration Unit costs would thereby increase by1'459.7 kUSD. i. (Q) How much of that increase is attributable to this change of practice by the WB? ii. (Q) What actual costs are covered by these 50 (or 70%) overhead on salary costs? iii. (C/Q) Given that the non-salary costs (i.e. overheads) are indexed on the salary costs, which are themselves increasing with larger staffing and higher salaries, we see no justification in increasing the ratio of non-salary costs to salary costs just because it has not been done for a number of years. Besides, this rate (50%) already seems quite high. How does the WB justify that costs are not fully covered and what evidence was provided therefore? iv. (Q) To what extent is the WB authorized by the trust fund agreement to unilaterally make such a change? v. (C) If such a clause is not foreseen in the trust fund agreement, we recommend to reject the change as this could only be applied to a new trust fund, which the SCF and CTF are not. vi. (C) What measures does the CIF Administration Unit foresee if this increase cannot be avoided and the Joint Committee rejects the budget increase?	i. It is important to note that the total increase between the FY17 approved budget and FY18 proposed budget for CIFAU is primarily due to the increases in 1) non-salary staff cost; 2) associated indirect cost; and 3) FIF system maintenance. ii. Non-salary staff costs include other staff expenses such as for pension, relocation costs on appointment and termination, disability, and health and life insurance. These are direct staffing costs, not "overhead" costs. iii. The Bank charges staff salaries, together with a fixed rate to cover non-salary staff costs, to all its products irrespective of funding sources (Bank budget, trust funds, etc.). The current fixed rate of 50% of HQ-appointed staff salaries has remained unchanged over the past 18 years, but a retrospective review has shown that the actual cost of such non-salary staff costs has been around 70% of HQ salary costs over the last five years, with the resulting shortfall from trust funds and other external funds being covered by IBRD and IDA. The rate change simply allows the true cost of staff to be reflected in all the Bank's products and to be allocated appropriately across all sources of funds, and no longer disproportionately to IDA and IBRD, which was an unsustainable practice. <u>The aim to fully cover non-salary staff costs was endorsed by the World Bank Board of Directors in FY15 and communicated to the Board of Governors</u>. The decision to increase the non-salary staff costs rate to 70% of salary for HQ-appointed staff was taken by the Bank's Senior Management as part of the FY18-FY20 planning cycle. Therefore, effective July 1, 2017, the Bank will revise the rate used to calculate non-salary staff costs to 70% of HQ staff salaries in order to ensure full coverage of non-salary staff costs for HQ-appointed staff regardless of funding source. iv. The principle of cost recovery based on actual costs is provided for in section 7.1 of the Standard Provisions attached as Annex 1 to the relevant Contribution Agreement for the SCF. As noted above, a retrospective review has shown that the actual cost of such non-salary staff costs has been around 70% of HQ salary costs over the last five years. Therefore, effective July 1, 2017, the rate used to calculate non-salary staff costs will be revised to 70% of HQ staff salaries in order to ensure

	full coverage of non-salary staff costs for HQ-appointed staff regardless of funding source. v. This is a Bank-wide policy change applicable to all its products (Bank budget, trust funds, etc.) irrespective of funding sources including trust funds, new and existing. vi. The CIF AU and IBRD will have to comply with this policy when preparing and implementing their administrative budgets. If the Committee wishes the CIF AU and IBRD covers this differential from the administrative services budget, the Committee should provide guidance on areas to cut from the budget.
(C) Although the overall ratio of program related administration cost to project funding for the CIF [2.7%] is still quite low, the corresponding ratio for the SCF [6.2%] is already substantially higher and the total program and project related administration costs [9.4%] of the SCF is starting to get substantial. Our concern is that these ratios will further increase as costs are staying at a high level whereas new funding approvals decline (i.e. project funding will reach its maximum level soon).	At the stage where CIF are, in terms of having committed most of its currently available resources and having a large proportion of the funding approved and under implementation it is appropriate to think about using other metrics to assess the adequacy in the level of administrative costs in CIF operations.
Q) Could these ratios also be calculated for each program? We would be interested in the SREP.	Please see Table 1 below for details of administrative costs for SREP, which represents actual administrative costs as of February 2016 (as a proxy). Cumulative approved funding for SREP (FY09 to end 17 estimate) is USD 300 million. Hence, the ratio for SREP will be 4.7%.
(C/Q) On a general note, given the increasing maturity of the CIF portfolio, measures have to be considered to reduce administration costs. What ideas could the CIF Administration Unit bring forward to achieve such cost reductions?	Over time, we foresee a reduction in the country programming budget, as new countries added to the CIF make progress in preparing investment plans. In terms of the core administrative services, we stand to be guided by the Trust Fund Committee concerning areas to scale down.

<table>
<tr><th colspan="2">CIF Gender Policy</th></tr>
<tr><td>(Q) What are the budget implications of the additional observers in each program and the joint committee?</td><td>Three gender observers per program are proposed, however only the developing country observer and the local CSO observer would be funded to attend CIF Trust Fund Committee meetings. Funding eight observers (4 programs) would cost approx. USD 30,280 per meeting. If funding only one observer per program (4 programs), the cost would be approx. USD 15,140 per meeting, depending on country origin of the observer organization. (Note also that the SCF Trust Fund Committee gender observer would be selected from among the SCF program gender observers, so there would not be an additional cost for that person).

Breakdown: 8 gender observers x 3785 per person = USD 30,280 per TFC meeting</td></tr>
<tr><td>(C) We do agree that gender (or inclusion) observers should be added but think that 3 observers (one from developed countries, one from developing countries and one from local CSO) in each program are too many observers. We would favor one observer in each program</td><td>See above</td></tr>
<tr><th colspan="2">Future of Partnership Forum</th></tr>
<tr><td>(C) We welcome the proposal which increases flexibility and promises some cost optimization.</td><td>Thank you</td></tr>
<tr><td>(C) We suggest to go even further and rethink the frequency of CIF meetings. Our proposal would be as follows:
i. Only one full-fledged TFC and SC meeting session per year, alternately held in a CIF recipient country.
ii. Up to one additional subcommittee meeting per year held along with a program’s pilot country meeting or learning event
iii. In the case of SREP these additional subcommittee meetings should be held in pilot countries or in Europe.</td><td>i. It is appropriate to look at options and its costs because having only one full -ledged TFC and SC meeting sessions per year while having subcommittee meetings in parallel with pilot country meetings or learning events might not lead to cost reductions.
ii. – comment above. Committee meetings are currently convened at the same time as donors tend to be the same across all programs and separating them out would be a costlier option for contributors. If it is agreed by all contributors, we could reconsider. In addition, some recipient country members are on more than one committee so increasing the number of flights would increase the overall cost of the meetings.
iii. Noted. Same comment as above; it should be noted that convening a set of committee meetings in Europe rather than Washington is costlier in terms of contractual services/hotel rates and staff travel costs (which we do not have now).</td></tr>
</table>

	For the purpose of this example we are using the Bank's office in Paris. A four-day meeting in Paris would cost approximately $380K compared to $269K in Washington.
(C) The 10th anniversary of CIFs in 2018 could be an occasion for a Partnership Forum.	Noted
Evaluation and Learning Special Initiative	
(Q) Are there any elements in the decision that would have implications on the overall CIF budget (not the UK financed part) and what would be these implications?	No, the planned FY18 activities are funded solely from E&L Special Initiative budget as financed by the UK. The only exceptions are the continued costs of the salary of the Senior Evaluation and Learning Specialist in the CIF AU and minor logistical costs for Advisory Group meetings, as agreed at the outset of the initiative.
Q) What are the results of the 2nd Call for Proposals?	The second Call for Proposals is planned to be launched in late June 2017. As noted in the document, the intention is to more explicitly align with and support the work on transformational change. As such, it may be delayed slightly in order to build upon the first learning workshop on transformational change in June.
Risk report	
(Q) Taking into account that GBP has declined in value by almost 40% between January 1 2008 and March 31 2017, to what extent are currency risks covered by the 15% restriction the Trustee made to mitigate the risk of over-committing funds in the overall CIF but in particular also in SREP, where the risk scores for currency risk exposure and resource availability are both high?	The risk of over-committing funds due to declines in the value of the unencashed GBP-denominated promissory notes is fully covered by the policies and practices of the Trustee. The 15% restriction is not a reserve which is used up as the value of the GBP declines. When the unencashed promissory notes decline in value, the available resources decline commensurately but the amount of restricted funds remains 15% of the value of the unencashed promissory notes. The Trustee only "commits" against the assets available in the Trust Funds (predominantly cash and unencashed Promissory Notes that are revalued at each reporting date). At end-April 2017, the assets available in the SCF Trust Fund for the SREP program were USD 745 million, versus commitments of USD 397 million.
(C) Although the SREP SC agreed to an over-programming by 30% of pledged resources, it was not clear at that time that the currency risk exposure would accelerate the resource availability risk in the way it did after Brexit. To qualify the risk tolerance on resource availability of SREP as high does therefore not reflect our understanding.	As a matter of good governance, after the June committee meetings, the CIF AU will be circulating a paper to the TFC/SC for each corresponding program, proposing risk tolerance levels for each risk. In the interim we had inserted a risk tolerance of High for SREP's Resource Availability Risk based on the agreement to accept over-programming by up to 30% of pledged resources. As a general rule of thumb, when a risk exposure exceeds 5% of a program/subprogram's total pledges and contributions, the CIF AU reports the potential impact of that risk as Severe. This is the rationale for inferring that an acceptance of over-programming by 30% reflects a High risk tolerance.

	The point is well-taken, and the Senior Risk Management Officer will explain to the Joint Committee the rationale for the currently reported risk tolerance levels, clarify that they will be formally submitted for approval by email after the committee/subcommittee meetings, and acknowledge that a concern has been raised with the risk tolerance level assigned for SREP's Resource Availability Risk. In the meantime, the risk tolerance for this risk on SREP's Risk Dashboard has been changed to TBD from High until this concern is resolved.

Table 1:

	(USD millions)			
Program/ Account	**Investment Income**	**Admin Expenses including country programming Budget**	**Net**	**Notes**
ADMIN	25.6	14.2	11.4	From Feb2016-April2017
FIP	14.5	25.3	-10.8	Cumulative to Feb2016
PPCR	18.8	63.9	-45.1	Cumulative to Feb2016
SREP	9.9	14.2	-4.3	Cumulative to Feb2016
Total	**68.8**	**117.6**	**-48.8**	
CTF	**144.2**	**59.0**	**85.2**	