CLIMATE INVESTMENT FUNDS

Joint Meeting of the CTF and SCF Trust Fund Committees

Washington D.C. (Hybrid)

Tuesday, January 31, 2023

FY23 CIF SUPPLEMENTAL BUDGET REQUEST

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Joint CTF-SCF/TFC.27/04
January 19, 2023

PROPOSED DECISION

The Joint Meeting of the Clean Technology Fund (CTF) and Strategic Climate Fund (SCF) Trust Fund Committees has reviewed the Joint CTF-SCF/TFC.27/04, *FY23 CIF Supplemental Budget Request*, welcomes the budget request, and notes that the proposed FY23 (Fiscal year 2023) Climate Investment Funds (CIF) supplemental budget provides additional administrative resources to support the FY23 work program of CIF's operating structure: the CIF Administrative Unit as the central coordinating unit of the CIF partnership, the Trustee as administrator of the financial assets of the CIF trust funds, and the six MDBs as the implementing partners. The additional administrative resources will be used for the following purposes:

a. Cover the increased FY23 administrative costs of the CIF Administrative Unit due to application of the new World Bank cost recovery rate,
b. Create a Country Engagement resource pool for the Nature, People and Climate Investment Program (NPC) which will be used to cover the MDB costs in support of Country Investment Plan Preparation Activities, and
c. Cover the costs of the CIF Capital Markets Mechanism (CCMM).

The Joint Meeting of the CTF and SCF Trust Fund Committees approves the supplemental budget request contained in the document Joint CTF-SCF/TFC.27/04, *FY23 CIF Supplemental Budget Request*, as detailed in this FY23 Supplemental Budget Commitment Table and supported by Tables 5, 6 and 7 in the document.

Summary table: FY23 Budget Commitment (USD '000)

	Total	CTF - I	ACT	SCF - I	SCF - II
Total	**8,875.8**	**4,508.6**	**473.5**	**902.9**	**2,990.9**
World Bank Cost Recovery Increase:	**2,887.7**	**1,070.4**	**473.5**	**902.9**	**440.9**
FY23 Administrative Services	*1,821.7*	*666.9*	*353.9*	*458.6*	*342.4*
FY23 Special Initiatives	*1,066.0*	*403.6*	*119.6*	*444.4*	*98.5*
Multi-Year Activities:	**5,988.1**	**3,438.1**	**-**	**-**	**2,550.0**
Country Engagement	*2,550.0*	-	-	-	*2,550.0*
CCMM	*3,438.1*	*3,438.1*	-	-	-

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1 Summary

1. In June 2022, the Joint Meeting of the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF) Trust Fund Committees approved the Fiscal Year 2023 (FY23) Business Plan and Budget. Since then, the work related to the CIF Capital Markets Mechanism (CCMM) has been steadily progressing, and the Nature, People and Climate Investment Program (NPC) has entered the investment plan preparation phase. In accordance with the request of the Trust Fund Committees in June 2022, the World Bank has also provided additional information and subsequent clarifications on the increased World Bank cost recovery applied to the CIF Administrative Unit's budget.
2. Accordingly, in addition to the approved FY23 Budget, the CIF Administrative Unit, the Trustee, and the multilateral development banks (MDBs) expect to incur costs through FY23 to
    a. Cover the increased FY23 administrative costs of the CIF Administrative Unit due to application of the new World Bank cost recovery rate,
    b. Create a Country Engagement resource pool for the Nature, People and Climate Investment Program (NPC) which will be used to cover the MDB costs in support of Country Investment Plan Preparation Activities, and
    c. Cover the costs of the CIF Capital Markets Mechanism (CCMM).
3. This document presents a proposal for the FY23 Supplemental Budget, as summarized in Table 1, and requests the Joint Meeting of the CTF and SCF Trust Fund Committees to approve it.

2 FY23 Supplemental Budget Proposal

4. The CIF Business Plan and Budget is generally approved annually by the Trust Fund Committees on a fiscal year basis (July 1 to June 30) to support activities of the CIF partnership[1] and administrative services provided by the CIF Administrative Unit, the CIF Trustee, and MDBs. However, a supplemental budget for a particular fiscal year may be requested in special circumstances such as the launch of new programs or interim resource requirements considering progress of Trust Fund Committee requested initiatives.
5. Table 1 summarizes the proposed FY23 Supplemental Budget commitment for CTF and SCF. In this document, the following definitions apply:

[1] Composed of the CIF Administrative Unit, IBRD as CIF Trustee, and the following multilateral development banks (MDBs) as CIF implementing entities: African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank Group (IDB Group), the World Bank Group's International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC)

a. CTF – I refers to the proposed budget allocation from the CTF Trust Fund for all programming and implementation activities other than that for the Accelerating Coal Transitions (ACT) Investment Program. ACT refers to proposed allocations for programming activities related to the ACT Program. Budget commitments for CTF – I and ACT together form the FY23 Supplemental Budget commitment for the CTF Trust Fund.

b. SCF – I refers to proposed budget allocations for programming and implementation activities related to the Pilot Program for Climate Resilience (PPCR), Forest Investment Program (FIP) and Scaling Up Renewable Energy Program (SREP). SCF – II refers to allocations for programming and implementation activities related to the new SCF programs, namely, the Renewable Energy Integration Program (REI), the NPC, Climate-Smart Urbanization Program (Cities) and Climate-Resilient Transition in Industry (Industries). Budget commitments for SCF – I and SCF – II together form the FY23 Supplemental Budget commitment for the SCF Trust Fund.

Table 1: FY23 budget commitment (USD '000)

	Total	CTF - I	ACT	SCF - I	SCF - II
Total	**8,875.8**	**4,508.6**	**473.5**	**902.9**	**2,990.9**
World Bank Cost Recovery Increase:	**2,887.7**	**1,070.4**	**473.5**	**902.9**	**440.9**
FY23 Administrative Services	*1,821.7*	*666.9*	*353.9*	*458.6*	*342.4*
FY23 Special Initiatives	*1,066.0*	*403.6*	*119.6*	*444.4*	*98.5*
Multi-Year Activities:	**5,988.1**	**3,438.1**	**-**	**-**	**2,550.0**
Country Engagement	*2,550.0*	-	-	-	*2,550.0*
CCMM	*3,438.1*	*3,438.1*	-	-	-

2.1 FY23 Annual Budget

6. The FY23 CIF Business Plan and Budget was approved by Trust Fund Committees in June 2022. It provides:

   a. USD 27.53 million to cover administrative services, which constitute a significant portion of the annual CIF work plan and include the core services provided by the CIF Administrative Unit, the MDB focal point teams, and the Trustee for delivering on CIF's mandate in relation to the existing CTF and SCF programs.

   b. USD 7.54 million to cover multi-year activities, of which USD 2.69 million were allocated for country engagement activities and USD 4.85 million for special initiatives, including USD 4.0 million for Year 1 of the Evaluation and Learning (E&L) Initiative Phase III and USD 0.6 million to cover ongoing costs of the CIF Governance Review.

7. Administrative services and multi-year activities approved by the FY23 Budget are currently in good progress. An update on these activities will be provided as part of the FY24 Business Plan and Budget Proposal.

2.2 World Bank Cost Recovery Increase

8. The World Bank applies a cost recovery or indirect rate (Cost Recovery Rate) to cover expenses (indirect costs) of certain corporate services (Institutional Governance and Administration Units or IG&A) provided to financial intermediary funds (FIFs). As reported by the World Bank, costs under the following IG&A units are considered indirect costs: Budget, Performance & Strategy (BPS); Chief Risk Office (CRO); Development Finance (DFI) excluding IBRD Corporate Finance (DFICF) and IDA Resource Mobilization (DFIRM); External & Corporate Relations (ECR); Legal Services (LEG); Treasury (TRE) excluding Capital Markets (CMD); World Bank Group Finance & Accounting (WFA); General Services and Facilities (GSD); Human Resources (HRD); and Information & Technology Solutions (ITS).
9. The Cost Recovery Rate is determined and applied by the trust fund policy unit of the World Bank's Budget, Performance Review & Strategic Planning (BPS) Vice-Presidency to FIF Secretariat, Trustee and Implementing Entity trust funds and recovered at the time of disbursements from the relevant trust funds.
10. Until FY20 (July 2019 to June 2020), a uniform Cost Recovery Rate, at the rate of 17 percent of the personnel costs (staff and consultant) charged to such Trust Funds (Historical Cost Recovery Rate), was applied to all CIF Administrative Unit, CIF Trustee and CIF Implementing Entity Trust Funds. Effective FY21, the Cost Recovery Rate was increased on CIF Trustee Trust Funds to 28.12 percent of total disbursements or direct costs (New Cost Recovery Rate). The New Cost Recovery Rate has been proposed to be applied to the CIF Administrative Unit Trust Funds effective FY23.
11. The FY23 CIF Business Plan and Budget was presented to the Trust Fund Committees in June 2022, with the New Cost Recovery Rate factored in the CIF Administrative Unit's budget request. The Trust Fund Committees, however, approved the CIF Administrative Unit's FY23 budget on the basis of the Historical Cost Recovery Rate and requested BPS to provide further information in writing on the proposed New Cost Recovery Rate for consideration by the Trust Fund Committees as soon as possible. The Trust Fund Committees also resolved that they may then request the CIF Administrative Unit to present a supplemental budget request to cover the increased cost recovery amount at a forthcoming intersessional meeting.
12. Subsequently, the World Bank provided additional information and clarifications to the Trust Fund Committees, which have been compiled in Annex 1.

13. The World Bank also informed the CIF Administrative Unit that the New Cost Recovery Rate will be applied to all CIF Administrative Unit trust fund disbursements effective FY23, including the multi-year or special Initiatives.

14. The impact of applying the New Cost Recovery Rate on the CIF Administrative Unit's administrative services budget was articulated in the FY23 Business Plan and Budget Document as follows: *Applying the new rate vis-à-vis the previous rate has led to an increase in the CIF Administrative Unit's FY23 budget of around USD 1.82 million (out of a total increase of around USD 4.5 million) or around 13.8 percent, with an impact of around USD 1 million and USD 0.82 million on the CTF and SCF Trust Funds for FY23, respectively. Of the total increase in the CIF Administrative Unit's FY23 budget, around 40 percent is on account of the increase in the cost recovery rate.*

15. In FY23, the CIF administrative Unit estimates that if the New Cost Recovery Rate is approved by the Trust Fund Committees, the Bank would charge indirect costs in the amount of around USD 3.29 million to the CIF Administrative Unit's administrative services trust funds.

16. Special Initiatives are specific activities that the Trust Fund Committees entrust the CIF Administrative Unit to either deliver or coordinate on behalf of the Trust Fund Committees and are in addition to the regular administrative services that the CIF Administrative Unit provides. Special Initiatives are mostly spread across multiple years and the budgets approved are managed by the CIF Administrative Unit through a separate Special Initiative Trust Fund.

17. Special initiative budgets are predominantly used for non-personnel (staff and consultants) related expenses. The CIF Administrative Unit primarily delivers on such mandates in collaboration with Implementing MDBs or by contracting consultant firms. The World Bank's Historical Cost Recovery Rate was not applied to non-personnel expenses like consultant firms, travel and other costs related to meetings or workshops. The New Cost Recovery Rate, though, is applied to all costs. This results in a significant increase in the cost recovery from the Special Initiative Trust Fund.

18. The total indirect costs expected to be charged to the CIF Administrative Unit Trust Funds in FY23, if the Trust Fund Committees approve the application of the New Cost Recovery Rate, is around USD 4.58 million, with around USD 3.29 million charged to the administrative services trust funds for CTF and SCF and around USD 1.29 million charged to the special initiative trust fund. Of this, around USD 1.94 million has already been approved by the Trust Fund Committees, since the Historical Cost Recovery Rate was included in the approved FY23 budget.

19. Accordingly, an amount of around USD 2.89 million to cover the increased World Bank cost recovery is being requested as part of the FY23 Supplemental Budget (see Table 2). This includes

around USD 1.82 million related to increased cost recovery on the CIF administrative Unit's administrative services trust funds for CTF and SCF, and around USD 1.07 million related to such increased cost recovery from the Special Initiatives Trust Fund.

Table 2: Summary of Cost Recovery FY23 budget commitment (USD '000)

	Total	CTF - I	ACT	SCF - I	SCF - II
World Bank Cost Recovery Increase:	**2,887.7**	**1,070.4**	**473.5**	**902.9**	**440.9**
FY23 Administrative Services	*1,821.7*	*666.9*	*353.9*	*458.6*	*342.4*
FY23 Special Initiatives	*1,066.0*	*403.6*	*119.6*	*444.4*	*98.5*

20. The resources available in CTF and SCF are sufficient in the near term to cover the increased costs. Subject to Trust Fund Committee approval, increased cost recovery expenses attributable to CTF and SCF trust funds will be charged to the CTF Trust Fund and the SCF Trust Fund's Administrative Account respectively. Investment income earned on CTF and ACT resources are used to cover administrative costs of CTF and ACT programs, including costs related to country engagement activities, special initiatives and the increased cost recovery. Similarly, investment income earned on SCF resources, as well as reflows, pooled in the SCF Administrative account, are used to cover administrative costs of all SCF programs, including costs related to country engagement activities, special initiatives and the increased cost recovery. In case of SCF, additional reserves have also been set aside pursuant to the March 2018 SCF Trust Fund Committee decision on the Long Term SCF Administrative Costs and Funding Options. Accordingly, at this time, the CIF Administrative Unit and the Trustee do not anticipate the need for additional donor funding or reserves in CTF or SCF to cover the increased cost recovery expenses.

2.3 Country Engagement Budget for MDBs to Support NPC Invest Plan Preparation

21. The NPC program, officially launched on June 1, 2022, will deploy concessional resources at scale to improve livelihoods and address climate change through the sustainable use of land and other natural resources. NPC will help governments, industries and communities harness the potential of land resources and ecosystems in climate action, and reduce barriers to sustainability in key areas, such as agriculture and food systems, forests, coastal areas and other land-based ecosystems.

22. In the intersessional meeting held on October 25, 2022, the Global Climate Action Program (GCAP) Sub-Committee invited the following four countries and one regional group to develop investment plans for NPC's first phase of implementation: Dominican Republic, Egypt, Fiji, Kenya

and the Zambezi Basin regional program (comprising Zambia, Malawi, Mozambique, Namibia and Tanzania). The GCAP Sub-Committee also requested the MDBs to prepare a proposal to right-size allocations for each expression of interest based on a total indicative allocation of up to USD 200 million and submit a proposal to the Sub-Committee for endorsement.

23. The GCAP Sub-Committee further agreed that, upon receipt of further contributions to NPC, the following countries will be invited to receive investment funding: Brazil, Ethiopia, Rwanda, Zambia and Namibia. The Sub-Committee agreed that each country or regional group selected to develop an investment plan could receive up to USD 500,000 as an Investment Plan Preparation Grant (IPPG) to enable them to take a leadership role in developing the plan with relevant MDBs.

24. **Country engagement budget for investment plan support (CE-IP)**: A total budget of USD 2.55 million is being requested to create a country engagement resource pool for NPC investment plan preparation, which includes a benchmark amount of USD 0.25 million for each single-country investment plan preparation activity and USD 0.3 million for each regional investment plan preparation activity. These benchmark amounts are the same as those provisioned for ACT and REI as part of the FY22 Supplemental Budget and FY23 Annual Budget. The benchmark amounts are indicative and actual costs incurred by the relevant MDBs is expected to be reimbursed based on the CIF's principle of full cost recovery for all CIF partners. Additional details on the CE-IP budget process and benchmarks (norm) are presented in Annex 2. An additional top-up budget for the NPC CE-IP resource pool may be requested upon receipt of additional contributions to NPC and consequent invitation to the five additional countries.

Table 3: CE-IP Budget Resource Pool for the NPC (USD '000)

	Amount
Total	**2,550.0**
First Group of four Countries and one regional program invited to prepare NPC investment plans: Dominican Republic, Egypt, Fiji, Kenya, and the Zambezi Basin regional program (Zambia, Malawi, Mozambique, Namibia and Tanzania)	1,300.0
Second Group of five additional Countries: Brazil, Ethiopia, Rwanda, Zambia and Namibia	1,250.0

2.4 CIF Capital Markets Mechanism

25. The CIF Capital Markets Mechanism (CCMM) is a market-facing vehicle that seeks to leverage reflows to CTF from its existing portfolio to attract financing from capital markets and use the existing CTF structure and operating model to channel these funds to the MDBs for new CTF projects.

26. CCMM will use CTF loan assets to attract private sector capital through the issuance of debt in the capital markets. A new vehicle (the "Issuer") will be established to issue bonds. These bond proceeds will then be channeled to the CTF Trust Fund to be provided as concessional finance through the MDBs for climate mitigation and adaptation projects. Bondholders will be paid back from CTF available resources, including reflows from the CTF loan portfolio (net of any obligations). CCMM will continue to rely on CTF's proven operating model with CTF decision-making, governance and administration remaining mostly similar to the current CTF arrangements.

27. CCMM introduces a new practice of funding for CTF projects, based on disbursement needs rather than the existing practice based on commitments. Under CCMM, CTF would move to a market-based liquidity management policy (similar to that used by MDBs) for funding CTF projects. Under this approach, CTF would maintain liquid asset holdings at or above a prudential minimum to safeguard against disruptions in the Issuer's access to capital markets and to meet net cash disbursement requirements of CTF. Implementing this approach would immediately result in additional resources being made available to support CTF projects.

28. In addition to changes in funding for new CTF projects, new risk management and financial policies will be introduced, aimed at maintaining an investment grade issuer rating. Modifications and additions to the roles played by current stakeholders, including the CTF Trust Fund Committee, Trustee, CIF Administrative Unit and the MDBs, are expected. New stakeholders such as the Issuer and its Treasury Manager will become part of the operating structure, and new governance arrangements with respect to the Issuer will be introduced. Reporting requirements by the MDBs will expand beyond CTF's existing reporting practices to meet the statutory regulations of international capital markets.

29. Significant progress has been made in the development of CCMM since January 2022. IBRD provided a written update in May 2022 on the due diligence process it had carried out since the meeting of the CTF Trust Fund Committee in January 2022, including IBRD senior management's support of CCMM, and presented a timeline for the due diligence process and the next steps to implement CCMM.

30. Considering this and additional updates provided by the MDBs, the CTF Trust Fund Committee made additional requests to the CIF partnership through its decision in the June meetings. To fulfill those requests, the CIF partnership has accomplished the following since the beginning of FY23:

    a. IBRD prepared and submitted for the CTF Trust Fund Committee consideration, a technical document relating to the proposed enhancements to the CCMM proposal, including a financial model and flow-of-funds diagram listing the different options available to loan contributors regarding the treatment of seniority of their initial contributions and an analysis of the need for, and use of, additional grant and capital contributions. This document was expected to help contributors and implementing entities to move their internal due diligence processes forward.

    b. The CIF Administrative Unit, working together with IBRD Finance Partners and the MDBs, submitted a revised CCMM proposal to the CTF Trust Fund Committee, considering the results of the due diligence process received as of the date of the report.

    c. IBRD also secured the relevant internal authorizations, including the necessary clearances by the IBRD Finance and Risk Committee, to the revised CCMM proposal and authorization for IBRD to perform the roles contemplated for it under the CCMM proposal including as CCMM Trustee and Treasury Manager.

    d. The CIF Administrative Unit, the Trustee and IBRD Finance Partners have been working with relevant CTF stakeholders, including the contributors and MDBs on their internal due diligence towards obtaining indicative endorsements that would contribute to the formalization of a CCMM proposal, subject to final approval by the Trust Fund Committee and the MDBs. The CIF Administrative Unit has also been progressing on the work with relevant stakeholders to analyze and develop options to maximize the impact of CCMM fund allocations.

31. In its meeting in October 2022, the CTF Trust Fund Committee made the following additional requests:

    a. CIF Administrative Unit and the IBRD finance partners to provide to the CTF loan contributors the financial model for the base case and pari passu enhancement, which confirms the capital adequacy of CCMM and calculates the liquidity and cash flows of the CCMM proposal

    b. Trustee to prepare, in consultation with the CIF Administrative Unit, the contributors and MDBs, as appropriate the following agreements or amendments,

a. Draft amendments to the Financial Procedures Agreements and annexes (including any other relevant documents) as necessary to give effect to the CCMM proposal

b. Draft amendments to each Contribution Agreement as necessary to give effect to the CCMM proposal, including the CTF Standard Provisions and an explanatory summary of changes under the base case and pari passu enhancement

c. The CIF Administrative Unit to work together with the Trustee and other IBRD finance partners and MDBs to advance preparations to launch and implement CCMM during this next phase of CCMM development, including preparing a timeline and steps towards the first CCMM bond issuance targeting 2023, drafting the relevant legal arrangements or agreements (including amendments to existing agreements or frameworks), finalizing expected filing/reporting arrangements for the MDBs and CCMM)

d. Contributors to conduct any due diligence necessary to confirm their participation in CCMM, and the MDBs to provide necessary indicative endorsements prior to formalization of a CCMM proposal and approval by the CTF Trust Fund Committee and MDBs

e. IBRD, as Treasury Manager, and the CIF Administrative Unit to prepare to engage the credit rating agencies to provide credit ratings for the CCMM issuer

f. the CIF Administrative Unit, the Trustee and other IBRD Finance Partners and the Implementing Entities to prepare budgets for their costs to fulfil their proposed roles in the CCMM, including any start-up initial costs

32. Steady progress is being made in fulfilling these requests, including the following:

a. Consultations with loan contributors and MDBs and response to MDB information request in the October 2022 meeting

b. Refreshing domiciliation, regulatory and tax analysis for the CCMM issuer and tax analysis for CCMM recipient countries

c. Amendments to FPAs, Contribution Agreements, CTF Governance Framework and Operating Manual

d. Pass-Through Agreements, Treasury Management Agreement, Information Memorandum and Financial and Risk Management Framework (including liquidity policy and risk management)

e. Financial reporting requirements

f. Obtaining information requirements and cost and timing indications from S&P, Moody's and Fitch

33. The following tasks have been set for completion by June 30, 2023, based on the updated CCMM timeline:

    a. Engage rating agencies and begin data collection toward obtaining final credit rating

    b. Finalize Information Memorandum and draft CCMM Bond Documentation

    c. Obtain CTF Trust Fund Committee approval of the final CCMM structure

34. Following the CTF Trust Fund Committee approval, the CCMM issuer entity will be setup and CCMM issuer transaction parties will be engaged. Finalization of MDBs and Trustee/Treasury Manager financial reporting requirements and timelines with CCMM accounting firm will happen in parallel. Subsequently, all necessary documentation and arrangements to establish the CCMM structure will be undertaken, including the process of hiring CCMM issuer audit firm, and sharing with MDBs and the CCMM audit firm, the financial reporting package instructions prepared by the CCMM accounting firm.

35. The final steps towards bond issuance include obtaining final credit rating, listing the information memorandum, marketing to investors and negotiations, completing the first CCMM reporting cycle and updating bond documentation.

36. In the Intersessional meeting held on January 25, 2022, the Trust Fund Committees approved as part of the FY22 Supplemental budget, an allocation for CCMM totaling USD 0.67 million. The approved budget was to cover certain Trustee costs related to financial modelling, review of trust fund structure, legal, accounting and reporting implications, and engagement with stakeholders, as well as CIF Administrative Unit costs in hiring relevant consultants, external legal services and payments to rating agencies. No further budget allocations were made as part of the FY23 annual budget request. The original set of activities funded by the FY22 supplemental budget have mostly been completed, except for the actions related to credit rating agencies. As of the date of this report, allocated funds have been fully expended, except for USD 0.335 million budgeted for payments to credit rating agencies.

37. The FY22 Supplemental Budget Request had indicated that an additional budget request to operationalize CCMM would be presented to the CTF Trust Fund Committee upon finalization of the IBRD and MDBs' due diligence – a necessary step to understand the design of the final CCMM structure, stakeholder and responsibility mapping, and initial and ongoing resource requirements. Additionally, the CTF Trust Fund Committee had, in its October 2022 meeting, requested the CIF

Administrative Unit, the Trustee and other IBRD finance partners and the implementing entities to prepare budgets for their costs to fulfil their proposed roles in CCMM, including any start-up initial costs. However, due to various entity-specific operational reasons, including the stage of internal due diligence and clearance, additional work has been needed to get accurate estimates on legal, compliance, reporting, ratings and other costs. This has made it difficult to accurately estimate costs post Trust Fund Committee approval.

38. Accordingly, the FY23 Supplemental Budget Request requests a budget in an amount of around USD 3.44 million to cover CCMM related administrative costs of the relevant CIF partners until June 30, 2023 (see Table 4). Any unused budgets at the end of the fiscal year will either be carried forward to FY24, if the relevant CCMM activity continues, or returned to the CTF Trust Fund, as applicable.

Table 4: CCMM FY23 Supplemental Budget Request (USD '000)

	Amount
Total	**3,438.1**
CIF Administrative Unit	1,039.1
CIF Trustee, including World Bank Finance Partners	1,934.0
MDBs	465.0

39. Included in this request is the CIF Administrative Unit's estimated cost of USD 1.04 million until June 30, 2023, to deliver on its mandates related to the CCMM. This includes incremental staff costs of USD 0.4 million and external legal services costs of USD 0.5 million. The World Bank New Cost Recovery Rate of 28.12 percent has been factored in this request.

Table 5: CIF Administrative Unit (USD '000)

	Amount
Total	**1,039.1**
Incremental Staff Costs	412.6
External Legal Services	576.5
Travel	50.0

40. The Trustee has complied budget requests from other IBRD finance partners to make a consolidated request of around USD 1.93 million (see Table 6), which will cover costs related to designing of the final CCMM Structure for TFC approval, finalizing financial reporting requirements and timelines, finalizing legal documentation, and engaging various internal and external stakeholders. It also includes fees related to external accounting, audit consultation and

rating agencies. Unused rating agency fee allocations to the CIF Administrative Unit in FY22 will be utilized along with the requested amounts budgeted for the rating agency fees. The Trustee's CCMM proposal is in Annex 3.

Table 6: Trustee and IBRD Finance Partners (USD '000)

	Amount
Total	**1,934.0**
Design final CCMM Structure for TFC approval, including review of the capital adequacy model, financial, risk management and operational frameworks, and trust fund structure	372.0
Finalize financial reporting requirements and timelines, including loan loss provisioning/fair value methodologies and accounting policies	385.0
Finalize legal non-bond and bond documentation	380.0
Engage internal and external stakeholders (contributors, MDBs, internal approvals)	337.0
External Accounting and Audit consultation fees and rating agency fees	460.0

41. The budget request also includes around USD 0.47 for MDBs to cover their incremental costs until June 30, 2023 (see Table 7), associated with conducting internal review and approval of the CCMM structure as well as negotiating the new legal agreements (FPA) and other relevant documentation with the respective parties.

Table 7: MDB Costs (USD '000)

	Amount
Total	**465.0**
ADB	100.0
AfDB	100.0
EBRD	75.0
IDB Group	100.0
IBRD	0.0
IFC	90.0

Annex 1: World Bank's Responses on the New Cost Recovery Rate

World Bank's note on cost recovery as shared with TFC members in response to the Trust Fund Committees' request for additional information on the increased cost recovery

42. A Financial Intermediary Fund (FIF) maintains a distinct division of roles and responsibilities between the FIF governing body, the Trustee, the Implementing Entities (IEs), and the Secretariat. The World Bank's role and level of services provided in each of these areas is described in more detail in sections 4-8 of the Bank's Financial Intermediary Fund Directive (attached).

43. Under the Directive, all costs associated with the activities and functions of a FIF Trustee as well as of a FIF Secretariat are funded by a FIF on a full cost recovery basis. For its role as an IE, the Bank seeks cost recovery commensurate with World Bank TFs. This policy follows on directions provided by World Bank shareholders and the Board of Directors included in the FY13/14 Margins for Maneuver paper, a FY15 Board paper outlining the methodology for allocation of costs across IBRD, IDA and External Funds, the Development Committee paper on the Forward Look (which guides the World Bank Group's strategic path) and more recently in successive Strategy and Business Outlook papers and Board approved Budget Documents every year since FY20. For example, the FY21 Bank Budget document stated that:

    Several types of activities, such as Financial Intermediary Trustee and Secretariat Services, Externally Funded Outputs (EFOs) and Reimbursable Advisory Services (RASs), will be provided on a full-cost basis. For regular Trust Funds, IBRD/IDA would continue to share some of the indirect costs due to the partnership and leveraging benefits that they provide. ***(FY21 World Bank Budget May 25, 2020, p. 38)***

44. Currently, the CIF Secretariat and other FIF secretariats are paying below-full cost for these services and these costs are falling on IBRD and IDA hence the need to change the pricing structure to receive full cost recovery.

45. At the CIF Board Meeting, Shanu Biswas, Director BPSCM, explained the decisions and context behind the increased fee applicable for housing of FIF Secretariats as of FY22, replacing the previous 17% indirect rate on the cost of personnel with a 28% fee on all CIF Secretariat direct costs. There are no further changes in cost recovery arrangements envisaged for the Bank as Trustee (which are already provided on a full cost basis), housing of FIF Secretariates or for the Bank acting as an IE.

46. For the past few years, since FY14 and as set out in the Margins for Maneuver Board paper, the Board and Bank management have been emphasizing the need for financial sustainability. This

has involved improving the Bank's balance sheet, increasing pricing on IBRD loans, tightening the cost base through efficiency savings, and improving cost recovery.

47. The Bank has achieved considerable progress on budget sustainability. The Bank's Expenditure Review conducted up to 2018 reduced not only the cost base by $400 million a year Group wide, but also accrued to donors through lower costs as savings were retained in funding accounts and used for more and better outcomes. Cost efficiency measures continue to be applied and as part of the IBRD Capital Package in 2018, Management and the Board agreed to a series of commitments which included generating over $1 billion of efficiency savings and economies of scale by FY30 which the Bank is well on course in meeting.

48. It is in that context that the Board and management has also been calling for greater financial sustainability from external funds relationships, noting the partnership and leveraging benefits that trust funds in particular provide. While IBRD and IDA now fully cover their costs with the activities they finance, external funds in total still fall short, by around $180m a year to cover their share of indirect, or corporate services costs.

49. This shortfall is being covered by the Bank's, that is IBRD's and IDA's, administrative budgets. IDA resources are aimed at the poorest countries and are financed by taxpayers for that purpose and should thus be used for those purposes, particularly in this critical time of the Bank supporting countries to deal with and recover from multiple and compounding crises, including the still evolving COVID-19 pandemic, climate change and the global effects of the war in Ukraine.

50. To address this, the Bank is improving cost recovery across all external fund instruments, with many types of Externally Financed Activities, such as the cost of FIF Secretariats, Trustee Services, as well as Externally Funded Outputs (EFOs) and Reimbursable Advisory Services (RASs) now being provided on a full-cost basis.

51. This has been a phased approach across all external fund instruments, with Treasury's Reserve Advisory and Management Partnership (RAMP) services already on full cost recovery, EFOs, RASs and trustee services adopting full cost recovery rates from July 1, 2020, increased trust fund cost recovery from January 1, 2021, and, from the start of this fiscal year FY22, full cost recovery on secretariat services. This has been specifically set out in the Bank's Board- approved Budget Document in early 2020 and communicated internally during FY21. Under full cost recovery, the Bank needs to recover both (a) the direct costs of the secretariat: salaries, consulting fees, travel, etc. and (b) the associated indirect costs, i.e., the cost of corporate services provided in support of operational work, which amount to just over 28% mark up of direct costs.

52. Mr. Biswas explained that these corporate services include services that the CIF Secretariat and its staff and consultants depend on – the cost of HR services – remuneration, performance

management, learning, recruitment, etc.; accounting in terms of payroll, payments to vendors, accounting policies, internal fiduciary controls, also corporate procurement, budgeting, the core package of IT services (including the infrastructure of server and access to the cloud) that for instance has enabled all staff/consultants to work from home these past 2 years including the work ITS devotes to cyber security, the office space the secretariat occupies in the Bank's campus and related facilities management, the whole Washington and global security umbrella that the Bank provides including medical and security evacuations of staff on missions where necessary, health and safety and all the work that has been done by Dr. Brian Davey and his team and the Emergency Management Team of the Bank related to COVID-19 and medical services in general and related health costs, travel and visa services, internal justice, etc.

53. It is not possible to itemize these indirect services that the CIF secretariat enjoys from the Bank as many types of costs (including the cost of core IT systems, HR, accounting, facilities, security and internal justice) are not easy or even possible to include in such calculations, some of these being infrastructure costs shared by everyone and others being in the nature of insurance. In recognition of this, the Bank's Board adopted a "full absorption" cost attribution methodology in FY15 where the indirect costs is split between IBRD, IDA and the various types of External Funds, based on the share of operational work that is financed by each funding source. Around 22% of total cost is related to indirect costs, with the remaining 78% related to operational costs, i.e., for each 78 cents of operational cost, such as the cost of the CIF secretariat, the Bank needs on average 22 cents to cover related corporate services costs; this is equivalent to a 28% mark up on direct operational costs. In fact, in FY21, the total indirect costs of the Bank (excluding senior management costs which are not included in the calculation) amounted to $995m, or 32% of the Bank's operational cost of $3,110m.

54. Mr. Biswas concluded by noting that the Bank continues to pursue prudent budget management policies and cost efficiencies on an ongoing basis so as to keep our cost base financially sound and which also benefits our donors with lower costs being passed on to external funds. This direction is being driven by the Bank's Board and management's desire for us to be as financially sustainable as possible, and as part of our partnership with external funds, the Bank looks to ensure these valuable relationships are also on a strong financial footing, and that the services provided are charged at cost. Ultimately, we have a common interest in ensuing shareholder funds are achieving their desired outcomes.

World Bank's response to questions from TFC members in the CIF TFC Meetings, June 2022

From: Shanu Biswas, Director, BPSCM, Budget, Performance Review & Strategic Planning, The World Bank

55. Many thanks for inviting me to speak at the Joint Meeting of the CTF and SCF Trust Fund Committee in late June. Following on the committee's request for further information related to the revised fee for hosting of the CIF Administrative Unit, we have prepared the following response. Please let me know if you have any questions or comments.

56. Agenda Item 4 of the SUMMARY OF THE CO-CHAIRS of the Joint Meeting of the CTF and SCF Trust Fund Committee, June 21 -22, 2022 Washington states that: The Committees note the proposed increase to the World Bank cost recovery rate and request the Budget, Performance Review and Strategic Planning (BPS) Vice-Presidency of the World Bank to provide further information in writing on the proposed this new rate for consideration by the Committees as soon as possible.

57. The Climate Investment Fund Administrative Unit (CIF AU) has elaborated on this by sharing with BPS specific questions raised by Committee members. In response, please find attached the statement provided at the June meeting by Shanu Biswas, Director, BPS. In addition to that statement, below are further clarifications in response to the more specific questions raised.

58. **Questions raised by the Netherlands**

Questions raised by the Netherlands	**World Bank Answers**
Provide a better description of how exactly CIFs did not historically cover WB costs and why not (a similar question was also asked by Germany)?	The previous rate of cost recovery of 17% applied on the cost of personnel was not sufficient to fully recover the Bank's actual indirect costs; that rate had been established in FY15 as a first phase of achieving better cost recovery. As an example, in FY21 total CIF AU expenses amounted to $9.5m (CTF TF071257 and SCF TF071276). Of this amount, $1.1 million was used to pay the cost recovery fee of 17% applied on the cost of personnel. This $1.1 million, however, was not sufficient to cover the $2.3 million of the Bank's indirect costs (see below for details) associated with CIF AU activities, and hence the need to raise the fee to fully cover costs.
If we are introducing the new system, how does this improve the cost recovery? How can WB costs be increased significantly after the contribution agreements have been signed?	It is important to note fees have been increased to fully recover the Bank's actual costs, not due to cost increases. Indirect cost is the cost of corporate services which enable all Bank staff to operate, such as the cost of facilities, security, HR, payroll and IT systems & support. In FY15 the Bank's Board of Directors endorsed a full absorption costing methodology to allocate indirect costs

	consistently and equitably across IBRD, IDA and External Funds. Based on this methodology, indirect costs are allocated pro-rata across all source of funds depending on the amount of operational (direct) cost they finance. Indirect costs, which are evenly spread across all staff and all units of the Bank, has since FY15 amounted to over 22% of the Bank's total annual cost, equivalent to over 28% of total operational (direct) cost. In FY21, the total indirect costs of the Bank (excluding senior management costs which are not included in the calculation) amounted to $995 million, or 32% of the Bank's operational cost of $3,110 million, the $995 million is shown in the table below.
Provide a solid analysis of the increase.	In FY21 IBRD/IDA covered around $180m of indirect costs, or corporate services costs, that were related to activities financed by External Funds, thereby hampering the IBRD/IDA's ability to respond to urgent client demands. As explained in the accompanying statement, following on commitments made to Executive Directors and World Bank shareholders, a full cost recovery fee of 22% of total cost (equivalent to 28% of direct costs) was introduced in FY21 for a broad range of different types of External Funds. The fee policy previously in place for hosting of FIF Administrative Units & Secretariates only allowed the Bank to recover around half of the associated indirect costs. Consistent with measures taken for other types of External Funds, the fee for hosting of FIF Secretariates was increased from 17% of the cost of personnel to 22% of total cost.

FY21 Indirect Costs by Unit	$m
Information and Technology Solutions	270
Global Corporate Solutions	152
Centrally Managed Depreciation - for facilities and IT Systems	115
External and Corporate Relations	79
Budget, Performance and Strategy	77
Human Resources	56
Treasury	47
WBG Finance and Accounting	46
Legal Services	44
Development Finance	25
Integrity Vice Presidency	20
Chief Risk Office	20
Strategy, Performance and Admin (includes corp. procurement)	11
Group Internal Audit	9
Health & Safety Directorate	9
Justice & Conduct Services (WBT, CRS, ESD, SB)	8
Office of Ethics and Business Conduct	6
Compliance and Data Privacy Office	2
TOTAL	**995**

59. **Question raised by Switzerland**

Question raised by Switzerland	World Bank Answer
Extent to which WB efficiency gains have been transferred to the CIF trust funds, given that it seems CIFs are contributing to reducing the costs of the World Bank without any reciprocal gains from WB efficiency savings.	As noted in the accompanying statement, The Bank has achieved considerable progress on budget sustainability. The Bank's Expenditure Review conducted up to 2018 reduced not only the cost base by $400 million a year Group wide, but also accrued to donors through lower costs as savings were retained in funding accounts and used for more and better outcomes. Cost efficiency measures continue to be applied and as part of the IBRD Capital Package in 2018, Management and the Board agreed to a series of commitments which included generating over $1 billion of efficiency savings and economies of scale by FY30 which the Bank is well on course in meeting; at end FY22, the Bank had implemented measures resulting in gross efficiency savings in FY19-22 of $527 million and economies of scale amounting to an additional $174 million. These cover measures such as corporate procurement savings through negotiations of new corporate contracts including for contracts covering airlines, facilities and IT; real estate and facilities savings; staff compensation reforms; travel and hospitality savings; and management of workforce structures. These initiatives supplement the original Expenditure Review savings and other initiatives such as the offshoring of corporate services to shared service centers in India and Bulgaria. All these savings reduce the cost base for both Bank funded services and those funded by external funds such as CIF AU.

60. **Questions raised by the Germany**

Question raised by Germany	World Bank Answer
How funds are being moved basically between the CIFs and the Bank (mechanism of cost recovery).	The new CIFAU fee of 22% of total cost, which replaces the previous indirect rate of 17% on the cost of personnel, will be set aside at the time of (CIF AU Budget) contributions being transferred to the CIF AU. However, the fee is only earned by the Bank on the basis of actual direct costs

	incurred by the CIF AU. The amount of fee earned is currently calculated and transferred to the Bank on a monthly basis. Any amount of fee set aside but not earned by the Bank (i.e., if the full CIF AU allocation is not used) is transferred back to the fund / donor that financed the CIF AU allocation.

61. **Questions raised by the India**

Question raised by India	World Bank Answer
Has the new indirect cost recovery been included in the cost recovery framework for Trust Fund's Bank directive issued in February 2021? Please provide additional clarifications in this regard.	The World Bank Policy on Trust Funds distinguishes between "World Bank Trust Funds" and "Financial Intermediary Funds". The Bank Directive for Financial Intermediary Funds (FIFs) issued February 26, 2022, is attached for reference. In accordance with this Directive (section 8 o.); "All costs associated with the activities and functions of the FIF Secretariat are funded by the FIF on a full cost recovery basis".

62. **World Bank and CIFAU's responses to subsequent additional questions from TFC members**

Questions from Netherlands	WB Response
Provide a better description of how exactly CIFs did not historically cover WB costs and why not (a similar question was also asked by Germany)? In FY21, CIF AU incurred indirect cost of USD 2.3 million and covered only USD 1.1 million of that cost. There is a reference to further explanation of the USD2.3 million that is unfortunately missing. **Question**: Could you share the exact calculation that assesses the indirect cost of the CIFs at USD 2.3 million?	Based on full absorption costing methodology endorsed by the Board in FY15, indirect costs are allocated pro-rata across all sources of funds depending on the amount of operational (direct) cost they finance. This methodology is applied across IBRD, IDA and all types of External Funds alike. Indirect costs (the cost of services provided by Institutional, Governance and Administrative Units in support of operational work) account for around 22% of the Bank's total cost. This is equivalent to 28% of operational (direct) cost (22/78= 28%). We understand that CIF AU operational (direct) cost (excluding the cost of the indirect fee rate on personnel) amounted to around \$8.3m in FY21, the indirect cost allocated to CIF AU is therefore around \$2.3m (28% of \$8.3m).

If we are introducing the new system, how does this improve the cost recovery? How can WB costs be increased significantly after the contribution agreements have been signed? The fee for hosting FIF Secretariates has been increased in FY21 from 17% of the cost of personnel to 22% of total cost. When we had the TFCC meetings I checked with our ED office and our multilateral department, and they were unaware of this decision. Also my colleague dealing with GEF was unaware. **Question**: Could you clarify exactly at what date through which board decision this decision was taken?	The FY21 World Bank Budget, approved by the Bank's Board on June 25, 2020 stated that "Several types of activities, such as Financial Intermediary Trustee and Secretariat Services, Externally Funded Outputs (EFOs) and Reimbursable Advisory Services (RASs), will be provided on a full-cost basis" (Para 46). This was followed by Bank wide communication (Kiosk Announcement) on the 4th of March 2021, stating that: "At the start of FY21 the Bank also revised the fees for Externally Financed Outputs and Financial Intermediary Fund (FIF) Trustee Services by applying a uniform 22% rate to fully recover associated indirect costs which amount to around 22% of total costs. Finally, by FY22, the fee charged to FIF Secretariats housed by the Bank will be revised to fully cover associated indirect costs, phasing out existing arrangements." The new fee for hosting of FIF Secretariats followed on several commitments made by Bank Management to shareholders and the Board of Directors to improve the World Bank's financial sustainability by, among other things, increasing cost recovery across all types External Funds so as to reduce the subsidy that IBRD and IDA provides to Externally Funded activities.
Provide a solid analysis of the increase. Indirect cost have been clarified as total for the whole World Bank. They added up to USD 995 million in FY21, of which USD 537 million was IT/systems ?! and USD 91 million was treasury/legal. The CIF annual budget also includes IT/systems, treasury and legal cost. **Question:** Please clarify how the Bank distinguishes between IT/systems, treasury and legal cost as indirect cost and as additional service to the FIFs? How does the Bank avoid double cost recovery?	The hosting fee gives the CIF AU access to the same set of Institutional, Governance and Administrative (IG&A) – or corporate - services that all regular Bank Units receive. This includes the cost of office space, security, medical services, IT infrastructure (eg for servers, cyber security, common systems like SAP), travel support, meetings and conference management, restaurant access, visa, commuter services, HR policies and procedures including performance management and recruitment of staff and consultants, accounting and payroll services, protection of immunities, and corporate communications to name a few areas. As the new hosting fee is being implemented none of these services will be charged directly to CIF, and there is therefore no "double charging" of these costs. However, exceptional costs incurred by IG&A Units for example in relation to issuing of bonds, may be charged separately subject to agreement by CIF. Please note that the Bank, in

	its capacity as Trustee (which we distinguish from our role as host of the secretariat) charges a fee for specific trustee services provided by our Treasury, Legal and Development Finance Units. These services are also provided on a full-cost basis and includes the fee of 22% for associated indirect costs.

63. **Questions raised by the Sweden**

Question from Sweden	**CIFAU Response**	**World Bank Response**
how do you foresee that a budget supplement to cover the increased World Bank cost recovery would be financed? Would you want such a supplement to be financed by additional donor grants, would you simply propose that a greater share of funding already available to the CIFs be used toward covering increased World Bank cost recovery, or would there perhaps be some other solution? I imagine additional grants would be difficult and disproportionately cumbersome from an administrative point of view, while allocating a greater share of funding for the purpose might affect funding available to operations.	Subject to TFC approval, any increased WB cost recovery expenses attributable to CTF and SCF trust funds will be charged to the CTF Trust Fund and the SCF Trust Fund's Administrative Account respectively. Investment income earned on CTF and ACT resources are used to cover administrative costs of the CTF and ACT programs, including costs related to country engagement activities and special initiatives. The same will also be used to cover the increased WB cost recovery attributable to the CTF Trust Fund. Similarly, investment income earned on SCF resources, as well as reflows, pooled in the SCF Administrative account, are used to cover administrative costs of all SCF programs, including costs related to country engagement activities and special initiatives. The same will also be used to cover the increased WB cost recovery attributable to the SCF Trust	As one of the CIF Implementing Entities, the World Bank enables the implementation of CIF financed operations to the benefit of the World Bank's and CIF's clients alike. Taking into account these benefits, the World Bank carries out its role as an Implementing Agency for CIF without fully recovering all associated costs. However, hosting of the CIF Administrative Units (AU), and other FIF Secretariates, is provided on a full-cost basis consistent with guidance from the Board and as set out in the Board approved World Bank's FY21 Budget and communicated Bank wide in March 2021. To fully recover its costs, the World Bank charges a fee of 22% of the total cost of hosting (this replaces the previous 17% indirect rate charged on the cost of CIF AU personnel). The hosting fee covers the cost of office space, security, medical services, IT infrastructure (eg for servers, cyber security, common systems like SAP), travel support, meetings and

	Fund. In case of the SCF Trust Fund, additional reserves have also been set aside pursuant to the March 2018 SCF Trust Fund Committee decision on the Long Term SCF Administrative Costs and Funding Options. Accordingly, at this time, we do not anticipate the need in either the CTF or SCF Trust Funds for additional donor grants to cover the increased WB cost recovery expenses.	conference management, restaurant access, visa, commuter services, HR policies and procedures including performance management and recruitment of staff and consultants, accounting and payroll services, protection of immunities, and corporate communications to name a few areas. To accommodate the CIF budget and replenishment cycles the World Bank agreed to apply the new hosting fee only from FY23, and the original FY23 CIF budget proposal included the cost of the increased fee. However, the CIF Steering Committee approved a budget that did not take the fee increase into account. To cover the cost of the new fee, to be implemented in FY23, the CIF AU will therefore have to adjust planned expenses unless the CIF Steering Committee agrees to a budget increase. We note that expenses in previous years have been below the budgeted amount, and hope that CIF AU can find a way to cover part or all of the fee increase within the existing budget.

64. **Questions from USA:**

USA	Responses
An explanation of whether these cost increases apply to the whole CIF budget or the specific line items that will be effected.	The CIF AU hosting fee applies to any activity carried out by the CIFAU (unless CIF AU staff carries out activities separately requested by the World Bank). The CIF AU would have to advise on impact on separate line items.

An analysis of how much these cost increases will impact the available programming budget for the CIF over the long-term and whether these cost recovery rates are expected to stay stable or increase again	The fee increase (from 17% on the cost of personnel to 22% of total cost) will allow the Bank to fully recover its costs associated with hosting of FIF Secretariates and Administrative Units. No further fee increases are planned.
Also, while we understand why it might be convenient for WB to aggregate the indirect costs in table provided, the number lacks detail about how much of the indirect cost is attributable to IBRD/IDA/ and the external funds etc. Given that this TFC oversees the CIFs, it would be useful to know what share of indirect costs are attributable to the CIF.	Based on full absorption costing methodology endorsed by the Board in FY15, indirect costs are allocated pro-rata across all sources of funds depending on the amount of operational (direct) cost they finance. This methodology is applied across IBRD, IDA and all types of External Funds alike. Indirect costs (the cost of services provided by Institutional, Governance and Administrative Units in support of operational work) account for around 22% of the Bank's total cost. This is equivalent to 28% of operational (direct) cost (22/78= 28%).

65. **Questions from Brazil**:

Questions from Brazil	**Response**
"Regarding the e-mail below, while the attached document (Note on cost recovery) states that the World Bank is "replacing the previous 17% indirect rate on the cost of personnel with a 28% fee on all CIF Secretariat direct costs", the WB director's text in body of the e-mail states that "a full cost recovery fee of 22% of total cost (equivalent to 28% of direct costs) was introduced in FY21 for a broad range of different types of External Funds". The difference between "total cost" and "direct costs" remains unclear to us. The use of different information in the Note and in the body of the e-mail is confusing.	Total cost is the sum of the direct (operational) cost plus the indirect (corporate services) cost, a fee of 22% of total cost is equivalent to a fee rate of 28% on top of direct (operational) cost (22/78=28%).
The text in the body of the e-mail also says the decision is "consistent with measures taken for other types of External Funds". It is not clear to us what the World Bank means by "other types of External Funds". Does	The FY21 World Bank Budget, approved by the Bank's Board on June 25, 2020 stated that "Several types of activities, such as Financial Intermediary Trustee and Secretariat Services, Externally Funded Outputs (EFOs)

the same fee apply to all FIFs or different rules apply to different FIFs?	and Reimbursable Advisory Services (RASs), will be provided on a full-cost basis” (Para 46). Today, these services are provided on a full cost basis, with 22% of total charges going towards covering the Bank’s indirect costs.
It would also be helpful to know the fees that apply to other FIFs (like the GEF and others) for comparison.	The requirement of full cost recovery applies equally to the housing of all FIF Secretariats (and also applies to RAS, EFO, FIF Trustee services etc). However, taking into account the budget & replenishment cycles of various FIFs, the new fee is being phased in at slightly different times for different FIFs. In the case of GEF, which currently is paying separately for facilities and bespoke IT developments, the fee will be adjusted to take this into account.
The Note also states that “for each 78 cents of operational cost, such as the cost of the CIF secretariat, the Bank needs on average 22 cents to cover related corporate services costs; this is equivalent to a 28% mark up on direct operational costs”. In order to understand the change in the fee, it would be important to have access to the calculation memory that led to those numbers.	The breakdown of the different components included under “indirect cost” as well as the share of total cost was included in our response to questions raised by the Netherlands.

Annex 2: NPC Country Engagement Budget for Investment Plan Preparation (CE-IP)

66. The NPC program was officially launched on June 1, 2022. During the intersessional meeting held on October 25, 2022, the GCAP Sub-Committee invited the following four countries and one regional group to develop investment plans for the program's first phase of implementation: Dominican Republic, Egypt, Fiji, Kenya and Zambezi Basin regional program ((Zambia, Malawi, Mozambique, Namibia and Tanzania). The GCAP Sub-Committee also requested the MDBs to prepare a proposal to right-size allocations for each expression of interest based on a total indicative allocation of up to USD 200 million and submit a proposal to the Sub-Committee for endorsement.

67. The GCAP Sub-committee further agreed that, upon receipt of additional contributions to NPC, the following countries will be invited to receive investment funding: Brazil, Ethiopia, Rwanda, Zambia and Namibia. The Sub-Committee agreed that each country or regional group selected above to develop an investment plan could receive up to USD 500,000 as an Investment Plan Preparation Grant (IPPG) to enable them to take a leadership role in developing the plan with relevant MDBs. Subsequently, the CIF Administrative Unit circulated the document "Operational Guidelines – CIF NPC Investment Plan Development Process", which outlines the general steps to launch the investment plan process for NPC.

68. Upon receiving an invitation to develop an investment plan for NPC, an applicant country is expected to invite relevant MDBs to a scoping mission. During the scoping mission, an agreement is expected to be reached with the government on the scope of assistance needed for planned activities under the program and administrative arrangements to facilitate it. Such assistance is requested as an IPPG, to be disbursed after the initial scoping mission.

69. Requests for IPPG or any advance funding is submitted to the CIF Administrative Unit any time after the scoping mission, which then convenes an MDB Committee meeting to review and approve the proposed funding. Upon endorsement by the MDB Committee, the CIF Administrative Unit will circulate to the relevant Trust Fund Committee, for its information, the proposal requesting the funding, including the approved amounts of funding and proposed uses, and post the funding request publicly.

70. MDBs assist invited countries throughout the investment plan preparation process, including through the country-led joint missions. Joint missions are organized in collaboration with the MDBs and the CIF Administrative Unit to assist with the development of the investment plan and subsequent programming. The objective to collaborate with the invited country or region in developing investment plans for activities consistent with the overall program objectives and

investment criteria for programming priorities. Country governments lead and coordinate the joint mission, which includes teams from MDBs and key government agencies. In some cases, additional joint missions may be needed to develop the investment plan.

71. Prior to commencing a joint mission, invited countries undertake preparatory work necessary to ensure smooth conduct and maximum outputs. A Terms of Reference (TOR) for the Joint Mission is submitted to the MDB Committee for approval, along with a request for necessary funding to cover MDB budgetary requirements for their support to the country. A resource pool (CE-IP) to cover costs of such MDB support to country engagement is made available through the country engagement allocation in the annual CIF Administrative Budget upon approval by the Trust Fund Committees.

72. The authority to review and endorse MDB requests to access CE-IP funds has historically been delegated to the MDB Committee, and it is proposed to continue the same practice in case of newly approved and launched programs under CTF and SCF, including NPC. On a continuing basis, the MDB Committee will review and approve or endorse IPPG requests, joint mission TORs, and CE-IP funding requests. The CIF Administrative Unit, in turn, will notify the relevant Trust Fund Committee and posts the relevant documentation (without the budget) on the CIF website before a joint mission begins.

73. MDB requests for CE-IP budget approvals will outline the scope, nature, and timing of the envisaged activities for investment plan preparation, the role of each MDB, arrangements for collaboration between MDBs and other development partners, and the costs and funding sought, including its allocation to participating MDBs. CE-IP requests by MDBs are on the basis of full cost recovery for the relevant MDBs and are a best estimate of expected administrative cost until the submission of the investment plan, with a reimbursement of actual costs on the completion of the investment plan. It is expected that such requests should be guided by the principles of cost consciousness, reasonableness, transparency, and fair cost sharing between the relevant CIF program and the MDBs' own budgets.

74. After approval by the MDB Committee, the Trustee releases the approved IPPG and CE-IP funds to the respective MDBs according to procedures and timing set out in the SCF Financial Procedure Agreements. The transfer will involve the endorsed sum in its entirety, which will carry over into the following year in the event work is extended beyond the current year. Unused funds at the completion of an investment plan will be returned to the Trustee.

75. The CIF Administrative Unit will track and report annually to the Trust Fund Committee, all CE-IP funding approvals, including information on funding approved by the MDB Committee, approval date, and balance of CE-IP funds available. Such tracking also assists the MDB Committee in monitoring commitments relative to the overall CE-IP resource pool and in

ensuring that funding is allocated with a view to financing all requests necessary to meet the needs of the countries and MDBs throughout the investment plan preparation process. By the end of every fiscal year, a financial reconciliation of CE-IP allocations and usage will be done in collaboration with the CIF Administrative Unit and the Trustee, and final reimbursements made based on reported actual costs.

76. Additionally, MDBs are required to report annually to the Trustee on the use of programming (CE-IP) funds as specified in the Financial Procedure Agreement: "within forty-five (45) days after the end of each administrative budget fiscal year (or such other frequency agreed with the Trustee), (i) the cumulative amount of funds received by the Implementing Entity for the administrative budget during the year reported; and (ii) the final amount disbursed or used and the amount of any unused funds from the administrative budget for the administrative budget fiscal year reported, broken down by each sub-category of the administrative budget, substantially in the form attached to this Agreement as Annex L." MDBs are also required to return unused CE-IP funds to the Trustee at the end of the relevant IP preparation activity.

77. **Budget norms:** Historically, due to various constraints faced by MDBs to accurately estimate in advance their support costs for investment plan preparation activities, budget norms were adopted as CE-IP (previously known as Country Programming) benchmarks to help the MDB Committee review funding requests for MDB support services in investment plan preparation. These budget norms were continuously reviewed and adjusted over the years to reflect growing experience in the investment plan preparation process and the associated support costs incurred by MDBs.

78. An analysis of historical country programming net costs for investment plan preparation activities (including investment plan updates) from FY09–FY14 shows that MDBs spent an average per country/region of around USD 204,000 (CTF), USD 378,000 (PPCR), USD 391,000 (FIP), and USD 237,000 (SREP), with a weighted average spend of around USD 300,000.

79. For the current set of invited NPC countries, it is proposed that an initial indicative CE-IP budget of USD 250,000 per invited country and USD 300,000 per invited regional group be provisioned to the NPC CE-IP resource pool. The following factors were considered to arrive at this initial indicative CE-IP budget:

    a. Extent of similarity in investment plan preparation processes and efforts between the old and new SCF programs
    b. Pool of countries being currently piloted and relative difficulty in undertaking investment plan preparation activities
    c. Experience gained by MDBs in investment plan preparation for CTF and SCF programs, including ACT and REI, and consequent economies that could potentially be achieved

d. Cost inflation since the investment plan preparation phase closed for the original CTF/SCF programs.

80. The indicative CE-IP budget will be reviewed on a periodic basis to consider experience gained by MDBs in supporting investment plan preparation activities, and appropriate adjustments to the resource pool will be requested through the annual CIF administrative budget. The MDB Committee will use the indicative CE-IP budget as a benchmark to approve MDB requests for CE-IP funds and endorse appropriate amounts of CE-IP funding. However, MDBs will eventually be compensated for all reasonable country engagement expenditures incurred in support of investment plan preparation on an actual cost basis.

81. Accordingly, an amount of USD 2,550,000 is being requested to create a CE-IP resource pool for NPC from which MDBs can request the GCAP MDB Committee to approve appropriate amounts of CE-IP budgets to cover MDB costs in support of the relevant invited NPC countries and regions. While reviewing and endorsing any new CE-IP requests from MDBs, the MDB Committee will consider the CE-IP funding already allocated and disbursed to the relevant MDBs.

Annex 3: CCMM Proposal Development – FY23 Estimated Costs for the Trustee Services

82. The CTF Trust Fund Committee (TFC) requested the CIF Administrative Unit, the Trustee and other IBRD Finance Partners and the Implementing Entities to prepare budgets for activities envisaged to further the design and finalization of the CCMM proposal up to the end of the 2023 fiscal year (June 30, 2023) in accordance with the timeline presented to the CTF TFC.

83. This additional budget proposal includes the estimated costs of the Trustee and other IBRD finance partners for CCMM-related activities in FY23 and has been prepared in accordance with the World Bank's full cost recovery principle.

84. In particular, the activities covered will support the following objectives:

i. Design, finalization and TFC approval of the final CCMM structure;
ii. Finalization of non-bond and bond legal documentation;
iii. Finalization of financial, risk management and operational frameworks and documents;
iv. Finalization of the financial reporting requirements and timelines;
v. Review of the trust fund structure to support the final CCMM structure;
vi. Engagement in consultations and negotiations with the relevant external and internal stakeholders, such as contributors, MDBs, CCMM Issuer transaction parties, IBRD's senior management; and
vii. Engagement of rating agencies and coordination of information needs for the credit rating assessment.

85. Table 1 includes the estimated costs to support the proposed CCMM work. The actual costs incurred will depend on the pace of CCMM progress.

Component Service	CCMM Proposal
Total	**1,934.0**
Design final CCMM Structure for TFC approval, including review of the capital adequacy model, financial, risk management and operational frameworks, and trust fund structure	372.0
Finalize financial reporting requirements and timelines, including loan loss provisioning/fair value methodologies and accounting policies	385.0
Finalize legal non-bond and bond documentation	380.0
Engage internal and external stakeholders (contributors, MDBs, internal approvals)	337.0
External Accounting and Audit consultation fees and rating agency fees	460.0

The Climate Investment Funds

The Climate Investment Funds (CIF) were established in 2008 to mobilize resources and trigger investments for low carbon, climate resilient development in select middle and low income countries. To date, 14 contributor countries have pledged funds to CIF that have been channeled for mitigation and adaptation interventions at an unprecedented scale in 72 recipient countries. The CIF is the largest active climate finance mechanism in the world.

THE CLIMATE INVESTMENT FUNDS

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