

Fund for responding to Loss and Damage

FLD/B.3/4/Rev.1

19 September 2024

Third meeting of the Board

18–20 September 2024

Baku, Azerbaijan

Provisional agenda item 6

Report of the ad hoc subcommittee on the administrative budget on matters relating to cost recovery of the World Bank

Summary

This report documents the work done by the ad hoc subcommittee on the administrative budget and its engagement with the World Bank on matters of cost recovery.

The Board may wish to take note of the information contained in the report and take any action it deems necessary.

[Insert table of contents using the macro if desired]

I. Background

1. The Conference of the Parties (COP) and the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement (CMA) decided by decision 1/CP.28 and 5/CMA.5 (Para 26) to establish an interim secretariat for the Fund for responding to Loss and Damage (the Fund) to provide support, including administrative support, to the Board of the Fund during the transitional period until the establishment of the independent secretariat of the Fund, and requested the secretariats of the UNFCCC and the Green Climate Fund (GCF), and invited the United Nations Development Programme (UNDP) to jointly form the interim secretariat.¹ Furthermore, under paragraph 10 of the same decisions, the COP and the CMA requested the UNFCCC secretariat to initiate arrangements for convening the first meeting of the Board (B.1) and to convene subsequent meetings until the independent secretariat of the Fund is operational.
2. The GCF secretariat, the UNFCCC secretariat and UNDP (the three entities) have been working together since January 2024 to provide support, including administrative services, to the Board as well as the organization of the meetings of the Board, driven by the objective of operationalizing the Fund.
3. By Decisions 1/CP 28 and Decision 2/CMA 5, paragraphs 17 and 19, the COP and the CMA invited the World Bank to operationalize the Fund as a World Bank-hosted financial intermediary fund (FIF) for an interim period of four years and to take the steps necessary to operationalize the Fund as an FIF promptly and to submit to the Board by no later than eight months after the conclusion of COP 28 the relevant FIF documentation.²
4. In response to the initial request to provide information in support of the proposal to serve as the host of the Fund, the World Bank submitted information on 27 April 2024, before B.1. Representatives of the World Bank also spoke at both B.1 and B.2 on the ongoing discussions and to answer questions.
5. At B.1, decisions B.1/D.7 and B.1/D.8- Under agenda item 7, “Matters relating to the operationalisation of the Fund as a World Bank-hosted financial intermediary fund” " the Board welcomed the confirmation made by the World Bank that it will, as trustee, enter into financing agreements on behalf of the Fund,³ and requested the Co-Chairs of the Board to engage with the World Bank on the scope, structure and elements of the FIF documentation, a hosting agreement and a trustee agreement between the Board and the World Bank.⁴
6. The World Bank submitted its written response accepting the conditions as set out for the agreement to serve as Trustee and host of the secretariat. At B.2, the World Bank representatives provided the Board with information regarding the hosting arrangements.
7. At B.2, decision FLD/B.2/D.11 considered the workplan of the Board for 2024–2025 and provided the following guidance:
 - (a) At B.3, to approve the administrative budget for the secretariat of the Fund;
 - (b) At no later than B.5, to approve the administrative budget and workplan for the secretariat, linked with the hosting arrangements between the World Bank and the Board, and the time frame of the establishment of the new, independent, dedicated secretariat.⁵
8. The workplan of the Board would also be revised and considered in the ongoing discussions with the World Bank, to determine whether the interim secretariat or the World Bank would lead on discussions relating to cost recovery and resource implications.

¹ by decision 1/CP.28 and 5/CMA.5 (para. 26)

² in accordance with decisions 1/CP 28 and decision 2/CMA 5, paragraphs 17 and 19, t

³ decisions B.1/D.7

⁴ B.1/D.8

⁵ Decision FLD/B.2/D.11.

II. Mandate given to the ad hoc subcommittee on the administrative budget

9. Taking into consideration paragraphs 7–8 above, the ad hoc subcommittee on the administrative budget (Budget Committee) has been mandated to address the issue of cost recovery. The next steps were agreed as the following:

(a) Provision of a report to the Board by 15 August 2024 on cost recovery of the World Bank with respect to the services to be provided, both as Trustee and as host of the secretariat of the Fund.

(b) Provision of a report to the Board by 15 August 2024 on cost recovery of services that the World Bank may/will provide during the transitional period until the establishment of the independent Secretariat of the Fund, together with the necessary reporting arrangements by the World Bank for such cost recovery.

10. This report addresses the above mandate given to the Budget Committee.

III. Engagement with the World Bank

11. The Co-Chairs of the Budget Committee first met with World Bank representatives in person in the margins of B.2 on 8 July 2024. At that meeting, they discussed a request for further information and responses to several questions, which were then sent to the World Bank in written form on 15 July 2024. T

12. The Co-Chairs of the Budget Committee met virtually with World Bank representatives on 1 August 2024 to discuss the responses of the World Bank submitted to the information request. At the meeting, the timeline of the transition between the Interim Secretariat and the World Bank was discussed, as well as details of the cost recovery methodology and structure. All parties in attendance emphasized the importance of drafting clear plans for the way forward and collaborating transparently and constructively to maximize the impact of the Fund.

IV. Analysis of World Bank cost recovery

13. The costs associated with hosting the Fund's secretariat are divided into two categories:

(a) Direct costs;

(b) Indirect costs (i.e. cost recovery at a rate of 20.48 per cent of direct costs, which translates into 17 per cent of total costs).

14. **Direct costs** are those associated with the work done for the Fund that are directly charged, such as staff hired to work on a mandated technical documents to be produced for the Board, travel to Board meetings and hiring of an executive search firm to select the Executive Direct (ED), and also includes the direct costs/budget of the secretariat and the Board meetings being organized by the World Bank.

15. **Indirect costs (subject to cost recovery)**, as listed in paragraph 16 below, are charged at a rate of 20.48 per cent of the direct costs to cover the costs of hosting the Secretariat.

16. The indirect cost rate covers the following services under the hosting arrangement:

(a) Facilities;

(b) Security;

(c) Human Resources support;

(d) Health and safety;

(e) Basic information technology (IT) support (e.g. licences, cybersecurity and software such as standard World Bank applications);

- (f) Compliance and data privacy;
- (g) Development Finance support (not including in its capacity as Trustee);
- (h) Internal communication services;
- (i) Staff privileges and immunities;
- (j) Limited treasury services;
- (k) Finance and accounting services (e.g. payroll, handling of transactions);
- (l) Certain World Bank Group governance services (e.g. internal justice, integrity and ethics).

17. Costs for any additional services not covered by the hosting arrangement will be charged on an actual basis. Examples of these include:

- (a) Specific legal and communication services provided to the Fund;
- (b) Bespoke IT developments.

18. The World Bank has confirmed that these services are provided as a package that cannot be broken out for lower cost recovery rate. The exception is the cost of office space leased separately outside of Bank premises. If the Fund were to rent its own premises in Washington, D.C., the fee charged would be reduced by the lower of;

- (a) USD 31.27 per rentable square foot;
- (b) The Fund's actual cost of office lease & operations.

A. Budgetary impacts

19. Based on the time period and nature of services offered by the World Bank and the interim secretariat, the overall costs have been split into the following elements. Until the new and independent secretariat is established, the interim secretariat will continue to provide certain services, while the World Bank will also be tasked with functions in the interim period. A transition plan is being developed using the information provided by the interim secretariat and the World Bank: it is critical for the Budget Committee and the Board to review the entirety of functions and properly assess budgetary impacts. Details on the budgetary impact of each element are shown in the following paragraphs.

- (a) Costs incurred before 30 June 2024;
- (b) Cost related to the selection of the Executive Director;
- (c) New and independent secretariat hosting-related costs incurred by the World Bank between 1 July 2024 and 30 June 2025 (during the transition period);
- (d) FIF Trustee costs;
- (e) Administrative expenses of the Board;
- (f) Interim secretariat costs (during the transition period);
- (g) Implementing entity arrangements.

1. Costs incurred before 30 June 2024

20. The costs incurred by the World Bank before 30 June 2024 are absorbed by the World Bank and will not be charged to the Fund. As per the World Bank, these costs are estimated at USD 1.5 million.

2. Cost related to the selection of the Executive Director

21. The direct costs related to the selection of the ED include the fee for the executive search firm at USD 135,000. This expenditure will be shown as part of the direct costs of the secretariat hosting costs budget.

22. An indirect cost recovery rate of 20.48 per cent will be applied to cover the indirect costs, which include the World Bank's Human Resources support throughout the ED recruitment process.

3. New and independent secretariat hosting-related costs incurred by the World Bank from 1 July 2024 to 30 June 2025

23. An estimate of the new and independent secretariat hosting-related costs is provided in table 1. This preliminary estimate was provided by the World Bank as per information available at the time. After finalizing the transition plan, a more accurate estimate will be provided by the World Bank and reviewed in line with the transition plan.

Table 1: Estimated hosting costs – July 1, 2024 – June 30, 2025

S. No	Category	Jul – Dec 2024	Jan – Jun 2025	Total
1	Executive Search firm	135,000	-	135,000
2	Staffing costs	971,000	973,000	1,944,000
3	Travel	120,000	80,000	200,000
4	Short Term Consultant costs	60,000	60,000	120,000
	Total Direct costs	1,286,000	1,113,000	2,399,000
5	Indirect costs	263,000	228,000	491,000
	Total incl. Indirect costs	1,549,000	1,341,000	2,890,000

24. The costs presented in table 1 do not cover other FLD Board-specific costs, such as Executive Director staff costs, travel of developing country delegates to Board meetings, preparation of papers for Board meetings by the interim Secretariat.

4. FIF Trustee costs

25. An estimate of the Trustee services costs was provided by the World Bank as per table

Table 2

S. No	Trustee services	Jul – Dec 2024	Jan – Jun 2025	Total
1	Financial and Program Management	236,000	214,000	450,000
2	Investment Management ^a	74,000	81,000	155,000
3	Accounting and Reporting	50,000	33,000	83,000
4	Legal Services	250,000	166,000	416,000
	Total costs	610,000	494,000	1,104,000

^a Investment management cost is a variable cost that is calculated based on 4.5 basis points of the average annual balance.

26. The Trustee services for the Fund include the following:

(a) **Financial and programme management** includes the drafting, negotiating and executing of the Trustee Agreement with the Board, as well as drafting, negotiating and executing contribution agreements with contributors and financing agreements with the Implementing and direct access entities. In addition, management and execution of financial activities, including receiving and applying receipts of donor contributions, recording allocations and commitments of resources for approved activities, processing cash transfers to implementing and direct access entities using World Bank financial systems and procedures, and financial reporting for the FIF. It also includes collaboration with the Board and secretariat, as well as provision of policy advice and guidance to stakeholders, as needed;

(b) **Investment management** fees are calculated as a flat fee of 4.5 basis points (0.045 per cent) of the average annual balance of the undisbursed cash in the FLD FIF. The projected average annual balance is USD 344 million for the year July 2024 – June 2025 (FY25). The actual investment management costs may vary depending on the actual average liquidity level during FY25.

(c) **Accounting and reporting** include the management of the accounting model for the FLD FIF, clearance of agreements and maintenance of appropriate records, accounts, and systems to support financial reporting;

(d) **Legal services** include drafting, negotiation and processing of the Trustee agreement, contribution agreements with donors, financing agreements with implementing entities, and possibly direct access recipients. More particularly in addition to the above, there will be services rendered by Legal for operationalization of the Fund at establishment, which include the preparation of:

- (i) The trustee agreement between the World Bank and the FLD Board
- (ii) A contribution agreement template
- (iii) One or more financing agreement templates
- (iv) Negotiation of the contribution agreements and financing agreements with individual donors and implementing entities/recipients, respectively
- (v) Provision of policy advice and legal review on issues as they may impact the fund and the services of the Trustee
- (vi) Provision of policy advice and amendment of existing legal documents as required.

5. Administrative expenses of the Board

27. During the meetings with the World Bank, the World Bank indicated that it assumed that the Board meetings would be organized by the interim Secretariat until the ED is onboarded. The World Bank will not provide the costs associated with the organization of the Board meetings.

28. The interim secretariat will provide the estimated cost of organizing the Board meetings in the transition period until after the ED is onboarded and present it to the ad hoc subcommittee on the administrative budget and the Board as it did for the year ending 31 December 2024.

29. The estimated costs will include the following elements:

- (a) Travel arrangements for the funded Board members and advisers
- (b) Venue and logistics costs

30. In the future, when the independent Secretariat arranges Board meetings, the indirect cost recovery rate of 20.48 per cent will also be applied to the direct costs.

6. Interim Secretariat costs (during the transition period)

31. The interim Secretariat will continue to provide specific functions until the ED is onboarded and the independent Secretariat is fully operational. During this period, the World Bank will cover other functions as specified in the transition plan. The Co-Chairs of the Board, taking into account information provided by the World Bank and the Interim Secretariat, are in the process of finalizing the transition plan. Once the transition plan is finalized, the cost estimate for the additional support by the interim Secretariat beyond 31 December 2024 will then be calculated and communicated by the interim Secretariat at the fourth meeting of the Board.

32. The costs relevant to each function will be reflected in the interim Secretariat budget request. The budget request and the function/output as per the transition plan should be directly associated.

33. There should be no duplication in the functions performed by the World Bank and the Interim Secretariat.

34. After the initial contribution pledges at COP 28, the Government of Japan transferred USD 10 million to the UNFCCC secretariat to support the Fund's operationalization until the new and independent Secretariat is established, with the understanding that the unutilized funds would be transferred to the independent Secretariat/Trustee of the Fund.

7. Implementing entity arrangements

35. More information and details are needed about the potential implementing entity arrangements to allow more refined details regarding the cost recovery. However, the World Bank confirmed that it would commit to a maximum cost to FLD for delivering grants/loans to clients. This maximum cost per grant/loan would include the cost of project appraisal and supervision, the cost of internal World Bank coordination, and all related fees.

36. The cost to FLD would:

(a) For grants/loans up to USD 20 million, be limited to the higher of (i) USD 400,000 and (ii) 4 - 8 per cent of the grant/loan amount;

(b) For grants/loans of USD 20 – 100 million, be no more than 3- 6 per cent of the grant/loan amount and;

(c) For grants/loans of over USD 100 Million, be no more than 1 – 2 per cent of the grant/loan amount.

B. Charging methodology and reporting

37. After approval of the above budgets for the items managed by the World Bank, the amount would be deducted from the Trust Fund. After the year-end, a reconciliation exercise will be done for the actual charges. Any over or under-usage will be adjusted.

38. As per the World Bank, the report on cost recovery will be provided through unaudited financial reporting through the World Bank Development Partner Center.

2. 4.3 Benchmarking with other financial intermediary funds

39. World Bank representatives confirmed that all FIFs were handled with uniform financial structures and guidance. One notable exception was the Global Environment Fund, which had negotiated a different rate for its cost recovery based on direct costs for office space outside the World Bank premises.

V. Recommendations to the Board

40. In accordance with decisions 1/CP.28 and 5/CMA.5, the World Bank's hosting should be carried out in a manner that ensures a cost recovery methodology that is reasonable and appropriate. It is advised that the Board consider the following principles and recommendations while reviewing the cost recovery methodology and approach. Implementing these principles and recommendations will ensure good governance practices as expected from the Board and the Fund.

5.1 Key Principles to consider

41. **Transparency:** It is important that the World Bank to provide clear, accessible and comprehensive information regarding all costs incurred and the basis for cost recovery. The Fund should be provided with calculations of the cost recovery rates and the services offered. Regular reporting and readily accessible financial information would greatly enhance transparency.

42. **Accountability:** Establishing systems and procedures to hold the World Bank accountable for the costs incurred and the effectiveness of fund management. The agreements should clearly define the World Bank's duties and expectations.

43. **Efficiency:** The costs recovered should be reasonable and reflect the efficient use of resources. The Fund should regularly evaluate whether the World Bank is effectively managing administrative and operational costs, using benchmarks against comparable organizations and other Financial Intermediary Funds.

44. **Value for Money:** The Fund should ensure that the fees paid result in commensurate benefits, providing good "value for money".

45. **Equity:** Cost recovery mechanisms should be fair and equitable, ensuring they do not disproportionately impact the Fund. Conducting periodic benchmarking exercises will ensure the fund is treated equitably.

46. **Stakeholder Engagement:** Active engagement and communication from the World Bank regarding the cost recovery are essential. Promptly addressing any issues or concerns will foster a collaborative relationship.

47. **Aligning costs with strategic objectives:** There should be a direct alignment of the budget requests with the strategic objectives. All the budget requests for direct costs should be substantiated with a clear breakdown of the costs along with the unit costs and the basis of the budget calculation.

5.2 Indirect cost recovery rate

48. The World Bank has confirmed that the proposed cost recovery rate of 20.48 per cent is applied consistently for all the FIF hosting agreements, except for the cases where the FIF office is located outside the World Bank premises.

49. This recovery method, which results in indirect costs representing 17 per cent of the total costs, which is 20.48 per cent of direct costs, has been audited by PwC and considered reasonable, considering indirect costs represent 23 per cent of the World Bank's total costs.

50. Taking into consideration the information provided by the World Bank and the limited time to conduct a full-scale assessment of the cost recovery rate, the ad hoc subcommittee on the administrative budget has expressed no objection to the cost recovery rate proposed by the World Bank. In this regard, the ad hoc subcommittee on the administrative budget recommends that the calculations and principles applied by the World Bank be evaluated in the context of the independent assessment of the performance of the World Bank as the host of the Fund's secretariat specified in paragraph 24 of the decisions 1/CP 28 and 2/CMA 5.

51. In line with the principles of good governance and budgetary oversight, any change to the cost recovery principle and rates will be reflected in the Fund's budget, which will be approved by the Board.

5.3 Accounting and budget framework:

52. The Fund should develop and document the Policies and Procedures to be applied by the secretariat and the Board to manage its resources. The Framework should encompass:

- (a) Accounting principles, financial reporting standards
- (b) Budget ownership and processes, including preparation, execution, reporting and approvals

53. The Accounting and Budget Framework should be consistently updated to reflect emerging needs. It is advisable that these updates be discussed regularly during the Board meetings to ensure alignment on the principles and rules governing this area. Some of the items might also impact the World Bank's work and reporting requirements

5.4 Budget process and ownership:

54. The accounting and Budget Framework policies are being finalized; in the interim, the budget process and ownership should be defined so clear responsibilities and duties are articulated in the agreements with the World Bank.

55. The ad hoc subcommittee on the administrative budget recommends that all budget proposals, including those from the World Bank as the host and the Trustee, the budget proposal for the interim Secretariat, the proposal from the Independent Secretariat, and the budget proposal for the Board meetings, be reviewed by the ad hoc subcommittee on the administrative budget prior to their review and approval by the Board. Any over-execution should also be reviewed and analysed by the ad hoc subcommittee on the administrative budget and presented to the Board for review and approval.

56. The costs of the Independent Secretariat and the World Bank during the transition period should be separately budgeted and reported. This will enhance the transparency of the costs.

57. The ad hoc subcommittee on the administrative budget recommends to maintain the budget oversight function through a permanent, dedicated committee on administrative matters. This Committee will collaborate with the secretariat on all administrative budget matters and will forward the recommendations to the Board for review and approval.

58. It is crucial to retain the budget preparation function within the secretariat, independent of the World Bank. This will also help maintain an in-house resource to reconcile the cost recovery charges.

59. The function will work on preparing the budget, collaborating with the World Bank on the budget preparation, as needed, and supporting the Executive Director in preparing the workplan-aligned budget. The function will also consult with the ad hoc subcommittee on the administrative budget on Administrative budget matters, report on the Execution of the Administrative Budgets, and prepare ad hoc financial reports as needed.

5.5 Fiscal year, currency, financial statements and audits

60. The ad hoc subcommittee on the administrative budget recommends a clear definition of the Fiscal year for budget and reporting purposes, including the establishment of the reporting currency.

61. Per Article VII of the Trustee Agreement, The Trustee maintains separate records and ledger accounts in respect of the funds deposited in the Trust Fund account and transfers made from the fund..

62. The Trustee will prepare and furnish to the Fund Board, through the secretariat, annual (or at any other frequency agreed between the Fund Board and the Trustee) financial reports of the Trust Fund on the receipts in, transfers from and fund balance of the Trust Fund in the relevant Holding Currency.

63. The Trustee will provide to the Fund Board, within six (6) months following the end of each World Bank fiscal year, an annual single audit report, comprising: (a) a management report together with an audit opinion from the World Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (ii) a combined financial statement for all cash-based trust funds together with the World Bank's external auditor's opinion thereon. The cost of the single audit will be borne by the World Bank.

64. If the Fund Board or a Contributor wishes to request, on an exceptional basis, a financial statement audit by the World Bank's external auditors of the Trust Fund, the Trustee will first consult with the Fund Board or, as the case may be, the Contributor as to whether such an external audit is necessary, and may agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the Trustee will arrange for such an external audit. The costs of any such audit, including the internal costs of the Trustee with respect to such audit, will be borne by the Trust Fund (if requested by the Fund Board) or the requesting Contributor if the audit was requested by the Contributor..

5.6 Next steps/contracting

65. In the light of the analysis and recommendations listed in the present report, the ad hoc subcommittee on the administrative budget recommends to incorporate checks and balances and transparency in the Operations Manual of the Fund, with clearly defined roles and responsibilities, including those of the secretariat and the ad hoc subcommittee on the administrative budget.

66. The agreements with the World Bank should also be easily adaptable to accommodate any changes to the services required by the Fund. Closing and termination clauses that allow for smooth contract closure, if needed, must be present.

67. In addition, the ad hoc subcommittee on the administrative budget recommends reviewing costs already incurred ahead of their approval by the Board, including the costs of hosting the secretariat, secretariat operational costs and the Trustee costs. In this respect, the ad hoc subcommittee on the administrative budget notes that the estimates presented in section IV (Budgetary Impacts) are used for illustration in the present report and have not been reviewed as a budget request. The ad hoc subcommittee on the administrative budget recommends that these be formally presented for its review once the transition plan has been finalized and the agreements with the World Bank have been signed.

Annex

Examples of impact of the size of the secretariat on World Bank cost recovery – prepared by the World Bank

1. The following two Scenarios are prepared by the World Bank to show the impact of the cost recovery on the contributions announced for the Fund. These are prepared for illustration purposes only to explain the impact of the hosting costs on the overall fund levels and do not constitute a budget request or approval nor do these presume the future size or structure of the secretariat..

Scenario 1: Secretariat team of 7 staff and 3 consultants	
	\$M per FY
Expected Donor Contribution	670.0
Total amount available for Operation activities	665.8
Total Secretariat Costs	3.1
Direct Sec. Costs	2.6
Indirect Sec. Costs (20.48% of direct costs)	0.5
Trustee Services Fee	1.1
Total Costs of Secretariat and Trustee Services	4.2
Total costs payable to the WB (as a per centage of contributions received in scenario)	1%

Scenario 2: Secretariat team of 168 staff and 118 consultants	
	\$M per FY
Expected Donor Contribution	670.0
Total amount available for Operation activities	609.4
Total Secretariat Costs	59.5
Direct Sec. Costs	49.4
Indirect Sec. Costs (20.48% of direct costs)	10.1
Trustee Services Fee	1.1
Total Costs of Secretariat and Trustee Services	60.6
Total costs payable to the WB (as a per centage of contributions received in scenario)	9%