

World Bank Trust Funds: New Cost Recovery Framework - 2021

The World Bank administers a range of trust funds on behalf of development partners who contribute funding to specific development activities.

Cost recovery relates to the recovery of indirect costs attributed to operational work financed by trust funds. Indirect costs are incurred by Institutional, Governance, and Administrative (IG&A) units for work carried out in support of the World Bank's Operational Units. Indirect costs, which include the cost of World Bank Headquarter facilities and IT Services account for slightly less than ¼ of all Bank costs.

For the past few years, since FY14 and as set out in the *Improving Margins for Manoeuvre* Board paper, Bank management and the Board have been emphasizing the need to strengthen the Bank's financial sustainability. This has involved improving the Bank's balance sheet, increasing pricing on IBRD loans, tightening our cost base through efficiency savings, and improving external funds cost recovery.

During FY16-20 Management implemented measures to increase cost recovery from External Funds, which led to an increase by US\$100 million of cost recovery from Trust Funds per year. As a result of these efforts, the Bank now recovers 89 percent of total cost (up from 80 percent in FY16), with a resulting shortfall of around US\$200 million. This shortfall is covered by the IBRD/IDA administrative budget.

The new cost recovery framework for Trust Funds has been designed based on feedback received from Development Partners (DPs) and Bank teams to be simpler, easier to understand and communicate, transparent and more predictable. It will over time help to reduce the gap in cost recovery covered by the IBRD/IDA administrative budget, but as a matter of principle, some contribution from the IBRD/IDA budget will remain to acknowledge the partnership and leveraging benefits that trust funds provide.

The new cost recovery framework is applicable as of January 1, 2021 and will apply to TFs for which the Trust fund Proposal (TFP) is approved on or after January 1, 2021.

The new cost recovery framework is:

- **For Bank-executed activities:** a standard flat fee of 12 percent on the total amount of disbursements. No indirect rate on personnel will be charged to Trust Funds subject to this 12 percent flat fee; and,
- **For Recipient-executed activities:** a fee is charged when Trust Funds are committed for Recipient-executed activities under a Grant Agreement signed between the Bank and a recipient. The fee is based on the cumulative value of the committed amounts, as follows:

- a 5 percent fee on first US\$50 million committed;
- a 4 percent fee on the next US\$450 million committed;
- a 3 percent fee on next US\$500 million committed; and
- a 2 percent on any further amounts committed.

The indicative budget and the monthly unaudited financial report (available in the Development Partner Center) will explicitly list the fees.

Sample Cost Recovery Computation for a TF to which the new Cost Recovery Framework apply

Assume a \$10m Trust Fund, with \$7.5m for RETF:

- Fees for RETF portion (applied at the time of commitment)
 - \$7,500,000m X 5% fee = \$375,000
- Fees for BETF portion (applied at the time of disbursement)
 - \$1,897,321m X 12% fee = \$227,679

Fee recovered from TF to pay for IG&A costs is \$602,679

Summary:

	US\$
RETF Disbursements	7,500,000.00
BETF Disbursements	1,897,321.00
Fees	602,679.00
Total	<u>10,000,000.00</u>

For more information on Trust Fund Cost Recovery, please contact Brice Jean Marie Quesnel (bquesnel@worldbank.org), Biju Papachan Lukose, (blukose@worldbank.org); Kjell M. Nordlander (kmnordlander@worldbank.org) or Rudeewan Laohakittikul (rlaohakittikul@worldbank.org).