

# CLIMATE INVESTMENT FUNDS

CTF/TFC.9/8/Rev.1

April 16, 2012

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Meeting of the CTF Trust Fund Committee

Washington, D.C.

May 3, 2012

Agenda Item 8

## **MDB REPORT ON PAYMENTS FOR PROJECT IMPLEMENTATION SUPPORT AND SUPERVISION SERVICES**

**Proposed Decision by CTF Trust Fund Committee**

The Trust Fund Committee reviewed document CTF/TFC.9/8/Rev.1, *MDB Report on Payments for Project Implementation Support and Supervision Services*, and welcomes the report.

## **I. INTRODUCTION**

1. The CTF Trust Fund Committee at its meeting in November 2011 requested MDBs to provide annual reports, starting in May 2012, to the Trust Fund Committee on payments to MDBs for project implementation support and supervision services (MPIS) for CTF-funded public sector operations, including reporting on payments received for such services and how they have been internally allocated and managed.
2. The Committee also requested the CIF Administrative Unit to agree with the MDB Committee on the reporting of payments for MPIS for CTF-funded private sector projects.
3. The MDB Committee agreed that for both public and private sector operations funded by the CTF, the MDB report should include: (1) payments received for each project or program, and (2) a qualitative description on how the payments have been internally allocated and managed.
4. The information provided below has been provided by the MDBs. Annex 1 provides a summary table on the amount of MPIS payments that has been approved by the Trust Fund Committee and the amount that has been received by the MDBs.

### **Asian Development Bank (ADB)**

5. MPIS payments received. As of March 2012, ADB has received MPIS payments of \$100,000, assessed at 5% of the total amount for project preparation grants administered by ADB for two public sector projects in Viet Nam: Strengthening Sustainable Urban Transport for Ha Noi Metro Line 3 project and Strengthening Sustainable Urban Transport for Ho Chi Minh City MRT Line 2 Project.
6. How MPIS payments are internally allocated and managed. ADB does not have a cost-based accounting system. ADB fee income received for CIF co-financed projects (as well as for other third-party financing administered by ADB such as GEF), is booked as general fee income. This income is allocated by ADB's budget division through the bank-wide administrative budget. During the process of formulating the administrative budget for the coming fiscal year, each department communicates its resource requirements, including incremental budgetary resources required for CIF-related work, and resources are distributed accordingly.

### **African Development Bank (AfDB)**

7. MPIS payments received. As of March 2012, AfDB has received \$99,775 in project preparation grants administered by AfDB from the CTF for two public sector projects: Egypt Gulf of Suez project preparation grant and Egypt Kom Ombo project preparation grant. Also, AfDB received \$925,000 for MPIS payments for two private sector projects: South Africa Private Sector Renewable Program and South Africa Energy Efficiency Program. In total, \$1,024,775 has been received by AfDB, and MPIS payments of \$250,000 is to be received for South Africa ESKOM Project.

8. How MPIS payments are internally allocated and managed. MPIS payments including project preparation grant fees received from the Trustee are treated in an allocation mechanism consisting of specific cost centers and internal orders. All the expenses related to the project administration cycle are then charged by the corresponding operational/sectoral units developing and executing the projects to the corresponding internal orders. “Double dipping” for private sector operations is to be avoided through returning front-end fees received from recipients when fees have also been received from the Trustee.

9. MPIS payments received from recipient countries are treated as income and booked as general income. This income is allocated through the annual bank administrative budget process. During the process of formulating the administrative budget for the coming fiscal year, each department communicates its resource requirements, including incremental budgetary resources required for CIF-related work, and resources are to be distributed accordingly.

### **European Bank for Reconstruction and Development (EBRD)**

10. MPIS payments received. As of March 2012, EBRD has received \$50,000 MPIS payments for the project preparation grant for the Kazakhstan Renewable Energy Development Framework Facility and \$1,488,800 for three private sector projects: Kazakhstan District Heating Modernization Framework, Turkey Private Sector Sustainable Energy Financing Facility (TurSEFF), and Ukraine Renewable Direct Lending Facility. In total, \$1,538,800 has been received by EBRD.

11. How MPIS payments are internally allocated and managed. EBRD uses project fees to implement and supervise the CIF-EBRD projects over their lifetime. The expenses incurred are then recharged against the project fee through a specific EBRD project code.

### **Inter-American Development Bank (IDB)**

12. MPIS payments received. IDB has received a total of \$2,766,000 in MPIS payments from the CTF as of March 2012 for one public sector and three private sector projects. They are: Mexico Renewable Energy Program (public), Colombia Sustainable Energy Finance Program (private), Mexico Energy Efficiency Program (private), and Mexico Renewable Energy Program (private). In addition, IDB expects to receive during the first semester of 2012 of \$225,000 from two public sector projects with a 0.25% upfront fee: Colombia Strategic Public Transportation System (SETP) program and Mexico Renewable Energy Program (additional MPIS payments).

13. How MPIS payments are internally allocated and managed. Fee income received at IDB is accounted for as general Bank income. However, for Financial Intermediary Funds, an allocation mechanism has been established at the IDB. This consists of cost centers created to allow the use of these funds by the corresponding operational/sectoral units developing and executing the projects. Every project team prepares a budget projection for project preparation and supervision for the lifetime of the project. For CTF projects, when possible, they follow the principle of piggy-backing on parallel IDB operations. The annual projection is made available for execution, with carryover of unused funds to reallocate in future years as needed. Fees are fungible for projects within a country.

## **International Finance Corporation (IFC)**

14. MPIS payments received. IFC has received a total of \$4,797,000 of MPIS payments as of March 2012 for ten private sector projects.

15. How MPIS payments are internally allocated and managed. MPIS payments are managed over the project life, which can range between 10 to 15 years. These payments typically cover a number of different costs such as staff costs for project preparation, negotiation of projects, project supervision, legal fees, and project-related travel expenses.

## **World Bank**

16. MPIS payments received. As of March 2012, the World Bank has received a total of \$1.12 million of MPIS payments. So far, all borrowers have opted for up-front payment for MPIS. The total amount of MPIS payments received by the World Bank is based on payments made for 3 public-sector, approved projects at the old up-front rate of 0.25%. Four projects that have already been approved have not yet paid out their MPIS payments. Once these payments materialize, the World Bank would receive in total \$2.43 million of MPIS payments.

17. How MPIS payments are internally allocated and managed. The World Bank reallocates MPIS payments received from borrowers to cover project preparation and supervision activities, as well as legal and loan departments for their incremental efforts related to CTF co-financed projects. For projects with Board approval prior to November 2011, funds were allocated based on pre-determined coefficients for project preparation (\$70,000 in FY10 and \$52,000 in FY11 per project), project supervision (\$19,000 in FY10 and \$15,000 in FY11 per project/year), and legal services (\$15,000 per project). The transfer of funds to the loan department is on an actual-cost basis; it is estimated that costs associated with loan creation and withdrawals over six years of project implementation would represent approximately \$25,000 per project. Projects with Board approval after November 2011 will receive \$70,000 for preparation and \$20,000 per supervision services; the estimate of legal costs will remain unchanged (\$15,000 per project) and the loan department will receive funds on an actual-cost basis (approximately \$25,000 per project).