

CLIMATE INVESTMENT FUNDS

CTF/TFC.8/6
October 24, 2011

Meeting of the CTF Trust Fund Committee
Washington, D.C.
November 4, 2011

Agenda Item 6

PROPOSAL TO REVISE THE PAYMENTS FOR PROJECT IMPLEMENTATION SUPPORT AND SUPERVISION SERVICES TO CTF PUBLIC SECTOR OPERATIONS

Proposed Decision by CTF Trust Fund Committee

The Trust Fund Committee reviewed document CTF/TFC.8/6, *Proposal to Revise the Payments for Project Implementation Support and Supervision Services to CTF Public Sector Operations*, and

- a) agrees to the proposed arrangements for payment of project implementation support and supervision services for CTF-funded public sector projects that will be submitted the Trust Fund Committee for funding approval beginning November 4, 2011;
- b) requests the MDBs to provide annual reports, starting in May 2012, to the Trust Fund Committee on project implementation support and supervision services, including reporting on payments received for such services and how they have been internally allocated and managed;
- c) requests the CIF Administrative to agree with the MDB Committee on the reporting of payments for project implementation support and supervision services for CTF-funded private sector projects, and to ensure that information on such payments is also included in the annual report to be submitted to the Trust Fund Committee in May 2012;
- d) requests the CIF Administrative Unit to incorporate the approved arrangements in a revised version of the document, *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations*.

I. BACKGROUND

1. The CTF Governance Framework establishes that “compensation for administrative services and project related activities will be on the basis of full cost recovery for the entities, but should be guided by the principles of value for money, reasonableness and transparency”.¹
2. For CTF public sector operations, payments for project implementation support and supervision services provided by the MDBs² are made by recipient countries out of their own resources or capitalized from the loan or guarantee proceeds following effectiveness of the loan or guarantee.³ These payments are calculated as a percentage either on the undisbursed balance of the loan/guarantee (0.1% paid semi-annually) or on the total loan/guarantee amount (0.25% paid up-front).⁴
3. The above provisions were designed to ensure that MDBs recover their incremental costs of managing the lifetime of the CTF operation from project preparation through supervision to evaluation, at a total cost of \$250,000 as originally estimated.⁵ In accordance with the *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations* (hereafter referred to as the CTF Public Sector Financing Paper), the MDBs are required to “provide an annual report to the Trust Fund Committee on their project processing and supervision costs, which may provide the basis for any adjustments to the MDB fee by the Trust Fund Committee.”
4. As CTF implementation has proceeded through investment planning and project preparation, it has become evident that the above arrangements are not providing for full recovery of the estimated costs. This is a result of the average amount of a CTF operation (loan/guarantee) proving to be significantly lower than originally projected and used as a basis for determining the level of payment for project implementation support and supervision services. If the current arrangements are left in place, the MDBs would collectively only be able to recover around half of their estimated costs.

II. SUMMARY OF PROPOSED ACTIONS

5. Against this background, the MDB Committee has reviewed the implications of the current arrangements for payment for project implementation support and supervision services for CTF public sector operations, and proposes that

¹ CTF and SCF design documents (June 9, 2008 and June 3, 2008, respectively).

² The term “payment for project implementation support and supervision services” has replaced the term “MDF fee” as set out in the CTF design document, so as to make it consistent with the evolving understanding of the nature of these transactions and with the practice already applied under the SCF.

³ MPIS payment for CTF preparation grants for investment plans or projects is paid by the CTF trust fund following the approval of the grants by the Trust Fund Committee.

⁴ *CTF Financing Products, Terms, and Review Procedures for Public Sector Operations*, May 28, 2009.

⁵ MPIS payment covers the MDB for its incremental staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and reporting.

- i. an adjustment be made to the current percentage rates applied to CTF loan/guarantee amounts to ensure full recovery of project implementation support and supervision services costs as estimated at the outset of CTF implementation;
- ii. implementation of the new arrangements be applied under all CTF public sector operations that have yet to reach the stage of Trust Fund Committee approval; and
- iii. all MDBs, in compliance with already agreed arrangements, prepare annual reports on the receipt and use of payment for project implementation support and supervision services, and that a summary thereof be attached as an annex to the CIF annual business plan and administrative budget document.

III. AVERAGE CTF LOAN AMOUNTS AND IMPLICATIONS FOR COST RECOVERY

6. The current portfolio and pipeline of CTF-funded public sector operations comprise 37 programs and projects, of which 21 involve a single CTF loan, and 16 involve two CTF loans (see Table 1). Projected CTF funding for these operations totals \$2.98 billion, to be channeled to recipient countries through 53 CTF loans (21+2x16), resulting in an average CTF loan amount of about \$56 million. By comparison, the original projection was for \$100 million in CTF funding per program or project (public and private sector) with an implicit assumption that it would be handled through a single CTF loan.

Table 1: Summary of Stage of Processing for CTF Public Sector Operations
(As of October 18, 2011)

Status	No. of MDB Loans	Amount of MDB Loans (\$ billion)
A. Yet to be submitted for TFC Approval	40	1.72
B. Approved by TFC Committee but awaiting MDB Board	5	0.52
C. Approved by MDB Board	8	0.75
TOTAL	53	2.98

7. The incremental expenditures for managing the CTF project cycle, from project development to appraisal, implementation support, supervision and reporting, were originally estimated at \$250,000 per CTF loan. This was based on an assumption of seamless blending with MDB financing, resulting in significant transaction cost savings.⁶ The appropriate payment for project implementation support and supervision services, expressed as a percentage of the average loan amount, was therefore established as 0.25 (\$250,000/\$100 million) for the up-front payment option.

⁶ A 20% increase over the MDBs' project cycle costs of regular MDB operations (averaging \$911,000) plus \$25,000 for legal and loan department costs, and a contingency (including an allowance for dropped projects) were considered sufficient to meet the MDBs' costs for undertaking activities that would be incremental to those of the regular MDB operation, as set out in Annex C of the CTF Public Sector Financing Paper.

8. While the average CTF loan size has fallen relative to the original projections, the estimated MDB life-cycle costs have not, since preparation and supervision costs generally do not vary with the size of the lending operation. Hence, payments for project implementation support and supervision services based on 0.25% of the expected average CTF loan amount will allow for recovery of only 55% of the estimated costs (i.e., $(0.25\% \times \$56 \text{ million})/\$250,000$). Projecting this over the entire portfolio and pipeline of CTF public sector operations, the MDBs face a combined shortfall of \$5.8 million (or 44% of the estimated incremental expenditures).

IV. PROPOSED AMENDMENTS TO THE CTF PUBLIC SECTOR FINANCING PAPER

9. To preempt such developments and to be fully responsive to the CTF established principles governing MDB cost recovery, it is proposed that the Public Sector Financing Paper be amended to cover the following:⁷

- a) the payment for project implementation support and supervision services option of 0.10% of the undisbursed balance of the loan/guarantee financing which will accrue semi-annually after loan/guarantee signing, **be increased to 0.18%**; or
- b) the payment for project implementation support and supervision services option of 0.25% of the total loan/guarantee financing amount in the form of a single front-end payment, **be increased to 0.45%**.

10. It is proposed that the new payment structure apply to all CTF public sector operations, which, by the date of Trust Fund Committee approval of the proposed amendment, have not yet been submitted for Trust Fund Committee approval of CTF funding (Category A in Table 1). Payments for public sector operations for which the CTF Trust Fund Committee has already approved funding (Categories B and C in Table 1) will follow the current payment structure.

V. IMPLEMENTATION AND REPORTING

11. Portfolio and pipeline data show that the size of CTF public sector operations varies around the currently projected \$56 million average. Consequently, the dollar equivalent of payments based on a percentage applied on the CTF operation will vary around the \$250,000 mark. Payments for project implementation support and supervision services for individual CTF operations are fungible across such operations. Each MDB, following its own policies and practices, is expected to manage incoming payments in a manner that ensures that the project cycle costs of individual public sector operations are supported by the required funds.

12. It is proposed that annual reporting by the MDBs to the CTF Trust Fund Committee on project processing and supervision costs will include information on the payments received and

⁷ The proposed front-end payment is derived by dividing the estimated project-cycle expenditures (\$250,000) into the average loan amount (\$56 million). The increase in the per annum payment (from 0.10% to 0.18%) is simply proportional to that for the front-end payment.

on how they have been internally allocated and managed. The MDBs will provide these reports beginning in May 2012 as an annex to the proposed CIF business plan and budget.

13. The MDB Committee is considering how best to structure similar reporting for private sector operations. Information on payments for private sector projects will be submitted to the CTF Trust Fund Committee at its meeting in May 2012, in accordance with a reporting structure agreed by the MDB Committee.