

CLIMATE INVESTMENT FUNDS

CTF-SCF/TFC.4/Inf.2

March 13, 2010

Joint Meeting of the CTF and SCF Trust Fund Committees
Manila, Philippines
March 16, 2010

BENCHMARKING CIF'S ADMINISTRATIVE COSTS

Background

1. The Joint Trust Fund Committees (TFCs) of the Climate Investment Funds (CIF) have approved annual budgets for FY09 and FY10 covering expenditures for a set of defined services provided by the Trustee, the CIF Administrative Unit, and the Multilateral Development Banks (MDBs). In reviewing the proposed CIF Business Plan and FY10 Budget at their May 12, 2009 meeting the Joint TFCs concluded as follows:

*“The Administrative Unit and the MDBs should strive for efficiency and low administrative costs so that maximum resources are available to assist recipient countries. To assist the Trust Fund Committees in assessing the budget, the Administrative Unit is requested to prepare a note that provides comparative information/benchmarks for similar activities in other large trust funds or similarly structured programs”.*¹

2. In response to request of the Joint TFCs, this note identifies administrative costs of comparable Trust Funds (TFs) from public sources and examines the costs of administering CIF in relationship to such data (Section I). The note also examines the costs incurred by CIF’s implementing agencies, the six MDBs, in working with partner country institutions to program CIF resources and reviews them against the costs of similar activities in the World Bank.²

I. Administrative Costs

Selection of Comparator Trust Funds.

3. Given the size, scope and nature of the CIF, comparator trust fund selected from the World Bank’s universe of trust funds³ with contributions exceeding \$500m (as of end FY09) were screened with respect to the following four criteria:

- number of donors (multiple);
- number of beneficiary countries (multiple);
- number of implementing agencies (multiple); and,
- age of TF (preferably more than 5 years, or past the non-representative early stages of life cycle).

¹ Summary of the Co-Chairs, Joint Meeting of the CTF and SCF Trust Fund Committees, May 12, 2009.

² The analysis and the note was prepared with the help of a Consultant recruited by the CIF Administrative Unit working under the technical guidance of senior staff in the Resource Management Group within the World Bank’s Vice Presidency for Sustainable Development.

³ The Bank has over 40,000 TFs, established in a hierarchy of main funds (which accept contributions), sub-funds (serving as holding tanks) and child-funds (which disburse funds to individual projects or recipients).

4. The four selected TFs (Table 1) all receive contributions from multiple donors, are global in their mandate, channel funding through multiple implementing or executing agencies, and work through partnerships with development partners, non-governmental and civil society organizations and the private sector. They therefore face management and administration challenges that are very much like those for the CIF. Their history, objectives, management and governance arrangements are summarized in Annex 1.

Table 1 --Selected Trust Fund Comparators.

Name of TF	Year established	Total Contributions Received (US\$ m)
Global Environment Facility (GEF)	1991	6,759 ⁴
Global Fund for AIDS, TB and Malaria (GFATM)	2002	12,027
International Finance Facility for Immunization (IFFIm) ⁵	2006	1,459
Multilateral Fund for Implementation of Montreal Protocol (MLFMP)	1990	2,383

Costs of TF administration and management

5. The management of Trust Funds involves four basic functions (Table 2). First, received donor contributions are managed and transferred to implementing or executing agencies (the trustee function) in accordance with legal agreements entered into. Second, a program administration unit of some kind supports the TF governing body in policy and program development, and administers their implementation (the secretariat function). Third, implementing and executing agencies coordinate their respective TF activities internally and report to the TF governing bodies (the implementing/executing agency coordination function). Fourth, these agencies support partner country institutions and agencies in developing and administering TF funded activities (the project development and administration function).

Table 2 - TF Management Function and Activities

Function	Activity
Trustee	<ul style="list-style-type: none"> - financial management, accounting and reporting - transfer of funds to implementing/executing/project agencies - manage financial aspects of relations to donors and agencies - investment management - arranging for external audits as required
“Secretariat”	<ul style="list-style-type: none"> - facilitate the work of the governing bodies of the TFs - manage institutional relations (internal and external), incl. program communications and outreach

⁴ Covers period 1991 through 2005. Financial statements 2006 on have changed materially in form and content, making the figure difficult to determine.

⁵ IFFIm includes Global Alliance for Vaccines and Immunization (GAVI), the downstream implementing agency which provides secretariat services to IFFIm.

	<ul style="list-style-type: none"> - support development of policy, program and ands procedures - facilitate coordination across implementing/executing agencies - monitoring TF portfolio - program level resource planning and budgeting - reviewing project proposals (not relevant under the CIF)
Implementing/executing agency coordination	<ul style="list-style-type: none"> - operational reporting to TF governing bodies - internal outreach and integration of TF in agency policies and procedures - participation in meetings of the TF governing bodies - financial management and legal services related to the execution of the agency's role as an implementing agency - screening of project proposals
Project development and administration	<ul style="list-style-type: none"> - project preparation and appraisal - project supervision - project monitoring and evaluation, and administration of - legal services - disbursements of project funds to country implementing entities

6. For purposes of this note, the costs associated with performing the first three of these functions are referred to as *program related administration costs*, while those of the project development and administration function are referred to as *project related administration costs*.

Data Sources

7. An up-front decision was taken to undertake the comparator study using publicly available data, and to present data at an aggregate level. All comparator trust funds had websites which, for the most part, contained financial data. Some data were relatively informal in nature and embedded in larger narratives, while others conformed to legal and international accounting standards in the form externally audited financial statements.

8. Data were available from inception to at least 2008, with GEF being the exception, where the data set used was from 2002 through 2005, as earlier financial statements were not available and later ones had changed materially in form and content, making comparability difficult. Nevertheless, the period 2002 through 2005 was during the well established years of GEF, reasonably representative of its entire life and provided enough data points for a cost structure to be established.

Program Related Administration Costs

9. The focus of this note is on the *program related administration costs*, since they would be of primary interest to TFC members at this early stage of CIF implementation. These costs are summarized below (Table 3) and shown in greater detail in Annex 2.

10. Relating administrative costs to amounts of approved project funding transferred to implementing or executing agencies provides a measure of efficiency in conducting "business". In comparing such "efficiency ratios" across TFs, one would ideally want

such TFs to be at approximately the same life-cycle stage, since the ratio will vary over that cycle: very high in the beginning as a result of high start up costs relative to low disbursements, and subsequently falling as disbursements increase more than management costs. This is of course not always feasible and comparisons have inevitably to be made between TFs placed at different stages in implementation. With the exception of IFFIm, the selected comparator TFs have all been in operation 8 years or more.⁶

Table 3 - Relating Program Administration Costs to Project Funding Transfers for Selected Comparator Trust Funds (cumulative, US\$ m)

Trust Fund	Period	Project Funding Transferred (1)	Program Administration Costs (2)	Project Related Adm. Costs (3)	“Efficiency” Ratio Proxy (2)/(1)
GEF	2002-2005	1,524	93	203	6.1%
GFATM	2002-2008	7,197	411	126	5.7%
IFFIm/GAVI	2006-2008	1,084	78 ⁷	Not available	7.2%
MLFMP	1990-2008	2,297	206	Not available	9.0%

11. Within the limitations of the data underpinning the above analysis, the 6-9 percent range shown in Table 3, should provide a broad benchmark for administrative costs of managing multi-donor, multi-implementing agencies and multi-country trust funds with a global reach.

Projected CIF administrative costs

12. CIF’s program related administrative costs (i.e. “non-project” related administrative costs) are covered by CIF’s annual budget. They arise from the work program of CIF’s entire “corporate” management structure: (i) the Trustee as manager of the financial assets of CIF, (ii) the Administrative Unit as the coordinator of CIF work, organizer of the Partnership Forum, and provider of support to the Trust Fund and other CIF committees, and (iii) the six MDBs as “implementing agencies”, working together through CIF’s MDB Committee, coordinating TF activities within their respective organizations, and supporting the CIF partner countries in preparing strategic frameworks for use of CIF resources.

⁶ As measured from the inception of the TF to the last year in the period used for data analysis.

⁷ Excludes \$134 million in interest payment and related financing costs to service bonds sold in capital markets; with these included the, the “efficiency ratio” would rise to 17.3%.

13. The costs of these services during FY09 and FY10, and projected forward through FY14, are summarized in Table 4. Approved CIF project funding which so far has been awaiting completion of strategic country plans and programs, has been projected forward consistent with the business development targets set out in the FY11 CIF Business Plan.

Table 4 - Projections of CIF's Program Administration Costs and Transfers of Project Funding (US\$ million) ⁸

	FY09 Approved	FY10 Rev. Estimate	FY11 Estimate	FY12 Estimate	FY13 Estimate	FY14 Estimate	Total
Administrative Services:	6.5	11.8	17.5	22.0	22.0	22.0	101.9
Trustee	1.0	1.5	3.0	3.8	3.8	3.8	16.9
Administrative unit	2.2	5.8	8.5	10.7	10.7	10.7	48.7
MDBs	3.3	4.5	6.0	7.5	7.5	7.5	36.3
MDB Support to country programming	4.2	7.2	1.5	1.2	-	-	14.0
Special Initiative	-	2.0	-	1.0	1.0	1.0	5.0
Total program related administrative costs	10.7	21.0	19.0	24.2	23.0	23.0	120.9
Total project funding	116.0	1,080.0	1,680.0	2,463.0	529.0	307.0	6,175.0
Cumulative total program related administrative costs	10.7	31.7	50.7	74.9	97.9	120.9	
Cumulative project funding	116.0	1,196.0	2,876.0	5,339.0	5,868.0	6,175.0	
Ratio of cumulative program related costs to project funding	9.2%	2.7%	1.8%	1.4%	1.7%	2.0%	

14. The total amount currently pledged by CIF donor countries to the CIF equates to US\$6.18 billion. The CIF Business Plan projects that these funds will have been committed by the end of FY14 in the form of funding for some 140 projects. The cumulative costs of administrative services are projected to have grown to \$102 million by that time, and the combined costs of these services and those of other non-project related services will by then have reached US\$120.9 million.⁹

15. The projected total cumulative program related administrative costs for the CIF is equivalent to 2 percent of the projected cumulative project funding commitments expected to have made by the end of FY14. It compares to the indicated range of 6-9% derived earlier for the four comparator funds (Table 3). In comparing the figures, it needs to be recognized that historical figures on actual costs are being used in the case of the comparator TFs versus largely projected costs and project funding in the case of the CIF. The assumptions underpinning the CIF numbers will be tested and no doubt require adjustment over time. Nevertheless, based on what we today know about the cost structure of the CIF and the expected time horizon for committing pledged funds, the relative costs of moving CIF funds into country operations are not out of line with what currently or recently has been experienced under Trust Funds with similar mandates.

⁸ CIF's costs of administrative services for FY09-11 are from the approved FY09 budget, the FY10 revised estimate, and the FY11 budget proposal submitted for review by the CIF Joint Trust Fund Committees on March 16, 2010, all of which are available on the CIF web-site. For purposes of this note, expenditures for administrative services beyond FY11 are assumed to increase to US\$ 22 mill allowing for presently unforeseen developments in CIF program scope and content. MDB support for country programming will phase out as per CIF Business Plan.

⁹ The costs incurred by the participating MDBs for developing, supervising, monitoring and evaluating CIF funded projects are covered outside the CIF budget through a "project fee" that is approved by the TFC at the time of project funding approval or charged to the borrower.

II. Country Programming Costs

16. CIF Joint TFCs, in reviewing the proposed CIF FY10 Budget in May 2009, concluded that, as part of the benchmarking of the CIF's administrative costs, it would be useful to examine how MDBs' costs of country programming of CIF resources compare with the costs that MDBs incur for similar activities as part of their continuous programming of their regular sources of funding. This second and last section of this note summarizes available data on costs of relevant World Bank country and sector programming instruments, provides information on the costs incurred by MDBs in supporting country programming of CIF resources, and briefly compares the two sets of data

World Bank instruments for programming country assistance

17. Each MDB, as part of their regular operational activities, engage with partner countries in programming their development assistance. In the case of the World Bank the centerpiece of this engagement is the Country Assistance Strategy (CAS), which is normally prepared every 4 years for each country where the Bank has a planned or ongoing program of assistance. The CAS preparation is a participatory process and is tailored to the needs and circumstances of each country. It lays down the World Bank Group's development priorities, as well as the level and type of assistance the Bank will provide for a period of three years.

18. The preparation of the CAS is informed by member countries' strategies for reducing poverty reduction. IDA countries prepare Poverty Reduction Strategy Papers (PRSPs) that set out a country's macroeconomic, structural, and social policies and programs to promote growth and reduce poverty (the Bank together with the IMF then reviews the PRSP). The CAS is also informed by Economic and Sector Work (ESW), which forms the Bank's knowledge base and provides a foundation for carrying out the policy dialogue with external clients and for developing an effective lending program.

19. The cost of staff time, consultant services, travel and other inputs for completing CASs averaged \$176,000 over the period 2006 to 2009 with a range among the six operational regions of the Bank from \$128,000 to \$239,000 (Table 5). Roughly the same cost levels apply for the Banks ESW products.

**Table 5 - World Bank Costs for Completing
CASs, PRSPs and ESW 2006-2009
(US\$'000)**

	CASs	PRSPs	ESW
Range	127.7-239.2	44.3-83.9	120.2-218.0
Average	175.9	63.7	160.1

(Source: World Bank Business Warehouse reports)

MDB support to CIF country programming

20. As a first step in their engagement with the CIF, country partners prepare an investment plan or a strategic program for how CIF funds can assist the country to integrate climate change mitigation or adaptation considerations in the country's own sustainable development process. These strategic plans or programs are expected to provide a rationale for CIF co-financing in identified priority sectors and areas, describe the enabling policy and regulatory environment, assess the implementation potential, provide a financing plan and propose financial instruments. A summary of a proposed project pipeline and notional CIF resource allocations should be included.

21. The relevant Regional Development Bank, the IFC (to help address private sector involvement) and the World Bank join forces in supporting partner countries in these efforts. In the case of the Clean Technology Fund this support typically involves two missions over a 2-3 month period leading up to the partner country presenting its investment plan for consideration by the CTF Trust Fund Committee. Under the three targeted sub-programs of the Strategic Climate Fund (SCF) this support is expected to involve more than two missions and extend over a period averaging 8-10 months.

Table 6 - Cost of MDB Support for Country-led Programming of CIF Resources (US\$'000)¹⁰

	CTF	SCF
Range	125.0 - 480.0	
Average	211.7	388.0

(Source: CTF Joint Mission Proposals and Completion Reporting. CIF FY10 Business Plan)

22. Actual costs of MDB support for CTF joint mission support to the preparation of investment plans are being monitored through post mission reporting. This data combined with MDB Committee approved budgets for joint mission, yet to report back or yet to be completed, indicate an expected average cost of MDB support per CTF Investment Plan of \$192,000 with a wide variation in costs among countries (Table 6)¹¹.

23. Costs for MDB joint mission support to strategic programming under SCF's targeted sub-programs can at this early stage only be estimated based on best understanding of the nature and scope of efforts required. For planning purposes a flexible budget norm of \$388,000 has been adopted for support to single pilot countries and \$920,000 for regional groupings involving nine individual countries plus regional institutions. Experience so far suggests that this level of funding will be fully used and in some cases prove to be insufficient for the MDBs to complete their support. Actual costs will be monitored and budget norms adjusted as required as implementation of country programming proceeds under each of the SCF subprograms.

¹⁰ These costs include a provision of \$20,000 per joint mission support in each country to specifically help cover the capturing and documentation of lessons learned from the strategic country programming exercise.

¹¹ The outlier on the high side being the MENA Concentrated Solar Power initiative which involves six countries.

Concluding observations

24. Strategic programming of CIF funded assistance has important similarities with that of individual MDBs' regular instruments for programming development assistance. They all involve a joint effort on part of the country partner and the MDB, focus on strategic deployment of resources, stress the importance of an enabling policy environment, and seek to engage a broader stakeholder community.

25. In terms of process, however, there are important differences that impact resource requirements. First, and perhaps most importantly, the strategic programming of use of CIF resources in an individual country involve multiple MDBs joining forces in developing a shared understanding and commitment to support a strategy for integration of climate action in national sustainable development. This stands in contrast to the World Bank's CAS development which, while involving consultations with development partners including the Regional Development Bank, reflects the World Bank's commitment to the implementation of a defined assistance strategy. It stands to reason, therefore, that the joint MDB staffing complement of CIF country programming missions will exceed that of the country team working on the CAS.

26. Second, strategic programming of SCF resources to help integrate climate resilience in national development planning and financing, reduce impacts on greenhouse gas emissions from deforestation and forest degradation, and demonstrate the economic, social and environmental viability of renewable energy are all going to be complex, highly participatory, and time-consuming processes. This has already been made abundantly clear as joint MDB support to the development of Strategic Programs for Climate Resilience has gotten underway. The scale of MDB support has to be commensurate with these challenges.

27. The costs of supporting strategic country programming of CTF resources are on the average 20% higher than those for developing a Country Assistance Strategy by the World Bank. The estimated resource requirements for MDB support to strategic programming of SCF resources are 120% in excess of those for a World Bank CAS, and could grow higher. The above two factors, i.e. the joint MDB approach and commitment to a programming outcome and the complexity and time dimension of the process are contributing in a major way to these differences in resource requirements.

Annex 1: Brief Notes on Comparator Trust Funds

Annex 2: Mapping of Information from Financial Statements of Comparator TFs' into Program-related and Project-related Administration Costs in Table 3

Annex 1: Brief Notes on Comparator Trust Funds

Global Environment Facility

The Global Environment Facility (established 1991) has 180 member governments and works through 10 international institutions and in partnerships with non-governmental organizations and the private sector to address global environmental issues. It provides grants for projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants. GEF has allocated \$8.8 billion, supplemented by over \$38.7 billion in co-financing, to more than 2,400 projects in over 165 countries. The World Bank serves as the Trustee of the GEF Trust Fund and provides administrative services. Implementation is through UNDP, UNEP, the World Bank; FAO, UNIDO, AfDB, ADB, EBRD, IADB, and IFAD. The Assembly, the governing body in which all member countries participate, meets every three to four years and decides GEF's general policies, operations, and membership. The GEF Council functions as an independent board of directors, meets twice each year. The Council is supported by a Secretariat and a Scientific and Technical Advisory Panel.

Multilateral Fund for the Implementation of the Montreal Protocol

The Montreal Protocol (established in 1987) addresses certain man-made substances contributing to the depletion of the Earth's ozone layer. The Multilateral Fund for the Implementation of the Montreal Protocol (1990) provides funds to help developing countries comply with their obligations under the Protocol. Contributions have totaled over US\$ 2.5 billion, with grants or concessional loans of over US \$2.3 billion to support over 6,000 projects and activities in 148 countries. Implementation is through UNEP, UNDP, UNIDO and the World Bank. The Fund Treasurer is responsible for receiving and administering pledged contributions (cash, promissory notes or bilateral assistance), and disbursing funds. The Fund is managed by an Executive Committee elected annually by a Meeting of the Parties and assisted by a secretariat.

Global Fund for Aids, Tuberculosis, and Malaria

The Global Fund (established 2002) fights AIDS, TB and malaria, with approved funding of US\$ 19.3 billion for more than 572 programs in 144 countries. It implements through a network of partnerships with other development organizations on the ground, using Local Fund Agents, Country Coordinating Mechanisms and Principal and sub-Recipients. The Fund consists of a Board, a Secretariat, and a Technical Review Panel. The Board is responsible for governance, including establishing strategies and policies, making funding decisions and setting budgets. The Secretariat manages the grant portfolio, screens proposals submitted, issues instructions to disburse money to grant recipients and implements performance-based funding of grants. More generally, the Secretariat executes Board policies; mobilizes resources; provide strategic, policy,

financial, legal and administrative support; and oversees monitoring and evaluation. The Trustee, the World Bank, manages the organization's money, which includes making payments to recipients at the instruction of the Secretariat.

International Finance Facility for Immunization

The International Finance Facility for Immunization (IFFIm), established in 2006, is a multi-donor facility with pledges to contribute US\$ 5.3 billion over 20 years, which it converts into immediately available cash by issuing bonds in the capital markets. The World Bank acts as financial adviser, treasury manager and trustee. IFFIm is managed by its board of directors, and has no employees. All administrative support functions are provided by the Global Alliance for Vaccines and Immunization. IFFIm disburses funds to GAVI, which uses them to support immunization, health system strengthening, and/or vaccine procurement programs through downstream implementing agents.

Annex 2: Mapping of Information from Financial Statements of Comparator TFs' into Program-related and Project-related Administration Costs in Table 3

IFFIm + GAVI

Details per Financial Statements:

IFFIm	Per Financial Statement	Borrowings/Contributions to IFFIm	Project Disbursements to GAVI	WB Fees	Governance Costs	Financing and Other Charges
	Totals		1,459	1,225	5	8
Mapping to Table 3				Trustee	Trustee	Trustee, but Exclude
GAVI	Per Consolidated Financial Statement	Contributions from IFFIm	Project Disbursements from GAVI	Management and General	(Mng & Gen Costs) Less (IFFIm WB Fees and Governance Costs)	Program Fundraising
	Totals	1,225	1,084	69	56	9
	Mapping to Table 3		Project Funding		Secretariat	Trustee

The financial statements do not provide any information on administrative costs incurred by executing agencies for project development, supervision, monitoring etc. To the extent that such costs in fact are embedded in what is referred to in the financial statements as "Management and General" expenditures this would result in IFFIm/GAVI program related administrative costs and "efficiency ratio", as shown in Table 3 being overstated.

Mapped into Table 3 Cost Structure:

IFFIm + GAVI	Table 3	Project Funding Transferred	Trustee	Secretariat	IA/EA Coordn	Prgm Admin Costs
	Totals		1,084	22	56	

GFATM

Details per Financial Statements:

GFATM	Per Financial Statement	Contributions	Grant Disbursements	Local Fund Agent Fees	Cntry Coordn Mechmsm Funding	Total Project Disbursements	IBRD Trustee Fee	WHO Admin Services Fee	Other Secretariat Expenses
	Totals		12,027	7,197	126	1	7,324	16	10
Mapping to Table 3			Project Funding	Proj Dev & Admin	Proj Dev & Admin		Trustee	Secretariat	Secretariat

Mapped into Table 3 Cost Structure:

GFATM	Table 3	Project Funding Transferred	Trustee	Secretariat	IA/EA Coordn	Prgm Admin Costs
		Totals	7,197	16	395	

GEF

Details per Financial Statements:

GEF	Per Financial Statement	Contributions	Project Disbursements	IBRD as Trustee	Secretariat	Impl Agency Admin Expns	Fees Requested by Impl Agncs
		Totals	2,635	1,524	4	52	37
	Mapping to Table 3		Project Funding	Trustee	Secretariat	IA/EA Coordn	Prj Dev & Admin

Mapped into Table 3 Cost Structure:

GEF	Table 3	Project Funding Transferred	Trustee	Secretariat	IA/EA Coordn	Prgm Admin Costs
		Totals	1,524	4	52	37

Multilateral Fund for Montreal Protocol

Details per Financial Statements:

MLF for MP	Per Financial Statement	Contributions	Disbursements to Implementing Agencies	Secretariat Expenses	Treasury Fees (2003-09)	Monit & Evaln (1999-2009)	Tech Audit (1998-2005)	Info Strat (2003-04)	Bilat Cooprn
		Totals	2,383	2,297	72	3	3	1	0
	Mapping to Table 3		Project Funding	Secretariat	Trustee	Proj Dev & Admin	Secretariat	Secretariat	Secretariat

Mapped into Table 3 Cost Structure:

MLF for MP	Table 3	Project Funding Transferred	Trustee	Secretariat	IA/EA Coordn	Prgm Admin Costs
		Totals	2,297	3	202	

Financial statements provide information on the aggregate transfer of funds to the implementing agencies. To the extent that these transfers also include support to the agencies for preparing, appraising, supervising, monitoring and evaluation and financial project administration, the amount of actual project funding transferred, shown in Table 3, would be overstated and the "efficiency ratio" consequently overstated.