

Long-term SCF Administrative Costs and Funding Options

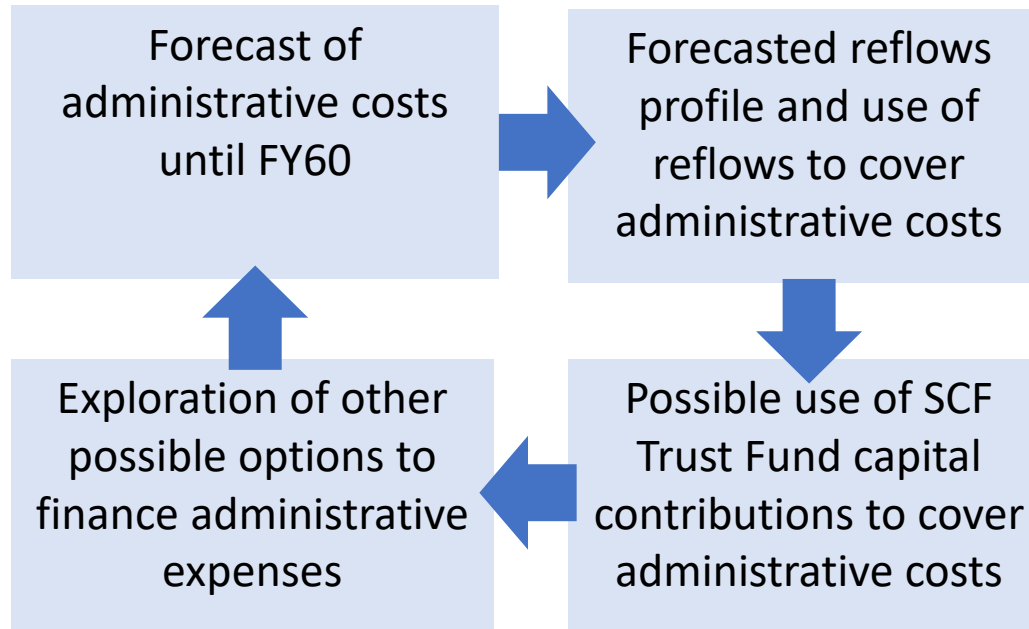
SCF Trust Fund Committee
March 8, 2018

STRATEGIC CLIMATE FUND (SCF)

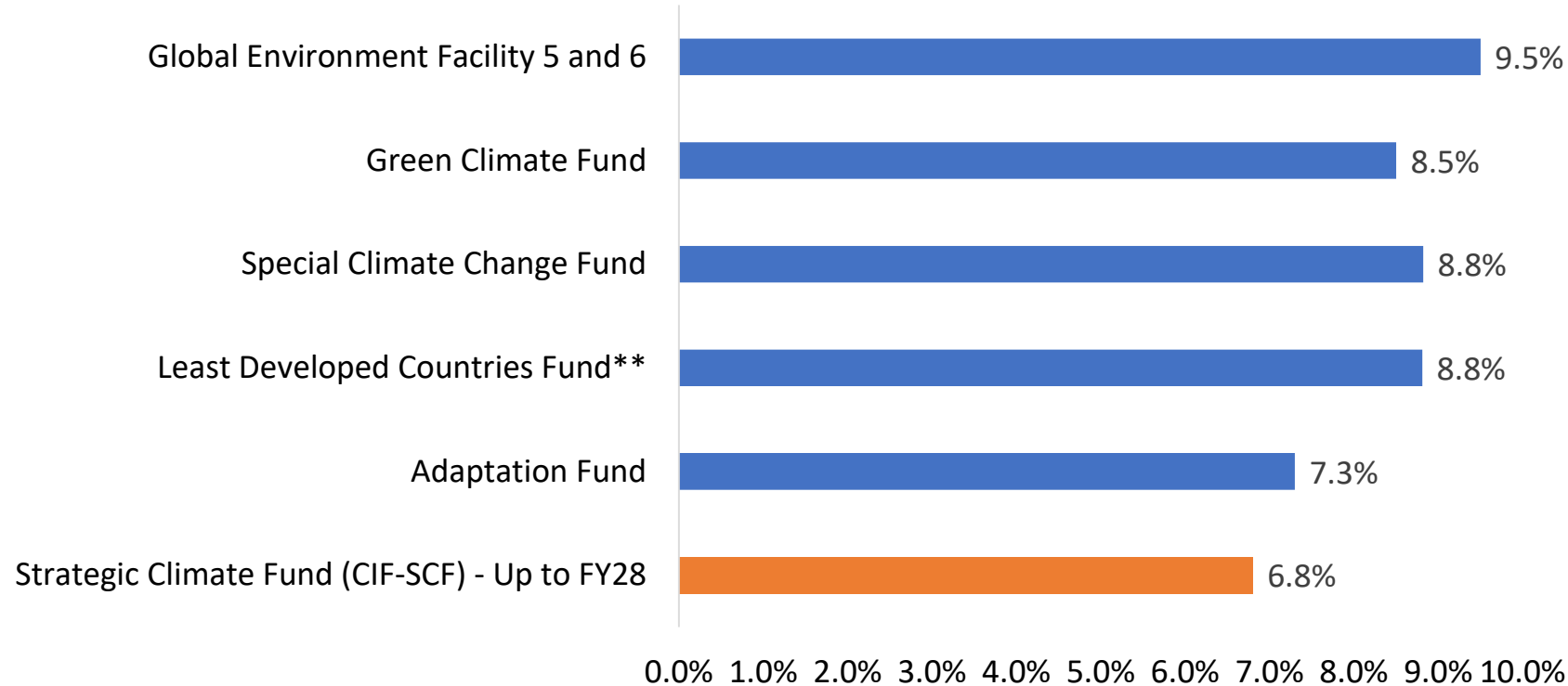




Overview of the analysis



The SCF is an efficient delivery model compared to similar funds



Implementation efficiency ratio is calculated as the total MDB Project Implementation Services (MPIS) and MDB budget allocated towards corporate services in support of the SCF from FY11-FY28

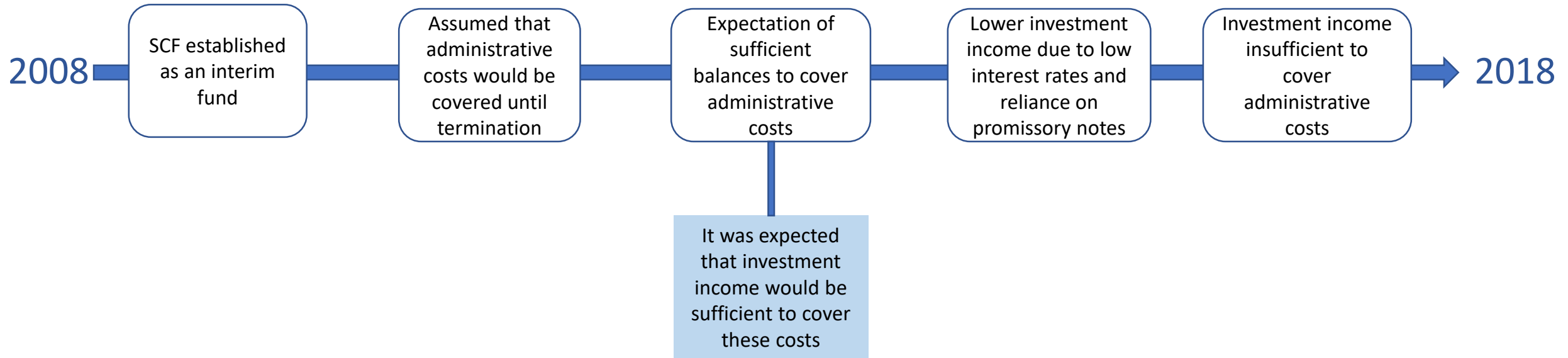


Other implementation efficiency ratios

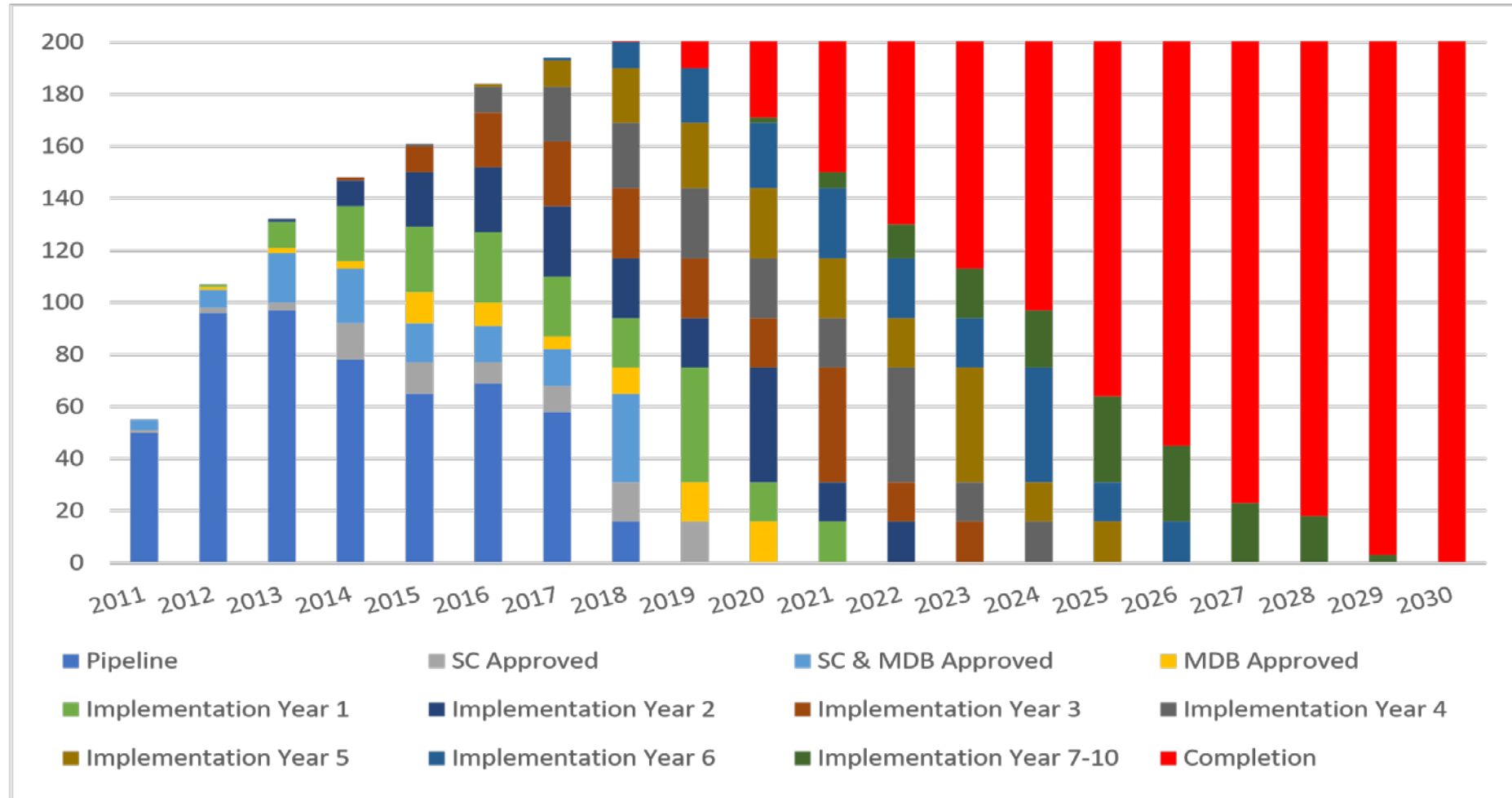
Other efficiency measures	Ratio
MPIS to total funding (until FY28) *	3%
MPIS + Corporate costs to approved funding (until FY18)	5%
MPIS + Corporate costs to approved funding (until FY28)	6.8%

* Includes MPIS for historical and expected future SCF funding approvals

Historical Context



Overview of the SCF Portfolio (201 projects)



What do SCF costs cover?

Governance and portfolio management

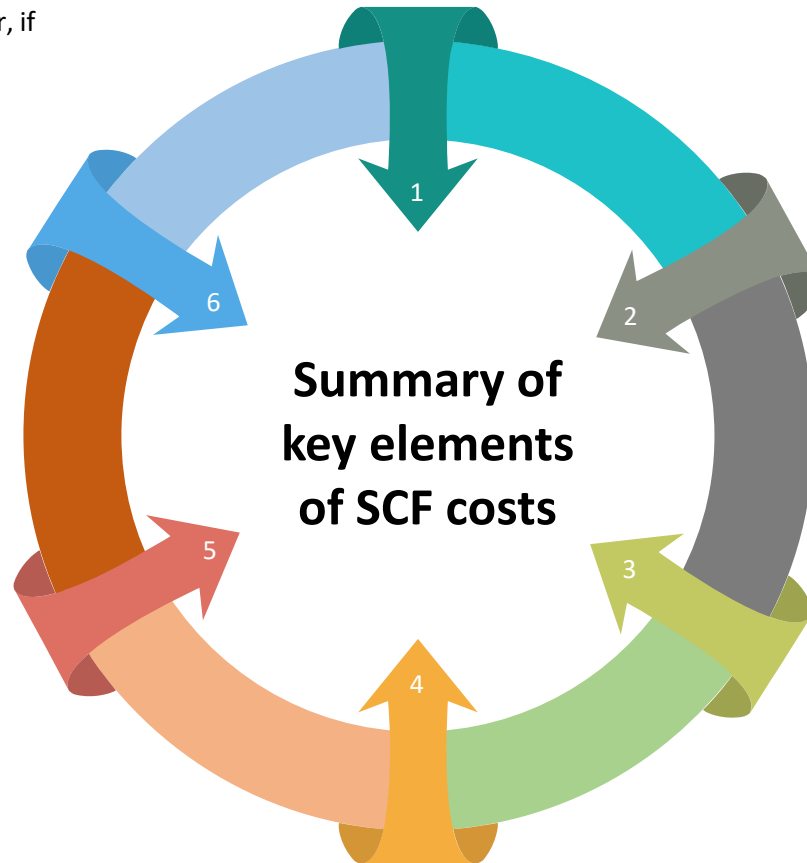
Costs related to governance and portfolio management will not change significantly if the status quo is maintained. However, if meeting and reporting frequency is reduced, lowering costs would be associated with fewer requirements for portfolio reporting and fewer Committee meetings.

Risk management

In addition to maintaining the risk dashboard, the risk management function will continue identifying, assessing, monitoring the SCF's exposures to key strategic, operational, financial, and other risks, and reporting these risk management efforts

Gender Mainstreaming

While gender mainstreaming and safeguard provisions continue at the project level, led by MDBs, a deepened effort on gender-transformative support by the CIF partnership will provide technical support and learning on gender for CIF investment plans and projects and generating new sector-specific knowledge and tools on gender for application to CIF programs.



Monitoring and Reporting

Core tasks include: (a) participatory stakeholder annual result reporting, supported by annual interim results reporting (b) programmatic M&R capacity building at country level (c) project level results reporting, and (d) analytical work on completed projects and at mid-term.

Stakeholder Engagement

Activities in the SCF are focused at governance level to build constructive relationships with global stakeholders including support of the SAN, country-level engagement to safeguard the programmatic nature of the CIF, public ownership of investment plans and programmatic results; and project-level stakeholder engagement.

Evaluation, Knowledge management and Learning

Increased level of knowledge management supported by the CIF Evaluation and Learning (E&L) Special Initiative, and other methods and approaches to capture and share knowledge and develop operationally relevant and demand-driven knowledge products.



Projection of long-term SCF costs

Scenario 1: Maintains the status quo of current SCF operations

Scenario 2: One reporting cycle and one set of Trust Fund Committee and Sub-Committee meetings annually

Summary of Administrative costs	Cost Scenario 1	Cost Scenario 2
Administrative Services	103.2	92.8
Country Programming budget	3.0	3.0
Learning and Knowledge Exchange	3.2	3.2
Trustee costs (FY29 - FY60)	19.7	19.7
Audit costs (FY29-FY60)	12.8	12.8
Total	141.9	131.5

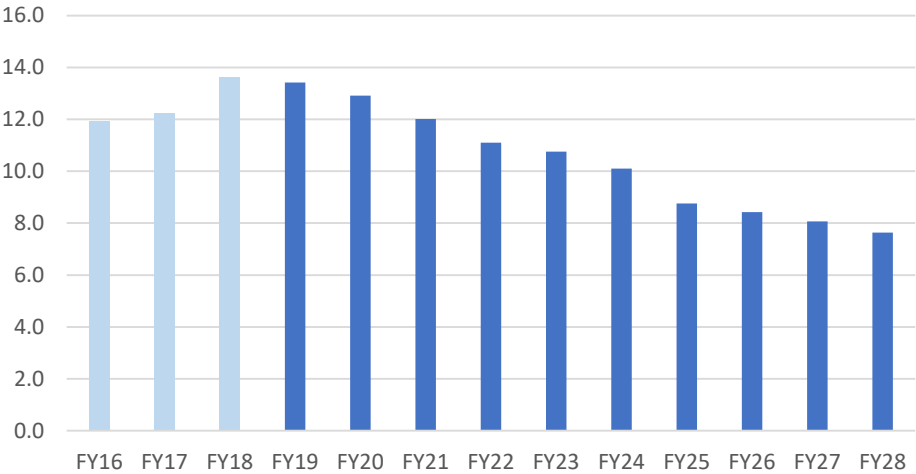
Comparison of SCF long term costs to FY18 baseline

<i>Cost Scenario 1</i>	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
CIF Admin Unit	-1%	-5%	-14%	-24%	-27%	-31%	-48%	-49%	-51%	-55%
MDBs	-1%	-3%	-6%	-8%	-10%	-14%	-17%	-26%	-30%	-34%
Trustee	-1%	-3%	-4%	-6%	-6%	-7%	-7%	-44%	-44%	-44%
Total	-2%	-5%	-12%	-19%	-21%	-26%	-36%	-38%	-41%	-44%

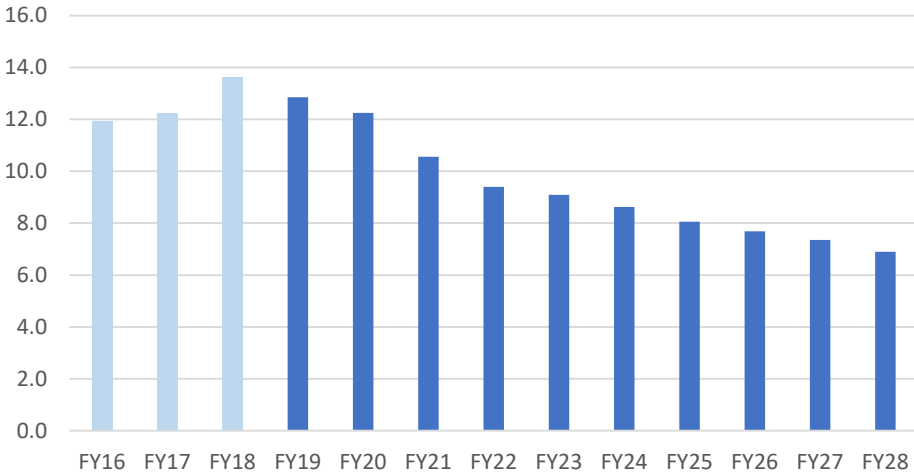
<i>Cost Scenario 2</i>	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27	FY28
CIF Admin Unit	-6%	-9%	-30%	-43%	-45%	-48%	-53%	-54%	-56%	-60%
MDBs	-6%	-11%	-15%	-18%	-21%	-25%	-29%	-33%	-37%	-41%
Trustee	-9%	-18%	-26%	-36%	-36%	-44%	-44%	-44%	-44%	-44%
Total	-6%	-10%	-23%	-31%	-33%	-37%	-41%	-44%	-46%	-49%

Overview of SCF Costs – (FY19 – FY28, USD million)

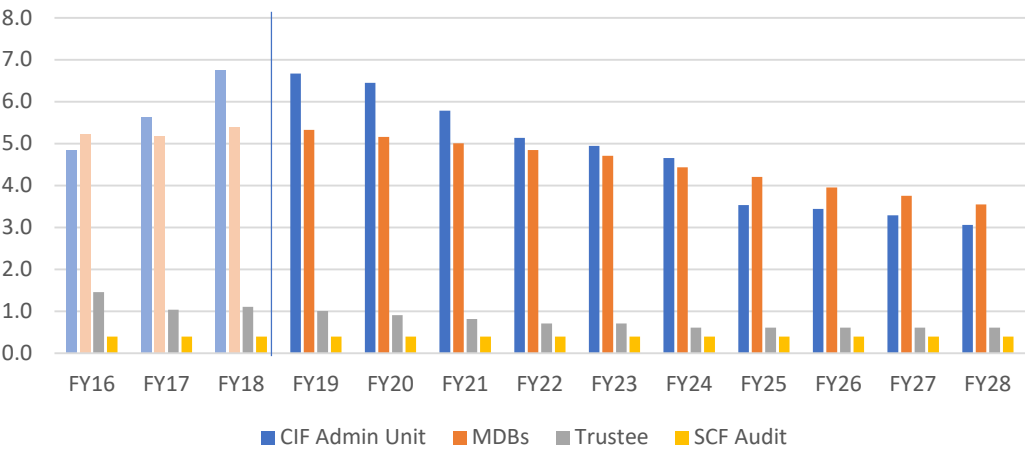
Cost Scenario 1



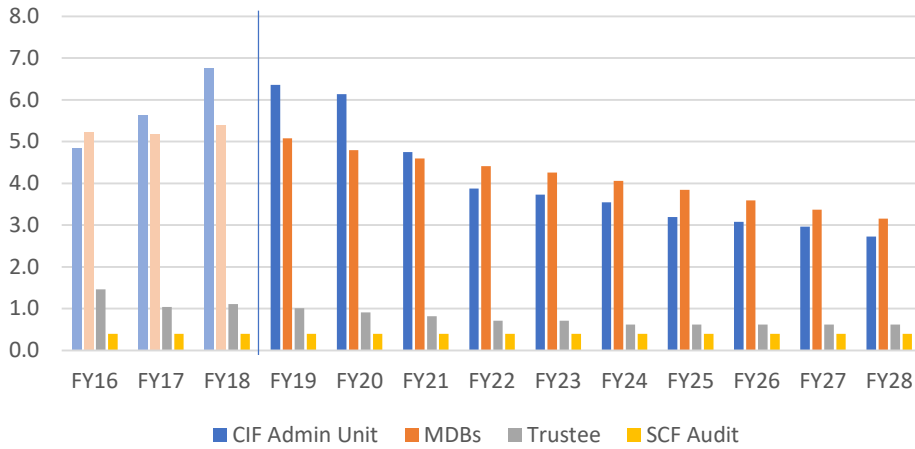
Cost Scenario 2



Cost Scenario 1



Cost Scenario 2



Cost sharing between SCF programs

Previous methodology: adjusted annually based on cash balance in each SCF program.

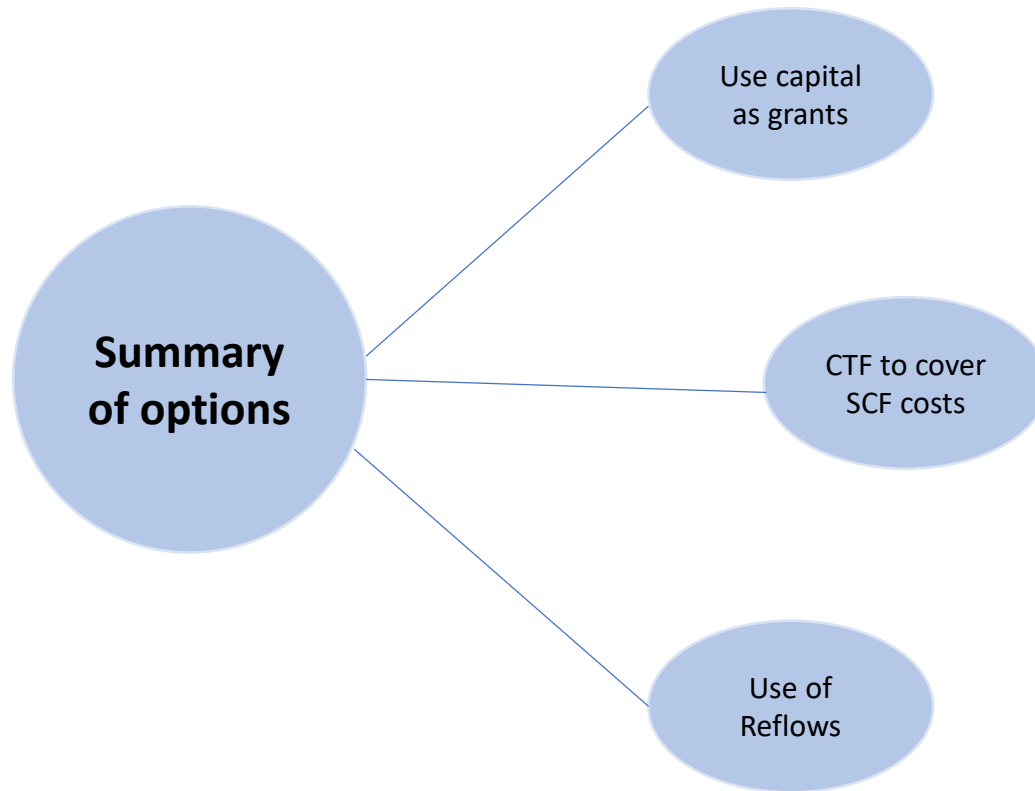
Effect: Disadvantages the FIP

Proposed methodology: Fixes the pro-rata share as of December, 2017 and maintains this share until FY60.

Effect: Splits costs more equitably across programs



Options to cover long-term SCF costs



Elements and assumptions:

- Encashment of all promissory notes assumed
- Given the SCF's Programs level of maturity, declining levels of investment income are expected until FY 2024
- Trust Fund balances represents the Cash, unencashed promissory notes and investment income received, less commitments for projects/programs, MPIS and administrative expenses
- Admin costs may only be covered using grant resources



Use of capital as grants

- Analysis by Trustee determined that USD 51.3 million eq. of capital contribution from the United Kingdom is available to be used as grants to PPCR and SREP
- The United Kingdom has accepted this analysis

SCF Trust Fund Balances (including additional grant resources from the UK), USD mln

	FIP	PPCR	SREP
Trust Fund Balance*	93.4	26.9	91.2

***Trust Fund balances =**

Cash +

Unencashed promissory notes +

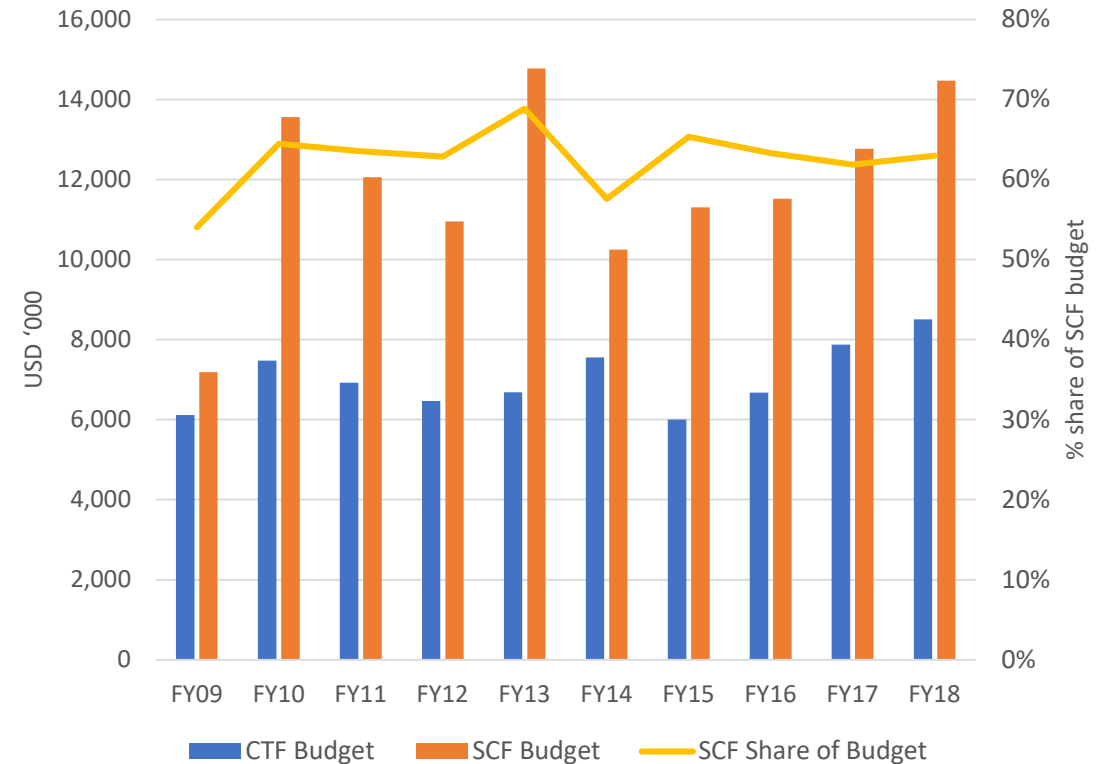
Investment Income received -

Commitments for projects/programs, MPIS and administrative expenses

CTF vs SCF cost sharing

- Cost sharing between CTF and SCF in MDBs, CIF Admin Unit and Trustee are consistent with level of effort
- Further attribution would be arbitrary
- Changes from a legal perspective would be complicated

Historical share of total SCF Budget
(CIF Admin Unit, MDBs, and Trustee Admin Services budget)

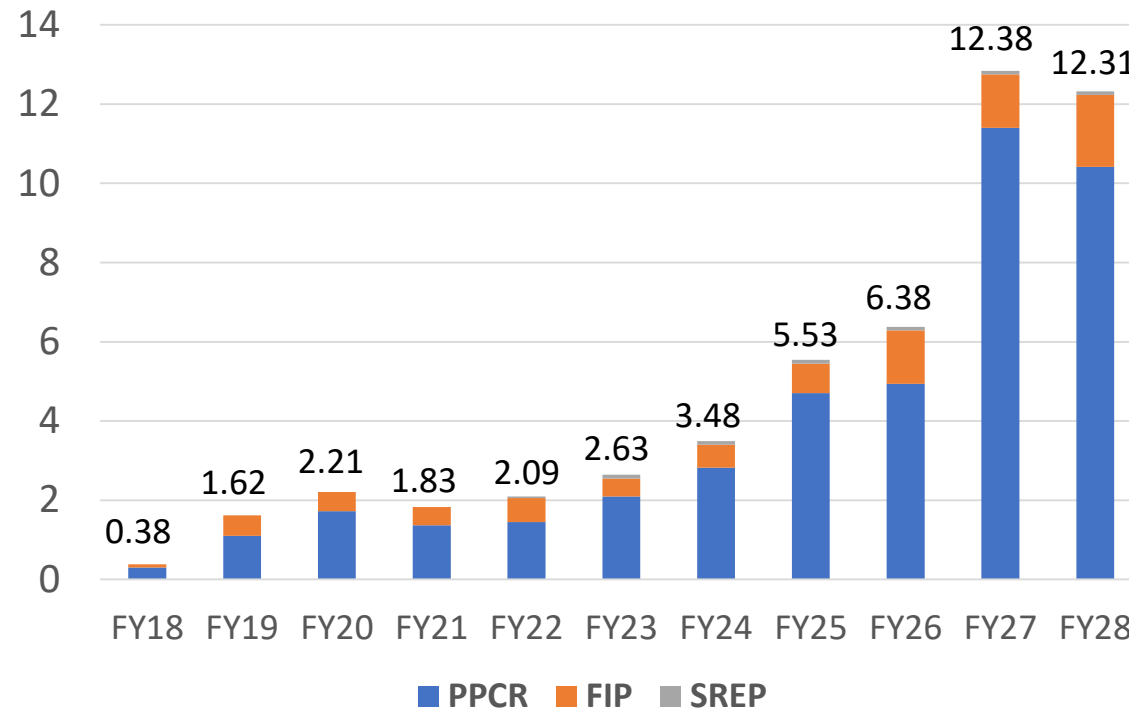


- Increase in FY13 due to SCF program staff count increase
- Increase in FY18 due to change in WBG policy in non-salary cost recovery (increased from 50 – 70 percent)

Use of reflows

- Reflows are any payments of **principal, interest, fees** or any other reflow of funds from SCF loans or other financial products other than grants, which are due to be returned to the Trust Fund by the MDBs, pursuant to the Financial Procedures Agreement
- Reflows between FY29 and FY60 are expected to be USD 402.86 million

10-year forecast of annual reflows (USD, million)





Summary of portfolio impact - Cost scenario 1 (USD, mln)

		FIP	PPCR	SREP
	Trust Fund Balance	93.4	26.9	91.2
-)	Grant resources allocated for Net Admin Expenses*	11.6	10.6	31.6
	Grant resources available for programming	81.8	16.3	59.6
-)	Grant resources needed for programming	105.7	7.9	50.8
	Grant resources available for future programming	(23.9)	8.4	8.8

***Net Admin Expenses = (Admin Expenses - Investment Income - Reflows)**

	FIP	PPCR	SREP
FY19-FY28 Admin Expenses (cost scenario 1)	23.6	31.5	41.1
minus Cumulative Investment Income	5.4	10.1	9.0
minus Cumulative Reflows (up to FY28)	6.6	10.9	0.6
Net Admin Expenses	11.6	10.6	31.6

Summary of portfolio impact - Cost scenario 1

FIP

- FIP has a pipeline of **22** projects requiring grant resources of **USD 105.7 million** to be funded;
- If use of reflows are allowed under cost scenario 1, USD 23.9 million of projects requiring grant financing would remain unfunded.

PPCR

- PPCR has a pipeline of **2** projects requiring grant resources of **USD 7.9 million** to be funded;
- If use of reflows are allowed under this cost scenario all PPCR projects will be funded

SREP

- SREP has a **sealed** pipeline of **17** projects and PPGs requiring grant resources of **USD 50.8 million** to be funded
- If use of reflows are allowed under this cost scenario all SREP sealed pipeline of projects will be funded



Summary of portfolio impact - Cost scenario 2 (USD, mln)

		FIP	PPCR	SREP
	Trust Fund Balance	93.4	26.9	91.2
-)	Grant resources allocated for Net Admin Expenses*	9.5	7.4	27.8
	Grant resources available for programming	83.9	19.4	63.4
-)	Grant resources needed for programming	105.7	7.9	50.8
	Grant resources available for future programming	(21.7)	11.5	12.6

***Net Admin Expenses = (Admin Expenses - Investment Income - Reflows)**

	FIP	PPCR	SREP
FY19-FY28 Admin Expenses (cost scenario 2)	21.5	28.4	37.3
minus Cumulative Investment Income	5.4	10.1	9.0
minus Cumulative Reflows (up to FY28)	6.6	10.9	0.6
Net Admin Expenses	9.5	7.4	27.8

Summary of portfolio impact - Cost scenario 2

FIP

- FIP has a pipeline of **22** projects requiring grant resources of **USD 105.7 million** to be funded;
- If use of reflows are allowed under cost scenario 1, USD 21.7 million of projects requiring grant financing would remain unfunded.

PPCR

- PPCR has a pipeline of **2** projects requiring grant resources of **USD 7.9 million** to be funded;
- If use of reflows are allowed under this cost scenario all PPCR projects will be funded.

SREP

- SREP has a **sealed** pipeline of **17** projects and PPGs requiring grant resources of **USD 50.8 million** to be funded
- If use of reflows are allowed under this cost scenario all SREP sealed pipeline of projects will be funded.

Conclusion and recommendations

- Impact on the SCF portfolio is minimal, if reflows are allowed.
- If reflows are not allowed, in cost scenario 1, SCF programs will face the following shortfall in grant resources:
 - FIP: USD 39.3 million
 - PPCR: USD 29.7 million
 - SREP: USD 3.8 million

Summary of recommendations:

- That the current “pause” on project approvals is lifted
- The SCF Trust Fund Committee accepts the recommended formula for apportioning future administrative costs across SCF programs
- Approval of the use of reflows to finance the potential shortfall in grant resources
- Allow a portion of uncommitted SCF grant resources to be set-aside for estimated admin costs from FY19-FY28