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Climate Investment Funds  
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**PROPOSED ADMINISTRATIVE AND PROJECT  
MANAGEMENT COSTS OF THE CIF**

## **Climate Investment Funds Note on Administrative and Project Costs**

### **I. Introduction**

1. For each Trust Fund under the Climate Investment Funds (CIF), the Trustee, the Administrative Unit, and the Multilateral Development Banks (MDBs) would agree to perform specific administrative services and project related activities. The objective of this paper is: (i) to list those functions for which budgetary resources will be required to enable these entities to fully carry out their roles and responsibilities, and (ii) to propose the method and process for providing such resources.

2. Compensation for administrative services and project related activities would be on the basis of full cost recovery for the entities but should be guided by the principles of cost consciousness, reasonableness, and transparency. In addition, it is recommended that each entity use an activity based approach to construct an annual administrative budget which would be submitted to the Trust Fund Committee for approval and for payment from the Trust Fund resources. It is also proposed that the MDBs' expenditures related to managing the project cycle would be recovered through fees and service charges paid by borrowers.

3. This paper is structured as follows: Section II describes the administrative services of the Trustee, the Administrative Unit, and the MDBs; Section III describes the activities related to project preparation and supervision that will incur costs; Section IV describes the cost recovery process; and finally Section V covers reporting on actual expenditures.

### **II. Administrative Services**

4. Administrative services include all services and activities not linked directly to project management but required for the effective participation of an entity in the corporate activities of a Trust Fund.

#### **Trustee**

5. The Trustee would have financial responsibility over all assets in the Trust Funds and would perform the following services and functions each of which will incur costs:

- (i) Financial management: collection, holding and managing of donor contributions and other receipts of the Trust Funds; recording Trust Fund Committee decisions; managing commitments and cash transfers to MDBs; managing reflows from MDBs, cash flow management; financial risk management, including currency and risk rate risk management; and provision of financial and operational controls;

- (ii) Investment management: investment of funds based on benchmark; currency conversions; periodic review of risk profile and asset composition of benchmark; and allocation of investment income to each Trust Fund on a monthly basis;
- (iii) Accounting and financial reporting: maintenance of accounting records and financial data; provision of required financial reports; preparation of annual, audited financial statements; audit coordination; audit fees; and monitoring the quality and consistency of specified financial data provided by the MDBs to the Trustee;
- (iv) Legal services: the provision of legal services related to trust fund design and administration, including preparation, negotiation and revision of legal documents for each Trust Fund; preparation, negotiation and revision of legal agreements with MDBs; advice on policies that affect the operations of the Trust Funds to ensure compliance with governing documents and other agreements; review and, if necessary, legal interpretation of audited financial statements; and participation in meetings with donors and MDBs with respect to Trust Fund matters, as required;
- (v) Relationship management: provision of documents and ad hoc reports to donors and the Trust Fund Committees; participation in meetings as required; liaise and collaborate with MDBs to maintain the integrity of financial reporting; ensure best practice; and develop robust and efficient reporting and transactional processes and procedures; and
- (vi) Systems and infrastructure: provision of infrastructure and general operations costs, including system maintenance, office overhead, equipment, supplies, and communications.

### **Administrative Unit**

6. The Administrative Unit would coordinate the work of the CIF and support the Trust Fund Committees. In this capacity, it would perform the following administrative services and functions which will require resources for staffing and other budgetary requirements:

- (i) Servicing the Trust Fund Committees: for review by the Steering Committee, conduct background research and analyses as requested by the Trust Fund Committee and/or Steering Committee; compile an annual consolidated report on the funds' activities, performance, and lessons, including details of the funds' portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information; and service the meetings of the Trust Fund Committees;

- (ii) Inter-agency coordination: manage a comprehensive database of the CIF activities, knowledge management system, result measurements system and learning program;
- (iii) Legal services: the provision of legal services as required with respect to the preparation and revision of the governing documents for the CIF as well as general legal advice with respect to CIF governance matters;
- (iv) Outreach and external relations: manage CIF's partnerships and external relations, including convening meetings of the Steering Committee and the Partnership Forum; and collaborate with the Trustee to ensure that the Trustee receives all the information necessary to carry out its responsibilities.

### **Multilateral Development Banks**

7. The MDBs are expected to incur administrative costs related to their interaction with the Trust Fund Committees, the Trustee and the CIF Administrative Unit. The tasks and deliverables would include the following:

- (i) Policy and program preparation and coordination: preparation of joint MDB reviews of country strategic frameworks; preparation of joint MDB country programs;
- (ii) Meeting participation: attend and participate in the Steering Committee meetings (and jointly carrying out functions assigned to it) and attending meetings of the Trust Fund Committees, Partnership Forum, and the Trustee;
- (iii) Operational reporting: reporting through the Results Measurement System; preparation of an annual report on the activities, performance, and lessons learned, including details of the portfolio, status of implementation, funding allocations for the previous period, pipeline of projects and funding projections, costs incurred to administer the funds, and other pertinent information, contributing to each of the Trust Funds' knowledge management and learning programs;
- (iv) Financial management: cash flow management, management of the resources committed and transferred to the MDB by the Trustee; management of reflows from borrowers; negotiation and revision of legal agreements with the Trustee; and provision of financial and operational controls;
- (v) Accounting and reporting: maintenance of accounting records and financial data; provision of required financial reports to the Trust Fund Committees and the Trustee; and preparation of annual, audited financial statements, audit coordination, and audit fees;

- (vi) Investment management of the resources transferred to the MDB by the Trustee; and
- (vii) Processes, systems and infrastructure: integration of operations in mainstream policies and procedures, provision of infrastructure and general operations costs, including system maintenance, office overhead, equipment, supplies, and communications.

### **III. Project Development and Supervision**

8. Project costs are the MDBs' expenditures related to the identification, preparation, appraisal, approval, supervision and evaluation of a specific project. The MDBs would apply their investment lending policies and procedures to all operations financed by the Funds. These policies and procedures would include internal MDB requirements for the following:

#### Project Preparation

- (i) Project concept review;
- (ii) Quality enhancement and assurance to meet quality at entry standards;
- (iii) Risk management;
- (iv) Financial management and procurement assessments of project implementing entities;
- (v) Country dialogue on and appraisal of the sector policy, technical, economic, financial, institutional, fiduciary, environmental and social aspects of projects;
- (vi) Preparation and negotiation of legal agreements; and
- (vii) Board approvals

#### Project Supervision

- (i) Implementation status reporting;
- (ii) Adaptive management of project strategy and design;
- (iii) Loan/grant disbursement management;
- (iv) Implementing project at-risk systems;
- (v) Supervision of project monitoring, evaluation, environmental and social safeguard measures, procurement and financial management by borrower/recipient;
- (vi) Implementation completion reporting; and
- (vii) Independent evaluation of completion reports.

### **IV. Cost Recovery**

#### **Administrative Services**

9. In constructing an annual administrative budget, it is proposed that the Trustee, the Administrative Unit, and the MDBs use common, standard expense categories. The expense

categories used should be comparable across all entities and can be broken down into the following expenditure categories:

- (i) Staff salaries and benefits;
- (ii) Consultant fees;
- (iii) Travel;
- (iv) Indirect/Operating costs (includes translation, communications, computing and information systems, printing and publications, office equipment and supplies, office space, support/temporary staff, training, seminars, honoraria, representation);
- (v) Institutional /Fixed costs (includes chargeback services from the parent organization for administrative, personnel, accounting, auditing, legal, financial reporting, funds disbursement services and office space/facilities;
- (vi) Contractual services; and
- (vii) External audit fees.

### **Approval of Administrative Budget by the Trust Fund Committees**

10. It is proposed that each entity would prepare, for each Trust Fund and on an annual basis, a proposal for compensation for the agreed administrative services for the upcoming year. The respective Trust Fund Committees would endorse the entities' activities for the upcoming year and approve the request for compensation. Upon approval by the Trust Fund Committees, the Trustee would be authorized to commit and transfer the entire amount approved to the entities. Each approval would be subject to an end of year adjustment based on actual costs.

11. In the case of services provided to more than one trust fund, the budget presented to each Trust Fund Committee will include a share of the costs of those services.

### **Compensation for Project Management and Supervision**

12. Cost recovery for the MDBs' expenditures related to managing the project cycle would be based on standard fees and service charges approved by the Trust Fund Committee and paid by borrowers, similar to IDA operations. For example, a one-time lending fee on the undisbursed loan balance of a loan could accrue to the MDB to recover its staff, consultants, travel and related costs of project preparation and appraisal, including due diligence, as well as loan negotiations. Similarly, an annual service charge could cover the MDBs' supervision costs and reporting costs.

## **V. Reporting**

### **Administrative Services and Project Costs**

13. Reporting of administrative costs and project costs is important to maintain transparency, highlight common issues that may need to be addressed, and highlight and remedy inefficiencies. Additionally, in the case of project costs, annual reporting is recommended so as to ensure that

the fees and service charges are sufficient to cover the actual costs of MDBs for project preparation and supervision, but are also not burdensome to the borrower.

14. Each entity that is compensated for administrative services would report directly to the Trust Fund Committees on actual services provided during the fiscal year and the related associated end of fiscal year expenditures. For project costs, MDBs would report to the Trust Fund Committees on the end of fiscal year actual costs. On an annual basis, all entities would be required to report to the Trustee on actual expenditures for administrative services and project costs as well. As noted in paragraph 10, the budget for administrative services would be subject to an end of year adjustment.