

# CLIMATE INVESTMENT FUNDS

June 2011

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**MDB PROJECT IMPLEMENTATION SERVICES UNDER SCF'S TARGETED PROGRAMS  
– SOURCES OF FUNDING AND IMPLEMENTATION ARRANGEMENTS  
Adopted June, 2011**

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## INTRODUCTION

1. The SCF Trust Fund Committee (TFC) at its November 11, 2010 meeting reviewed the document SCF/TFC.6/6, *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SCF*, and approved the proposal for establishing a system to reimburse the MDBs for their project implementation support and supervision services. Specifically, the Committee agreed...

“...that payments to the MDBs for their costs of providing project implementation support and supervision services under SCF-funded public sector operations should be proposed and approved on a case-by-case basis and that each MDB will take into account the procedures applied in its regular operations to determine the proposed costs of MDB project implementation support and supervision services. The Committee agrees to utilize the set of cost benchmarks as a reference point for reviewing and approving requests under individual projects.

...that funding of MDB costs for project implementation support and supervision services should be identified within each investment strategy or plan as a separate component of the overall funding request for such strategy or plan. The Committee requests the CIF Administrative Unit, in consultation with the MDBs, to clarify how these resources would relate to the allocation of resources that will be agreed by the Sub-Committees. The Committee agrees that the costs of the MDBs should not be perceived as diminishing the allocations agreed for pilot countries.”

2. Subsequently, the MDB Committee, working with the CIF Administrative Unit, developed guidance for implementing the agreed system of payments. This guidance, set out in the attached document, *Payments for MDB Project Implementation Services (MPIS) under SCF's Targeted Programs – Implementation Guidance* was agreed by the MDB Committee on April 14, 2011 (Annex 1).

3. This paper

- a) responds to the Trust Fund Committee's request for clarification of the relationship of the payments for MPIS to the allocation of resources that will be agreed by the Sub-Committees for funding of investment plans; and
- b) summarizes the arrangements proposed by the MDB Committee for the implementation of the agreed payment system for the review and approval by the SCF Trust Fund Committee.

## I. SOURCES OF FUNDING FOR MDB PROJECT IMPLEMENTATION SERVICES (MPIS) PAYMENTS

4. Funding of MPIS costs will come out of the funds (“reserves”) that each of the three Sub-Committees have agreed to set aside from the amounts pledged by the contributor countries prior

to determining the indicative ranges of allocations for investment plans.<sup>1</sup> The payments to the MDBs for their project implementation services will therefore not be part of the CIF resource envelope for which countries will seek Sub-Committee endorsement.

5. The preliminary estimate of MPIS payments under the three targeted SCF programs amounts to US\$47.0 million (Table 1) which is equivalent to 2.5% of the expected total project funding of US\$1.86 million under these programs.

**Table 1: Estimated MPIS Payments under SCF’s Targeted Programs**

	PPCR	FIP	SREP
Total number of projects <sup>1/</sup>	56	25	18
Average MPIS payment per project (\$’000) <sup>2/</sup>	475	475	475
Total estimated payments (\$’000)	26.6	11.9	8.6
Approved Funding Reserve (\$’000)	<sup>3/</sup>	150,000	60,000
Percentage of current “reserve”		12.6	7.0

<sup>1/</sup> As per proposed FY12 Business Plan targets

<sup>2/</sup> Broadly derived from payment benchmarks set out in SCF/TFC.6/6, *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SC*. Average payment is assumed to fall at mid-point between mean and upper limit of benchmark range. Few projects are expected to fall in the category of freestanding investment projects.

<sup>3/</sup> The PPCR “reserve” is currently fully programmed. Payments of MPIS will therefore have to be made on the assumption that additional grant pledges will replenish the “reserve” earlier agreed by the PPCR Sub-Committee (see footnote 1 of main text).

## II. PROPOSED IMPLEMENTATION ARRANGEMENTS

6. Steps for implementing the system for MPIS payments are summarized below:

Step 1: Guided by approved benchmarks, the MDB submits its initial cost estimate and requests first MPIS payment at the time of seeking Sub-Committee endorsement of the investment plan (annex 1).

Step 2: At the time of endorsement of the investment plan, the Sub-Committee takes note of the estimated MPIS budgets for the individual projects and approves the first tranche of MPIS funding for each of the projects involved. The initial payment will not exceed 50% of the upper limit of the adopted benchmark range for the relevant project category.

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<sup>1</sup> The PPCR Subcommittee agreed in June, 2010 that based on projections of approximately US\$720million in pledged PPCR grant resources, USD600 million is a reasonable programming target, providing a reserve of US\$120 million that can be released once contributions are received by the Trustee. The FIP Subcommittee at its November 9, 2010 meeting agreed that a reserve of US\$150 million in grant resources should be set aside from the current level of pledges. The SREP Sub-Committee agreed at its November 8, 2010 meeting that a reserve of the current pledges to the SREP should be established initially at US\$60 million.

Step 3: Upon notice of the Sub-Committee's approval of the first tranche payments, the Trustee commits, and subsequently transfers to the respective MDBs the approved first payments. This will enable the MDBs to proceed with detailed preparation of SCF funded parts of projects contained in the investment plans.

Step 4: When the pilot country requests the Sub-Committee for funding of a proposed project, the MDB submits its final estimate of MPIS costs, recording it together with a request for final MPIS payment using a standard template (see annex 2 in the attachment). The estimate may well deviate from the initial one, given that project design and its consequences for MDB services are better understood at this advanced stage of project preparation. The final estimate is expected to take into account the adopted cost benchmarks. If it exceeds the benchmark range, the MDB Committee will ensure that a clear justification exists for a higher payment before it is passed on to the Sub-Committee for review and approval.

Step 5: The Sub-Committee considers and approves the MDB's request for final MPIS payment as a complement to its review of the country's request for project funding. Upon notification of Sub-Committee approval, the Trustee transfers to the MDB the second tranche of MPIS funding (final estimate less the first tranche).

7. The document SCF/TFC.6/6, *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SCF* specifies that the CIF Administrative Unit, working with the MDB Committee, is to "report back to the SCF Trust Fund Committee on the implementation of the benchmark system and its associated administrative arrangements". Arrangements for such reporting have been agreed by the MDB Committee (see annex1). They provide for reporting on actual (or estimated actual) MPIS costs, recognizing that the systems of the individual MDBs for tracking costs are not all comparable and that there is a shared interest on keeping transactions costs on reporting at a reasonable level. The feasibility of the proposed arrangements will be monitored and adjustments made as experience in implementation is forthcoming.

**Implementation Guidance**  
(as approved by the MDB Committee April 14, 2011)

## Background

1. The SCF Trust Fund Committee (TFC) on November 11, 2010 agreed to establish a system for reimbursing the MDBs for their project implementation, including preparation, support and supervision services for PPCR, FIP and SREP funded projects.<sup>2</sup> (These services are, hereinafter, referred to as “MDB project implementation services” or MPIS). Payments are to be approved on a case-by-case basis with reference to adopted cost benchmarks. Taking account of these benchmarks, MDBs will estimate MPIS costs based on cost structures and recovery mechanisms applied in their regular operations.

2. This note (i) clarifies the sources of funding for MPIS payments<sup>3</sup>; (ii) explains the procedures for requesting, approving, and transferring MPIS payments; and (iii) sets out provisions for reporting to the TFC on the implementation of the system for MPIS payments. The arrangements set forth will be kept under close review by the MDB Committee, with the view to modifying the procedures in light of future experience gained in implementation.

## Sources for funding MPIS costs

3. Under all three targeted SCF programs a “reserve” of grant resources has been set aside from the current level of pledges before determining the indicative country allocation ranges. As of this date, these reserves involve for PPCR \$120 million, for FIP \$150 mill, and for SREP \$60 million. Funding of MPIS costs will come out of these reserves. Indicative projections of payments to MDBs are as follows: PPCR- \$22.3 million (or 19% of the reserve); FIP - \$11.4 million (or 8%); and SREP \$8.5 million (or 14%). The projections are based on the current number of pilots; assumptions regarding average number of projects per investment plan or strategy, and an assumed average MPIS payment of \$475,000 (see Table 1).

## Procedures for request, review, approval, and transfer of MPIS payments

4. Step 1 - The MDB submits initial cost estimate and request for first MPIS payment: As the MDBs work with pilot country institution to complete the country investment plans or strategies, they will each make a preliminary estimate of their costs for providing implementation support to the proposed project(s) for which they are the designated funding agency. At this stage, projects proposed for funding are conceptual rather than detailed in nature, and costs cannot be estimated with any precision. MDB task teams will therefore use best estimates, based

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<sup>2</sup> “Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and projects under the SCF” (SCF/SC.6/6, October 29, 2010)

<sup>3</sup> The SCF TFC has “requested the CIF Administrative Unit, in consultation with the MDBs, to clarify how these resources [i.e. payments for MPIS] would relate to the allocation of resources that will be agreed by the Sub-Committees”.

on norms used in their respective agencies, or apply the SCF benchmark cost structure (see Table 1 below). All initial estimates are expected to fall within the benchmark range for the relevant project financing category.

5. The MDBs will use a standard template (Annex 1) for recording their preliminary cost estimates and requests for initial MPIS payment, set as 50% of the initial MPIS cost estimate. As the CIF Administrative Unit forwards the country’s investment plan or strategy to the Sub-Committee for review and endorsement, it attaches, as separate but complementary documents, the MDBs’ requests for initial MPIS payment related to the projects contained in the plan or strategy.

**Table 1: Adopted Benchmarks for Payments to MDBs for Project Implementation Services (MPIS) under SCF financed Operations (US\$’000)**

SCF project financing categories	Preparation Benchmark Mean (Range)	Project Life (years)	Supervision Benchmark Mean (Range) 1/	Overall benchmark
<b>Investment financing</b>				
a. Additional SCF financing for ongoing MDB projects	167( 108-222)	3.0	273 (254-288)	440 (362-510)
b. Blending SCF financing with MDB and other financing	148 (85-165)	6.5	286 (254-325)	428 (339-490)
<b>Capacity-building projects (stand-alone)</b>	217 (36-273)	4.0	228 (140-260)	445 (176-533)
<b>Stand-alone SCF financing for investment projects (exception)</b>	296 (210-382)	6.5	481 (364-591)	777 (574-973)

1/ Average annual supervision cost times assumed project life which will vary from project to project.

(Source: *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SC, SCF/SC.6/6 October 29, 2010*)

6. Step 2 - Sub-Committee approves the MDB request for initial MPIS payment. At the time of endorsement of the investment plan or strategy, the Sub-Committee takes note of the estimated MPIS budgets for the individual projects and approves the first tranches of MPIS funding for each of the projects involved.

7. Step 3 - The Trustee transfers the first MPIS payment. Upon notice of the Sub-Committee’s endorsement of a country investment strategy or plan and its approval of first tranche payments for MPIS related to the individual projects in the plan/strategy, the Trustee commits, and subsequently transfers to the respective MDB the approved first tranches of funding of MPIS costs, consistent with the Financial Procedures Agreements with the MDBs. This initial payment allows the MDB to proceed with detailed preparation of SCF funded parts of projects. Based on the average benchmark costs shown for the various SCF project categories (Table 1) the transfers can be expected to range from \$214,000 (when SCF financing is blended) to \$388,000 (for a stand-alone SCF financed investment project). The initial payment to the

MDB will not exceed 50% of the upper limit of the adopted benchmark range for the relevant project category.

8. Step 4 - MDB submits final MPIS cost estimate and request for final payment. As a pilot country submits its request to the Sub-Committee for funding of an individual project, the MDB involved prepares its updated and final estimate of MPIS costs, and records it together with a request for final MPIS payment using the standard template (Annex 1). The estimate should reflect costs for services already rendered (i.e. through pre-appraisal) and projected costs of services required up to project completion. The final estimate may well deviate from the initial one, considering that project design and implementation arrangements, and their consequences for MPIS, are better understood at this advanced stage of project development. In preparing the final estimate the MDB is expected to take into account the adopted cost benchmarks.

9. If the final MPIS cost estimate exceeds the adopted benchmark range, and this may happen on account of exceptional circumstances, the MDB Committee will review it to ensure that a clear justification exists for such higher payment. To assist the Committee in this task, the request for final MPIS payment will include a detailed estimate of the costs and an explanation of the specific factors causing an unusually high level of estimated MPIS costs. As the CIF Administrative Unit forwards the country's request for project funding to the Sub-Committee for review and approval, it attaches, as a separate but complementary document, the MDB's request for final MPIS payment related to the project involved.

10. Step 5 - The Sub-Committee approves and the Trustee transfers the final MPIS payment. The Sub-Committee considers and approves the MDB's request for final MPIS payment as a complement to its review of the country's request for project funding. Upon notification that the Sub-Committee has approved the MDB's request for final MPIS payment, the Trustee transfers to the MDB the second tranche for MPIS funding (equal to the final estimate of MPIS costs less the first tranche transferred following the Sub-Committee's endorsement of the country investment plan or strategy).

### **Reporting arrangements**

11. The SCF paper addressing payments to MDBs for implementation services, approved in November 2010<sup>4</sup>, requires the CIF Administrative Unit, working with the MDB Committee to periodically "report back to the SCF Trust Fund Committee on the implementation of the benchmark system and its associated administrative arrangements". As implementation proceeds, it is important to keep track of how allocated payments and adopted benchmarks cover costs incurred by MDBs. Reporting back to the SCF TFC on benchmark monitoring, therefore, has to include information on actual (or estimated actual) costs of services provided.

12. All MDBs have their own systems for tracking administrative costs incurred in supporting the projects through their life-cycles. Recognizing that these systems are not always comparable, that any provision for reporting on MPIS costs has to be enabled by these systems, and that there is a shared interest in keeping transaction costs low, the arrangements summarized

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<sup>4</sup> See footnote 1.

in Box 1 below will be put in place. The intent is to monitor how feasible they are and to make appropriate adjustments as experience in implementation is forthcoming.

### **Box 1 - Arrangements for Periodic Reporting on MPIS Costs**

The arrangements limit MDB reporting on MPIS costs for each individual projects to two occasions in the project life-cycle: once after Board/management approval, and once after the second year of project implementation. Depending on the capability of individual MDB cost tracking systems, project task team leaders may have to take responsibility for generating estimated actual cost data. If so, they will be advised at the outset of such responsibility.

**Part 1:** Following the final project approval by the Board/Management within the respective institutions, each MDB will inform the CIF Administrative Unit of the actual (or, if not available, estimated actual) costs incurred by the MDB in preparing the project from project inception (i.e. after Sub-Committee approval of investment strategy or plan) to Board/Management approval. These costs will cover staff and consultant time, travel and accommodation, and other expenses incurred. Wherever possible, the breakdown of costs according to these categories would be forwarded; otherwise reported as a total. Where no central cost recording systems is available to produce the above data, the MDB task team leaders would be responsible for estimating actual cost and MDB CIF Focal Points for forwarding such estimates to the CIF Administrative Unit.

**Part 2:** At the end of the second year of project implementation, actual (or estimated actual) cost of supervision for that year would be reported by the MDBs' CIF Focal Points to the CIF Administrative Unit as per procedures indicated above. This actual (or estimated actual) annual cost would be multiplied by the expected number of years for project duration to yield a projection for supervision costs for the entire project implementation period. The second year has been chosen as a base for making such projections considering that project activities by then should be fully underway, and the need not to wait too long before reporting to the SCF TFC.

The CIF Administrative Unit will maintain a data base covering the information received from the various MDBs. It will include relevant summaries of that information in its periodic reports to the SCF TFC on the implementation of the cost benchmark system.

**Template for MDB Request for Payment for  
Project Implementation Services (MPIS)<sup>5 6</sup>**

<b>PILOT PROGRAMS FOR CLIMATE RESILIENCE FOREST INVESTMENT PROGRAM SCALING UP RENEWABLE ENERGY PROGRAM IN LOW-INCOME COUNTRIES<sup>7</sup></b>			
<b>MDB Request for Payment of Implementation Services Costs</b>			
1. Country/Region:		2. CIF Project ID#:	(Trustee will assign ID)
3. Project/Program Title:			
4. Request for project/ program funding (USDmio) <sup>8</sup> :	<i>At time of country program submission (tentative):</i>	<i>At time of project approval:</i>	
5. Estimated costs for MDB project implementation services (USDmio) <sup>9</sup> :	<i>Initial estimate - at time of Country program submission:</i>	MDB:	
	<i>Final estimate - at time of project approval:</i>	Date:	
6. Request for payment of MDB Implementation Services Costs (USDmio.):	<input type="checkbox"/> First tranche:  <input type="checkbox"/> Second tranche:		
7. Project/program financing category:	a - Investment financing - additional to ongoing MDB project <input type="checkbox"/> b- Investment financing - blended with proposed MDB project <input type="checkbox"/> c - Investment financing - stand-alone <input type="checkbox"/> d - Capacity building - stand alone <input type="checkbox"/>		
8. Expected project/program duration (no. of years):			
9. Explanation of final estimate of MDB costs for implementation services:	<i>If final estimate in 5 above exceeds the relevant benchmark range, explain the exceptional circumstances and reasons:</i>		
10. Justification for proposed stand-alone financing in cases of above 6 c or d <sup>10</sup> :			

<sup>5</sup> The term “project implementation services” refers to MDB support throughout project life-cycle.

<sup>6</sup> A separate template needs to be presented for each project and program preparation grant request listed in the SPCR, the FIP Investment Strategy and the SREP Investment Plan.

<sup>7</sup> Pick one program and delete others that are not applicable.

<sup>8</sup> Including the preparation grant request

<sup>9</sup> If the final MDB cost estimate exceeds the relevant benchmark, it needs to be supported by (i) a breakdown of costs of inputs required (staff/consultant time, travel, number of missions, etc) and (ii) by an explanation of the particular aspects of project design and implementation that drive MDB costs to exceed the benchmark (Item 9 in template).

<sup>10</sup> The justification should include an explanation of (i) why no linkages to ongoing or planned MDB financing have been possible or pursued, and (ii) the expected effectiveness of the proposed stand-alone SCF project in addressing the objectives and priorities of the country investment plan/strategy; and a confirmation that the proposed project forms part of the MDB’s agreed country assistance strategy.