

CLIMATE INVESTMENT FUNDS

SCF/SC.6/6
October 29, 2010

Meeting of the SCF Trust Fund Committee
Washington D.C.
November 11, 2010

**COSTS OF MDB PROJECT IMPLEMENTATION SUPPORT AND SUPERVISION SERVICES
FOR PUBLIC SECTOR PROGRAMS AND PROJECTS UNDER THE SCF**

Proposed Decision by SCF Trust Fund Committee

The Trust Fund Committee reviewed document SCF/TFC.6/6, *Costs of MDB Project Implementation Support and Supervision Services for Public Sector Programs and Projects under the SCF*, and endorses the proposal for establishing a system of reimbursing the MDBs for their project implementation support and supervision services. The Committee agrees 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. The Committee agrees to utilize the set of cost benchmarks as a reference point for reviewing and approving requests under individual projects. It notes that the benchmarks take into account information on the historical costs for such services under regular operations and the requirements posed by the expected special characteristics of SCF funded programs and projects.

The Committee agrees that funding of MDB costs for project implementation support and supervision services should be [drawn from resources reserved for this purposes out of the funding available for each program before allocations are determined for the pilot programs][identified within each investment strategy or plan as a separate component of the overall funding request for such strategy or plan].

I. Introduction

1. Since the first SCF project proposals are expected for approval starting the first quarter of 2011, it is essential that an appropriate structure for financing MDB project implementation support and supervision services¹ is established.²
2. During the meetings of the PPCR, FIP and SREP Sub-Committees in June 2010, a proposal was presented for a system to reimburse MDBs for costs of their project implementation support and supervision services for public sector projects financed by the targeted programs under the SCF. It was presented as an addendum to the *Financing Modalities* paper for the PPCR, FIP and SREP. The Sub-Committees requested that "the CIF Administrative Unit in collaboration with the MDB Committee, prepare a paper on the proposed fees that provides greater clarity and more detailed information for consideration at the next meeting of the Sub-Committee[s] in November 2010." They further requested that such a paper "provide an overview of all other fees, service charges and administrative costs to be covered under the SCF programs".
3. This paper responds to the above requests and is submitted to the SCF Trust-Fund Committee as the matter pertains to all three targeted programs under the SCF. It will also be presented for comment to the three Sub-Committees which are scheduled to meet prior to the meeting of the SCF Trust Fund Committee.
4. The paper begins with an overview of the MDBs' administrative services, support for country programming of CIF resources, and project implementation support and supervision services, and a summary of the mechanisms currently in place to reimburse the MDBs for such services (Section II). The third section discusses the main determinants of the MDBs' project implementation support and supervision services and their cost implications. Benchmarks for SCF funding of these services are proposed in Section IV, with associated administrative arrangements outlined in Section V. Two options for managing the funding for the services within the overall available PPCR, FIP and SREP resource envelopes are set out in Section VI, followed by projections of payments to the MDBs over the period FY11-14 (Section VII). The paper concludes with a recommendation to the SCF Trust-Fund Committee for a decision on the proposed system for financing the MDB project implementation support and supervision services associated with public sector projects submitted by MDBs on behalf of SCF pilot country governments.

¹ The term "MDB implementation support" is used to cover project preparation activities and support provided during the project implementation period to country counterpart institutions.

² The design documents for PPCR, FIP and SREP provide that the Sub-Committees are responsible for approving financing for programs in selected countries.

II. Background on MDB Services and Mechanisms for Reimbursement of Costs under the CIF

5. Both the CTF and the SCF design documents recognize that the MDBs, as well as the Administrative Unit and the Trustee, will perform specific administrative services and project related activities.³ They go on to state that compensation for such services and activities “will be on the basis of full cost recovery for the entities but should be guided by the principles of the value for money, reasonableness and transparency”.

6. Based on these principles the Joint Trust Fund Committees have established that MDBs be compensated under the CIF annual administrative budgets *for administrative services involving internal outreach and integration of CIF policies into MDB policies, procedures and systems, operational reporting, participation in the work of “corporate” CIF Committees and fora, and management of CIF funds at the MDB operational level.*

7. The revised (final) FY10 CIF budget allocation for such MDB administrative services included \$2.2 million under the SCF. This allocation rose to \$3.6 million for the FY11 budget (approved in March 2010), reflecting the expectation of overall increased levels of activity under all three targeted programs. Once the programs are fully operational, the levels of administrative services should remain relatively constant. Annual variations will result primarily from changes in scope and size of CIF’s thematic work programs, i.e. knowledge management, private sector engagement, managing stakeholder relations, monitoring and evaluation, and results management.

8. In addition to the administrative services budget for the MDBs, the Joint TFCs, through the regular FY09-FY11 budgetary processes, have approved a total of \$13.9 million (of which \$9.8 million for the SCF) in *multi-year allocations for services MDBs jointly provide in supporting beneficiary countries in the strategic programming of CIF funds.* These allocations have been based on budget norms established by the MDB Committee and reflected in the annual CIF budget documents. Further budgetary allocations should largely be limited to the remaining joint-mission requirements under FIP and SREP⁴ and the need for an increase in the budget norm to accommodating larger than expected costs of MDB engagements with country partners in the country programming process.

9. The third area of reimbursement is for *services MDB provide in program (beyond the CIF country program level) and project development and preparation, appraisal, implementation support, supervision and reporting* (see Box 1 below). These services are delivered through MDB staff and consultants working closely with country partner institutions and their staff. The extent of services provided varies among programs and projects, depending on the level of complexity of the project and the capacity of the

³ *Strategic Climate Fund* (June 3, 2008)

⁴ The FY11 budget provides funding for MDB support to country programming in 8 FIP and SREP countries. The FY12 budget will need to allocate funding for MDB support in the remaining 6 countries.

partner country institutions. The remainder of the paper addresses only this one area of reimbursement to MDBs for services provided.

Box 1. MDB Responsibilities Related to Public Sector Project Implementation Support and Supervision.

(a) Concept development and project preparation involve MDB staff in the following tasks, working closely with their country counterparts:

- concept preparation and review, including initial risk and safeguards assessment
- technical preparation and determination of implementation arrangements
- quality enhancement review
- risk management
- financial management and procurement assessment
- agreement on key results
- preparation of the project appraisal document
- dialogue on and appraisal of technical, economic, financial, institutional, fiduciary, environmental and social, and safeguards aspects of a project
- review and clearance of project documentation as per regular MDB procedures
- regional quality review and management oversight
- preparation and negotiation of legal documents
- presentation to Senior Management/Board of Directors

The above activities typically involve three to four MDB missions covering preparation, pre-appraisal and appraisal with in-country travel and local consultations, negotiation in-country, and supporting analytical work, drafting, review and clearing of project documents at MDB HQs.

(b) Project implementation support and supervision involve the following areas of responsibility working with country counterparts:

- ensuring smooth implementation with in-country travel at least two times per year
- adaptive management of project strategy and design
- procurement and financial management supervision
- implementation status reporting and risk management
- mid-term review of project implementation
- supervision of project monitoring, impact, environmental and social safeguard implementation
- preparation of implementation completion report, and an independent evaluation report.
- projects under supervision are often randomly selected for quality at entry or quality of supervision review.

10. The CTF program was launched prior to the three targeted programs under the SCF, and MDB project implementation support and supervision services for CTF funded public sector operations were adopted in May FY09:

"The borrower will have two options for payment of MDB fees: (a) a fee of 0.1% of the undisbursed balance of the loan, in which case the fee payments will accrue semi-annually after loan signing, or (b) a fee equivalent to 0.25% of the total loan amount, payable in a single lump sum amount, which may be paid by the borrower out of its own resources or capitalized from the loan proceeds following the effectiveness of the loan. The fees are to be retained by the MDB for its lending and supervision costs".^{5 6}

⁵ *Financing Terms Products and Procedures for Public Sector Operations* (March 17, 2010).

11. As per approved guidelines, *private sector* CTF funded operations will not receive a flat percentage fee per project on account of expected high degree of complexity and variability in project design and project duration. Rather, requests for financing of MDB project implementation support and supervision costs, designed to cover the MDB costs over the life of the project, will be approved on a case-by-case basis.⁷ Similar provisions have been agreed for private sector programs under the three targeted programs of the SCF at the June, 2010 Subcommittee meetings.⁸

III. Key Determinants of the MDBs' Costs for Project Implementation Support and Supervision Services

12. The nature, scale, and hence the costs of the MDBs' project preparation and supervision work related to SCF funded programs and project will be largely determined by three factors: (i) the degree of integration of SCF funding with regular MDB funding; (ii) the complexity of the proposed projects and the capacity of the partner country to address it; and (iii) the expected duration of project implementation (the longer the duration the more extended will be the demands on MDB implementation support and supervision. The first two factors are discussed below.

13. **The degree of integration.** The principle of linking SCF funding to MDB regular funding was clearly articulated in the SCF founding document.⁹ It has subsequently been made operational through provisions set out in the adopted design, investment criteria, and financing modalities documents of the three targeted programs:

PPCR. “A significant portion of funding under the PPCR is expected to be provided in the form of grants. A pilot country may also make use of the availability of additional concessional lending that may be blended with existing sources of concessional funding and national resources to increase the resilience of existing development priorities to the impacts of climate change”.¹⁰

FIP. “A key feature of the FIP will be its ability to provide the MDBs with the instruments to blend FIP resources with other sources of financing”¹¹

⁶ The average loan amount for CTF projects is \$70 million. 0.25% of the loan amount translates into payment of \$175,000 for MDB project implementation support and supervision services.

⁷ *CTF Private Sector Operational Guidelines* (Jan 12, 2009)

⁸ *Pilot Program on Climate Resilience (PPCR) – Financing Modalities* (June 15, 2010), and corresponding documents for the FIP and the SREP.

⁹ “The MDB Committee will (a) identify specific areas of MDB cooperation to harmonize their climate change programs and actions, linking their initiatives with SCF programs and projects....”, (*Strategic Climate Fund*, (June 3, 2008)

¹⁰ *PPCR Financing Modalities* (June 15, 2010) Given the experience gained in the start-up of all selected PPCR pilots and the advanced state of some of the planning processes, it is anticipated that the majority of PPCR resources will be blended with MDB operations in sectors relevant to the PPCR.

¹¹ *FIP Investment Criteria and Financing Modalities* (June 29, 2010) As in the case of PPCR, the current expectation is that the bulk of the FIP resources will be blended with the MDBs' own funds and that stand-alone projects will be the exception, while recognizing the role of possible stand-alone funding for capacity building purposes in some countries.

SREP. “Financing modalities should “offer a mix of financing which should be blended with financing available from the MDBs and bilateral agencies/banks, and which would leverage other public and private sector resources”.¹²

14. Linking proposed SCF funded activities directly to MDB operations and blending SCF funding with those of the MDBs under single projects will help to leverage finance and increase operational effectiveness. It will also reduce the MDBs’ preparation and supervision costs attributable to the SCF funding, compared to what would have been the case under a stand-alone SCF project.

15. Such linking of PPCR, FIP and SREP funds to MDB operations may take place at the time of MDB project preparation but also once the MDB project has been approved or is under implementation. This modality could be employed to link activities designed to accomplish transformational change sought under a SCF targeted program while reinforcing the original project objectives. It would have the greatest applicability in the early phase of the implementation of the country investment plan or strategy, i.e. offer prospects of capturing early “low-hanging fruit”.

16. However, many of the beneficiary countries under the three targeted SCF programs, and in particular SREP countries, are low-income countries with substantial needs for the strengthening of regulatory frameworks and institutional and technical capacity in a number of areas relevant to SCF’s targeted programs. Unless these needs are addressed early on, the sustainability of larger investment activities may be at risk. Country-led processes for preparing SPCRs, Investment Strategies and Investment Plans may well conclude that in some cases these needs have to be addressed through stand-alone SCF funded programs or projects, whenever this would be consistent with the MDB’s country assistance strategy.

17. Also, while blending SCF funding with MDB regular funding for investment programs or projects will be pursued as a matter of SCF policy, exceptions in the form of stand-alone programs or projects may need to be considered where viable opportunities for such blending are non-existent, as concluded through the SPCR/IS/IS preparation process, provided such stand-alone operations can be embraced by the country assistance strategy. In short, any stand-alone projects (capacity building or investment) proposed by a country need to be evaluated as to its expected effectiveness in addressing the objectives and priorities of the country investment plan or strategy.

18. **Project complexity and country capacity.** The greater the gap between project complexity and country capacity, the greater the demand on MDB staff time and travel to effectively engage with country counterparts during project development and implementation.

19. Based on early experience in targeted program development (and in PPCR’s case the start of country activities) projects forthcoming under each of the three targeted SCF

¹² SREP Design Document (June 1 2009).

programs are expected to be inherently complex.¹³ Because of their nature and degree of innovation they are likely to be more complex than standard MDB operations, requiring more actors, a greater level of local participation and involvement and consultation, and more institutional coordination.¹⁴

20. As such, the projects will present considerable challenges to counterpart institutions in many, if not most, of the selected countries, and most importantly in the low-income countries which typically lack the required institutional capacity and experience. To address this challenge, action is needed on three fronts: first, countries have to be given technical assistance preparation grants for the development of country investment plans and strategies; second, capacity building priorities have to be identified and included in investment plans and strategies either as integral parts of investment operations or, where so justified, as stand-alone projects; and third, adequate resources to finance project implementation support and supervision services have to be provided to enable MDB staff to effectively respond to the expected high demand for their assistance and engagement in program and project development under the three targeted SCF programs.

IV. Benchmarks for Determining Payments for MDB Project Implementation Support and Supervision Services

21. *Summarizing from the preceding section:* MDB lending of SCF funds can be expected to take the following two main forms: (i) integrating proposed SCF funded activities with proposed or ongoing MDB operations, including appropriate blending of SCF funding with other MDB and other funding sources; and (ii) addressing capacity building requirements through stand-alone operations whenever such requirements cannot be effectively covered through integral components of investment projects and are justified in the context of the country investment plan or strategy and the MDB's country assistance strategy. Assistance through stand-alone SCF investment projects will be an exception, and then only when consistent with the priorities of the country investment plan or strategy and the MDB country assistance strategy.

22. The two main modalities for paying the MDBs for their project implementation support and supervision services are by (i) *applying a flat fee*, i.e. a percentage on the loan/grant amount, as is the case under the CTF public sector operations, and (ii) *determining payment amount on a case-by-case consideration* based on the estimated costs of services to be provided.

23. The flat fee approach works well as a cost recovery mechanism in cases where the relevant project portfolios are expected to be relatively homogeneous in design and size

¹³ All selected PPCR pilots have substantial institutional capacity development needs that will need to be addressed to secure the sustainability of larger investment activities. Some of these activities may be submitted as stand-alone capacity development projects.

¹⁴ Low capacity countries, for example, will generally have low procurement thresholds for prior review, requiring more oversight by MDB staff of the procurement and project implementation process.

and where the MDBs “cost of doing business” can be predicted with reasonable confidence. It is less applicable when, as in the case of SCF, the expected focus of the project portfolio is on piloting new and innovative project design and institutional arrangements with emphasis on learning-by-doing, and where the “cost of doing business” is a natural part of such learning. Once that learning has progressed sometime in the future, it will be possible to consider whether the conditions are then conducive to converting to a flat-fee approach.

24. Hence, it is recommended that (i) payments to the MDBs for their costs of providing project implementation support and supervision services under SCF funded public sector operations be proposed and approved on a case-by-case basis; and that (ii) approval of requests for payments be done with reference to a set of cost benchmarks to be established based on the experience with average and ranges of MDB costs for project implementation support and supervision services in lending operations and sectors similar to those anticipated under SCF’s targeted program.^{15 16}

25. **MDB Cost Data.** All MDBs have their individual systems for budgeting and assessing their costs for providing project implementation support and supervision services. These systems vary in nature and design; some being based on time-recording systems other relying on less elaborate mechanisms for assessing costs. For purposes of preparing this paper, it was agreed that the World Bank Business Warehouse data base be used with the understanding that variations in such costs among the MDBs can be accommodated within the historical ranges indicated by the World Bank data.¹⁷

26. The categories of cost data from the World Bank data bank that are relevant to the determination of benchmarks for funding under various SCF project financing categories are identified and described in Table 1a. Average costs of project preparation and average annual cost of project supervision experienced for various lending instruments in seven sectors, considered relevant to SCF, over the period 2000-2010 are shown in Annex 1. These data are summarized in Table 1b below, which shows averages and ranges for actual preparation costs of comparator World Bank project categories, with the ranges established as the spread of averages across the seven sectors.

27. By way of illustration, the average cost of preparing a World Bank standard investment project over the last 10 years has been \$382,000 ranging from \$349,000 in the Environment sector to \$ 433,000 in the Agricultural and Rural Development sector. During the same period the costs for preparing a GEF project as a blended component of

¹⁵ The SCF Governance Framework and design documents for PPCR, FIP and SREP all emphasize that operations should be based on existing MDB procedures. The costs that the MDBs are incurring reflect such procedures. Hence, it stands to reason to establish fee benchmarks based on the best understanding of what such costs are.

¹⁶ In the context of MDB deliberations on this matter, some MDBs have expressed concerns about potential inconsistencies between on the one hand their existing flat-fee policies for reimbursement of services provided under trust funds and on the other hand the system for such reimbursements proposed under the SCF targeted programs, and have indicated that this may require further review within their respective agencies.

¹⁷ The data is accessible through the *Business Warehouse* is a knowledge portal which serves to gather, store, analyze and provide access to World Bank’s data. It provides information e.g. on World Bank lending, supervision, evaluation and resource management.

a World Bank investment project was \$148,000, with a range from \$85,000 in the Urban Development Sector to \$156,000 in the Agriculture and Rural Development Sector.

Table 1a: Categories of World Bank Cost Data Relevant to the Determination of Benchmark Costs for MDB Project Implementation Support and Supervision Services under SCF.

SCF project financing categories	Relevant available WB data
1. Investment financing 1/	
a. Additional SCF financing for ongoing MDB projects	Actual costs incurred in preparing individual activities/components that are added to or involve an extension of ongoing individual WB investment projects.
b. Blending SCF financing with MDB and other financing 3/	Actual costs incurred in preparing the design and integration of individual GEF funded activities/components with planned WB financed activities; average annual supervision costs for GEF funded activities.
2. Capacity-building projects (stand-alone)	Actual costs incurred in project preparation and average annual cost of supervision of individual WB financed Technical Assistance projects.
3. Stand-alone SCF financing for investment projects (exception)2/	Actual costs incurred in preparation and annual cost of supervision for individual WB financed standard investment projects.

28. These costs reflect long MDB experience with project preparation and supervision, which has illustrated, furthermore, that MDB administrative costs are largely independent of project size and rather more related to project complexity and country capacity.

Table 1b: Summary of Preparation and Annual Supervision Costs for World Bank Investment Lending Operations (US\$ '000)

Comparator WB Project Categories	Preparation Costs 1/		Annual Supervision Cost 5/	
	Average	Range 2/	Average	Range 2/
1. Investment projects - additional financing for ongoing projects 4/	87	28-142	91	82-99
2. Investment projects - integration of GEF funded activities ("blending GEF and WB funds)	148	85-165	43	39-50
3. Technical assistance projects	217	36-273	57	35-65
4. Standard WB investment lending instruments (excl. TA and GEF projects) 3/	382	349-433	91	82-99
5. Stand-alone GEF projects	210	129-297	56	50-74

(Source: Annex 1)

Table Footnotes:

1/ Preparation costs covers costs incurred by the World Bank for assisting client countries in preparing investment lending operations up to their approval by the Board of Executive Directors.

2/ Range measures variations among the averages for the following thematic sectors for investment lending: Agriculture and Rural Development, Energy and Mining, Water, Transport, Urban Development, Environment, and Health, Nutrition and Population.

3/ Including Specific Investment Loan, Sector Investment and Maintenance Loan, Adaptable Program Loan, Learning and Innovation Loan, Development Policy Loan, and Financial Intermediary Loan.

4/ Additional financing refers to funding of activities which would be added to an already approved and ongoing project and which generally involve an extension of the project.

5/ WB data base does not include specific cost data for supervision of activities funded out of approved additional financing. For purposes of the present analysis, it has been assumed that the supervision costs for the additional financing activities (typically involving an extension of an ongoing project) are the same as shown under project category 2.

29. **Proposed benchmarks.** The average costs and their respective ranges shown in Table 1b have been adopted as proposed benchmarks (Table 2). An exception has been made in the case of SCF Project Category 1a “Additional SCF financing for ongoing MDB investment projects”. Here an upward adjustment has been made to better reflect the expected MDB input requirements for the more complex challenge of linking a transformative PPCR, FIP or SREP financing component to an ongoing MDB project.¹⁸

Table 2: Proposed Benchmarks for Reimbursement of MDBs for Project Implementation Support and Supervision Services under SCF financed under SCF financed Operations (US\$ '000)

SCF project financing categories	Preparation Benchmark Mean (Range)	Project Life (years)	Supervision Benchmark Mean (Range) 1/	Overall benchmark
1. Investment financing				
a. Additional SCF financing for ongoing MDB projects ^{4/}	167(108-222)	3.0	273 (254-288)	440 (362-510)
b. Blending SCF financing with MDB and other financing ^{3/}	148 (85-165)	6.5	286 (254-325)	428 (339-490)
2. Capacity-building projects (stand-alone)	217 (36-273)	4.0	228 (140-260)	445 (176-533)
3. Stand-alone SCF financing for investment projects (exception) ^{2/}	296 (210-382)	6.5	481 (364-591)	777 (574-973)

Footnotes:

1/ Average annual supervision cost (Table 1b) times assumed project life.

2/ Preparation benchmark set as the midpoint of a range for preparation costs determined by the average WB preparation costs for a standard WB investment project (Cat 4 in Table 1b), i.e. 382K, and the average cost of preparing a WB-GEF stand alone projects (210K); similarly for supervision costs.

3/ Preparation and supervision benchmarks taken as average preparation cost for blended GEF operations, and average annual supervision costs for GEF blended projects times project life.

30. The mean benchmarks arrived at for the various project financing categories all fall between \$428,000 to \$445,000 (the stand-alone SCF investment project at \$770,000). This raises the question whether a common benchmark should be adopted for all SCF investment financing linked to MDB funding and all stand-alone SCF capacity building projects. Given the importance of transparency and accountability in the MDB fee preparation and approval process, it would be wise to have a differentiated fee structure as proposed above.

¹⁸ Additional financing mechanisms are typically used for operations where there has been a cost overrun, or the project retains the same design but is scaled up, e.g. increasing the kilometers of roads built. The requirements for preparation and implementation of PPCR, FIP and SREP activities with transformative impact which will go well beyond those reflected in the World Bank's reported actual costs. Hence, an extra 80K for preparation and adding an extra year (90K) of supervision has been added. This brings the total benchmark more in line with that for the blended SCF project.

31. The focus, scope, and hence the costs of required MDB project implementation support and supervision services will vary within and across the targeted sectors. This is backed up by the above analysis of the costs of project implementation support and supervision services across thematic sectors. The benchmarks include ranges within which such variations in financing requirements can be expected to fall.

V. Administrative arrangements

32. Individual MDB requests for project implementation support and supervision services would be prepared with reference to the above benchmarks and submitted together with the proposal for project funding to the relevant Sub-Committee for review and approval. The information submitted should identify the main elements of the estimated costs of the MDB's implementation support and supervision services, based on a brief and simple format to be developed by the CIF Administrative Unit collaborating with the MDB Committee.

33. As per practice already followed under CTF, the MDB Committee will be given an opportunity to review and comment on all requests for payments of project implementation support and supervision services before they are submitted to the Sub-Committee together with the project funding proposal for review and approval. Requests that fall within the benchmarks would be expected to be processed on a fast track. Requests for payments falling outside the high end of the benchmark range would be considered on an exceptional basis, and should be accompanied by a clear explanation of the main reasons for the deviation from the benchmark.

34. The implementation of the benchmark system and its associated administrative arrangements should be monitored and reported on periodically to the SCF Trust Fund Committee by the CIF Administrative Unit working with the MDB Committee.

VI. Funding of MDB Costs for Project Implementation Support and Supervision Services.

35. On the understanding that funding of MDB costs for project implementation support and supervision services should not form part of CIF's administrative budget, the funding for these costs will need to come out of the resources available in support of country programs and projects. There are two main options for managing such funding, and the SCF Trust Fund Committee's guidance on these options is invited.

36. Option A: *The "off the top" approach.* This would involve taking the estimated funding requirements for MDB implementation support and supervision services off the top of the available resource envelopes for each of the three targeted programs, define the balance as the resources available for country programs and projects, and use that balance for purposes of determining the country allocation ranges (implying that they would have to be reduced from current ranges indicated in the PPCR, FIP, and SREP allocation

papers). This would entail (i) projecting, as per updated business plans for the three targeted SCF programs, the expected number of programs and projects forthcoming under each of the three targeted programs; and (ii) using the proposed benchmarks set out in Table 3 above to derive an estimate of the amounts that would need to come off the top before country allocation ranges can be finalized.¹⁹ For each program or project, MDB teams, as part of the preparation process, would prepare the cost estimate for MDB implementation support and project supervision services. The Sub-Committee' approval of the MDB's request for payment for these services would be sought in parallel to the country request for SCF project funding.

37. Option B. The “*inclusion in overall PPCR/IS/IP funding envelop*” approach. This would involve systematic identification of the estimated costs for MDB implementation support and supervision services as a component, separate from the project funding requirements, of the overall funding request that each PPCR, FIP and SREP country would seek in support of the implementation of their respective SPCR, IS and IP. This approach that has been followed in the preparation of the first three SPCRs which are scheduled for consideration by the PPCR Sub-Committee at its November 12, 2010 meeting.²⁰

VII. Projections of Payments to MDBs for Project Implementation Support and Project Supervision.

38. A future scenario for payments to MDBs for project implementation support and project supervision is shown in Table 3 below together with projections for the SCF Administrative Budget (administrative services and MDB support for country programming). It is based on the business development targets set out in the CIF FY11 Business Development Plan and Budget paper (March 2010), updated for recent developments, and the proposed benchmarks presented in Table 2.

39. Projections show \$38.5 million in payments to MDBs for project implementation support and project supervision during FY11-14. In total, \$112.2 million would be needed for the period FY09-14 to cover the costs of the administrative services provided by CIF management agencies for SCF's targeted programs, the MDBs' support for country programming of SCF resources and their project implementation support and supervision services under PPCR, FIP and SREP. This compares to an expected \$1.8 billion in SCF concessional lending and grant-making for programs and projects during that same period.²¹

¹⁹ A first calculation of these requirements are for PPCR \$18.5 million off \$972 million; for FIP \$11.4 million off \$558 million; and for SREP \$8.5 million off \$307 million (further details in Table 3 below).

²⁰ The MDB team, involving the country counterparts, would estimate the MDB costs for project implementation support and supervision services under each country SPCR, IS or IP, taking into account the proposed benchmarks for such costs.

²¹ Total current pledges under the three targeted SCF programs total \$1,837 billion. Estimated MDB costs for project implementation support and supervision services total \$38.5 million FY11-14, leaving \$1.799 billion for concessional lending and grant financing.

Table 3: Projections of Budget Allocations for MDBs' SCF Administrative Services, Country Programming Assistance, and Project Implementation Support and Project Supervision Services FY09-14

	FY09	FY10	FY11	FY12	FY13	FY14	Total
<u>Administrative Services:</u>							
Trustee	0.4	0.6	1.4	1.8	1.8	1.8	7.7
CIF Administrative unit	1.7	3.6	6.1	7.7	7.7	7.7	34.4
MDBs	1.3	2.1	3.6	4.6	4.6	4.6	20.8
Sub-total: 1/	3.4	6.4	11.1	14.0	14.0	14.0	62.9
<u>MDB Country Programming Assistance</u>							
Sub-total: 2/	1.2	6.2	1.5	2.0	-	-	10.8
<u>MDBs Implementation Support and Project Supervision</u>							
PPCR			2.4	7.6	6.2	2.4	18.5
FIP				3.3	5.2	2.9	11.4
SREP				1.0	2.9	4.8	8.6
Sub-total: 3/	-	-	2.4	11.9	14.3	10.0	38.5
Total:	4.6	12.6	15.0	27.8	28.3	24.0	112.2

1/ As per approved CIF annual budgets for FY09-11. Projections for FY12-14 as per assumptions presented in Table 4 of CIF information document “ Benchmarking CIF’s Administrative Costs” (March 13, 2010) and the assumption that SCF’s share of the CIF budget for administrative services over the period 2012-2014 will remain as in 2011 (i.e. 63%).

2/ As per approved CIF multi-year allocations made in FY09-11 CIF budgets with projections for final allocation FY12 reflecting requirements of the last 5 FIP and SREP Investment Strategies and Investment Plans. Total is not reflecting request for \$562,180 as supplementary budget allocation (see Supplemental Country Programmig Budget request for PPCR , October, 2010) to be considered at November, 2010 meeting of the SCF Trust Fund Committee.

3/ Payments for MDB project implementation support and supervision services are projected on the basis of an average payment of \$475,000 per project and the estimated number of projects to be submitted for project approval annually as set out in Table 2 of the CIF FY11 Administrative Budget document as modified to reflect (i) changes in expected number of projects under FIP (following from target number of beneficiaries for FIP rising from 5-8) and (ii) expected number projects under PPCR being adjusted to account for regional projects involving one project for each country involved.

VII. Recommendation

40. It is recommended that the SCF Trust Fund Committee endorses (i) the proposed benchmarks for approval of MDB requests for payment to cover their costs for project implementation support and supervision services; and (ii) the proposed arrangements for administering the process for determining, reviewing and approving such payments as outlined in this paper, appropriately modified to reflect guidance that the Committee may wish to provide regarding the two options suggested for managing funding of MDBs costs of project implementation support and supervision within the overall resource envelopes available under SREP, FIP and SREP.

Summary of Average Project Preparation and Annual Supervision Costs for World Bank Projects in sectors Relevant to SCF's Targeted Programs.

1. The World Bank data presented below on actual costs incurred in project preparation and supervision was derived from the *Business Warehouse*. The *Business Warehouse* is a knowledge portal which serves to gather, store, analyze and provide access to World Bank's data. It provides information e.g. on World Bank lending, supervision, evaluation and resource management.
2. The average preparation costs shown in Table 1 are based on all costs incurred by the World Bank from the conceptualization of projects to their approval by the Board of Executive Directors. The data shown in Table 1 are derived from all the projects in the relevant sectors approved by the Board during the period 2000-2010 (except the data for "additional financing" which covers the period 2007-2010).
3. The average annual supervision costs incurred by the World Bank is derived from the *Business Warehouse* by totaling reported annual supervision costs from all projects under supervision and dividing by the number of such projects. Data on life-time supervision costs for completed projects are not available in the Business Warehouse. For purposes of this paper, it is however possible to estimate the expected average annual supervision costs for projects within a certain category and sector by multiplying the relevant average annual supervision cost by the expected average number years of project implementation. The average annual supervision costs for GEF projects are derived by dividing total reported supervision costs for completed GEF projects by the number of such projects.

Table 1. Average Project Preparation and Annual Supervision Costs for World Bank Projects (2000-2010)

	Average Preparation ('000) ^{3/}	Average Annual Supervision ('000) ^{4/}
<i>Standard Investment Lending (excl. TA Investments and GEF)</i>		
		^{1/}
Agriculture and Rural Development	432.54	99.07
Energy and Mining	376.67	94.46
Environment	349.00	85.46
Health, Nutrition and Population	316.79	92.55
Transport	356.81	82.24
Urban Development	389.57	85.53
Water	410.99	85.88
Average Costs for Standard Investment Lending Projects	382.29	90.62
<i>Additional Financing</i>		
Agriculture and Rural Development	60.27	99.07
Energy and Mining	142.01	94.46
Environment	28.08	85.46
Health, Nutrition and Population	50.57	92.55
Transport	124.42	82.24
Urban Development	123.09	85.53
Water	79.65	85.88
Average Costs for Additional Financing	87.25	90.62
<i>Technical Assistance Investments</i>		
Agriculture and Rural Development	272.98	60.27
Energy and Mining	265.94	65.13
Environment	35.91	49.46
Health, Nutrition and Population	190.36	59.08
Transport	174.17	56.70
Urban Development	236.44	34.92
Water	174.89	60.14
Average Costs for TA investments	216.60	57.20
<i>GEF projects</i>		
<i>Stand-alone GEF projects</i>		
Agriculture and Rural Development	128.78	56.08
Energy and Mining	279.10	49.86
Environment	192.64	56.34
Transport	-	-
Urban Development	293.00	55.60
Water	297.19	74.36
Average Costs for GEF Stand-alone Projects	209.51	56.03
<i>Fully Blended GEF projects</i>		
		^{2/}
Agriculture and Rural Development	156.37	38.70
Energy and Mining	165.46	50.11
Environment	143.21	42.35
Transport	125.47	40.85
Urban Development	84.80	44.76
Water	-	-
Average Costs for GEF Fully Blended Projects	148.39	42.95

1/ Includes the following lending instruments: Specific Investment Loan, Adaptable Program Loan, Sector Investment and Maintenance Loan, Learning and Innovation Loan, Financial Intermediary Loan, Development Policy Lending

2/ Fully blended GEF projects are GEF projects that are part of or linked to IBRD/IDA lending and are processed together.

3/ Number of projects used to derive average preparation costs are:

- for Standard Investment Lending - 1452 projects
- for Additional Financing - 120 projects
- for TA Investments - 48 projects
- for GEF Stand-alone projects - 62 projects
- for GEF fully blended projects - 28 projects

4/ Number of projects used to derive average annual supervision costs are:

- for Standard Investment Lending and Additional Financing - 2488 projects
- for TA Investments - 123 projects
- for GEF Stand-alone projects - 62 projects
- for GEF fully blended projects - 28 projects