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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Twenty-ninth Meeting  
Beijing, 24-26 November 1999

**REPORT ON THE IMPLEMENTATION OF  
THE NEW ADMINISTRATIVE COST REGIME**

This document consists of:

- Part A: Administrative costs for retroactive projects
- Part B: Financial intermediary fees
- Part C: Administrative costs for SMEs



## **Introduction**

1. At its 28th Meeting, the Executive Committee requested:
  - (a) the implementing agencies to provide more information on the different types of retroactive projects;
  - (b) the World Bank to give further clarification on the figure of 3 per cent for the financial intermediary fee; and
  - (c) the Secretariat and the implementing agencies to identify the approved projects which could be classified as SMEs in accordance with the definition of SMEs provided in document UNEP/OzL.Pro/ExCom/19/54 and report on their administrative costs to the 29th Meeting of the Executive Committee (Decision 28/49).

### **Part A: ADMINISTRATIVE COSTS FOR RETROACTIVE PROJECTS**

2. As of this writing (24 October 1999), the Secretariat has not received the input from the implementing agencies.

### **Part B: FINANCIAL INTERMEDIARY FEES**

3. The World Bank provided the following information document in response to Decision 28/49, para. b.

“The World Bank emphasizes national implementation in all of its projects regardless of the funding source. It encourages local participation as much as possible to build up national capabilities. At the same time, the Bank discourages government agencies from being too involved in investment transactions. Thus, in the ODS programme, the Bank helps build programme management capabilities in government agencies and at the same time, asking the Government to sub-contract project management to a financial agent to take care of the day-to-day project activities. Government agencies are responsible for national and sector phase-out strategies, national compliance of the Montreal Protocol guidelines, identification of eligible projects, international and national co-ordination. While the role and responsibilities of a typical financial agent in supporting the World Bank and the country include:

- (a) Evaluating the financial viability of projects and beneficiary enterprises;
- (b) Preparing project appraisal reports;
- (c) Signing grant agreements with beneficiary enterprises;
- (d) Assisting the Bank in supervising project implementation including procurement, disbursement and compliance of national, Montreal Protocol and World Bank requirements;
- (e) Assisting in the preparation of progress reports of projects to national environment protection agencies, and
- (f) Assisting in the preparation of project completion reports at project completion.”

## **Part C: ADMINISTRATIVE COSTS FOR SMES**

### **Completed SME projects and sampling**

4. As of 31 December 1998, a total of 1191 investment projects were completed, of which 443 can be classified as SMEs measured against the definitions used in UNEP/OzL.Pro/ExCom/19/54.

5. In view of the large number of such projects, the Secretariat decided to select a sample of 28 projects from this group and ensured adequate representation of small enterprises in the sample. The sample also took into account distributions among sectors, regions, and agencies. The list of projects included in the sample is provided in Annex I.

6. The Secretariat then communicated the sample to the implementing agencies and requested reporting on the administrative costs of those projects according to the standard components of administrative costs used in previous reports to the Executive Committee.

### **Submissions from implementing agencies**

7. Both UNDP and UNIDO submitted data on their projects according to the standard cost components and were therefore comparable. These are presented, using the same format, in Annex II to this report. UNDP also included an explanation of its submission, which is provided in Annex III.

8. The World Bank did not submit data according to the standard cost components. For instance, the direct cost of the co-ordinating unit was lumped together with the cost of the financial intermediary, which should be with the direct cost of implementation. This rendered the Bank's data inconsistent and incomparable to those of the other two implementing agencies.

9. The Secretariat requested the Bank to resubmit its cost data. As of this writing (24 October 1999), the Secretariat has not received a response from the Bank. Therefore, the data of the World Bank was not processed, but is included as submitted in Annex IV.

### **Cost components**

10. Cost components under the administrative cost regime have been standardised after the adoption of the new administrative cost regime by the Executive Committee at its 26<sup>th</sup> Meeting. These include:

- (a) Direct cost of the co-ordinating units which include personnel costs (salaries and benefits); consultants (salaries and benefits); travel (personnel); travel (consultants); space (rent and common costs); equipment (computers, etc); contractual services (firms); and other costs (supplies).
- (b) Reimbursement to country offices, national execution (net of project costs).
- (c) Reimbursement of Central services (net of project costs).
- (d) Executive agency support costs (internal)/financial intermediaries.

## Findings and observations

11. The Secretariat has the following findings and observations from the data provided by UNDP and UNIDO:

- (a) The sample of SME projects from UNDP and UNIDO indicates that the administrative costs of these projects in general exceed 13 per cent in all but 1 of the 18 projects. The actual costs range from 12 per cent to 51 per cent. However, it is recalled that the administrative cost study determined that the overall administrative costs for all implementing agencies was 11 per cent (UNEP/OzL.Pro/ExCom/26/67, page 21, para. 1).
- (b) On a cost component basis, the highest component is the direct cost of the executing agencies under which the actual project personnel recruitment and contracting and procurement is done. For UNIDO this component is ranged from 12 per cent to 20 per cent for its sample projects, and ranged from 0 per cent to 42 per cent for UNDP (the zero is for nationally executed projects and two projects had 41 per cent and 42 per cent, respectively, PT Ferrarindo Multi Saran in Indonesia and Maya Chemicals in Malaysia).
- (c) On the cost of the central co-ordinating unit, the component is on the average about 1 per cent. However, UNDP reported a cost range between 1 per cent and 35 per cent, for DMG project in Brazil.
- (d) On the allocation to central administration, the percentages ranged from 4 per cent to 6 per cent for UNIDO in general and 1 per cent for UNDP.
- (e) On the allocation to country and field offices, UNDP allocated from 1 per cent to 3 per cent for its country/field offices; but no funds were so allocated to UNIDO's sample project.



**Annex I****SAMPLE OF SME PROJECTS UNDER THE MULTILATERAL FUND**

<b>Sector</b>	<b>ODP tonnes</b>	<b>Project number</b>	<b>Agency</b>	<b>Short project title</b>
Aerosol	13.0	MAL/ARS/17/INV/60	UNDP	Maya Chemical Industries Sdn., Bhd.
Foam	9.2	BRA/FOA/22/INV/70	UNDP	Tekcor Utilidades Domesticas Ltd.
Foam	25.0	CPR/FOA/15/INV/94	UNDP	Beijing Yanxi
Foam	12.0	CPR/FOA/19/INV/161	UNDP	Jiangsu Jintan Insulation Material Plant
Foam	4.5	IDS/FOA/22/INV/60	UNDP	Plysinco Inter Mouldi (PIM)
Foam	7.7	IDS/FOA/23/INV/68	UNDP	PT Ferrarindo Multi Sarana
Foam	7.8	IND/FOA/20/INV/98	UNDP	Bharat Cottage Industries
Foam	10.0	MAL/FOA/15/INV/50	UNDP	Leading Refrigeration and Engineering, Sdn. Bhd.
Foam	24.0	PHI/FOA/12/INV/27	UNDP	Concept Packaging., Amtes and Q.C. Styropackaging Co.
Refrigeration	4.0	GUA/REF/15/INV/07	UNDP	Industria Metalurgica Centroamericana S.A. (Imca)
Refrigeration	2.0	MAR/REF/15/INV/05	UNDP	Blyfridge Ltd.
Refrigeration	7.3	SRL/REF/17/INV/04	UNDP	Associated Electrical Corporation (AEC) Ltd. Domestic refrigeration conversion
Refrigeration	2.0	BRA/SOL/18/INV/36	UNDP	DMG
Aerosol	15.0	ALG/ARS/20/INV/19	UNIDO	Phasing out CFCs at Ets Cophyd
Foam	18.0	IDS/FOA/22/INV/58	UNIDO	PT Elastino Satyajaya flexible polyurethane foam plant
Foam	16.6	LEB/FOA/21/INV/18	UNIDO	Phasing out CFC-11 at E.T.S. Henri Abdallah P.F.M.
Foam	16.0	SUD/FOA/19/INV/05	UNIDO	Patra Foam Co. flexible polyurethane foam plant
Foam	17.0	SYR/FOA/19/INV/14	UNIDO	Dakkak Co. flexible polyurethane foam plant
Refrigeration	7.5	EGY/REF/15/INV/38	UNIDO	Metallic Appliances domestic refrigeration plant
Aerosol	18.0	MAL/ARS/18/INV/63	World Bank	Tenco Industries Sdn., Bhd., aerosol conversion project
Foam	0.9	CHI/FOA/07/INV/20	World Bank	CFC phase out at Kifafi
Foam	10.0	IND/FOA/17/INV/34	World Bank	Duroflex Coir Industries P. Ltd. (under SPAP)
Foam	8.0	IND/FOA/17/INV/36	World Bank	Ishwar Arts (under SPAP)
Foam	8.0	IND/FOA/17/INV/37	World Bank	Ishwar Ashish Plastics P. Ltd. (under SPAP)
Foam	20.0	JOR/FOA/17/INV/24	World Bank	Umbrella project for Five Star Polyurethane Foam Factory
Foam	9.1	TUR/FOA/22/INV/24	World Bank	Suntas Foam and Mattress Industry and Commerce, Inc.
Refrigeration	0.3	CHI/REF/07/INV/18	World Bank	Frigorent Frigorifico Sociedad Limitada
Refrigeration	6.6	PHI/REF/09/INV/09	World Bank	Transunion (formerly called Federal Electric Company)





## Annex II

## INPUT FROM UNDP AND UNIDO ON THE ADMINISTRATIVE COSTS OF SMES

Project number	Agency	Short project title	Sector	ODP tons	Project cost (disbursement)	Total administrative cost incurred		Co-ordinating unit		Central support cost		Country/ field office cost		Executing agency fees	
						Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost
BRA/FOA/22/INV/70	UNDP	Tekcor Utilidades Domesticas Ltd.	FOA	9.2	71,600	16,564	23%	2,885	4%	716	1%	716	1%	12,247	17%
BRA/SOL/18/INV/36	UNDP	DMG	SOL	2.0	38,000	14,648	39%	13,128	35%	380	1%	1,140	3%	0	0%
CPR/FOA/15/INV/94	UNDP	Beijing Yanxi	FOA	25.0	93,750	30,751	33%	8,159	9%	938	1%	938	1%	20,717	22%
CPR/FOA/19/INV/161	UNDP	Jiangsu Jintan Insulation Material Plant	FOA	12.0	66,000	19,952	30%	17,312	26%	660	1%	1,980	3%	0	0%
GUA/REF/15/INV/07	UNDP	Industria Metalurgica Centroamericana S.A. (Imca)	REF	4.0	155,017	33,844	22%	4,933	3%	1,550	1%	1,550	1%	25,810	17%
IDS/FOA/22/INV/60	UNDP	Plysinde Inter Mouldi (PIM)	FOA	4.5	75,870	16,267	21%	2,472	3%	759	1%	759	1%	12,278	16%
IDS/FOA/23/INV/68	UNDP	PT Ferrarindo Multi Sarana	FOA	7.7	32,900	16,686	51%	2,472	8%	329	1%	329	1%	13,556	41%
IND/FOA/20/INV/98	UNDP	Bharat Cottage Industries	FOA	7.8	61,000	23,074	38%	2,667	4%	610	1%	610	1%	19,187	31%
MAL/ARS/17/INV/60	UNDP	Maya Chemical Industries Sdn., Bhd.	ARS	13.0	37,808	18,993	50%	2,472	7%	378	1%	378	1%	15,765	42%
MAL/FOA/15/INV/50	UNDP	Leading Refrigeration and Engineering, Sdn. Bhd.	FOA	10.0	214,000	25,916	12%	2,472	1%	2,140	1%	2,140	1%	19,164	9%

Project number	Agency	Short project title	Sector	ODP tons	Project cost (disbursement)	Total administrative cost incurred		Co-ordinating unit		Central support cost		Country/ field office cost		Executing agency fees	
						Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost	Actual	Percent of project cost
MAR/REF/15/INV/05	UNDP	Blyfridge Ltd.	REF	2.0	197,208	34,930	18%	4,107	2%	1,972	1%	1,972	1%	26,879	14%
PHI/FOA/12/INV/27	UNDP	Concept Packaging Co., Amtes Co., and Q.C. Styropackaging Co.	FOA	24.0	505,000	76,573	15%	21,275	4%	5,050	1%	5,050	1%	45,198	9%
SRL/REF/17/INV/04	UNDP	Associated Electrical Corporation (AEC) Ltd.	REF	7.3	250,114	35,484	14%	4,498	2%	2,501	1%	2,501	1%	25,984	10%
ALG/ARS/20/INV/19	UNIDO	Ets Cophyd	ARS	15.0	53,024	12,678	24%	539	1%	2,718	5%	0	0%	9,421	18%
IDS/FOA/22/INV/58	UNIDO	PT Elastino Satyajaya	FOA	18.0	75,943	12,350	16%	661	1%	2,847	4%	0	0%	8,842	12%
LEB/FOA/21/INV/18	UNIDO	E.T.S. Henri Abdallah P.F.M.	FOA	16.6	81,291	19,654	24%	472	1%	4,406	5%	0	0%	14,776	18%
SUD/FOA/19/INV/05	UNIDO	Patra Foam Co.	FOA	16.0	72,227	20,510	28%	1,148	2%	4,626	6%	0	0%	14,738	20%
SYR/FOA/19/INV/14	UNIDO	Dakkak Co.	FOA	17.0	96,553	16,466	17%	648	1%	3,993	4%	0	0%	11,825	12%

### Annex III

## UNDP EXPLANATORY INFORMATION ON ITS INPUT ON THE ADMINISTRATIVE COSTS OF SMES

1. From UNDP fax to the Secretariat dated 5 October 1999:

“The process of assigning co-ordinating unit (Montreal Protocol Unit--MPU) costs were derived as follows:

- (a) Personnel costs: the time spent by the concerned MPU staff members and the costs were then applied using the annual salaries as a basis.
- (b) Space and other costs: UNDP's Office of Budget provided the average cost of space and other costs which averaged 20 per cent of salary costs. A rate of 13 per cent for space and 7 per cent for other costs was applied for communications and supplies.
- (c) Reimbursement of country offices and national execution costs: Current UNDP MPU practice provides reimbursement to UNDP country offices at the rate of 1 per cent of project expenditure for those projects executed by UNOPS. For nationally executed projects, UNDP MPU reimburses the UNDP country office at a rate of 3 per cent of project expenditures. In a few countries where the project portfolio is small but the country office is required to provide time consuming services (e.g. customs clearance, processing of documents, etc.) MPU has exceptionally considered higher reimbursement rates. Since UNDP is moving towards a “cost-reimbursement” basis for services provided by UNDP country offices, this is likely to result in higher costs for reimbursement in several cases.
- (d) Reimbursement of Central Services: UNDP's current practice requires MPU to reimburse NDP for central services (finance, legal, administration) at the rate of 1 per cent of project expenditure.

For projects executed by UNOPS on UNDP's behalf, it had obtained information directly from them. UNOPS utilises a Workload Projection and Costing System, a software programme (which has been used within UNOPS for over 11 years) which estimates the workload for projects and the related cost (as a percentage of total project budgets) of providing those services. The System's strength is the fact that it has a mechanism, which allows for the cost of any project or group of projects to be automatically “linked” with the overall actual UNOPS cost. The Workload Projection and Costing System computes the PMO (Project Management Officer) Workload (person-month/year) and UNOPS cost using a specific mathematical formula which comprises the following:

- (a) Substantive Factor: reflects factors of political, technical, procedural, financial and/or operational nature, which lead to a substantial increase of workload over and above an average project situation.
- (b) Complexity Index Rating: quantified project inputs such as number of personnel, procurement, subcontracts, training, etc.

- (c) Duration of the project.
- (d) Project value.

It also reflects specific and individual project implementation experience and resulting cost since the cost calculation is synchronised with the actual overall costs of all UNOPS implemented projects.

The UNOPS Workload Projection and Costing System generates tables which show that actual implementation cost rates are inversely proportionate to project budget magnitudes. Most selected projects being relatively small (under US \$500,000) have implementation costs ranging from 8.95 per cent to 41.7 per cent, while the average cost of Montreal Protocol projects have been in the region of 8 per cent (which is what UNOPS receives as support costs for Montreal Protocol projects). There is however a continuous trend showing that Montreal Protocol project implementation becomes more costly due to a number of factors, such a progressively diminishing project size, decreasing incremental operating costs, detailed Multilateral Fund accounting/reporting requirements for technical assistance, projects increasingly receiving partial funding with the balance having to be raised by counterpart financing, incremental operational savings, and the need to apply execution modalities customized for Montreal Protocol projects (e.g. reporting expenditure that excludes obligations).”

### Annex IV

#### WORLD BANK INPUT ON THE ADMINISTRATIVE COSTS OF SMES

1. From World Bank fax to the Secretariat dated 9 September 1999:

“With the inclusion of SME projects approved before the 17th Meeting, we believe the best way of breaking down the cost associated with these projects is by reflecting the fact that in implementing any project, costs of supervision would include fixed and variable costs. With this in mind, we assume that travel and consultant costs and 50 per cent of the task managers’ times are fixed costs, the remaining 50 per cent of the task managers’ time is considered as variable costs. The justification for this assumption is that no matter how large or small the project is, task managers would need to review an appraisal report and sub-grant agreements as all projects would have to go through the same Bank process. When consultants and task managers travel to the country, time spent on each mission is basically based on the number of projects (as task managers and consultants need to visit each factory and each visit would take about half a day to one day). Therefore, costs related to travel and consultants should be averaged out based on the number of projects, not ODP. For a larger project, which could be more complicated, additional time spent on this project should be considered as variable costs. Therefore, we have averaged out the variable costs on the basis of ODP to be phased out by each project.

With these assumptions, here is a table that covers the estimated administrative costs associated with these projects:

Country/project	Grant amount	SPN cost	Financial intermediary & Coordination Unit	Total Administrative Costs
Malaysia	US \$79,200	US \$3,750 for 1996 and 1997	US \$4,762	US \$8,512 (11%)
Turkey	US \$148,613	US \$7,620 for 1998 and 1999	US \$15,240	US \$22,860 (15%)
India	US \$120,950	US \$14,240 for 1996 through 1999	US \$7,258	US \$21,498 (14.5%)
Jordan	US \$66,000	US \$21,830 for 1996 through 1998	US \$3,550	US \$25,380 (38%)