EP

United Nations
Environment
Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/16/4
14 February 1995

ORIGINAL: ENGLISH

Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol

Sixteenth Meeting
Montreal, 15-17 March 1995

THE ADMINISTRATIVE COSTS OF THE FINANCIAL MECHANISM -

A SUPPLEMENTARY NOTE

I. Background

1. The Executive Committee reviewed a draft paper on The Administrative Costs of the Financial Mechanism (UNEP/OzL.Pro/ExCom/14/12) submitted to its Fourteenth Meeting held from 29-30 September 1994 in Nairobi. As reflected in the Report of the Fourteenth Meeting (UNEP/OzL.Pro/ExCom/14/15, para. 75), the Executive Committee requested additional work be done by the Consultant who prepared the first draft along the following guidelines:

"... (a) The consultant should continue working on the good basis of the current report and prepare, together with the participation of the four Implementing Agencies, the agreed categories of costs based on a common understanding of administrative costs and project-related costs for budgeting and financial reporting;

(b) Cost ratios should be identified to reflect the burden of administrative costs on the Multilateral Fund;

(c) A discussion of the options should be presented on the basis of the above analysis;

(d) The result would be presented to the Fifteenth Meeting of the Executive Committee."

II. Action taken

2. Accordingly, the Consultant has prepared the attached Supplementary Note for the consideration of the Executive Committee.

3. The Supplementary Note consists of an overview summarizing the outcome of the Consultant's discussions with the implementing agencies and the Treasurer. Annexed to the Note are two forms (A and B), proposed for the financial reporting of the implementing agencies.

III. Recommendations

4. On the basis of the information provided in this Supplementary Note, the Executive Committee may wish to consider the following recommendations:

1. The revised reporting formats should be adopted immediately by all Implementing Agencies and the Treasurer (with the exception of the World Bank, which requests that the CY94 Financial Report be prepared under the old format).

2. The current arrangements of the Executive Committee with the Implementing Agencies for reimbursing the agencies for administrative costs should be continued, subject to the reporting of expenditures within the agreed and revised format; i.e. 13 per cent for UNDP, UNEP, and UNIDO, and reimbursement of actual expenditures for the World Bank.

SUPPLEMENTARY NOTE

MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

1. The Implementing Agencies met on 4 October, 1994 to discuss the request of the Executive Committee contained in paragraph 75 of the Report of the Fourteenth Meeting. This note represents the understanding of what was agreed taking into account subsequent correspondence with the consultant since that meeting.

2. It was accepted that the definitions of administrative costs used in the Report UNEP/OzL.Pro/ExCom/14/12 were broadly acceptable to all agencies, provided that travel of staff and consultants was divided between technical travel (to be included with project expenditures) and administrative travel/meetings travel (to be included with administrative costs). This division of travel costs was agreed.

3. It was agreed that there should be a common format of reporting expenditures charged to the Fund which would be submitted in the regular expenditure reports to the Treasurer. This common format would draw a clear distinction between project expenditures and administrative expenditures. The format of these reports is attached to this note.

4. It was noted that the World Bank would prefer to have project supervision costs treated as project expenditures, but could agree to the revised reporting format if it could be given time to enable it to switch over to the new system.

5. There was no agreement among the agencies on the nature of the cost ratios which would reflect the overall burden of administrative costs on the Multilateral Fund. It was accepted that once the implementation of projects (particularly investment projects) was up to full speed, the reported overall costs of administration as a ratio of total expenditures (or total project expenditures), would broadly reflect the administrative costs burden. There was a reluctance, however, to accept the World Bank position that reported administrative costs should be compared with the total programme approved in the year, because of the uncertainties over the length of time it takes to implement projects. A projection of administrative costs two years ahead (and aggregated with previous administrative costs) compared with the total programme of projects approved was a rough and ready ratio but not totally reliable, again because of the uncertainties relating to the period of implementation for investment projects.

6. Little time was given to a discussion of alternative options for reimbursing administrative costs but in view of the lack of enthusiasm for reporting detail of all expenditures incurred under the umbrella of the 13% administrative costs charge, the general consensus was to continue with the present arrangement subject to the reporting of expenditures within the agreed revised format.

7. Two common reporting forms are proposed -
Form A - A summary of income and expenditure
Form B - Details of expenditure that will draw the distinction between project expenditures and administrative expenditures.

MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

Form A - Statement of Income and Expenditure

as at (date) ____________

INCOME	Since inception of Programme to 31 December 1994 ($)	In 1995 ($)
Cash transferred from the Treasurer	____________	____________
Promissory Notes encashed	____________	____________
Interest earned	____________	____________
Total Cash Income	____________	____________
Promissory Notes receivable	____________	____________
Expenditure as reported on Form B	____________	____________
Income unspent as at date	____________	____________

MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

Form B - Details of Expenditures

as at (date) ____________

	Since inception of Programme to 31 December 1994 ($)	In 1995 ($)
1. PROJECT EXPENDITURES		
a) Project Preparation Expenditures (see Notes 1 & 2)		
b) Investment disbursements (see Note 3)		
c) Other project expenditures (see Notes 1 & 4)		
Total Project Expenditures	____________	______
	____________	______
2. ADMINISTRATIVE EXPENDITURES		
a) Personnel/Staff salaries and benefits for administration including project supervision		
b) Travel of staff to inter agency meetings and for other administrative functions and project supervision		
c) Consultants fees covering administration including project supervision		
d) Travel of consultants to meetings not directly related to project preparation and implementation and for other administrative functions and project supervision		
e) Contractual services		
f) Procurement of equipment for administrative office		

	Since inception of Programme to 31 December 1994 ($)	In 1995 ($)
g) Sundries and other administrative expenditures		
h) Financial agency fees		
i) Administrative Support costs (see Note 5)		
Total administrative costs	____________	______
	____________	______
Total Project Expenditures	____________	______
	____________	______

NOTES

1. Including technical travel in connection with project preparation.

2. Including direct cost of staff and consultants involved in project preparation.

3. Excluding financial agency fees where applicable.

4. Including expenditures on Country Programme preparation, technical assistance demonstration projects, institution building and other clearing house activities.

5. 13% Administrative support costs where applicable.