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# THE ADMINISTRATIVE COSTS OF THE FINANCIAL MECHANISM
(Draft)

## Introduction

1. At the twelfth meeting of the Executive Committee, a request was made to the Secretariat "to calculate the total administrative support costs charged to the Financial Mechanism so far, based on a definition of admissible administrative support costs and an analysis of such costs as presently charged by each agency, including the Secretariat costs. Such an exercise should also focus on the need to evolve norms in this regard".

2. The detailed terms of reference for this study are attached here as Annexe A. A summary of the main findings of the study are set out as Annexe B.

3. Each of the implementing agencies was visited as part of the study. All were extremely helpful in providing information supplementary to that provided on an annual basis to the Treasurer. The period covered by the study is the three years 1991 to 1993 i.e. from the inauguration of the Fund until 31 December 1993, except that in order to compare the administrative costs of the Multilateral Fund with those of the Global Environment Facility, administrative costs for 1994 and 1995 are projected and the total of estimated administrative costs for 1991-1995 compared with the total of projects approved up to July 1994 by the Executive Committee.

## The Project Accounting Systems of the Implementing Agencies

4. The terms of reference of this study require that a definition be made of admissible administrative costs of operating the Multilateral Fund, taking into account different practices amongst the implementing agencies and as far as practical comparable practices in other aid agencies.

5. No programme of projects can be put on the ground without human resources/staff, office space, office equipment and supplies with back up services of management, accounting and audit, personnel and procurement, and the resources to travel to the project site. Some projects require operational staff to be attached to them throughout their life; others may be implemented by third party organizations who may expect to be paid for the services they provide. In practice, there is not, and probably never can be, a clear line between what are the inputs that are a constituent part of the project and what are the administrative costs that permit that project to proceed. One can only attempt to define ad hoc a dividing line between what is the cost of the programme and what is the cost of its administration on the basis of what is practical in a particular set of circumstances. This is what will be attempted in this study.

6. Amongst the implementing agencies, the World Bank has the most comprehensive system of charging all costs incurred without regard to any distinction between what is an administrative cost and what is a project cost, other than the Bank's own clear-cut but probably unique distinction that a project cost is only that part of a project that is received by the recipient country: every other cost is regarded as an administrative cost. The Bank system of cost control ensures that both direct costs and overheads are charged out to the various programmes/funds for which they work in proportion to the cost burden they impose on the Bank. Such a system of

accounting has much to recommend it: it is efficient in allocating costs incurred by the Bank to its different programmes in what would seem to be a fair and non-discriminatory manner. However, for the Multilateral Fund, the Bank does not charge the Fund the time spent by line and senior management on trust fund administration, legal affairs, project review meetings and in addressing operational issues. These costs have not been quantified.

7. The other three implementing agencies working for the Multilateral Fund operate under different rules from the World Bank. These rules are basically similar to each other but are not identical. They have a broader definition of what is a project[1] and generally they account for the direct costs of all project inputs required within the project budget. Over and above these direct project costs, there are indirect costs such as central administrative services - accounting, audit, personnel services, office space, communications - as well as programme coordination, planning and the costs of project implementation, whether undertaken directly as in the case of UNEP and UNIDO or indirectly through OPS (largely) in the case of UNDP. Where costs relate solely to a particular project or programme, they can be fairly easily identified and quantified but central services as listed above are usually more difficult to cost, and in the past, the agencies have not always taken consistent position in charging these out to each individual programme separately. More recently, however, as the agencies are financed proportionally less from their core budgets, they are having to pay increasing regard to charging the full costs of individual separate programmes to those programmes. UNDP management, for instance, is now insisting that all trust funds pay their full share of costs - direct and indirect - since their core funds, which are decreasing, cannot be burdened with ever higher administrative costs relating to non-core programmes. As with the World Bank, the other three implementing agencies do not charge out senior management inputs.

8. The Executive Committee agreed from the outset that UNDP, UNEP and (later) UNIDO should be permitted to charge 13 per cent of project expenditures as an administrative support charge. In addition, a project was approved for UNDP during 1991-1992 only that provided "start-up programming costs" of $ 596,500 and two projects were approved for UNEP that provided together $ 200,000 for travel costs.

9. Overall, UNDP has generally recovered all of the costs it has incurred undertaking work for the Multilateral Fund, but only because it received funding from the project for "start-up programming costs" over and above the 13 per cent programme support charge. If it were not for that, UNDP would have failed to recover all of the administrative costs it incurred from the Fund and, even then, some divisions of UNDP - central services, field offices and OPS - have felt they have been insufficiently compensated within UNDP for the work they have undertaken on behalf of the Fund.

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[1] The definition used can be said broadly to follow the definition set out in footnote 2 in the "Criteria for projects under the Multilateral Fund "viz: "The term "projects" is used to describe any activity qualifying for assistance under the Fund. A project could include, inter alia, training, technical assistance, pre-investment studies, country programme preparation, technology development or capital investment to modify or establish a manufacturing facility".

10. UNEP finances staff for an ozone project unit which on an annual basis costs more than what UNEP earns from the 13 per cent charge on project expenditures. It does not charge for management inputs or for central administrative services, including the services it provides as Treasurer of the Fund.

11. UNIDO is financing a coordinator for its ozone programme from its core budget and estimates that the support services it provides to the Fund programme costs 26 per cent overall when project monitoring, project supervision and central services are taken into account. UNIDO have not yet reached a decision on how the deficit this implies will be financed, although it is currently being carried through its core budget.

12. These remarks on the degree to which the implementing agencies have been able to recover their costs from resources provided by the Fund have only limited relevance to the terms of reference of this study - which are concerned only with costs that fall on the Fund - but they will have relevance to the question of "admissibility" and "norms" which will be discussed in later sections.

**The Definition of Administrative Costs and Project or Programme Costs**

13. Before considering any questions relating to the level of costs of administering the financial mechanism, it is necessary to define what should be regarded as an output or "programme delivered" and thus what should be regarded as an administrative cost. This is not as straight forward as it might seem. The different financial practices in allocating expenditures amongst the implementing agencies mean that on the basis of figures of expenditures reported to the Treasurer, the same category of expenditure may be reported by one agency as a project expenditure and by another as administrative expenditure. Thus, expenditures on the preparation of country programmes - a requirement under the Protocol - have been treated by UNEP and UNDP as expenditures on programme delivered but by the World Bank as an administrative expense.

14. For the purpose of this study, expenditures on the preparation of country programmes are all regarded as delivered programmes and in the figures set out in this report, all World Bank expenditures in the area have been added to their reported "project expenditures" to secure consistency with the other agencies.

15. Technical assistance, training programmes, study tours, institution building and net-working projects have all been classified as projects, even though in a broader sense they could all be regarded as programme support. Expenditures on preparing investment projects have been placed under a separate category of "project preparation costs".

16. On the other hand, expenditures on staff travel, office equipment and rent have been deducted from figures of project expenditures and included with administrative costs. Perhaps the most contentious of these items is the inclusion of the cost of all staff travel as part of administrative costs. All agencies argued that the cost of staff travel was part of project costs or project preparation costs. In another sense they can also be regarded as part of the cost of

administering those projects or project preparation activities and are so regarded in this report. The sums involved in staff travel are considerable. Over the three years, 1991-1993 they total $962,000, $480,000 representing travel by World Bank staff, $238,000 by UNDP staff and $244,000 by UNEP staff. These figures represent 4.6 per cent of World Bank total costs, 2.9 per cent of UNDP total costs and 6.1 per cent of UNEP total costs. These percentages and the fact that staff travel has been included in administrative costs should be borne in mind in the later section discussing the costs of administering the Multilateral Fund overall.

17. To summarize, the costs analysed in this study are all costs charged to the Multilateral Fund and so reported to the Treasurer in the annual statements of expenditure made by the implementing agencies. The analysis does not cover all costs incurred in implementing the Fund programme but since these additional costs were not charged to the Fund, they are not taken into account in the figures set out below. An attempt has been made to distinguish between costs incurred on approved projects - particularly project preparation work and country studies - which in the case of the World Bank are included in their house definition of administrative costs. Staff travel in all agencies is taken as an administrative cost but consultant travel is part of project costs. Rent, conference service costs, office equipment, agency support charges and charges by field offices, where identified and charged to projects, have been deducted from project costs and included with administrative costs. As far as the Secretariat costs are concerned, only the final or net cost to the Multilateral Fund are considered: the special contribution of the Canadian Government to the cost of the Secretariat has been deducted from its gross expenditures.

18. No mention has been made so far of what expenditures should be regarded as "admissible" and what should not be "admissible". The systems of project accounting in all of the implementing agencies are such that only costs incurred on a project are charged to that project. There is no evidence that costs attributable to other programmes could be charged to the Multilateral Fund. All implementing agencies in varying degrees, spend more on implementing the Fund programme than they receive in reimbursement from the Fund. In these circumstances, there are no grounds for saying that any part of the administrative costs charged by the agencies is not a cost incurred by the agencies in implementing the Fund programme and therefore inadmissible. This is not, however, the same as saying the administrative costs of implementing the programme are high or low. That will be discussed below.

**Calculation of Administrative Costs**

19. After allocating all costs between project expenditures, project preparation costs and administrative costs in each agency separately as described above, the resulting analysis of costs is set out in Table 1.

20. The percentages of administrative costs to total costs are set out in Table 2.

**Table 1**
**Analysis of Expenditures charged to Multilateral Fund by Agency**
**US$000's**

| | SECRETARIAT | WORLD BANK | UNDP | UNEP | UNIDO | TOTAL |
|---|---|---|---|---|---|---|
| Project Programme Expenditures (adjusted) | | | | | | |
| 1991 | - | 505.0 | 172.7 | 639.2 | - | 1316.9 |
| 1992 | - | 908.6 | 670.5 | 1388.5 | - | 2967.6 |
| 1993 | - | 2100.5 | 5766.2 | 960.5 | 409.8 | 9237.0 |
| **Total** | - | 3514.0 | 6609.4 | 2988.2 | 409.8 | 13521.5 |
| Project Preparation Cost | | | | | | |
| 1991 | - | 531.0 | - | - | - | 531.0 |
| 1992 | - | 1120.0 | - | - | - | 1120.0 |
| 1993 | - | 2294.0 | 350.0 | - | 265.9 | 2909.9 |
| **Total** | - | 3945.0 | 350.0 | - | 265.9 | 4560.9 |
| Total Project Prog. Expenditures & Project Preparation Costs | | | | | | |
| 1991 | - | 1036.0 | 172.7 | 639.2 | - | 1847.9 |
| 1992 | - | 2028.6 | 670.5 | 1388.5 | - | 4087.6 |
| 1993 | - | 4394.5 | 6116.2 | 960.5 | 675.7 | 12146.9 |
| **Total** | - | 7459.1 | 6959.4 | 2988.2 | 675.7 | 18082.4 |
| Administrative Costs | | | | | | |
| 1991 | 1136.3 | 471.0 | 216.2 | 134.2 | - | 1957.7 |
| 1992 | 1621.6 | 1235.0 | 413.8 | 389.9 | - | 3660.3 |
| 1993 | 1410.9 | 1303.0 | 709.6 | 453.9 | 87.8 | 3965.2 |
| **Total** | 4168.8 | 3009.0 | 1339.6 | 978.0 | 87.8 | 9583.2 |
| Total Expenditures Reported | | | | | | |
| 1991 | 1136.3 | 1507.0 | 388.9 | 773.4 | - | 3805.9 |
| 1992 | 1621.6 | 3263.6 | 1084.3 | 1778.4 | - | 7748.0 |
| 1993 | 1410.9 | 5696.5 | 6825.8 | 1414.4 | 763.5 | 16111.4 |
| **Total** | 4168.8 | 10468.1 | 8299.0 | 3966.2 | 763.5 | 27665.6 |

**Table 2**
**Percentages of Total Costs Attributed to Administrative Costs 1991-1993**
**Percentages of Total Costs**

| | 1991 | 1992 | 1993 | Overall |
|---|---|---|---|---|
| Secretariat | 100.0 | 100.0 | 100.0 | 100.0 |
| World Bank | 31.2 | 37.8 | 22.9 | 28.7. |
| UNDP | 55.6 | 38.2 | 10.4 | 16.1 |
| UNEP | 17.4 | 21.9 | 32.1 | 24.7 |
| UNIDO | N.A | N.A | 11.5 | 11.5 |
| Fund overall | 51.4 | 47.2 | 24.6 | 34.6 |

21. The agency and Secretariat shares of total administrative costs for the period 1991-1993 were as set out in Table 3.

**Table 3**
**Percentage of Total Administrative Costs Attributable to Each Agency**
**Percentages of Total Administrative Costs**

| | 1991 | 1992 | 1993 | 1991-1993 |
|---|---|---|---|---|
| Secretariat | 58.0 | 44.3 | 35.6 | 43.5 |
| World Bank | 24.1 | 33.7 | 32.9 | 31.4 |
| UNDP | 11.0 | 11.3 | 17.9 | 14.0 |
| UNEP | 6.9 | 10.7 | 11.4 | 10.2 |
| UNIDO | - | - | 2.2 | 0.9 |
| **Total** | 100.0 | 100.0 | 100.0 | 100.0 |

22. Another way of looking at the administrative costs, is to compare them with the total of project expenditures and project preparation costs in those years. These figures are set out in Table 4 as follows:

**Table 4**
**Percentage of Administrative Costs to the Total of Project Expenditures and Project Preparation Costs**

**(Percentages)**

| | 1991 | 1992 | 1993 | 1991-1993 |
|---|---|---|---|---|
| Fund Secretariat | N.A | N.A | N.A | N.A |
| World Bank | 45.5 | 60.9 | 29.7 | 40.3 |
| UNDP | 125.2 | 61.7 | 11.6 | 19.2 |
| UNEP | 21.0 | 28.1 | 47.3 | 32.7 |
| UNIDO | - | - | 13.0 | 13.0 |
| **Overall** | 105.9 | 89.5 | 32.6 | 53.0 |

23. Before conclusions are drawn from the figures, some general and some specific comments may be helpful.

24. The Executive Committee started operating only in 1990. It had to set up a Secretariat, select implementing agencies, plan and secure the implementation of projects that for the most part were based on a concept - the financing of incremental costs in the transfer of technologies rapidly evolving - that was unique. The Secretariat was only in place in 1991. Formal agreements with the implementing agencies also were only completed in 1991. There was a process of "learning by doing" for the Executive Committee, the Secretariat and the implementing agencies. Inevitably the process involved administrative costs and it is to be expected that these costs would be higher in the initial years than later. By the end of 1993, few investment projects had been completed although such projects are the greater part of the Fund's financial commitments. Consideration of administrative costs in the form of percentages must be undertaken with these facts in mind.

25. As far as the Secretariat is concerned, it has a dual role. On the one hand, it has to coordinate the Fund programme overall and to review in depth individual projects proposal. On the other hand, it is the Secretariat of the Executive Committee and is responsible through its budget for the cost of Executive Committee meetings. The cost of these meetings is a significant proportion of their total expenditures viz:

| | Total Secretarial Expenditures $000's | Cost of EC Meetings $000's | % |
|---|---|---|---|
| 1991 | 1136.3 | 555.2 | 48.9 |
| 1992 | 1621.6 | 366.5 | 22.6 |
| 1993 | 1410.9 | 506.1 | 35.9 |
| 1991-1993 | 4168.8 | 1427.8 | 34.2 |

26. In the case of the World Bank, the main part of their completed work over this period has been the preparation of investment projects. Some of these investment projects are now being implemented in recipient countries and the flow should now accelerate. The World Bank's project expenditures can be expected to rise rapidly with a consequent fall in the percentage of total expenditure required for administrative costs. Indeed, if the administrative costs of the World Bank were to be no higher in 1994 and 1995 than they were in 1993, and the Bank completed the whole of its currently approved programme of $105.8 million before the end 1995, its administrative costs would average 5.3 per cent compared with the figure of 28.7 per cent shown in Table 2.

27. UNDP administrative costs were high in the first two years covered by the study, partly owing to the initial start-up costs incurred by all the agencies but also, partly, owing to a high proportion of technical assistance/training projects implemented in those first two years. In 1993, the greater part of the programme implemented by UNDP consisted of investment projects and the total programme was much larger. As will be discussed further below, technical assistance/training projects are recognized as requiring relatively greater administrative inputs than any other services, particularly compared with larger investment projects.

28. The latter remark applies to the UNEP percentages which are higher than the 13 per cent administrative support charge because, as described above, some project expenditures have been reclassified as administrative. UNEP information work has been affected particularly by the fact that whereas in 1991 there were only 60 parties to the Protocol, in 1993 there were 120, with the increase consisting almost entirely of Article 5 countries. UNEP projects are on average much smaller ($91,196) than the overall Fund project ($335,779) and administrative costs almost always tend to vary inversely with the size of the project.

29. UNIDO administrative costs charged to the Fund in 1993 were simply the 13 per cent administrative support charge but as a percentage of total costs it represents 11.5 per cent. As noted elsewhere in this report, this did not cover the total administrative costs but UNIDO were of course in the start-up phase in that year.

**Comparison of Administrative Costs With Other Aid Programmes**

30. The terms of reference of this study require that an attempt be made to establish how far a comparison of administrative costs of the Multilateral Fund can be made with the administrative cost ratios of the Global Environment Facility (GEF) and other aid programmes. Any comparisons between programmes of different sizes, with different objectives and purposes will inevitably be hedged in with "if and but" and no such comparisons are ever completely valid.

31. The GEF over the period 1991-1993 was in a pilot phase and was much more experimental in its objectives compared with the clear time-limited objectives that the Multilateral Fund had from day one. Even so, there are some similarities between the two international environment financing programmes and the methods of working and decision making are not altogether dissimilar.

32. An attempt was made by the GEF Secretariat to calculate the administrative costs of the Facility in its first three years - 1991-1993 - in a "Technical Note" (GEF/PA.93/4). Although the treatment of administrative costs in that note is not exactly similar to this study, for what it is worth the administrative costs of the two financial mechanisms in their first three years of operation were as follows:

**Comparison of Administrative Costs of GEF and MF 1991-1993**
**(US$ 000's)**

| | GEF | MF |
|---|---|---|
| Secretariat | 4850 | 4169 |
| World Bank | 21117 | 3223 |
| UNDP | 7839 | 1340 |
| UNEP | 3224 | 979 |
| UNIDO | - | 88 |
| | 37032 | 9798 |

33. The Technical Note on the GEF costs did not set out the project output costs in the same three years as has been done in this report. It attempted instead to project the administrative costs of the GEF until the completion of the pilot phase, and to compare those costs with the work programme for the whole pilot phase of the Facility. On that basis of comparison, it is estimated that the administrative cost ratio will be 12.1% over the total life of the Facility, which will fall to 11.0% if additional co-financing materializes as expected, to bring the total pilot phase work programme up to a total of $ 850 million.

34. The Multilateral Fund does not have such a finite life but if the additional administrative costs of currently approved projects can be taken to be these project administrative costs in 1994 and 1995, and were they to be no more than $ 10 million, the total of administrative costs over 1991-1995 would be $ 19.6 million and could be compared with the total work programme, including the costs of the Secretariat and bilateral assistance approved up to July 1994 of $ 222 million (i.e. without taking account of the work programme that would have been approved if some $ 180 million of unpaid contributions have been paid). The administrative cost ratio would then be 8.8% compared with 11% in the GEF (assuming the expected co-financing goes ahead as expected).

35. However, it is clear that the GEF study includes project preparation costs as administrative costs, and if the Multilateral Fund estimate of administrative costs is increased by the total of project preparation costs ($ 4.56 million), its administrative cost ratio will rise to 11.0 per cent identical, purely by chance, with that of the GEF. On the other hand, if the Multilateral Fund travel costs were seen as project costs as seems to be the case with the GEF, the Multilateral Fund administrative cost ratio would fall to 10 per cent.

36. Criticisms can be levelled against calculations of administrative cost ratios made with a cut off date on the administrative costs and a total investment programme not yet put on the ground. But to the extent that the estimates of administrative costs of the two programmes have been calculated more or less in the same way, they are of interest, particularly when it is realized that GEF projects in the pilot phase averaged $ 6.4 million compared with the average size of the projects in the Multilateral Fund of under $ 340,000 thousand.

37. This latter point is valid, as administrative cost ratios reduce with the average size of project. Thus, the same Technical Note on the GEF compares the GEF ratio of 12.1 per cent on the basis of an average GEF project size of $ 6 million, with a World Bank ratio for its normal programme over 1986-1991 of 3.2 per cent based on an average project size of $ 131 million, and the IDA ratio over 1986-1991 of 6.6 per cent with an average project size of $ 54 million.

38. Other aid programmes are even more difficult to compare with the Multilateral Fund, since they are managed and operate very differently, and it is not possible in the time available for this study to investigate, other than superficially, how far cost figures to be compared have been constructed in a similar way. However, for what it is worth, the Capital Development Fund administered by UNDP has an administrative cost ratio of 11.1 per cent, the United Nations Sudano-Sahelian Office, administered by UNDP, has a ratio of 27.8 per cent and UNIFEM has a ratio of 34 per cent. UNIDO which may be a more valid comparison reported an administrative cost ratio of 23 per cent.

39. In sum, even taking into account all the questions that arise in attempting to compare administrative costs of different aid/investment programmes, and although a strict comparison of administrative costs and project expenditures in the years 1991-1994 might suggest that the administrative costs of the Multilateral Fund are relatively high, there is little doubt that once the projects approved over this period are implemented in the recipient countries, the 1991-1993 cost ratio will come down rapidly and the administrative cost ratio of the Multilateral Fund over the life of the projects now approved will compare reasonably with the administrative costs of other funds, taking into account the size of projects involved in the Fund programme.

**Norms for Admissible Administrative Costs**

40. This study was asked to "endeavour to define reasonable norms for admissible administrative costs involved in implementing the Multilateral Fund's approved programme of activities".

41. It has been demonstrated in this report that administrative costs incurred by the Multilateral Fund vary over time (as approved projects are first prepared and then, subsequently implemented) and vary depending on the size of project. Costs also vary depending on the type of project: administrative costs of an investment project will almost always be significantly lower than the administrative costs of technical assistance projects such as training, seminars and the like.

42. An independent consultancy firm undertook cost measurements for UNDP to determine a successor regime to the traditional UNDP support costs system and this study led to the creation of the administrative and operational support facility (AOS) under which UNDP now reimburses FAO, ILO, UNESCO and UNIDO for the cost of providing support services to UNDP financed technical cooperation projects, based on differential rates for the various types of project inputs delivered. The consultants undertook an estimate of the total costs of the four agencies (and OPS) on the basis of their budgeted 1992-1993 costs and have updated the estimates on the basis of their budgeted 1994-1995 costs. Agreement has been reached with the four agencies on differential rates to be paid for each of the service inputs separately subject to an overall maximum reimbursement of 10% of field costs. With the agreement of the governing bodies concerned, this system involves a substantial contribution to the UNDP financed programme from the agency core budgets since the rates allowed are substantially below the costs estimated by the consultants viz:

| | Estimated 1994-95 Costs % | AOS Provision % |
|---|---|---|
| International consultants and Experts | 19.7 | 9 |
| National personnel | 27.9 | 11 |
| Sub-contracting | 26.0 | 11 |
| Fellowships | 42.0 | 12 |
| Other training | 37.3 | 21 |
| Local procurement | 19.0 | 6 |
| HQ procurement < $70,000 | 26.5 | 10 |
| HQ procurement > $70,000 | 3.6 | 4 |
| **TOTAL** | 23.0 | 10 |

43. The AOS rates and the costings which underlie them are not going to be particularly helpful in establishing norms for the administrative costs of the implementing agencies for the Multilateral Fund. They do, however, present independent evidence of the different costs of providing different input services.

44. Of the Multilateral Fund's implementing agencies, only UNIDO is included in the AOS estimates and their costings were found to be very close to the averages set out above. This is perhaps the basis for UNIDO own estimate that it costs them 26 per cent to deliver the Multilateral Fund's projects cited earlier in this report. The AOS study also explains the relatively high administrative cost ratios of UNDP and UNEP in the years when the main part of their programmes consisted of training and seminars, since as demonstrated above, the cost of administering these types of programmes is relatively more expensive compared with others.

45. It might, therefore, seem possible that one option available to reimburse the implementing agencies for the administrative costs they incur would be to attempt to devise different reimbursement percentages for different types of projects in a similar manner to the AOS system used by UNDP. It would be possible, in theory at least, to set down different rates for, say, training and other technical assistance and for investment projects. The technical assistance support percentage could be determined by that employed under AOS (21 per cent) but the percentage to be devised for investment projects would in practice, need to take account of the very wide variety of investment projects that the Executive Committee approves. It seems unlikely that any percentage norm could be adapted to that range of investment projects prevailing and, most significantly, it would require the World Bank to follow a completely different financial system that its present rules allow. Such an option does not seem a practical one for the Multilateral Fund.

46. Some elements of administrative costs could perhaps be subject to per cent norms. For example, UNDP should perhaps negotiate an agreed rate for project execution by OPS which would then be confirm by the Executive Committee. This is currently 6 per cent of expenditure but OPS have estimated their actual costs as being 9 per cent. A normal rate might also be established for implementation by national institutions with or without OPS supervision. Field service office costs where applicable should perhaps be controlled within a fixed percentage limit.

47. The most careful consideration of the Multilateral Fund establishing a system of reimbursing administrative costs along the lines of the AOS system has been given before coming to the conclusion that the range of projects financed by the Fund is so varied that the application of any such norms would be inappropriate and likely to come up with rates of reimbursement that would either be too high or too low and sometimes one and sometimes the other. Fixed norms may or may not be appropriate depending on the circumstances at the time. Dissatisfaction would persist and the Executive Committee would end up still not knowing how much is being paid in the form of administrative costs. Significantly, the UNDP officials who were charged with the administration of the AOS system argued strongly against it for the Multilateral Fund.

**Options available to reimburse administrative costs**

48. The current system of reimbursing three of the implementing agencies on the basis of an administrative support charge of 13 per cent, fixes a ceiling on their administrative costs and thus provides some discipline on them to contain their costs within that ceiling (although as shown above, some administrative costs have been included with project costs over and above the 13 per cent provided). The continuance of the present system is still an option for the future available to the Executive Committee. It has its advantages although it is not even-handed compared with the system followed by the World Bank, takes no account different nature of agency programmes and, at the moment, only partially reimburses those agencies subject to it. At a later stage in the programme, it is conceivable that the system could over-compensate but because it represents a straight percentage addition to project costs, the actual administrative costs incurred will not be apparent.

49. A second alternative is available. Control over administrative costs could be secured by the agencies being required to be quite open and transparent in the reimbursement they feel they need for administrative services and the Executive Committee with the help of the Secretariat being prepared to review and, where they feel it necessary, cut the administrative support costs proposed.

50. Each of the implementing agencies have found it necessary to establish small co-ordinating units to manage the programme of work approved by the Executive Committee. In the case of the World Bank, the cost of the unit will be included in its reported administrative costs and in the case of UNDP and UNEP are (largely) paid from the administrative supports costs charged to the Fund. UNIDO, being a late starter, at the moment pays for its co-ordinator from its core budget. It would make more sense and be more even-handed as between one agency and another if annual budgets for these co-ordination units were prepared in a consistent manner by the agencies, reviewed by the Executive Committee in terms of staffing and other inputs proposed. This is basically the system now operating for the GEF. The GEF Secretariat calls for budget proposals from its implementing agencies (the World Bank, UNDP and UNEP) for each of the co-ordination units established for that programme and reviews these, taking into account the size and type of work programme proposed for implementation in the following year. In the situation of the Multilateral Fund, the co-ordination unit budgets, and their subsequent expenditures, would be approved by the Executive Committee and thus totally transparent. They would cover co-ordination staff costs, any consultancies involved, travel equipment, rent of premises, communication and provision for central services (accountancy, personnel, procurement, utilities etc.).

51. Project preparation costs, where not undertaken by the co-ordination units within approved budgets, should be financed as project budgets approved by the Executive Committee as is the case now.

52. All other costs would be budgeted within project budgets, except where the project is to be implemented by an external agency that will charge a fee for its services, in which case that fee should be made explicit and separate from the other project costs. Thus, if UNDP implements approved projects through OPS, the amount (and the rate) charged by OPS should be shown separately from the project cost. Similarly, if the World Bank uses a national intermediary to implement its project in the recipient country, the amount of the fee (and the rate) will be disclosed separately from the project cost. (It will be noted that this study includes no details of such World Bank costs, but since only a small part of its investment programme had been implemented over this period, this element has probably not been significant up to now).

53. More concern should be given to project budgets themselves and when project proposals are submitted to the Secretariat for review as part of a prepared programme, the constituent parts of the proposed budget for each project should be set out in sufficient detail to enable the administrative cost component of the project to be quite transparent. The mode of implementation and its cost should be made explicit. What is an admissible administrative cost would be determined before the project is approved.

54. Under the second option the 13 per cent support charge would cease to apply and agencies would be compensated on the basis of the budgets agreed with the Executive Committee.

## The Achievement of Transparency

55. This report was asked to advise how administrative costs of the implementing agencies might be made more transparent in future within the proposed norms.

56. The previous section of the study sets out alternative options that could be considered by the Executive Committee in considering this complicated issue of reimbursement to the implementing agencies for the administrative costs that they inevitably incur in implementing the Fund programme. The continuance of the present system of the World Bank following its normal procedures of accounting for administrative costs with the other agencies being reimbursed on the basis of 13 per cent would remain as untransparent as it is now.

57. If, however, the second option were to be adopted, total transparency could be secured if all administrative costs were be made explicit, either within the budgets of co-ordinating units or within project budgets and if the Secretariat required that budgets and reporting of expenditures be presented by all the agencies in a consistent format, both for the co-ordination units and for projects. At the present time, no such consistency exists and it is in consequence almost impossible to compare figures from one agency with another. Total expenditures are reported to the Treasurer and expenditures of individual projects reported to the Secretariat and the components of both reports cannot be compared except as regards aggregate totals.

58. To overcome this problem, proforma budget lay-outs for co-ordination budgets are proposed at the end of this section, together with similar but not identical proforma budgets that should be required by the Secretariat when projects are submitted for approval. The latter should be a minimum requirement without obviating the need for subsidiary budget details, for example, the costs for the main engineering proposals.

59. Similarly, the actual costs of co-ordination units should be reported within annual expenditure reports that would be submitted to the Treasurer and Secretariat on a quarterly, half yearly and annual basis.

60. The question remains whether it is practical to require the implementing agencies to report their individual project expenditures in the same format. Ideally, this should be done so that the administrative cost components of individual projects is totally transparent. How the implementing agencies report project expenditures by individual project now without adding up the individual component input costs is not clear but by means of relatively small adjustments to computer programmes monitoring project expenditures and the detailed project coding of individual project expenditures, it should not be a difficult task to provide expenditure reports on each of the 621 projects that have so far been approved by the Executive Committee, together with an aggregation of these reports within the same layout to meet the requirements of the Treasurer to provide totals of each of the individual objects of expenditure. It can be argued that no one in the Secretariat will have time to compare the input expenditures with the original budgets of 621 projects. That may be true but when questions arise, if the data is included in the Secretariat project data base, the answers will be immediately available. Individual project expenditure reports are not, however, essential component of the reporting system proposed.

**THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL**

**Outline of Proposed Budget for Co-ordination Units**

Agency :

Period covered :

| | | Estimated Costs US$ |
|---|---|---|
| - Personnel of Unit | | (Estimate of costs to include non-cash |
| Posts/level | 1 | benefits but not associated overhead costs) |
| | 2 | |
| | 3 | |
| - Administrative Support | | (ditto) |
| Posts/level | 1 | |
| | 2 | |
| | 3 | |
| - International Consultants (months of work) | | (ditto) |
| Travel of staff | | |
| Travel of consultants | | |
| Meeting/training costs | | |
| Sub-contracts | | |
| Equipment | | |
| Office Rent | | |
| Sundries | | |
| Other Central services/overheads | | |
| **Total requirement** | | |

**THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL**

**Proposed Financial Report for Co-ordination Units**

Agency :

Period covered :

| | Actual Expenditure US$ | |
|---|---|---|
| | For period of report | Total for year todate |
| - Professional personnel | Costs to include non-cash benefits but not associated overheads | |
| - Support staff | (ditto) | |
| - International consultants | (ditto) | |
| - National consultants | (ditto) | |
| - Meeting/training costs | | |
| - Travel of staff | | |
| - Travel of consultants | | |
| - Sub-contracts | | |
| - Office equipment | | |
| - Office rent | | |
| - Sundries | | |
| - Other Central services/overheads | | |
| **Total expenditure** | | |

## THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

### Outline of Proposed Budget or Revised Budget for Individual Projects

Implementing Agency :

Project :

Country

Title

Provisional budget/revised budget

Project number (if any)

| | Estimated Costs US$ |
|---|---|
| - Personnel | Costs including non-cash benefits |
| - International consultants | but excluding associated overheads |
| - National consultants | |
| - Travel associated with project | |
| - Contractual services | |
| - Procurement of equipment | |
| - Operating costs of plant | |
| - Sundries | |
| - Contractors implementation fees | |
| - Executing agency support costs/fees | |
| - Field office services | |
| - Central office services/overhead | |
| - Contingency | |
| **Total Costs** | |

**THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL**

**Proposed Financial Report for Projects in Aggregate and individual as so decided**

Implementing Agency :

Project :

Country

Title

Project number

Work programme (year)

| | Actual Expenditure US$ | |
|---|---|---|
| | For period of report | Total for year todate |
| - Personnel | | |
| - International consultants | | |
| - National consultants | | |
| - Travel of staff | | |
| - Travel of consultants | | |
| - Contractual services | | |
| - Procurement of equipment | | |
| - Training, workshop, services, etc. | | |
| - Operating costs of plant | | |
| - Sundries | | |
| - Executive agency support cost/fees | | |
| - Field office support services | | |
| - Central services/overheads | | |
| **Total expenditure** | | |

# ANNEX A

## ADMINISTRATIVE COSTS OF OPERATION OF THE MULTILATERAL FUND

### Terms of Reference of Proposed Enquiry

1. Define what should be regarded as admissible administrative costs of operating the Multilateral Fund, taking into account different practices amongst the implementing agencies and as far as practical comparable practices in other aid agencies.

2. On basis of figures reported to the Treasurer and such other supplementary figures as may be provided by the implementing agencies, calculate the administrative costs that fell within the definition of such costs and were charged to the Financial Mechanism by each implementing agency and by the Secretariat separately in the years 1991-1993.

3. Relate the calculated administrative costs over the period 1991-1993 in each implementing agency with the actual programme of activities implemented by each agency in those years, and relate the aggregate of all identified administrative costs, including the Secretariat administrative costs, to the programme of the Multilateral Fund overall in each year.

4. Establish how far a comparison of administrative costs can be made with the administrative cost ratios of the Global Environment Facility and other aid programmes.

5. Endeavour to define norms for admissible administrative costs involved in implementing the Multilateral Fund's approved programme of activities.

6. Advise how administrative costs of the implementing agencies might be made more transparent in future within the proposed norms.

# ANNEX B

## SUMMARY

1. Expenditures reported to the Treasurer by the implementing agencies for 1991-1993 are not immediately comparable as regards the definition of project costs and administrative costs and they have therefore been re-arranged so as to make this distinction more consistently. Expenditures on the preparation of country programmes have in all cases been re-classified as project/programme costs, while costs on staff travel, premises, conference services, office equipment, agency support, field service charges, central services and overheads have been classified as administrative costs.

2. The World Bank has recovered all of its costs of implementing the Multilateral Fund programme except its central management costs. UNDP, UNEP and UNIDO, in varying degrees, have not recovered administrative costs directly attributable to the programme as well as central management costs.

3. Total reported expenditures for the years 1991-1993 have been analysed as between project/programme expenditures, project preparation costs and administrative costs by agency and for the Fund as a whole in Table 1.

4. The percentages of administrative expenditures in total expenditures reported are set out in Table 2. Overall, they have been falling each year since 1991. Administrative costs have been influenced in the first three years by the need to prepare a programme from scratch: they can be expected to fall in subsequent years.

5. On the basis of a methodology used by the GEF Secretariat to project the administrative costs of implementing the Pilot Phase of the GEF, the administrative cost ratio of the Multilateral Fund programme seem to be very similar to those of the GEF in the Pilot Phase in spite of the size of Fund projects being very much smaller than those of Facility (less than $ 340,000 compared with $ 6.4 million). The administrative cost ratio is higher for the Multilateral Fund than for the regular World Bank and IDA programmes but in both the latter cases the size of projects is very much larger than both the Fund and GEF projects. Comparisons of administrative cost ratios with other programmes seem to be favourable.

6. Two options are set out for the Executive Committee to consider before coming to any new decision on the reimbursement of administrative costs:

a) leave the present system unchanged even though it is not particularly transparent,

b) the Executive Committee to consider and approve annual budgets for agency co-ordination units and individual projects on the basis of agreed pro-forma budgets which make administrative costs totally transparent. Actual costs of co-ordination units projects costs in aggregate would be reported in basically the same format. No percentage administrative support costs would then be paid.