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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Thirty-fourth Meeting  
Montreal, 18-20 July 2001

**THE USE OF THE 13 PER CENT ALLOWANCE FOR SUPPORT COSTS  
(DECISION 32/31)**

The attached document is being submitted by the United Nations Office at Nairobi -UNON- in response to Decision 32/31 with a letter of transmittal from the Chief of the Division of Administrative Services.

To fully comply with the requirement of Decision 32/31 (c), UNON will submit an addendum to this document.

## **Introduction**

1. The present report is submitted by the Executive Director of UNEP in response to the Executive Committee's decision 32/31 relating to the approval of the projects to implement the Refrigeration Management Plan (RMP) of Benin. By this decision, the Executive Committee decided to:
  - (a) *Approve the above projects at the level of funding indicated in Annex III to the present report and, in order not to block progress at the current meeting, approve other projects with similar funding components (project assistance monitoring and evaluation) submitted to the current meeting;*
  - (b) *Request that similar project components not come forward to future meetings of the Executive Committee;*
  - (c) *Request UNEP to produce a paper showing how the 13 per cent allowance for support cost was utilised in general terms and also in specific similar projects already implemented; and*
  - (d) *Re-examine in the light of the above paper, whether the other implementing agencies might be in a better position to implement the non-investment activities in question in an RMP within the 13% agency support costs.*

## **Background**

2. The terms under which UNEP operates as one of the four implementing agencies under the Multilateral Fund are set out in the agreement between UNEP and the Executive Committee, dated 19 June 1991. All approved funds are held by UNEP in a Trust Fund account, (**IM** trust fund) and are then programmed into projects for implementation.

## **Use of the Programme Support Costs (PSC)**

3. In its management and use of the PSC, UNEP is guided by the administrative instruction issued by the UN Secretariat on 3 March 1982 (ST/AI/286) on PSC which states that  
“programme support resources should ensure an equitable distribution among project management, programme management and the central administrative functions (i.e. finance, personnel and general services). [PSC]...may be used for substantive backstopping of projects [and] the range of object codes for which programme support funds may be used includes: posts – professional and general service; consultants; temporary

assistance, overtime; travel, rental of space; office supplies and materials; office equipment [excluding computer equipment], miscellaneous expenses.”

4. From 1991 and up to and including the 32<sup>nd</sup> Meeting, UNEP has received 552 approvals for a total of US\$46,176,316. These have accrued programme support costs (PSC) of US\$4,326,445 based on actual expenditures of US\$33,280,344. The average size of a project is US\$83,000, although 283 approvals (51%) were for an amount of US\$50,000 or less. PSC from the IM trust fund in 2000 amounted to US\$671,413 based on expenditures of US\$5,166,114.
5. An allocation from these funds is made to cover the direct staff costs required to provide the administrative services that support the Energy and OzonAction Unit, Division of Technology, Industry and Economics (DTIE), UNEP, based in Paris which implements the IM trust fund projects. An estimated breakdown of these costs is as follows:

Staff	US\$
Administrative Officer P4 (5m/m)	38,000
Associate Administrative Officer P2 (12mm)	75,000
Administrative Secretary G4 (5m/m)	23,000
Finance Assistant G7 (12m/m)	56,000
Senior Secretary to the Chief, Energy & OzonAction Unit G6 (12m/m)	52,000
Finance Assistant G6 (12m/m)	52,000
Operational costs <sup>1</sup>	110,000
<i>Estimated Total</i>	<i>406,000</i>

6. A further allocation from the IM Trust Fund PSC in 2000 forms part of the allocation that the Executive Director of UNEP made to UNON and other administrative units for central administrative services that UNON provides to UNEP. The services that UNON provides to UNEP for the IM trust fund are approximately identified as follows:
  - *Financial management of 101 ongoing IM trust fund projects.*  
This includes checking conformity of commitments with UNEP financial rules and regulations, monitoring the expenditures and liaising with supporting organisations when necessary. Also formulation, monitoring and evaluation of project documents, analysis and processing of progress, expenditure and audit reports from supporting organisations, revision of existing project documents and recording of data.
  - *Accounting services:*  
Payroll, processing of imprest accounts, processing of Miscellaneous Obligor Documents, processing of payment vouchers, production of accounts
  - *Human Resource services:*  
Staff recruitment, finalisation of consultancy contracts, staff training

<sup>1</sup> Operational costs can be said to comprise communications, rental, office supplies, expendable office equipment.

- *General services:*  
Authorising contracts and procurements
- *Information Technology services:*  
IT support backup
- *Other administrative/management services*  
Aggregated services of global nature to the organisation

Estimated staffing and operational costs for provision of these services is US\$442,000. Therefore, when this total is added to the direct administrative costs incurred by DTIE in Paris (US\$406,000), the total estimated costs incurred on PSC for 2000 on the IM trust fund are US\$848,000.

7. At present, therefore, based on these current estimates<sup>2</sup>, the Executive Director feels that the 13% presently charged for projects approved by the Executive Committee is in fact insufficient to fully cover the range of activities described under the ST/AI/286 definition of PSC. Thus, at present, it is impossible for UNEP to implement IM trust fund projects without charging some of these costs to the direct project costs under the heading of non-investment activities.

### **Other project implementation costs**

8. It has already been noted that over 50% of the projects are for an amount that is no more than US\$50,000, and often much less.. In each case, the same reporting requirements are applied as for a project ten times greater. Hence, on a proportionate basis, the costs of providing administrative services for these small projects are much higher than those incurred on a large project. Therefore, the projects can be said to be very management intensive. One way of reducing these costs could be, that small projects are grouped together within larger portfolios, each to be at least US\$500,000, with reporting requirements only for the portfolio itself, rather than by each project as is the case at present.
9. As a consequence and in order to allow UNEP to implement approved training projects, a budget line has usually been allocated to "Substantive Assistance and Co-ordination of Policy and Technical Issues". UNEP utilises this budget line to cover the costs of tasks and activities for monitoring and implementing the project<sup>3</sup>. These may include the following<sup>4</sup>:

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<sup>2</sup> *The introduction of the Integrated Management Information System (IMIS), scheduled for implementation in UNEP and UNON in July 2001, will allow a more accurate recording of workloads related to the different parts of UNEP activities. It is therefore expected that within some reasonable time after its implementation, IMIS will allow UNEP to produce reports with better estimates of financial resources required for administrative support of IM Trust Fund projects.*

<sup>3</sup> *It should be noted too, that in over 20% of projects (Institutional Strengthening) which are classified as non-investment activities, UNEP does not retain any funds from the projects for monitoring and implementation.*

- Interaction with the country to assess the need for training, and preparation of project proposals for submission to the Executive Committee
  - Preparation of approval sheets and budgets
  - Identification of potential experts and negotiation of contracts
  - Technical advice to supporting organisations on how to implement the project
  - Logistical support for supply of equipment
  - Participation at workshops to provide input on technical matters
  - Monitoring, evaluating and following-up on implementation of training programme
  - Preparation of equipment specifications.
  - To undertake these tasks, rental space, computers, office supplies and staff members are required<sup>5</sup>.
10. There is no doubt that some of these costs should be covered by PSC. However, the other costs should continue to cover the monitoring and reporting budget of the approved activity. This is in line with the recommendation from the training evaluation (UNEP/OzL.Pro/Excom/32/44 Annex VII) which suggested that “each project should foresee a budget line and adequate time for monitoring and reporting”.
11. A significant reduction in or elimination of the budget allocated to the monitoring and reporting activities of an approval could create a situation where UNEP may no longer be in a position to continue implementing these types of project without subsidising the costs from the Environment Fund of UNEP and other resources. Such a situation runs contrary to the Governing Council decision that asked that the Environment Fund and other general funds should not be used to subsidise trust funds project activities.

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*This is the case, even though the monitoring and reporting activities are a significant cost over the two – four year lifetime of the these projects.*

<sup>4</sup> *Please note that an example is to be provided under separate cover.*

<sup>5</sup> *In this respect, it can be said that the projects benefit greatly from the presence of staff members to oversee a portfolio of projects. Employing individual consultants for each approval would not be cost effective., The added value of UNEP staff members is that they are able to carry out technical support whilst also undertaking some substantive backstopping.*

### **Additional Consideration**

12. Though not directly related to the subject of the present report, it may be useful to recall that from the outset of the Multilateral Fund, UNEP has been performing on a pro-bono basis the function of Treasurer. According to UNEP estimates, the costs associated with this role amount to US\$250,000 per annum. These costs are currently absorbed by UNEP from other sources. Notwithstanding a growing criticism of this situation from, among others, the Advisory Committee on Administrative and Budgetary Questions (ACABQ), UNEP has so far avoided taking action on their recommendation to ensure the full recovery of costs associated with its functions in support of trust fund activities.

### **Conclusion**

13. In the light of the foregoing, it would seem advisable to carefully review the matter of the project implementation costs of Multilateral Fund projects allocated to UNEP before any conclusion on the current arrangements and practice in this respect is reached. UNEP is prepared to undertake an internal review of the costs in implementing approved activities with a view to reducing these costs. At the same time, UNEP would encourage the Executive Committee to consider funding modalities that could reduce implementation costs in order to bring them more in line with the standard rate of PSC charged.