

Chapter III

Preparing a Consulting Services Package

Part B: Budget

A. Budgets for TA-Funded Consulting Services vs. Budgets for Loan-Funded Consulting Services

73. Providing adequate funds based on realistic cost estimates is a key to the effective use of consulting services. There is no point in fielding an individual expert or a team of experts without either sufficient time or support to allow them to undertake the task assigned to them. This is much more critical in a TA than in a loan. A loan project typically has a large, built-in physical and price contingency covering the whole of the project investment. Any underestimate in the need for consulting services and their support can thus be made up by reallocations from the overall project budget or the contingencies. This is not the case for a TA, where contingencies are not only limited but also often needed to cover currency fluctuations. A careful estimation of the costs of a TA consultancy is thus a critical part of designing the consulting services package.

74. The steps to be undertaken to determine a consultancy budget are similar for all types of consulting services, although the results may be presented in different ways. The costs for consulting services under loan projects are normally part of the overall project cost and are often displayed in the project cost table as such, without specific allowances for support or contingencies. Also, items such as vehicles, office space and equipment, and office staff may be considered part of the overall project support or management costs and not specifically in support of the consulting services. Similarly, price and physical contingencies will normally be applied across the whole project and not necessarily just to the consulting services. It is critical for this to be taken into account when preparing the RFP during the consultant selection process. All costs of the consulting package need to be included in the data sheet that is sent to short-listed consulting firms as part of the RFP, not just the fees of the consultants taken from the project cost table. A further issue is that of taxes on consultant fees. While ADB does not, under normal circumstances, fund duties and taxes, it may be necessary to include an allowance in the remuneration for international consultants if the consultants will be expected to pay local taxes from their remuneration.

75. By contrast, the standard template for TA Board papers includes a table for the Cost Estimates and Financing Plan that details all these items as one TA grant package. This lists not only the consulting services but also the government’s contribution and other expenses (such as an allowance for attendance of a government observer at contract negotiations, or the recruitment of resource persons), but the core of the budget is the cost of consulting services and their support. A standard TA Cost Estimates and Financing Plan is shown in Table 1.

Table 1: TA Cost Estimates and Financing Plan (\$'000)	
Item	Total Cost
A. Asian Development Bank Financing	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	
ii. National Consultants	
b. International and Local Travel	
c. Reports and Communications	
2. Equipment	
3. Training, Seminars, and Conferences	
a. Facilitators	
b. Training Program	
4. Surveys	
5. Miscellaneous Administration and Support Costs	
6. Representative for Contract Negotiations	
7. Contingencies	
Subtotal (A)	
B. Government Financing	
1. Office Accommodation and Transport	
2. Remuneration and Per Diem of Counterpart Staff	
3. Others	
Subtotal (B)	
Total	

76. Because of its comprehensive nature, reference to this table is useful in costing all types of consulting services, not just those for TA, and as a basis for preparing the data sheet provided to consultants when proposals are requested. When used for loan projects, the results can be used as a cross-check to ensure that all consulting services costs have been included in the overall project costs.

77. With the TA Cost Estimates and Financing Plan as a guide, a consulting services budget can be readily prepared using the staffing schedule and implementation schedule derived earlier as the basis for determining the length and nature of each consultant's input. The process is outlined in the next section.

B. Steps in Preparing the Budget

1. Estimating Remuneration and Per Diem for International Consultants¹⁵

a. International Consultants' Remuneration

78. The number of person-months for each consultant is shown in the preliminary staffing schedule. COSO calculates different monthly rates for particular types of international expertise. These are updated regularly, and available from COSO for ADB staff and staff of EAs. They may be provided upon request by the ADB project officer to the consultants preparing projects under PPTA and to the EAs preparing data sheets for RFPs. The rates are shown in terms of person-months.¹⁶

79. Multiplying the number of person-months of each expert by the rates given provides an estimate of the total cost of international consultant remuneration. A typical calculation would look something like this:

3 person-months for a transport engineer @ \$19,000	= \$ 57,000
1 person-month for an agronomist @ \$18,500	= \$ 18,500
1 person-month for an economist @ \$19,000	= \$ 19,000
1 person-month for an environmentalist @ \$18,500	= \$ 18,500
1.5 person-months for a social impact specialist @ \$16,500	= \$ 24,750
Total international remuneration	= \$137,750

This then needs to be added to the estimated cost of per diems for international consultants.

¹⁵ In some cases the TA budget includes provisions for both a consulting team and, in addition, individual consultants to be recruited separately. In these cases separate cost estimates should be prepared for each grouping.

¹⁶ In its contracts with consultants ADB officially uses a "calendar day month" of 30 days for fieldwork and a "working day month" of 22 days for home office work. Because of the complexity of these allocations, which are used mainly for costing contracts, it is usually best to estimate inputs in months or decimal fractions thereof when preparing estimates for consultant time inputs. Thus inputs could be for, for example, 3.5 months or 2.25 months. This will give the level of detail needed for scheduling and cost estimates without reverting to the issue of calendar days or working days.

b. International Consultants' Per Diem

80. Updated per diem costs are also available from COSO. Per diems are provided only for work in the country of operation or for travel to and from the duty station (i.e., not for home-office work), but a distinction needs to be made between time spent in different locations within the country.

81. Typically, per diems in a capital or major city are higher than for time spent in the field. To arrive at a reasonable estimate of per diems, the time spent in the field or at the project site, the time spent on international travel, and the number of days spent in the country's capital or major city must be estimated for each expert. These are then multiplied by the appropriate per diem allowance, and an estimate of total per diems for international experts is arrived at.

82. For consultants staying for extended periods within the country (over 6 continuous months), per diems may be reduced on the understanding that it will be possible for them to find rental accommodation. On the other hand, long-staying consultants working on loan projects may wish to have their dependents with them and may request supplements for education and dependent travel. Most TA-financed consultant inputs—but not all—are relatively short, and these contingencies do not often arise. Thus, it is generally better to calculate per diem requirements for TA grant consultancies based on the standard rates without worrying too much about special cases. These can better be dealt with during contract negotiations.

83. A typical calculation of international consultants' per diems would look like Table 2.

Table 2: International Consultants' Per Diem					
Expertise	Person-Months	Total Days	International Travel Days	Days in Field	Days at Executing Agency Headquarters
Transport engineer	3	90	2	60	28
Agronomist	1	30	2	20	8
Economist	1	30	2	10	18
Environmentalist	1	30	2	20	8
Social impact specialist	1.5	45	2	30	13
Cumulative total (days) (A)	7.5	225	10	140	75
Per diem allowance (\$) (B)			120	75	150
Per diem cost (\$) (C) (C= A X B)			1,200	10,500	11,250
Total per diem cost = \$22,950					

The total international per diem cost would thus be the cost of international travel days + days in field + days at EA headquarters, or in this example: \$1,200 + \$10,500 + \$11,250 = \$22,950.

c. Combining International Consultants' Remuneration with Their Per Diem

84. A simple addition of the two costs, remuneration and per diem, provides the estimate for international consultants' remuneration and per diem. It then becomes possible to fill in the first item in the TA Cost Estimates and Financing Plan table—viz., remuneration and per diem for international consultants. This is typically the largest cost of the total consulting services package. (In the case of the above examples, it is $\$137,550 + \$22,950 = \$160,500$).

2. Estimating Remuneration and Per Diem for National Consultants

85. Estimating remuneration and per diem costs for national consultants follows a similar process with a few variations. In the case of the preparation of loan projects, most EAs are familiar with national consultant rates and can provide these for the PPTA consultants. For ADB staff preparing ADTA or PPTA, and for staff consultancies, guidance on national consultant costs can also be obtained from COSO, but it is worthwhile to check with sources with local knowledge such as the EA and the resident mission. The costs used in recent TA activities are also a good source of information. National consultants generally receive per diems only during fieldwork, but in some cases, if they will need to change their residence temporarily, they may also qualify for per diem. For example, a national consultant who is normally a resident of Ho Chi Minh City in Viet Nam may be eligible for a per diem if moving to Ha Noi for the consultancy assignment. Since there is no way of knowing this when preparing the TA, it is best to err on the side of prudence when estimating local per diems and to ensure that sufficient funds are budgeted for them.

3. Estimating International and Local Travel

86. Adequate funds should be budgeted for international travel to allow firms from all ADB member countries the opportunity to participate equitably in the proposal. This means airfare estimates should be sufficient to allow companies farthest from the project site to cover airfares without drawing from other budget items. COSO now advises the use of one standard airfare for international travel. ADB staff can refer to COSO for the latest recommended rates. EAs and consultants preparing projects can request these rates from the project officer concerned. Care should be taken in determining the number of international flights, since, in many cases, one per expert will not be enough. The staffing schedule should be consulted, and care should be taken to ensure that sufficient international flights are budgeted to allow consultants to return for key activities such as attendance at midterm or wrap-up workshops.

87. The amount of funds budgeted for local travel depends very much on the situation of the particular consultancy. Besides local airfares, in some cases it may be considered more efficient to provide funds for vehicle purchase and in others for vehicle rental. Both have their advantages, depending on the nature of the work to be carried out, the amount of time involved, and the number of personnel involved. Typically, importing vehicles may take time; thus, for cases in which time is a constraint (such as ADTA and, particularly, PPTA as well as staff consultancies) the provision of funds for car rentals, as well as internal airfares is generally more appropriate than vehicle purchase. On the other hand, upon completion of the consulting services contract, equipment and vehicles are handed over to the EA, which may be an important consideration in some cases.

4. Estimating Other Costs

88. Other costs associated with the consultancy (e.g., report preparation, equipment, field surveys, interpreters and translators, workshops, communications, and miscellaneous support costs) will vary with the particular consultancy. If there is any doubt, it is best to consult previous TA papers or RRP for similar projects in the same country prior to finalizing costs. It is critical that sufficient funds be budgeted so that the consulting team can have the full support it needs; otherwise, the work and the output will suffer. Three special items need mentioning:

- ❑ For ADTA and PPTA, \$5,000 or so is normally budgeted to allow the attendance of an observer from the EA during contract negotiations.
- ❑ Contingencies for ADTA, PPTA, and RETA operations are normally estimated at 10%. As previously noted, contingencies for loan projects will be calculated separately for the whole project.
- ❑ For ADTA and PPTA, a minimum contribution by the government or TA recipient is normally expected. In 2007, this was at least 15% of the total TA cost for group A DMCs, 20% for groups B1 and B2, and 30% for group C.¹⁷ Guidelines and updates on this can be found in Section D12/BP of the *Operations Manual*. This contribution is usually made in kind through the provision of staff, translators, office space, and in-country transport.

¹⁷ ADB classifies its DMCs into four groups depending on their eligibility to borrow from the Asian Development Fund (ADF) and ordinary capital resources (OCR). These groups are (i) ADF only (Group A), (ii) ADF with limited amounts of OCR (Group B1), (iii) OCR with limited amounts of ADF (Group B2), and (iv) OCR only (Group C).

5. A Check with Reality

89. Once the cost estimates for the consulting services and their support are prepared, a check with reality is needed. Ideally, budgeting for consultancy services should be based on a bottom-up process, and funding should be adjusted to accommodate the perceived and costed needs for expertise and support. However, this is not always possible. If the consultancy is for a loan, the amount proposed may not be acceptable to the government. If, for example, the estimated consulting package will cost 20% of the total loan amount, there may be some resistance. Many governments set a ceiling on the portion of the loan amount that may be allocated to consultancy and training versus physical investment—usually 5% or 10% of the total loan amount. If, on the other hand, the consultancy is for ADTA, PPTA, or RETA, the cost will normally have to be kept within the TA budget provided in the CPS. In many cases, the original estimate will exceed this amount, since costs tend to expand as more and more items that were not originally considered are added into the cost table. Every effort should be made to ensure that the funds available are sufficient to implement the consulting assignment properly.

90. If the allocation of additional funds does not seem likely, adjustments may have to be made to the cost estimates. Normally, the first place to look for savings is in the support costs. Ultimately, however, adjustments may have to be made not only in the support costs but also in the time inputs of the experts themselves. This must be done carefully. At what point will reducing the support costs diminish the effectiveness of the consulting team? At what point would reducing the inputs of the consultants result in not achieving the desired output? One common place to look for savings is in the number of person-months of international expertise. These are usually the most expensive item on a unit cost basis and may be substituted with national expertise up to a certain point. Again, the question arises: How much will the substitution of international expertise by national expertise affect the quality of the TA or project implementation results? A balance of all three measures—reduced support costs, reduced international expertise inputs, and substitution of national expertise for international expertise—will often resolve any underbudgeting during TA identification. If not, serious consideration will need to be given to insisting on additional funds for the consultancy or to lowering the expectations of what can be achieved with the funds available.

Self-Study Questionnaire – Chapter III

1. **Q.** What is the difference in the presentation of consulting services costs between loan-funded consulting services and TA grant-funded consulting services?
A. In cost presentations for loan-funded consulting services, the costs are shown as part of the overall project cost. Consultants' remuneration is thus normally shown as a line item, separate from support costs such as transport, office equipment, and—even in some cases—per diems. By contrast, under the standard TA Cost Estimates and Financing Plan, all costs are shown for the TA as well as for the government's counterpart contribution.
2. **Q.** Why is it important to know this?
A. When preparing an RFP for loan-funded consulting services, especially the data sheet, all costs should be included. For loan-funded consulting services, this means provision should be made for support costs as well as for remuneration in the cost estimates.
3. **Q.** What is the difference between the way contingencies are handled in costing loan-funded consulting services and TA grant-funded consulting services?
A. For loan-funded consulting services, a large contingency normally covers the whole project cost, which can be used for consulting services if necessary. For TA grant-funded consulting services, contingency costs are limited to about 10% of the TA cost. This means that costings for TA grant-funded consulting services need to be much more precise.
4. **Q.** Why is it helpful to use the TA Cost Estimates and Financing Plan table for costing all types of consulting services from staff consultants to loan-funded consultants?
A. Because of its comprehensive nature.
5. **Q.** What is the largest single-cost item for consulting services?
A. Remuneration and per diem of international experts.
6. **Q.** How is it calculated?
A. Based on the staffing schedule, the time input in person-months for each expert is multiplied by the standard monthly rate for each type of expertise. The time inputs for all experts are then totaled. The days spent in the field and home office for each expert are then calculated, and these are totaled. The two totals are then added together. A separate exercise is normally done for national experts.