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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-seventh Meeting
Bangkok, 16-20 July 2012

**OPTIONS FOR AN ADMINISTRATIVE COST REGIME FOR THE 2012-2014 TRIENNIUM
(DECISIONS 65/18 AND 66/17)**

Background

1. At its 64th meeting, the Executive Committee requested the Fund Secretariat, in the context of progress reporting, to “consider in the context of its review of administrative costs to be submitted to the 65th meeting pursuant to decision 62/25(c): a. whether the current administrative cost regime continued to be appropriate in light of the changing roles and portfolios of implementing agencies; b. options for ensuring that the overall administrative cost ratio remained within the historical average or lower” (decision 64/6(c)(iii)).

2. At its 65th meeting, the Executive Committee decided to request “(c)(i) The implementing agencies to consider the options in document UNEP/OzL.Pro/ExCom/65/20 and other possible options for an administrative cost regime for 2012-2014 and to report thereon to the Fund Secretariat; (c)(ii) The Fund Secretariat, taking into account the input provided by the implementing agencies as per sub-paragraph (c)(i) above, to provide a further assessment of administrative costs for the 2012-2014 triennium to the 66th meeting, including options that were discussed during the 65th meeting” and “(d) At its 66th meeting, to consider further requesting the implementing agencies to provide an estimation of the use of administrative costs for reporting, project implementation and internal requirements” (decision 65/18). The Committee also approved the 2012 core unit budget at a rate of increase over 2011 levels of 0.7 per cent for UNDP and UNIDO and 0.68 per cent for the World Bank.

3. At its 66th meeting, the Committee decided “to reconsider administrative costs at its 67th meeting, including the options in document UNEP/OzL.Pro/ExCom/66/19 and options discussed by the contact group at the 66th meeting; to apply the existing administrative cost regime to the first tranche of agreements approved at the 66th meeting and to reconsider the agency fee for subsequent tranches at the 67th meeting; to maintain the existing administrative cost regime for UNEP; and to continue discussion at the 68th meeting on the possible need for terms of reference for the assessment of the administrative cost regime for the 2015-2017 triennium and how to modify the terms of reference in the light of the previous terms of reference” (decision 66/17).

Administrative cost options

4. The two new options discussed at the 66th meeting along with those that were presented in the Secretariat’s document to that meeting (UNEP/OzL.Pro/ExCom/66/19) were updated based on the modifications approved in the 2012-2014 business plan and the projects approved at the 66th meeting. Those options along with the existing administrative cost regime are defined in Table 1.

Table 1

ADMINISTRATIVE COST OPTIONS FOR UNDP, UNIDO AND THE WORLD BANK FOR THE 2012-2014 TRIENNIUM (US \$)

Convener Proposal	Below \$250,000: 9%;			
	\$250,001-\$5,000,000: 7.5%;			
	\$5,000,001-\$10,000,000 - 7%;			
	Above \$10,000,000 - 6.5%;			
	Production sector - 6.5%;			
	Core unit costs - 0.7%.			

Secretariat Proposal	Below \$250,000: 9%;			
	\$250,001-\$5,000,000: 7.5%;			
	A minimum fee of 7% for projects above US \$5,000,001;			
	Core Units costs to grow at a rate of up to 0.7% per year;			
	Production sector - 6.5%.			
Status quo for UNDP, UNIDO, and World Bank	Up to 3% increase in core unit costs;			
	Below \$250,000: 9%;			
	7.5% for \$250,000 and above;			
	9% below \$250,000			
Australian proposal	Below \$250,000: 9%;			
	\$250,001-\$5,000,000: 7.5%;			
	\$5,000,001-\$20,000,000: 7%;			
	\$20,000,001-\$50,000,000: 6.5%;			
	More than \$50,000,000: 6%			
Agency	Proposal 1	Proposal 2	Proposal 3	Proposal 4
UNDP	Australian proposal	Australian proposal		
	7% fee minimum to new BP figures for 2012-2014 total values instead of total agreement	7% fee minimum for all HPMPs and core unit with 0.7% increase		
UNEP	Status quo for UNEP only: 13% to \$500,000, 11% to \$5 million, above negotiated; no fee on INS, up to 3% increase in CAP			
UNIDO	Below \$500,000: 9%;	Below \$500,000: 9%;	Below \$250,000: 9%;	Status quo and core unit with 0.7% increase
	\$500,001-\$5,000,000: 7.5%;	\$500,001 and above: 7%;	\$250,001 and above: 7%;	
	\$500,000,001 and up: 7%	Remaining tranches for China: 7%	Remaining tranches for China: 7%	
World Bank	Below \$250,000: 9%;			
	\$250,001-\$10,000,000: 7.5%;			
	\$10,000,001-\$30,000,000: 7%;			
	\$30,000,001 and up: 6.5%			

Note (1): 7.5 per cent for IS for UNDP, UNIDO, and the World Bank and 7.5 per cent for project preparation.

Note (2): UNEP is assumed to be under existing regime (decision 26/41) per decision 66/17(d).

Note (3): All options assume the status quo for bilateral agencies.

Note (4): Growth in core unit and CAP costs is assumed to increase at up to 3 per cent except for UNDP proposal 2, UNIDO proposal 4, Secretariat proposal and Convener proposal for core unit cost growth.

Note (5): No existing MYA agency fee arrangements approved to-date are changed.

Note (6): Agreements approved at the 66th meeting are assumed for future tranches, but any new decision will apply to agreements approved at the 66th meeting for these future tranches.

5. The administrative cost assessment in Annex I presents the average annual income for the 2012-2014 triennium. It shows by agency the results of the assessment in terms of an estimated value for administrative costs including core unit costs where applicable and the resulting ratios of administrative costs on project costs for comparison to the historical average. There is no impact of over-budgeting scenario since the business plan was adjusted to remain within the replenishment level for the 2012-2014 triennium. There are no scenarios for alternative production sector costs since the modified budget allocates US \$79 million for the HCFC production sector and the two new scenarios are provided on the

basis of a 6.5 per cent agency fee for HCFC production sector activities amounting to US \$5,135,000 for the 2012-2014 triennium.

Observations

6. The flat fee of 11.24 per cent for each agency is the only option that would result in achieving the historical average. The flat fee would however provide more funds to UNEP and the World Bank than they have requested in their proposals and is not recommended.

7. The proposals for a 6 per cent agency fee for Chinese projects, with a 3 per cent lower core unit costs than that in 2011, is the option that is closest to achieving the historical average as it results in 11.35 per cent. The next lowest agency fee results from the Australian and the Convener's proposals that both result in an overall average of 11.55 per cent. However, UNDP could not participate in high-value projects since such projects under all of these options have rates below 7 per cent and its agency's rules do not allow its participation in projects with agency fees below 7 per cent.

8. The Secretariat's option presented to the 66th meeting would result in an overall agency fee of 11.71 per cent and would allow UNDP to participate in all projects including those where it is lead agency (e.g. China and India). UNDP and UNIDO have reviewed Annex I and concurred with the analysis. UNIDO indicated its support for the Secretariat's option. The Secretariat also provided Annex I to the World Bank for comment. No comment has been received as of finalizing this document.

RECOMMENDATIONS

9. The Executive Committee may wish to:

- (a) Note the information on the assessment of options for an administrative cost regime for the 2012-2014 triennium as contained in document UNEP/OzL.Pro/ExCom/67/17; and
- (b) Consider which of the administrative cost options listed in Table 1 of document UNEP/OzL.Pro/ExCom/67/17 be adopted for the 2012-2014 triennium excluding the 66th meeting approvals for UNDP, UNIDO and the World Bank.

Annex I

ASSESSMENT OF ADMINISTRATIVE COST OPTIONS

Agency	Historical Average 1991-2011	As per Business Plan						Australia Proposal	UNDP		UNIDO proposal				World Bank proposal	Secretariat Proposal	Convenor Proposal
		2012-2014 with status quo (UNEP proposal)	Proposed 2012-2014 based on status quo, China 6% support costs and core unit for 2012-2014 3% lower than 2011	Proposed 2012-2014 based on status quo, China 6% and core unit 3% increase	Flat fee at 11.24% (no core units)	Proposed 2012-2014 based on status quo, China 6.75% and core unit 3% increase	Proposed 2012-2014 based on status quo, China 7.25% and core unit zero growth		Proposal 1	Proposal 2	Proposal 1	Proposal 2	Proposal 3	Proposal 4			
Annual income for administrative activities (US dollars)																	
UNDP	3,807,979	4,480,998	4,157,638	4,338,648	3,508,380	4,409,823	4,335,800	4,309,413	4,404,313	4,310,753	4,407,397	4,404,876	4,400,763	4,387,439	4,356,863	4,310,753	4,263,303
UNEP	832,663	1,403,246	1,403,246	1,403,246	2,114,925	1,403,246	1,403,246	1,286,183	1,286,183	1,286,183	1,286,183	1,286,183	1,286,183	1,403,246	1,286,183	1,286,183	1,286,183
UNIDO	4,082,422	4,561,681	4,163,931	4,344,941	3,651,382	4,453,311	4,404,084	4,314,358	4,458,851	4,365,292	4,467,141	4,445,977	4,434,924	4,468,121	4,386,604	4,365,292	4,279,291
World Bank	4,549,899	5,075,167	4,433,613	4,590,916	4,783,821	4,833,042	4,888,895	4,530,200	4,883,392	4,802,087	4,883,392	4,883,392	4,883,392	4,993,861	4,721,975	4,679,321	4,610,311
TOTAL (including bilateral)	13,432,721	16,156,132	14,793,468	15,312,791	14,644,806	15,734,462	15,667,066	15,049,599	15,642,185	15,373,761	15,653,560	15,629,874	15,614,708	15,887,708	15,361,071	15,250,995	15,048,535
Percentage of approvals																	
UNDP	13.52%	14.36%	13.32%	13.90%	11.24%	14.13%	13.89%	13.81%	14.11%	13.81%	14.12%	14.11%	14.10%	14.06%	13.96%	13.81%	13.66%
UNEP	8.97%	7.46%	7.46%	7.46%	11.24%	7.46%	7.46%	6.84%	6.84%	6.84%	6.84%	6.84%	6.84%	7.46%	6.84%	6.84%	6.84%
UNIDO	12.60%	14.04%	12.82%	13.37%	11.24%	13.71%	13.56%	13.28%	13.73%	13.44%	13.75%	13.69%	13.65%	13.75%	13.50%	13.44%	13.17%
World Bank	9.75%	11.92%	10.42%	10.79%	11.24%	11.36%	11.49%	10.64%	11.47%	11.28%	11.47%	11.47%	11.47%	11.73%	11.09%	10.99%	10.83%
TOTAL (including bilateral)	11.24%	12.40%	11.35%	11.75%	11.24%	12.08%	12.02%	11.55%	12.01%	11.80%	12.01%	12.00%	11.98%	12.19%	11.79%	11.71%	11.55%
