



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/77/33
3 November 2016



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-seventh Meeting
Montreal, 28 November - 2 December 2016

2017 CORE UNIT COSTS FOR UNDP, UNIDO AND THE WORLD BANK

Background

1. This document assesses the 2017 core unit costs requests and administrative cost¹ requirements from UNDP, UNIDO and the World Bank, provides an assessment of the extent to which resources available for total administrative costs in 2017 could cover expected 2017 costs, and status of implementation of the administrative cost study, and concludes with the recommendations of the Secretariat.
2. In line with decisions 67/15(b) and 73/62(b), the Executive Committee approved the requests for core unit funding for 2016: US \$2,040,715 for UNDP, US \$2,040,715 for UNIDO and US \$1,725,000 for the World Bank (decision 75/39(b)).

¹ The allocation of administrative costs for UNDP, UNIDO, and the World Bank was changed in November 1998 (decision 26/41) from a flat rate of 13 per cent applied to all projects to a graduated scale. The costs were changed again in December 2002 to a lower scale that included a core unit grant of US \$1.5 million per agency (decision 38/68). Annual increases have occurred for most agencies since the 46th meeting. Decision 41/94(d) requested the Secretariat to conduct an annual review of the current administrative costs regime. Decision 56/41 extended the operation of decision 38/68 and its administrative costs regime to apply to the 2009-2011 triennium. At its 67th meeting, the Committee decided to apply a new administrative cost regime for the 2012-2014 triennium to UNDP, UNIDO and the World Bank, consisting of annual core unit funding for which an annual increase of up to 0.7 per cent could be considered subject to annual review, and to apply the following agency fees on the basis of funding per agency: an agency fee of 7 per cent for projects with a project cost above US \$250,000, as well as institutional strengthening projects and project preparation; an agency fee of 9 per cent for projects with a project cost at or below US \$250,000; an agency fee no greater than 6.5 per cent, to be determined on a case-by-case basis for projects in the production sector (decision 67/15(b)). At its 73rd meeting, the Executive Committee decided to apply the existing administrative cost regime for the bilateral and implementing agencies during the 2015-2017 triennium; to review the administrative cost regime and its core unit funding budget at the first meeting of 2017; and to request that the terms of reference for that review be submitted to the Executive Committee for its consideration at its last meeting of 2015 (decision 73/62(b)-(d)).

3. The implementing agencies have provided actual core and administrative costs for 2015, estimated costs for 2016, and proposed budget for 2017 as well as the other information required by decision 56/41.

UNDP

4. Table 1 presents the core unit budget and other information on administrative costs provided by UNDP.

Table 1: The core unit budget data and other administrative costs for the years 2011-2017 for UNDP (US \$)

Cost item	2011	2012	2013	2014	2015	2016		2017
	Actual	Actual	Actual	Actual	Actual	Budget	Estimated	Proposed
Core components								
Core unit personnel and contractual staff	1,912,090	2,171,918	2,076,816	2,050,914	1,991,859	2,175,815	2,051,615	2,113,164
Travel	276,818	261,674	249,131	163,639	168,418	173,604	173,470	178,674
Space (rent and common costs)	103,991	104,805	101,236	105,219	109,380	116,004	114,849	120,592
Equipment supplies and other costs (computers, supplies, etc.)	28,285	25,052	17,781	16,967	19,442	22,000	20,000	22,000
Contractual services (firms)	0		18,461	22,955	16,175	28,000	25,000	28,000
Reimbursement of central services for core unit staff	389,935	258,332	384,704	311,137	317,160	350,000	350,000	350,000
Adjustment (travel & central services & international consultants) charge against supervisory budget*	-740,353	-837,220	-849,676	-658,389	-595,905	-824,708	-694,220	-757,430
Total core unit cost	1,970,766	1,984,561	1,998,453	2,012,442	2,026,529	2,040,715	2,040,715	2,055,000
Reimbursement of country offices & national execution including overhead	1,961,063	1,828,279	2,442,896	1,694,992	1,775,969	1,925,000	1,925,000	1,925,000
Executing agency support cost (internal) including overhead	27,975	612	0	0	0	0	0	0
Financial intermediaries including overhead	67,142	0	0	0	0	0	0	0
Cost recovery	389,935	258,332	384,704	311,137	317,160	350,000	350,000	350,000
Adjustment (travel and central services & international consultants)*	740,353	837,220	849,676	658,389	595,905	824,708	694,220	757,430
Total administrative support costs	5,157,233	4,909,004	5,675,729	4,676,959	4,715,563	5,140,423	5,009,935	5,087,430
Supervisory costs incurred by MPU	49,250	47,028	47,801	53,814	56,970	75,000	75,000	75,000
Grand total administrative support costs	5,206,483	4,956,032	5,723,531	4,730,773	4,772,532	5,215,423	5,084,935	5,162,430

*The cost of the core unit is higher than the allowed subtotal of US \$1,970,766 in 2011, US \$1,984,561 in 2012, US \$1,998,453 in 2013, US \$2,012,442 in 2014, US \$2,026,530 in 2015, and US \$2,040,715 in 2016. An adjustment line and a negative adjustment were therefore introduced to arrive at the required ceiling. A corresponding positive adjustment is also provided to ensure that the total costs incurred for administrative costs also reflect the amount exceeded by the agency.

Core unit costs

5. UNDP's request of US \$2,055,000 for its 2017 core unit budget represents a 0.7 per cent increase in the budget approved for 2016 which is allowed by decision 73/62(b). This level of funding is being requested despite the fact that UNDP expects the costs of its core unit to exceed this amount by US \$757,430 (indicated as "Adjustment" in Table 1, above). UNDP has normally exceeded its budget allocation for its core unit and recouped those costs from support costs earned through implementing Multilateral Fund projects. The level by which it exceeded its costs has ranged from US \$658,389 to US \$849,676 between 2012 and 2016, and is expected to increase by 9 per cent from 2016 to 2017. As there is no subsidy from UNDP for Montreal Protocol activities and no other sources of income for its core unit costs, these funds are made available from realized agency fees. UNDP has indicated that part of

its core unit staff functions is related to the administering of projects, but UNDP does not pro-rate such activities from its core unit costs thereby requiring the adjustment. This issue is being addressed in the review of the administrative cost regime and its core unit funding budget, which will be submitted to the first meeting of the Executive Committee in 2017, agreed in decision 75/69(b).

6. Seventy-five per cent of UNDP's proposed core unit budget is for salaries for staff. Reimbursement of central services represents the next largest cost item amounting to 12 per cent, followed by 6 per cent for travel and 4 per cent for space rental.

7. The proposed travel budget (US \$178,674) is a 3 per cent increase from the estimated costs for 2016 (US \$173,470) as well as a 6 per cent increase over the actual 2015 costs (US \$168,418). These travel budgets are however at the lower end of the range of costs since 2011 (US \$163,639 to US \$276,818). Other costs (space, equipment and contractual services) are budgeted at near or the same levels as the estimated costs for 2016.

Total administrative costs

8. UNDP expects administrative costs to amount to US \$5,162,430 in 2017, slightly above the estimated 2016 costs of US \$5,084,935.

9. The level of funding for reimbursement of country office and national execution is expected to remain the same in 2016 (US \$1,925,000). This is also within the range of costs since 2011 (US \$1,694,992 to US \$2,442,896).

10. Supervisory costs representing operating costs incurred at regional locations are estimated for 2017 at the same level as 2016 (US \$75,000). These costs are not covered by central services and have to be cost shared by the offices that have staff at those locations.

11. The expected resources available to UNDP for administrative costs include both the core unit costs and the agency fees released on the basis of a disbursement against a project cost plus any balance of income for administrative costs not previously used. Table 2 presents this information for the years 2009 to 2016. The table assumes that approved funds are disbursed, therefore there may be a time lag before UNDP has access to all of the approved funds.

Table 2: Assessment of availability of income for future administrative costs for UNDP (US \$)

UNDP	2009	2010	2011	2012	2013	2014	2015	2016*
Net support costs plus core unit costs	2,927,152	3,466,686	6,289,628	4,502,930	4,514,301	3,664,422	4,513,939	7,636,391
Total administrative cost	5,008,991	3,893,025	5,206,483	4,956,032	5,723,531	4,730,773	4,772,532	5,084,935
Balance per year	-2,081,839	-426,339	1,083,145	-453,102	-1,209,230	-1,066,351	-258,593	2,551,456
Running balance**	2,551,863	2,125,524	3,208,669	2,755,567	1,546,337	479,986	221,393	2,772,849

* Including support costs approved at the 76th meeting, and the value of agency fees and core unit costs from submissions to the 77th meeting.

** Excludes any balance from years prior to 2002.

12. The table shows that UNDP could have an accumulated balance of US \$2,772,849 at the end of the year. UNDP would have to generate at least US \$2,389,581 in agency fees and core unit costs in 2017 to cover its expected total 2017 administrative costs of US \$5,162,430. It should be noted that UNDP only has access to these agency fees when there are accompanying project expenditures, so a balance should be higher than required.

UNIDO

13. Table 3 presents the core unit budget and administrative costs provided by UNIDO. The figures listed as “actual” are based on a model prepared by UNIDO to estimate the support cost of the Montreal Protocol unit.

Table 3: The core unit budget data and other administrative costs for the years 2011-2017 for UNIDO (US \$)

Cost items	2011	2012	2013	2014	2015	2016		2017
	Actual	Actual	Actual	Actual	Actual	Budget	Estimated	Proposed
Core components								
Core unit personnel and contractual staff and Expert Group Meeting	1,390,300	1,550,900	1,445,700	1,380,600	1,293,800	1,259,500	1,332,300	1,337,300
Travel	139,700	175,100	284,000	161,800	147,700	228,700	134,200	164,800
Space (rent and common costs)	90,600	89,300	99,400	71,800	75,400	79,300	81,700	87,400
Equipment supplies and other costs (computers, supplies, etc.)	54,100	30,900	51,800	41,100	52,600	55,300	36,100	59,600
Contractual services (firms)	200	700	700	2,000	17,500	57,300	17,600	51,300
Reimbursement of central services for core unit staff	510,400	414,200	498,800	454,200	447,300	445,700	446,900	495,900
Adjustment*	-214,534	-276,539	-381,947	-99,058	-7,771	-85,085	-8,085	-141,300
Total core unit cost	1,970,766	1,984,561	1,998,453	2,012,442	2,026,529	2,040,715	2,040,715	2,055,000
Reimbursement of country offices and national execution, including overhead	2,857,600	1,818,300	3,602,000	1,814,900	1,327,500	1,434,400	1,115,800	1,137,700
Executing agency support cost (internal), including overhead	2,226,400	2,900,900	3,302,800	2,913,500	2,289,600	2,859,700	2,658,200	3,583,900
Adjustment*	214,534	276,539	381,947	99,058	7,771	85,085	8,085	141,300
Total administrative support costs	7,269,300	6,980,300	9,285,200	6,839,900	5,651,400	6,419,900	5,822,800	6,917,900
Minus project-related costs	-1,779,869	-1,798,710	-2,464,200	-2,308,000	-977,800	-2,224,300	-1,155,300	-1,426,900
Net total administrative support costs	5,489,431	5,181,590	6,821,000	4,531,900	4,673,600	4,195,600	4,667,500	5,491,000

*The cost of the core unit is higher than the allowed subtotal of US \$1,970,766 in 2011, US \$1,984,561 in 2012, US \$1,998,453 in 2013, US \$2,012,442 in 2014, US \$2,026,530 in 2015, and US \$2,040,715 in 2016. An adjustment line and a negative adjustment were therefore introduced to arrive at the required ceiling. A corresponding positive adjustment is also provided to ensure that the total costs incurred for administrative costs also reflect the amount exceeded by the agency.

Core unit cost

14. UNIDO’s request of US \$2,055,000 for its 2017 core unit budget represents a 0.7 per cent increase in the budget approved for 2016 which is allowed by decision 73/62(b). This level of funding is being requested despite the fact that UNIDO expects the costs of its core unit to exceed this amount by US \$141,300 (indicated as “Adjustment” in Table 3, above). UNIDO exceeded its 2011 budget by US \$214,534; its 2012 budget by US \$276,539; its 2013 budget by US \$381,947, its 2014 budget by US \$99,058, and its 2015 budget by US \$7,771. It is estimating that it will exceed its 2016 budget by US \$8,805.

15. Sixty per cent of UNIDO’s proposed core unit budget is for salaries of 9.6 staff members. In 2014, the staff budget was 67 per cent of the overall budget, ranging from 60 to 69 per cent since 2011; however, the staff size proposed for 2017 is the same as 2015 and 2016.

16. The contractual services budget for 2017, which is established by its governing body, is almost three times as much as was used in 2015 and estimated for 2016. The cost for a component of this budget by the governing body is for staff development that is not charged to the Montreal Protocol Unit thereby reflecting the lower actual cost.

17. The proposed travel cost budget (US \$164,800) is substantially less than budgeted for 2015 but more than estimated for 2016. It is, however, within the range of travel costs incurred since 2011 (US \$139,700 to US \$284,000).

18. The central services budget item represents the next largest cost item, amounting to 22.6 per cent of the budget, followed by 7.5 per cent for travel and 4 per cent for space rental.

19. UNIDO indicated that the cost for space rent, equipment and reimbursement of central services are allocated on the basis of the number of staff associated with the Montreal Protocol unit.

Total administrative costs

20. Total net administrative costs are proposed at US \$5,491,000 for 2017, which is substantially higher than the estimated 2016 costs of US \$4,667,500 but in the range of costs between 2011 and 2016 (from US \$4,531,900 to US \$6,821,000). UNIDO has indicated that some of the costs associated with non-core unit costs are project-related costs. Therefore, UNIDO provided an adjustment to deduct such costs to arrive at a comparable figure with other agencies' administrative costs.

21. The reimbursement of country offices was budgeted at US \$1,137,700 for 2017. This is comparable to the estimated costs from 2016 (US \$1,115,800) but lower than previous years (e.g., US \$1,327,500 in 2015; US \$1,814,900 in 2014; US \$3,602,000 in 2013).

22. By contrast, executing agency cost is increasing with a proposed US \$3,583,900 in 2017. These costs have ranged from US \$2,226,400 to US \$3,302,800 for the period 2011 to 2016. Executing agency costs include actual/estimated costs for the Foreign Economic Cooperation Office (FECO) of China for its regular and operational budget allocation for the Montreal Protocol programme. UNIDO indicated that the budget for executing agency was also determined by its governing body but that some of the higher costs are likely due to higher transitional costs that had to be paid for an increased number of contracts handled by the executing agency.

23. Project-related costs appear to have been decreasing as the actual level in 2015, estimated for 2016 and proposed for 2017, are the lowest levels of such activities since 2011. UNIDO indicated that it continues to use the methodology that it has used since 2008 but that the methodology is under review with an expected outcome at the end of 2016.

24. The expected resources available from the Multilateral Fund to UNIDO for administrative costs include both the core unit costs and the agency fees released on the basis of a disbursement against a project cost plus any balance of income for administrative costs not previously used. Table 4 presents this information for the years 2009 to 2016. The table assumes that approved funds are disbursed, therefore there may be a time lag before UNIDO has access to all of the approved funds.

Table 4: Assessment of availability of income for future administrative costs for UNIDO (US \$)

UNIDO	2009	2010	2011	2012	2013	2014	2015	2016*
Net support costs plus core unit costs	3,081,922	5,517,372	7,769,190	4,475,035	4,227,730	4,035,521	4,783,117	5,987,989
Total administrative cost excluding project-related costs	5,739,690	4,997,692	5,489,431	5,181,590	6,821,000	4,531,900	4,673,600	4,667,500
Balance per year	-2,657,768	519,680	2,279,759	-706,555	-2,593,270	-496,379	109,517	1,320,489
Running balance	-829,525	-309,845	1,969,914	1,263,359	-1,329,911	-1,826,290	-1,716,773	-396,284

* Including support costs approved at the 76th meeting, and the value of agency fees and core unit costs from submissions to the 77th meeting.

** The Secretariat had estimated a running balance in 2007 since 2002 of US \$2,127,930, but UNIDO's balance of US \$1,828,243 is used instead of the Secretariat's calculation.

25. The table shows that UNIDO could have a negative accumulated balance at the end of the year. UNIDO would have to generate at least US \$5,887,284 in agency fees and core unit costs in 2017 to cover total 2017 administrative costs of US \$5.5 million.

World Bank

26. Table 5 presents the core unit budget and other information on administrative costs provided by the World Bank.

Table 5: The core unit budget data and other administrative costs for the years 2011-2017 for the World Bank (US \$)

Cost items	2011	2012	2013	2014	2015	2016		2017
	Actual	Actual	Actual	Actual	Actual	Budget	Estimated	Proposed
Core components								
Core unit personnel and contractual staff	867,586	1,184,796	984,571	1,022,179	827,111	1,189,000	1,073,000	1,110,000
Travel	183,893	205,425	111,021	155,778	205,498	235,000	265,000	250,000
Space (rent and common costs)	47,232	55,607	56,906	44,130	434	54,000	1,500	2,000
Equipment supplies and other costs (computers, supplies, etc.)	52,953	92,303	31,169	55,508	19,618	59,000	45,000	50,000
Contractual services (firms)	47,491	25,769	13,389	14,828	49,989	48,000	70,000	95,000
Reimbursement of central services for core unit staff	123,160	156,762	113,539	90,624	210,909	140,000	215,000	218,000
Adjustment (travel & central services & international consultants) charge against supervisory budget	0	0	0	0	0	0	0	0
Total core unit cost	1,322,315	1,720,663	1,310,595	1,383,047	1,313,559	1,725,000	1,669,500	1,725,000
Return of funds	-390,684	-3,981	-414,405	-341,953	-411,441		-55,500	
Reimbursement of country offices & national execution including overhead	1,725,528	1,829,418	1,611,939	1,298,103	1,210,733	1,627,400	1,589,600	1,640,000
Executing agency support cost (internal) including overhead	0	0	0	0	0	0	0	0
Financial intermediaries including overhead	160,777	121,740	10,000	0	0	0	0	0
Cost recovery	0	0	0	0	0	0	0	0
Adjustment (travel and central services & international consultants)	0	0	0	0	0	0	0	0
Supervisory costs incurred by MPU	0	0	0	0	0	0	0	0
Grand total administrative support costs	2,817,936	3,667,840	2,518,129	2,339,197	2,524,292	3,352,400	3,173,600	3,365,000

Core unit costs

27. The World Bank's request of US \$1,725,000 for its 2017 core unit budget represents a zero per cent increase in the budgets approved since 2013. Unlike UNDP and UNIDO, the World Bank does not

expect its core unit costs to exceed its budget, and it is not subsidized by revenue from agency fees or the general fund of the World Bank.

28. Sixty-four per cent of the World Bank's proposed core unit budget is for salaries for staff. The travel budget represents the next largest cost item, amounting to 14 per cent, followed by central services (13 per cent), contractual services (6 per cent) and equipment (3 per cent).

29. The proposed budget for staff (US \$1,100,000) reflects the estimated cost for 2016 (US \$1,073,000) but is higher than the actual costs in 2015 (US \$827,111). The World Bank indicated that it has the same staff component as last year (eight professional staff and two support staff). Staff averaged 40 per cent of their time in 2015 on Montreal Protocol activities. One support staff post is currently vacant. Since the World Bank uses cost-accounting, only those costs for Multilateral Fund activities will be charged to the core unit budget with the balance returned to the Fund.

30. The World Bank's proposed travel costs (US \$250,000) are slightly lower than those estimated for 2016 (US \$265,000) but higher than the actual costs in 2015 (US \$205,498) and all previous years since 2011.

31. Reimbursement of central services is budgeted at almost the same level as the estimated costs for 2016. The World Bank indicated that in 2015, this cost was a mixture of the previous approach used whereby various supporting units charged costs (such as legal and trust fund accounting units), and the new approach whereby their support is compensated through the 17 per cent indirect rate or "fee" on each staff and individual consultant. The 17 per cent fee is based on the overall costs for the administration of the World Bank's trust funds over the last two years. The fee will continue to be reassessed every two years.

32. The budget for contractual services in 2017 (US \$95,000) is planned to increase by 35 per cent over the estimated costs of 2016 (US \$70,000) which is highest level of contractual costs since 2011. The World Bank indicated that the increase was planned to address the Kigali Amendment as it expected to require additional outside support to the World Bank to address related challenges and opportunities, analysis and studies related to policy, technology, and other new HFC-related issues that could best enable support to its existing and possibly new country partners.

33. Equipment costs will increase by 11 per cent over estimated costs for 2016. The World Bank indicated that there is a standard rate for computers and other office equipment, maintenance and repair that is applied to all World Bank units.

34. Space rental has been changed as it has been absorbed under the reimbursement of central services item with some minor exceptions as indicated in the actual and estimated costs for 2015 and 2016, respectively.

35. The World Bank will return approximately US \$55,500 from core unit costs from 2016 once actual data is known in 2017. The Executive Committee may wish to note, with appreciation, that the World Bank's core unit operation was again below its budgeted level and that it would be returning unused balances.

Total administrative costs

36. The budget for reimbursement of country offices² proposed for 2017 is expected to increase over estimated costs for 2016 by 6 per cent.

37. Total administrative costs are estimated at US \$3,365,000 in 2017, slightly above the estimated costs in 2016 of US \$3,173,600.

38. The expected resources available to the World Bank for administrative costs include the core unit costs and the agency fees plus any balance of income for administrative costs not previously used. Table 6 presents this information for the years 2009 to 2016.

Table 6: Assessment of availability of income for future administrative costs for the World Bank (US \$)

World Bank	2009	2010	2011	2012	2013	2014	2015	2016*
Net support costs plus core unit costs	3,044,531	1,409,962	5,074,821	2,137,373	4,181,092	3,387,443	5,913,456	2,977,382
Total administrative cost	3,689,780	3,782,549	2,817,936	3,667,840	2,518,129	2,339,197	2,524,292	3,173,600
Balance per year**	-645,249	-2,372,587	2,256,885	-1,530,467	1,662,963	1,048,246	3,389,164	-196,218
Running balance	1,675,150	-697,437	1,559,448	28,981	1,691,944	2,740,190	6,129,354	5,933,136

* Including support costs approved at the 76th meeting, and the value of agency fees and core unit costs from submissions to the 77th meeting.

** Excludes any balance from years prior to 2002.

39. The table shows that the World Bank could accumulate a balance of US \$5,933,136 based on approvals at the 76th meeting and submissions to the 77th meeting. This balance would cover expected administrative costs for 2017 of US \$3,365,000.

Status of implementation of the administrative cost study

40. A questionnaire was developed and discussed in two conference calls with the implementing agencies as well as during the inter-agency coordination meeting (IACM)³. At the IACM, the Secretariat offered additional explanations about the questionnaire, suggested some wording changes and invited agencies to discuss the questionnaire with the consultant to see if other modifications were needed. The Secretariat also indicated how it had advised UNEP addressing two matrices where core unit, implementation and project costs were distributed among associated tasks and different types of approved project funding. The Secretariat emphasized that a key element of the study was the collection of information through the questionnaire as a basis for discussions with the programme and financial staff during the visits to headquarters of the implementing agencies as anticipated in the terms of reference for the study approved at the 75th meeting (decision 75/69(b)).

² For the World Bank, this budget item means the project fees received on approved projects that are channelled to the project teams for project supervision and management. Project teams are mapped to what are known as the “the Regions”, i.e., the World Bank’s operational arm.

³ Montreal, 31 August to 1 September 2016

RECOMMENDATIONS

41. The Executive Committee may wish:

- (a) To note:
 - (i) The report on 2017 core unit costs for UNDP, UNIDO and the World Bank as presented in document UNEP/OzL.Pro/ExCom/77/33;
 - (ii) To note the status of the review of the administrative cost regime and its core unit funding budget per decision 75/69(b);
 - (iii) With appreciation, that the World Bank’s core unit operation was again below its budgeted level and that it would be returning unused balances to the Multilateral Fund at the 78th meeting of the Executive Committee;
- (b) To consider whether to approve the requested core unit budgets:
 - (i) For UNDP for US \$2,055,000 and UNIDO for US \$2,055,000; and
 - (ii) For the World Bank for US \$1,725,000 in the light of any institutional changes resulting from the Executive Committee’s consideration of Issues relevant to the Executive Committee arising from the Twenty-eighth Meeting of the Parties to the Montreal Protocol under agenda item 10 (document UNEP/OzL.Pro/ExCom/77/70) with respect to additional funding for HFC activities.
