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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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ADMINISTRATIVE COSTS AND AGENCY SHARES

1. The issue of resource allocation was discussed at the Executive Committee's 37th Meeting in the context of its consideration of document (UNEP/OzL.Pro/ExCom/37/66 and Corr.1/Rev.1). The document indicated that:

“55. While the fixed shares give the agencies more predictability regarding their support costs, they have the disadvantage of extending the allocated resources over an unnecessary longer periods of time as is the case with most of the methyl bromide projects.

56. This exercise might not be tenable in the next triennium when stricter time frame for project implementation must be followed.

57. There is no immediate formula that could be applied to remedy the defects of the existing arrangements without upsetting the current division of labour.

58. The issue of support cost could be addressed through replacing the current system by providing the agencies with administrative budgets, together with a reduced rate of support costs for individual activities.” (UNEP/OzL.Pro/ExCom/37/66, paras. 55-58)

2. The Executive Committee subsequently requested the Secretariat in collaboration with bilateral agencies and the implementing agencies to assess the feasibility of replacing or changing the current system of project support costs by providing the agencies with administrative budgets together with a reduced rate of support costs for individual activities, and report to the 38th Meeting of the Executive Committee, it being understood that total administration costs would not exceed existing total administrative costs (Decision 37/68c).

Background

3. At its Eighth Meeting in November 1996, the Meeting of the Parties requested that the Executive Committee, over the next three years, to work toward the goal of reducing agency support costs from the current level of 13 per cent to an average of below 10 per cent to make more funds available for other activities (Decision VIII/4). At its 26th Meeting in November 1998, after considering a paper on administrative support costs prepared by the consulting firm Coopers and Lybrand (UNEP/OzL.Pro/ExCom/26/67) the Executive Committee changed the Fund's administrative cost structure from a flat rate of 13 per cent applied to all projects in respective of their size, to a graduated scale based on the size of the project grant, and on a case-by-case basis for projects over US \$5 million (Decision 26/41). As a result of this decision, actual support costs decreased from an average of 12.4% in 1998 to 10.8% in 2001 as shown in Table 1.

Table 1

**ADMINISTRATIVE SUPPORT COSTS RECEIVED BY UNDP, UNIDO AND THE
WORLD BANK
(1998-2001)**

	Funds Approved for Projects and Activities (US dollars) per agency	Approved Support Costs (US dollars)	Percentage of Administrative Support Costs to Funds Approved
Year	1998		
UNDP	32,280,036	4,172,825	12.90%
UNIDO	24,221,110	3,096,698	12.80%
World Bank	40,532,855	4,806,730	11.90%
Total	97,034,001	12,076,254	12.40%
Year	1999		
UNDP	37,392,551	4,772,264	12.80%
UNIDO	35,462,778	4,254,041	12.00%
World Bank	66,197,997	6,798,255	10.30%
Total	139,053,326	15,824,560	11.40%
Year	2000		
UNDP	32,721,019	3,992,071	12.20%
UNIDO	30,883,337	3,639,785	11.80%
World Bank	37,930,079	3,680,450	9.70%
Total	101,534,435	11,312,306	11.10%
Year	2001		
UNDP	36,615,954	4,483,956	12.20%
UNIDO	25,326,439	3,163,286	12.50%
World Bank	55,416,229	5,070,145	9.10%
Total	117,358,622	12,717,387	10.80%
Year	Total (1998 – 2002)		
UNDP	139,009,560	17,421,116	12.50%
UNIDO	115,893,664	14,153,810	12.20%
World Bank	200,077,160	20,355,580	10.20%
Total	454,980,384	51,930,506	11.40%

Proposals for a New Administrative Support Cost Regime

4. The implementing agencies and the Fund Secretariat held a coordination meeting in September 2002 to discuss the preparation of the 2003-2005 phase-out plan of the Multilateral Fund, the current system of fixed agency shares and the associated support costs of the implementing agencies, among other issues. As a result of this discussion, it transpired that a new administrative cost regime that would guarantee the maintenance of the current staffing of the implementing agencies and their core activities and provide sufficient support costs for project implementation on a predictable basis may be warranted. The new regime which is being proposed for a trial period during the 2003-2005 triennium, amounts to US \$1.5 million per year

in additional funds to fund the core unit of each of the three implementing agencies, in addition to agency support cost of 7 per cent to be applied to all project approvals. The Secretariat circulated a first draft of this paper to the implementing agencies and the bilateral cooperating agencies from Australia, Belgium, Canada, Finland, France, Germany, Italy, Japan, Poland, Sweden and United States of America.

5. Table 2 presents the impact the proposed regime would have had on the level of support costs associated with projects approved for the period 1998 through 2001 against the support costs actually approved for the same projects during the years indicated in Table 1 above.

Table 2

**PROPOSED ADMINISTRATIVE SUPPORT COST REGIME AND ITS IMPACT ON
PROJECTS APPROVED FROM 1998 THROUGH 2001**

	Funds Approved for Projects and Activities (US dollars) per agency	Calculated Support Costs (US dollars)	Percentage of Calculated Support Costs to Funds Approved
Year	1998		
UNDP	32,280,036	3,759,603	11.65%
UNIDO	24,221,110	3,201,358	13.22%
World Bank	40,532,855	4,337,300	10.70%
Total	97,034,001	11,298,260	11.64%
Year	1999		
UNDP	37,392,551	4,117,479	11.01%
UNIDO	35,462,778	3,982,394	11.23%
World Bank	66,197,997	6,133,860	9.27%
Total	139,053,326	14,233,733	10.24%
Year	2000		
UNDP	32,721,019	3,790,471	11.58%
UNIDO	30,883,337	3,661,834	11.86%
World Bank	37,930,079	4,155,106	10.95%
Total	101,534,435	11,607,410	11.43%
Year	2001		
UNDP	36,615,954	4,063,117	11.10%
UNIDO	25,326,439	3,272,851	12.92%
World Bank	55,416,229	5,379,136	9.71%
Total	117,358,622	12,715,104	10.83%
Year	Total (1998 - 2001)		
UNDP	139,009,560	15,730,669	11.32%
UNIDO	115,893,664	14,118,436	12.18%
World Bank	200,077,160	20,005,401	10.00%
Total	454,980,384	49,854,507	10.96%

6. This proposal would provide the same overall amount of support costs received by the agencies in 2001 and more support costs than were provided in 2000. Although this alternative would result in US \$2.1 million less in support costs to agencies over the period 1998-2001, it reflects more closely the impact of multiple-year agreements on agency fees, which should continue the trend toward lower support costs and bring the Fund closer to the goal of Decision VIII/4 of reducing support costs to an average below 10 per cent.

7. UNDP and the World Bank considered that a core budget plus 7 per cent on project approvals would not be sufficient for them to continue their existing operations. UNIDO indicated that it would consider the proposed core budget with 7 per cent provided that there would be no separate accounting and reporting on the use of these funds as a fixed total amount that UNIDO would earn. However, UNIDO stated that it felt that a core budget with 8 per cent was justifiable, not only in light of the increasing complexity of the projects but also because the proposed funding of the core unit does not take into consideration the effect of annual inflation.

8. UNDP points out that the proposal of a core budget plus 8 per cent would have resulted in UNDP receiving US \$300,351 less over the period of analysis. A core budget plus 7 per cent would have resulted in UNDP receiving US \$1,690,447 less. UNDP indicated that it felt that the impact was greater on UNDP than the other agencies due to its large portfolio of small projects for LVC, that have received 13 per cent agency fees while other agencies had proportionately more larger projects, several of which would have received less than 13 per cent.

9. The core budget plus 7 per cent would require UNDP to reduce its staff. Moreover, UNDP indicated that agencies should provide policy advice and supervisory services under the Strategic Planning framework. UNDP noted that no similar structure to the UNEP approved CAP programme (and budget level) has been proposed to compensate the other agencies for policy advisory services that will take a substantial amount of its small core unit's staff time during the compliance period.

10. UNIDO and the World Bank indicated that its actual support cost expenditures were higher than 7 per cent over the years.

Implementing Agency Proposal

11. The implementing agencies proposed an alternative administrative cost regime that would provide US \$1.5 million for the core unit plus 8 per cent for all project approvals and that this administrative cost regime should be applied on a trial basis during the next triennium. The implementing agencies' proposal would apply to all project approvals including *inter alia* project preparation, institutional strengthening and country programme preparation. In addition, the implementing agencies' proposal also included a guarantee of a level of income from support costs similar to that they had been receiving. The Secretariat informed the implementing agencies that a guarantee of administrative support costs over and above the US \$1.5 million for the core unit would effectively maintain the existing fixed shares.

12. The implementing agency proposal would have resulted in an overall agency fee amounting to 12 per cent as opposed to the 11.4% actually approved as shown in Table 3.

Table 3

**IMPLEMENTING AGENCY ADMINISTRATIVE SUPPORT COST PROPOSAL AND
ITS IMPACT ON PROJECTS APPROVED FROM 1998 THROUGH 2001**

	Funds Approved for Projects and Activities (US dollars) per agency	Calculated Support Costs (US dollars)	Percentage of Calculated Support Costs to Funds Approved
Year	1998		
UNDP	32,280,036	4,082,403	12.65%
UNIDO	24,221,110	3,444,409	14.22%
World Bank	40,532,855	4,742,628	11.70%
Total	97,034,001	12,269,440	12.64%
Year	1999		
UNDP	37,392,551	4,491,404	12.01%
UNIDO	35,462,778	4,337,022	12.23%
World Bank	66,197,997	6,795,840	10.27%
Total	139,053,326	15,624,266	11.24%
Year	2000		
UNDP	32,721,019	4,117,682	12.58%
UNIDO	30,883,337	3,970,667	12.86%
World Bank	37,930,079	4,534,406	11.95%
Total	101,534,435	12,622,755	12.43%
Year	2001		
UNDP	36,615,954	4,429,276	12.10%
UNIDO	25,326,439	3,526,115	13.92%
World Bank	55,416,229	5,933,298	10.71%
Total	117,358,622	13,888,690	11.83%
Year	Total (1998 - 2001)		
UNDP	139,009,560	17,120,765	12.32%
UNIDO	115,893,664	15,278,213	13.18%
World Bank	200,077,160	22,006,173	11.00%
Total	454,980,384	54,405,151	11.96%

Core Unit Funding

13. Implementing agencies agreed to provide data on the actual support costs spent for the core unit and other support activities in an agreed format corresponding to the data the agencies provided for the Coopers and Lybrand Study that was submitted to the 26th Meeting. Detailed information by cost category is provided in Annex I.

14. Table 4 presents the core unit costs of UNDP, UNIDO and the World Bank and average costs per agency for the period 1997 through 2001.

Table 4

**THE CORE UNIT COSTS OF UNDP, UNIDO AND THE WORLD BANK AND
AVERAGE COSTS PER AGENCY FOR THE PERIOD 1997 THROUGH 2001**

Agency	1997	1998	1999	2000	2001	Total
UNDP	1,067,797	1,437,040	1,416,994	1,523,314	1,578,774	7,023,919
UNIDO	1,256,004	1,271,154	1,337,426	1,433,138	1,495,424	6,793,146
World Bank	1,523,941	1,586,794	1,229,169	1,469,660	1,522,016	7,331,580
TOTAL	3,847,742	4,294,988	3,983,589	4,426,112	4,596,214	21,148,645
Average per Agency	1,282,581	1,431,663	1,327,863	1,475,371	1,532,071	7,049,548

15. Agencies also provided some information about the staffing for the core units. UNDP indicated that its core unit consisted of a unit chief, four professionals and four support staff. UNIDO's core unit consists of four professionals and four support staff. The World Bank's core unit consists of a unit chief, four professionals and three support staff.

16. UNDP indicated that it agreed to a core budget plus 8 per cent distributed as follows: 1 percentage point for central services, 3 percentage points for supervisory functions, and 4 percentage points for its country offices and executing agency services.

Bilateral agencies and UNEP

17. In response to the Secretariat's requested review of a draft of this document, two bilateral agencies requested the impact of this decision on the agency support costs that bilateral agencies receive. The Secretariat noted that since the paper does not address bilateral agencies, Decision 26/41 would continue to be applied. However, it should be noted that the value of a bilateral project is generally below US \$500,000.

18. Concerning UNEP, UNEP has submitted a report on its administrative costs to the 38th Meeting (UNEP/OzL.Pro/ExCom/38/22). The Executive Committee may wish to address UNEP's support costs in that context. Decision 26/41 would continue to be applied to UNEP's activities excepting the CAP, institutional strengthening and country programme preparation. However, it should be noted that like bilateral agencies, a typical UNEP's activity costs less than US \$500,000 and would receive 13 per cent.

Agency shares

19. The current agency shares for investment projects are: 30 per cent for UNDP, 25 per cent for UNIDO and 45 per cent for the World Bank. To a large extent, the Executive Committee has already approved in principle funds for implementing agencies during the next triennium as shown in Table 5 below.

Table 5

**COMMITMENTS FROM MULTIPLE-YEAR AGREEMENTS FOR THE TRIENNIUM
(2003-2005) BY AGENCY
(in US dollars)**

Agency	2003	2004	2005	Total
UNDP*	13,549,668	19,362,763	14,152,210	47,064,641
UNIDO	5,818,863	4,751,137	795,688	11,365,688
IBRD	41,489,596	38,288,537	40,203,382	119,981,515
Total	60,858,127	62,402,437	55,151,280	178,411,844
Percentage of an allocation of US \$150 million per year.	41%	42%	37%	40%

* Including US \$7 million in 2004 and US \$5.7 million in 2005, an undefined amount to be for German implementation.

20. As shown in Table 5, if the Parties agree an annual level of replenishment of US \$150 million, for example, about 40 per cent of the resource for the triennium will have been allocated along with the support costs that would result from these commitments. However, the balance of resources to be approved in the next triennium is to be based on the phase-out needs of Article 5 countries. The compliance needs of Article 5 countries were defined in the compliance-oriented model contained in document UNEP/OzL.Pro/ExCom/37/66 and Corr.1/Rev.1. The model and the status of compliance (UNEP/OzL.Pro/ExCom/37/18 and Corr.1) were adopted as a flexible guide for resource planning for the 2003-2005 triennium (Decision 37/68a).

21. Theoretically, if countries chose one agency for all projects, the other agencies may receive only those amounts of funds that have already been committed. Since fixed agency shares account *inter alia* for the level of administrative support costs an agency receives, any change in this arrangement will impact the level of support cost received by each of the three implementing agencies. Therefore, a new administration cost structure should be considered in order to maintain the expertise developed by the agencies in their core units over the next triennium, and in the same time accommodate the compliance needs of Article 5 countries.

Observations

22. If one of the proposed approaches were to be adopted, the support cost system that was approved may need further examination. For example, since the reporting costs are covered by the core unit allocation, the Executive Committee might consider if agency support costs amounting to 7 or 8 per cent should continue to be applied to project preparation, country programme preparation and institutional strengthening activities. It should be noted that UNEP no longer receives agency support costs on country programme preparation and institutional strengthening projects since the Executive Committee approved a core staffing budget through the CAP. Implementing agencies indicated that their proposal assumed a core budget plus 8 per cent on all project approvals.

23. A review of the actual costs of the core units presented in Annex I indicates some variations in the cost components among the agencies. 2001 travel costs for the core unit are US \$131,037 for UNDP, US \$82,000 for UNIDO and US \$231,903 for the World Bank. 2001 reimbursement costs for central services for the core unit are US \$354,922 for UNDP, US \$259,893 for UNIDO and US \$102,913 for the World Bank. Non-core activity costs also vary among the agencies, for example, the national execution/executing agency/financial intermediary/supervisory costs are US \$3.3 million for UNDP, US \$3.8 million for UNIDO, and US \$4.5 million for the World Bank for the year 2001.

24. Decision 37/68 requested an assessment of the feasibility of replacing or changing the current system of project support costs with the understanding that the total administrative costs would not exceed existing total administrative costs. Although the total amount for the period 1998-2001 under the proposed core budget plus 7 per cent would be US \$2.1 million less, the total amount of support costs for the 2001 would have reflected the level of support costs received by the implementing agencies overall, i.e. US \$12.7 million. The amount of support costs received in 2001 is more reflective of current support costs received than the period 1998-2001 due to the increasing number of multiple-year, performance-based agreements that have lower administrative support costs. Therefore, a core budget plus a 7 per cent agency fee on approved projects could replace the current system so that total administrative costs would not exceed existing administrative costs.

Recommendations

The Executive Committee may wish to consider:

1. Adopting a new administrative cost regime for the 2003-2005 triennium that includes US \$1.5 million for core unit funding per year plus [7] per cent on project approvals on a trial basis.
2. Noting that since core unit funding was provided in the new administrative cost regime, the [7] per cent provision would not apply to project preparation, country programme preparation and institutional strengthening activities.

Annex I

Actual Implementing Agencies' Administrative Support Costs (1997-2001)

Agency: UNDP	1997	1998	1999	2000	2001
Core Components	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	636,455	819,122	794,859	874,556	912,355
Travel	66,802	126,214	121,354	92,034	132,037
Space (rent and common costs)	225,952	86,912	142,094	129,892	113,105
Equipment supplies and other costs (computers, supplies, etc)	31,408	26,169	24,275	40,724	63,021
Contractual services (firms)	3,119	684	6,236	15,019	3,334
Reimbursement of central services for core unit staff	104,060	377,941	328,176	371,090	354,922
Total core unit cost	1,067,797	1,437,040	1,416,994	1,523,314	1,578,774
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	765,868	743,725	505,825	669,610	612,594
Executing agency support cost (internal) <u>including overhead</u>	2,173,890	2,296,588	1,567,299	2,247,823	2,129,104
Financial intermediaries <u>including overhead</u>				138,571	223,373
Total Administrative Support Costs	4,007,555	4,477,353	3,490,118	4,579,318	4,543,845
Supervisory Costs incurred by MPU	207,487	297,533	291,821	294,355	323,540
Grand Total Administrative Support Costs	4,215,042	4,774,886	3,781,939	4,873,673	4,867,385

Agency: UNIDO	1997	1998	1999	2000	2001
Core Components	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	845,300	875,000	893,200	951,300	1,011,700
Travel	61,000	68,600	74,400	80,600	82,000
Space (rent and common costs)	40,160	42,772	48,588	53,757	55,478
Equipment supplies and other costs (computers, supplies, etc)	40,646	34,446	38,323	36,389	36,353
Contractual services (firms)	25,000	28,000	40,000	50,000	50,000
Reimbursement of central services for core unit staff	243,898	222,336	242,915	261,092	259,893
Total core unit cost	1,256,004	1,271,154	1,337,426	1,433,138	1,495,424
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	296,550	853,835	853,835	1,068,755	1,068,755
Executing agency support cost (internal) <u>including overhead</u>	3,763,381	3,355,018	3,300,037	2,252,521	2,768,484
Financial intermediaries <u>including overhead</u>					
Total Administrative Support Costs	5,315,935	5,480,007	5,491,298	4,754,414	5,332,663
Supervisory Costs incurred by MPU					
Grand Total Administrative Support Costs	5,315,935	5,480,007	5,491,298	4,754,414	5,332,663

Agency: World Bank	1997	1998	1999	2000	2001
Core Components	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	820,000	820,740	712,402	834,479	917,119
Travel	165,810	125,037	182,809	230,118	231,903
Space (rent and common costs)	70,000	70,000	70,000	70,000	70,000
Equipment supplies and other costs (computers, supplies, etc)	145,442	130,928	89,014	119,853	107,724
Contractual services (firms)	116,809	63,689	39,017	40,550	92,357
Reimbursement of central services for core unit staff	205,880	376,400	135,927	174,660	102,913
Total core unit cost	1,523,941	1,586,794	1,229,169	1,469,660	1,522,016
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	2,885,025	3,012,632	3,072,749	3,350,200	3,474,885
Executing agency support cost (internal) <u>including overhead</u>					
Financial intermediaries <u>including overhead</u>	1,497,100	1,709,498	1,534,542	2,329,895	1,013,462
Total Administrative Support Costs	5,906,066	6,308,924	5,836,460	7,149,755	6,010,363
Supervisory Costs incurred by MPU					
Grand Total Administrative Support Costs	5,906,066	6,308,924	5,836,460	7,149,755	6,010,363
