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EXECUTIVE COMMITTEE OF
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**2007 CORE UNIT COSTS FOR UNDP, UNIDO AND THE WORLD BANK AND
FOLLOW-UP TO DECISION 49/7 (C)**

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Background

1. Administrative costs of UNDP, UNIDO, and the World Bank were changed in November 1998 (decision 26/41) from a flat rate of 13 per cent applied to all projects to a graduated scale, and in December 2002 to a lower scale that included a core unit grant of US \$1.5 million per agency (decision 38/68). Decision 41/94 (d) requested the Secretariat to annually review the current administrative cost regime. Decision 46/35 extended the operation of decision 38/68 and its administrative cost regime for the 2006-2008 triennium, while modifying the base rate for core unit costs for UNDP and UNIDO to US \$1.7 million instead of US \$1.5 million.

2. Implementing agencies were requested to provide actual core and administrative budget data for 2005, estimated costs for 2006, and projected costs for 2007. Budget data for the 2005 and the planned 2006 budgets were based on information provided in last year's report to the Committee (UNEP/OzL.Pro/ExCom/47/19).

3. Implementing agencies have continued to provide data on the actual support costs covering the core unit and other support activities in an agreed format corresponding to that submitted to the 26th Meeting.

UNDP

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

Table 1

**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR
THE YEARS 2005-2007 FOR UNDP (US \$)**

Cost Items	2005 Budget	2005 Actual	2006 Budget	2006 Estimated	2007 Proposed
Core Components					
Core unit personnel and contractual staff	910,000	1,333,170	1,376,178	1,373,165	1,414,360
Travel	180,000	214,718	215,804	221,160	227,794
Space (rent and common costs)	90,000	120,963	117,000	121,000	121,000
Equipment supplies and other costs (computers, supplies, etc)	15,000	28,010	15,000	30,000	30,000
Contractual services (firms)	70,000	27,381	30,000	30,000	30,000
Reimbursement of central services for core unit staff	440,000	250,000	280,000	280,000	280,000
Adjustment (negative amount representing an overrun of the core unit budget)*	(205,000)	(474,242)	(333,983)	(355,325)	(352,154)
Total core unit cost	1,500,000	1,500,000	1,700,000	1,700,000	1,751,000
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	550,000	694,899	980,000	980,000	980,000
Executing agency support cost (internal) <u>including overhead</u>	750,000	172,052	200,000	100,000	100,000
Financial intermediaries <u>including overhead</u>	220,000	177,662	220,000	200,000	200,000
Cost recovery		260,730	280,000	280,000	280,000
Adjustment (positive amount to reflect the overrun deducted above)*	205,000	474,242	333,983	355,325	352,154
Total Administrative Support Costs	3,225,000	3,279,585	3,713,983	3,615,325	3,663,154
Supervisory Costs incurred by MPU	200,000	283,419	200,000	200,000	200,000
Grand Total Administrative Support Costs	3,425,000	3,563,004	3,913,983	3,815,325	3,863,154

*The cost of the core unit is higher than the allowed subtotal of US \$1,500,000 in 2005; US \$1,700,000 in 2006; and US \$1,751,000 in 2007. 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.

5. UNDP is requesting a 2007 core unit budget of US \$1.751 million despite the fact that it expects the costs of its core unit to exceed this budget by US \$352,154 that is indicated as "Adjustments" in Table 1 above. UNDP exceeded its 2005 budget by US \$474,242, which is US \$269,242 above the amount UNDP had expected. UNDP is also estimating that it will exceed its 2006 budget by US \$355,325, which is about US \$21,000 more than it expected. UNDP indicated that these funds come from support costs earned from implementation of MLF projects.

6. 67 per cent of UNDP's proposed core unit budget is for staff. The central services budget item represents the next largest cost item amounting to 13 per cent of the budget followed by 11 per cent for travel and 6 per cent for space rental. Non-core unit administrative costs are expected to remain the same as the estimated 2006 level, i.e. US \$1.56 million.

7. UNDP's equipment costs were twice the amount budgeted for 2005 and 2006. Those costs amounting to US \$30,000 are expected to continue for the 2007 budget. This is a result of

UNDP moving to docked computers that can then be used both in office and for travel. The costs indicated for 2005-2006-2007 for equipment are significantly less than those of UNIDO and the World Bank.

8. UNDP's reimbursement to country offices and for national execution exceeded the 2005 budget of US \$550,000 by almost US \$145,000. UNDP indicated that the higher amount for country offices is due to the value of projects delivered and therefore, with an increased delivery rate, country offices received a greater share of funds as they are remunerated on a percentage basis.

9. The executing agency cost was reduced from its budget of US \$750,000 to US \$172,052 in 2005. Only half of the US \$200,000 budget for 2006 is estimated to have been used in 2006 and the resulting amount of US \$100,000 is proposed for 2007. UNDP indicated that this is a result of its adoption of a phase-out approach to ending its activities with the United Nations Office of Project Services (UNOPS). This means that UNOPS has only retained projects that were assigned for its execution that are still under implementation. As these projects are operationally and financially completed, the number of projects in the portfolio decreases. The funds budgeted for in this case are to cover the fees arising from the implementation of remaining project funds by UNOPS.

10. The request of UNDP (US \$1,751,000 for 2007) is within the allowed range of decision 46/35.

UNIDO

11. Table 2 presents the core unit budget and other administrative cost information provided by UNIDO.

Table 2

THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR THE YEARS 2005-2007 FOR UNIDO (US \$)

Cost Items	2005 Budget	2005 Actual	2006 Budget	2006 Estimated	2007 Proposed
Core Components					
Core unit personnel and contractual staff	990,000	1,071,100	1,308,500	1,285,700	1,454,600
Travel	83,800	120,200	89,700	148,600	84,600
Space (rent and common costs)	64,500	79,600	78,500	102,000	67,600
Equipment supplies and other costs (computers, supplies, etc)	46,800	59,900	56,000	53,400	52,500
Contractual services (firms)	17,300	33,400	21,400	10,800	15,400
Reimbursement of central services for core unit staff	364,900	454,100	444,300	470,100	451,900
Adjustment (negative amount representing an overrun of the core unit budget)*	(67,300)	(318,300)	(298,400)	(370,600)	(375,600)
Total core unit cost	1,500,000	1,500,000	1,700,000	1,700,000	1,751,000
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	1,324,400	1,044,110	1,450,420	1,221,430	1,668,460
Executing agency support cost (internal) <u>including overhead</u>	3,137,800	3,127,900	2,996,200	2,472,500	2,107,300
Financial intermediaries <u>including overhead</u>	0	0	0	0	0
Cost recovery	0	0	0	0	0
Adjustment (positive amount to reflect the overrun deducted above)*	67,300	318,300	298,400	370,600	375,600
Total Administrative Support Costs	6,029,500	5,990,310	6,445,020	5,764,530	5,902,360
Supervisory Costs incurred by MPU					
Grand Total Administrative Support Costs	6,029,500	5,990,310	6,445,020	5,764,530	5,902,360

*The cost of the core unit is higher than the allowed subtotal of US \$1,500,000 in 2005; US \$1,700,000 in 2006; and US \$1,751,000 in 2007. 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.

12. UNIDO is requesting a 2007 core unit budget of US \$1.751 million despite the fact that it expects the costs of its core unit to exceed this budget by US \$375,600 that is indicated as "Adjustments" in Table 2 above. UNIDO exceeded its 2005 budget in all core components by a total of US \$318,300. UNIDO is also estimating that it will exceed its 2006 budget by US \$370,600, which is US \$72,200 above the amount UNIDO had expected.

13. Since UNIDO's core unit budget significantly exceeds the allocation made for it by the Executive Committee, the Secretariat requested the source of funds from which these budget excesses were to be paid. UNIDO confirmed (as in the past) the Organization constitutionally

supports its technical cooperation programme and any costs beyond the core unit costs and agency fees would be subsidized through UNIDO's regular budget.

14. 68 per cent of UNIDO's proposed core unit budget is for staff. The central services budget item represents the next largest cost item amounting to 21 per cent of the budget followed by 4 per cent for travel and 3 per cent for space rental. Non-core unit administrative costs are expected to remain relatively the same as the estimated 2006 level, changing only from US \$3.7 million to US \$3.8 million.

15. Following the Fund Secretariat's comment about the large increase for internal executing agency costs in 2006, UNIDO reduced the estimate from US \$3.5 million by US \$1 million to US \$2.5 million for the estimated costs for 2006. The actual 2006 costs will not be known until the review in 2007.

16. UNIDO's travel budget has been under-budgeted for travel in 2005 and 2006. The level of funds proposed for the 2007 budget are similar to past budgets with no allowance for the additional costs which have amounted to 50 per cent of the travel budget. UNIDO's travel budget was approved internally for 2006-2007 at the level of previous years.

17. There were large increases in the budget for reimbursement of country offices/national execution from costs of US \$1 million in 2005, to estimated costs of US \$1.2 million in 2006 and proposed costs of US \$1.7 million in 2007. UNIDO explained that it had been "reinforcing" its field office network with a much higher number of staff by the year 2007. This reinforcement of field offices was approved by UNIDO's Governing Bodies. However, there had not been an indication of a corresponding reduction in headquarters staff and internal execution costs. Although these funds do not come from core unit costs, they could be charged to support costs collected on projects.

18. The request of UNIDO (US \$1,751,000 million for 2007) is within the allowed range of decision 46/35.

World Bank

19. Table 3 presents the core unit budget and other administrative cost information provided by the World Bank.

Table 3

THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR THE YEARS 2005-2007 FOR THE WORLD BANK (US \$)

Cost Items	2005 Budget	2005 Actual	2006 Budget	2006 Estimated	2007 Proposed
Core Components					
Core unit personnel and contractual staff	940,000	958,402	990,000	990,000	995,000
Travel	245,000	213,802	240,000	235,000	245,000
Space (rent and common costs)	70,000	44,369	50,000	48,000	50,000
Equipment supplies and other costs (computers, supplies, etc)	80,000	73,395	75,000	77,000	80,000
Contractual services (firms)	40,000	45,285	35,000	60,000	45,000
Reimbursement of central services for core unit staff	125,000	216,257	155,000	160,000	165,000
Adjustment (negative amount representing an overrun of the core unit budget)*		(51,510)	(45,000)	(70,000)	
Total core unit cost	1,500,000	1,500,000	1,500,000	1,500,000	1,580,000
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	3,640,000	3,030,661	3,200,000	3,200,000	3,200,000
Executing agency support cost (internal) <u>including overhead</u>					
Financial intermediaries <u>including overhead</u>	1,610,000	2,076,200	1,800,000	1,800,000	1,800,000
Cost recovery					
Adjustment (positive amount to reflect the overrun deducted above)*		51,510	45,000	70,000	
Total Administrative Support Costs	6,750,000	6,658,371	6,545,000	6,570,000	6,580,000
Supervisory Costs incurred by MPU					
Grand Total Administrative Support Costs	6,750,000	6,658,371	6,545,000	6,570,000	6,580,000

*The cost of the core unit is higher than the allowed subtotal of US \$1,500,000 in 2005 and 2006. The World Bank is allowed a 3 per cent level increase in its core unit budget for 2007. 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.

20. The World Bank requested a 2007 core unit budget of US \$1.58 million. The Bank exceeded its 2005 budget by US \$51,150 and its 2006 budget by US \$70,000, but does not expect to exceed its budget in 2007. The Bank indicated that the additional expenses above the approved budget had been covered by support costs savings on projects in countries where the Bank could provide cost-effective services (i.e. for countries with a larger number of project activities with the Bank).

21. 63 per cent of its proposed core unit budget is for staff. The travel budget item represents the next largest cost item amounting to 16 per cent of the budget, followed by central services (10 per cent), equipment (5 per cent) and space rent and contractual services (each 3 per cent), non-core unit administrative costs are expected to remain the same in 2007 as that estimated for 2006, i.e. US \$5 million.

22. The World Bank's equipment costs are almost twice those of the other implementing agencies. Equipment for the core unit was US \$77,000 in 2006 and estimated at US \$80,000 for 2007. The Bank indicated that the cost of equipment has ranged from US \$145,000 to US \$73,000 since 1996 and in fact, the 2005 actual figure represents the lowest cost in this

category to-date. The costs of equipment fall within the equipment cost category and are defined by the Bank's administration (at the corporate level). They represent a flat fee that is charged to the core unit of the Bank.

23. One of the reasons for increased costs in 2005 was the reimbursement of central services. The Bank indicated that the central services costs had been exceptionally higher than the budget in 2005 due to internal legal fees (i.e., a high number of grant agreements needing drafting, finalization or amendments), but in 2006 these costs returned to levels comparable with previous years. Also, audit fees for three years (2002, 2003 and 2004) had been charged to 2005.

24. Another reason why the overall administrative costs for 2005 exceeded the budget was the increase in costs for financial intermediaries by almost US \$466,200 to US \$2.1 million. This level of costs for financial intermediaries was maintained in 2006 with an increase to US \$1.8 million and the same amount is budgeted for 2007. The Bank indicated that the steep increase in 2005 expenditures for financial intermediaries was due to an unusually high level of disbursement in 2005 (US \$83 million). This is why there can be fluctuations in support cost expenditures year to year.

25. The request of the World Bank of US \$1.58 million for 2007 is within the range allowed by decision 46/35.

Observations

26. Table 4 presents the balance of support costs held by implementing agencies from approved projects, activities, and agreements that had not been disbursed as at 31 December 2005 including funds approved for core unit costs. It also indicates the average annual overall administrative costs per agency to determine the coverage of administrative costs in the future based on current trends.

Table 4

BALANCE OF SUPPORT COSTS AS AT 31 DECEMBER 2005 WITH 2006 APPROVED SUPPORT COSTS AND CORE UNIT COST REQUESTS BY AGENCY FOR 2007 AND THE RESULTING POSSIBLE IMPLICATIONS ON THE NUMBER OF YEARS OF ADMINISTRATIVE COSTS COVERED BY SUPPORTS COSTS*

Agency	Balance of Support Costs (US \$) as at 31 December 2005	Core Unit Cost Requests for 50th Meeting (US \$)	Net Support Costs Approved in 2006 from 48th and 49th Meetings (US \$)	Balance of Support Costs as at 31 December 2005, 2006 Approvals, and Core Unit Requests (US \$)	Average Annual Overall Administrative Costs* (US \$)	Coverage of Un-obligated Support Costs based on Average Annual Administrative Costs (in years)
UNDP	9,453,329	1,751,000	382,145	11,586,474	3,747,161	3.1
UNIDO	8,877,789	1,751,000	420,598	11,049,387	5,885,733	1.9
World Bank	12,436,858	1,580,000	4,212,885	18,229,743	6,602,790	2.8
Total	30,767,976	5,082,000	5,015,628	40,865,604	16,235,684	2.5

* Average of the actual administrative costs of 2005, estimated costs of 2006, and the budget for 2007.

27. The table indicates that there are substantial balances in support costs amounting to around US \$30.8 million in total held by these agencies from their administrative costs. There will also be additional charges against the balances since 31 December 2005 that would also have to be taken into account. The implementing agencies will continue to receive support costs on approvals and core unit costs at least until the end of the current triennium including at the present meeting.

28. The extent to which these funds could cover annual overall administrative costs is also presented in Table 4. It shows that the maximum level of funds available for support costs could theoretically cover from two to three years of overall administrative costs. This might be considered in light of the fact that most multi-year agreements are projected to be completed in the next three years. It should also be noted, as mentioned by the World Bank, that the balance of the support costs are intended to enable the implementing agencies to complete the supervision, technical assistance and monitoring obligations at the programme level through 2010 and beyond until projects are completed, completion reports and assessments have been conducted and accounts reconciled and closed. The Bank further stated that in the case of multi-year agreements, the agreement would not be closed until all of the commitments in the agreement had been fulfilled. In the case of the implementing agencies in the United Nations, support cost funds associated with projects cannot be used until there is a project-related disbursement freeing the funds for use for administrative purposes. Therefore, an assessment of the balance of support costs should also consider a possible cash flow problem for the UN agencies.

29. At its 49th Meeting, the Executive Committee agreed to consider the capacity of UNDP, UNIDO and the World Bank to complete projects on time in the context of its review of administrative costs at its 50th Meeting (decision 49/7(c)). In this regard, the information in Table 4 suggests that there are more funds held in balances than the annual amount that might be needed for administrative costs in 2007. However, a more comprehensive assessment should entail the review of the administrative cost regimes with a view to providing sufficient capacity to complete all activities needed to meet the needs of the Article 5 countries in their compliance efforts during the next triennium and to provide sufficient oversight and reporting for the Executive Committee, including taking into account current plans for the use of the balance of support costs and any related cash flow issues.

30. At its 46th Meeting, the Executive Committee decided to extend the application of decision 38/68 and its administrative cost regime for the 2006-2008 triennium, but in so doing it decided to review the operation of the regime before the end of the 2006-2008 triennium (decision 46/35). In the light of the need already identified for the reassessment of administrative costs for the next triennium (2009-2011), the Executive Committee may wish to consider requesting the Fund Secretariat to engage, in coordination with the implementing agencies, a team of experts to undertake an independent, comprehensive assessment of the administrative costs required for the 2009-2011 triennium. In addition, the Executive Committee might also request the implementing agencies to facilitate the participation of internal auditors from the agency in the study team. Information from such a study would be useful for the consideration of the level of support cost funding needed for the next triennium. In this regard, the optimum time for the submission of the study to the Executive Committee would be the first meeting in 2008.

RECOMMENDATIONS

31. The Executive Committee may wish to consider:
- (a) Noting the report on 2007 core unit costs for UNDP, UNIDO and the World Bank as presented in UNEP/OzL.Pro/ExCom/50/21;
 - (b) Approving US \$1.751 million for core unit funding for 2007 each for UNDP and UNIDO, and US \$1.58 million for the World Bank in accordance with decision 46/35;
 - (c) Authorizing the Secretariat to undertake a comprehensive independent assessment of the administrative costs required for the 2009-2011 triennium, using independent consultants/consulting firms as needed, and report its conclusions to the first meeting of the Executive Committee in 2008; and
 - (d) Requesting the implementing agencies to facilitate the participation of internal auditors to participate in the study team.
