

Annex XXXII

TERMS OF REFERENCE FOR THE REVIEW OF THE ADMINISTRATIVE COST REGIME AND ITS CORE UNIT FUNDING BUDGET

Objectives

1. The objectives for the review of the administrative cost regime are the following:
 - (a) To determine the appropriate level of programme support costs required to administer projects/programmes financed by the Multilateral Fund, in light of the current and future operation of the Multilateral Fund;
 - (b) To update the definitions of all of the relevant components of administrative costs including core unit costs, the compliance assistance programme (CAP), central services, executing agency, financial intermediary, supervisory, project management unit (PMU), and project costs in light of the transition to the International Public Sector Accounting Standards (IPSAS) for the UN agencies¹; and
 - (c) To further assess the itemized reporting format of core unit versus administrative costs as presented in Appendix II to the present annex, as well as direct versus indirect costs that address the costs of implementing agencies' central administration requirements.

Issues to be considered

2. Based on the preliminary overview of administrative costs, the Secretariat noted that since the Coopers and Lybrand study, there have been changes in administration of projects including: the use of a lead agency to coordinate activities where there are more than one agency; a beneficiary government serving as an executing agency to disburse funds for phase-out activities to the final beneficiaries; inclusion of PMUs as part of project costs in several multi-year agreements (MYAs); inclusion of multiple implementing agencies for several lower cost projects in geographically isolated countries resulting in limited costs for monitoring projects; subsidizing the administration of the Multilateral Fund projects by one agency; and involvement of implementing agencies' Montreal Protocol units in administering projects for other multilateral environmental agreements (MEAs).
3. Based on the above, the following issues should be addressed during the review of the administrative cost regime:
 - (a) Whether there is a need to change the administrative cost regime since it has resulted in a rate of administrative costs exceeding 13 per cent for three of the agencies taking into account the impact of the relative size of projects and portfolios on the agencies administrative costs;
 - (b) The need to define or redefine the relevant components of administrative costs;
 - (c) The need to re-examine the extent to which the CAP budget includes administrative costs;

¹ The definitions currently in use are those contained in the study done by Coopers and Lybrand on the Administrative Costs of the Implementing Agencies (UNEP/OzL.Pro/ExCom/26/57) in 1998, and contained in Appendix I to the present annex.

- (d) Whether a change in the definition of core unit costs and in the reporting format could better distinguish core unit costs from the costs of administering projects taking into account each agency's unique nature;
- (e) The effect of implementation of cost accounting on managing core unit budgets and differentiating between core unit and administrative costs for each of the implementing agencies, including for the return of unused funds and in relation to IPSAS;
- (f) Whether the current administrative cost regime² for UNEP and bilateral agencies should be reconsidered in the light of current operations; and
- (g) Issues identified in document UNEP/OzL.Pro/ExCom/75/34 to improve reporting of costs by the agencies.

4. The preliminary overview also indicated that project costs had been included in administrative costs in the past for UNEP and UNIDO. Moreover, there are other costs that might be assessed as administrative costs to more accurately reflect the administrative burden of the agency in administering, managing, and executing projects. Therefore, the following items should also be addressed during the review:

- (a) The role of the lead agency in project submissions and the need for administrative costs and responsibilities for this function;
- (b) An assessment of the agency fees for low-cost projects and the ability of agencies to manage projects if the fees might constitute the cost of travel once during a project lifetime;
- (c) An assessment of the extent and impact of PMU costs that are included as project costs but could also be considered as costs for administering projects; and
- (d) The costs provided to beneficiary governments, executing agencies, country offices and financial intermediaries for administering individual projects and MYAs, i.e., the extent implementing agencies are passing on funds for administering projects to financial intermediaries, executing agencies or to governments for national execution.

Methodology for the administrative cost study

5. An expert/consultant with extensive experience in the operation of the Multilateral Fund or comparable financial mechanisms and the implementing agencies' financial operations should be selected for the study. The work would begin in 2016 and each implementing agency will be visited, accompanied by a staff member of the Secretariat, with the aim of collecting relevant data and discussing with relevant staff in both the programme and financial divisions of each agency.

² To apply an agency fee of 13 per cent on projects up to a value of US \$500,000, except for institutional strengthening projects approved for UNEP where agency fees do not apply. For projects with a value exceeding US \$500,000 but up to and including US \$5,000,000, an agency fee of 13 per cent should be applied on the first US \$500,000 and 11 per cent on the balance (as per decision 26/41(b)).

Estimated cost

6. The total cost is estimated at US \$60,000. It consists of three months of professional fees during a 12-month period and travel costs with daily subsistence allowance to the headquarters of each agency and to the relevant Executive Committee meeting. A draft report should be submitted to the Secretariat by 31 January 2017 and a final draft report to the Secretariat eight weeks before the first Executive Committee meeting of 2017 as required by decision 73/62.

Appendix I

DEFINITION OF ADMINISTRATIVE COSTS

ADMINISTRATIVE COSTS OF THE IMPLEMENTING AGENCIES BY COOPERS AND LYBRAND

In keeping with the Executive Committee's 1994 recommendation, it is important to clarify the definition of administrative costs, at least for the purposes of this study. Unless there is a clear and common understanding of what is considered to be an administrative cost and what is considered to be a project cost, there will continue to be inconsistent approaches. If there are inconsistent approaches, it is very difficult to establish a uniform reimbursement rate based on actual costs.

Following this logic, the following paragraphs will serve first to propose a method of distinguishing between administrative and project costs, and second to propose criteria to identify the elements of administrative costs which could be considered as being eligible.

Distinction between administrative and project activities

Administrative activities

In respect of Multilateral Fund programmes, the implementing agencies are expected to use their existing field office networks to match the needs of beneficiaries and the funds available from the Multilateral Fund. In doing so, they are required first to identify and submit potential projects to the Executive Committee and second, to ensure that the allocated funds are used in the manner authorised by the Executive Committee, in line with approved project proposals and budgets.

Project identification, formulation and approval

With respect to new and potential projects, the implementing agencies are expected to use the administrative cost allocation for the following activities:

- Distributing information about the Multilateral Fund's programme to the agency's field offices network;
- Collecting, reviewing and pre-qualifying project applications;
- Dealing with governments and establishing legal agreements;
- Preparing project proposals; obtaining project preparation budgets for larger projects;
- Fielding consultants to project sites;
- Submitting and following-up project proposals submitted to the Executive Committee for approval.

1. Project Implementation and Monitoring

With respect to approved projects, the implementing agencies are expected to use the administrative cost allocation for the following activities:

- Co-ordinating each agency's efforts with the Secretariat;
- Preparing implementation agreements and terms of reference for subcontractors
- Mobilising implementation teams (executing agencies and consultants) for approved projects using appropriate bidding and evaluation mechanisms ;
- Processing contractual and accounting documents associated with approved projects;
- Monitoring the progress of a project from an administrative point of view, and ;
- Reporting on results of projects and the program (preparing progress and project completion reports).

1.1 Other activities to be considered as administrative

- Preparing annual business plans based on communications with national governments about sector needs and priorities;

- Preparing progress reports;
- Participating in project formulation activities with country offices;
- Following up on implementation status, including country visits if there is evidence of undue delays or difficulties;
- Providing input to the Multilateral Fund Secretariat with policy papers and issues; and
- Participating in meetings sponsored by the Executive Committee, and the Secretariat.

Activities to be considered as project costs

The following activities would not be considered to be administrative activities, and would be conducted only on the basis of approved projects:

- Marketing, business development and prospecting for new projects (this activity is funded by the Executive Committee which has established ozone units in each country);
- Project formulation/preparation, in cases where a project preparation budget has been approved;
- Project implementation, including the provision of project management and technical skills. This would include participating in the design of the project "deliverable" regardless of the form of the deliverable or the method of delivery. In other words, participation in the design of constructed equipment and training material would both be considered to be project activities;
- Any activity considered to be a project, for instance country program preparation, technical assistance, training, etc.;
- Technical inspections of project "deliverables" by appropriately qualified experts; and
- Technical support provided at the programme or project level.

Reimbursable elements of administrative cost

With respect to each implementing agency's co-ordinating unit, to the extent that it supports the Multilateral Fund, the following costs would be deemed to be eligible:

1. Direct costs of the co-ordinating unit including

- Salaries and the associated benefits of permanent and contractual (consultants) staff;
- Travel related to Multilateral Fund activities, and to administrative monitoring of projects.
- Office accommodation cost including a fair allocation of operating costs, based on the proportion of useable space;
- Equipment, office supplies, telecommunications and general expenses based on specific expenditures.
- Contractual services related to activities of the co-ordinating unit.

2. A fair cost **allocation from central support services** of the implementing agency. This would include a fair and equitable allocation of the expense of central services such as:

- Human resources, based on the proportionate number of staff
- Accounting, based on the volume of transactions generated
- Management information systems, based on the proportionate number of workstations and the actual systems used by the co-ordinating unit
- Procurement and legal, based on the volume of transactions generated
- General office and administrative services, based on the proportionate number of staff.

3. A fair **allocation of country or field office costs**. This allocation could be made globally on the basis of financial activity, i.e. Multilateral Fund spending vs total agency spending.

4. Direct costs of the **implementing arms, be they executing agencies, national governments, financial intermediaries or other consultants** contracted by the implementing agencies to the extent that they are involved in the administration of projects. These costs would be established by service contract or otherwise charged at rates equivalent to the fair value of the services received. These costs would exclude costs approved as part of project budgets (e.g. the cost of UNIDO's consultants in many of its projects).

Non-reimbursable costs

It is proposed that the following items be considered as non-reimbursable for the purposes of determining actual administrative costs:

- Travel not directly related to Multilateral Fund business, including the non-Multilateral Fund portion of multi-purpose trips, trips related to activities extraneous to the implementing agency's role;
- Allocations of general expenses already provided for in the general funds of implementing agencies;
- Charges aimed at underwriting deficits or costs in other programs, budgets or activities; and
- Any costs charged to projects.

Appendix II

REPORTING CATEGORIES FOR CORE UNIT AND ADMINISTRATIVE COSTS

Cost items
Core components
Core unit personnel and contractual staff
Travel
Space (rent and common costs)
Equipment supplies and other costs (computers, supplies, etc.)
Contractual services (firms)
Reimbursement of central services for core unit staff
Total core unit cost
Reimbursement of country offices and national execution including overhead
Executing agency support cost (internal) including overhead
Financial intermediaries including overhead
Cost recovery
Total administrative support costs
Supervisory costs incurred by MPU (UNDP only)
Grand total administrative support costs