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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Forty-first Meeting  
Montreal, 17-19 December 2003

**REVIEW OF THE ADMINISTRATIVE COST REGIME AND ITS CORE UNIT  
FUNDING BUDGET (DECISION 38/68)**

1. At its 38<sup>th</sup> Meeting in November 2003, the Executive Committee approved a new administrative cost regime for the 2003-2005 triennium that included US \$1.5 million, subject to annual review, for a core unit funding budget per year per agency (Decision 38/68) for UNDP, UNIDO and the World Bank applying in addition:

- (a) An agency fee of 7.5 per cent for projects with a project cost at or above US \$250,000, as well as institutional strengthening projects and project preparation;
- (b) An agency fee of 9 per cent for projects with a project cost below US \$250,000, including country programme preparation;

2. In adopting the new administrative cost regime, the Executive Committee urged implementing agencies to strive toward achieving optimization of these support costs, taking into account the goal of Decision VIII/4 of the Eighth Meeting of the Parties to reduce agency support costs to an average below 10 per cent, recognizing that new challenges in the implementation of projects during the compliance period would require substantial support from implementing agencies. The Committee also decided to review the new administrative cost regime at its 41<sup>st</sup> Meeting.

### Background

3. At its 26<sup>th</sup> 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 and to 9.92% in 2002 as shown in Table 1.

Table 1

### **ADMINISTRATIVE SUPPORT COSTS RECEIVED BY UNDP, UNIDO AND THE WORLD BANK (US\$)**

**(1998-2003)\***

	<b>Funds Approved for Projects and Activities (US dollars) Per Agency</b>	<b>Approved Support Costs (US dollars)</b>	<b>Percentage of Administrative Support Costs to Funds Approved</b>
<b>Year</b>	<b>1998</b>		
UNDP	31,943,912	4,129,655	12.93%
UNIDO	23,923,978	3,058,401	12.78%
World Bank	40,512,487	4,745,633	11.71%
Total	96,380,377	11,933,689	12.38%

	<b>Funds Approved for Projects and Activities (US dollars) Per Agency</b>	<b>Approved Support Costs (US dollars)</b>	<b>Percentage of Administrative Support Costs to Funds Approved</b>
<b>Year</b>	<b>1999</b>		
UNDP	37,104,006	4,734,752	12.76%
UNIDO	35,201,687	4,220,606	11.99%
World Bank	65,418,153	6,761,331	10.34%
Total	137,723,846	15,716,689	11.41%
<b>Year</b>	<b>2000</b>		
UNDP	32,256,170	3,933,146	12.19%
UNIDO	30,833,491	3,633,306	11.78%
World Bank	37,930,079	3,706,502	9.77%
Total	101,019,740	11,272,954	11.16%
<b>Year</b>	<b>2001</b>		
UNDP	36,441,815	4,461,318	12.24%
UNIDO	25,303,882	3,160,353	12.49%
World Bank	55,401,150	5,069,240	9.15%
Total	117,146,847	12,690,912	10.83%
<b>Year</b>	<b>2002**</b>		
UNDP	45,376,042	4,777,793	10.53%
UNIDO	36,303,475	4,091,405	11.27%
World Bank	64,654,937	5,648,301	8.74%
Total	146,334,454	14,517,499	9.92%
<b>Year</b>	<b>2003***</b>		
UNDP	46,355,306	5,248,976	11.32%
UNIDO	65,414,850	6,523,037	9.97%
World Bank	91,864,934	8,422,456	9.17%
Total	203,635,090	20,194,469	9.92%
<b>Year</b>	<b>Total (1998 - 2003)</b>		
UNDP	229,477,251	27,285,640	11.89%
UNIDO	216,981,363	24,687,109	11.38%
World Bank	355,781,740	34,353,463	9.66%
Total	802,240,354	86,326,212	10.76%

\* Data for 1998-2002 has been revised to account for balances returned through the 40<sup>th</sup> Meeting.

\*\* Excluding core support cost of US \$1,500,000 per agency that was approved for the year 2003.

\*\*\* Including submissions to the 41<sup>st</sup> Meeting, actual approvals at the 40<sup>th</sup> and 41<sup>st</sup> Meetings, and US \$1.5 million in core unit costs.

4. Based on the level of submissions to the 41<sup>st</sup> Meeting and the actual approvals at the 39<sup>th</sup> and 40<sup>th</sup> Meetings, the new administrative cost regime may result in the same overall amount of agency fees in 2003 as in 2002, both of which were below 10 per cent (9.92 per cent).

### **Core Unit Costs (1997-2003)**

5. 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 26<sup>th</sup> Meeting. Detailed information by cost category is provided in Annex I.

6. Table 2 presents the core unit costs of UNDP, UNIDO and the World Bank and average costs per agency for the period 1997 through 2002 with estimated actual costs for 2003, as provided by agency.

Table 2

**THE CORE UNIT COSTS OF UNDP, UNIDO AND THE WORLD BANK AND  
AVERAGE COSTS PER AGENCY FOR THE PERIOD 1997 THROUGH 2002 WITH  
ESTIMATED COSTS FOR 2003 (US\$)**

<b>Agency</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003*</b>	<b>Total</b>
UNDP	1,067,796	1,437,042	1,416,994	1,523,315	1,578,774	1,516,727	1,500,000	10,040,648
UNIDO	1,256,004	1,271,154	1,337,426	1,433,138	1,495,424	1,442,024	1,754,610	9,989,780
World Bank	1,523,941	1,586,794	1,229,169	1,469,660	1,522,016	1,499,998	1,500,000	10,331,578
<b>TOTAL</b>	<b>3,847,741</b>	<b>4,294,990</b>	<b>3,983,589</b>	<b>4,426,113</b>	<b>4,596,214</b>	<b>4,458,749</b>	<b>4,754,949</b>	<b>30,362,345</b>
<b>Average per Agency</b>	<b>1,282,580</b>	<b>1,431,663</b>	<b>1,327,863</b>	<b>1,475,371</b>	<b>1,532,071</b>	<b>1,486,250</b>	<b>1,584,634</b>	<b>4,337,139</b>

\* Estimated.

7. The table indicates that UNIDO may exceed its budget for the 2003 core unit by US \$254,610 (almost 17 per cent). UNIDO however indicated that it would absorb any overrun, but had there been an underrun, UNIDO indicated that it would have also absorbed the underrun.

8. UNDP and the World Bank estimate that they will stay within its US \$1.5 million core unit budget.

**Proposed core unit and administrative cost budget for 2004**

9. Implementing agencies were requested to provide a core and administrative budget projections for 2004.

Core Unit Budget for 2004

10. Table 3 presents the core unit budgets submitted by the relevant implementing agencies.

Table 3

**THE CORE UNIT BUDGETS FOR 2004 (US\$)**

<b>Cost Items</b>	<b>UNDP</b>	<b>UNIDO</b>	<b>World Bank</b>
<b>Core Components</b>			
Core unit personnel and contractual staff	900,000	1,259,200	940,000
Travel	143,000	93,800	235,000
Space (rent and common costs)	111,000	75,600	70,000
Equipment supplies and other costs (computers, supplies, etc)	11,000	57,900	80,000
Contractual services (firms)	5,000	19,400	50,000
Reimbursement of central services for core unit staff	330,000	408,800	125,000
<b>Total core unit cost</b>	<b>1,500,000</b>	<b>1,914,700</b>	<b>1,500,000</b>
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	550,000	1,462,800	3,500,000
Executing agency support cost (internal) <u>including overhead</u>	1,100,000	3,400,800	-
Financial intermediaries <u>including overhead</u>	150,000	-	1,560,000
<b>Total Administrative Support Costs</b>	<b>3,300,000</b>	<b>6,778,300</b>	<b>6,560,000</b>
Supervisory Costs incurred by MPU	50,000	-	-
<b>Grand Total Administrative Support Costs</b>	<b>3,350,000</b>	<b>6,778,300</b>	<b>6,560,000</b>

11. UNDP is requesting a 2004 core unit budget of US \$1.5 million, consistent with the level indicated in Decision 38/68. UNDP's 2004 budget includes a reduction in staff costs of about US \$88,000 and travel of about US \$40,000 but increases in its cost for office space and reimbursement to central services. 60 per cent of its proposed core unit budget is for staff. The central services budget item represents the next largest cost item amounting to 22 per cent of the budget.

12. UNIDO's 2004 core unit budget exceeds the US \$1.5 million indicated in Decision 38/68 by US \$414,700. UNIDO is projecting an overall 9 per cent increase in its core unit costs for 2004; however, UNIDO also indicated that it would absorb these costs if they exceed US \$1.5 million. Whereas, UNIDO's core unit staff costs increased by 21 per cent from 2002 to 2003, staff costs are projected to increase by 6 per cent from 2003 to 2004. Staff costs are projected to account for 84 per cent of the US \$1.5 million allocated for core unit costs in the 38<sup>th</sup> Meeting decision. After a 20 per cent increase in 2003 travel over 2002 travel, UNIDO is projecting a 4 per cent increase from 2003 to 2004. The largest cost increase cost item is for the reimbursement of central services for the core unit (24 per cent increase). For around every dollar in staff costs, 33 cents is allocated for central services. The only cost rationalization in its core unit budget for 2004 was for equipment and supplies that was reduced by about \$1,000.

13. The World Bank requested a 2004 core unit budget of US \$1.5 million, consistent with the level indicated in Decision 38/68. The Bank's core unit staff costs have increased by 1 per cent each year since 2002. Staff costs are projected to account for 63 per cent of core unit costs. The largest cost reduction in the core unit cost is for office supplies for which 20 per cent less of the 2003 budget is requested with a total budget for 2004 amounting to \$80,000. Other costs either remained the same or had 1 per cent increase.

Overall administrative costs

14. UNDP's projected overall administrative costs in 2004 (US \$3.35 million) are roughly half that of either UNIDO (US \$6.8 million) or the World Bank (US \$6.56 million).

15. UNIDO indicated a reduction in the proposed reimbursement of country office and national execution costs but also projected that its executing agency's support costs would increase by about US \$400,000 to US \$3.4 million. Its overall administrative costs are projected to increase by 7 per cent from 2003 to 2004 with the overall amount in 2004 forecasted to be US \$6,778,300.

16. For the World Bank, the financial intermediary costs were projected to increase by 2 per cent to US \$1,560,000 in 2004. The overall administrative costs for the Bank are projected to be US \$6.56 million in 2004 which represents a 1 per cent increase over 2003.

**Observations**

17. 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 total administrative costs existing at the time of the decision.

18. Bearing in mind that the absolute level of administrative costs received is a function of the value of approved projects, Table 4 indicates the total of amount of funds transferred to agencies for administrative costs from 1997-2002 including estimates for 2003 and projected costs for 2004.

Table 4

**ADMINISTRATIVE COST USED BY AGENCIES (1997-2003) (US\$)**

	1997	1998	1999	2000	2001	2002	2003*	2004**
<b>UNDP</b>	4,215,041	4,774,888	3,781,939	4,873,674	4,867,385	3,668,458	3,221,773	3,350,000
<b>UNIDO</b>	5,315,935	5,480,007	5,491,298	4,754,414	5,332,663	5,210,705	6,336,050	6,778,300
<b>World Bank</b>	5,906,066	6,308,924	5,836,460	7,149,755	6,010,363	6,816,232	6,480,000	6,560,000
<b>TOTAL</b>	<b>15,437,042</b>	<b>16,563,819</b>	<b>15,109,697</b>	<b>16,777,843</b>	<b>16,210,411</b>	<b>15,695,395</b>	<b>16,037,823</b>	<b>16,688,300</b>

\* Estimated.

\*\* Proposed.

19. As shown in the table, while the total amount of administrative costs appears to have increased from 2002 to 2003 and is projected to increase from 2003 to 2004, these levels of costs exceeds administrative costs of all previous years except 2000.

20. Based on the level of submission, the level of administrative costs under the new regime (9.92 per cent) may achieve the goal of Decision VIII/4 of the Eighth Meeting of the Parties of

reduced agency support costs to an average below 10 per cent, but it depends on the level of submissions approved.

21. The Executive Committee may wish to continue to monitor the level of administrative costs in future requests for core unit budgets.

### **Recommendations**

The Executive Committee may wish to consider:

1. Noting the document on administrative costs as presented in UNEP/OzL.Pro/ExCom/41/81;
2. Approving US \$1.5 million for core unit funding for 2004 each for UNDP, UNIDO and the World Bank; and
3. Continuing to monitor the administrative cost regime adopted by Decision 38/68 in the context of budget requests for future years.

**Annex I**

**Actual Implementing Agencies' Administrative Support Costs (1997-2002)**

<b>Agency: UNDP</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Core Components</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Core unit personnel and contractual staff	636,455	819,122	794,859	874,556	912,355	891,049
Travel	66,802	126,214	121,354	92,034	132,037	134,914
Space (rent and common costs)	225,952	86,912	142,094	129,892	113,105	169,546
Equipment supplies and other costs (computers, supplies, etc)	31,408	26,169	24,275	40,724	63,021	25,299
Contractual services (firms)	3,119	684	6,236	15,019	3,334	3,889
Reimbursement of central services for core unit staff	104,060	377,941	328,176	371,090	354,922	292,100
<b>Total core unit cost</b>	<b>1,067,796</b>	<b>1,437,042</b>	<b>1,416,994</b>	<b>1,523,315</b>	<b>1,578,774</b>	<b>1,516,727</b>
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	765,868	743,725	505,825	669,610	612,594	536,186
Executing agency support cost (internal) <u>including overhead</u>	2,173,890	2,296,588	1,567,299	2,247,823	2,129,104	1,306,839
Financial intermediaries <u>including overhead</u>				138,571	223,373	198,706
<b>Total Administrative Support Costs</b>	<b>4,007,554</b>	<b>4,477,355</b>	<b>3,490,118</b>	<b>4,579,319</b>	<b>4,543,845</b>	<b>3,558,458</b>
Supervisory Costs incurred by MPU	207,487	297,533	291,821	294,355	323,540	110,000
<b>Grand Total Administrative Support Costs</b>	<b>4,215,041</b>	<b>4,774,888</b>	<b>3,781,939</b>	<b>4,873,674</b>	<b>4,867,385</b>	<b>3,668,458</b>



<b>Agency: UNIDO</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Core Components</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Core unit personnel and contractual staff	845,300	875,000	893,200	951,300	1,011,700	980,900
Travel	61,000	68,600	74,400	80,600	82,000	75,000
Space (rent and common costs)	40,160	42,772	48,588	53,757	55,478	57,466
Equipment supplies and other costs (computers, supplies, etc)	40,646	34,446	38,323	36,389	36,353	49,560
Contractual services (firms)	25,000	28,000	40,000	50,000	50,000	13,200
Reimbursement of central services for core unit staff	243,898	222,336	242,915	261,092	259,893	265,898
<b>Total core unit cost</b>	<b>1,256,004</b>	<b>1,271,154</b>	<b>1,337,426</b>	<b>1,433,138</b>	<b>1,495,424</b>	<b>1,442,024</b>
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	296,550	853,835	853,835	1,068,755	1,068,755	1,277,390
Executing agency support cost (internal) <u>including overhead</u>	3,763,381	3,355,018	3,300,037	2,252,521	2,768,484	2,491,291
Financial intermediaries <u>including overhead</u>						
<b>Total Administrative Support Costs</b>	<b>5,315,935</b>	<b>5,480,007</b>	<b>5,491,298</b>	<b>4,754,414</b>	<b>5,332,663</b>	<b>5,210,705</b>
Supervisory Costs incurred by MPU						
<b>Grand Total Administrative Support Costs</b>	<b>5,315,935</b>	<b>5,480,007</b>	<b>5,491,298</b>	<b>4,754,414</b>	<b>5,332,663</b>	<b>5,210,705</b>

<b>Agency: World Bank</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>Core Components</b>	\$	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	820,000	820,740	712,402	834,479	917,119	928,058
Travel	165,810	125,037	182,809	230,118	231,903	199,940
Space (rent and common costs)	70,000	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	110,000
Contractual services (firms)	116,809	63,689	39,017	40,550	92,357	45,000
Reimbursement of central services for core unit staff	205,880	376,400	135,927	174,660	102,913	147,000
<b>Total core unit cost</b>	<b>1,523,941</b>	<b>1,586,794</b>	<b>1,229,169</b>	<b>1,469,660</b>	<b>1,522,016</b>	<b>1,499,998</b>
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	3,517,358
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	1,798,876
<b>Total Administrative Support Costs</b>	<b>5,906,066</b>	<b>6,308,924</b>	<b>5,836,460</b>	<b>7,149,755</b>	<b>6,010,363</b>	<b>6,816,232</b>
Supervisory Costs incurred by MPU						
<b>Grand Total Administrative Support Costs</b>	<b>5,906,066</b>	<b>6,308,924</b>	<b>5,836,460</b>	<b>7,149,755</b>	<b>6,010,363</b>	<b>6,816,232</b>

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