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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-first Meeting
Montreal, 2-6 December 2013

**TERMS OF REFERENCE FOR THE ASSESSMENT OF THE ADMINISTRATIVE COST
REGIME FOR THE 2015-2017 TRIENNIUM (DECISIONS 66/17(e) AND 68/10)**

* Reissued for technical reasons on 8 November 2013.

Introduction

1. At its 67th meeting, the Executive Committee *inter alia* approved the administrative cost regime for the 2012-2014 triennium and decided to review the administrative cost regime and its core unit funding budget at the last meeting of the 2012-2014 triennium (decision 67/15).
2. This document addresses the need for a review of the administrative cost regime and discusses options and terms of reference (TOR) for the review of the administrative cost regime at the last meeting of 2014.

Need for a review of administrative costs

3. The Executive Committee first addressed the need for a TOR for the review of the 2012-2014 administrative cost regime at its 68th meeting. The Secretariat suggested that a TOR for a study should be agreed as soon as possible to enable sufficient time for the contractual process to be implemented and for completion of a comprehensive assessment of administrative costs by an independent consultant. However, concern was expressed with respect to the utility of an independent consultant based on previous studies, and the fact that it was premature to consider a new administrative cost regime since the decision on the current administrative cost regime was taken at the 67th meeting and the on-going discussions on guidelines for stage II HPMP preparation and funding. Therefore at its 68th meeting, the Executive Committee decided to defer further consideration of the TOR for the assessment of administrative cost regime for the 2014-2017 triennium until its 70th meeting, or until after the preparation of the guidelines for stage II of HCFC phase-out management plants (HPMPs) had been approved by the Executive Committee (decision 68/10).
4. The Executive Committee decided to defer consideration of the draft guidelines for funding the preparation of stage II of the HPMPs, as amended at the 69th meeting of the Executive Committee to the 70th meeting. Since the guidelines were to be considered at the 70th meeting, the Secretariat did not propose the TOR for the assessment of administrative costs at that meeting. The guidelines for the preparation of stage II HPMPs were considered at the 70th meeting but the Committee agreed to continue discussion of the guidelines at its 71st meeting. In the light of the Committee's decision for a two-meeting schedule for 2014 (decision 70/23) and the time needed to prepare a review of the administrative cost regime, the Secretariat proposed and the Chair agreed to put the issue on the provisional agenda for the 71st meeting.

Options

5. There are four possible options for the review foreseen in decision 67/15: the Executive Committee could maintain the existing administrative cost regime for the 2015-2017 triennium without a paper for its review at the 73rd meeting; it could request the Secretariat to conduct the review; to engage and facilitate the review by an independent contractor to conduct the review; or to convene and facilitate an Expert Panel to conduct the review to assess the requirements for administrative costs after 2014.

Maintain the existing administrative cost regime

6. In reviewing options for an administrative cost regime during the Inter-agency coordination meeting held in Montreal in September 2013, the implementing agencies indicated again that it was premature to review the 2012-2014 administrative cost regime since it had been in operation only two years. It was the implementing agencies' preference that the Executive Committee maintains the current administrative cost regime either permanently or for the next triennium.

7. It should be noted, however, that all previous decision on an administrative cost regime were based on an assessment either by a contractor or the Fund Secretariat with no changes from the 38th meeting until the 67th meeting. Moreover, there were limited changes adopted at the 67th meeting for the 2012-2014 administrative cost regime since the administrative cost regime was established for UNDP, UNIDO and the World Bank at the 38th meeting. Those changes included: the rate of growth of the core unit costs from up to 3 per cent to 0.7 per cent per year and an agency fee for projects with a value of greater than US \$250,000 from 7.5 per cent to 7 per cent. The agency fee for projects below US \$250,000 was maintained at 9 per cent and the rate for the production sector was to be determined on a case-by-case basis with a maximum fee of 6.5 per cent. The administrative cost regime for UNEP and the bilateral agencies is the same regime that was established at the 26th meeting.

Options for a review

Review by the Fund Secretariat

8. The Fund Secretariat has conducted several reviews of the administrative cost regime included the last review. During its last review, the Secretariat noted that it had not received sufficient information to assess whether the 2009-2011 administrative cost regime continued to be appropriate in the light of the changed roles and portfolios of implementing agencies as critical information for that assessment had not been forthcoming from all of the implementing agencies. Instead, the Secretariat assessed options to obtain the historic average administrative cost ratios.

Review by an independent contractor

9. The review by an independent contractor would require a budget as well as a TOR. The previous review of administrative costs had an actual cost of US \$210,000. This option is likely no longer available for the Committee as it would be too late to enter into the contracting process, select a contractor according to submitted bids, and enable sufficient time for a comprehensive review as such a review could take over one year to complete based on previous experience.

Review by an Expert Group

10. An Expert Group could be constituted of persons familiar with both the operation of the Multilateral Fund and the specific implementing agencies to conduct a series of meetings on the topics mentioned in this document, but could expand its mandate to address areas of interest with respect to an administrative cost regime for the Multilateral Fund. The Expert Group's work could be facilitated by the implementing agencies, the Treasurer and the Fund Secretariat by providing briefing papers for the meetings on the topics addressed by it. The costs for the travel and honorarium could be accommodated from the Secretariat's budget. If the Expert Group were to visit the implementing agencies for discussions as has been the case with previous independent assessments, the Executive Committee may wish to make a US \$50,000 allocation for their travel and US \$50,000 for honoraria/fees.

Issues to be considered for a review of the administrative cost regime

11. The list of potential issues to be considered in the review of the administrative cost regime after 2014 that could also serve as a TOR, are the following:

- (a) The role of executing agencies, country offices and financial intermediaries in administrative costs and the implementation and execution of HPMPs taking into account *inter alia*:
 - (i) The role of the lead agency in project submissions and the need for administrative costs for this function;

- (ii) The impact of project management unit (PMU) costs that are included as project costs but are used to execute the implementation of projects;
 - (iii) The need to establish an administrative cost regime that could be applied for stage II HPMPs;
- (b) Whether the objective of decision 38/68 to urge implementing agencies to strive toward achieving optimization of these support costs, taking into account the goal of decision VII/4 of the Eight 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, could be achieved;
- (c) To ensure that “the overall administrative cost ratio remained within the historical average or lower” (decision 64/6(c)(iii));
- (d) The distinction between administrative costs of the project implementation-related and administrative costs in the UNEP Compliance Assistance Programme (CAP) budget programme to assess the overall administrative cost ratio taking into account the agency fees for UNEP projects per decision 26/41, the 8 per cent agency fee on the CAP budget and that there is zero agency fee for institutional strengthening activities implemented by UNEP;
- (e) The core unit cost structure:
 - (i) To consider it in the light of the original intent of core units to serve as a bridge to maintain operations when project funding was being decreased;
 - (ii) To establish methodologies for separating project implementation-related costs from administrative costs taking into account the component of expert work carried out directly by staff with expertise in various professional capacities without the need to engage or hire external contractors and how it is accounted for as administrative or project-related costs;
 - (iii) To assess the need for budgetary controls to ensure that project implementation-related costs and other budget items such as staff and travel costs stay within their budgets within the flexibility of UN/World Bank rules;
 - (iv) To review how future requests for core unit costs could be assessed and to enable comparability among the implementing agencies taking into account the unique nature and the level of comparability among agencies;
 - (v) To review a cost analysis from the implementing agencies of the use of administrative/core unit costs for reporting, project implementation and internal requirements taking into account the time and effort required to efficiently generate the annual core unit cost report as well as other reporting needs taking into account how the reporting needs have evolved; and
- (f) To review core unit and administrative costs in the light of the relative size of agencies administering funds.

RECOMMENDATIONS

12. The Executive Committee may wish to:

- (a) Note the document on the Terms of reference for the assessment of the administrative cost regime for the 2015-2017 triennium as contained in document UNEP/OzL.Pro/ExCom/71/59;
- (b) Maintain the existing administrative cost regime for the 2015-2017 triennium, or undertake the review of the administrative cost regime for the 2015-2017 triennium to be submitted to the last meeting in 2014, based on, *inter alia*, the issues raised in document UNEP/OzL.Pro/ExCom/71/59:
 - (i) By the Secretariat; or
 - (ii) By an independent contractor and to approve an amount of US \$210,000 for a contract for this purpose; or
 - (iii) By an Expert Group and to approve an amount of US \$100,000 for fees and travel costs for this purpose;
- (c) If an independent contractor or an Expert Group is chosen for the review, request the implementing agencies to provide all information requested in a timely manner and to further provide support and facilitate the review of the administrative cost regime of the Multilateral Fund.
