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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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**REPORT ON THE REVIEW OF THE ADMINISTRATIVE COST REGIME
AND ITS CORE UNIT FUNDING BUDGET (DECISION 75/69)**

Introduction

1. Since the establishment of the Multilateral Fund, the Executive Committee has kept under review the Fund's administrative costs, resulting in four distinct administrative cost regimes. At the time of the approval of the fourth regime for the 2012–2014 triennium, the Executive Committee also decided to review the administrative cost regime at its meetings, specifically the 67th (decision 67/15) and 73rd (decision 73/62(c)).

2. In response to decision 67/15 at the 75th meeting, the Executive Committee *inter alia* approved the terms of reference (TOR) for the review of the administrative cost regime and its core unit funding budget for the assessment of administrative costs for the 2018-2020 triennium.¹ The Committee also approved a one-off cost of US \$60,000 for the review, and requested the Secretariat to submit the report to its 79th meeting (decision 75/69(b), (c) and (d)).

Methodology

3. Pursuant to decision 75/69(b) and (d), this document has been prepared with the assistance of an expert with extensive experience with the Multilateral Fund and comparable financial mechanisms, and knowledgeable on the financial operations of implementing agencies. The expert participated in the research and drafting of the document, reviewing and analyzing all previous documents on administrative costs of the Fund and decisions by the Parties to the Montreal Protocol, and the Executive Committee. The expert helped in the design of a questionnaire for collecting current information from implementing

¹ At its 73rd meeting, the Executive Committee decided *inter alia* to review the administrative cost regime and its core unit funding budget at the first meeting of 2017, and that the terms of reference (TOR) for that review should be submitted to the last meeting of 2015 (decision 73/62).

agencies; in reviewing and analyzing the data; and in proposing revised definitions of the components of administrative costs and in updating the reporting format.

4. The implementing agencies also reviewed and commented on the questionnaire. The structure of the questionnaire addressed the objectives of the review as outlined in the TOR. In the administration of the questionnaire, the implementing agencies were requested to provide actual cost data for 2015 because it was the most recent complete data available during the review period. The Secretariat had several bilateral discussions with each implementing agency on the completion and submission of the questionnaire, and at the Inter-agency coordination meeting (IACM)² during which issues of core unit budgets and other administrative cost reporting were reviewed. Bilateral agencies were not specifically requested by the Executive Committee to respond to the questionnaire or to queries with respect to their use of agency PSC.

5. The Secretariat and the expert used the information provided by the implementing agencies to assess the appropriate level of administrative costs, the need to review the definitions related to administrative costs, and the need to update the reporting formats to better distinguish administrative costs from project-related costs.

6. In addition, the review was informed by previous studies on the administrative cost regime approved by the Executive Committee, as well as by developments in the broader UN system (e.g., resolutions of the UN General Assembly and other governing bodies, including inter-agency bodies such as the Chief Executives Board (CEB)).

7. The final draft of the present document was shared with the implementing agencies. Comments received were incorporated accordingly.

Scope of the document

8. The document presents an overview of administrative cost under the United Nations system and under the Multilateral Fund analysing the four regimes that have been approved since the inception of the Fund. It discusses the reporting formats currently used by the Compliance Assistance Programme and the core units of the implementing agencies, and proposes changes to the formats based on a comprehensive analysis of the responses received from implementing agencies and subsequent discussions. It provides an outlook on the administrative cost regime for the 2018 to 2020 triennium, and scenarios on an analysis of the implications of changing the levels of the agency PSC for the two largest projects of the Multilateral Fund over the 2018-2020 business plan. It presents observations and a recommendation.

9. The document also contains the following annexes:

- | | |
|------------|---|
| Annex I: | Summary of the administrative cost regimes of the Multilateral Fund |
| Annex II: | Proposed revised format for reporting administrative costs |
| Annex III: | TOR for the review of the administrative cost regime and its core unit funding budget |
| Annex IV: | Questionnaire for the administrative cost study |

² Montreal, 31 August to 1 September 2016.

An overview of administrative costs regimes

United Nations system experience

10. On 27 June 1980, UNDP's Governing Council approved an agency programme support cost (PSC) rate of 13 per cent of annual project expenditures (decision 80/44). Based on that decision, the Advisory Committee on Administrative and Budgetary Questions (ACABQ)³ recommended that the UNDP formula be approved by the General Assembly for use by the UN system. The General Assembly subsequently adopted resolution 35/217-V⁴ on agency support costs, endorsing the reimbursement formula embodied in the UNDP Governing Council decision.

11. Since then, issues related to administrative cost have continued to be topical among UN member states, and the UN system. This is exemplified by the decision of the UN Chief Executives Board made through its high-level committee on management (HLCM)'s Finance and Budget Network at the Third Session of the Working Group on Support Costs for extra-budgetary activities on 11 July 2005 that the purpose of the agency PSC is to recover incremental costs incurred to support activities financed from extra budgetary contributions.

12. In resolution 71/243⁵ on the quadrennial comprehensive policy review of operational activities for development of the UN system, the General Assembly invited the relevant entities of the UN development system to "analyse and explore in a collaborative manner options for harmonized but differentiated cost recovery policies and rates, taking into account administrative costs related to different funding modalities based on common cost classification and cost recovery methodologies".⁶ This provision is relevant in the context of the review of the administrative cost regime of the Multilateral Fund.

Multilateral Fund experience

13. The Multilateral Fund agreements that established the working relationship involving the Executive Committee, the Secretariat and the implementing agencies recognized that the agencies were independent entities whose track record in working in Article 5 countries was being marshalled for the effective delivery of the Multilateral Fund programme. Their different ways of working was acknowledged and recognized in the original agreements and subsequently.

14. Unlike the implementing agencies, bilateral agencies have no agreements with the Executive Committee; they do not receive core unit funding, and do not submit annual financial statements. The only financial information on project costs of bilateral agencies is provided under their annual progress reports; however, these reports do not provide information on the use of the administrative costs.

15. The definition of project and administrative costs and the constitution of eligible components for reimbursing administrative costs were approved at the 26th meeting in November 1998 (decision 26/41). Since then, it has been a normal practice of the Executive Committee to review the administrative costs at the start of a replenishment period to ensure that the resources are used cost-effectively.

³ The ACABQ is a subsidiary organ of the UN General Assembly and is comprised of 16 members elected by the Assembly for a period of three years. Members serve in a personal capacity and not as representatives of Member States. The programme of work of the Advisory Committee is determined by the requirements of the General Assembly and other legislative bodies to which it reports.

⁴ 17 December 1980.

⁵ 21 December 2016.

⁶ UN General Assembly resolution 71/243, paragraph 35.

16. For example, the period 2001-2002 saw a significant shift when the Executive Committee adopted the country-driven approach⁷ and eliminated the agency shares of investment project funds.⁸ At its 35th meeting in December 2001, the Executive Committee for the first time considered and approved the Compliance Assistance Programme budget,⁹ which provided for UN Environment staff and other resources to enhance its capacity for effective support to Article 5 countries. Core unit budgets for UNDP, UNIDO and the World Bank were approved at the 38th meeting in July 2002. Implementing agencies agreed at the same meeting to provide data on the actual costs for the core unit and other support activities in an agreed format.

17. The main objective for introducing these budgets was to ensure a stable source of income and to maintain adequate resources to effectively manage the Multilateral Fund programme. Thus, over the existence of the Multilateral Fund programme, the Executive Committee has approved four distinct administrative cost regimes, which are described in Annex I to the present document.

18. In terms of the current administrative cost regime, which was approved at the 67th meeting (decision 67/15) in July 2012, the phasing out of ODS experienced important changes. The phase-out of CFCs was completed while the phase-out of HCFCs was initiated, with the development of cost guidelines and the approval of HCFC phase-out management plans (HPMPs). Since the approval of the first HPMPs at the 60th meeting in December 2010, the roles and responsibilities of the implementing agencies and the Programme Management Unit (PMUs) have increased.

19. Table 1 presents a historical review of the agency PSC since inception. An analysis of the rates of administrative costs calculated as a ratio of project funding approvals by triennium has generally hovered below 13 per cent.

Table 1. Administrative costs paid by the Multilateral Fund by triennium (per cent)¹⁰

Agency	1991-1993	1994-1996	1997-1999	2000-2002	2003-2005	2006-2008	2009-2011	2012-2014	2015-2016*
Bilateral	-	-	4.95	11.39	10.64	12.39	12.34	11.74	11.98
UNDP	12.66	13.00	12.90	12.87	13.19	18.22	14.04	13.86	12.47
UNEP**	13.00	13.00	13.00	9.68	7.26	7.85	7.67	7.17	8.18
UNIDO	12.98	12.99	12.59	13.41	11.65	14.42	11.74	13.57	12.54
World Bank	2.81	8.58	11.38	10.04	9.84	10.15	13.34	11.01	10.36
Average	6.15	10.94	11.85	11.63	10.74	12.03	12.09	12.02	11.21

(*) Include only two years of the triennium.

(**) Include the agency PSC of the Compliance Assistance Programme (approved for the first time in 2001), but does not include the administrative costs paid as direct costs as part of the Compliance Assistance Programme.

20. It's important to note that the administrative costs for certain periods were slightly above 13.0 per cent were mainly due to the introduction of the budgets for the Compliance Assistance Programme and

⁷ At its 33rd meeting in March 2001, the Executive Committee *inter alia* adopted as the basis for future work in strategic planning the framework on the objectives, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period (decision 33/54(a)).

⁸ At its 17th meeting in July 1995, the Executive Committee decided *inter alia* to allocate funding for investment projects as follows: World Bank 45 per cent, UNDP 30 per cent and UNIDO 25 per cent. Any shortfall in the shares of the World Bank and UNDP would be filled by UNIDO project approvals; UNDP and UNIDO would coordinate their project preparation activities in low-ODS-consuming countries, so that only one agency would be responsible for each such country (decision 17/21(a)(i)).

⁹ UNEP/OzL.Pro/ExCom/35/8 Add.1, and decision 35/36.

¹⁰ A similar analysis was presented in the document on the review of the administrative cost regime for the 2015-2017 triennium (UNEP/OzL.Pro/ExCom/73/51*). The minor differences in some of the figures in that analysis from the analysis in Table 1 is due to projects that had been closed and balances returned to the Fund, or projects that have been transferred to other agencies.

the core units of the implementing agencies that contributed to upward spikes in the overall ratio of administrative costs to project costs that set in when the project approvals decreased (e.g., UNDP in 2004, 2006, 2007 and 2009; UNIDO in 2006, 2007 and 2009; and the World Bank in 2010). Also, during the 2006-2008 and 2009-2011 triennia most of the funding approvals were related to addressing the phase-out of CFCs mainly used in the refrigeration servicing sector (where the cost-effectiveness was capped at US \$5.00/kg for non-low volume consuming (LVC) countries), and when investment and non-investment activities for the phase-out of HCFCs had not fully started.

Some perspectives on the reporting format

Current methodology and procedure

21. The current format for annually reporting expenditures on core unit costs and other administrative costs was introduced only in 2004. However, no guidelines were given to the implementing agencies with regard to tasks and/or activities covered by the core unit component and those covered under the administrative component. This lack of clarity is seen in the different types of information on core unit components presented in the reports submitted by the implementing agencies.¹¹ Consultations between the Secretariat and the implementing agencies in the clearance of the annual reports on the budgets for core units and the Compliance Assistance Programme, have constantly pointed at the need to improve the format used for the reports on administrative costs.¹²

22. A review of the questionnaire revealed that the implementing agencies' internal systems of reporting on central services follow standard operational policies specific to each agency in itemizing costs, especially on staff and travel. Implementing agencies indicated that most staff not only implement projects but are also responsible for core unit functions; costs of some administrative functions are simultaneously covered by both agency PSC and the core unit budget. There are, however, instances when costs of functions defined as project implementation or project costs are reported as core unit costs and vice-versa. In considering reporting on the estimated 2015 data by source of funding and functional area, the agencies indicated that they could not disaggregate data from their 2015 accounts and progress reports without affecting the integrity of data.

23. The review also addressed the roles and responsibilities of the lead and cooperating agencies.¹³ Feedback from the questionnaire indicates that the role of the lead implementing agency is charged either to core unit or agency PSC of UNDP, UNIDO and the World Bank. For UN Environment it is charged to the Compliance Assistance Programme budget. Therefore costs associated with the lead agency role are always of an administrative nature.

¹¹ Paragraph 32 of document UNEP/OzL.Pro/ExCom/56/19 indicates that UN Environment agency support costs are used for support for central services while for the other implementing agencies are used for staff to support project implementation with small central service components.

¹² Previous studies on administrative costs highlighted the differences in the accounting systems of each of the implementing agencies, and their responsibility to extract information from their accounting/information systems in completing any reporting formats approved by the Executive Committee.

¹³ The roles and responsibilities are defined in each agreement between a country and the Executive Committee for the implementation of a sector or national plan. The activities by lead and cooperating agencies include, *inter alia*: assisting in preparing implementation plans and reporting; providing verification that the targets of the agreement have been met and annual activities have been completed; ensuring that experts carry out the technical reviews; and ensuring that disbursements are based on verifiable indicators.

24. The impact of implementation on managing core unit budgets in relation to the International Public Sector Accounting Standards (IPSAS¹⁴) was also addressed in the review.¹⁵ Responses to the questionnaire show that IPSAS and the cash accounting system used by the World Bank provide for separate reporting on core and agency PSC earnings. As such, the accounting systems in use by the implementing agencies have no effect in reporting on core unit and agency PSC separately. However, IPSAS and the accounting standards used by the World Bank do not accommodate reporting costs cutting across the standard component of the core unit budgets of the implementing agencies and of the Compliance Assistance Programme, agency PSC, and project activities as requested in Table 4 of the questionnaire. Such detailed reporting would be time consuming and would require additional resources to manage.

25. As requested in the TOR, the study also reviewed the administrative costs in relation to PMUs which are funded as part of sectoral or national phase-out management plans in both LVC and non-LVC countries. Depending on local circumstances, PMUs have not been established particularly in some LVC countries; or have been constituted under the NOUs, with some staff paid by the phase out plan; or have been established for implementing the phase-out plan, particularly in countries with significant ODS consumption. About 5 to 10 per cent (for non-LVC countries) and up to 20 per cent (for LVC countries) of the total funding requested for phase-out plans are for establishing PMUs. In addressing this request, a new reporting category for the PMUs was introduced in one version of the draft revised format. The implementing agencies indicated that introducing a reporting category for PMUs would present major reporting challenges as their systems had so far not been designed to facilitate standardized reporting across different funding sources.

26. Given that PMUs are an integral component of national phase-out projects and are included as part of the overall project cost, they are carefully reviewed during the project review process by the Secretariat, but all costs in the project submissions are directly related to implementation.

27. Also progress and financial reports of all project components including the PMUs are submitted when a funding tranche is requested for approval by the Executive Committee. Common costs for PMUs could be similar to those for core units and assessed accordingly. However, implementing agencies would have to establish these costs in their initial agreements with countries. Moreover, an analysis of the impact of PMU costs on overall administrative costs to the Multilateral Fund would need to be performed based on such costs. As it would not be possible to identify common cost categories to provide for standardized project management costs reporting, there was agreement not to include a separate category on PMU to report on administrative costs. Any changes necessary to report PMU costs separately must consider *inter alia* the legal framework and systems of the implementing agencies, the Executive Committee project approval process, the roles and responsibilities of the government vis-a-vis the agency and the evolution from individual projects to sectoral and national programmes.

Proposed revised format for reporting administrative costs

28. Taking into account the internal procedures of the implementing agencies, the Secretariat adjusted the reporting format and included a list of the activities and/or tasks for each of the major components of administrative costs. The revised format is attached as Annex II to this document. The

¹⁴ Through its resolution 60/283, section IV of 7 July 2006, the UN General Assembly approved the adoption by the UN of IPSAS, which were developed by the IPSAS Board (IPSASB), a non-UN entity. Some UN programmes, funds and agencies are already using IPSAS in their financial reporting. With the adoption of IPSAS, the UN will move to full accrual accounting.

¹⁵ UNDP and UN Environment use IPSAS; UNIDO's financial statements are based on IPSAS and its budgeting is based on UNSAS; and the World Bank uses a cash receipt and disbursement accounting system.

implementing agencies were consulted on the proposal and their concerns were taken into account in finalizing it.

29. The proposed revised format contains adjustment rows under core unit and agency PSC/implementation category to absorb balance/overruns to accommodate costs of activities that cut across core and agency PSC functions. It includes a list of indicative activities and/or tasks admissible for administrative costs. The list reflects the functions to be carried under each funding source as a guide to use funding for the purpose for which it has been assigned and to limit deviations from the approved funding by the Executive Committee. In the light of the differences in the implementing agencies' accounting systems as well as their own internal policies and procedures that could limit a certain level of detail in reporting, the revised format requests the agencies to report on the methodology used.

30. A revised format for reporting the Compliance Assistance Programme budget to be aligned with the other implementing agencies was also considered pursuant to the objectives of the review. However, it is important to note that the Compliance Assistance Programme budget is designed to deliver compliance assistance services in conjunction with managing and implementing institutional strengthening projects and HCFC phase-out management plans (HPMPs).

31. The staffing component in the Compliance Assistance Programme budget structure reflects a functional approach of project implementation by region. Staff functions are cross cutting and the staff does not separate their roles when delivering on the Compliance Assistance Programme portfolio. The Compliance Assistance Programme staff spends a high percentage of time on project follow-up and oversight across multilateral funded activities.

32. Taking into account the detailed breakdown of activities in the Compliance Assistance Programme budget, and the comprehensive reporting system in place, it was concluded that the revision of the reporting format was not necessary at this point. Also, it should be noted that by decision 77/38(c), the Executive Committee requested UN Environment to review the overall structure of the Compliance Assistance Programme and to consider its operations and regional structure in addressing emerging needs and new challenges.

Outlook on the administrative cost regime for the 2018-2020 triennium

33. The Executive Committee has reviewed the evolution of the administrative cost regime over decades to accommodate changing needs and circumstances of the Multilateral Fund. As a result, the four administrative regimes that have been approved by the Executive Committee over that period have maintained the overall administrative costs below 13 per cent, i.e., the benchmark set by the UN General Assembly in 1980. It is important to note that based on two-year funding approvals (i.e., 2015 and 2016), the overall administrative cost of the 2015-2017 triennium is currently below 12.0 per cent.

34. However, administrative costs of implementing phase-out activities in LVC countries are usually higher due to economies of scale. Unless the appropriate level of PSC in LVC countries is properly assessed, the financial burden of providing expertise and services in these countries is too heavy for the implementing agencies to bear. Presently, the additional cost of operating in a number of LVC countries is absorbed by the agency support costs earned from larger projects.

35. Given that at the 79th meeting the Executive Committee will consider the level of agency PSC for stages II of the HPMP for China in the consumption sector (approved in principle at the 77th meeting), and stage II of the HCFC production sector phase-out management plan (HPPMP) for China (document submitted to the Sub-group of the Production Sector), the Secretariat has included in this document a brief

analysis on how the agency PSC could be impacted by reducing the current 7.0 per cent level of these two projects.

Stage II of the HPMP for China

36. At its 77th meeting, the Executive Committee approved in principle stage II of the HPMP for China for the period 2016 to 2026 in the amount of US \$500,100,000. The Committee also approved funding for the first tranche of the HPMP in the amount of US \$49,992,700, plus agency PSC of US \$3,698,676, calculated at 7 per cent of the total costs for UNDP, UNIDO and the World Bank. In approving in principle stage II, the Executive Committee decided that the agency PSC for future tranches would be determined at a future meeting (decision 77/49).

37. UNDP as the lead implementing agency of stage II of the HPMP for China had submitted to the 79th meeting the draft Agreement between the Government of China and the Executive Committee for the reduction in consumption of HCFCs in accordance with stage II of the HCFC phase-out management plan for China.¹⁶ The draft agreement does not indicate the agency PSC from the second tranche whose consideration is scheduled for the 80th meeting. UNDP has indicated that while the levels are still pending, the implementing agencies strongly recommended that they be maintained at the same levels as in stage I of the HPMP. This is because of the increased level of complexity in the implementation of stage II and the larger number of small and medium-sized enterprises involved, which will require more support due to their limited management and technical capacities. The implementing agencies indicated that any reduction in agency PSC would have a significant negative impact on effective implementation.

38. In order to assist the Executive Committee decide on the levels of agency support costs for stage II of the HPMP for China, the Secretariat's analysis, which was based on the 2017-2019 consolidated business plan and stage II of the HPMP for China as mentioned above, considered agency support costs of 7.0 per cent (similar to stage I of the HPMP), 6.5 and 6.0 per cent applicable only to the funding components of UNDP, UNIDO and the World Bank. The results of the analysis are presented in Table 2.

Table 2. Analysis of the agency PSC of the Multilateral Fund at different levels of agency support costs for stage II of the HPMP for China ('000 US \$)

Agency	2017		2018		2019		2020		2017-2020	
	Project	PSC	Project	PSC	Project	PSC	Project	PSC	Project	PSC
7.0 per cent										
Funding										
Bilateral	2,448	295	9,326	1,063	991	124	3,285	373	16,050	1,855
UNDP	36,000	4,595	52,156	5,745	32,716	4,391	70,744	7,077	191,615	21,807
UNEP	23,806	1,592	24,983	2,071	23,009	1,449	29,688	2,644	101,486	7,756
UNIDO	41,861	5,021	66,928	6,775	32,798	4,395	95,938	8,864	237,525	25,055
World Bank	39,323	4,188	48,004	4,807	45,702	4,658	44,121	4,560	177,150	18,213
Total	143,438	15,690	201,397	20,461	135,216	15,018	243,776	23,517	723,826	74,685
Per cent PSC										
Bilateral		12.0%		11.4%		12.5%		11.3%		11.6%
UNDP		12.8%		11.0%		13.4%		10.0%		11.4%
UNEP		6.7%		8.3%		6.3%		8.9%		7.6%
UNIDO		12.0%		10.1%		13.4%		9.2%		10.5%
World Bank		10.6%		10.0%		10.2%		10.3%		10.3%
Total		10.9%		10.2%		11.1%		9.6%		10.3%

¹⁶ UNEP/OzL.Pro/ExCom/79/30.

Agency	2017		2018		2019		2020		2017-2020	
	Project	PSC	Project	PSC	Project	PSC	Project	PSC	Project	PSC
6.5 per cent										
Bilateral	2,448	295	9,326	1,063	991	124	3,285	373	16,050	1,855
UNDP	36,000	4,476	52,156	5,670	32,716	4,294	70,744	6,979	191,615	21,419
UNEP	23,806	1,592	24,983	2,071	23,009	1,449	29,688	2,644	101,486	7,756
UNIDO	41,861	4,897	66,928	6,645	32,798	4,279	95,938	8,746	237,525	24,567
World Bank	39,323	4,135	48,004	4,760	45,702	4,595	44,121	4,496	177,150	17,986
Total	143,438	15,395	201,397	20,208	135,216	14,742	243,776	23,237	723,826	73,582
Per cent PSC										
Bilateral		12.0%		11.4%		12.5%		11.3%		11.6%
UNDP		12.4%		10.9%		13.1%		9.9%		11.2%
UNEP		6.7%		8.3%		6.3%		8.9%		7.6%
UNIDO		11.7%		9.9%		13.0%		9.1%		10.3%
World Bank		10.5%		9.9%		10.1%		10.2%		10.2%
Total		10.7%		10.0%		10.9%		9.5%		10.2%
6.0 per cent										
Bilateral	2,448	295	9,326	1,063	991	124	3,285	373	16,050	1,855
UNDP	36,000	4,357	52,156	5,595	32,716	4,198	70,744	6,881	191,615	21,032
UNEP	23,806	1,592	24,983	2,071	23,009	1,449	29,688	2,644	101,486	7,756
UNIDO	41,861	4,774	66,928	6,515	32,798	4,163	95,938	8,628	237,525	24,079
World Bank	39,323	4,082	48,004	4,712	45,702	4,531	44,121	4,433	177,150	17,758
Total	143,438	15,099	201,397	19,956	135,216	14,466	243,776	22,958	723,826	72,479
Per cent PSC										
Bilateral		12.0%		11.4%		12.5%		11.3%		11.6%
UNDP		12.1%		10.7%		12.8%		9.7%		11.0%
UNEP		6.7%		8.3%		6.3%		8.9%		7.6%
UNIDO		11.4%		9.7%		12.7%		9.0%		10.1%
World Bank		10.4%		9.8%		9.9%		10.0%		10.0%
Total		10.5%		9.9%		10.7%		9.4%		10.0%

39. The review indicates:

- (a) The funding requests indicated in the 2018-2020 triennium consist of tranches of HPMPs that have been approved in principle, renewals of institutional strengthening projects and recurrent costs (i.e., Compliance Assistance Programme and core unit of the implementing agencies, and the Secretariat budget), and estimated amounts of tranches of stage II of HPMPs that are yet to be submitted. Therefore, the funding requests and associated agency PSC will change once new projects are approved;
- (b) The first tranche of stage II of the HPMP for China was approved at the total funding of US \$49,992,700, plus agency support costs of US \$3,698,676 for all bilateral and implementing agencies associated with the project;
- (c) The remaining funding that was approved in principle totals US \$450,107,300 will be requested between 2017 and 2026. This funding consists of US \$17,696,003 for bilateral agencies and UN Environment, and US \$432,411,297 for UNDP, UNIDO and the World Bank;
- (d) The total agency PSC for the bilateral agencies and the UN Environment based on the current administrative cost regime would be US \$1,978,214 for the 2017-2026 period (US \$2,497,373 for the entire Agreement);

- (e) The total agency PSC for UNDP, UNIDO and the World Bank would be US \$30,268,791 calculated at 7.0 per cent; US \$28,106,734 at 6.5 per cent; and US \$25,944,678 at 6.0 per cent. The result is a difference of US \$4,324,113 between the higher and the lower agency PSC levels. Table 3 below highlights the differences by implementing agency and level;

Table 3. PSC for stage II of the HPMP for China by implementing agency and level

Agency	Project (US\$)	PSC (7.0%)	PSC (6.5%)	PSC (6.0%)
UNDP	120,216,670	8,415,167	7,814,084	7,213,000
UNIDO	177,768,444	12,443,791	11,554,949	10,666,107
World Bank	134,426,183	9,409,833	8,737,702	8,065,571
Total	432,411,297	30,268,791	28,106,734	25,944,678

- (f) The administrative cost of the Multilateral Fund would be below 12 per cent even when the agency PSC for stage II of the HPMP for China are maintained at 7.0 per cent.

Stage II of the HPPMP for China

40. In addition to stage II of the HPMP for China, the World Bank and the lead implementing agency have submitted to the 79th meeting a request for stage II of the HPPMP for China totalling US \$268,230,000, plus agency PSC of US \$15,020,880 (calculated at 5.6 per cent of the project). Funding tranches are requested annually between 2017 and 2024.

41. In order to assist the Executive Committee decide on appropriate levels of agency PSC for stage II of the HPPMP for China, the Secretariat analysed agency PSC of 5.6 per cent (similar to stage I of the HPPMP), 5.1 and 4.6 per cent. The result was a difference of US \$2,682,000 between the higher and lower and agency PSC. The results of the analysis are presented in Table 4.

Table 4. Analysis of the agency PSC for stage II of the HPPMP for China (*000 US \$)

Description	2017	2018	2019	2020	2021	2022	2023	2024	Total
5.60 per cent									
Project	51,460	51,460	51,460	22,770	22,770	22,770	22,770	22,770	268,230
PSC	2,882	2,882	2,882	1,275	1,275	1,275	1,275	1,275	15,021
Total	54,342	54,342	54,342	24,045	24,045	24,045	24,045	24,045	283,251
5.1 per cent									
Project	51,460	51,460	51,460	22,770	22,770	22,770	22,770	22,770	268,230
PSC	2,624	2,624	2,624	1,161	1,161	1,161	1,161	1,161	13,680
Total	54,084	54,084	54,084	23,931	23,931	23,931	23,931	23,931	281,910
4.6 per cent									
Project	51,460	51,460	51,460	22,770	22,770	22,770	22,770	22,770	268,230
PSC	2,367	2,367	2,367	1,047	1,047	1,047	1,047	1,047	12,339
Total	53,827	53,827	53,827	23,817	23,817	23,817	23,817	23,817	280,569

Some observations from the review

42. The review on the Multilateral Fund administrative cost regime included a comprehensive questionnaire (attached as Annex IV to the present document), which was designed to address the broad objectives of the study as outlined in the terms of reference, which were to, among others: determine the appropriate level of programme support costs required to administer projects/programmes financed by the Multilateral Fund; update the definitions of all relevant components of administrative costs, including core unit costs, the Compliance Assistance Programme, PMUs, and project costs in relation to IPSAS for the UN agencies; and assess the itemized reporting format of core unit versus administrative costs.

43. The following are some of the observations from the review:
- (a) The regime has maintained the agency PSC at the appropriate level for the effective implementation of Multilateral Fund supported projects and programmes as demonstrated in Table 1 above;
 - (b) In assessing an itemized reporting format of core unit versus administrative costs, the nature of administrative costs varies primarily between the costs of those agencies implementing investment projects and UN Environment, but core unit costs are comparable among those agencies receiving such costs;
 - (c) The definitions of all relevant components of administrative costs must be kept in mind and are included in Annex II to the present document as a guide to the implementing agencies in reporting on administrative costs; and
 - (d) According to the scenarios analysis on the 2017-2019 consolidated business plan and the agency PSC of stages II of the HPMP and HPPMP for China, a potential reduction of the level of agency PSC may have broad implications for implementing agencies in terms of effective support to Article 5 in order for them to meet their obligations under the Montreal Protocol.

Recommendation

44. The Executive Committee may wish:
- (a) To note the report on the review of the administrative cost regime and its core unit funding budget (decision 75/69) contained in document UNEP/OzL.Pro/ExCom/79/43;
 - (b) To note with appreciation the information provided by the implementing agencies through the questionnaire that was developed to collect information on administrative costs;
 - (c) To consider maintaining the current administrative cost regime of the Multilateral Fund for the 2018-2020 triennium and keep it under review as relevant for subsequent triennia;
 - (d) To request UNDP, UNIDO and the World Bank to present their annual report on core unit funding using the revised format contained in Annex II to the present document; and
 - (e) To request the Secretariat to continue monitoring the administrative costs regime and report back to the Executive Committee, as relevant.

Annex I

SUMMARY OF THE ADMINISTRATIVE COST REGIMES OF THE MULTILATERAL FUND

Administrative reference

1. In decision 80/44 (27 June 1980), the UNDP Governing Council approved a programme support costs rate of 13 per cent of annual project expenditures. In its report on the programme support cost arrangements embodied in decision 80/44, the Advisory Committee on Administrative and Budgetary Questions recommended that the UNDP formula be approved by the General Assembly for use by the United Nations Secretariat. This recommendation was accepted in resolution 35/217 of 17 December 1980 and remains in force.

2. The purpose of programme support cost charges is to recover the incremental costs incurred when supporting activities are financed from extra-budgetary contributions. Incremental costs can be divided into two basic categories, as described below:

- (a) Direct costs are readily and directly attributed to, and recovered, either wholly or in part, from an operation, programme or project financed from extra budgetary contributions. These costs include but are not limited to: substantive and operational staffing, facilities, equipment and activities, and programme services (i.e., planning, resource mobilization, monitoring, evaluation and management). They may also include direct costs pertaining to the administration of human, financial, physical and information technology resources (e.g., service costs). All direct costs should be financed by the relevant operation, programme or project; and
- (b) Indirect costs cannot be traced unequivocally to specific activities, projects or programmes. They include costs incurred by services providing administrative and other support functions to a range of operations, programmes and projects. These costs include but are not limited to: the central administration of human, financial, physical and information technology resources; staffing, facilities, equipment, activities and legal liabilities; the implementation of UN-wide initiatives (e.g., Umoja and IPSAS implementation); and oversight (the Office of Internal Oversight Services and the Board of Auditors). They may also include indirect (or overarching) costs pertaining to central programme services (planning, resource mobilization, monitoring, evaluation and management). Indirect costs are appropriately, and cost-effectively, recovered through the support costs charge expressed as a percentage of direct costs.

Administrative cost regimes of the Multilateral Fund

3. The terms of reference of the Interim Multilateral Fund states that “the implementing agencies shall be entitled to receive support costs for the activities they undertake having reached specific agreements with the Executive Committee.”¹⁷

4. Resources for administrative costs for the implementation of the Multilateral Fund programme have been considered by the Executive Committee since the establishment of the Multilateral Fund. This has resulted in four distinctive administrative cost regime of the Multilateral Fund, as briefly describe below.

¹⁷ Paragraph 6 of Annex I of Appendix 4 of decision II/8.

First administrative cost regime

5. The first administrative cost regime was used up to 1998. At its 1st meeting (September 1990), the Executive Committee requested the Executive Director of UN Environment to secure the approval of the Secretary-General of the United Nations for establishing the Interim Multilateral Ozone Fund in accordance with the financial rules and regulations of the United Nations and for its administration by the Executive Director of UN Environment. In its presentations to the Executive Committee, UN Environment stated that no additional charge would be required for operating as "Treasurer" of the Fund and that all associated costs would be covered by its overhead charge assessed against the funds it received in its role as one of the implementing agencies¹⁸. Furthermore, the Committee invited the implementing agencies (i.e., UNDP, UN Environment and the World Bank) to develop an inter-agency agreement and specific agreements with the Executive Committee acting on behalf of the Parties.¹⁹ The proposed structure for the specific agreements included, under financial provisions, inter alia reimbursement, applicable financial regulations and rules, and support costs.²⁰

6. At the 3rd meeting (April 1991), the Executive Committee considered the proposed initial work programmes and related budgets for 1991 of the UNDP,²¹ UN Environment²² and the World Bank²³. Further to a discussion, the Executive Committee *inter alia* requested the implementing agencies, together with the Secretariat, to develop the work programmes further into an integrated work programme to be submitted to the 4th meeting, and allocated additional amounts of US \$1 million to the World Bank and US \$250,000 to UNDP, emphasizing that those sums should be used for effective operational purposes and not for administrative and support activities.²⁴

7. At the 4th meeting (June 1991), the Executive Committee approved the first work programmes for UNDP, UN Environment and the World Bank. Each of the activities submitted by UNDP and UN Environment included 13 per cent support costs. Because of the special nature of its financial system's operations, only a pre-approved budget for the costs of administering projects was requested by the World Bank.²⁵ At the 9th meeting (March 1993), the Executive Committee approved funding for the implementation of phase-out projects by UNIDO²⁶ as the fourth implementing agency of the Multilateral Fund, including 13 per cent support costs. Support costs of 13 per cent for projects submitted by the World Bank were approved for the first time at the 18th meeting (November 1995). Up to the 28th meeting (July 1999) projects submitted by non-Article 5 countries as bilateral cooperation did not include requests for support costs.²⁷ There were few bilateral programmes during that time but most of them received no agency fees as those funds were considered to be contributions and the projects were largely technical assistance activities.

8. During the first administrative cost regime, at the 14th meeting (September 1994) the Executive Committee considered a study on the administrative costs of the Financial Mechanism²⁸ prepared by a

¹⁸ Paragraph 13 of document UNEP/OzL.Pro/ExCom/1/2.

¹⁹ Paragraph 21 of document UNEP/OzL.Pro/ExCom/1/2.

²⁰ Annex IV of document UNEP/OzL.Pro/ExCom/1/2.

²¹ UNEP/OzL.Pro/ExCom/3/8.

²² UNEP/OzL.Pro/ExCom/3/9/Rev.1.

²³ UNEP/OzL.Pro/ExCom/3/10/Rev.1.

²⁴ Paragraphs 66 and 69 of document UNEP/OzL.Pro/ExCom/3/18/Rev.1.

²⁵ The World Bank did not request agency support costs due to the special nature of its financial system's operations, but rather a pre-approved budget for the cost of administering projects.

²⁶ UNIDO attended the 7th meeting (June 1992) for the first time.

²⁷ From the 28th to the 34th meeting (July 2001) not all of the non-Article 5 countries that submitted project proposals as bilateral cooperation requested support costs.

²⁸ UNEP/OzL.Pro/ExCom/14/12.

consultant. The purpose of the study was to define what should be regarded as eligible administrative costs of operating the Multilateral Fund, taking into account different practices amongst the implementing agencies and, as far as practical, comparable practices in other aid agencies. The study recommended either leaving the existing system unchanged even though it was not particularly transparent, or having the Executive Committee consider and approve annual budgets for agency co-ordination units and individual projects on the basis of agreed pro-forma budgets which made administrative costs totally transparent. Actual costs of co-ordination units and project costs in aggregate would be reported in basically the same format. No percentage of administrative support costs would then be paid.²⁹ During the discussion, some members said that the study had shown that the administrative costs were comparable to those under other funds and had put to rest any concerns about the possibility of windfall profits to the implementing agencies. Many believed that detailed reporting, while possible, was not worthwhile as it imposed a heavy and costly burden on both the Secretariat and the implementing agencies. Several members supported payment of administrative costs on the basis used by some United Nations agencies of 13 per cent of programme costs.³⁰ The Executive Committee did not approve the recommendation contained in the study prepared by the consultant.

Second administrative cost regime

9. The second administrative cost regime of the Multilateral Fund was approved at the 26th meeting (November 1998). At that meeting, the Executive Committee considered a study on the administrative costs of the implementing agencies³¹ prepared by a consultant³², in response to decision VIII/4 that requested "that the Executive Committee, over the next three years, 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". In accordance with this decision, the consultant would work with the Secretariat and the implementing agencies to identify options and approaches for reducing the overall level of administrative costs, focusing on revising the current uniform, fee-based approach. The study also proposed a number of definitions of administrative costs, which are currently used by the Multilateral Fund (these definitions are contained at the end of the present document).

10. During the discussion, concern was expressed at the lack of any common definition of administrative costs; it was also recognized that in general large-scale projects involved a lower level of administrative costs due to economies of scale. Certain projects, such as non-investment projects, clearly involved higher administrative costs than others. Moreover, small-scale projects in low-volume consuming countries had higher administrative costs and smaller countries required more administrative services from the implementing agencies, so it was important to ensure that any reduction of support costs did not have a negative impact on those countries.³³ In concluding, the Executive Committee decided to apply agency fee rates as follows: 13 per cent on projects up to a value of US \$500,000; for projects with a value exceeding US \$500,000 but up to and including US \$5,000,000, 13 per cent applied on the first US \$500,000 and 11 per cent on the remaining balance; and for projects with a value exceeding US \$5 million a rate would be assessed on a case-by-case basis (decision 26/41).

11. These agency fees are still applied to bilateral agencies and to project proposals submitted by UN Environment, except for the Compliance Assistance Programme and institutional strengthening projects.

²⁹ Paragraph 6 of Annex B of document UNEP/OzL.Pro/ExCom/14/12.

³⁰ Paragraph 72 of document UNEP/OzL.Pro/ExCom/14/15.

³¹ UNEP/OzL.Pro/ExCom/26/67.

³² PricewaterhouseCoopers.

³³ Paragraphs 74 and 75 of document UNEP/OzL.Pro/ExCom/26/70/Corr.1.

Third administrative cost regime

12. In 2001-2002, in the context of the strategic planning of the Multilateral Fund, the Executive Committee adopted the country-driven approach,³⁴ and eliminated the agency shares of investment project funds.³⁵ The Executive Committee, however, enabled the implementing agencies to continue administrative activities regardless of the level of administrative costs generated by projects. It also agreed to provide core unit costs to UNDP, UNIDO and the World Bank, with a reduction of the graduated agency support cost rates that had been introduced as part of the second administrative cost regime.

13. At the 35th meeting in December 2001, the Executive Committee for the first time considered and approved the Compliance Assistance Programme (CAP) budget,³⁶ which provided for UN Environment staff and other resources to enhance its capacity for effective support to Article 5 countries. The CAP budget included core budgets (similar to those of UNDP, UNIDO and the World Bank), as well as activities that the Executive Committee considered important to Montreal Protocol compliance. The standard budget items were as follows:

- (a) Project personnel component, for staff, consultants, volunteers and staff travels costs;
- (b) Sub-contract component, for cooperating agencies, supporting agencies and for-profit entity costs;
- (c) Training component, for training and meeting participation costs;
- (d) Equipment and premises component, for expendable and non-expendable equipment and premise rental costs; and
- (e) Miscellaneous components, for operations and maintenance, reporting, sundry, hospitality costs and monitoring and evaluation costs.

14. This approval adjusted decision 26/41 by removing the agency support costs for institutional strengthening projects under UN Environment while providing a budget for staff to oversee such projects and assigning an agency fee of 8 per cent on all Compliance Assistance Programme costs.

15. At the 38th meeting (November 2002), the Executive Committee adopted a new administrative cost regime for the 2003-2005 triennium that included US \$1.5 million per year, subject to annual review, for a core unit funding budget for UNDP, UNIDO and the World Bank, applying in addition an agency fee of 7.5 per cent for projects with a project cost at or above US \$250,000, as well as for institutional strengthening projects and project preparation, and an agency fee of 9 per cent for projects with a project cost below US \$250,000, including country programme preparation. Implementing agencies were urged to strive toward achieving optimization of these support costs, taking into account the goal of decision VIII/4 to reduce agency support costs to an average below 10 per cent, recognizing that new challenges in

³⁴ At its 33rd meeting in March 2001, the Executive Committee *inter alia* adopted as the basis for future work in strategic planning the framework on the objectives, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period (decision 33/54(a)).

³⁵ At its 17th meeting in July 1995, the Executive Committee decided *inter alia* to allocate funding for investment projects as follows: World Bank 45 per cent, UNDP 30 per cent and UNIDO 25 per cent. Any shortfall in the shares of the World Bank and UNDP would be filled by UNIDO project approvals; UNDP and UNIDO would coordinate their project preparation activities in low-ODS-consuming countries, so that only one agency would be responsible for each such country (decision 17/21(a)(i)).

³⁶ UNEP/OzL.Pro/ExCom/35/8 Add.1, and decision 35/36.

the implementation of projects during the compliance period would require substantial support from implementing agencies. The Committee also decided to review the administrative cost regime and its core unit funding budget at the 41st meeting (December 2003) (decision 38/68).

16. Implementing agencies agreed at that meeting to provide data on the actual costs for the core unit and other support activities in an agreed format,³⁷ consisting of the following three components:

- (a) A core unit component, which is limited to the core unit's staffing, travel, space, equipment and supplies, contractual services and central or common services reimbursement;
- (b) An administrative component, which includes a fair allocation of country or field office costs for the Multilateral Fund's workload based on its proportion to the total workload; and administration costs of execution agencies or national governments or financial intermediaries or consultants in their capacity of direct executing arms of projects; and
- (c) A supervisory component, which includes a fair allocation of the Montreal Protocol Unit.

Fourth administrative cost regime

17. At the 67th meeting (July 2012), the Executive Committee considered a document on options for an administrative cost regime for the 2012-2014 triennium.³⁸ This document was prepared by the Secretariat in response to (decision 64/6(c)(iii)) when the Executive Committee requested the Secretariat to consider, in the context of its review of administrative costs, whether the current administrative cost regime continued to be appropriate in light of the changing roles and portfolios of implementing agencies, and to propose options for ensuring that the overall administrative cost ratio remained within the historical average or lower.

18. Based on the review by the Secretariat, for the 2012–2014 triennium the Executive Committee decided to continue to apply the existing administrative cost regime to the bilateral agencies and UN Environment; to apply a new administrative cost regime to UNDP, UNIDO and the World Bank, consisting of annual core unit funding for which an annual increase of up to 0.7 per cent could be considered subject to annual review, and to apply an agency fee of 7 per cent for projects with a project cost above US \$250,000, including institutional strengthening projects and project preparation, an agency fee of 9 per cent for projects with a project cost at or below US \$250,000; and an agency fee no greater than 6.5 per cent, to be determined on a case-by-case basis for projects in the production sector. The Committee also decided to review the administrative cost regime and its core unit funding budget at the 67th meeting (decision 67/15).

Administrative costs at other financial mechanisms

19. This section briefly describes the support costs of other financial institutions.

³⁷ Annex I of document UNEP/OzL.Pro/ExCom/38/59. Prior to the 38th meeting, disbursements on administrative costs were reported in implementing agencies' annual progress reports as a percentage of the level of project funds disbursed.

³⁸ UNEP/OzL.Pro/ExCom/67/17.

UN Secretariat

20. The UN Secretariat applies a schedule of programme support cost rates, based upon clearly defined criteria: 13 per cent on all voluntary contributions where the UN retains primary and overarching programmatic responsibility, and is the first or primary recipient of these funds; 7 per cent on all voluntary contributions in support of inter-agency and "Delivering As One" programmes and collaboration with other multilateral institutions where valid inter-agency arrangements apply; and 3 per cent on all voluntary contributions for projects that are entirely implemented by other UN organizations, NGOs or Government services.

Global Environment Facility (GEF)

21. The GEF has a fee-based approach with a rate of 9.5 per cent for projects up to US \$10 million and 9 per cent above that level. Its regular programme rates range from 8 to 9 per cent but its small grants project programme has a rate of 4 per cent. This fee was put in place in June 2012. These agency fees cover the following functions: project preparation, agency project approval, project implementation, project completion and evaluation support, policy support and all reporting to the Secretariat and Council.

Green Climate Fund (GCF)

22. The GCF has provided interim guidance on fees for its accredited entities based on guidance provided to the Eleventh meeting of its board.³⁹ The guidance suggests a percentage of fees for grants and concessional loans based on whether the activity is for mitigation or adaptation and cross-cutting⁴⁰ activities.

23. Fees for grants/loans are up to 10 per cent below US \$10 million, 9 per cent between US \$10 and US \$20 million, 8 per cent between US \$50 and US \$250 million and 7 per cent for projects larger than US \$250 million. All fees are negotiated on a case-by-case basis. Management fees are included as part of equity investments but are considered as part of the investment instead of additional to the investment.

24. The following services are provided as part of the GCF fees: proposal preparation; project or programme implementation and supervision; project or programme completion and evaluations; and reporting. Fees paid to an accredited entity will not duplicate other forms of support provided to the entities, such as technical assistance. Fees are capped at 10 per cent for readiness grants.

Adaptation Fund

25. The Adaptation Fund caps its implementing entity fees at 8.5 per cent⁴¹ and its execution costs at 9.5 per cent.⁴² These activities include project cycle management, staffing costs and project-related activity expenditures. Project preparation is capped at US \$30,000 including agency fees.

Other financial mechanisms

26. The Clean Technology Fund and the Strategic Climate Fund essentially reimburse administrative costs based on administrative budgets to reimburse multilateral development banks for their activities. The Clean Technology Fund pays 0.18 per cent semi-annually and 0.45 per cent up-front for loans, and

³⁹ Decision B.11/10, Annex III.

⁴⁰ Activities that address both mitigation and adaptation objectives.

⁴¹ Adaptation Fund Board decision B.13/17.

⁴² Adaptation Fund Board decision 12/28.

guarantees and grants cannot exceed 5 per cent of the grant level.⁴³ The Strategic Climate Fund reimburses developments for their associated staff, consultants, travel and related costs of project development, appraisal, implementation support, supervision and reporting.

27. The Global Fund also reimburses for what it calls overhead costs depending on the recipient. International non-governmental organisations receive costs of up to 7 per cent and local NGOs received up to 5 per cent of the project amount.⁴⁴

⁴³ ICF International. 2013. Independent Evaluation of the Climate Investment Funds. Final Interim Report (pages 127 to 137).

⁴⁴ The Global Fund. 2015. Operational Policy Manual.

DEFINITION OF ADMINISTRATIVE COSTS⁴⁵

28. 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.

29. 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

30. 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

31. 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

Project implementation and monitoring

32. 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;

⁴⁵ Pages 8 to 10 of document UNEP/OzL.Pro/ExCom/26/67.

- Monitoring the progress of a project from an administrative point of view
- Reporting on results of projects and the program (preparing progress and project completion reports).

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
- Participating in meetings sponsored by the Executive Committee, and the Secretariat

Activities to be considered as project costs

33. 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 an 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
- Technical support provided at the programme or project level

Reimbursable elements of administrative cost

34. 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:

35. 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

36. 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

37. 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.

38. 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

39. 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
- Any costs charged to projects

Annex II

PROPOSED REVISED FORMAT FOR REPORTING ADMINISTRATIVE COSTS

1. The following table lists the elements of the core unit and implementation that constitute the overall administrative cost.

Description⁴⁶	Budget/cost⁴⁷(US\$)	Explanation⁴⁸
A. Core unit		
Core unit personnel and contractual staff		
Travel (staff and consultant)		
Space (rent and common costs)		
Equipment supplies and other costs (computers, supplies, etc.)		
Contractual services (firms)		
Reimbursement of central services for core unit staff		
Adjustments(+ = underuse and - = overrun)		
Return of funds (- = returned funds)		
A. Sub-total core unit costs		
B. Agency fee/implementation		
Reimbursement of country offices and national execution, including overheads		
Executing agency support cost (internal), including overheads		
Financial intermediaries, including overheads		
Reimbursement of central services for core unit staff (including overhead)		
Cost recovery		
Adjustments(+= overrun and - = underuse)		
Project costs (- = to be deducted and thus removed)		
B. Sub-total agency fee/implementation costs		
Grand total (A + B)		

⁴⁶ Indicate any change in methodology for reporting costs

⁴⁷ The format will continue to provide budget for previous year (e.g.2016) and actual costs, budget for current year (e.g. 2017) and estimated costs and planned budget for next year (e.g. 2018).

⁴⁸ clarify any change in budgets or estimated costs

2. The following is a list of indicative activities and/or tasks admissible for administrative costs.

Core activities

- Distil and distribute information on the Multilateral Fund programme, policies and procedures to field offices and/or operational staff
- Distribute information on the Multilateral Fund's programme to partners
- Submit and follow-up with the Fund Secretariat and Executive Committee on project proposals to the Executive Committee for approval.
- Coordinate each agency's efforts with the Fund Secretariat and internally with operational teams.
- Monitor the status and annual progress reports of project implementation
- Prepare annual business plans based on communications with national governments and operational staff about sector needs and priorities
- Follow up on implementation status, including country visits as necessary
- Provide input to the Fund Secretariat, Executive Committee, and Ozone Secretariat with policy briefs, papers and responses
- Participate in meetings sponsored by the Executive Committee, and the Fund Secretariat, as well as the Ozone Secretariat and other implementing agencies such as ozone officers' network meetings
- Prepare project proposals, and obtain project preparation budgets for larger projects
- Market the Montreal Protocol and prospect for new projects, including attending Montreal Protocol-relevant technology conferences
- Collect, review and pre-qualify applications
- Report to the Executive Committee and the Fund Secretariat on the project cycle (delays, balances, reconciliation, PCRs, etc.)
- Undertake knowledge management and outreach, including through workshops, website, publications, briefings
- Participate in the work of an international technical expert panel, including attending, meetings and preparing reports
- Adhere to internal processes, including core staff training, and evaluations, and attend, for example, management and corporate meetings

Implementation activities

- Supervise preparation of independent national verification reports, including for individual HPMPs for consumption and production activities
- Support and complete the preparation of tranche requests and progress reports
- Engage with governments and establish legal agreements in accordance with the IA project cycle and related policies and procedures (from IA-country concept through completion and evaluation)
- Prepare implementation agreements and terms of reference for subcontractors
- Mobilize implementation teams (executing agencies and consultants) for approved projects using appropriate bidding and evaluation mechanisms
- Process contractual and accounting documents associated with approved projects
- Coordinate data collection and management
- Report on results of projects and the programme (preparing agency project completion reports and contributing to and finalizing MLF project completion reports)
- Adhere to internal operational processes, including implementation support to the project, organizing and participating in regular supervision missions, and reporting on project status; and attend, for example, management meetings
- Implement the Compliance Assistance Programme (CAP) (UNEP)

Annex III

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 agencies;⁴⁹ and
 - (c) To further assess the itemized reporting format of core unit versus administrative costs as presented at the end in Annex III of the present document, 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

⁴⁹ 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.

costs;

- (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 regime⁵⁰ 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.

⁵⁰ 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.

Annex IV

QUESTIONNAIRE FOR THE ADMINISTRATIVE COST STUDY

Agency: _____

Staff providing input (title): _____

Date: _____

Part A. Methodology used by the Implementing Agencies (IAs) to report expenditures on PSC earned.

1. Are the project support costs (PSC) reported in the annual progress report (PR) the amount earned only or could your agency have immediate access to all PSC at the time of approval?
2. How is this information presented in the Financial Statements (FS)?
3. Could the PSC earned against MF approved project be reflected as a stand-alone item in the FS?
4. Is core unit approval reflected separately from PSC?
5. If your agency also performs bilateral activities funded based on Executive Committee approvals, what arrangements are in place to separate PSC earnings and expenditures of MF approved projects and bilateral agencies' PSC earnings and expenditures?
6. What is the policy for recognizing the PSC as earned when reporting expenditures (funds disbursed plus obligations) in your PR and in your Financial Statement (FS)?
7. Would your agency report the PSC as earned the same way when reporting their actual expenditures as when reporting obligations?
8. Do you conduct an internal reconciliation exercise between data in the progress reports and data contained in the financial statements?
9. If so how is the information on PSC earned treated in this exercise?
10. If there is a difference between the two reports, why and how these could happen?
11. How are the differences, if any, sorted out?
12. In cases where there are differences will a reconciliation statement between the two reports be available?
13. If an internal reconciliation is carried, is it done using provisional accounts or the final accounts?
14. Does your office have access to information on the PSC actually earned and spent on a yearly basis?
15. Please advise how the PSC earned from MF is utilized.
16. How does your agency keep track of the PSC earned from the MLF?

17. Is a separate account maintained for the PSC of the MLF?
18. If not, please explain what kinds of records are kept for PSC earned from MF approved projects?

Part B: Standard component costs of core units and associated CAP component

These categories are essentially the same categories that implementing agencies provide in their reports on the actual core unit and administrative costs, annually. The same categories are provided in more detail in CAP budgets.

B.1 Direct costs

Staff of the core unit

19. Does your implementing agency include only the personal emolument costs of the recruited personnel and contractual staff (like consultants) in the core unit?
20. Does the work done by the recruited personnel and contractual staff exclude work directly with the implementation of projects?
21. Please, list the different types of recruited personnel in the core unit and also list their personal emoluments.
22. Please, list the different types of contractual staff in the core unit and also list their personal emoluments.
23. If there are any costs other than those of recruited personnel and contractual staff kindly list them and the reason for having them included.
24. Please indicate contractual status of core unit staff with % time allocation to MLF activities, source of funding and administrative/project work as shown in Table 1 below for 2015:

Table 1. Core unit cost components in 2015

Contractual status of core unit staff	Full time core/part time (%)	If part time, what is the other source of funding	Brief job description	Additional comments
Permanent				
Fixed term				
Temporary staff				
Individual contractors				
Consultants /experts				

Travel of core unit staff

25. What is the methodology used in the computation of the cost of travel for the core unit in terms of posting travel charges in the accounts?
26. Please, list all the elements such as the purpose of the travel, used in the determination of travel cost for the core unit.

27. Are the travel costs included in the core unit budget for the Multilateral Fund those aimed at administrative monitoring of projects and other Multilateral Fund activities not directly related to project activities?
28. Are the travel costs included in the core unit budget only of the core unit staff?
29. If there are cases where they include non-core unit staff what would be the justification for that?
30. Kindly provide the core unit travel costs as indicated in Table 2 below for 2015.

Table 2. Core unit travel costs in 2015

Core unit travel: attendance to	Full time core/ part time (%)	If part time what is the other Source of funding	Brief description of type of mission travel	Additional comments
ExCom meetings/ IACM				
Ozone secretariat meetings (MOP, OEWG)				
Network meetings				
NOU visits				
Attendance at workshops				
Visit to headquarters				
Visit to field offices				
Other visits (specify)				

Office accommodation/space

31. What is the methodology used in the computation of the cost for office accommodation/space to the core unit?
32. Please, list all the elements used in the determination of office accommodation/space cost for the core unit staff.
33. Is this methodology applicable agency-wide? If there are variations, what are they and how do they affect the Multilateral Fund?

Equipment, supplies, telecommunications and general expenses

34. What is the methodology used in the computation of the cost for office equipment, office supplies, telecommunication services and other general expenses to the core unit?
35. Please, list all the elements used in the determination of the cost for equipment, office supplies, telecommunication services and other general expenses for the core unit staff.
36. Is this methodology applicable agency-wide?
37. If there are variations, what are they and how do they affect the Multilateral Fund?

Contractual services

38. What is the methodology used in the computation of the cost for contractual services to the core unit?
39. Please, list all the elements used in the determination of the cost for contractual services for the core unit staff.
40. Is this methodology applicable agency-wide?
41. If there are variations, what are they and how do they affect the Multilateral Fund?

B.2 Central support services fair cost allocation

Human resources management

42. What is the methodology used in the computation of the cost for human resources management services to the core unit?
43. Please, list all the elements used in the determination of the cost for human resources management services for the core unit staff.
44. Is this methodology applicable agency-wide?
45. If there are variations, what are they and how do they affect the Multilateral Fund?

Accounting and Finance

46. What is the methodology used in the computation of the cost for accounting services to the core unit?
47. Please, list all the elements used in the determination of the cost for accounting services for the core unit staff.
48. Is this methodology applicable agency-wide?
49. If there are variations, what are they and how do they affect the Multilateral Fund?
50. What accounting system your agency used during the 2015 financial period?
51. Please indicate to what extent the IPSAS accounting system (if used) has an impact on the PSC level accessible to your agency

Management information systems

52. What is the methodology used in the computation of the cost for management information systems services to the core unit?
53. Please, list all the elements used in the determination of the cost for management information systems services for the core unit staff.
54. Is this methodology applicable agency-wide?

55. If there are variations, what are they and how do they affect the Multilateral Fund?

Procurement and legal

56. What is the methodology used in the computation of the cost for procurement and legal services to the core unit?
57. Please, list all the elements used in the determination of the cost for procurement and legal services for the core unit staff.
58. Is this methodology applicable agency-wide?
59. If there are variations, what are they and how do they affect the Multilateral Fund?

General office and central and common administrative services

60. What is the methodology used in the computation of the cost for general office and common and central administrative services to the core unit?
61. Please, list all the elements used in the determination of the cost for general office and administrative services for the core unit staff.
62. Is this methodology applicable agency-wide?
63. If there are variations, what are they and how do they affect the Multilateral Fund?

B.3 A fair allocation of country/field office costs

64. What is the methodology used in the computation of the cost of the various country and/or field offices allocated to the Multilateral Fund?
65. Please, provide differences in the methodology where these vary between country/field offices.

B.4 A fair allocation of financial intermediaries costs

66. What is the methodology used in the computation of the cost of the various financial intermediaries allocated to the Multilateral Fund?
67. Please, provide differences in the methodology where these vary between financial intermediaries.

B.5 Costs of the projects implementation arms

68. If your implementing agency uses agencies which includes national governments, financial intermediaries, consultants and other entities external to it for executing projects what are the mechanisms in place for the determination of the costs involved in the administration of those projects which clearly separate these from project costs?
69. If your implementing agency uses some of its own internal resources for executing projects what mechanisms are there for the determination of the costs involved in administration of those projects which clearly separate these from project costs?

Part C. Definitions of administrative and project costs

C.1 By functional area and source of funding

70. The Executive Committee currently approves separately five general groups of projects: (i) tranches of HPMPs (investment/TAS projects), (ii) demonstration projects/ODS alternative surveys, (iii) project preparation, (iv) institutional strengthening, and (v) CAP (Core unit costs is recorded as a project with only agency fees and no project costs and is therefore not considered a project costs.). A unique number (Inventory code/project number) is assigned to each approval and represent separate sources of funding (including core unit costs). An agency fee is additionally is associated with each of these project costs. Table 3 also lists the functions of these activities that can be assigned as standard administrative (core unit and implementation (agency fee)) and project costs. Kindly replicate Table 3 and indicate if your agency assigns costs as indicated in the Table 3 and explain why or why not, as applicable.

71. Kindly replicate Table 3 and provide actual 2015 costs. (Note that these actual costs should correspond to data that can be gleaned from each other agency submissions such as the annual progress and financial reports, 2016 CAP budget/2015 CAP expenditures, and the reports on 2015 actual core unit and overall total administrative costs.)

Table 3. Standard definitions of core unit, implementation (agency fee) and project-related sources of funding

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
Core unit costs								
Distributing information about the Multilateral Fund's programme to the agency's field offices network	Standard							standard
Submitting and following-up discussions (with the Fund Secretariat and ExCom) project proposals submitted to the Executive Committee for approval	Standard			yes for discussions with agencies on submissions	yes for discussions with agencies on submissions			standard
Coordinating each agency's efforts with the Secretariat	Standard				yes for discussions with agencies on submissions			standard
Monitoring the status and annual progress reports of a project from an administrative point of view	Standard	yes to the extent that project input is provided	yes to the extent that project input is provided by a consultant preparing a project	yes to the extent that project input is provided	yes to the extent that project input is provided			standard
Preparing annual business plans based on communications with national governments about sector needs and priorities	Standard			yes-discussions with agencies on submissions and approval letters	yes-discussions with agencies on submissions and approval letters			standard
Following up on implementation status,	Standard	yes for standard implementation	yes but only for	yes as part of standard	yes as defined in agreement with			standard

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
including country visits if there is evidence of undue delays or difficulties		activities	standard project preparation activities	IS activities	agency and ExCom proposal/agreement			
Providing input to the Multilateral Fund Secretariat with policy papers and issues	Standard							standard
Participating in meetings sponsored by the Executive Committee, and the Secretariat	Standard							standard
Marketing, business development and prospecting for new projects	Standard		yes as part of standard project preparation activities	yes as part of standard IS activities	yes as defined in agreement with agency and ExCom proposal/agreement			standard
Collecting, reviewing and pre-qualifying project applications	Standard		yes as part of standard project preparation activities	yes as part of standard IS activities	yes as defined in agreement with agency and ExCom proposal/agreement			standard
Preparing project proposals; obtaining project preparation budgets for larger projects	Standard		yes as part of standard project preparation activities					standard
Internal requirements (core staff training, evaluations, time keeping, reporting, etc.)								
Core unit non-MLF activities								
Any core unit staff costs associated with other non-MLF (i.e. work on other MEAs e.g.								

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
Chemicals)								
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								
Implementation (agency fees)								
Verification report (national verification)		standard				yes if approved for LVCs		
Verification report (individual HPMPs for verifying consumption activities)		standard				yes if approved for LVCs or as part of an investment project budget		
Lead agency	yes to the extent there is repackaging	standard						standard

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
	for ExCom submission or discussions with Secretariat							
Preparing tranche requests and progress reports	yes to the extent there is repackaging for ExCom submission or discussions with Secretariat	standard	yes but only the first tranche request but not the tranche progress report		yes as defined in agreement with agency and ExCom proposal/agreement			yes if staff prepares request and progress reports
Dealing with governments and establishing legal agreements		standard						standard also part of PSC for central services
Preparing implementation agreements and terms of reference for subcontractors		standard			yes as defined in agreement with agency and ExCom proposal/agreement			standard
Mobilizing implementation teams (executing agencies and consultants) for approved projects using appropriate bidding and evaluation mechanisms		standard			yes as defined in agreement with agency and ExCom proposal/agreement			standard
Processing contractual and accounting documents associated with approved projects		standard			yes as defined in agreement with agency and ExCom proposal/agreement			

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
Reporting on results of projects and the program (preparing agency and MLF project completion reports)	yes to the extent there is repackaging for ExCom submission or discussions with Secretariat	standard for substantive part						standard for substantive and packaging for ExCom
Compliance Assistance Programme (CAP)	yes if for reporting to meet ExCom requirements	yes for FMO staff from PSC and staff costs for IS functions but PSC not used for standard implementation	yes if no project preparation or if performs standard project preparation activities			yes if CAP staff conducts training or technical assistance activities paid from CAP funds	yes if CAP staff conducts training or technical assistance activities paid from CAP funds	
Project costs								
Fielding consultants to project sites	yes if for reporting to meet ExCom requirements	yes if part of standard implementing activities	yes as part of standard project preparation activities	yes as part of standard IS activities	yes as defined in agreement with agency and ExCom proposal/agreement	standard	Standard	standard
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,						standard	Standard	yes if staff prepares or conducts training or technical assistance activity

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
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.						standard	Standard	yes if staff prepares or conducts training or technical assistance activity
Technical inspections of project "deliverables" by appropriately qualified experts						standard	standard	yes if staff prepares or conducts training or technical assistance activity
Technical support provided at the programme or project level						standard	Standard	standard
IS project								
Data reporting (A7 and CP)	yes to the extent there is repackaging for ExCom submission, responding to ExCom decisions, or discussions with Secretariat			standard				yes as part of its regional networking follow-up

Item/Source of funding	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO	Investment/TAS project	Demonstration/ ODS altern. project	CAP
Internal government coordination and approvals/overarching action plans				standard				yes as part of its regional networking follow-up
Ozone programme oversight				standard				yes as part of its regional networking responsibility
Industry association coordination				standard		yes if approved as part of investment project budget		yes as part of its regional networking responsibility
Project preparation								
Project formulation/preparation, in cases where a project preparation budget has been approved	yes if no funds are approved	yes for standard implementation activities	standard					yes if agency staff prepare project
Participating in project formulation activities with country offices	yes if for coordination for reporting to ExCom	yes for standard implementation activities	standard					yes if agency staff prepare project

C.2 UNEP CAP

72. Annex I provides UNEP's approved 2015 CAP budget. UNEP is kindly requested to assign percentage costs for its 2015 actual CAP costs for core unit, implementation (agency fee), and project costs.

C.3 By accounting item and source of funding

73. Table 4 lists the groups of administrative and project costs for current MLF projects by general accounting items based on the definitions in Table 3 and provides further definitions by accounting item. Kindly replicate Table 4 and indicate if your agency assigns costs as indicated in it explaining why or why not your agency records costs in this manner, as applicable.
74. Are there separate codes that can identify these costs?
75. If not, how could your agency's accounting system reflect these categories?
76. Kindly replicate Table 4 and provide 2015 actual costs list agency staff individually by staff code as does UNEP for its annual CAP budget (see Annex I). (Note that these actual costs should correspond to data that can be gleaned from each other agency submissions such as the annual progress and financial reports, 2016 CAP budget/2015 CAP expenditures, and the reports on 2015 actual core unit and overall total administrative costs.)

Table 4. Agency tracked administrative and project costs by accounting categories

Items	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO*	Investment/ TAS project	Demonstration/ ODS altern. project	CAP
Core unit								
Agency staff	For standard core activities	For standard implementation activities	For standard project preparation activities			For standard investment/TAS activities	For standard demonstration project activities	For core, implementation, project preparation, TAS, and demonstration project activities if by funded-CAP staff
Contractual staff	For standard core activities	For standard implementation activities	For standard project preparation activities			For standard investment/TAS activities	For standard demonstration project activities	For core, implementation, project preparation, TAS, and demonstration project activities if by funded CAP staff or CAP-funded consulting
Travel (not including participants travel)	Standard for attending MP related meetings (including regional networks, workshops, IACMs)	Associated with agency and contractual staff	Associated with agency and contractual staff			Associated with agency and contractual staff if involved in project activities	Associated with agency and contractual staff if involved in project activities	Associated with agency and contractual staff
Space (rent and common costs)	Associated with agency and contractual staff	Associated with agency and contractual staff	Associated with agency and contractual staff			Associated with agency and contractual staff	Associated with agency and contractual staff	Associated with agency and contractual staff
Equipment supplies and other costs (computers,	Associated with agency and contractual	Associated with agency staff	Associated with agency and contractual	Yes per project document, SSFA, GA,		Associated with agency and contractual staff	Associated with agency and contractual staff	Associated with agency and contractual staff

Items	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO*	Investment/ TAS project	Demonstration/ ODS altern. project	CAP
supplies, etc.)	staff		staff	or other agreement				
Contractual services (firms)	For standard core activities	For standard implementation activities	For project preparation activities	Yes per project document, SSFA, GA, or other agreement		Associated with agency and contractual staff	Associated with agency and contractual staff	Associated with agency and contractual staff
Reimbursement of central services	For fees on core staff and core consultants	For fees on standard implementation activities	For fees on standard project preparation activities					For fees on CAP activities
Implementation (agency fees)								
Reimbursement of country offices		For fees on standard implementation activities	For fees on standard project preparation activities					For regional activities
National execution including overhead		For standard implementation activities	For standard project preparation activities					
Executing agency support cost (internal) including overhead		For standard implementation activities	For standard project preparation activities					
Financial intermediaries including overhead		For standard implementation activities	For standard project preparation activities					

Items	Core unit	Implementation (agency fee)	Project preparation	IS	PMU/PMO*	Investment/ TAS project	Demonstration/ ODS altern. project	CAP
Cost recovery								
Supervisory costs		For standard implementation activities						For standard implementation activities
Project costs								
Industrial conversion capital and operating costs						For standard project costs	For standard demonstration project costs	
Workshops and meeting costs								For regional network meetings or separate workshops
Participants travel								For regional network meetings
Other project costs through agreements not specified above				For other IS activities	For other PMU/PMO activities	For other project costs	For other demonstration project costs	For other CAP costs

* PMU/PMO costs are components of HPMPs investment or TAS costs.

Part D: PMU activities

77. Annex II is an Excel workbook (HPMP database for Non-LVCs for PMU input.xls) that contains a sample of HPMPs for non-LVC countries. It also includes all of the project costs for HPMPs by categories of costs that are shaded in gray. Those costs that might be considered PMU are highlighted in yellow. The spreadsheet also shows whether any phase-out is associated with the PMU. On row 108 of the attached Excel workbook, kindly indicate the total costs for the HPMP that is transferred for the PMU in each of the sample.
78. Secondly, kindly indicate, in rows 110-115 of the attached Excel workbook, to what extent PMU costs in HPMPs that your agency is implementing are used for:
- a. Preparing reports, documents, and funding requests for submission to the Executive Committee?
 - b. Attending meetings that are associated with core unit costs?
 - c. Preparing submissions to the Executive Committee, progress reports, funding requests, verification reports?
 - d. Providing bidding and contracting services?
 - e. Conducting training or industrial conversion monitoring?
 - f. Conducting public awareness?

Part E: Typical project, implementing, and core unit costs

79. As mentioned above, the Executive Committee is currently providing costs for five main categories of activities ((i) tranches of HPMPs (investment/TAS projects), (ii) demonstration projects/ODS alternative surveys, (iii) project preparation, (iv) institutional strengthening, and (v) CAP). HPMPs can be further separated into very-low-volume-consuming countries (VLVCs). Kindly provide the information requested in Table 5 below for the costs of for categories of projects for the items listed in Table 3 with respect to the five project categories for core unit, implementation, and CAP costs in 2015.

Table 5. Standard administrative costs by project type in 2015

Item/Project type	Stage I of HPMP (investment and TAS projects)					Project preparation	ODS alternative demonstration and alternative surveys	Institutional strengthening	CAP
	VLVC	LVC	Non-LVC (servicing sector)	Non-LVC	Non-LVC with sector plans				
Projects under implementation									
Funds disbursed in 2014 and 2015									
Agency fees associated with disbursement									
Number of projects under implementation									
Administrative costs									

Item/Project type	Stage I of HPMP (investment and TAS projects)					Project preparation	ODS alternative demonstration and alternative surveys	Institutional strengthening	CAP
	VLVC	LVC	Non-LVC (servicing sector)	Non-LVC	Non-LVC with sector plans				
Sub-type									
Core unit									
Implementation (agency fee)									
CAP									