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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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REVIEW OF THE ADMINISTRATIVE COST REGIME (DECISION 44/7)

EXECUTIVE SUMMARY

- Agency core unit costs have increased 3 per cent annually, largely due to personnel and travel costs. UNDP and UNIDO have exceeded costs in each of the 3 years of the current triennium, with 2005 estimated costs of US \$1,858,740 and US \$1,917,800 respectively.
- Total support costs including country offices, national execution, internal executing agency costs and financial intermediaries average US \$16,252,972 per year with an annual growth rate of 1 per cent for the period of 1998-2004.
- Overall administrative costs, as a percentage of net funds approved, were 10.85 per cent for the 1998-2004 period during which US \$107 million were approved out of the total US \$170 million in administrative support costs approved by the Executive Committee since 1991.
- 2004 revenue for administrative costs including core unit costs amounted to US \$7.5 million for the World Bank, US \$4 million for UNIDO, and US \$3.5 million for UNDP.
- Revenue expected to be available for 2006-2008, excluding any revenue from new approvals, is estimated at:
 - US \$14.7 million plus US \$2 to US \$2.7 million for UNDP;
 - US \$13.1 million for UNIDO assuming no net loss for 2005 and future years; and
 - US \$26.5 million plus US \$7.4 to US \$7.9 million for the World Bank;
- Bilateral agencies have received a total of US \$5.9 million in agency fees and an agency fee rate below 10 per cent of approvals for the period 1998 to 2004. The issue of core units for bilateral agencies is addressed in UNEP/OzL.Pro/ExCom/46/41. “Report on Programme Support Costs of Bilateral Cooperation Projects (follow-up to decisions 43/40 and 45/57)”; and
- UNEP has received a total of US \$9.2 million for agency fees and had an agency fee rate below 10 per cent of approvals for the period 1998 to 2004 since some of its administrative costs are covered by Compliance Assistance Programme (CAP).

Background

1. In November 1998, administrative costs for UNDP, UNIDO, and the World Bank were changed by the Executive Committee from a flat rate of 13 per cent applied to all projects to a graduated scale (decision 26/41). In December 2002, those administrative costs were changed to a lower scale that included a core unit grant of US \$1.5 million per agency (decision 38/68). Decision 41/94 (d) requested the Secretariat to annually review the current administrative cost regime.

2. During the review of the proposed costs for 2005 at its 44th Meeting, the Executive Committee requested “a review of the current administrative cost regime and provide recommendations either for its continuance or for an alternative administrative cost regime for the 2006-2008 triennium; and the implementing agencies to provide more in-depth information on their administrative costs, in time for it to be used in the review of the administrative cost regime to be presented by the Secretariat at the 46th Meeting of the Executive Committee” (decision 44/7 (c) and (d)).

3. This document reviews the amount of administrative costs incurred by agencies for core units and other activities, the amount of revenue for administrative costs available to agencies, and concludes with an analysis of administrative costs and revenues and recommendations for revising the current regime to account for recent trends and expected requirements.

ADMINISTRATIVE COSTS INCURRED BY IMPLEMENTING AGENCIES

Administrative cost trends by budget item for the 2003-2005 period

4. Implementing agencies were requested to provide actual data on core unit and administrative cost budgets for 2004 and estimated actual costs for 2005.

UNDP

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

Table 1

**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR
THE YEARS 1998-2005 FOR UNDP (US\$)**

Agency: UNDP	1998	1999	2000	2001	2002	2003	2004	2005*
Core Components	\$	\$	\$	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	819,122	794,859	874,556	912,355	891,049	867,039	1,137,945	1,251,740
Travel	126,214	121,354	92,034	132,037	134,914	160,691	185,867	190,000
Space (rent and common costs)	86,912	142,094	129,892	113,105	169,546	82,218	77,853	92,000
Equipment supplies and other costs (computers, supplies, etc)	26,169	24,275	40,724	63,021	25,299	29,991	15,941	15,000
Contractual services (firms)	684	6,236	15,019	3,334	3,889	0	70,560	30,000
Reimbursement of central services for core unit staff	377,941	328,176	371,090	354,922	292,100	366,902	280,000	280,000
Total core unit cost	1,437,042	1,416,994	1,523,315	1,578,774	1,516,727	1,507,111	1,768,166	1,858,740
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	743,725	505,825	669,610	612,594	536,186	313,556	906,501	900,000
Executing agency support cost (internal) <u>including overhead</u>	2,296,588	1,567,299	2,247,823	2,129,104	1,306,839	637,557	450,000	400,000
Financial intermediaries <u>including overhead</u>			138,571	223,373	198,706	0	207,658	220,000
Cost recovery							280,000	280,000
Total Administrative Support Costs	4,477,355	3,490,118	4,579,319	4,543,845	3,558,458	2,458,224	3,611,875	3,658,740
Supervisory Costs incurred by MPU	297,533	291,821	294,355	323,540	110,000	53,346	210,717	200,000
Grand Total Administrative Support Costs	4,774,888	3,781,939	4,873,674	4,867,385	3,668,458	2,511,570	3,822,592	3,858,740

*Estimated

6. A detailed explanation of the reasons for UNDP's administrative cost increases is found in Annex I. Most of its core unit cost increases are in the personnel and travel categories. However, some of these increases were offset by decreases in equipment and central services costs. Contractual services in 2004 were used for training staff on new project management databases.

7. The distribution of other administrative costs has changed since 1998 when most of the funds went to the executing agency (UNOPS) while, more recently, most funds are for country offices/national execution. UNDP increased its cost recovery fee for contractual services rendered by headquarters and country offices by 2 per cent, which is reflected as a separate item for UNDP in 2004 and 2005. Other administrative costs increased in 2004 from those in 2003 but are expected to be similar for 2004 and 2005. Nevertheless, costs are lower than they were in 1998.

UNIDO

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

Table 2

**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR
THE YEARS 1998-2005 FOR UNIDO (US\$)**

Agency: UNIDO	1998	1999	2000	2001	2002	2003	2004	2005*
Core Components	\$	\$	\$	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	875,000	893,200	951,300	1,011,700	980,900	1,188,500	1,183,800	1,211,500
Travel	68,600	74,400	80,600	82,000	75,000	65,900	102,500	102,500
Space (rent and common costs)	42,772	48,588	53,757	55,478	57,466	67,100	81,200	78,900
Equipment supplies and other costs (computers, supplies, etc)	34,446	38,323	36,389	36,353	49,560	42,000	62,200	57,300
Contractual services (firms)	28,000	40,000	50,000	50,000	13,200	18,200	21,200	21,200
Reimbursement of central services for core unit staff	222,336	242,915	261,092	259,893	265,898	361,100	442,000	446,400
Total core unit cost	1,271,154	1,337,426	1,433,138	1,495,424	1,442,024	1,742,800	1,892,900	1,917,800
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	853,835	853,835	1,068,755	1,068,755	1,277,390	1,324,900	1,598,300	1,620,500
Executing agency support cost (internal) <u>including overhead</u>	3,355,018	3,300,037	2,252,521	2,768,484	2,491,291	3,247,800	3,871,700	3,839,300
Financial intermediaries <u>including overhead</u>								
Total Administrative Support Costs	5,480,007	5,491,298	4,754,414	5,332,663	5,210,705	6,315,500	7,362,900	7,377,600
Supervisory Costs incurred by MPU								
Grand Total Administrative Support Costs	5,480,007	5,491,298	4,754,414	5,332,663	5,210,705	6,315,500	7,362,900	7,377,600

*Estimated

9. Annex II presents an excerpt from UNIDO on its administrative costs. Most of the increases are for personnel, central services and travel. All core unit cost items have increased except contractual service. In non-core unit costs, reimbursement to country offices/national execution more than doubled during the period while executing agency/internal costs were similar in magnitude to 1998.

World Bank

10. Table 3 presents the core unit budget and other administrative cost information provided by the World Bank. Annex III presents the World Bank's submission on administrative costs and a supplementary explanation.

Table 3

**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR
THE YEARS 2003-2005 FOR THE WORLD BANK (US\$)**

Agency: World Bank	1998	1999	2000	2001	2002	2003	2004	2005*
Core Components	\$	\$	\$	\$	\$	\$	\$	\$
Core unit personnel and contractual staff	820,740	712,402	834,479	917,119	928,058	968,304	945,118	970,000
Travel	125,037	182,809	230,118	231,903	199,940	143,988	249,036	225,000
Space (rent and common costs)	70,000	70,000	70,000	70,000	70,000	70,000	44,159	48,000
Equipment supplies and other costs (computers, supplies, etc)	130,928	89,014	119,853	107,724	110,000	76,084	76,823	75,000
Contractual services (firms)	63,689	39,017	40,550	92,357	45,000	47,500	29,855	31,000
Reimbursement of central services for core unit staff	376,400	135,927	174,660	102,913	147,000	160,027	151,045	151,000
Total core unit cost	1,586,794	1,229,169	1,469,660	1,522,016	1,499,998	1,465,903	1,496,036	1,500,000
Reimbursement of Country offices & Nat'l execution <u>including overhead</u>	3,012,632	3,072,749	3,350,200	3,474,885	3,517,358	2,992,291	2,957,581	3,200,000
Executing agency support cost (internal) <u>including overhead</u>								
Financial intermediaries <u>including overhead</u>	1,709,498	1,534,542	2,329,895	1,013,462	1,798,876	1,659,968	1,487,927	1,657,999
Total Administrative Support Costs	6,308,924	5,836,460	7,149,755	6,010,363	6,816,232	6,118,162	5,941,544	6,357,999
Supervisory Costs incurred by MPU								
Grand Total Administrative Support Costs	6,308,924	5,836,460	7,149,755	6,010,363	6,816,232	6,118,162	5,941,544	6,357,999

*Estimated

11. Since 1998, overall core unit costs have been at or near US \$1.5 million. Cost increases have occurred only for personnel and travel, while all other items have decreased, including reimbursement to central offices. The World Bank's 2004 core unit costs had slight changes but were essentially at the amount forecast. Small changes are expected to the 2005 budget but the overall amount remains US \$1.5 million.

12. For non-core unit administrative costs, annual costs have ranged from US \$5.8 to US \$7.1 million during the 1998-2005 period. The level of total administrative costs in 2005 reflects the overall average costs during the period. The costs for the category "reimbursement of country offices and national execution" did not increase in 2004 as expected and were actually lower than in 2003. Financial intermediary costs were lower than budgeted. Both of these costs are estimated to increase in 2005.

Core Unit Costs (1998-2005)

13. Implementing agencies agreed to provide data on the actual support costs spent for the core unit and other support activities in a unified format corresponding to the data that the agencies provided for the Coopers and Lybrand Study submitted to the 26th Meeting.

14. Table 4 presents the core unit costs of UNDP, UNIDO and the World Bank; average costs per agency for the period from 1998 to 2004 and estimated costs for 2005; and average annual growth rates. Detailed information by cost category is provided in Annex I.

Table 4

**THE CORE UNIT COSTS OF UNDP, UNIDO AND THE WORLD BANK AND
AVERAGE COSTS PER AGENCY FOR THE PERIOD 1998 THROUGH 2004 WITH
REVISED ESTIMATED COSTS FOR 2005 (US\$)**

Agency	1998	1999	2000	2001	2002	2003	2004	2005*	Total
UNDP	1,437,042	1,416,994	1,523,315	1,578,774	1,516,727	1,507,111	1,768,166	1,858,740	12,606,869
UNIDO	1,271,154	1,337,426	1,433,138	1,495,424	1,442,024	1,742,800	1,892,900	1,917,800	12,532,666
World Bank	1,586,794	1,229,169	1,469,660	1,522,016	1,499,998	1,465,903	1,496,036	1,500,000	11,769,576
TOTAL	4,294,990	3,983,589	4,426,113	4,596,214	4,458,749	4,715,814	5,157,102	5,276,540	36,909,111
Average per Agency	1,431,663	1,327,863	1,475,371	1,532,071	1,486,250	1,571,938	1,719,034	1,758,847	12,303,037
Average Growth in Costs		-7%	11%	4%	-3%	6%	9%	2%	3%

* Estimated.

15. Both UNDP and UNIDO exceeded their core unit budgets of US \$1.5 million in 2003 and 2004 and both agencies expect to exceed their core unit budgets in 2005. UNDP exceeded its core unit budget by US \$7,111 in 2003 and by US \$268,166 in 2004. It also estimates that it will exceed its 2005 core unit budget by US \$358,740. UNDP plans to absorb these costs using other support cost revenue.

16. UNIDO exceeded its core unit budget by US \$242,800 in 2003 and by US \$392,900 in 2004. It also estimates that it will exceed its 2005 core unit budget by US \$417,800. UNIDO informed the Executive Committee at its 41st Meeting that it would absorb any overrun, but also indicated that it would have absorbed the under-run if there had been one.

17. The World Bank estimates that it will stay within its US \$1.5 million core unit budget in 2005 and advised that it had a surplus of US \$34,097 from its core unit budget in 2003 and a surplus of US \$3,964 in 2004. We note, however, that the progress report indicates that all of the funds from 2003 and 2004 were disbursed and therefore absorbed by the agency.

18. The average annual growth rate for the period 1998 to 2004 was 3 per cent. It is expected that core unit costs are likely to continue to grow at this rate based on the levels estimated for 2005.

19. Core unit costs have exceeded budgeted amounts for both UNDP and UNIDO for all 3 years of this triennium, as predicted by those agencies. Explanations for cost increases were provided. Core units have now been in operation for one triennium and the costs of covering the additional costs are minimal considering the additional requirements of the compliance period. A standard growth rate might be considered to account for normal growth in costs.

Total administrative costs (1998-2004)

20. Table 5 presents total administrative costs incurred by UNDP, UNIDO and the World Bank from 1998-2004 and estimated costs for 2005. Total administrative costs have been rather constant during this period, ranging from US \$14.9 million in 2003 to US \$17.6 million in 2005. The average level of cost is US \$16,252,972 and the average annual growth rate is one per cent.

Table 5

**ADMINISTRATIVE SUPPORT COSTS INCURRED BY UNDP, UNIDO AND THE
WORLD BANK IN 1998-2004 AND ESTIMATED COSTS FOR 2005 (US\$)**

Agency	1998	1999	2000	2001	2002	2003	2004	2005*	Total	Average
UNDP	4,774,888	3,781,939	4,873,674	4,867,385	3,668,458	2,511,570	3,822,592	3,858,740	32,159,246	4,019,906
UNIDO	5,480,007	5,491,298	4,754,414	5,332,663	5,210,705	6,315,500	7,362,900	7,377,600	47,325,087	5,915,636
World Bank	6,308,924	5,836,460	7,149,755	6,010,363	6,816,232	6,118,162	5,941,544	6,357,999	50,539,439	6,317,430
Total	16,563,819	15,109,697	16,777,843	16,210,411	15,695,395	14,945,232	17,127,036	17,594,339	130,023,772	16,252,972
Average Growth in Costs		-9%	11%	-3%	-3%	-5%	15%	3%	1%	

* Estimated.

21. It is likely that administrative costs will continue to be incurred at similar rates with possibly some growth due to principal costs like travel and staff costs in particular.

REVENUE RECEIVED TO COVER ADMINISTRATIVE COSTS

22. The administrative cost regime adopted pursuant to decision 26/41 resulted in a decrease in support costs as a percentage of net funds approved from an average of 11.1 per cent in 1999 to 10.8 per cent in 2001 and to 9.8 per cent in 2002, as shown in Table 6. Table 6 also shows the impact of the new administrative cost regime adopted pursuant to decision 38/68 where, on average, administrative costs were higher as a percentage of net approved funds than the regime pursuant to decision 26/41, although the percentage decreased from 10.9 per cent in 2003 to 10.7 per cent in 2004.

Table 6

**REVENUE RECEIVED FROM ADMINISTRATIVE SUPPORT COSTS, AND
RESULTING PERCENTAGE OF NET FUNDS APPROVED FOR THE PERIOD 1998-
2004 (US\$)⁽¹⁾**

Agency	Net Funds Approved (US\$)	Net Support Costs Approved (US\$)	Percentage
Year	1998		
Bilateral ⁽²⁾	4,485,911	0	0.00%
UNDP	31,495,436	4,071,354	12.93%
UNEP	4,739,773	616,170	13.00%
UNIDO	23,627,562	3,023,604	12.80%
World Bank	38,368,895	4,502,974	11.74%
Total	102,717,577	12,214,101	11.89%
Year	1999		
Bilateral	12,858,170	1,030,434	8.01%
UNDP	36,350,314	4,638,418	12.76%
UNEP	6,774,234	880,651	13.00%
UNIDO	34,216,314	4,107,739	12.01%
World Bank	64,720,004	6,602,947	10.20%
Total	154,919,035	17,260,188	11.14%
Year	2000		
Bilateral	4,837,561	543,835	11.24%
UNDP	32,114,658	3,911,811	12.18%
UNEP	6,730,494	874,963	13.00%
UNIDO	30,395,801	3,580,439	11.78%
World Bank	37,597,985	3,644,717	9.69%
Total	111,676,500	12,555,766	11.24%
Year	2001		
Bilateral	7,745,351	884,822	11.42%
UNDP	36,229,295	4,433,690	12.24%
UNEP ⁽³⁾	7,830,703	825,046	10.54%
UNIDO	24,990,198	3,119,588	12.48%
World Bank	55,298,843	5,058,316	9.15%
Total	132,094,390	14,321,461	10.84%
Year	2002⁽⁴⁾		
Bilateral	9,075,117	1,024,059	11.28%
UNDP	45,368,952	4,776,871	10.53%
UNEP ⁽³⁾	9,877,752	689,807	6.98%
UNIDO	36,141,387	4,070,334	11.26%
World Bank	64,494,841	5,622,607	8.72%
Total	164,958,049	16,183,678	9.81%
Year	2003		
Bilateral	6,927,400	801,786	11.57%
UNDP	36,462,175	4,460,764	12.23%
UNEP ⁽³⁾	11,570,268	836,570	7.23%
UNIDO	30,234,984	3,837,916	12.69%
World Bank	72,867,113	7,293,973	10.01%
Total	158,061,940	17,231,009	10.90%

Agency	Net Funds Approved (US\$)	Net Support Costs Approved (US\$)	Percentage
Year	2004⁽⁵⁾		
Bilateral	15,443,378	1,599,058	10.35%
UNDP ⁽⁶⁾	25,584,998	3,523,028	13.77%
UNEP ⁽³⁾	12,759,592	955,871	7.49%
UNIDO	33,223,728	3,983,563	11.99%
World Bank	77,707,205	7,491,021	9.64%
Total	164,718,901	17,552,541	10.66%
Year	Total (1998-2004)		
Bilateral	61,372,888	5,883,993	9.59%
UNDP	243,605,827	29,815,937	12.24%
UNEP ⁽³⁾	60,282,816	5,679,077	9.42%
UNIDO	212,829,974	25,723,182	12.09%
World Bank	411,054,886	40,216,554	9.78%
Total	989,146,391	107,318,743	10.85%
Year	Total (1998-2004) Summary		
Bilateral/UNEP ⁽³⁾	121,655,704	11,563,070	9.50%
UNDP/UNIDO/World Bank	867,490,688	95,755,673	11.04%
Total	989,146,391	107,318,743	10.85%

(1) Data for 1998-2004 has been revised to account for balances returned to the 45th Meeting.

(2) No support costs were requested by bilateral agencies in 1998.

(3) UNEP's CAP programme covers some administrative costs and therefore the agency fee for CAP is 8 percent and there is no agency fee for UNEP's institutional strengthening project. CAP was first approved in December 2001.

(4) Excluding core support costs of US \$1,500,000 per agency approved for the year 2003 (UNDP, UNIDO, World Bank).

(5) Excluding core support costs of US \$1,500,000 per agency approved for the year 2005 (UNDP, UNIDO, World Bank).

(6) The overall 13.77 per cent is based on the level of approvals and agency fee allocations for multi-year projects and core unit costs.

23. It should be noted, however, that when it agreed to the current administrative cost regime, the Executive Committee urged implementing agencies to strive toward achieving optimization of these support costs, taking into account the goal in decision VIII/4 of the Meeting of the Parties to reduce overall administrative costs to below 10 per cent. The Committee also recognized that new challenges in the implementation of projects during the compliance period would require substantial support from implementing agencies (decision 38/68 (c)).

24. Table 7 presents the support costs including core unit costs approved by the Executive Committee for the period 1998-2004 and to date. A total of US \$107.3 million had been approved for implementing agencies for the period 1998-2004. The World Bank received the largest amount of revenue in 2004 (US \$7.5 million); for the 1998-2004 period (US \$40.2 million) and to date (US \$59.8 million). UNDP received the next largest amount for the 1998-2004 period (US \$29.8 million) and to date (US \$52.4 million), but received the third largest amount in 2004 (US \$3.5 million), behind UNIDO's US \$4 million in 2004. UNIDO received US \$25.7 million during the 1998-2004 period and US \$42.6 million to date. The level of administrative revenue has increased from lows of US \$12.2 and US \$12.6 million in 1998 and 2000 to the highest single year amount in the year 2004 of US \$17.6 million.

Table 7

**NET APPROVED SUPPORT COSTS INCLUDING CORE UNIT COSTS FOR THE
1998-2004 PERIOD (US\$) AND THE 1991-2004 PERIOD**

Agency	1998	1999	2000	2001	2002	2003	2004	Sub-Total (1998-2004)	Grand Total (1991-2004)
UNDP	4,071,354	4,638,418	3,911,811	4,433,690	4,776,871	4,460,764	3,523,028	29,815,937	52,382,118
UNEP	616,170	880,651	874,963	825,046	689,807	836,570	955,871	5,679,077	9,218,207
UNIDO	3,023,604	4,107,739	3,580,439	3,119,588	4,070,334	3,837,916	3,983,563	25,723,182	42,616,551
World Bank	4,502,974	6,602,947	3,644,717	5,058,316	5,622,607	7,293,973	7,491,021	40,216,554	59,762,759
Bilateral	0	1,030,434	543,835	884,822	1,024,059	801,786	1,599,058	5,883,993	5,885,493
Total	12,214,101	17,260,188	12,555,766	14,321,461	16,183,678	17,231,009	17,552,541	107,318,743	169,865,128

25. UNEP and bilateral agency fees are similar over the 1998-2004 period, amounted to around US \$5.7 million and US \$5.9 million, respectively. UNEP's total administrative fees excluding CAP amount to US \$9.2 million since the inception of the Fund. UNEP achieved 9.4 per cent rate of agency fees to project approvals for the period 1998-2004 since some of its administrative costs are covered by CAP.

Available revenue for administrative costs for 2006-2008 for agencies with core cost funding

26. The available revenue for administrative costs for the next triennium contains a balance of revenue from agency fees collected but not disbursed up to and including 2005, plus support costs from multi-year agreements that have already been approved in principle, plus core unit costs and agency fees from new projects during the triennium.

Balance of undisbursed agency fees

27. The total level of agency fees not disbursed is indicated in Table 8 for administrative support costs and core unit costs as at 31 December 2004, based on data provided in the implementing agencies' progress reports.

Table 8

**BALANCE OF SUPPORT COSTS REMAINING AS AT 31 DECEMBER 2004 AS PER
AGENCIES' PROGRESS REPORTS (US\$)**

Agency	Approved Support Cost Revenue up to the end of 2004	Support Costs Disbursed up to the end of 2004	Total Not Disbursed
UNDP	52,417,005	44,043,107	8,373,898
UNIDO	42,709,366	36,375,236	6,334,130
World Bank	60,149,132	47,927,216	12,221,916
Total	155,275,503	128,345,559	26,929,944

28. As indicated in Table 8, substantial sums of administrative costs remain to be disbursed. These costs are expected to enable the implementing agencies to implement their existing portfolios, which contain some projects that may extend several years into the future.

29. Table 9 presents the level of administrative support costs for multi-year agreements, for which the relevant annual tranches will be submitted for approval from 2006 to 2008. Most of the funds will be for the World Bank and amount to US \$9.8 million. UNDP and UNIDO will receive around US \$2 million each during the next triennium.

Table 9

ADMINISTRATIVE SUPPORT COSTS FOR MULTI-YEAR AGREEMENTS (US\$)

Agency	2006	2007	2008	Total (2006-2008)
UNDP	951,535	619,211	247,883	1,818,629
UNIDO	1,657,295	389,520	250,356	2,297,171
World Bank	4,288,287	3,429,600	2,064,111	9,781,998
Total	6,897,118	4,438,331	2,562,350	13,897,798

30. While additional revenue for administrative costs from new activities is expected during the next triennium, the amount and distribution has not yet been determined. Therefore, Table 10 presents an estimate of the minimum amount of revenue due for administrative costs per agency for the 2006-2008 triennium, excluding net revenue from 2005.

Table 10

**MINIMUM AMOUNT OF REVENUE EXPECTED FOR ADMINISTRATIVE COSTS
2006-2008 (US\$) (EXCLUDING 2005)**

Agency	Total Not Disbursed (Progress Report)	Agency Fees from Annual Tranches Approved in Principle for 2006-2008	Core Unit Costs	Total
UNDP	8,373,898	1,818,629	4,500,000	14,692,527
UNIDO	6,334,130	2,297,171	4,500,000	13,131,301
World Bank	12,221,916	9,781,998	4,500,000	26,503,914
Total	26,929,944	13,897,798	13,500,000	54,327,742

31. Table 11 estimates the net revenue for administrative costs for 2005. Implementing agencies provided estimates for their actual administrative costs incurred in 2005 and the Secretariat estimated revenue. Since all business plans estimated greater overall revenue from project approvals in 2005 than in 2004, the difference in revenue between those two years was multiplied by 7.5% to calculate the high ranges of the revenue estimate. Given the low level of submissions to the 46th Meeting, when second-meeting submissions are normally 50 per cent of the total value of business plans, it seems unlikely that agencies will fulfil their business plans for 2005.

Table 11

**ESTIMATED NET REVENUE FOR ADMINISTRATIVE COSTS FOR 2005
(US\$ MILLIONS)**

Agency	2005 Administrative Costs	Estimated 2005 Revenue for Administrative Costs	Difference/Net Revenue
UNDP	3.9	3.5-4.2	-0.4 to +0.3
UNIDO	7.4	4.0-4.5	-3.4 to -2.9
World Bank	6.4	7.5-8.0	+1.1 to +1.6

32. Although there is negative revenue projected for UNIDO in 2005, UNIDO is not likely to deduct net losses in revenue from all administrative cost surpluses. This is due to the fact that, as stated above, any deficits are absorbed by the organization.

ADMINISTRATIVE COST AND REVENUES 2006-2008

33. Table 12 presents an estimate of administrative costs and revenue that will be available for the 2006-2008 triennium excluding any revenue from new approvals. Growths in administrative costs for 2005, the highest to date, are assumed at 1 per cent and 3 per cent. The table shows that UNDP should have sufficient revenue to meet overall administrative costs that grow at 3 per cent and have US \$2 to US \$2.7 million in surplus for future triennia. The World Bank should have sufficient revenue to meet overall administrative costs that grow at 3 per cent and have US \$7.4 to US \$7.9 million in surplus for future triennia. UNIDO will need continued and increasing subsidy from its organization to cover its administrative costs.

Table 12

**ESTIMATED ADMINISTRATIVE COSTS AND REVENUE 2006-2008
(US\$ MILLIONS)**

Agency	2006-2008 Revenue		2006-2008 Administrative Costs	Difference/Net Revenue 2006-2008
	Revenue without New Projects	Estimated Variance	With 3% Growth	(Costs minus Revenue and Variance)
UNDP	14.7	-0.4 to +0.3	12.3	+2.0 to +2.7
UNIDO	13.1	-3.4 to -2.9	23.5	-13.3 to -13.8
World Bank	26.5	+1.1 to +1.6	20.2	+7.4 to +7.9

34. In light of the analysis of revenue and costs for administrative needs, core unit costs can be covered by the administrative revenue already approved for the World Bank during the next triennium. The Bank should consider when surpluses in fees should be returned to avoid any unnecessary surpluses while ensuring that its estimated costs are covered in line with its agreement with the Executive Committee. It should be noted that the World Bank has had years where total administrative costs have exceeded revenue by as much as US \$3.5 million and therefore the surplus might be needed.

35. Table 13 presents the net revenue from administrative costs for the period 1998 to 2004. It shows that UNDP was the only agency to receive more revenue in administrative costs than it had spent, although this number is highly influenced by its 2002 and 2003 costs without which UNDP would have had a deficit. The World Bank spent almost US \$4 million more than it had received.

Table 13

ADMINISTRATIVE COSTS AND REVENUE AND NET REVENUE 1998-2004 (US\$)

Agency		1998	1999	2000	2001	2002	2003	2004	TOTALS
UNDP	Income	4,071,354	4,638,418	3,911,811	4,433,690	4,776,871	4,460,764	3,523,028	29,815,936
	Costs	4,774,888	3,781,939	4,873,674	4,867,385	3,668,458	2,511,570	3,822,592	28,300,506
	Net	-703,534	856,479	-961,863	-433,695	1,108,413	1,949,194	-299,564	1,515,430
UNIDO	Income	3,023,604	4,107,739	3,580,439	3,119,588	4,070,334	3,837,916	3,983,563	25,723,183
	Costs	5,480,007	5,491,298	4,754,414	5,332,663	5,210,705	6,315,500	7,362,900	39,947,487
	Net	-2,456,403	-1,383,559	-1,173,975	-2,213,075	-1,140,371	-2,477,584	-3,379,337	-14,224,304
World Bank	Income	4,502,974	6,602,947	3,644,717	5,058,316	5,622,607	7,293,973	7,491,021	40,216,555
	Costs	6,308,924	5,836,460	7,149,755	6,010,363	6,816,232	6,118,162	5,941,544	44,181,440
	Net	-1,805,950	766,487	-3,505,038	-952,047	-1,193,625	1,175,811	1,549,477	-3,964,885

36. UNIDO spent US \$14.2 million more in administrative costs than it had received during this period. This amounts to a subsidy of about US \$2 million per year. UNIDO's deficit has grown for 2002-2004 from US \$1.1 million to almost US \$3.4 million. With growth in costs of 3 per cent per year, and without significant funding from new project approvals during the next triennium, UNIDO's deficit could reach US \$13.8 million.

RECOMMENDATIONS

The Executive Committee may wish to consider:

1. Noting the document on administrative costs as presented in UNEP/OzL.Pro/ExCom/46/40.
2. Re-establishing for the 2006-2008 triennium decision 38/68 and its administrative cost regime with the following modifications:
 - (a) Approving core unit costs for UNDP based on its 2005 estimated costs of US \$1,858,740 with an annual increase of up to 3 per cent;
 - (b) Approving core unit costs for UNIDO based on its 2005 estimated cost of US \$1,917,800 with an annual increase of up to 3 per cent;
 - (c) Approving core unit costs for the World Bank of US \$1.5 million with an annual increase of up to 3 per cent, while noting that such revenue is likely to provide a

surplus for future years; and

3. Noting that for UNIDO to maintain its current level of administrative costs in the future it would have to either significantly increase its revenue, including continued and increasing subsidies from the Organization, and/or significantly reduce its administrative cost.

Annex I

UNDP'S EXPLANATION OF THE REASONS FOR ADMINISTRATIVE COST INCREASES IN FUND

1. Objective

Decision 38/68 established a new administrative cost regime for the 2003- 2005 triennium that included US\$1.5 million for a core unit funding budget per year per agency, applying in addition, a) an agency fee of 7.5 percent for projects with a project cost at or above US\$ 250,000 as well as institutional strengthening projects and project preparation and b) and agency fee of 9 per cent for projects with a project cost below US\$250,000, including country programme preparation. This decision also called for a review of the administrative cost regime and its core unit budget.

In view of the above decision and taking into consideration decisions 41/94 (d) and 44/7 (d) requesting the implementing agencies to provide more in-depth information on their administrative costs, UNDP prepared the analysis below to help in mapping out the administrative costs over the current triennium, as detailed in annex 1. The reasons for the changes in overall costs are provided in the analysis.

2. Background

As with any organization in the development business, UNDP as a whole has evolved a great deal over the last few years for various reasons. Some of the key reasons include the need to be responsive to the demands of key clients such as donors and programme countries, to streamline operations and cut the overall costs associated with programme delivery and to improve the services rendered to client countries. In order to manage these changes and remain relevant on the development agenda, UNDP has taken certain decisions that in the short term have increased the cost of operations such as the policy change on cost recovery for UNDP core structures and an increased focus on field operations. For the MLF specifically UNDP had to make efforts to better respond to the country driven approach embedded in the design and implementation of national and sector plans as well as RMPs/TPMPs in the large number of countries in UNDP's portfolio. These factors have influenced the daily operations of UNDP's Montreal Protocol Unit (MPU).

In addition, the dynamics with respect to the executing partners selected to deliver on UNDP/MP projects have played a part in the evolution of actual support costs disbursed, in part, as an attempt by UNDP to respond to the competing demands to optimize costs, while at the same time the executing partners are demanding more fees, not less, as the cost of doing business increases.

Document ExCom/45/12 paragraph 31st (Extended Desk Study on the Evaluation of National Phase-out Plans) prepared by the MLFS, provides a clear explanation on some challenges UNDP faced and stated that *"the country driven approach and the reductions in the support cost received by the agencies had implications for the intermediaries and modalities of implementation. It should be noted that UNOPS is not involved in the implementation of the sector/national plans on behalf of UNDP because it requested 8% implementation fee, which is*

no longer possible. Instead, the plans are implemented through national execution, which implies working more closely with UNDP country offices. The Montreal Protocol unit had to spend much time to train them for work that UNOPS used to carry out in the past. Programme Management Offices were set up in large countries such as India, Nigeria, Brazil and Indonesia, which took time and UNDP Regional and National Coordinators had to be recruited/assigned.” In addition, the need to provide a more frequent “one to one” assistance to countries increased substantially MPU staff workload.

As is evident from Table 3 of UNEP/OzL.Pro/ExCom/44/9 the overall administrative costs of UNDP have increased consistently year to year over the 3-year period. Inflation was at first perceived as an important contributing factor to these increases, however, when examined closely, all of the following elements have played roles in the changes from one year to the next, some more, others less:

- Inflation
- Disproportionate increase in travel costs
- Additional fees to country offices
- Staff related changes including salaries and associated post adjustment/staff benefits, and space rental.
- Workload issues necessitating ad-hoc management decisions that incur additional cost.
- UNDP’s Policy change on cost recovery for UNDP core structures
- The relocation and start-up administrative costs associated with Programme Coordinators in the Regions
- Timing of settlement of support costs earned by UNDP country offices

3. Analysis

We refer to figures presented in Table 1 of this document, which is a slightly modified version of Table 3 as presented in UNEP/OzL.Pro/ExCom/44/9. This is because the data per Table 1 is updated to show 2004 revised figures that better reflect the actual costs incurred in 2004, and on this basis, support the revised proposed budget for 2005. The following paragraphs provide explanations and additional clarifications on the bullet points presented above.

- Inflation

The US annual average inflation rates for 2003, 2004 and 2005 (Jan-Feb) were 2.27, 2.68 and 3% respectively.

- Disproportionate increase in travel costs

According to the American Express Travel Services, the factors affecting travel cost and leading to its increases were:

a) DSA rates have increased globally and it is estimated that 40-45% of travel costs overall are DSA costs. The weak dollar as compared to other currencies, impacted DSA cost because the

rate for a given location/city is determined in the local currency hence translates into a higher dollar DSA amount being paid than would otherwise be the case.

b) Increase in cost of aviation fuel.

c) Security

Over the last few years travel costs have increased more sharply due to measures taken to help the airline industry recover from the losses incurred in that industry, such as security fees levied on tickets.

The special characteristics of UNDP portfolio have direct implications on travel costs. UNDP's portfolio covers a large number of small projects in large number of countries in all regions. In addition, the variation in the number, timing and location of meetings that are deemed crucial to deliver on complex programme scenarios also add to increased travel costs.

- Additional fees to country offices

In the last year, it was necessary to provide additional fees to country offices to ensure a sufficient level of support for the programme in so many countries. The new country driven approach translated into national plans being mostly implemented through the national execution modality, which required a higher level of country office involvement and support.

- Staff related changes including salaries and associated post adjustment/staff benefits, and space rental

Due to staff transitions and workload increase, UNDP was short staffed in 2002. In 2003, the MP Unit hired a programme coordinator who came on board, after a long recruitment process in November of that year. The impact of this transition was an increase in 2004 staffing costs compared to 2003.

The small decrease in rental charges was temporary for 2004 only due to unoccupied space due to staff transitions and related discussions regarding the correct area to be used by the Unit compared with other UNDP programme units using the same floor. This is no longer the case and the charges, now settled for 2005, have increased by about 17% relative to 2004 actual cost.

- Workload issues necessitating ad-hoc management decisions that incur additional cost

In view of the UNDP-New York staffing limitations imposed by the Executive Board of UNDP, MPU had to rely more on consultants to remedy ad-hoc situations when compared to other UN agencies, for instance to respond quickly to submission of PCRs. In this respect, UNDP finds itself in a unique position because of the large number of small individual projects in its portfolio, which translates into a larger number of investment PCRs(about 60% of the total for the MLF) to be prepared as compared to other implementing agencies.

In changing into the national execution modality, with the new national and sectoral plans and RMP/TPMPs, UNDP also found the need to hold more frequent training sessions as to keep

consultants and country offices informed of new decisions and to better address the oversight of the portfolio, required in order to assist countries to comply with MP.

- UNDP Policy change on cost recovery for UNDP core structures

Effective January 2004, as a result of the evolution described in point 2 above, UNDP increased the cost recovery fee for services rendered from core structures (includes headquarters and country offices), to 2% across the organization. The new policy is aimed at improving the organization's development services and therefore benefits the UN as a whole (being the country offices its operational arm in the field which also supports other implementing agencies).The new cost recovery policy is being implemented inside UNDP at first, and directly impacts MP's administrative cost.

- The relocation and start-up administrative costs associate with Programme Coordinators in the Regions

The need to respond to UNDP rules on staff reassignment to the field as well as the increased staff workload in managing national, sector plans and the large number of small but labor intensive projects in RMPs/ TPMPs in so many countries, led to the decision to have staff members in the regions. By splitting the oversight responsibilities of the large portfolios, MPU is better positioned to address the excessive workload, improve oversight and reporting and optimize travel arrangements. While three staff members in the regions (LAC, Africa and Asia) were identified as the optimum number required to address the workload and portfolio characteristics, at first, only 2 were assigned to Africa and Asia . The cost trend from 2003 to 2004 reflects the increased cost of the necessary support /administrative structures.

- Timing of settlement of support costs earned by UNDP country offices

The 2004 total figures are unusually high compared to 2003, which is due to several factors including: a) the preparation for the introduction of the new UNDP accounting system (Atlas); and, b) MPU staff transition during 2003. Indeed because of these factors, country office support fees, which should have been paid during 2003, were in fact paid in 2004 in addition to the 2004 related support costs.

4. Fluctuation in project delivery rates year to year

UNDP can only disburse management funds based on support costs earned from delivery. Because of this, there is fluctuation in the actual amount of support costs earned for a given period and therefore available to be spent that is directly proportional to the delivery figures. Disbursements in terms of execution and implementation fees paid to executing agencies and UNDP country offices are also directly dependent on the rate of delivery and fluctuate accordingly since these are negotiated on a percentage of delivery basis. This is therefore a very crucial consideration in the determination and decision on the level of funding for core unit components because any shortfall in the core budget has to be met from the supervisory budget. UNDP has indeed reported short falls in the core budget which have been met from the

supervisory budget. The actual situation of the support cost regime vis a vis the special characteristics of UNDP portfolio, with large number of small projects in many countries, makes this practice not sustainable.

5. Conclusion

From the trend of support costs presented, we believe that the implications for UNDP of a static US \$1.5 million core-unit funding budget are clear. In a future scenario, as older projects associated with higher support cost fees are phased out, the agency fee will decline even if the same delivery levels are maintained. This will be happening at a time of increasing costs, as demonstrated above and the need for increased programme oversight as countries go into the next and more difficult compliance period. UNDP is in a very difficult position of having to operate on a core budget level, which as demonstrated, is below the needs and not sustainable if UNDP is to continue to provide assistance to the large number of countries, specially LVCs, in its MP portfolio in all regions. In view of all the above explanations, UNDP has increased its request for core funding in its business plan for the 2006-2008 triennium.

Annex II

EXCERPT FROM UNIDO ON ITS ADMINISTRATIVE COSTS

1. UNIDO reported its administrative support costs for 2003, 2004 and 2005 based on the method below:

- Core unit personnel and contractual staff: It is based on budgetary salary scale at 100 per cent for Professional and General Service staff on board and regular and operational budget allocation for consultants.
- Travel: The allotment from regular and operational budget.
- Space: UNIDO's Building management services cost divided by the total number of staff on board and multiplied with the above core unit staff.
- Equipment and other costs: Regular budget allocation of operating costs and Information and communication management (ICM) service non-staff costs divided by the total number of staff and multiplied with the core unit staff.
- Contractual services (firms): Career development training allocation and Financial performance control system costs based on attendance.
- Reimbursement of central services for core unit staff: Regular and operational budget allocation of Administration, excluding operating costs, ICM staff cost, General Management, Governing bodies secretariat and Library divided by total number of staff and multiplied with the core unit staff.
- Reimbursement of country offices and national executive including overhead: Allocation of regular and operational budget for field representation.
- Executing agency support cost (internal) including overhead: actual expenditures of SEPA and Turkey reimbursement, total regular and operational budget allocation of Montreal Protocol programme less the core unit personnel, consultant and travel costs and proportion of purchase and contract staff costs based on the proportion (32 per cent) of Technical Cooperation out of total Purchase Orders.

2. Effective from 1 January 2002, UNIDO adopted the euro as its basic accounting currency in accordance with the requirements of the Governing bodies. The euro amounts calculated as above were converted to US dollars at an average United Nations rate of exchange for 2003 at US\$ 1 = €0.8923. The estimate for 2004 and the budget proposal for 2005 are assumed at US\$ 1 = €0.8173.

3. Table 2 in this document presents administrative support costs of UNIDO for 2003, 2004 and 2005 in converted US dollars.

4. Paragraphs below address to questions raised in the telefax transmission dated 15 April 2005.

5. Why core unit cost items increased for UNIDO: As noted above, the exchange rate applied reflected the depreciation of US dollars against euros in average from US\$ 1 = €0.8923 to US\$ 1 = €0.8173, (8.4 per cent). The reported core unit cost increased from \$ 1,742,800 in 2003 to \$ 1,892,900 in 2004, 8.6 per cent and from \$ 1,892,900 in 2004 to \$ 1,917,800 in

2005, 1.3 per cent. In terms of euros, which is the basic accounting currency of UNIDO since 2002, the changes are as below:

(In euros)

	2003	2004	2005
Core unit cost in euros	1,564,684	1,547,195	1,567,268
Changes		-17,489	20,073

6. The above table indicates that the core unit cost decreased from 2003 to 2004 by €17,489, attributable to a reduction in core unit professional personnel cost due to the retirement of Professional staff and the time for replacement. From 2004 to 2005, an increase of €20,073 is made due mainly to inflationary cost increases.

7. Why overall agency fees were above 10 per cent in 2003 and 2004 for any agency: The new administrative cost regime thus far resulted in an increase to 11.2 per cent for the three agencies in 2003, but estimated to decrease to 10.7 per cent in 2004 based on submissions. The level of approved support cost clearly shows a decreasing trend from 2003 to 2004. In case of UNIDO, the percentage decrease can be seen in the following table, which compares the net funds approved and the approved support costs, excluding the core unit budget:

UNIDO	Net funds approved	Net support costs approved, excluding core unit budget	Percentage
2003	30,265,579	2,340,210	7.7%
2004	33,683,172	2,535,259	7.5%

The above table indicates that the percentage of net support costs approved, excluding the core unit budget, has been reduced close to 7.5 per cent.

8. What is meant by inflation and what inflation rate is being used to explain future or past cost increases: In UNIDO, in particular the inflationary cost increase from 2004 to 2005 is due to the following:

Staff cost salaries increase for professional-level average 1.45 per cent and General Services staff at average 1.85 per cent.

9. The basis for the distribution of core unit costs among the various standard categories: As explained above and shown in the table, the basis for distribution is the total number of staff and the number of staff on board in core unit.

10. “How UNIDO disbursed more costs than revenue”: As noted in the Cooper and Lybrand Study (UNEP/OzL.Pro/ExCom/26/67 dated 14 October 1998), UNIDO operates and uses internal technical resources. During project implementation, UNIDO uses its internal operating group more than outside technical consultants. In addition, UNIDO’s constitution allows it to use its general funds to share in financing the costs of providing technical services. This provision gives UNIDO the flexibility to determine the level of staffing and the style of operation without regards to the administrative cost percentage.

11. How agencies plan to disburse the undisbursed agency fees concerning information on the balance of support costs remaining as at 31 December 2003 per agencies' progress reports. Since agency fees in UNIDO are charged only when expenditures are incurred, they will be disbursed as soon as obligations are raised. After the project is financially completed and in case any support cost balance is left, it will be returned to Multilateral Fund.

12. With respect to 2006-2007, it is estimated that core unit cost in UNIDO will be in the range of \$ 1.5 to \$ 1.9 million per year based on experiences. Due to the appreciation of euros, under which UNIDO incurs administrative support cost, more resources would be required in US dollars to cover such cost.

13. Travel increase of US\$ 36,600 (from US\$ 65,900 to US\$ 102,500). UNIDO reported travel cost based on the allotment from regular and operational budget. US\$ 65,900 in 2003 was converted from €58,800 at 2003 average rate of US\$ 1 = €0.8923, since the euro is the base accounting currency of UNIDO. The increase of travel cost from 2003 to 2004 was € 25,000. In order to respond to the higher reporting requirements of national and sectoral phase-out plans, more missions had to be undertaken. At US\$ 1 = €0.8923, this increase is equivalent to US\$ 28,000. The 2004 travel cost of €83,800, when converted at US\$ 1 = € 0.8923, would amount to US\$ 93,900. At 2004 average of US\$ 1 = € 0.8173, it would amount to US\$ 102,500. Exchange difference is \$ 8,600 (= \$ 102,500 - \$ 83,800). Therefore, the travel cost increase from 2003 to 2004 is (1) due to the additional travel funds of €25,000 (equivalent in \$ 28,000) and (2) exchange variance of \$ 8,600.

14. Reimbursement of country offices and national executive including overhead increase of US\$273,400 (from US\$ 1,324,900 to US\$ 1,598,300): This reflected the allocation of regular and operational budget for field representation. In 2003, it was €1,182,231 due to 7 per cent of staff vacancy in UNIDO field offices. At 2003 average rate of US\$ 1 = €0.8923, this amounted to the equivalent of US\$ 1,324,900. The increase from 2003 to 2004 was €49,820 in regular budget and €74,212 in operational budget (total of €124,032), reflecting inflation trends at the location of field offices concerned. At US\$ 1 = € 0.8923, this increase is equivalent to US\$ 139,000. The 2004 reimbursement of country offices of €1,306,263, when converted at US\$ 1 = €0.8923, would amount to US\$ 1,463,900. At 2004 average of US\$ 1 = € 0.8173, it would amount to US\$ 1,598,300. Exchange difference is \$ 134,400 (= \$ 1,598,300 - \$ 1,463,900). The increase of reimbursement of country offices and national executive from 2003 to 2004 is, therefore, (1) due to cost increase of €124,032 (equivalent in \$ 139,000) and (2) exchange variance of \$ 134,400.

15. Executing agency support cost (internal) including overhead increase of US\$ 623,900 (from US\$ 3,274,800 to US\$ 3,871,700): This cost reflected actual expenditures of SEPA (China) and Turkey reimbursement, total regular and operational budget allocation of Montreal Protocol programme less the core unit personnel, consultant and travel costs and proportion of purchase and contract staff costs based on the proportion of Technical Cooperation out of total Purchase Orders. In 2003, it amounted to € 2,897,998. At 2003 average rate of US\$ 1 = €0.8923, this is equivalent to US\$ 3,247,800. In 2004, the total regular and operational allocation of Montreal Protocol programme, excluding the core unit, increased €266,352 due mainly to additional GS staff. At US\$ 1 = €0.8923, this increase is

equivalent to US\$ 298,500. The 2004 executing agency support cost of €3,164,350, when converted at US\$ 1 = €0.8923, would amount to US\$ 3,546,300. At 2004 average rate of US\$ 1 = €0.8173, it would amount to US\$ 3,871,700. Exchange difference is \$ 325,400 (= \$ 3,871,700 - \$ 3,546,300). Therefore, the cost increase from 2003 to 2004 is (1) due to the cost increase of €266,352 (equivalent in \$ 298,500) and (2) exchange variance of \$ 325,400.

16. Why 2003 was about US\$ 1 million below the following two years (2004 and 2005) for overall administrative cost: The overall administrative cost in 2003 was about US\$ 1 million below 2004, due mainly to (1) cost increase in 2004 of € 372,895 (equivalent in US\$ 417,900) and (2) exchange difference of \$ 618,800 (see table 2). The cost increase of € 372,895 was broken down as below (in euros). For reasons of increase, please refer to the above paragraphs 4 and 5 for reimbursement of country offices and national executive as well as executing agency support cost (internal) including overhead:

Total core unit cost	-17,489
Reimbursement of country offices and national executive	124,032
Executing agency support cost (internal) including overhead	266,352
Total administrative support cost increase	372,895

17. Compared with 2005, the overall administrative cost in 2003 was about US\$ 1 million below, due mainly to (1) cost increase in 2005 of €384,539 (equivalent in US\$ 431,000) and (2) exchange difference of \$ 620,100. The cost increase of €384,539 was broken down as below (in euros) with similar reasons for increase as in 2004:

Total core unit cost	2,584
Reimbursement of country offices and national executive	142,173
Executing agency support cost (internal) including overhead	239,782
Total administrative support cost increase	384,539

18. In summary, the overall administrative costs increased in 2004 and 2005 about US\$ 1 million from 2003 due mainly to (1) cost increases in reimbursement of country offices and national executive as well as in executing agency support cost (internal) including overhead, and (2) exchange differences.

Annex III

THE WORLD BANK'S SUBMISSION ON ADMINISTRATIVE COSTS AND A SUPPLEMENTARY EXPLANATION

After the Executive Committee's approval of new administrative cost regime at its 38th Meeting based on a US \$1.5 million core unit budget per agency on top of agency fees for project implementation (7.5% or 9% of the project value, depending on the type of project), the IAs agreed to report an expenditures of the core unit based on categories first introduced in the consultant's study on administrative costs presented to the 26th Executive Committee Meeting. IAs have accordingly grouped their actual and planned expenditures into these six categories for reporting at the 3rd meeting of the Executive Committee since the 38th Meeting.

As summarized in the Administrative Cost Regime review of the Secretariat and presented at the 44th Executive Committee Meeting (UNEP/OzL.Pro/ExCom/44/9), the Bank's expenditures have remained within the \$1.5 million budget since 2002. Historically, the Bank's core unit costs have averaged to be from \$1.4-1.5 million and total costs, including supervision and payment to Financial Agents has been about 11% as a percentage of approvals and based on a \$50-60 million allocation. The new administrative cost regime, whereby project administrative fees have been cut to 7.5% (because most of the bank's projects exceed \$250,000 or are institutional strengthening projects, this percentage has applied to most newly approved projects), has not affected the Bank's ability to cover its cost as it still can draw on the administrative fees received from past approvals.

The World Bank provided a detailed review of the policy on and use of its administrative fees under the MLF since inception in paper circulated at the 37th Executive Committee Meeting. The analysis done for this paper stands today, in that our core unit costs have been consistent overall. The size and consistency of the MP unit has not changed and costs have thus increased slowly over the years to reflect normal salary increases. The level of travel required, consultant services and overhead costs have fluctuated more. For the first two cost categories, the fluctuation is due to changes in the business. For example, the need for OORG experts has decreased in recent years since the number of projects prepared has decreased significantly (due to the transition to sector and national plans).

In terms of the remaining questions posed by the Secretariat on April 15th, we would refer the Secretariat to our administrative cost paper. Although the Bank's paper immediately preceded the approval of the newest administrative fee framework, many of the questions addressed are still relevant such as how undisbursed agency fees would be utilized. This paper may be useful to the Secretariat's work on the administrative cost regime paper for the 46th Executive Committee.

Finally, we would just note that for the Bank, overall agency fees as a percentage of approvals have averaged below 10% since 1999, as shown in the Secretariat's report to the 44th Meeting. The level indicates that the Bank's new MP business is more focused on sector and national ODS phase-out plans. Because several multiyear projects were approved before the

adoption of the new administrative fee structure, the percentage of agency fees has not be dropped below 9% (except in 2002).

Reasons for Changes in Expenditures

Core unit personnel/consultants: We are expecting an increase in costs of staff in 2005 (Bank-wide). There will also be several shifts from consultant to regular staff and vice versa in the core unit.

Travel costs were higher in 2004 with the addition of one staff member to all Executive Committee meetings as well as more UNEP regional meetings, interagency meetings and special events attended.

Space: The cost of space for two staff members was removed as they are now sitting in space covered by other units.

Contractual services: Less external consultants were contracted by the core unit for special initiatives as had been the case in 2003 where there were several MP country and sector studies.

FI fee: Although disbursement in the 2004PR is projected to be 48% higher in 2005 than in 2004, services of FIs is expected to decrease as traditional umbrella projects close and are replaced with umbrella projects that have new payment arrangements with FIs.
