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DU FONDS MULTILATERAL AUX FINS
D'APPLICATION DU PROTOCOLE DE MONTREAL
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**ÉVALUATION DES COÛTS ADMINISTRATIFS REQUIS POUR LA PÉRIODE
TRIENNALE 2009-2011 (SUIVI DES DÉCISIONS 50/27, 51/38 ET 54/42)**

Les documents de présession du Comité exécutif du Fonds multilatéral aux fins d'application du Protocole de Montréal sont présentés sous réserve des décisions pouvant être prises par le Comité exécutif après leur publication.

1. À sa 50^e réunion, le Comité exécutif a autorisé le Secrétariat à entreprendre une évaluation complète et indépendante des coûts administratifs requis pour la période triennale 2009-2011 en faisant appel à des consultants/bureaux d'experts-conseils indépendants et à communiquer ses conclusions à la première réunion du Comité exécutif en 2008. Il a demandé également aux agences d'exécution de faciliter la participation d'auditeurs internes ou autre personnel de gestion financière, selon qu'il conviendra, à l'équipe d'étude (décision 50/27, paragraphes c) et d)).
2. À sa 51^e réunion, le Comité exécutif a adopté le projet de mandat, tel qu'amendé oralement, en prenant note que le Secrétariat du Fonds présentera les coûts basés sur les soumissions des consultants qualifiés reçues par le Comité exécutif à sa 52^e réunion (décision 51/38).
3. À sa 54^e réunion, les consultants, PriceWaterhouseCoopers, ont présenté un rapport d'étape sur l'étude et le Comité exécutif a demandé aux agences d'exécution de fournir des informations pertinentes afin de s'assurer que l'évaluation des coûts administratifs nécessaires pour la période triennale 2009-2011 soit aussi exhaustive et utile que possible (décision 54/42).
4. Le rapport final des consultants est joint à ce document et sera présenté par PriceWaterhouseCoopers à la 55^e réunion. Les consultants ont fait des recommandations et le Comité exécutif pourrait examiner ces recommandations à la lumière de sa révision des coûts de l'unité de base à sa 56^e réunion.

Évaluation complète et indépendante des coûts administratifs requis pour la période triennale 2009-2011

Rapport des Consultants

PriceWaterhouseCoopers

3. RECOMMANDATIONS

3.1 Révision du régime des coûts administratifs

3.1.1 Définition normalisée des coûts administratifs

Le rapport de Coopers & Lybrand, présenté à la 26e réunion du Comité exécutif, conseillait l'adoption d'une définition commune des coûts administratifs. Ce rapport proposait une définition qui n'a jamais été adoptée officiellement par le Comité exécutif. Pour la préparation du présent rapport, étant donné l'absence de définition convenue des coûts administratifs, nous nous sommes fiés à la définition énoncée dans le précédent rapport de Coopers & Lybrand puisqu'il s'agissait de la définition recommandée par le personnel du FML. De nouvelles méthodes de décaissements (PAC, coûts de l'unité de base, coûts d'appui des projets) ont été mises en place sans toutefois affecter la nature sous-jacente des activités administratives incluse dans la définition des coûts administratifs de Coopers & Lybrand.

Il est vivement recommandé au Comité exécutif d'adopter une définition commune des coûts administratifs.

De plus, cette définition devrait s'appliquer à toutes les agences, quel que soit le mécanisme utilisé pour le décaissement des coûts de projet et des coûts administratifs.

3.1.2 Déclaration des coûts administratifs à l'intérieur du PAC

Le budget du PAC du PNUE est présenté par catégorie de coûts. La présentation de budgets par coûts, avec ce niveau de détails, assure le degré de transparence requis pour permettre au Comité exécutif de prendre des décisions éclairées. Toutefois, nous constatons que le PAC, tel que présenté, ne fait pas la distinction entre les coûts administratifs et les coûts de projet; ce qui rend tout examen analytique des composantes administratives du PAC impossible.

Nous recommandons que les détails inclus actuellement dans le budget du PAC soient séparés entre coûts administratifs et coûts de projet. Cependant, nous ne recommandons pas l'implantation d'un suivi chronologique détaillé pour le personnel qui accomplit les deux types d'activités, administratives et de projet. Il faudrait définir des hypothèses qui permettraient ensuite la répartition entre les coûts de projet et les coûts administratifs.

3.1.3 Ajustement au calcul du PAC (Programme d'aide à la conformité)

Le PNUE reçoit 8% des coûts d'appui de projet, calculés sur la totalité du budget du PAC. Le budget du PAC inclut à la fois les coûts administratifs et les coûts de projet. Par conséquent, les coûts d'appui de projet sont calculés non seulement sur les coûts des projets, comme il convient selon ce régime de coûts, mais aussi sur les coûts administratifs.

Nous recommandons que le calcul des coûts d'appui de projet pour le PNUE s'appuie sur le PAC en excluant les composantes de coûts administratifs.

3.1.4 Comptabilité de fonds d'affectation spéciale de l'ONUDI

L'ONUDI est la seule agence à ne pas avoir de fonds d'affectation spéciale pour les décaissements de projet qu'elle reçoit du FML. En outre, l'ONUDI n'a pas de comptabilité des coûts d'appui de projet pour les activités du FML distincte de celle des autres AME qu'elle appuie. Nous recommandons que l'ONUDI aligne sa méthode comptable pour les décaissements de projet qu'elle reçoit et pour les coûts de projet encourus sur celle des autres agences d'exécution des Nations Unies. Ce réalignement améliorerait les capacités de faire rapport de l'ONUDI, ce qui renforcerait la comparabilité entre les agences d'exécution.

3.2 Financement suffisant pour la prochaine période triennale

3.2.1 Taux de décaissement des projets

D'après nos modèles mathématiques, nous estimons qu'il y aura un transfert dans les décaissements de projet, de la Banque mondiale vers le PNUE et le PNUD, au cours de la prochaine période triennale. Compte tenu de la lenteur historique du taux de décaissement des projets au PNUE (23,3% après 2 ans), ceci entraînera une baisse des décaissements de projet vers la fin de la prochaine période triennale. Avec des taux de décaissement faibles et le financement des coûts de l'unité de base pour le PNUD (ce qui n'est pas le cas pour le PNUE), ceci causera une hausse marquée du taux anticipé des coûts administratifs par rapport aux coûts de projet (entre 28,6% et 49,1% selon le niveau du financement de réapprovisionnement).

Nous recommandons que le PNUD cherche à augmenter ses taux de décaissement des projets au cours des premières années qui suivent les approbations de projet. Tandis que le PNUD a indiqué que la lenteur de son taux de décaissement est due à des approbations de projets en fin d'année, ceci n'explique pas pourquoi après deux ans, les taux de décaissement des projets ne sont que de 8,7% de l'ensemble des montants approuvés.

3.2.2 Activités reliées à l'élimination des CFC

Selon notre compréhension de la nature des coûts d'appui de projet, les activités d'élimination des CFC identifiées par les agences sont incluses dans la définition des coûts d'appui de projet et/ou du PAC et ne devraient pas être assujetties à des décaissements additionnels par le FML. La clôture financière de tous les projets est couverte par les coûts d'appui de projet. Aucun autre élément, au-delà de la clôture financière, n'a été porté à notre attention.

3.2.3 Activités de démarrage pour les HCFC

D'après notre examen des plans d'activités des agences et à travers les entrevues avec leurs représentants, les agences ont identifié diverses activités de démarrage pour les HCFC. Ces activités de démarrage ont été contestées par le personnel du FML. Ainsi, une démarche différente a été adoptée pour évaluer le niveau des coûts administratifs pour les agences. A partir d'une comparaison entre les décaissements administratifs historiques et les décaissements projetés pour 2008, nous arrivons aux conclusions suivantes pour les différentes agences :

PNUD – d'après le plus récent plan d'activités, il faudra embaucher trois personnes supplémentaires. D'après notre analyse, elles recevront un montant additionnel de financement de 500k \$ (3,7m en 2007 par rapport à un montant estimé à 4,2m en 2008) en 2008, par rapport à 2007. Nous concluons que ce montant couvrira les coûts additionnels et qu'aucune autre rémunération additionnelle n'est requise.

ONUDI – Nous anticipons une augmentation de 500k \$ (de 3,8m \$ à 4,3m\$) des décaissements administratifs pour l'ONUDI en 2008. Toutefois, il existe un écart important entre les coûts déclarés dans le rapport de l'unité de base (7,3m\$) et les décaissements administratifs reçus (3,8m\$) en 2007. Nous recommandons que l'ONUDI explique la nature de l'augmentation significative des coûts (7,3m \$ par rapport à une moyenne de 5,5m\$ pour 2004-2006) déclarés avant de tirer des conclusions sur la nécessité d'un financement additionnel.

Banque mondiale – Nous anticipons une baisse marquée des décaissements administratifs pour la Banque mondiale, passant de 9,2m \$ en 2007 à un montant estimé de 5m\$ en 2008. Cette réduction pourra probablement être compensée par des décaissements supérieurs aux coûts encourus par la Banque mondiale durant les années précédentes. D'après nos calculs, entre 2004 et 2007, les décaissements pour la Banque ont dépassé de 5,2m \$ les coûts déclarés. En 2007 seulement, les décaissements de 9,2m pour la Banque mondiale ont dépassé les coûts déclarés de 6,6m\$.

PNUE – Le PNUE a fait savoir qu'il cherchait à réviser le budget du PAC en 2008 sur la base des éventuelles décisions prises à la 54e réunion du Comité exécutif (c'est l'occasion aussi pour le PNUE de répondre à la décision 52/7 pour une régionalisation accrue des ressources du PAC).¹

3.2.4 Comparaison du régime de coûts actuel avec celui du FEM

Nous avons examiné l'Examen des dépenses administratives du FEM allouées aux agences d'exécution du FEM et constaté que la moyenne historique des dépenses administratives annuelles s'élevait à 9,7% pour la période 2001-2005.² Nous recommanderions un taux de décaissement global supérieur à celui du FEM, étant donné que les niveaux de décaissement pour les projets du FEM sont nettement supérieurs à ceux du FML (FEM 534m\$/an par rapport à 157m\$/an pour le FML). Selon nous, des niveaux de décaissement plus élevés permettent de réaliser des économies d'échelle.

¹ UNEP/OzL.Pro/ExCom/53/20, paragraphe 12

² Voir GEF\C.33/8 page 20

3.2.5 Pertinence du régime de coûts actuel pour la prochaine période triennale

D'après nos modèles mathématiques, lorsque les décaissements de projet pour une agence d'exécution tombent sous la barre approximative des 25m\$ durant une année, les coûts administratifs exprimés en pourcentage des coûts de projet dépasseront 15%. Nous estimons que les décaissements prévus pour 2008-2010 se situeront vraisemblablement autour de 13%, en moyenne. Toutefois, en 2011, étant donné la baisse attendue des décaissements de projet, le ratio des décaissements administratifs par rapport aux décaissements de projet augmentera pour se situer entre 25,7% (Scénario 1) et 17% (Scénario 2).

Étant donné l'incertitude des évaluations pour 2011, il n'est pas recommandé d'apporter des modifications aux régimes de coûts en ce moment. Toutefois, lorsque les niveaux de décaissement pour une quelconque agence qui reçoit des coûts d'unité de base (PNUD, ONUDI, Banque mondiale) tombent de manière permanente sous un certain niveau, il faudrait mettre des mesures en place pour modifier le régime de coûts actuel sinon le niveau des décaissements administratifs par rapport aux décaissements de projet augmentera.

Une option consisterait pour les agences à obtenir le droit de recevoir des coûts d'unité de base dont elles ont besoin pour maintenir certains niveaux de décaissement. Si les niveaux de décaissement baissent sous le seuil de manière permanente, l'agence serait assujettie au même régime de coûts que les agences bilatérales, obtenant seulement 13% des coûts d'appui du projet. Selon notre analyse, nous pensons que ce seuil devrait être fixé à environ 35m\$ des décaissements par année.

3.2.6 Surveillance des frais administratifs

Étant donné la nature des décaissements des coûts administratifs aux agences, il est impossible de comparer exactement ces décaissements avec les coûts administratifs réels encourus par les agences. Toutefois, nous recommandons la surveillance des différences entre les décaissements administratifs et les coûts déclarés par les agences et un examen si des différences persistent ou augmentent au fil du temps. L'idéal serait que les coûts administratifs déclarés par les agences au FML fassent l'objet d'une vérification indépendante pour rassurer le FML.

En outre, nous recommandons l'élaboration d'indicateurs de performance clés qui permettront d'effectuer un examen du ratio des coûts administratifs décaissés par rapport aux coûts décaissés pour les projets afin de s'assurer que le régime de coûts actuel garantisse aux agences un niveau de frais administratifs approprié.

Enfin, nous recommandons la mise en place de mécanismes pour permettre au FML d'évaluer le niveau des coûts administratifs à décaisser dans l'avenir. Ainsi, le Comité exécutif disposera d'un moyen pour évaluer toute modification requise au régime actuel de coûts au fur et à mesure de l'évolution future des niveaux de décaissement des projets.

3.2.7 Subventions non-engagées

Il y a 129 millions \$ de subventions qui ne sont pas engagées mais pour lesquelles les objectifs de SAO sont presque ou déjà atteints. Étant donné la nature des subventions, ces sommes sont engagées au profit du bénéficiaire visé à l'article 5 pour effectuer uniquement les initiatives prescrites. Il ne semble y avoir aucune souplesse pour utiliser les subventions pour d'autres

activités. Par conséquent, les agences auront de la difficulté à trouver les projets appropriés à mettre en œuvre ou les projets mis en œuvre auront de faibles rendements en termes d'incidence sur les objectifs pour les SAO.

Lorsqu'un engagement a été pris envers un pays visé à l'article 5 par l'établissement d'une subvention, il faut une certaine souplesse afin de permettre l'utilisation des fonds pour d'autres activités dans le pays visé à l'article 5. Nous recommandons vivement des amendements au processus de subvention pour permettre une réallocation des subventions vers des programmes différents (par exemple les HCFC) dans le pays récipiendaire visé à l'article 5.

3.3 Divers

3.3.1 Risque associé aux taux de change des devises

Le mécanisme de taux de change fixe sert à établir un taux de change convenu pour une période de trois ans, entre les membres du Comité exécutif et l'unité de Trésorerie du FML au PNUE à Nairobi. Ce mécanisme permet aux membres du Comité exécutif de transférer le financement convenu au FML, dans leurs devises nationales, à l'abri des fluctuations monétaires.

Aucun mécanisme similaire n'a été mis en place pour les agences d'exécution. Cette situation a pour principale conséquence de faire porter aux agences d'exécution le risque associé aux taux de change, ce qui peut engendrer des déficits et des excédents qui échappent au contrôle des agences.

La gestion du risque associé aux taux de change est un domaine complexe. De nombreuses entreprises multinationales ont des systèmes de trésorerie complexes qui cherchent à minimiser l'impact des fluctuations monétaires sur leurs activités dans des pays qui ont des devises différentes. Tandis que la trésorerie du FML protège les contributions des membres du Comité exécutif, il n'est nullement tenu compte de la vulnérabilité des agences d'exécution face aux risques associés aux taux de change. Il est vivement recommandé de centraliser la gestion des risques associés aux taux de change plutôt que de la laisser au niveau des agences.

3.3.2 Exigences concernant les rapports

Notre étude indique que le rapport d'achèvement pluriannuel est identifié par les agences comme la tâche qui prend le plus de temps parmi les exigences de rapports du FML. Les rapports varient en volume (30, 45, 60 pages)³ bien que l'information exigée par le FML se limite à dix tableaux d'informations quantitatives, avec une vaste proportion d'informations déjà pré-inscrites. Le volume important d'informations qualitatives est une des principales raisons de la longueur de la préparation de ce rapport. Une autre raison en est que les agences ne sont pas structurées pour fournir facilement les informations quantitatives requises par le Secrétariat, ce qui requiert une collecte et une manipulation additionnelles de données qui entraînent des coûts administratifs additionnels.

³ Voir annexe 7.8 pour un exemple de rapport pluriannuel

Nous recommandons que le Secrétariat et les agences s'entendent sur un minimum d'informations qualitatives requises dans le rapport de projet pluriannuel. Une telle entente normaliserait aussi le processus de préparation de rapports pour toutes les agences et stabiliserait les coûts administratifs associés aux exigences concernant les rapports.

Nous recommandons aussi que les agences revoient leur processus de collecte de données afin d'en maximiser l'efficacité et de réduire les coûts administratifs additionnels associés à la collecte de données après coup. Par exemple, la collecte de données devrait être intégrée aux activités de projet et ainsi les données seraient recueillies progressivement du début du projet jusqu'à son achèvement.

Multilateral Fund Secretariat

Comprehensive independent assessment of the administrative costs required for the 2009-2011 triennium

Report of the Consultants

June 2008





Table of Content

1	Introduction.....	1
2	Approach and Methodology	2
3	Recommendations	5
3.1	Review of the Administrative Cost Regime	5
3.2	Sufficiency of funding into the Next Triennium	7
3.3	Other.....	10
4	Analysis and Key Findings	11
4.1	Review of the Administrative Cost Regime	11
4.2	Sufficiency of Funding into the Next Triennium.....	23
4.3	Other.....	47
5	Conclusion.....	49
6	Appendices.....	50
6.1	Chart of Interviews and Site Visits.....	50
6.2	Survey Questionnaire (implementing agencies).....	53
6.3	Survey Questionnaire (bilateral agencies)	57
6.4	Model Assumptions	60
6.5	Quantitative Information Received	62
6.6	Commentary Received from UNEP relating to the segregation of Administrative costs and Project costs.....	63
6.7	Commentary received from UNEP relating to draft assessment submitted for agency review.....	66
6.8	Commentary received from UNEP relating to draft assessment submitted for agency review.....	74





1 Introduction

The Multilateral Fund engages various agencies to execute its goal of eliminating the consumption and production of ozone depleting substances in Article 5 countries in a finite time frame. Based on agreements with the Multilateral Fund Executive Committee, the agencies are entitled to charge the Multilateral Fund for administrative costs to enable them to complete the supervision, technical assistance, and monitoring obligations of the approved projects.

At its 50th Meeting, the Executive Committee of the Fund decided to authorize the Secretariat “to undertake a comprehensive independent assessment of the administrative costs required for the 2009-2011 triennium, using independent consultants or consulting firms as needed, and to report its conclusions to the First meeting of the Executive Committee in 2008 and requested agencies to facilitate the participation of internal auditors, or other financial management personnel as appropriate, in the study team” (decision 50/27, para. C). The terms of reference adopted by the Committee are defined in decision 51/38.

PricewaterhouseCoopers (PwC) has been contracted to perform this independent assessment. This final report, which will be summarized in our presentation to the 55th Meeting of the Executive Committee, contains our findings and recommendations with regards to the objectives of the assessment and in response to the terms of reference.





2 Approach and Methodology

We have tailored our approach to reflect the specific needs of this study, as expressed by the Executive Committee, the Multilateral Fund Secretariat, the Executive Committee and the Agencies. Figure 2.1 presents the five phase approach to performing the assessment of administrative costs required for the 2009-2011 trienniums.

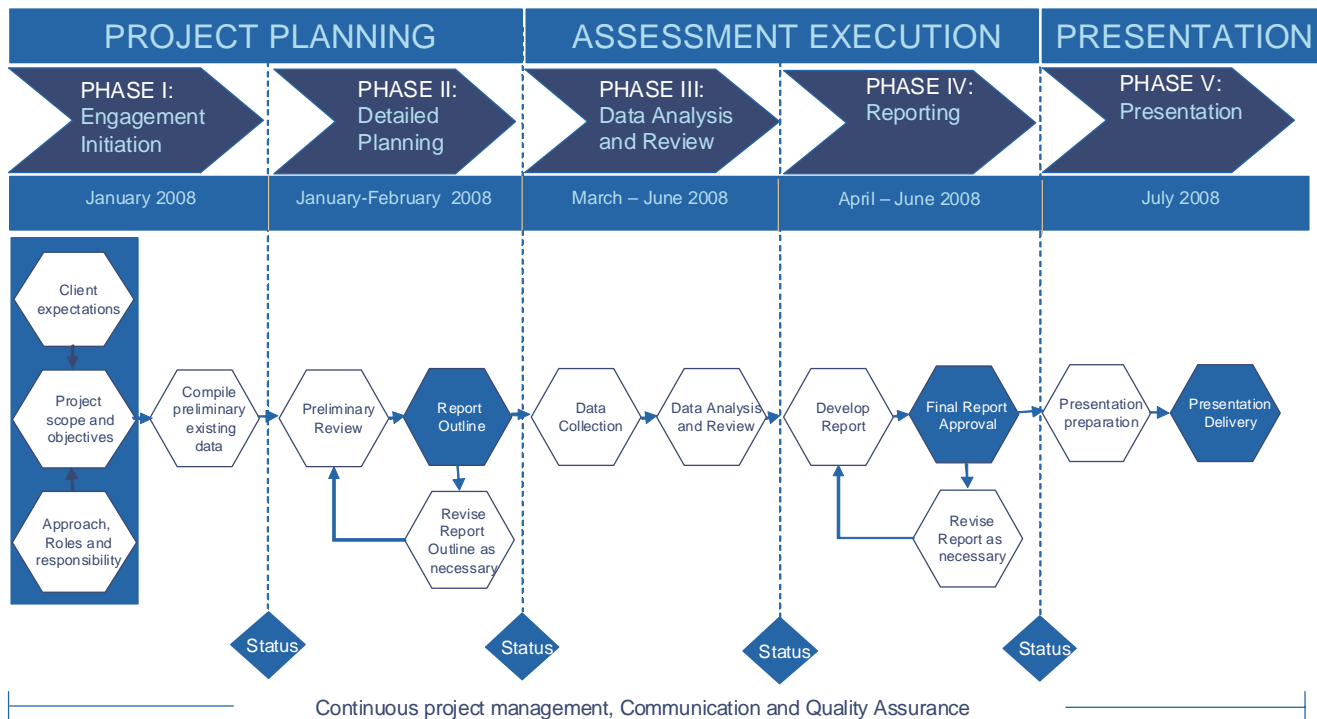


Figure 2.1 Project phases approach

Phase I: Engagement Initiation

Upon notification of contract award, PwC arranged project initiation meetings with the Multilateral Fund Secretariat staff to confirm expectations, objectives and project scope.





Phase II: Project Planning

During the planning phase, our team performed a thorough review of the multilateral fund documents, including previous reports on the administrative cost regimes, and other pertinent information as provided by the Secretariat during the engagement initiation phase.

This phase also included the confirmation of timetables, the scheduling of site visits, the preparation of standard qualitative and quantitative questionnaires for information gathering and, the production of a draft outline of the final report for review by the Secretariat.

The qualitative and quantitative questionnaires were prepared based on the cost definitions established by Coopers & Lybrand in 1998. It should be noted that the Executive Committee has never formally approved of this definition of Administrative Costs. See section 3.1.2 for further discussion on the basis for selection of this definition.

A pilot of our questionnaires was performed during our site visit at Environment Canada in early February and the questionnaires were adjusted based on the results of the pilot, prior to the other site visits.

In collaboration with the Multilateral Fund Secretariat, we selected a sample of agencies and multilateral environment agreements (MEAs) for our site visits. The figure 2.2 below presents the selection for our study:

Multilateral Implementing Agencies (MIAs)	Bilateral Implementing Agencies (BAs)	Other Multilateral Environment Agreements (MEAs)
UNIDO	ENVIRONMENT CANADA	GEF Secretariat
UNDP	GTZ	UNFIP
UNEP	FRENCH GEF	UNFCCC
WORLD BANK		

Figure 2.2 Selection of participants for our study

Phase III: Data Analysis and Review

The research team visited the selected agencies and MEAs and conducted interviews based on the standard questionnaires developed. The review of the cost allocation was based on the cost definitions determined by Coopers and Lybrand in their 1998 assessment of administrative costs. The definitions can be found in Section 3.1.1.





The information gathered during the interviews was compiled and an initial analysis was performed. Following this initial analysis, follow-up conference calls were conducted with the agencies and MEAs to refine the initial analysis and to confirm findings. Findings were then communicated and discussed with the Multilateral Fund Secretariat and re-validated, if necessary, with the agencies and MEAs to arrive at a final analysis. Once the analysis finalised, recommendations were drafted in response to the findings of our study.

The list of interviews and conference calls can be found in Section 6.1.

Phase IV: Reporting

A progress report was submitted to the Multilateral Fund Secretariat in March 2008 and presented at the 54th Meeting of the Executive Committee on April 10, 2008. Following the presentation of the Progress Report, comments from Executive Committee, agencies and MEAs were obtained and incorporated into our analysis to create a first draft report. This initial draft report was submitted to the Multilateral Fund Secretariat for review and comments were incorporated into the final report.

Phase V: Presentation

The results of our study will be presented at the 55th Meeting of the Executive Committee in July 2008.





3 Recommendations

3.1 Review of the Administrative Cost Regime

3.1.1 Standard definition of administrative costs

The Coopers & Lybrand report, presented at the 26th Meeting of the Executive Committee, advised that a common definition for administrative costs was required. The report proposed a definition which was never formally agreed upon by the Executive Committee.

In preparation of this report, given that there is no agreed upon definition of administrative costs, we have relied on the definition put forth in the previous Coopers & Lybrand report as this was the definition recommended by the MLF staff. While new approaches to disbursements have been implemented (CAP, Core Unit Costs, Project Support Costs), they do not change the underlying nature of administrative activities that are included in the Cooper & Lybrand definition of administrative costs.

It is strongly recommended that a common definition of administrative costs is agreed to by the Executive Committee.

Additionally, this definition should be applied to all agencies, regardless of the mechanism used for the disbursement of project and administrative costs.

3.1.2 Reporting of administrative costs within CAP

UNEP's CAP budget is presented by cost category. Presentation of cost budgets with this level of detail provide a level of transparency required to enable the Executive Committee to make informed decisions. However, we note that CAP, as presented, does not segregate costs between administrative and project costs. As such, any analytical review of the CAP's administrative components are not feasible.

We recommend that the details currently included within the CAP budget are segregated between administrative and project costs. However, we do not recommend that detailed time tracking is implemented for resources performing both project and administrative activities. Assumptions should be defined and allocations of cost between project and administrative costs be made accordingly.

3.1.3 Adjustment to the calculation of CAP (Compliance Assistance Program)

UNEP receives 8% of project support costs calculated on the entirety of the CAP budget. The CAP budget includes both project costs and administrative costs. Therefore project support costs are being calculated not only on project costs, as they should be per the cost regime, but also on administrative costs.

We recommend that the calculation of project support costs for UNEP be based on CAP excluding administrative cost components.





3.1.4 Trust fund accounting within UNIDO

UNIDO is the only agency that does not have a separate trust fund for the project disbursements received from the MLF. In addition, UNIDO does not have project support cost accounting for MLF activities segregated from the other MEA's that it supports.

We recommend that UNIDO align its accounting approach for both project disbursements received and project costs incurred with the other UN Implementing Agencies. This realignment would improve UNIDO's reporting capabilities which would enhance comparability across Implementing Agencies.





3.2 Sufficiency of funding into the Next Triennium

3.2.1 Project Disbursement Rates

Based on our mathematical models, we estimate that there will be a shift in project disbursements from World Bank to UNEP and UNDP into the next triennium. Given historically slow rate of project disbursements at UNEP (23.3% after two years) and UNDP (8.7% after two years) vs. World Bank (68.2% after two years), this will result in a drop in project disbursements towards the end of the next triennium. With low disbursement rates and core unit cost funding for UNDP (UNEP does not receive core unit costs), this results in a sharp rise in the anticipated ratio of administrative costs against project costs (between 28.6% and 49.1% depending on the level of the replenishment funding).

We recommend that UNDP seek to increase their rates of project disbursements in the first few years after project approvals. While UNDP has advised that their slow rate of disbursements is due to project approvals at the end of the year, this still does not explain why after two years, project disbursement rates are only 8.7% of overall approved amounts.

3.2.2 Activities relating to CFC Phase out

Based on our understanding of the nature of project support costs, the CFC phase out activities identified by the agencies are included in under the definition of project support costs and/or CAP and should not be subject to additional disbursements by the MLF. The financial completion of all projects is covered by project support costs. There were no items beyond financial completion which were brought to our attention.

3.2.3 HCFC Start up activities

Based on our review of the agency business plans and our interviews with the agencies, the agencies identified various start-up activities for HCFCs. These start-up activities were disputed by MLF staff. As such, an alternative approach was taken in assessing the level of administrative costs for the agencies. Based on a comparison of the administrative disbursements historically and projected disbursements for 2008, we arrive at the following conclusions per agency:

UNDP – Per the latest business plan, additional three resources to be hired. Based on our analysis, they will receive an additional \$500k (\$3.7m in 2007 vs. \$4.2m estimated in 2008) of funding in 2008 vs. 2007. We conclude that this will cover the additional costs and that no further compensation is required.

UNIDO – We anticipate an increase in administrative disbursements to UNIDO in 2008 of \$500k (from \$3.8m to \$4.3m). However, There is a significant gap between the costs reported in their Core Unit Report (\$7.3m) and the administrative disbursements received (\$3.8m) in 2007. We recommend that UNIDO explain the nature of the significant increase in costs (\$7.3m vs. \$5.5m 2004-2006 average) reported before any conclusion on the requirement for additional funding is made.





World Bank – We anticipate a sharp decrease in administrative disbursements for World Bank from \$9.2m in 2007 to \$5m estimated in 2008. This drop can likely be offset by disbursements in excess of costs incurred by World Bank in previous years. Based on our calculations, disbursements to World Bank from 2004-2007 exceeded their reported costs by \$5.2m. In 2007 alone, disbursements to the World Bank of \$9.2m exceeded reported costs of \$6.6m.

UNEP – UNEP has advised that they seek to revise the CAP budget in 2008 based on the possible decisions to be taken at the 54th Executive Committee meeting (this also provides an opportunity for UNEP to further address Decision 52/7 for additional regionalization of CAP resources).¹

3.2.4 Current Cost Regime comparison with GEF

In our review of the GEF's Review of Administrative Expenses Allocated to GEF Implementing Agencies, we note that their average annual administrative expenses historically amounted to 9.7% for the period 2001-2005². We would recommend an overall disbursement rate higher than the GEF, given that GEF project disbursement levels far exceed the MLF's (GEF \$534m/year vs. MLF \$157m/year). It is our view that there are economies of scale with higher disbursement levels.

3.2.5 Suitability of the current Cost Regime into the next triennium

Based on our mathematical models, where project disbursements to an implementing agency in a year fall below approximately \$25m, administrative costs as a percentage of project costs will exceed 15%. We estimate that the planned disbursements for 2008-2010 will likely average around 13%. However, in 2011, given the drop in expected project disbursements, the ratio of administrative disbursements to project disbursements will increase to between 25.7% (Scenario 1) and 17% (Scenario 2).

Given the uncertainty with the estimates for 2011, it is not recommended that any changes to the cost regimes are made at this time. However, as disbursement levels for any of the agencies receiving core unit costs (UNDP, UNIDO, World Bank) falls below a certain level on a permanent basis, measures should be in place to change the existing cost regime otherwise, the level of administrative disbursements relative to project disbursements will increase.

One option would be that for agencies to earn the right to receive core unit costs, they need to maintain certain disbursement levels. If disbursement levels decline, on a permanent basis, below this threshold, the agency would be subject to the same cost regime as the bilateral agencies, earning 13% of project support costs only.

Based on our analysis, we believe that this threshold should be set at approximately \$35m of disbursements per year.

¹ UNEP/OzL.Pro/ExCom/53/20, para 12

² Refer to GEF/C.33/8 page 20





3.2.6 Monitoring of administrative fees

Given the nature of administrative cost disbursements to the agencies, it is impossible to match these disbursements exactly with the actual administrative costs incurred by the agencies. However, we recommend that differences between administrative disbursements and costs reported by the agencies are monitored and addressed if differences persist or grow over time. Ideally, administrative costs reported by the agencies to the MLF would be subject to an independent audit to provide comfort to the MLF.

In addition, we recommend that key performance indicators are developed whereby a review of the ratio of administrative costs disbursed relative to project costs disbursed can be performed to ensure that the existing cost regime is providing the appropriate level of administrative fees to the agencies.

Lastly, we recommend that mechanisms are put in place to enable the MLF to estimate the level of administrative costs to be disbursed into the future. This will provide the Executive Committee with a means to assess any changes required to the current cost regime as project disbursement levels change into the future.

3.2.7 Non-committed Grants

There is \$129 million in grants that are not yet committed but for which ODS targets are close to being met or have been met. Given the nature of grants, these amounts are committed to the Article 5 recipient to perform the prescribed initiatives only. There does not appear to be flexibility in the use of grants for other activities. As such, the agencies will have difficulty finding the appropriate projects to implement or the projects implemented will have low returns in terms of impact on ODS targets.

While there has been a commitment to an Article 5 country in the set up of a grant, flexibility is required to divert the funds to other activities within that Article 5 country. Amendments to the grant process are strongly recommended to enable the reallocation of grants towards different programs (for example HCFCs) for the recipient Article 5 country.





3.3 Other

3.3.1 Foreign Currency Exchange Risk

The Fixed Exchange Rate Mechanism is used to establish an agreed upon exchange rate over a three year period between Executive Committee members and the MLF treasury unit in UNEP Nairobi. The FERM allows Executive Committee members to transfer their agreed upon funding to the MLF, using their national currency sheltered from currency fluctuations.

There is no such mechanism in place for the implementing agencies. The major issue arising relates to the foreign currency risk borne by the implementing agencies which can create deficits and surpluses out of the control of the agencies.

Managing foreign exchange risk is a complex matter. Many multinational companies have complex treasuries which seek to minimize the impact of foreign currency fluctuations on their operations in countries with different currencies. While the MLF's treasury protects Executive Committee member contributions, there is no consideration for the foreign currency risk exposures of the implementing agencies. It is strongly recommended that foreign currency risk exposures are managed centrally and not at an agency level.

3.3.2 Reporting Requirements

Our study shows that the multi-year completion report is identified by the agencies as the most time-consuming of reporting requirements to the MLF. The reports can range in volume (30, 45, 60 pages)³ although the information required by the MLF is limited to ten tables of quantitative information with a large portion of the information pre-populated. The large volume of qualitative information is one of the primary reasons why the preparation of this report is so time-consuming. Another reason is that the agencies are not structured to easily provide the quantitative information requested by the Secretariat, resulting in additional data gathering and manipulation leading to additional administrative costs.

We recommend that the Secretariat and the agencies agree on the minimum qualitative information required in the multi-year project report. Such an agreement would further standardize the reporting process across agencies and stabilize administrative costs associated with reporting requirements.

We also recommend that the agencies revisit their data gathering process to maximize efficiency and to reduce additional administrative costs associated to after the fact data gathering. For example, data gathering should be integrated within the project activities and thereby collected progressively from the start of the project until completion.

³ Refer to appendix 7.8 for an example of a multi-year report





4 Analysis and Key Findings

4.1 Review of the Administrative Cost Regime

4.1.1 Evolution of administrative cost regime

Since the creation of the Montreal Protocol, the Multilateral Fund (“MLF”) has been set up to administer the funding of project-related activities relating to the reduction of Ozone Depleting Substances (“ODS”). These activities are undertaken by both implementing and bilateral agencies. As part of the implementation of MLF related projects, the agencies have been provided with fees to fund administrative activities. These fees have been regulated by an administrative cost regime. The administrative cost regime has been through four adjustments over the years to better reflect the reality faced by agencies.

Under the current regime, for UNDP, UNIDO, and the World Bank, total administrative costs are disbursed in two ways; fixed costs (core unit costs) and variable costs (project support costs). For Bilateral agencies and UNEP’s non-CAP activities, the amounts are disbursed only via variable costs (project support costs). For UNEP’s CAP activities, administrative fees are mixed with other costs in the CAP budget.

Fixed costs (Core Unit costs) relate to a fixed amount that is disbursed annually. Variable costs (Project support costs) are disbursed as a percentage of project cost disbursements. While the regimes have changed the way in which Administrative costs are disbursed, they have not changed the fundamental definition of Administrative costs.

The table in Figure 3.1 below provides an overview of changes to the administrative cost regime since the inception of the MLF.

	UNDP (since 1991)	UNIDO (since 1992)	World Bank (since 1991)	UNEP (since 1991)	Bilateral Agencies
Regime 1 (Initial 1991-1994)	13%	13%	budget + 3% of projects costs	13%	Follow Regime 2: o Up to 500,000\$ = 13% administrative fees o Between 500,000\$ and 5,000,000\$, 13% for first 500,000\$ and 11% for the balance o Above 5,000,000\$ is case-by-case
Regime 1 adjusted (1994 - 1998)	13%				
Regime 2 (1998 - 2002)	o Up to 500,000\$ = 13% project support costs o Between 500,000\$ and 5,000,000\$, 13% for first 500,000\$ and 11% for the balance o Above 5,000,000\$ is case-by-case			Same as other agencies but: o Compliance Assistance Program (CAP) = 8% o Institutional Strengthening (IS) = 0%	
Regime 3 (2002 - 2005)	1.5M for core unit costs plus: o 250,000\$ and above = 7.5% (including IS and project preparation)			Regime 2 continued	
Regime 4 (2005 - present)	Same as regime 3 but core unit costs adjusted at 1.7M (plus potential 3% annual increase)		Same as regime 3 but includes a potential 3% annual increase for 1.5M core unit costs	Regime 2 continued	

Figure 4.1 Summary table of administrative cost regime for agencies over the years

The chronology of events which have shaped the administrative cost regime:





1. 1998 - Project support costs allocation change from a flat rate of 13% to a graduated scale, based on project size and type. This change reflected the challenges faced by agencies in implementing smaller, non-investment projects.
2. 2001: CAP was established to assist Article 5 countries to comply with their commitments under the Montreal Protocol. At the Executive Committee meeting in November 2001, Decision 35/5 noted that the CAP “reorientation [was] designed to achieve and sustain compliance, promote a greater sense of country “ownership”, and implement the agreed Executive Committee framework for strategic planning.”⁴
3. 2002: Project support cost percentages reduced to 9% and 7.5% (for projects less than or greater than \$250k respectively) and a fixed core unit cost grant of \$1.5m for UNDP, UNIDO and the World Bank. The core unit costs grant is meant to provide more stability to the agencies over the years, decreasing their level of reliance on project support costs (PSC) as a percentage of project funding.
4. 2006: Core unit cost grant subject to an annual increase of 3%. Base rate for UNDP and UNIDO increased to \$1.7m per annum.

In addition to the four main agencies (UNDP, UNEP, UNIDO and World Bank) with which the MLF has formal agreements, the Executive Committee members are entitled to use up to 20% of their annual contribution to implement their own projects through bilateral agencies. In terms of support costs, these agencies are under the second administrative cost regime and can receive up to 13% of the projects’ approved funding as project support cost, depending on project size.

According to UN internal regulations, UN agencies are not allowed to disburse fees relating to project support cost funds before a project-related cost is incurred.

Based on our interviews with the agencies, they provided us with a qualitative overview of the costs incurred during a project’s lifecycle:

- **Project initiation:** Expenditures related to administrative activities are incurred prior to the commencement of project disbursements.
- **Project execution:** administrative activities are required to ensure continuity on delayed projects even if no project activities are ongoing.

As a result, administrative costs are incurred by the agencies before project disbursements are made. Prior to the 3rd cost regime, this created significant cash flow issues for the agencies as project support costs disbursements didn’t not match the agencies’ actual cost disbursements.

With the implementation of the 3rd cost regime, the implementing agencies receive core unit (UNDP, UNIDO, World Bank) disbursements. These disbursements are made annually and are not dependent on the level of project disbursements. The agencies advised that this has effectively addressed the cash flow issues that they were facing

⁴ UNEP/OzL.Pro/ExCom/35/67, Decision 35/5(b).





One of the goals of this assessment is to review the current cost regime and determine if changes are required going into the next triennium. In order to evaluate the effectiveness of the current cost regime, a review of both historical and future disbursements is required. In addition, information from the different agencies needs to be presented in a common format to enable a review of administrative cost disbursements in their entirety across all agencies. The first step in this process is to define administrative costs.

4.1.2 Definition of Administrative Costs

The Coopers & Lybrand report, presented at the 26th Meeting of the Executive Committee, advised that a common definition for administrative costs was required. The report proposed a definition, detailed below, which was never formally agreed upon by the Executive Committee.

In preparation of this report, given that there is no agreed upon definition of administrative costs, we have relied on the definition put forth in the previous Coopers & Lybrand report as this was the definition recommended by the MLF staff. While this definition is approximately 10 years old, project activities remain consistent across time. This should not be confused with the changes in the administrative and project cost disbursement approaches to the agencies. While new approaches to disbursements have been implemented (CAP, Core Unit Costs, Project Support Costs), they do not change the underlying nature of administrative activities that are included in the Cooper & Lybrand definition of administrative costs.

It is strongly recommended that a common definition of administrative costs is agreed to by the Executive Committee. Additionally, this definition should be applied to all agencies, regardless of the mechanism used for the disbursement of project and administrative costs.

The definition of administrative activities, as included with the Coopers & Lybrand report, is as follows:

Administrative Activities Definition

In respect of MLF programs, the 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 authorized by the Executive Committee, in line with approved project proposals and budgets.

Project identification, formulation and approval

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

- distributing information about the Multilateral Fund's program 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

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

- co-coordinating each agency's efforts with the MLF;
- preparing implementation agreements and terms of reference for subcontractors;
- mobilizing implementation teams (executing agencies and consultants) for approved projects using appropriate bidding and evaluation mechanisms;
- processing contractual and accounting documents associated with approved projects;
- monitoring the progress of a project from an administrative point of view, and;
- reporting on results of projects and the program (preparing progress and project completion reports).

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 MLF with policy papers and issues, and;
- participating in meetings sponsored by the Executive Committee, and the MLF.

Project Activities Definition

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

- marketing, business development and prospecting for new projects (this activity is funded by the Executive Committee which has established ozone units in each country);
- project formulation/preparation, in cases where a project preparation budget has been approved;
- project implementation, including the provision of project management and technical skills. This would include participating in the design of the project "deliverable" regardless of the form of the deliverable or the method of the delivery. In other words, participation on the design of constructed equipment and training material would both be considered to be project activities;
- any activities 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 program or project level.





Reimbursable Element of Administrative Costs

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:

Direct Costs of the Co-ordinating Unit

Direct costs include:

- salaries and the associated benefits of permanent and contractual (consultants) staff;
- travel related to MLF 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.

Allocation from central support services

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

- human resources, based on 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

Allocation of Country or Field Office Costs

A fair allocation of country or field office costs. This allocation could be made globally on the basis of financial activity, e.g.. MLF spending vs. totally agency spending.

Direct costs of Implementing Arms involved in Administrative Projects

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

Non-Reimbursable Costs

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

- travel not directly related to MLF business, including the non MLF portion of multi-purpose trips, related to activities extraneous to the implementing agency's role;
- allocations of general expenses already provided for in the general funds of agencies;
- charges aimed at underwriting deficits or costs in other programs, budgets or activities;





- any costs charged to projects.

It is with this definition of administrative costs, for lack of any accepted alternative, that our assessment has been carried out. Using the definition above for all agencies, regardless of the peculiarities of their administrative cost regimes, we will be able to identify overall administrative costs paid out by the MLF.

With the implementation of the new cost regimes, the definition of administrative costs has been split into Core Unit Costs and Project Support Costs to split Administrative costs between an annual fixed disbursement (Core Unit Costs) and variable disbursements (Project Support Costs) based on a percentage of Project disbursements. Throughout this assessment, references will be made to Administrative costs. These Administrative costs are the sum of both Core Unit Costs and Project Support Costs. With the exception of UNEP's CAP budget, the identification of administrative costs is relatively straight forward, with all information coming from annual progress reports as approved by the Executive Committee.

For UNEP's CAP budget, in order to compare administrative fees incorporated therein, we have performed a high-level review of UNEP's CAP budget, identifying the administrative cost elements and transformed this information into a format consistent with the other agencies. The review is in the next section.

4.1.3 CAP Analysis

Based on our discussions with UNEP Ozonation personnel and review of the definition of administrative costs referred to in the previous section, we have assessed that the CAP budget includes both project costs and administrative costs. In order to analyze the administrative costs paid to UNEP Ozonation relative to the other agencies, the CAP budget was reviewed in detail with a goal of isolating administrative costs.

In performing a detailed review of the CAP budget, the items (see list below) in the CAP budget were agreed, based on UNEP Ozonation's rough estimates, as administrative costs. UNEP does not have in place a mechanism for tracking staff time spent on administrative duties versus substantive duties. It is not a recommendation of this report to seek this level of accuracy in allocating staff costs between substantive and administrative activities. However, it is a recommendation of this report to establish a reasonable allocation of staff activities between substantive and administrative activities to enable comparability of UNEP Ozonation's administrative disbursements with the other agencies.



Agreed Allocation of CAP Budget between Administrative and Project Costs	Administrative Costs	Project Costs
Head of Branch (1101)	100%	0%
Network & Policy Manager (1102)	50%	50%
Capacity Building Manager (1103)	50%	50%
Monitoring & Administration Officer (1105)	100%	0%
IS/RMP/CP Officer (1108)	50%	50%
Secretary Chief (1301)	100%	0%
Assistant Monitoring & Administration (1304)	100%	0%
Assistant IS/RMP/CP (1305)	50%	50%
Paris staff travel (1601)	50%	50%
Advisory and Consultative Meetings – Paris (3301)	50%	50%
Office supplies - Paris and ECA (4101)	50%	50%
Non-expendable equipment / computer - Paris and ECA (4201)	50%	50%
Office rental - Paris and ECA (4301)	50%	50%
Rental and maintenance of office equipment - Paris and ECA (5101)	50%	50%
Reporting / reproduction costs (5201)	50%	50%
Communication & dissemination - Paris and ECA (5301)	10%	90%
Regional offices staff and assistants	10%	90%

Figure 4.2 UNEP's estimation of administrative expenses included within the CAP budget

Based on the split of the costs between project and administrative costs agreed to above, the reformatted UNEP Ozonaction CAP budget is presented below in the format of the annual Core Unit Report as submitted by the other agencies. It must be noted that the presentation below is strictly to enable comparability with the submissions of Administrative costs by the other agencies. As such, the categorization of CAP's Administrative costs as Core Unit Costs is not an attempt to change any aspect of the current regime.

Year of Disbursement	2002	2003	2004	2005	2006	2007
Project costs						
Salaries	1.9	2.5	3.1	3.2	3.4	3.6
Travel	0.2	0.4	0.6	0.6	0.5	0.5
Sub-contractors	0.2	0.2	0.2	0.3	0.7	0.8
Training	0.4	0.5	0.7	0.7	0.9	0.9
Other	0.3	0.5	0.7	0.7	0.7	0.7
Total Project Costs	3.0	4.2	5.3	5.7	6.3	6.5
Administrative Component of CAP Budget						
Core unit personnel and contractual staff	0.6	0.8	0.9	0.9	1.0	1.0
Travel	0.1	0.2	0.2	0.2	0.2	0.2
Space (rent and common costs)	0.1	0.1	0.2	0.2	0.2	0.2
Equipment supplies and other costs (computers, supplies, etc)	0.0	0.1	0.1	0.1	0.0	0.0
Contractual services (firms)	0.0	0.0	0.0	0.0	0.0	0.0
Reimbursement of central services for core unit staff	0.0	0.0	0.0	0.0	0.0	0.0
Total Administrative Component of CAP Budget	0.9	1.1	1.3	1.4	1.4	1.5
Total CAP Budget after Adjustments	3.8	5.3	6.6	7.0	7.8	8.0
Project Support Costs	0.4	0.5	0.5	0.6	0.6	0.6
Total CAP and Project Support Budget after Adjustments	4.2	5.8	7.1	7.6	8.4	8.6
CAP % Total Administrative Costs	30%	28%	26%	26%	25%	24%
CAP % of Administrative Costs (less Project Support Costs)	22%	21%	20%	20%	19%	18%

Figure 4.3 Breakdown of CAP Budget in \$USm

However, in review of the detailed CAP budget and discussions with MLF staff, the following changes were made to the assumptions that UNEP Ozonaction agreed to above:

- Network & Policy Manager (100% vs. 50% administrative) – Resource description appears to be administrative in nature (2007 impact \$88k).





- Capacity Building Manager (100% vs. 50% administrative) – Resource description appears to be administrative in nature (2007 impact \$80k).
- Regional offices staff and assistants (30% vs. 10% administrative) – Based on our discussions with the MLF staff, the activities performed by the regional offices includes various administrative activities such as the management of progress reports. Estimating that the staff members spend 30% of their time performing administrative functions has an impact of \$600k in 2007 on the overall CAP split between project and administrative costs.

Taking into consideration the latter changes to the original assumptions, we updated the analysis of CAP for the years 2002-2007 which can be found below:

Year of Disbursement	2002	2003	2004	2005	2006	2007
Project costs						
Salaries	1.5	2.0	2.5	2.6	2.7	2.9
Travel	0.2	0.4	0.5	0.6	0.4	0.4
Sub-contractors	0.2	0.2	0.2	0.3	0.7	0.8
Training	0.4	0.5	0.7	0.7	0.9	0.9
Other	0.3	0.5	0.6	0.7	0.7	0.7
Total Project Costs	2.5	3.6	4.5	4.9	5.5	5.7
Administrative Component of CAP Budget						
Core unit personnel and contractual staff	1.0	1.3	1.5	1.6	1.7	1.8
Travel	0.2	0.2	0.3	0.3	0.3	0.3
Space (rent and common costs)	0.1	0.2	0.2	0.2	0.3	0.2
Equipment supplies and other costs (computers, supplies, etc)	0.1	0.1	0.1	0.1	0.1	0.1
Contractual services (firms)	0.0	0.0	0.0	0.0	0.0	0.0
Reimbursement of central services for core unit staff	0.0	0.0	0.0	0.0	0.0	0.0
Total Administrative Component of CAP Budget	1.3	1.7	2.1	2.2	2.3	2.3
Total CAP Budget after Adjustments	3.8	5.3	6.6	7.0	7.8	8.0
Project Support Costs	0.3	0.4	0.5	0.6	0.6	0.6
Total CAP and Project Support Budget after Adjustments	4.1	5.7	7.1	7.6	8.4	8.6
CAP % Total Administrative Costs	39%	38%	37%	36%	34%	34%
CAP % of Administrative Costs (less Project Support Costs)	34%	33%	32%	31%	29%	29%

Figure 4.4 Breakdown of CAP Budget in \$US m

In reviewing the table above, we can make the following observations:

- The ratio of overall administrative fees relative to the project costs is roughly 35% of project related expenditures. This is significantly higher than amounts paid out to the other agencies. A higher administrative ratio for CAP was expected given the nature of the project activities covered by the CAP. By presenting administrative disbursements in the manner above, Executive Committee members will be able to compare them with other agencies.
- There is a need for consistency, across agencies, in the reporting of the administrative costs disbursed by the MLF, regardless of how they are disbursed (Core Unit, Project Support, or CAP). This will enable the Executive Committee to understand the level of administrative disbursements made by the MLF to the agencies. It is our view that this will facilitate the Executive Committee's decision making around administrative costs in the future.





- Incorporated within the CAP budget is the calculation of project support costs. Project support costs are calculated as 8% of the entire CAP budget. Given that the CAP budget includes administrative activities, the rate of 8% is not only calculated on project costs but on administrative costs as well which is not the case for other agencies. Given our estimate of administrative costs of \$2.3m in 2007, this amounts to approximately \$185k in the 2007 CAP budget. It is to be noted that UNEP has disagreed with this conclusion on the basis that there is no agreed definition of administrative costs.

As mentioned above, there is a need to improve the consistency of reporting to the Executive Committee. Therefore, it is strongly recommended that the detailed reporting of the CAP budget is maintained, however, there is also a need to summarize this information in a format similar to the Core Unit reports submitted by the other Implementing Agencies.

4.1.4 Historical Analysis of Administrative Costs

In planning for this project, our intention was to perform a comparative analysis of the details of project support costs and core unit costs incurred by the agencies and to compare these costs with the project support cost and core unit cost disbursements made by the MLF to the agencies. The goal of this review was to assess the sufficiency of disbursements by the MLF.

To accomplish this goal, the agencies were asked to provide detailed breakdowns for both core unit and project support costs. Given the shared nature of some of these costs (e.g., rent, Finance support, etc...) the agencies were asked to provide explanations on how shared costs were allocated to MLF activities in the preparation of the MLF's Core Unit Cost report. For example, it is typical for rent charges to be allocated to a department based on the square footage that the department occupies relative to the other departments sharing the same facility.

Our approach was based on the information contained in the table below which was presented at the 54th Executive Committee meeting:

	Accounting method						
	UNDP	UNEP	World Bank	UNIDO	Environment Canada	French GEF	GTZ
Funding (1)	Separate trust fund for MLF			General fund for Unido	Separate trust fund for MLF		
Project costs	Project by project allocation						
Administrative costs (1)	Separate PSC account.	Separate PSC account.	Separate PSC account.	No separate PSC and Core Unit accounts.	Separate PSC account.		
	No separate Core Unit account.	Core Unit is not applicable.	Separate Core Unit account.		No separate Core Unit account.		

(1) Includes information from document UNEP/OzL.Pro/ExCom/54/55.

Figure 4.5 Accounting methods by agency

We note in the chart above, that UNIDO is the only agency that:





- does not have a separate trust fund for the funding received from the MLF
- does not have separate project support cost accounts

It is recommended that UNIDO is aligned in their accounting approach with the other agencies as this will enable similar reporting for the MLF and other MEA's.

Accordingly, our expectations were that UNIDO would not be able to provide us with the information required. However, we did expect the information from the other agencies. In response to our requests for this information, the implementing agencies provided us with the same information that is included in the annual Core Unit reports. Of the bilateral agencies, only Environment Canada provided us with their detailed administrative costs incurred (refer to Section 6.5 for details of information submitted by the agencies).

Given the time constraints of our study and the fact that we were not mandated to perform an audit, we were limited to reviewing the Core Unit reports submitted by the agencies to the MLF. Our experiences were consistent with the experience of consultants engaged by the GEF Council to perform a similar study on the implementing agencies⁵.

Given the CAP analysis performed above and given the UNEP does not have a core unit budget, the UNEP business plan numbers were adjusted to reflect an estimate of the administrative costs included in the CAP and the following consolidated table for all agencies was prepared.

Cost Items	2004	2005	2006	2007	Average Ratios
Core Components (see note 1)					
Core unit personnel and contractual staff	4.8	4.9	5.5	5.8	75%
Travel	0.8	0.8	0.8	0.9	12%
Space (rent and common costs)	0.4	0.5	0.5	0.5	7%
Equipment supplies and other costs (computers, supplies,etc)	0.2	0.3	0.2	0.3	3%
Contractual services (firms)	0.1	0.1	0.0	0.1	1%
Reimbursement of central services for core unit staff	0.8	0.9	0.8	0.8	12%
Adjustment (-ive amount = core unit budget overrun)*	(0.4)	(0.8)	(0.6)	(0.9)	-10%
Total core unit cost (see note 1)	6.7	6.7	7.2	7.4	35%
Reimbursement of country offices and national execution	6.5	6.8	6.7	6.8	52%
Executing agency support cost (internal)	3.2	3.3	2.4	3.5	24%
Financial intermediaries including overhead	1.7	2.3	2.2	2.0	16%
Cost recovery	0.0	0.3	0.0	0.4	1%
Adjustment (per above)*	0.4	0.8	0.6	0.9	5%
Supervisory costs incurred by MPU	0.2	0.3	0.1	0.1	1%
Total project support costs	12.0	13.7	12.0	13.7	65%
Grand total administrative support costs	18.7	20.4	19.2	21.1	100%
Core unit costs disbursements (see note 1)	6.6	6.6	7.0	7.2	33%
Project support costs disbursements	13.9	14.6	12.9	13.3	67%
Total administrative costs disbursements	20.5	21.2	19.9	20.5	100%
Difference	1.7	0.8	0.8	(0.6)	3%

Note 1: Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead

Figure 4.6 Evolution of administrative costs in \$US million

⁵ Review of administrative expenses allocated to GEF implementing agencies, recommended council decisions





Given our mandate, and based on the information provided by the agencies, we performed an analysis between the costs incurred by the agencies (per their Core Unit reports and, in the case of UNEP, the Progress Report, which includes CAP) and the disbursements made by the MLF. The results are in the table below.

	2004	2005	2006	2007	Total
UNDP	1.7	0.8	0.6	0.6	3.6
UNEP	-	(0.1)	(0.1)	(0.2)	(0.4)
UNIDO	(0.5)	(1.4)	(0.2)	(3.5)	(5.7)
World Bank	0.6	1.5	0.5	2.6	5.2
Bilaterals	(0.0)	0.0	(0.0)	0.0	0.0
Total	1.7	0.8	0.8	(0.6)	2.7

Figure 4.7 Differences between costs and disbursements

In reviewing the table above, we can make two key observations:

- Aside from UNIDO, the agencies do not appear to be experiencing a cash flow problem given; disbursements per year do not exceed the costs submitted in the Core Unit reports. This is consistent with the statements made by the agencies during our interviews.
- UNIDO's costs incurred exceed costs disbursements by the MLF by \$5.7m from 2004 to 2007.

Given the difficulties in performing a detailed cost review as described above, the next step in our analysis was to review the administrative cost approvals and disbursements made to the agencies and to assess the reasonability of the overall amounts relative to the project costs approved and disbursed for the agencies.

The current administrative cost regime was established to provide stable funding for the wind-down of MLF activities. The view was that, as the level of project disbursements reduced over time, the implementing agencies would require a minimum amount of cost disbursements to cover the core costs required to wind down existing activities. As such, the core unit cost approach was adopted for all of the implementing agencies with the exception of UNEP which was applying the CAP approach.

However, assuming that normal project activities were undertaken and there was no wind-down of project activities, the informal target for administrative costs was set at 10-13% of project costs as per information provided to us by MLF staff members.



By consolidating the information included within the annual progress reports, we arrive at the following view of the project and administrative fees disbursed to the agencies over the period 2004-2007:

	2004	2005	2006	2007	Average
Disbursements					
Project Costs	140.0	173.2	150.8	163.6	156.9
Core Unit Costs	6.6	6.6	7.0	7.2	6.8
Project Support Costs	13.9	14.6	12.9	13.3	13.7
Total Administrative Costs	20.5	21.2	19.9	20.5	20.5
Total Project and Administrative Costs	160.5	194.4	170.7	184.1	177.4
Project Support Costs as a % of Project Costs	9.9%	8.4%	8.6%	8.1%	8.7%
Total Administrative Costs as a % of Project Costs	14.6%	12.3%	13.2%	12.5%	13.1%

Figure 4.8 Consolidated view of project and administrative disbursements from 2004 to 2007

Further details on funding and disbursements by agency can be found in Section **Error! Reference source not found..**

The average overall ratio of administrative costs (including our estimation of the CAP administrative costs) is 13.1% over the period 2004-2007.

In reviewing the table below, we can see that the highest percentage of total administrative costs is associated with UNEP followed by UNDP, UNIDO, Bilateral agencies and World Bank.

	2004	2005	2006	2007	Average
UNDP	15.5%	14.5%	16.2%	15.9%	15.4%
UNEP	32.3%	32.9%	32.5%	31.1%	32.2%
UNIDO	14.2%	13.6%	12.2%	14.7%	13.6%
World Bank	11.6%	9.1%	10.9%	9.6%	10.1%
Bilaterals	12.9%	10.9%	9.1%	9.5%	10.4%
Total	14.6%	12.3%	13.2%	12.5%	13.1%

Figure 4.9 Disbursements by year by agency and average disbursements by year

The ratio of administrative fees disbursed relative to projects cost disbursements is notably high for UNDP, UNEP, and UNIDO. The primary reason for UNEP's ratio is the CAP, which has been discussed in Section 4.1.3. For both UNDP and UNIDO, the cause is primarily linked to declining project cost and project support cost disbursements and increasing core unit cost disbursements.

Given core unit costs are paid out in annually regardless of the level of project disbursements within the current cost regime, there is a risk that the overall administrative fees disbursed relative to project cost disbursements will increase as project cost disbursements decline. This fact will be considered when reviewing the cost regime in our analysis on the sufficiency of funding in the next triennium which can be found in section 4.2.4 of this report.





4.2 Sufficiency of Funding into the Next Triennium

4.2.1 Portfolio evolution in the consolidated 2008-2010 Business Plan of the Multilateral Fund

The agencies have prepared their business plan for the next triennium (2009-2010) including forecasted CFC phase-out and HCFC-related projects and activities. The business plans were adjusted at the 54th Executive Council meeting. As the goal of this report is to assess the funding of administrative costs into the next triennium, our key requirement is to estimate, based on the information submitted, the administrative fees derived off of the business plan as agreed with the MLF Secretariat.

The business plan, as approved, consists of the levels of anticipated project approvals for different activities over the period 2008-2010. In being able to accurately estimate the administrative costs for all agencies, we were faced with various challenges:

- Project support costs were grouped with project costs
- CAP expenditures were not split between administrative and project costs
- Project costs were not allocated to the different agencies
- UNDP's HCFC financing activities to be split with other agencies

To address this, various assumptions were required to split out the administrative costs in order to arrive at a final estimate for the administrative costs over the period of the business plan:

- Project costs were split by agency in accordance with the ratio of what was submitted in their business plans, and what was eventually approved. For example, the original business plan approved funding for disposals was \$42m of which UNIDO submitted a business plan for \$29m, or 69% of the total. The business plan, as approved, called for overall funding of \$500k. As such, an estimate of \$345k (69% x \$500k) was applied to UNIDO relating to disposals.
- CAP expenditures were split in the same ratios as split in the previous analysis on the segregation of CAP funding between project costs and administrative costs.
- Project support costs were calculated based on the existing cost regime. The current cost regime allocates project support costs based on the:
 - Type of activity performed – For example, Institutional strengthening activities performed by UNEP receive 0% project support cost allocation
 - The agency – For example, Bilateral agencies receive project support costs of 13% regardless of the activity.
 - The size of the project – For example, projects implemented by UNDP, UNIDO, and World Bank earn project support costs at 7.5% for projects above \$250k and 9% for projects below.





- UNDP HCFC financing activities were split between the agencies in the following ratios:

	2008	2009	2010
UNDP	30%	30%	30%
UNEP	10%	10%	10%
UNIDO	25%	25%	25%
World Bank	25%	25%	25%
Bilaterals	10%	10%	10%
Total	100%	100%	100%

Figure 4.10 Ratios used to split UNDP's portion of HPMP financing activities

The result of applying our assumptions was to arrive at the following split of the business plan by year with the associated administrative costs:

Consolidated Business Plan

	2008	2009	2010	Total
Project Costs				
CFC Activities (Including MYAs)	59.5	30.1	7.3	96.9
Institutional Strengthening	6.8	9.1	6.4	22.4
ODS Disposal	0.6	5.2	7.2	13.0
CAP (See Note 1)	6.3	6.5	6.7	19.4
Methyl Bromide	5.8	6.9	3.0	15.7
HCFC	19.4	86.2	77.0	182.6
MDI	24.4	20.7	5.0	50.1
Other Activities	2.3	1.5	1.0	4.8
Total Project Costs	125.2	166.2	113.6	405.0
Administrative Costs				
Core unit costs (See Note 1)	8.0	8.2	8.5	24.7
HCFC - Additional Core Unit Costs	0.0	0.0	0.0	0.0
Project Support Cost Estimate	11.2	14.8	10.0	35.9
Total Administrative Costs	19.2	23.0	18.5	60.6
Total Budget Submitted	144.4	189.2	132.1	465.6
Total Administrative Costs as a % of Project Costs	15.3%	13.8%	16.2%	15.0%

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.11 Business Plan for the Next Triennium



In order to compare with prior periods, Figure 4.12 provides a comparison between the average approvals from the period 2004-2007 and the business plan. Details of the project activities have been removed to facilitate the analysis as follows:

	Actual	Estimates			Total
	Average 2004 - 2007	2008	2009	2010	
Approved funding					
Project Costs	144.9	125.2	166.2	113.6	405.0
Core Unit Costs	7.2	8.0	8.2	8.5	24.7
Project Support Costs	11.4	11.2	14.8	10.0	35.9
Total Administrative Costs	18.6	19.2	23.0	18.5	60.6
Total Project and Administrative Costs	163.6	144.4	189.2	132.1	465.6
Project Support Costs as a % of Project Costs	7.9%	8.9%	8.9%	8.8%	8.9%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	13.8%	16.2%	15.0%

Figure 4.12 Business Plan for the Next Triennium compared to prior years

Based on the chart above, the average administrative fees approved over the term of the business plans will be 15%. This is an increase when compared with average administrative fees of 12.9% over the period from 2004-2007. Primary drivers for the increase relate to:

- increases in the administrative component of the CAP from \$2.2m per year (Average 2004-2007) to \$2.7m per year (Average 2008-2010). This increase is in the same ratio as the increase in the overall CAP budget over this period of time.
- an annual increase of the core unit funding of 3%
- a shift in the allocation of project approvals to the agencies, in particular a reduction in World Bank approved project funding levels (see table below).

	Ave. 2004 - 2007	Ave. 2008 - 2010	Difference
UNDP	14.3%	21.3%	7.0%
UNEP	8.4%	18.2%	9.8%
UNIDO	23.0%	26.2%	3.2%
World Bank	46.5%	28.3%	-18.3%
Bilaterals	7.8%	6.0%	-1.8%
Total	100.0%	100.0%	

Figure 4.13 Ratio of project approvals by agency for prior periods (2004-2007) and Business Plan

World Bank has had its portion of project funding decreased dramatically over the term of the business plan versus the history from the past four years. World Bank traditionally implements larger projects (see graphic below).



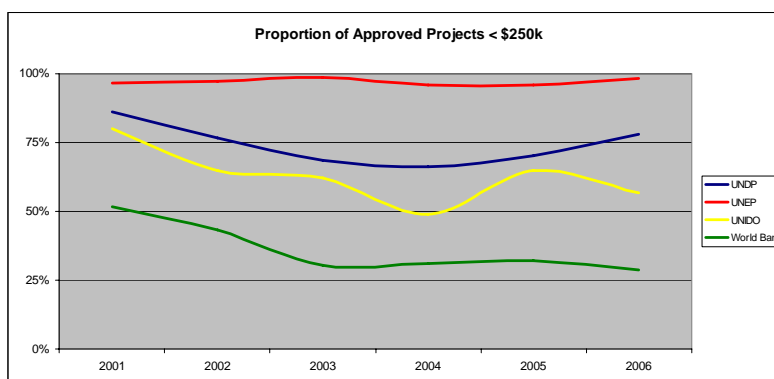


Figure 4.14 Ratio of approved projects less than \$250k

Based on a study conducted by UNEP in 2002⁶ it was demonstrated that small projects (less than \$250k) are less administratively cost-efficient than larger projects, incurring administrative costs of 20% instead of 13% on average for larger projects. The basis for their conclusions was that for all projects, there is a requirement to perform similar functions in terms of the administrative functions (e.g., reporting, project management). These project-related administrative activities do not decrease proportionately with project size.

As such, the increase in the overall ratio of administrative fees from 12.9% to 15% is expected. This increase in fees paid will supplement the additional costs incurred by the agencies in managing a portfolio of smaller projects.

4.2.2 Portfolio evolution based on the findings of the Replenishment Task Force

The Replenishment Task Force was set up in part to determine the additional funding requirement for HCFC activities. Pursuant to decision XIX/10, the Replenishment Task Force has estimated the total funding required for the period 2009-2011 to enable Parties operating under Article 5 to comply with all relevant control schedules under the Montreal Protocol to be between \$342.8m and \$639.8m, \$21.8m of which relates to costs associated with the MLF Secretariat (\$20.3m) and the Treasury Function (\$1.5m) which are outside the scope of this review.

The amount on the low end of the range (\$321m after removal of out of scope items) will be referred to as Scenario 1, the amount on the high end (\$618m after removal of out of scope items) will be referred to as Scenario 2. The task force was forced to provide a range due to the uncertainties about the cost effectiveness of HCFC projects (the cost per kg of HCFC phased out).

⁶ UNEP/OzL.Pro/ExCom/35/52 and Add.1





The estimated funding determined by the Replenishment Task Force varies from the 2008-2010 Business Plan as it covers different time periods (2009-2011) and different activities. As such, in order to determine the sufficiency of funding for administrative costs into the next triennium we were required to build mathematical models to estimate future project approval and disbursement amounts.

In generating the mathematical model for project approvals and disbursements into the next triennium, another series of assumptions is required. Consistent with the estimate generated for the 2008-2010 Business Plan, we were faced with various challenges:

- Project support costs were grouped with project costs for HCFC activities
- CAP expenditures were not split between administrative and project costs
- Project costs were not allocated to the different agencies
- Project costs were estimated for the entire 3 year period, but were not split by year
- The replenishment activities do not address 2008 activities
- Estimation of project disbursements was required to monitor estimated fees to be disbursed to the agencies as there is a lag between project approvals and project disbursements.
- Unused funding needs to be considered as this has a significant impact on project disbursements. As at the end of 2007, the total of unused funding amounts to \$312.5m





Replenishment Task Force level of Project Approvals

In order to perform an analysis of the sufficiency of funding over time the first step in our analysis was to split the estimated project approvals for the 2009-2011 triennium by year. All compliance project approvals were allocated evenly between 2009-2010 in accordance with the agreements signed by Article 5 countries. All non-compliance project approvals were allocated evenly between 2009-2011 as there is no requirement to complete these project activities by the end of 2010. The allocation of project approvals by year was estimated in Figure 4.15 and Figure 4.16 below for Scenario 1 and Scenario 2 respectively:

	2009	2010	2011	2009-2011
Project Costs				
CFC Activities (including MYA)	16.6	16.6	0.0	33.2
Institutional strengthening	7.2	7.2	7.2	21.6
ODS disposal	8.4	8.4	8.4	25.1
CAP - Estimate	9.7	9.7	9.7	29.2
Methyl bromide	4.7	4.7	4.7	14.2
HCFC	43.2	43.2	43.2	129.7
MDI	12.0	12.0	0.0	24.0
Other Activities	3.9	3.9	0.0	7.8
Total Project Costs	105.7	105.7	73.3	284.7
Administrative Costs				
Core unit costs	5.5	5.5	5.5	16.6
HCFC - Additional Core Unit Costs				0.0
Project Support Cost Estimate	7.3	7.3	5.1	19.7
Total Administrative Costs	12.9	12.9	10.6	36.4
Total Replenishment Task Force Balance Submitted	118.6	118.6	83.9	321.1
Total Fees 2008-2010	12.2%	12.2%	14.5%	12.8%

Figure 4.15 Scenario 1 – Replenishment Task Force Estimates



	2009	2010	2011	2009-2011
Project Costs				
CFC Activities (including MYA)	16.6	16.6	0.0	33.2
Institutional strengthening	7.2	7.2	7.2	21.6
ODS disposal	8.4	8.4	8.4	25.1
CAP - Estimate	9.7	9.7	9.7	29.2
Methyl bromide	4.7	4.7	4.7	14.2
HCFC	134.9	134.9	134.9	404.7
MDI	12.0	12.0	0.0	24.0
Other Activities	3.9	3.9	0.0	7.8
Total Project Costs	197.4	197.4	164.9	559.7
Administrative Costs				
Core unit costs	5.5	5.5	5.5	16.6
HCFC - Additional Core Unit Costs				0.0
Project Support Cost Estimate	14.7	14.7	12.3	41.7
Total Administrative Costs	20.3	20.3	17.8	58.4
Total Replenishment Task Force Balance Submitted	217.7	217.7	182.8	618.1
Total Administrative Costs as a % of Project Costs	10.3%	10.3%	10.8%	10.4%

Figure 4.16 Scenario 2 – Replenishment Task Force Estimates

Project support costs above include estimates (8% of project approvals) for some HCFC phase-out activities which were not estimated in the Replenishment Task Force report. This assumes a mix between large and small projects.

As the findings of the Replenishment Task Force only cover the period from 2009-2011, the estimates generated for 2008 activities in the 2008-2010 Business Plan were combined with the estimates from the Replenishment Task Force.

In allocating the activities to the different agencies, the ratios of approved funding by agency generated in estimates for the 2008-2010 Business Plan were used. The ratios for 2010 were also applied equally to the estimated approvals for 2011.

Project support and core unit costs were recalculated based on our mathematical model. This resulted in a slight increase to administrative costs of \$1.2m for Scenario 1 over the three year period.

Lastly, the CAP budget was split between project costs and administrative costs based on our previous analysis.

The first scenario was based on the lower estimate provided by the Replenishment Task Force. The results, on an agency by agency basis, are as follows:





	UNDP	UNEP	UNIDO	World Bank	Bilaterals	Total
Project Costs						
CFC Activities (including MYA)	3.1	1.0	16.1	11.9	1.0	33.2
Institutional strengthening	6.8	10.7	1.9	2.1	0.0	21.6
ODS disposal	7.9	0.0	17.1	0.0	0.1	25.1
CAP (See Note 1)	0.0	19.1	0.0	0.0	0.0	19.1
Methyl bromide	0.0	0.0	11.5	0.4	2.2	14.2
HCFC	32.5	17.1	26.6	42.2	11.3	129.7
MDI	8.0	0.0	15.9	0.1	0.0	24.0
Other Activities	0.0	0.8	6.8	0.0	0.2	7.8
Total Project Costs	58.3	48.7	96.0	56.8	14.9	274.6
Administrative Costs						
Core unit costs (see Note 1)	5.9	8.0	5.9	5.3	0.0	25.1
Project Support Cost Estimate	5.0	4.0	7.9	4.5	1.9	23.3
Total Administrative Costs	10.9	12.0	13.8	9.7	1.9	48.4
Total Project and Administrative Costs	69.2	60.6	109.8	66.5	16.8	323.0
Total Administrative Costs as a % of Project Costs	18.8%	24.6%	14.4%	17.1%	13.0%	17.6%
Average Administrative Costs as a % of project approvals 2004-2007	15.9%	30.2%	12.5%	9.8%	11.3%	12.9%

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.17 Scenario 1 – Replenishment Task Force Estimates by agency (2009-2011)

Per Figure 4.17, a significant increase in the ratio of administrative fees against project costs is noted for World Bank (17.1% vs. 9.8% for 2004-2007). The increase is strictly related to a decline in the level of project approvals for the World Bank as the core unit fees continue to be paid out at the same ratio. UNEP's administrative cost ratio of 24.6% is tied to the CAP and is below historical administrative cost ratios from the period of 2004-2007 (30.2%) due to a planned increase in non-CAP activities by UNEP.

Another view of Scenario 1, with adjustments per our mathematical model, provides the allocation of the project approvals by year:

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project Costs	144.9	125.2	102.3	102.3	69.9	99.9
Core Unit Costs	7.2	8.0	8.2	8.4	8.5	8.3
Project Support Costs	11.4	11.2	8.8	8.6	5.9	8.6
Total Administrative Costs	18.6	19.2	17.0	17.0	14.4	16.9
Total Project and Administrative Costs	163.6	144.4	119.4	119.3	84.3	116.8
Project Support Costs as a % of Project Costs	7.9%	8.9%	8.6%	8.4%	8.4%	8.6%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	16.6%	16.6%	20.6%	16.9%

Figure 4.18 Scenario 1 – Replenishment Task Force Estimates by year (2008-2010)

In this view of funding approvals, the balance of project approvals declines gradually between 2008 and 2011. Due to the decline in funding, the impact of applying the current cost regime is that overall administrative costs average 16.9% over the four year period which is far in excess of the average of the previous four years, 12.9%.





The results for Scenario 2 by agency are as follows:

	UNDP	UNEP	UNIDO	World Bank	Bilaterals	Total
Project Costs						
CFC Activities (including MYA)	3.1	1.0	16.1	11.9	1.0	33.2
Institutional strengthening	6.8	10.7	1.9	2.1	0.0	21.6
ODS disposal	7.9	0.0	17.1	0.0	0.1	25.1
CAP (See Note 1)	0.0	19.1	0.0	0.0	0.0	19.1
Methyl bromide	0.0	0.0	11.5	0.4	2.2	14.2
HCFC	101.4	53.3	83.0	131.8	35.2	404.7
MDI	8.0	0.0	15.9	0.1	0.0	24.0
Other Activities	0.0	0.8	6.8	0.0	0.2	7.8
Total Project Costs	127.2	84.8	152.4	146.4	38.8	549.6
Administrative Costs						
Core unit costs (See Note 1)	5.9	8.0	5.9	5.3	0.0	25.1
Project Support Cost Estimate	11.0	8.7	12.6	11.5	5.0	48.8
Total Administrative Costs	16.9	16.7	18.5	16.8	5.0	73.9
Total Project and Administrative Costs	144.0	101.5	170.9	163.1	43.9	623.4
Total Administrative Costs as a % of Project Costs	13.3%	19.6%	12.1%	11.5%	13.0%	13.4%
Average Administrative Costs as a % of project approvals 2004-2007	15.9%	30.2%	12.5%	9.8%	11.3%	12.9%
Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.						

Figure 4.19 Scenario 2 – Replenishment Task Force Estimates by agency (2009-2011)

In this scenario, due to a larger amount of project approvals, the administrative cost ratio declines to 13.4% vs. 17.6% for Scenario 1. This is due to the increase in project approvals vs. Scenario 1.

The results by year:

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project costs	144.9	125.2	194.0	194.0	161.5	168.7
Core unit costs	7.2	8.0	8.2	8.4	8.5	8.3
Project support costs	11.4	11.2	17.7	16.9	14.2	15.0
Total Administrative Costs	18.6	19.2	25.8	25.3	22.7	23.3
Total Project and Administrative Costs	163.6	144.4	219.9	219.3	184.3	191.9
Project Support Costs as a % of Project Costs	7.9%	8.9%	9.1%	8.7%	8.8%	8.9%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	13.3%	13.0%	14.1%	13.8%

Figure 4.20 Scenario 2 – Replenishment Task Force Estimates by year (2008-2011)

In Scenario 2, our model calculates a sharp increase in project approvals between 2008 and 2009-2010. The increase in project approvals results in an average administrative cost ratio of 13.8% of project approvals. The increase relative to prior years is largely due to increases in the CAP and core unit cost percentages over time.





Replenishment Task Force level of Project Disbursements

A review of project approvals alone will not provide a complete picture of the sufficiency of funding issues that this study addresses. In addition to project approvals, there is a requirement to review the impact of the balance of unused funds and the project disbursements as these will play a significant part in determining the administrative disbursements that the agencies can anticipate into the next triennium. Accordingly, our mathematical model must incorporate these elements.

Unused funds balances, excluding core unit cost amounts, as at the end of 2007 amounted to:

	Project Costs	Project Support Costs	Ratio %
UNDP	74.0	6.0	8.1%
UNEP	25.1	2.0	8.0%
UNIDO	65.8	5.2	7.9%
World Bank	85.2	6.9	8.1%
Bilaterals	31.2	3.5	11.1%
Total	281.4	23.5	8.3%

Figure 4.21 Balance of unused funds 2007

In building our mathematical model, our assumption is that the balance of unused funds included in the finalized 2007 progress report will need to be disbursed by the end of 2010 as they relate primarily to compliance activities. Additionally, any compliance related funding approvals included in either the 2008-2010 Business Plan or the Replenishment Task Force estimates will need to be disbursed by 2011. As such, in estimating disbursements, we have assumed that all unused funds in the 2007 progress report will be disbursed no later than 2010.

The estimate of disbursements assumes that all approved funding relating to compliance activities will be disbursed evenly from the time approved until the end of 2010. As such, unused balances will be dispersed evenly between 2008 and 2010 (33% 2008; 33% 2009; 33% 2010). Approved funding for compliance projects in 2009 will be dispersed evenly between 2009 and 2010 (50% 2009; 50% 2010).

For non-compliance activities, the estimates assume that project disbursements will be based on the historical averages of project disbursements by year for each agency. Based on our analysis of the rate of project disbursements by agency by year from the year of approval, we arrive at the following results:

	Year 1	Year 2	Year 3	Year 4	Total
UNDP	0.6%	8.1%	13.3%	30.9%	52.9%
UNEP	8.2%	15.1%	22.2%	13.3%	58.8%
UNIDO	16.1%	25.7%	24.1%	13.1%	79.0%
World Bank	31.8%	36.4%	18.7%	11.5%	98.4%
Bilaterals	5.4%	21.2%	10.1%	30.6%	67.2%

Note: Total represents the % of project disbursements related to an approved project after four years

Figure 4.22 Rate of project disbursements of approved project costs by year from the year of approval





In review of this information, it is noted that both UNEP and UNDP have relatively slow rates of approved project disbursements. For example, in the year of approval, UNDP typically disburses 0.6% of approved project costs. Assuming that a project for \$100,000 is approved in a given year, the likelihood is that UNDP will disburse only \$600. In the same situation, World Bank will disburse \$31,800 on average.

UNEP's information in the table above has been adjusted to remove the impact of CAP funding as CAP is always disbursed the year after approval. Information for all agencies receiving Core Unit costs (UNDP, UNIDO, and World Bank), have also been adjusted in the same way whereby core unit costs have been removed from the computation.

Based on the information contained in the 2008-2010 Business Plan, World Bank will be receiving a smaller portion of project approvals into the next triennium. Given World Bank's historically fast pace of project disbursements, there is a risk that project disbursements will slow down on an overall basis, resulting in an increase in unused balances during the next triennium. The impact is demonstrated in Figure 4.23 which reviews the anticipated project disbursements by year for Scenario 1.

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project Costs	144.9	125.2	102.3	102.3	69.9	99.9
Core Unit Costs (See Note 1)	7.2	8.0	8.2	8.4	8.5	8.3
Project Support Costs	11.4	11.2	8.8	8.6	5.9	8.6
Total Administrative Costs	18.6	19.2	17.0	17.0	14.4	16.9
Total Project and Administrative Costs	163.6	144.4	119.4	119.3	84.3	116.8
Project Support Costs as a % of Project Costs	7.9%	8.9%	8.6%	8.4%	8.4%	8.6%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	16.6%	16.6%	20.6%	16.9%
Disbursements	Average					
Project Costs	156.9	133.4	160.9	202.5	49.1	136.5
Core Unit Costs (See Note 1)	7.0	7.6	8.0	8.2	8.4	8.0
Project Support Costs	13.7	11.1	13.4	16.8	4.3	11.4
Total Administrative Costs	20.6	18.8	21.4	25.0	12.6	19.4
Total Project and Administrative Costs	177.5	152.2	182.3	227.4	61.7	155.9
Project Support Costs as a % of Project Costs	8.7%	8.4%	8.3%	8.3%	8.7%	8.4%
Total Administrative Costs as a % of Project Costs	13.2%	14.1%	13.3%	12.3%	25.7%	14.2%
Balance of Unused Funding	2007					
Project Costs	281.4	273.2	214.7	114.6	135.3	
Core Unit Costs (See Note 1)	7.6	8.0	8.2	8.4	8.5	
Project Support Costs	23.5	23.5	18.9	10.8	12.4	
Total Unused Administrative Costs	31.1	31.5	27.1	19.1	20.9	
Balance of Unused Funding	312.5	304.7	241.8	133.7	156.3	
Project Support Costs as a % of Project Costs	8.3%	8.6%	8.8%	9.4%	9.2%	
Total Administrative Costs as a % of Project Costs	11.1%	11.5%	12.6%	16.7%	15.5%	

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.23 Scenario 1 – Consolidated project approvals, disbursements and unused balances based on agency historical disbursement rates

The impact of the reduction of World Bank's approvals is demonstrated on the lower half of the table above. Project approvals show a drop of 32% in 2011 largely due to the completion of compliance related projects. Meanwhile, project disbursements drop by 76% in 2011. This





discrepancy is due to World Bank's fast project disbursement rates and is reflected in an increase to the unused funding balance from \$133.7m in 2010 to \$156.3m in 2011.

The average rate of project disbursements for all of the agencies below is significantly lower than World Bank's:

Year 1	Year 2	Year 3	Year 4
20.2%	26.9%	18.4%	17.2%

Figure 4.24 Average rate of disbursement of approved project costs by year from the year of approval

In particular, with UNEP and UNDP increasing their level of project financing relative to the World Bank, there will be a slowdown in project disbursement rates. If UNDP and UNEP's project disbursement rates were increased to the average rate for all agencies, the impact on the project disbursements and unused funding balances in the next triennium would change as follows:

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project Costs	144.9	125.2	102.3	102.3	69.9	99.9
Core Unit Costs (See Note 1)	7.2	8.0	8.2	8.4	8.5	8.3
Project Support Costs	11.4	11.2	8.8	8.6	5.9	8.6
Total Administrative Costs	18.6	19.2	17.0	17.0	14.4	16.9
Total Project and Administrative Costs	163.6	144.4	119.4	119.3	84.3	116.8
Project Support Costs as a % of Project Costs	7.9%	8.9%	8.6%	8.4%	8.4%	8.6%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	16.6%	16.6%	20.6%	16.9%
Disbursements	Average					
Project Costs	156.9	135.5	167.1	210.0	56.5	142.3
Core Unit Costs (See Note 1)	7.0	7.6	8.0	8.2	8.4	8.0
Project Support Costs	13.7	11.4	14.0	17.5	4.9	11.9
Total Administrative Costs	20.6	19.0	22.0	25.7	13.3	20.0
Total Project and Administrative Costs	177.5	154.5	189.1	235.7	69.8	162.3
Project Support Costs as a % of Project Costs	8.7%	8.4%	8.4%	8.3%	8.7%	8.4%
Total Administrative Costs as a % of Project Costs	13.2%	14.0%	13.2%	12.2%	23.4%	14.0%
Balance of Unused Funding	2007					
Project Costs	281.4	271.1	206.4	98.7	112.0	
Core Unit Costs (See Note 1)	7.6	8.0	8.2	8.4	8.5	
Project Support Costs	23.5	23.3	18.1	9.2	10.2	
Total Unused Administrative Costs	31.1	31.3	26.3	17.6	18.7	
Balance of Unused Funding	312.5	302.4	232.6	116.2	130.7	
Project Support Costs as a % of Project Costs	8.3%	8.6%	8.8%	9.4%	9.1%	
Total Administrative Costs as a % of Project Costs	11.1%	11.5%	12.7%	17.8%	16.7%	

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.25 Scenario 1 – Consolidated project approvals, disbursements and unused balances based on increased disbursement rates for UNEP and UNDP

The change in the project disbursement rates for UNDP and UNEP results in a reduction in the unused balances as at the end of 2011 of \$25.6m overall (from \$156.3m to \$130.7m) and \$2.2m (from to \$20.9m to \$18.7m) in project support costs.

In reviewing the tables above, additional areas of concern relate to the disbursement of administrative fees. While ratios for 2008-2010 are in line with the average for 2004-2007, the





decline in project disbursements in 2011 has a significant impact on the ratio of administrative costs relative to the project costs. The fact that core unit costs are disbursed regardless of the level of project disbursements overall results in a spike in the rate during periods of low project disbursements. In reviewing the table below, administrative costs disbursed ratios increase significantly in 2011 in line with a sharp reduction in the project disbursements. Key concerns rest with UNDP which will likely see administrative fees increase dramatically as a % of disbursements due to their low project disbursement rates (see Figure 4.26).

	2008	2009	2010	2011
UNDP	14.3%	13.5%	13.2%	49.1%
UNEP	21.7%	20.3%	18.4%	32.7%
UNIDO	13.8%	12.8%	11.0%	20.4%
World Bank	11.8%	11.1%	10.9%	20.5%
Bilaterals	11.4%	11.5%	11.6%	13.0%
Total	14.1%	13.3%	12.3%	25.7%

Figure 4.26 Scenario 1 – Ratio of administrative cost disbursements against project cost disbursements based on historical disbursement rates

In review of Scenario 2, the ratio of administrative expenses in 2011 is still far in excess of the average.

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project costs	144.9	125.2	194.0	194.0	161.5	168.7
Core Unit Costs (See Note 1)	7.2	8.0	8.2	8.4	8.5	8.3
Project support costs	11.4	11.2	17.7	16.9	14.2	15.0
Total Administrative Costs	18.6	19.2	25.8	25.3	22.7	23.3
Total Project and Administrative Costs	163.6	144.4	219.9	219.3	184.3	191.9
Project Support Costs as a % of Project Costs	7.9%	8.9%	9.1%	8.7%	8.8%	8.9%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	13.3%	13.0%	14.1%	13.8%
Disbursements	Average					
Project costs	156.9	133.4	173.7	237.0	102.3	161.6
Core Unit Costs (See Note 1)	7.0	7.6	8.0	8.2	8.4	8.0
Project support costs	13.7	11.1	14.5	19.8	9.0	13.6
Total Administrative Costs	20.6	18.8	22.5	28.0	17.4	21.7
Total Project and Administrative Costs	177.5	152.2	196.2	265.1	119.7	183.3
Project Support Costs as a % of Project Costs	8.7%	8.4%	8.4%	8.4%	8.8%	8.4%
Total Administrative Costs as a % of Project Costs	13.2%	14.1%	13.0%	11.8%	17.0%	13.4%
Balance of Unused Funding	2007					
Project costs	281.4	273.2	293.5	250.4	309.6	
Core Unit Costs (See Note 1)	7.6	8.0	8.2	8.4	8.5	
Project support costs	23.5	23.5	26.6	23.7	28.9	
Total Unused Administrative Costs	31.1	31.5	34.8	32.1	37.4	
Balance of Unused Funding	312.5	304.7	328.3	282.5	347.1	
Project Support Costs as a % of Project Costs	8.3%	8.6%	9.1%	9.5%	9.3%	
Total Administrative Costs as a % of Project Costs	11.1%	11.5%	11.9%	12.8%	12.1%	

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.27 Scenario 2 – Consolidated project approvals, disbursements and unused balances based on agency historical disbursement rates





The main finding with Scenario 2 is the significant increase in unused funding over the next triennium. Based on the estimates described above, unused project support costs will rise from \$12.4m (Scenario 1) to \$28.9m (Scenario 2). This increase can be attributed to UNEP and UNDP's slow disbursement rate.

If the disbursement rate of UNEP and UNDP were to increase to the overall average of the agencies (per table above), the impact on the unused funding balance would be a decrease to the current levels.

	Actuals	Estimates				Average 2008 - 2011
	2004 - 2007	2008	2009	2010	2011	
Approved funding	Average					
Project costs	144.9	125.2	194.0	194.0	161.5	168.7
Core Unit Costs (See Note 1)	7.2	8.0	8.2	8.4	8.5	8.3
Project support costs	11.4	11.2	17.7	16.9	14.2	15.0
Total Administrative Costs	18.6	19.2	25.8	25.3	22.7	23.3
Total Project and Administrative Costs	163.6	144.4	219.9	219.3	184.3	191.9
Project Support Costs as a % of Project Costs	7.9%	8.9%	9.1%	8.7%	8.8%	8.9%
Total Administrative Costs as a % of Project Costs	12.9%	15.3%	13.3%	13.0%	14.1%	13.8%
Disbursements	Average					
Project costs	156.9	135.5	186.6	256.7	121.2	175.0
Core Unit Costs (See Note 1)	7.0	7.6	8.0	8.2	8.4	8.0
Project support costs	13.7	11.4	15.8	21.7	10.7	14.9
Total Administrative Costs	20.6	19.0	23.8	29.9	19.0	22.9
Total Project and Administrative Costs	177.5	154.5	210.4	286.6	140.2	197.9
Project Support Costs as a % of Project Costs	8.7%	8.4%	8.5%	8.5%	8.8%	8.5%
Total Administrative Costs as a % of Project Costs	13.2%	14.0%	12.8%	11.6%	15.7%	13.1%
Balance of Unused Funding	2007					
Project costs	281.4	271.1	278.5	215.8	256.2	
Core Unit Costs (See Note 1)	7.6	8.0	8.2	8.4	8.5	
Project support costs	23.5	23.3	25.1	20.3	23.9	
Total Unused Administrative Costs	31.1	31.3	33.3	28.7	32.4	
Balance of Unused Funding	312.5	302.4	311.8	244.5	288.6	
Project Support Costs as a % of Project Costs	8.3%	8.6%	9.0%	9.4%	9.3%	
Total Administrative Costs as a % of Project Costs	11.1%	11.5%	12.0%	13.3%	12.6%	

Note 1: UNEP's CAP costs have been segregated between project costs and administrative costs. UNEP's CAP costs estimated as administrative costs have been categorized as Core Unit costs for the sake of comparison with other agencies. Core unit costing does not apply to UNEP.

Figure 4.28 Scenario 2 – Consolidated project approvals, disbursements and unused balances based on average disbursement rates for all agencies

Regardless of whether Scenario 1 or Scenario 2 is followed, the key issue arising is that the current cost regime can create significant variations in the ratio of administrative cost disbursements relative to project cost disbursements. This issue is driven primarily by the shift of project approved funding to UNEP and UNDP vs. World Bank. Given historically slow rate of project disbursements at UNEP (23.3% after two years) and UNDP (8.7% after two years) vs. World Bank (68.2% after two years), this will result in a drop in project disbursements towards the end of the next triennium.

With low disbursement rates and core unit cost funding for UNDP (UNEP does not receive core unit costs), this results in a sharp rise in the anticipated ratio of administrative costs against project costs (between 28.6% and 49.1% depending on the level of the replenishment funding).

On this basis, we recommend that UNDP seek to increase their rates of project disbursements in the first few years after project approvals. While UNDP has advised that their slow rate of





disbursements is due to project approvals at the end of the year, this still does not explain why after two years, project disbursement rates are only 8.7% of overall approved amounts.

In the Section 4.2.3, we will assess the impact on the individual agencies and discuss the results as compared to the comments we received from the agencies relating to the activities that they anticipate relating to the CFC phase outs and the HCFC start ups.

4.2.3 Activities relating to CFC Phase out and HCFC Start up

Activities related to CFC phase-out

According to our review of the agency business plans and our interviews with the agencies, the following issues regarding the CFC phase-out activities have been identified by the agencies:

- Increased reporting workload to complete outstanding project completion reports in a short period of time leading to additional workforce requirements;
 - Based on a review of the 2007 consolidated project completion report (53/9), UNDP and UNEP are the agencies which have the largest number of pending project completion reports (individual projects), 49 and 52 respectively. Feedback from UNEP was that this has no direct relation to the compliance deadline and that PCR's may be submitted late for a variety of reasons including relating to staff priorities vis-à-vis project implementation or external factors (e.g., signature of a PCR by a government).
- Travel to countries in a non-compliance situation and where projects encounter delays in order to reinforce the achievement of objectives.

Based on our understanding of the nature of project support costs, these activities are included in under the definition of project support costs and/or CAP and should not be subject to additional disbursements by the MLF. The financial completion of all projects is covered by project support costs. There were no items beyond financial completion which were brought to our attention.

HCFC start-up costs

According to our review of the agency business plans and our interviews with the agencies, the agencies have identified the following start-up activities for HCFCs:

- Increased travelling activities in order to:
 - verify and collect data
 - document HCFC related information, and,
 - negotiate agreements with Article 5 countries;
- Surveys, education;
- Review of alternate technologies;



- Regional and technical meetings with recipient countries and technical experts to gain understanding of available technologies and impacts;
 - These appear to be project preparation costs and would be covered by project support fees paid by the MLF.
- Training for internal personnel and executing agencies' personnel on how to identify the impact of MLF projects on other environment-related protocols and cost-efficiencies which might exist (e.g., energy efficient equipment);
 - Given that the HCFC activities are consistent in nature to the CFC activities, project support fees paid by the MLF should cover these activities.
- Discussion initiation and assistance to countries in preparing their baseline, etc.
 - These activities are part of institutional strengthening or HPMP activities and are paid for separately.

While these items may or may not require additional funding, we encountered differences in opinion between the agencies and the Secretariat. Despite the list of additional administrative activities identified above, only UNDP submitted a request for additional core unit costs in its business plan in order to support the additional administrative workload (which was subsequently removed in the amended Business Plan). Additionally, UNEP has advised that they seek to revise the CAP budget in 2008 based on the possible decisions to be taken at the 54th Executive Committee meeting (this also provides an opportunity for UNEP to further address Decision 52/7 for additional regionalization of CAP resources).⁷

The start-up costs estimated by UNDP for the next triennium are comprised mainly of costs associated with the hiring of three additional resources to handle the transition from CFC to HCFC activities. Given the rise in UNDP project approvals anticipated through the next triennium, there will be a commensurate increase in the project support cost disbursements. The issue, as discussed in the previous section, relates to the historically slow rate of disbursements for UNDP. As such, there might be a gap between the timing of the hiring of these resources and the disbursement of project costs.

Using our mathematical model, we have estimated UNDP's administrative costs into the next triennium for both Scenario 1 and Scenario 2.

⁷ UNEP/OzL.Pro/ExCom/53/20, para 12



UNDP - Replenishment Fund	Actuals	Estimates				Total
	2004 - 2007 Average	2008	2009	2010	2011	
Disbursements	27.4	29.3	35.3	38.5	4.9	244.9
Project Costs	1.6	1.8	1.9	1.9	2.0	15.6
Core Unit Costs	2.6	2.4	2.9	3.2	0.4	22.0
Project Support Costs	4.2	4.2	4.8	5.1	2.4	37.6
Total Administrative Costs	31.6	33.5	40.1	43.6	7.3	282.4
Total Project and Administrative Costs	9.5%	8.2%	8.2%	8.3%	8.6%	9.0%
Project Support Costs as a % of Project Costs	15.4%	14.3%	13.5%	13.2%	49.1%	15.3%
Total Administrative Costs as a % of Project Costs						

Figure 4.29 Scenario 1 – UNDP estimated project disbursements using historical disbursement rates.

Based on the results, UNDP looks likely face some issues in 2008 as their anticipated administrative cost disbursements will equal those of the average for 2004-2007. However, upon further analysis, UNDP received only \$3.7m of administrative cost disbursements in 2007. As such, the planned administrative cost disbursements for 2008 of \$4.2m represents a 13.5% increase over 2007 and appears to be sufficient to cover the cost of the additional resources identified by UNDP for HCFC start up activities. In addition, the anticipated rise in project disbursements in 2009-2010 should also have an impact on UNDP's ability to cover the cost of additional personnel.

In our interviews with UNIDO and UNEP and in the review of their business plans, it was confirmed that they are also concerned with the potential increase in start-up costs. However, they did not identify the need for additional hires given the flexibility of their existing workforce.

Applying the model to the other agencies using Scenario 1 provided the following results:

	Ave 2004 - 2007	2008	2009	2010	2011	Average
UNDP	4.2	4.2	4.8	5.1	2.4	4.1
UNEP	3.1	3.8	4.3	4.5	3.7	4.1
UNIDO	4.6	4.3	5.0	7.3	3.3	5.0
World Bank	7.9	5.0	5.8	6.3	2.8	5.0
Bilaterals	0.9	1.4	1.6	1.7	0.4	1.3
Total	20.6	18.8	21.4	25.0	12.6	19.4

Figure 4.30 Scenario 1 –Estimated administrative cost disbursements using historical disbursement rates for all agencies

Per the table above, while UNEP's 2008 administrative cost disbursements are in excess of their average over the 2004-2007 period, UNIDO and World Bank's are below. We note that UNIDO's administrative cost disbursements are planned to increase to \$4.3m in 2008 vs. \$3.8m paid in 2007 and an average of \$4.6m from 2004-2007. However, when compared to UNIDO's Core Unit Report (see table below), we note that their reported costs incurred in 2007 amounted to \$7.3m. This amount was a significant increase over 2004-2006 where the average annual costs reported by UNIDO amounted to approximately \$5.5m per year. As such, UNIDO will likely not be able to cover their costs using disbursements from the MLF. As we did not receive details of UNIDO's costs beyond the information in their Core Unit Report (see table below), we cannot comment on the reasonability of those costs to determine if additional funding is required, or whether the increase in costs incurred in 2007 will persist.





UNIDO				
Cost Items	2004	2005	2006	2007
Core Components				
Core unit personnel and contractual staff	1.1	1.1	1.3	1.6
Travel	0.1	0.1	0.1	0.2
Space (rent and common costs)	0.1	0.1	0.1	0.1
Equipment supplies and other costs (computers, supplies, etc)	0.0	0.1	0.0	0.1
Contractual services (firms)	0.0	0.0	0.0	0.0
Reimbursement of central services for core unit staff	0.4	0.5	0.4	0.5
Adjustment (-ive amount = core unit budget overrun)*	0.0	(0.3)	(0.3)	(0.7)
Total core unit cost	1.6	1.5	1.7	1.8
Reimbursement of country offices and national execution	1.0	1.0	0.9	1.4
Executing agency support cost (internal)	2.7	3.1	2.4	3.5
Financial intermediaries including overhead	0.0	0.0	0.0	0.0
Cost recovery	0.0	0.0	0.0	0.0
Adjustment (per above)*	0.0	0.3	0.3	0.7
Supervisory costs incurred by MPU	0.0	0.0	0.0	0.0
Total project support costs	3.8	4.5	3.6	5.6
Grand total administrative support costs	5.4	6.0	5.3	7.3
Core unit costs disbursements	1.5	1.5	1.7	1.8
Project support costs disbursements	3.3	3.1	3.3	2.0
Total administrative costs disbursements	4.8	4.6	5.0	3.8
Difference	(0.5)	(1.4)	(0.2)	(3.5)

Figure 4.31 UNIDO details of Core Unit Report submissions from 2004-2007



The World Bank is the other agency that may face problems into the next triennium. The projection for their administrative costs disbursements in 2008 represents a 37% reduction from the 2004-2007 average administrative cost disbursement levels. However, we note that their average costs incurred reported per the Core Unit Report below over the same period amount to \$6.6m per year. Additionally, the World Bank appears to have been receiving administrative cost disbursements in excess of their cost incurred. As such, the excess funding received in the past may help to cover the anticipated funding shortfall into the future.

World Bank				
Cost Items	2004	2005	2006	2007
Core Components				
Core unit personnel and contractual staff	0.9	1.0	1.1	1.0
Travel	0.2	0.2	0.2	0.2
Space (rent and common costs)	0.0	0.0	0.1	0.1
Equipment supplies and other costs (computers, supplies, etc)	0.1	0.1	0.1	0.1
Contractual services (firms)	0.0	0.0	0.0	0.0
Reimbursement of central services for core unit staff	0.2	0.2	0.1	0.2
Adjustment (-ive amount = core unit budget overrun)*	0.0	(0.1)	(0.1)	0.0
Total core unit cost	1.5	1.5	1.5	1.6
Reimbursement of country offices and national execution	3.0	3.0	3.5	3.2
Executing agency support cost (internal)	0.0	0.0	0.0	0.0
Financial intermediaries including overhead	1.5	2.1	2.0	1.8
Cost recovery	0.0	0.0	0.0	0.0
Adjustment (per above)*	0.0	0.1	0.1	0.0
Supervisory costs incurred by MPU	0.0	0.0	0.0	0.0
Total project support costs	4.4	5.2	5.6	5.0
Grand total administrative support costs	5.9	6.7	7.1	6.6
Core unit costs disbursements	1.5	1.5	1.5	1.6
Project support costs disbursements	5.1	6.6	6.1	7.6
Total administrative costs disbursements	6.6	8.1	7.6	9.2
Difference	0.6	1.5	0.5	2.6

Figure 4.32 World Bank details of Core Unit Report submissions from 2004-2007

At this stage, any amendments to the Administrative Cost regime appear to be premature. While our model predicts a decline in administrative cost disbursements from \$20.7m in 2007 to \$18.8m in 2008, the majority of the decline is linked to the World Bank. Based on the excess of administrative costs disbursements received by the World Banks vs. their costs per their Core Unit Reports, the World Bank should be in a position to cover the decline.





4.2.4 Assessment of the Current Cost Regime

In our discussions with MLF staff, we were advised that an informal target for administrative costs as a percentage of project costs was 9-13%. It must be noted that there is no formal acceptance of this range by the Executive Committee, however, we have used it as a benchmark for this analysis.

In review of the estimates for project disbursements in the previous analysis, we can conclude, that the current cost regime will be appropriate for periods where project disbursements have sufficient magnitude. Due to the nature of core unit costs, in periods where project disbursements decline, there will be a significant rise in administrative costs relative to project costs.

To this end, we have performed an analysis on the core unit costs to be paid to UNDP, UNIDO, and World Bank over the next triennium. In this analysis, we identify the level of project disbursements required to achieve a certain percentage of overall administrative costs relative to project costs.

Overall Ratio of administrative costs to project costs	2008	2009	2010	2011
9%	213.6	242.8	261.2	525.5
10%	97.8	105.2	110.4	143.3
11%	63.4	67.2	70.0	83.0
12%	46.9	49.3	51.3	58.4
13%	37.2	39.0	40.4	45.0
14%	30.9	32.2	33.4	36.7
15%	26.4	27.5	28.4	30.9
Core Unit Costs	1.8	1.9	1.9	2.0
Project Support Cost Estimates	8.2%	8.2%	8.3%	8.6%

Figure 4.33 Amount of UNDP project costs required to achieve overall administrative cost ratios

The table above identifies the core unit costs estimated for UNDP into the next triennium using the average project support cost disbursement rates estimated in our model for Scenario 1. With these costs to be paid annually, we built a mathematical model to determine the level of project approvals or disbursement required to reach the target administrative cost ratios listed on the left hand side of the table. For example, in 2011 UNDP will need to have project disbursements of \$45m to achieve an overall administrative cost ratio of 13%. Based on our current estimations, they will only have \$4.9m, as such, we predict administrative costs at a ratio of 49% of project disbursements for UNDP.



The same analysis for World Bank and UNIDO are in the tables below:

Overall Ratio of administrative costs to project costs	2008	2009	2010	2011
9%	175.6	191.0	217.5	262.9
10%	89.0	94.2	101.8	112.7
11%	59.6	62.5	66.5	71.7
12%	44.8	46.8	49.3	52.6
13%	35.9	37.4	39.2	41.5
14%	29.9	31.1	32.6	34.3
15%	25.7	26.7	27.8	29.2
Core Unit Costs	1.8	1.9	1.9	2.0
Project Support Cost Estimates	8.0%	8.0%	8.1%	8.3%

Figure 4.34 Amount of UNIDO project costs required to achieve overall administrative cost ratios

Overall Ratio of administrative costs to project costs	2008	2009	2010	2011
9%	161.0	161.1	164.2	155.7
10%	80.6	81.5	83.5	82.4
11%	53.8	54.6	56.0	56.0
12%	40.3	41.0	42.1	42.5
13%	32.3	32.9	33.8	34.2
14%	26.9	27.4	28.2	28.6
15%	23.1	23.5	24.2	24.6
Core Unit Costs	1.6	1.7	1.7	1.8
Project Support Cost Estimates	8.0%	8.0%	8.0%	7.9%

Figure 4.35 Amount of World Bank project costs required to achieve overall administrative cost ratios

Based on this analysis, where project disbursements to an implementing agency in a year fall below approximately \$25m, administrative costs as a percentage of project costs will exceed 15%. Using our projections in the previous section, the planned disbursements for 2008-2010 will likely average around 13% which is at the high end of the informal range discussed with MLF staff. However, in 2011, given the drop in expected project disbursements, the ratio of administrative disbursements to project disbursements will increase to 25.7% (Scenario 1) or 17% (Scenario 2).

Given the uncertainty with the estimates for 2011, it is not recommended that any changes to the cost regimes are made at this time. However, as disbursement levels for any of the agencies receiving core unit costs falls below a certain level on a permanent basis, adjustments will need to be made to ensure that administrative cost percentages do not become unreasonably high. Based on the tables above, it would appear that this level should be set at approximately \$35m of disbursement per year.

If the Executive Committee wants to reduce the ratio of overall administrative costs to project costs, the following options exist:

- Reduce core unit cost levels and maintain project support cost percentages





- Reduce project support cost percentages and maintain core unit cost levels
- Increase project disbursements in the agencies

Reduce Core Unit Cost Levels

If core unit cost levels were reduced by 15%, we would see the following for UNDP/UNIDO:

Overall Ratio of administrative costs to project costs	2008	2009	2010	2011
9%	163.8	181.8	201.8	297.9
10%	79.2	84.5	90.1	107.2
11%	52.2	55.1	58.0	65.4
12%	39.0	40.8	42.7	47.0
13%	31.1	32.4	33.9	36.7
14%	25.8	26.9	28.0	30.1
15%	22.1	23.0	23.9	25.5
Core Unit Costs	1.5	1.6	1.6	1.7
Project Support Cost Estimates	8.1%	8.1%	8.2%	8.4%

Figure 4.36 Amount of UNDP/UNIDO project costs required to achieve overall administrative cost ratios based on a 15% reduction in core unit cost levels

If disbursement levels were approximately \$33m/year, the agencies would incur administrative disbursements at 13% of project disbursements. This would represent a 1% (13% vs. 14% under old cost regime) reduction in the ratio of administrative disbursements relative to project disbursements.

Reduce Project Support Cost Levels

If project support costs were reduced by 1%, we would see the following for UNDP/UNIDO:

Overall Ratio of administrative costs to project costs	2008	2009	2010	2011
9%	93.2	99.4	106.0	126.2
10%	61.4	64.8	68.2	76.9
11%	45.8	48.0	50.3	55.3
12%	36.5	38.2	39.8	43.2
13%	30.4	31.7	33.0	35.4
14%	26.0	27.1	28.1	30.0
15%	22.7	23.6	24.5	26.1
Core Unit Costs	1.8	1.9	1.9	2.0
Project Support Cost Estimates	7.1%	7.1%	7.2%	7.4%

Figure 4.37 Amount of UNDP/UNIDO project costs required to achieve overall administrative cost ratios based on a 1% reduction in project support cost levels

In this scenario, if disbursement levels were approximately \$33m/year, the agencies would incur administrative disbursements at 13% of project disbursements. This would represent a 1% (13% vs. 14% under old cost regime) reduction in the ratio of administrative disbursements relative to project disbursements.

The decision for the Executive Committee is the level of administrative costs relative to project costs that they are willing to support. If the view is that disbursement levels will decrease over time, under the current cost regime, the ratio of administrative fees paid to the agencies will





increase above the current average of 13.2% witnessed during the period from 2004-2007. In our review of the GEF's Review of Administrative Expenses Allocated to GEF Implementing Agencies, we note that their average annual administrative expenses historically amounted to 9.7% for the period 2001-2005⁸. We would recommend an overall disbursement rate higher than the GEF, given that GEF project disbursement levels far exceed the MLF's (GEF \$534m/year vs. MLF \$157m/year). It is our view that there are economies of scale with higher disbursement levels.

Overall, there is a need to ensure that as disbursement levels decline, measures are in place to change the existing cost regime otherwise, the level of administrative disbursements relative to project disbursements will increase. One option would be that for agencies to earn the right to receive core unit costs, they need to maintain certain disbursement levels. If disbursement levels decline, on a permanent basis, below this threshold, the agency would be subject to the same cost regime as the bilateral agencies, earning 13% of project support costs only.

4.2.5 Project Delays

The terms of reference for this project identifies concerns raised about the level of unused funds relating to administrative costs. The concern by the Executive Committee was whether or not these funds could be considered for use in other projects.

In our review of unused funds available we identified a balance of \$27.5m of unused funds as at the end of 2006, once core unit cost approvals were removed. The categorization of unused funds between on-going projects, completed projects, and financially completed projects is detailed in the table below. Completed projects are those that are completed from an execution perspective only. Financially completed projects are those that were final reports relating to the project's completion have been submitted to the MLF.

amounts in US\$ m

	UNDP	UNEP	UNIDO	World Bank	Bilateral Agencies	Total
On-Going Activities	6.2	1.5	5.0	6.1	4.0	22.6
Completed Projects	0.9	0.3	0.4	3.2	0.0	4.8
Financially Completed Projects	0.0	0.0	0.0	0.1	0.0	0.1
Total Unspent Support Funds	7.1	1.8	5.4	9.3	4.0	27.5

Source: MLF Secretariat Progress Report 2006

Figure 4.38 Unused project support funds balance by agency

Of the \$27.5m identified as unused administrative fees, only \$4.9m relates to completed (\$4.8m) or financially completed (\$0.1m) projects. On the surface, there does not appear to be a problem with unused funds. However, upon further analysis of the balance of on-going activities, we note a large component relating to grants. Grants are reviewed in more detail in the next section.

4.2.6 Multi-year projects

Article 5 countries receive grants from the MLF to implement various programs for a particular initiative. The grants are usually tied to ODS reduction targets for each initiative (e.g., China

⁸ Refer to GEF/C.33/8 page 20





Halon Sector). These grants are treated as multi-year projects where the Article 5 countries receive funding for these initiatives in annual tranches. We reviewed a selection of the larger grants currently included in on-going project balances. The results (see Figure below) indicate that for grants with \$129m of available funding, the ODS targets are close to being met or have been met.

amounts in US\$ m												
Agency	UNDP		UNIDO	World Bank								Total
Country	Brazil	China	Mexico	China				India			Venezuela	
Sector Plan/ National ODS Phase-Out Plan	National CFC phase out plan	ODS phase- out in China solvent sector	Sector plan for phasing out CFC-11 and CFC-12 production sector	Halon Sector	CFC Production Sector	Foam Sector	CTC/PA Sector Phase I	CTC/PA Sector Phase II	CFC production sector gradual phase-out project	CTC phase-out plan for the consumption and production sectors	Phased reduction and closure of the entire CFC production	
Planned Date of Completion	Dec-09	Dec-09	Dec-06	Dec-10	Dec-10	Dec-10	Dec-10	Dec-09	Jan-10	Jan-10	Dec-08	
% of months left	26%	20%	-32%	22%	25%	32%	36%	48%	20%	31%	24%	
% of ODS reduction target achieved	89%	98%	100%	100%	100%	96%	100%	N/A	100%	117%	100%	
Funds Committed	22.8	52.0	31.9	62.0	150.0	53.8	65.0	46.5	82.0	38.1	16.5	620.6
Funds Released	21.6	49.0	31.9	61.9	135.0	52.1	61.0	35.0	70.0	31.7	15.5	564.6
Funds Disbursed	10.4	31.4	31.7	49.8	123.0	42.6	59.0	30.0	69.0	29.4	15.3	491.6
Available project funding	12.4	20.6	0.1	12.2	27.0	11.3	6.0	16.5	13.0	8.7	1.2	129.0
Available project support costs	0.9	1.5	0.0	0.9	2.0	0.8	0.5	1.2	1.0	0.6	0.1	9.7

Figure 4.39 Available project funding for grants equal to or greater than \$15 million

Given the nature of grants, these amounts are committed to the Article 5 recipient to perform the prescribed initiatives only. There does not appear to be flexibility in the use of grants for other activities. While there has been a commitment to an Article 5 country in the set up of a grant, flexibility is required to divert the funds to other activities within that Article 5 country. Amendments to the grant process are strongly recommended to enable the reallocation of grants towards different programs for the recipient Article 5 country.





4.3 Other

4.3.1 Foreign Exchange

The Fixed Exchange Rate Mechanism is used to establish an agreed upon exchange rate over a three year period between Executive Committee members and the MLF treasury unit in UNEP Nairobi. The FERM allows Executive Committee members to transfer their agreed upon funding to the MLF, using their national currency sheltered from currency fluctuations.

On the other hand, agencies are required to build their business plans in USD and are funded in USD even though they incur costs in local currencies. As a result, they are not sheltered from currency fluctuations.

In an environment where the USD appreciates against other currencies, the MLF treasury will incur losses and the agencies will incur gains. With a depreciation of the USD, the inverse is true.

With the devaluation of the USD over the last three years, the funds provided by the Executive Committee members have generated a surplus⁹ (\$ 32.2 M) within the MLF treasury. This amount is available to fund additional projects.

During the same period, the agencies have had to absorb the impact of the devaluation of the USD and therefore have fewer funds available to manage their project related costs, thereby forcing the agencies to identify areas for cutting costs which could lead to project delays and impact project delivery quality and efficiency. We were not advised on how the agencies managed during periods of an appreciating USD, whereby they would have more funds than budgeted. The major issue to address relates to the foreign currency risk borne by the implementing agencies which can create deficits and surpluses out of the control of the agencies.

Managing foreign exchange risk is a complex matter. Many multinational companies have complex treasuries which seek to minimize the impact of foreign currency fluctuations on their operations in countries with different currencies. While the MLF's treasury protects Executive Committee member contributions, there is no consideration for the foreign currency risk exposures of the implementing agencies. It is strongly recommended that foreign currency risk exposures are managed centrally and not at an agency level.

4.3.2 Reporting requirements

Our study shows that the multi-year completion report is identified by the agencies as the most time-consuming of reporting requirements to the MLF. The reports can range in volume (30, 45, 60 pages)¹⁰ although the information required by the MLF is limited to ten tables of quantitative

⁹ Refer to Report of the 54th Meeting of the Executive Committee par.25 (UNEP/OzL.Pro/ExCom/54/59)

¹⁰ Refer to appendix 7.8 for an example of a multi-year report





information with a large portion of the information pre-populated. The large volume of qualitative information is one of the primary reasons why the preparation of this report is so time-consuming. Another reason is that the agencies are not structured to easily provide the quantitative information requested by the Secretariat, resulting in additional data gathering and manipulation leading to additional administrative costs.

We recommend that the Secretariat and the agencies agree on the minimum qualitative information required in the multi-year project report. Such an agreement would further standardize the reporting process across agencies and stabilize administrative costs associated with reporting requirements. We also recommend that the agencies revisit their data gathering process to maximize efficiency and to reduce additional administrative costs associated to after the fact data gathering. For example, data gathering should be integrated within the project activities and thereby collected progressively from the start of the project until completion.





5 Conclusion

This report has sought to bring clarity to the Executive Committee around administrative fees disbursed to the agencies implementing projects on behalf of the MLF. Given the peculiarities of the different components of the cost regimes and the timing differences associated to the eventual disbursement of fees approved, providing the Executive Committee with a transparent view of administrative fees paid out in the past and into the future is a complicated endeavor. The goal of this assessment was to review various matters of concern to the Executive Committee which would have an impact on the administrative funding required into the future.

The Executive Committee's concerns related primarily to:

- Substantial balances of unused funds
- Understanding the costs incurred by bilateral agencies relative to administrative costs disbursed to them
- Required amendments to the current cost regime to assist agencies with additional costs incurred with the start-up of HCFC activities
- Comparability with other multilateral funding mechanisms

In conclusion, we believe that many of the concerns relating to administrative expenses have arisen due to a lack of transparency caused by the existing process. This is by no means a critique of the MLF Secretariat nor the individual agencies, however, the current cost regime makes transparency difficult to achieve. This can be evidenced by the complexity of the mechanism developed to estimate administrative costs into the future.

The recommendations that we have put forward are a means to identify approaches to enhance transparency based on the current cost regime.





6 Appendices

6.1 Chart of Interviews and Site Visits

Agency	Status	Key contact	PwC researcher
Multilateral Implementing Agencies			
UNIDO	Site visit in Vienna on March 10 and 18, 2008	Sidi Menad Si-Ahmed, Mr. Peter Ulbrich, Dr. Tomas Grof	Kenny Wong, researcher
	Conference call on April 18, 2008	Sidi Menad Si-Ahmed, Dr. Tomas Grof	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher
UNDP	Site visit in New York on March 10 and 11, 2008	Suely Carvalho, Jacques Van Engel, Loise Nganga	Antoine Bourgoignie, researcher
	Conference call on April 17, 2008	Suely Carvalho, Loise Nganga	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher
UNEP	Site visit in Paris on March 13, 2008	Rajendra Shende, Blaise Horisberger, Nancy Wachira Flainville Txema Beato James Curlin	Kenny Wong, researcher
	Conference call with Paris and Nairobi on April 17, 2008	Rajendra Shende, Theodor Kapiga, Blaise Horisberger, Nancy Wachira Flainville	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher Kenny Wong, researcher
	Conference call with Nairobi on April 23, 2008	Theodore Kapiga Moises Abudabi	David Pascal, project lead





	Conference call with Paris on May 7, 2008	Rajendra Shende James Curlin	David Pascal, project lead Antoine Bourgoignie, researcher
WORLD BANK	Initial conference call on February 25, 2008	Steve Gorman	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher
	Site visit in Washington on March 13, 2008	Steve Gorman	Antoine Bourgoignie, researcher
	Site visit in Washington on April 28	Mary-Ellen Foley	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher
Bilateral Implementing Agencies			
ENVIRONMENT CANADA	Site visit in Ottawa on February 13, 2008	Philippe Chemouny, Scott Wilson	David Pascal, project lead Jennifer Semerdjian, principal researcher
GTZ	Conference call with GTZ on March 12, 2008	Volkmar Hasse	Kenny Wong, researcher
AFD	Site visit in Paris on March 17, 2008	Beatrice Vincent	Kenny Wong, researcher
Multilateral Environment Agreement			
UNFIP	Site visit in New York on March 12, 2008	Amir A. Dossal	Antoine Bourgoignie, researcher
UNFCCC	Site visit in Bonn on for March 12, 2008	Asfaha Beyene	Kenny Wong, researcher
GEF	Site visit in Washington on April 28, 2008	Yasemin Biro	Jennifer Semerdjian, principal researcher Antoine Bourgoignie, researcher
	Conference call on May 30, 2008	Pamela Crivelli	Jennifer Semerdjian, principal researcher
Other stakeholders			



U. S. Department of State, Bureau of Oceans, International and Scientific Affairs	Conference call on March 3, 2008	Ms Hodayah Finman	David Pascal, project lead
	Conference call on May 13, 2008	Ms Hodayah Finman	David Pascal, project lead
Australia	Conference call on May 21, 2008	Ms. Annie Gabriel, Mr. Patrick McInerney	David Pascal, project lead





6.2 Survey Questionnaire (implementing agencies)

Agency		Agency Participants	
Date		Interviewer(s)	
Time		Place	

Thank you for taking the time to meet with us today.

As you know, PwC Consulting Services were engaged by the UN Multilateral Fund Secretariat to conduct an assessment of the current administrative support cost regime.

Our engagement is not an audit, and is not being conducted by auditors, rather by our consulting team. Our scope includes understanding the benefits and challenges of the current cost regime in order to provide the Secretariat with a balanced and objective report.

The objective of our review is to ensure that sufficient administrative support is provided to complete all necessary activities for Article 5 countries to achieve their compliance efforts during the next triennium.

To provide recommendations to the Secretariat, we seek to understand the following:

- √ Approach to managing your project portfolio and related administrative costs
- √ The approach used to implement your projects (through other agencies, with your own resources, etc.) and the process followed to release funds to other agencies if any
- √ Unused support cost balances
- √ Project completion activities related to administrative closure activities
- √ Projected administrative support costs, opportunities and challenges for the 2009-2011 triennium
- √ Cash flow challenges related to timing of disbursements and the release of funds
- √ Impact of accounting and reporting processes on administrative costs

We will refer to the quantitative data provided in the Excel spreadsheet throughout the discussion and additional questions beyond those listed below may arise.





Background and context

- a. What is your role at the agency and in the context of the activities related to the UN Multilateral Fund (Montreal Protocol)?
- b. Let us review Appendix 1 to confirm our understanding of your agency and your project portfolio.

Activities and services provided with the approved funds

- a. We understand that there are definitions used to describe the activities (which are included in Appendix 2) that fall within administrative support costs (core unit and agency fees), those that fall within project costs and finally other activities which are not eligible.
 - o Do you have activities that should be included in the current cost regime but do not fall within the existing guidelines?
 - o Please elaborate on these elements.
 - o Do you account for your costs (or allocate them) differently than the guidelines prescribe? If you use a different cost allocation framework, please provide.
- b. What are the difficulties, if any, of applying the agreements related conditions that dictate how the costs are categorizing administrative support costs (core unit and agency fees) and project costs?
- c. How do you separate costs between the MLF and other MEAs your office manages?
- d. Does your agency subsidize administrative costs in excess of the amounts covered by the MLF? If so, how and to what extent?
- e. If you were given the opportunity to change the cost regime to more closely match your project needs, what would be your recommendations? Please provide examples based on your experience with other Funds.

Cash Flow

- a. It is our understanding that implementing agencies experience general cash flow challenges. Explain to us the challenges in managing your administrative support costs in implementing your projects. What are the particularities specific to your project portfolio? Provide some examples to help us understand the challenges you face.
- b. What are your main cost drivers with respect to administrative support costs? E.g.:
 - o Nature of projects (multi year, country run, project type, etc.)
 - o Salaries
 - o Consultant fees
 - o Country politics
 - o Project locations (travel costs)
 - o Project delays
 - o Accounting process
 - o Reporting process
 - o Approval process
- c. How does the fact that UN Agencies do not have access to funds until a project related disbursement occurs, impact your cash flow situation? What would you recommend to improve cash flow? Please provide support for your recommendations.
- d. For non-UN Agencies, how do you manage your administrative income to achieve a balanced cash flow over time?





Sufficiency of funds

- a. Help us understand the areas where funding is not adequate.

Unspent funds

- a. Based on our preliminary analysis, we noted that there is a current balance of unspent support funding of US \$XX for your agency. Help us understand this balance in the context of the above cash flow questions and whether this balance is already allocated to ongoing and projected activities but not as yet released.
 - o What are the current plans for the future use of these funds?
 - o What are the current and expected challenges regarding the use of this unused balance?
- b. Help us to understand the relationship between the unspent funding and the future costs of the approved projects, if any.
- c. Help us to understand the relationship between the unspent balance and the administrative costs of completion of projects, the administrative costs of financial completion of projects and, the closing activities for the 2010 phase-out, if any.

Project Management

- a. Discuss the challenges of managing the various types of projects in your portfolio and the timelines (refer to the analytical review by types of projects).
- b. What is your process (team, checkpoints, initial and annual budgets, reviews, visits, etc.) for monitoring the progress of projects?
- c. How do you implement projects?
 - o Using your own resources, consultants, other agencies, country agencies, etc.
 - o What are the advantages of your implementation modalities and impacts on the administrative support costs
 - o How are approved funds re-allocated to the executing agencies (based on implementation modalities)
- d. What is your past experience with respect to projects timelines?
- e. What are the main causes of project delays?
- f. What administrative actions do you take with respect to administrative costs when a project delay is encountered?
- g. What are the administrative costs associated with reporting and approval requirements of the MLF? What are the administrative costs associated with internal reporting requirements? What is the time spent on reporting related activities?
- h. How would you describe the complexity of the budgeting and the approval process and what are the main challenges for your agency?
- i. Do multi-year projects allow for economies of scale with respect to administrative costs? How do individual vs. multi-year projects impact administrative support costs?

Closing activities

- a. What are the administrative costs for completing and financially completing projects in excess of budget, if any?
- b. What is your process for ensuring that all relevant completion activities are budgeted, planned and executed (outstanding commitments, closing of financial accounts, etc.)?





- c. What are the trends and main challenges for the 2010 phase-out of CFC, Halons and CTC substances and subsequent phase-out activities?

Accounting and Reporting

- a. How do you account for and track costs? Do you use fund accounting, with administrative support costs and project costs being accounted for separately by project?
- b. How does this compare with the manner in which you report costs to the Secretariat?
- c. Please explain the reconciliation you perform between your accounting and the cost reporting you submit to the Secretariat.
- d. How does the reconciliation process impact your administrative support costs?
- e. Based on your experience with other Funding Institutions, what would be your recommendations to further streamline and reduce administrative costs (e.g. change the reporting process, reduce the number of communications and attendance at meetings, etc)?

2009-2011 Triennium

- a. Based on your past experience, what are the challenges and opportunities anticipated with the 2009-2011 triennium (e.g. number of projects, project types, project delays, increased administrative support costs, closing of projects, start-up of projects, cash flow, etc)?
- b. What are the projected administrative support costs for the HCFC, ODS disposal and other ODS projects during the next triennium? Is there an anticipated increase or decrease in the administrative effort required to manage the planned projects? Is any administrative cost savings anticipated based on synergies carried over from previous projects?
- c. How will the nature of HCFC, ODS disposal and other ODS projects impact administrative support costs differently from previous projects?





6.3 Survey Questionnaire (bilateral agencies)

Agency		Agency Participants	
Date		Interviewer(s)	
Time		Place	

Thank you for taking the time to meet with us today.

As you know, PwC Consulting Services were engaged by the UN Multilateral Fund Secretariat to conduct an assessment of the current administrative cost regime.

Our engagement is not an audit, and is not being conducted by auditors, rather by our consulting team. Our scope includes understanding the benefits and challenges of the current cost regime in order to provide the Secretariat with a balanced and objective report.

The objective of our review is to ensure that sufficient administrative support is provided to complete all necessary activities for Article 5 countries to achieve their compliance efforts during the next triennium.

To provide recommendations to the Secretariat, we seek to understand the following:

- √ Approach to managing your project portfolio and related administrative costs
- √ The approach used to implement your projects (through other agencies, with your own resources, etc.) and the process followed to release funds to other agencies, if any
- √ Projected administrative support costs, opportunities and challenges for the 2009-2011 triennium
- √ Impact of accounting and reporting processes on administrative costs

Background and context

- a. What is your role at the agency and in the context of the activities related to the UN Multilateral Fund (Montreal Protocol)?





- b. Let us discuss your project portfolio.

Activities and services provided with the approved funds

- a. Can you account for your costs (or allocate them) as described in the definitions provided?
b. If you use a different cost allocation framework, please provide it.
c. How do you separate costs between projects funded from the MLF and other sources?

Cash Flow

- a. Does your agency subsidize administrative costs in excess of the amounts covered by the MLF? If so, how and to what extent?
b. What are your main cost drivers with respect to administrative support costs? E.g.:
 - Nature of projects (multi year, country run, project type, etc.)
 - Salaries
 - Consultant fees
 - Country politics
 - Project locations (travel costs)
 - Project delays
 - Accounting process
 - Reporting process
 - Approval process
- c. How do you manage your administrative income?

Project Management

- a. Discuss the challenges of managing the various types of projects in your portfolio and the timelines.
b. What is your process (team, checkpoints, initial and annual budgets, reviews, visits, etc.) for monitoring the progress of projects?
c. How do you implement projects?
 - Using your own resources, consultants, other agencies, country agencies, etc.
 - What are the advantages of your implementation modalities and impacts on the administrative support costs
 - How are approved funds re-allocated to the executing agencies (based on implementation modalities)
- d. What is your past experience with respect to projects timelines?
e. What are the main causes of project delays?
f. What administrative actions do you take with respect to administrative costs when a project delay is encountered?
g. In addition to your project management process, what additional external processes must you comply with including various reporting and approval requirements?
h. What are the administrative costs associated with internal reporting requirements? What is the time spent on reporting related activities?
i. How would you describe the complexity of the budgeting and the approval process and what are the main challenges for your agency?
j. Do multi-year projects allow for economies of scale with respect to administrative costs? How do individual vs. multi-year projects impact administrative support costs?





Closing activities

- a. Do you have projects which will be closing in the next triennium?
- b. What is your process for ensuring that all relevant completion activities are budgeted, planned and executed (outstanding commitments, closing of financial accounts, etc.)?

Accounting and Reporting

- a. How do you account and track costs? Do you use fund accounting, with administrative support costs and project costs being accounted for separately by project? Please explain the reconciliation you perform between your accounting and the cost reporting you submit to the Secretariat.
- b. How does the reconciliation process impact your administrative support costs?
- c. Based on your experience with other Funding Institutions, what would be your recommendations to further streamline and reduce administrative costs (e.g. change the reporting process, reduce the number of communications and attendance at meetings, etc)?

2009-2011 Triennium

Please describe your view with respect to your bilateral program and the vision for the Multilateral Fund as a whole, regarding the following:

- a. Based on your past experience, what are the challenges and opportunities anticipated with the 2009-2011 triennium (e.g. number of projects, project types, project delays, increased administrative support costs, closing of projects, start-up of projects, cash flow, etc)?
- b. What are the projected administrative support costs for the HCFC, ODS disposal and other ODS projects during the next triennium? Is there an anticipated increase or decrease in the administrative effort required to manage the planned projects? Is any administrative cost savings anticipated based on synergies carried over from previous projects?
- c. How will the nature of HCFC, ODS disposal and other ODS projects impact administrative support costs differently from previous projects?





6.4 Model Assumptions

Estimated Ratio of overall Project Approvals relating to Compliance Activities

		2008	2009	2010	2011
CFC Activities (including MYA)	Compliance	100%	75%	50%	0%
Institutional strengthening	Compliance	100%	75%	50%	0%
ODS disposal	Non-Compliance	0%	0%	0%	0%
CAP - Estimate	Compliance	100%	75%	50%	0%
Methyl bromide	Non-Compliance	0%	0%	0%	0%
HCFC	Non-Compliance	0%	0%	0%	0%
MDI	Compliance	100%	100%	100%	100%
Other Activities	Compliance	50%	50%	50%	100%

This table was used to split approved project funding between compliance and non-compliance activities. It is our assumption that all compliance activities will be completed by 2010. Deadlines for non-compliance activities are beyond the timeframe that this report covers.

In interpreting the table, percentages appearing in a year, relate to the percentage of project cost approvals that would be treated as compliance projects in that year. As such, CFC Activities (which include Multi-Year Agreements) are considered to be 100% compliance in 2008, which will require disbursement by the end of 2010. In 2009, this ratio drops to 75% on the assumption that a component of Multi-Year Agreement project approvals will relate to non-compliance activities. Therefore, 25% of CFC activities (including Multi Year Agreements) will be treated as non-compliance activities. Non-compliance activities are implemented at the agencies' historical rate of disbursement.

Calculation of Estimated Project Support Cost Percentages

The tables below were used to estimate the project support cost rates for each agency for each activity planned into the next triennium.

	UNDP	UNEP	UNIDO	World Bank	Bilateral
Ratio of projects under \$250k	75%	100%	50%	25%	75%
Ratio of projects over \$250k	25%	0%	50%	75%	25%
Total	100%	100%	100%	100%	100%
Rate for projects under \$250k	9%	13%	9%	9%	13%
Rate for projects over \$250k	8%	13%	8%	8%	13%
Weighted average PSC	9%	13%	8%	8%	13%





	UNDP	UNEP	UNIDO	World Bank	Bilateral
CFC Activities (including MYA)	8.625%	13.000%	8.250%	7.875%	13.000%
Institutional strengthening	8.625%	0%	8.250%	7.875%	13.000%
ODS disposal	8.625%	13.000%	8.250%	7.875%	13.000%
CAP - Estimate	N/A	8.000%	N/A	N/A	N/A
Methyl bromide	8.625%	13.000%	8.250%	7.875%	13.000%
HCFC	8.625%	13.000%	8.250%	7.875%	13.000%
MDI	8.625%	13.000%	8.250%	7.875%	13.000%
Other Activities	8.625%	13.000%	8.250%	7.875%	13.000%

Estimated Disbursement Rates applied to Compliance Activities

The table below was used to estimate the level of disbursement for compliance activities approved in a particular year.

Compliance Projects Commencing in:	2008	2009	2010
2008	33%	33%	33%
2009	0%	50%	50%
2010	0%	0%	100%

Historical Disbursement Rates applied to Non-Compliance Activities

The table below was used to estimate the level of disbursement for non-compliance activities approved by year

Disbursement Rate

Non-Compliance Projects:

	Year 1	Year 2	Year 3	Year 4
UNDP	0.6%	8.1%	13.3%	30.9%
UNEP	8.2%	15.1%	22.2%	13.3%
UNIDO	16.1%	25.7%	24.1%	13.1%
World Bank	31.8%	36.4%	18.7%	11.5%
Bilaterals	5.4%	21.2%	10.1%	30.6%





6.5 Quantitative Information Received

Information received

Information requested	UNDP	UNEP	UNIDO	World Bank	Environment Canada	French GEF	GTZ
Quantitative information							
Agency project portfolio	N	I	Y*	N	Y	N	N
Cost breakdown by cost category	I	Y	N	I	Y	N	N
Staff and salaries	I	Y	N	N	Y	N	N

I = Incomplete information was received. For example, estimate amounts were not supported with an explanation on how estimates are derived.

* Obtained from Annual Report on website.

I = Incomplete information was received. For example, estimate amounts were not supported with an explanation on how estimates were derived.





6.6 Commentary Received from UNEP relating to the segregation of Administrative costs and Project costs

UNEP RESPONSE TO PWC MESSAGE OF 7 JUNE 2008 ON “MLF - ADMINISTRATIVE COST STUDY - CAP SECTION DRAFT FOR REVIEW”

12 June 2008

The comparison of the “core units” of other agencies with similar activities in UNEP’s CAP can be done, if needed, on a selective basis. However, it is not a one-to-one comparison. Please note that CAP has been in operation since 2002, whereas the “core units” approved for the other Implementing Agencies came later, and for other reasons.

As way of background, CAP was conceptualized and designed by UNEP according to the needs of Article 5 countries, which were initially identified in the year 2000, and after extensive formal and informal discussions. The objective of CAP has always been on the delivery of projects and services rather than “administration” as defined under the “core unit”. At the Executive Committee meeting in November 2001, Decision 35/5 noted that the CAP “reorientation [was] designed to achieve and sustain compliance, promote a greater sense of country “ownership”, and implement the agreed Executive Committee framework for strategic planning.”¹¹

Regarding the list of administrative tasks PWC provided (i.e. the definition extracted from the C&L 98 report), UNEP understands the definition of administrative costs to be that defined for us by UNON. We also understand many of the items on the PWC/C&L list to be related to project *implementation* rather than administration per se. We would disagree, for example, in considering most of the elements in the “Project Implementation and Monitoring” category in your list to be administrative duties, as “implementing projects” means implementation activities by its very nature. For our better understanding, we would appreciate receiving from you the corresponding list of “implementation tasks”, i.e. those activities for which the PWC study considers to be outside of the “core unit’s” responsibility.

As we have stated during various interviews with PWC staff (including the PWC site visit to Paris), most CAP staff are engaged in delivery of CAP projects and services, like any other project management service. They spend *some* portion of their time doing *some* project-related administrative duties (e.g. contributing to substantive content of MOUs, terms of reference for consultants, monitoring project status, contributing to the progress report, PCRs, etc.). As a rough

¹¹ UNEP/OzL.Pro/ExCom/35/67, Decision 35/5(b).





estimate, 5-10% of staff time could be used across the board for project-related administrative duties (for those staff not already identified in the previous responses as contributing to such activities). However, this cannot be termed as “Programme Support Costs” nor purely “Administrative Costs”. At best, it is considered under project management or costs for “administering” the programme.

Following the list provided in your email of 7 June, below are comments on the involvement of regional offices (CAP) staff members in the specific activities:

Item	Comment by UNEP to staff involved in these activities (note: this does not estimate the time or percentage split up)
With respect to approved projects, the agencies are expected to use the administrative cost allocation for the following activities: <i>(as per PWC/C&L in 7 June email)</i>	
distributing information about the Multilateral Fund’s program to the agency’s field offices network;	CAP Paris
collecting, reviewing and pre-qualifying project applications;	CAP Paris
dealing with governments and establishing legal agreements;	Regional CAP staff
preparing project proposals; obtaining project preparation budgets for larger projects;	CAP Paris and Regional CAP staff jointly
fielding consultants to project sites;	Regional CAP staff
submitting and following-up project proposals submitted to the Executive Committee for approval.	CAP Paris and Regional CAP staff jointly
Project Implementation and Monitoring <i>(as per PWC/C&L in 7 June email)</i>	
co-ordinating each agency’s efforts with the MLF;	CAP Paris and Regional CAP staff jointly
preparing implementation agreements and terms of reference for subcontractors;	CAP Paris and Regional CAP staff jointly
mobilising implementation teams (executing agencies and consultants) for approved projects using appropriate bidding and evaluation mechanisms;	Regional CAP staff
processing contractual and accounting documents associated with approved projects;	UNEP administrative officers in region (not Regional CAP staff)
monitoring the progress of a project from an administrative point of view, and;	UNEP administrative officers in region (not Regional CAP staff)
reporting on results of projects and the program (preparing progress and project completion reports).	Combination of Regional CAP staff, UNEP administrative officers in region and CAP Paris
Other activities to be considered as administrative <i>(as per PWC/C&L in 7 June email)</i>	
preparing annual business plans based on communications with national governments about	Combination of Regional CAP staff, UNEP administrative officers in region and CAP Paris





Item	Comment by UNEP to staff involved in these activities (note: this does not estimate the time or percentage split up)
sector needs and priorities;	
preparing progress reports;	Combination of Regional CAP staff, UNEP administrative officers in region and CAP Paris
participating in project formulation activities with country offices;	Regional CAP staff
following up on implementation status, including country visits if there is evidence of undue delays or difficulties;	Regional CAP staff
providing input to the MLF with policy papers and issues	CAP Paris with input from Regional CAP staff
participating in meetings sponsored by the Executive Committee, and the MLF.	CAP Paris, with inputs from Regional Network Coordinators (one RNC usually participates in ExCom meetings on a rotating basis)





6.7 Commentary received from UNEP relating to draft assessment submitted for agency review

UNEP COMMENTS ON

“COMPREHENSIVE INDEPENDENT ASSESSMENT OF THE ADMINISTRATIVE COSTS REQUIRED FOR THE 2009-2011 TRIENNIUM, REPORT OF THE CONSULTANTS, JUNE 2008 DRAFT”

General comments

- Thank you for the opportunity to feedback on the information included within the report to ensure that our facts are accurate and clarify any misunderstandings.
- Please refer to the response to earlier PwC questions sent by Mr Shende to Mr Bourgoignie on **12 June**, which were apparently not reflected in this draft report. Please confirm that the information in that message has been received and will be reflected in the revised draft report.
- The terms “administrative costs”, “project support costs”, “core unit costs” and “CAP” need to be **defined up front** (before section 1) and the C&L list of administrative cost be inserted there to clarify to the reader what is being discussed in the paper.

PwC Response: Assessment modified accordingly.

- At its 26th meeting, when considering the administrative cost paper, the Executive Committee itself had some reservation about the **lack of a common definition for administrative costs**: “During the ensuing discussion, concern was expressed at the lack of any common definition of administrative costs and it was emphasized that it would be difficult to select an option until there was agreement on that.”¹² Decision 26/41 then requested the Secretariat and the implementing agencies to develop standardized cost items for future reporting on administrative costs. We could not find in Executive Committee documents any such agreed standardized cost items and to our understanding, the Executive Committee has not yet

¹² UNEP/OzL.Pro/ExCom/26/70, para 74.





agreed to the list of administrative costs presented in Section 5.2 of the current report. This continuing lack of a common definition should be mentioned in this paper at the beginning.

PwC Response: One of the recommendations in the report identifies the need to define administrative cost activities and to apply this definition across all disbursements to agencies, including CAP disbursements.

- **The concept of “core unit” is not applicable to UNEP.** UNEP has never had a “core unit” funding, and the decision to directly compare CAP with the “core unit funding budget” of the other agencies is an interpretation of the Executive Committee decision by PwC. The Executive Committee applied the new administrative cost regime for the 2003-2005 triennium for a *core unit funding budget to UNDP, UNIDO and the World Bank* (Decision 38/68), not to UNEP. The paper which informed that Executive Committee decision, “Administrative Costs and Agency Shares”, does not address core unit costs for UNEP, though it does state: “Concerning UNEP, UNEP has submitted a report on its administrative costs to the 38th Meeting (UNEP/OzL.Pro/ExCom/38/22). The Executive Committee may wish to address UNEP’s support costs in that context. Decision 26/41 would continue to be applied to UNEP’s activities excepting the CAP, institutional strengthening and country programme preparation. However, it should be noted that like bilateral agencies, a typical UNEP’s activity costs less than US \$500,000 and would receive 13 per cent.”¹³ CAP is thus fundamentally different from the other agencies’ core units (see comments to Page 6, para 1 below) and is thus not comparable. We request that this be reflected in the report in the section first describing CAP.

PwC Response: The goal of the assessment was to compare administrative costs between agencies, regardless of how these costs are disbursed. There is no intention to identify administrative costs in the CAP budget as Core Unit or as Project Support costs. The sole intention is to identify the administrative nature of the costs within CAP to enable comparison with other agencies’ administrative costs.

- **UNEP has a different understanding of administrative costs.** UNEP understands the definition of administrative costs to be that defined for us by UNON. The paper “UNEP’s Preliminary Report on the Use of the Programme Support Cost”¹⁴ provided the UNEP definition of administrative costs, which was quite different from that used in Section 5.2 of the current report. That report indicated administrative costs as staff salaries for Administrative officers/Assistants and operational costs, in both Paris and the Regional Offices. We also understand many of the items on the PwC/C&L list to be related to *project preparation as well as implementation* rather than administration per se. We would disagree, for example, in considering some of the elements in the “Project identification, formulation and approval” (bullet 3, 4 and 6) and in the “Other activities to be considered as administrative ” (bullet 3, 4, 5) categories in your list to be administrative duties, as the Executive committee approves specific funding for project preparation and as “implementing projects” means implementation activities by its very nature. We request that this difference of understanding be reflected in the report.

¹³ UNEP/OzL.Pro/ExCom/38/59

¹⁴ UNEP/OzL.Pro/ExCom/38/22





PwC Response: This assessment does not attempt to develop a new definition of administrative costs. The definition of administrative costs was based on the previous Coopers & Lybrand report. The recommendation in this report is that the definition of Administrative costs needs to be agreed by the Executive Committee and applied across all agencies in a uniform manner. This will facilitate comparability between agencies into the future.

Specific comments

- Page 1, first para: It should not read “the agencies are entitled to charge the Multilateral Fund Secretariat for administrative costs” but rather “the agencies are entitled to charge **the Multilateral Fund** for administrative costs” (i.e. not the “Secretariat”).

PwC Response: Amendment made

- Page 2, last para: It should not read “meetings with the Multilateral Fund Secretariat members” but rather “meetings with the Multilateral Fund Secretariat **staff**”.

PwC Response: Amendment made

- Page 3, 3rd para: With regard to “The...questionnaires were prepared based on cost definitions established by Coopers and Lybrand in 1998”, it should explain the rationale of **why the Coopers and Lybrand definition was used and whether the Executive Committee in any way endorsed or approved** this list as the official definitions. Also adding some explanation of why the 10 year old definition is still valid would be useful, given the multiple changes in the regime indicated in the table on page 5.

PwC Response: Amendment made

- Page 5, 2nd para: “Total administrative costs are composed of fixed (core unit costs) and...” We request that the paper include a **definition of (a) core unit costs (b) CAP** to distinguish them. As mentioned in our previous email, the comparison of the “core units” of other agencies with similar activities in UNEP’s CAP can be done, if needed, on a selective basis, however it is not a one-to-one comparison. Please note that CAP has been in operation since 2002, whereas the “core units” approved for the other Implementing Agencies came later, and for much different reasons. This should be explicitly stated in the paper.

PwC Response: Amendment made

- Page 5, Summary table: To be accurate, factual, the cell in the table for “Regime 2” for UNEP should read “**Same as other agencies for period 1998-2001, then as of March 2002 (Executive Committee meeting 36)**, ... [then bullets about CAP and IS projects]”

PwC Response: Amendment made

- Page 6, para 1: The statement “the creation of the CAP, approved during the 32nd Executive Committee meeting” is factually incorrect. The Executive Committee approved UNEP’s 2002 Business Plan and within it, the Compliance Assistance Programme, in March 2002 (**Decision 36/10**). Additionally, it is incorrect to state that CAP was created “to provide stable support for the management of smaller less cost-efficient projects. The CAP provides both project and administrative funding for UNEP’s non-investment projects (training, institutional





strengthening) and technical assistance projects.” This is factually incorrect: CAP was not established by the Executive Committee for managing small, less cost-efficient projects. CAP was established to assist Article 5 countries to comply with their commitments under the Montreal Protocol (hence “compliance” in the programme name). At the Executive Committee meeting in November 2001, Decision 35/5 noted that the CAP “reorientation [was] **designed to achieve and sustain compliance**, promote a greater sense of country “ownership”, and implement the agreed Executive Committee framework for strategic planning.”¹⁵ The priorities of CAP, which reflected the identified needs of Article 5 countries, were expressed in **UNEP’s 2002 Business Plan** as follows:

- accelerate the implementation of delayed projects
- provide assistance to countries in potential non-compliance with the freeze of CFCs, halons and methyl bromide;
- provide policy assistance and public awareness support;
- continue to assist LVCs; and
- promote measures to reduce excessive CFC supplies in developing countries.¹⁶

To avoid confusion, we recommend that the PwC paper use either the language of UNEP’s Business Plan or the Executive Committee to describe CAP, rather than creating something new.

PwC Response: Amendment made

- Page 6, Footnote 2. Since the paper UNEP/OzL.Pro/ExCom/35/64 (An Issue Paper on Support Cost: Follow-Up to Decision 34/65) was dated November 2001 (i.e. before the CAP was established), it **does not mention CAP**, so this footnote is incorrect. Moreover, UNEP/OzL.Pro/ExCom/35/64 was prepared by the **Multilateral Fund Secretariat, not UNEP**. This footnote should be deleted or changed to the correct reference.

PwC Response: Amendment made

- Page 7, first para. The paper should explain **how CAP is fundamentally different from the core units of the other agencies** in terms of its objective, nature and components, and why one-to-one comparison is difficult if not impossible. There should be a more nuanced approach in the paper.

PwC Response: Amendment made

- Page 8 Paragraph about Multilateral Fund Secretariat assumptions. Regardless of the exact definition of administrative duties (which, as mentioned above, has not yet been agreed precisely by the Executive Committee), it is **incorrect to assume that either the Network and Policy Manager or the Capacity Building Manager posts are 100% administrative**. While they do spend a good amount of time working on programme management (“administrative” as per the definition in section 5.2) both posts spend a considerable portion of their time related to substantive issues related such as policy advice, interaction with countries on substantive issues, capacity building work (organizing or supporting workshops,

¹⁵ UNEP/OzL.Pro/ExCom/35/67, Decision 35/5(b).

¹⁶ UNEP/OzL.Pro/ExCom/35/8, para 1.





development of training materials/resources), etc. This is why we roughly characterized the posts as 50% “administrative” and 50% substantive, when we were required to make such a characterization. We also disagree that CAP regional staff spend 30% of their time on administrative duties. As indicated in Mr Shende’s message of 12 June, if required to make such an estimate as a **rough estimate, 5-10% of staff time could be used across the board for project-related administrative duties** (for those staff not already identified in the previous responses as contributing to such activities). However, this cannot be termed as “Programme Support Costs” nor purely “Administrative Costs”. At best, it is considered under project management or costs for “administering” the programme. We would like to request that section 3.1 include a statement to the effect that these are only rough estimates to be treated with caution, since UNEP does not have any mechanism for tracking staff time spent on administrative duties versus substantive duties.

PwC Response: Amendment made. However, the results presented in the document are based on the assessment made by PwC.

- Page 8, last para. Please **remove this paragraph** that says “While the project team was unable to validate these assumptions with UNEP OzonAction ... no further response to our requests were received” as we have provided responses to all questions submitted to date (see other attachments). If anything is pending, please let us know.

PwC Response: Amendment made

- Page 9, first para. It should explain **the rationale why the 2004-2007 timeframe** was chosen for the updated analysis.

PwC Response: Amendment made

- Page 9 first bullet. **The project cost percentages should be recalculated** based on the above-cited figures. Rather than citing an issue of “transparency”, which is implying that something requested is not being forthcoming, when in fact **UNEP has not been asked to provide such information before since there is no common definition of administrative costs** (see earlier comment). We request that PwC find alternative language to indicate their recommendation without implying a lack of clarity on UNEP’s part.

PwC Response: Comments clarified, however, PwC estimation of administrative costs was used.

- Page 9, second bullet. **We fundamentally disagree with this conclusion** for the same reason, since there is no agreed definition of administrative costs, and UNEP follows the UNON definition. We request that our disagreement be noted in the report.

PwC Response: Recommendations include a need to define administrative costs.

- Page 9, last para. As per the comment on page 9 first bullet, **we request that PwC find alternative language to indicate their recommendation without implying a lack of clarity on UNEP’s part.**

PwC Response: Amendment made

- Para 11, 2nd para. Include mention that **UNEP does not have a core budget** but that this analysis extracts comparable budget elements from the CAP.

PwC Response: Amendment made





- Page 11, last para. This para implies that UNEP has a Core Unit report, which is not accurate since **UNEP does not have a core unit budget** as per the comments above. We suggest the wording “(per their Core Unit reports and, in the case of UNEP, the Progress Report, which includes CAP)”

PwC Response: Amendment made

- Page 12, table. Next to the title “Core unit costs” include an **asterisk with a foot note** that “Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead.”

PwC Response: Amendment made

- Page 12, last sentence. **Recalculate and revise the figure** based on our comments to Page 8.

PwC Response: PwC estimation was used. Once definition of administrative costs has been finalized, the amounts should be recalculated.

- Page 13, table. **Recalculate and revise the figure** based on our comments to Page 8.

- Page 14, last bullet about PSC rates. We believe that this bullet refers to investment projects. If so, we think there is a **typo** “UNEP” should be “UNDP”.

PwC Response: Amendment made

- Page 15, figure on Consolidated Business Plan. This table correctly separates CAP costs (under the Project Costs section) from the other agencies’ Core Unit costs (under the Administrative Costs section), which reinforces our comments above that CAP is fundamentally different in nature from the Core Units of the other agencies. We find it rather confusing that in other tables in this report (e.g. the consolidated table on page 11), CAP is co-mingled with the Core Units. There should be **consistency in the way CAP is presented throughout the report**. We prefer that CAP be identified separately as in the Consolidated Business Plan table (and in the tables on pages 18 and 19).

PwC Response: Amendment made

- Page 15, figure Business Plan for the Next Triennium. Next to the title “Core unit costs” include an **asterisk with a foot note** that “Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead.”

PwC Response: Amendment made

- Page 15, first bullet. **We do not understand the comment** attributing increases in the “administrative component of CAP”. Please provide further information.

PwC Response: Amendment made

- Page 20, table at top of page. Next to the title “Core unit costs” include an **asterisk with a foot note** that “Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead.”

PwC Response: Amendment made





- Page 21, table at top of page. Next to the title “Core unit costs” include an **asterisk with a foot note** that “Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead.”

PwC Response: Amendment made

- Page 22, 2nd to last para. Regarding “UNEP’s information...has been adjusted to remove the impact of CAP funding...”, please indicate whether the Core Unit funds of the other Implementing Agencies has also been removed in the analysis, or if not, why.

PwC Response: Amendment made

- Page 23, table. Next to the title “Core unit costs” include an **asterisk with a foot note** that “Core budget does not apply to UNEP; extracts from comparable budget elements from CAP used instead.”

PwC Response: Amendment made

- Page 27, first bullet. The logic is flawed in the statement “UNDP and UNEP are the agencies which have the largest number of pending PCRs...as such...they appear to have the most work to perform to meet the 2010 compliance deadline”. **Whether a PCR is submitted or not has no direct relation to the compliance deadline.** A more accurate indicator is whether the project is reported to have been completed or not. PCRs may be submitted late for a variety of reasons, including relating to staff priorities vis-à-vis project implementation or external factors (e.g. signature of a PCR by a government).

PwC Response: Your objection with the language in the comment has been incorporated into the text.

- Page 28, 1st para 9 and Page 29 2nd para. It states “only UNDP submitted a request for additional core unit costs in its business plan in order to support the additional administrative workload [related to HCFCs]”. Although Core Unit costs do not apply to UNEP (as mentioned above), it would be worth mentioning here that **in the CAP 2008 Budget, “UNEP therefore seeks to revise the CAP budget in 2008** based on the possible decisions to be taken at the 54th Executive Committee meeting (this also provides an opportunity for UNEP to further address Decision 52/7 for additional regionalization of CAP resources).”¹⁷.

PwC Response: Amendment made

- Page 40, section 5.3. The table should include the following **additional names of UNEP staff**:
 - Site visit in Paris on March 13, 2008 - Txema Beato, James Curlin
 - Conference call with Paris on May 7, 2008: James Curlin

PwC Response: Amendment made

¹⁷ UNEP/OzL.Pro/ExCom/53/20, para 12.





- Page 49 and 50, tables on UNEP. The words “Core Unit costs” should be replaced by **“Comparable CAP costs”**.

PwC Response: Amendment made

- Page 51, table on sufficiency of funding: The table about **anticipated CAP costs related to compliance and non-compliance is very vague**. It needs a detailed explanation of what is compliance activity, what is non-compliance activity, and the assumptions used in the model. UNEP is not comfortable with this as it is presented, without more explanation.

PwC Response: Amendment made

- Page 52, tables on calculation of estimated PSC percentages. We are mystified as to why there should be anything for UNDP, UNIDO, World Bank or Bilaterals in the line “CAP-estimate” as **CAP is solely applicable to UNEP**. This table must be examined and redone.

PwC Response: Amendment made

- Page 53: table about information received by PWC. Please clarify the incomplete information from UNEP in all three categories. We understood that we provided everything requested to date.





6.8 Commentary received from UNEP relating to draft assessment submitted for agency review

[mailto:CONSOLIDATED UNDP REPLY TO PWC JUNE 2008 ASSESSMENT REPORT](mailto:CONSOLIDATED_UNDP_REPLY_TO_PWC_JUNE_2008_ASSESSMENT_REPORT)

Please find attached UNDP's comments on the June 2008 report "Comprehensive Independent Assessment of the Administrative Costs Required for the 2009-2011 Triennium" prepared by Price Waterhouse Coopers for the Multilateral Fund Secretariat. This draft report was received on Monday 16th June afternoon with a request for UNDP's response by Thursday 19th June 9:00am. Given the critical nature of this report and the fact that both the Unit Chief and several senior staff were on mission, UNDP was given an extension to Monday 23rd June morning for its response.

UNDP would like to thank PWC for the extensive data analysis that has gone into the assessment report and for the realism of several of the assumptions made. There are some areas, however, where we feel that PWC assumptions have not reflected actual procedures and processes, and a few cases where we find discrepancies in the financial figures utilized.

A - Relationship between HCFC Phaseout and Lead Agency Designation

1. In the MLF Business Plan for 2008-2010, for sectors other than HCFC, there is one lead agency per project or sector ODP phaseout and that one specified lead agency in general is responsible for the total ODP phaseout in that sector or subsector. Examples include UNDP (Brazil CFC phaseout plan, China solvent sector), UNIDO (Mexico production sector) and World Bank (China halons, China foam, China CTC, China production sector, Venezuela production sector).

2. PWC seems to have used the same assumption for the HPMPs (HCFC Phaseout Management Plans) taken from what was presented in the MLF Business Plan. This is a completely erroneous assumption. Unlike in the case of foam, solvent, halons, production sector and other phaseout plans approved by the ExCom and mentioned in para 3 above, for HPMPs developing countries have in several cases just specified which agency they want to take the lead in preparation of the HPMP. Secondly, some of the larger HCFC consuming (and producing) countries have also specified which agency they would want to lead in the preparation and implementation of HCFC sectoral phaseout activities while others have not directly done so.

3. As examples we provide the following:

ARGENTINA (UNDP lead agency HPMP preparation)

- UNDP (foam sector)
- UNIDO (commercial ref and a/c)
- World Bank (production sector, aerosols, domestic ref)

BRAZIL (UNDP lead agency HPMP preparation)





- UNDP (all manufacturing sectors except HCFC 142 b XPS foam subsector)
- UNDP (servicing sector investment components)
- GTZ (servicing sector non –investment)
- GTZ (HCFC 142b in XPS foam subsector)

CHINA (UNDP lead agency HPMP preparation)

- UNDP (industrial and commercial ref, partial XPS foam, solvents)
- UNEP (enabling activities and awareness, servicing sector with Japan)
- UNIDO (domestic ref, room a/c, partial XPS foam)
- World Bank (PU foam, production sector)
- GTZ (XPS foam, UNDP and UNIDO cooperating)

INDIA (UNDP lead agency HPMP preparation)

- UNDP (all manufacturing except transport ref)
- UNEP (enabling activities and awareness)
- UNIDO (transport ref)
- World Bank (production sector)
- GTZ (servicing sector)

INDONESIA (UNDP lead agency HPMP preparation)

- UNDP (all sectors except foam)
- World Bank (foam sector)

IRAN (UNDP lead agency HPMP preparation)

- UNDP (possibly partial foam, partial ref)
- UNEP (enabling activities, awareness)
- UNIDO (possibly partial foam, partial ref)
- GTZ (possibly servicing, partial foam)

MALAYSIA (UNDP lead agency HPMP preparation)All sectors.

- UNDP to prepare the HPMP in all sectors. Other cooperating agencies may be brought in for the implementation of portions of sectoral activities (UNDP, UNIDO)
- UNEP (enabling activities, awareness)

4. In each of these seven countries – Argentina, Brazil, China, India, Indonesia, Iran, Malaysia – the respective Government has designated UNDP as the lead agency for the 1st Stage HPMP preparation/overarching strategy. However, it can be seen very clearly that the HCFC phaseout investment required - including enabling activities and awareness - would be shared in by a number of agencies and bilaterals.

In the case of China and India, by five agencies/bilaterals.

5. PWC has, however, in its analysis erroneously allocated 100% shares in HCFC phaseout financing only to lead agency in all cases. And since UNDP is lead agency in countries accounting for over eighty percent of all HCFC phaseout, it is not at all surprising that UNDP is then allocated some 82% of all HCFC financing under both Scenario 1 and Scenario 2.

6. Thus UNDP's overall financial HCFC share during 2009-2011 is grossly exaggerated and that of UNIDO, the World Bank, UNEP and GTZ are grossly underestimated. With a more accurate accounting based on what has been stated above, UNDP's actual HCFC phaseout





financing could be in the 25-35% range and not 82% as specified in the report. And thus the PWC recommendation on page 26 that projects be allocated to agencies other than UNDP due to its inability to manage a 82% share of the HCFC financing is irrelevant. We hope this is corrected.

7. Once this is corrected, the table on page 16 can be corrected, where it shows UNDP's share of project approvals increasing from 14.3% during 2004-2007 to 42.7% during 2008-2010, with the shares of UNIDO, World Bank and bilaterals declining. All Scenario 1 and 2 tables in Section 3 needs to be corrected accordingly.

8. UNDP strongly requests that PWC urgently works with the MLF Secretariat to come up with more accurate estimations here since those that have been presented are seen as incorrect.

PwC Response: Amendments made to the mathematical model whereby a portion of UNDP's approved project funds for HPMP activities are now allocated to different agencies.

B - Financial Issues

9. Page 11 - The core unit report of UNDP for 2006, for example, indicates that the approved budget is fully spent compared to the MLF approval of \$1.7 million. We are not clear then why the table on page 11 indicates a difference between costs and MLF disbursement. This is the case for the other years presented in the table and may also apply across agencies.

PWC Response: The difference between costs reported and administrative costs identifies potential areas where agencies are receiving administrative disbursements that are greater/less than the costs that they have incurred and reported to the MLF. Based on this information, it is our understanding that UNDP has received administrative cost disbursements in excess of administrative costs incurred.

10. Page 28 - The total administrative costs actual average for 2004-2007 given in the table on page 28 is not correct and so it throws the projections off. The average for 2004-2007, if calculated based on the figures reported by UNDP in the cost breakdown table is \$3.3 million (2004:3.7m, 2005: 3.6m, 2006: 2.9m and 2007 estimated at 3.1m).

PWC Response: Our table is based on disbursements by the MLF and not based on the costs incurred as reported by UNDP. The difference between the numbers represents payments by the MLF in excess of costs reported in the Core Unit Report by UNDP.

11. Page 30-31 - The core unit tables for UNIDO and World Bank are presented. The one for UNDP is omitted and should be added since comparisons have been made based on these data.

12. Page 32 - The table on Unused project support funds balance by category indicates that UNDP has \$7.1 million in unused support funds balance. If this includes only project support funds it is correct. If it is also supposed to include the core unit, the correct figure would be \$8.8 million (core unit cost is \$1.7million).

PWC Response: The amount in the table does not include core unit costs. Therefore it is the correct amount.





13. Pages 13 & 49 - The disbursements for UNDP are double counted in the second table on page 49. What is presented as project support costs for 2004 of \$3.8 million is the total administrative cost figure including core unit costs. The total administrative costs are not therefore \$5.3 million as presented but rather \$3.7 million. The figures presented for the years 2005, 2006 and 2007 are also not correct. For 2004, for example, the impact is to overstate total administrative costs as a percentage of project costs (presented as 15.5%) rather than 12% using the correct figures. Please refer to the revised table below.

	UNDP			
	2004	2005	2006	2007
Disbursements				
Project Costs	30.8	25.8	22.2	23.2
Core Unit Costs	1.5	1.5	1.7	1.8
Project Support Costs	2.2	2.1	1.2	1.3
Total Administrative Costs	3.7	3.6	2.9	3.1
Total Project and Administrative costs	34.5	29.4	25.1	26.3
Projects support costs as a % of Project Costs	7.1%	8.1%	5.4%	5.6%
Total Admin Costs as a % of Project Costs	12.0%	14.0%	13.1%	13.2%

PWC Response: The numbers, as originally presented by PwC, were reviewed and there is no proof that these numbers are incorrect. The numbers as presented are from the annual progress reports. The detailed calculation behind our numbers is available upon request for UNDP review. In review of the information above, the fact that UNDP numbers show Project Support Costs at 5.4% which is much lower than the ratios per the cost regimes, lends more support to the fact that the numbers presented by UNDP are erroneous. The minimum PSC percentage by project is 7.5%.

14. The table on page 22 implies that UNDP has a much slower delivery ratio as compared to other agencies. However, we arrive at completely different figures when looking at the latest disbursement figures submitted in May 2008, where UNDP's disbursements after year 1, 2, 3 and 4 read 1.1 - 10.2 - 12.1 and 69.0% (and not 0.6 - 8.1 - 13.3 and 30.9% as in the report). In addition, we wish to highlight that figures in year-1 reflect the fact that most UNDP approvals are received during the last ExCom meeting of the year. It is normal that in the few remaining weeks of the year, no disbursements can occur for these just-approved projects. As for the World Bank's results, we wonder if they report disbursements in a different manner than other agencies (eg when transferring funds to their financial intermediary), and if this may explain their much





higher performance during the first year. We hope that a word of caution could be added in the report that further study is needed to confirm or reverse the conclusions that follow.

PwC Response: The information in the report is based on the history from 2003 until 2007. For each year, we looked at the disbursements in the same year, and the four years thereafter, where this information was available. We then took the weighted average. The implementation rate in year 1 is reflective of four years worth of data. Once again, this information is available for review, however, based on a review, we note that there are no discrepancies in our information.

15. The analysis on page 13 indicates that “the ratio of administrative fees disbursed relative to project costs disbursements is notably high for UNDP, UNEP and UNIDO.” For UNDP, the disbursement figures on which these ratios are based are incorrect and should be per revised table in paragraph 15, above.

PwC Response: As responded to previously, the numbers have been revalidated and are correct.

C - Other Issues

16. Page 6, second para “2002: Project support cost percentages reduced to 8%...”. It was actually reduced to 7.5% as shown in the table on page 5 and should be corrected.

PwC Response: Amendment made

17. Page 14, middle of the page, assumption may need to be revised based on paras 1-10 above.

PwC Response: Amendment made

18. Page 14, bottom of page, the word “UNEP” should be replaced by “UNDP”.

PwC Response: Amendment made

19. Page 16, para before the figure. Please indicate that “UNDP has had its portion of project funding increased dramatically over the term of the business plan...” to “UNDP has had its portion of project funding for projects under \$250,000 increased dramatically over the term of the business plan...”

20. Page 19, Scenario 1 table has to be revised based on paras 1-10 above.

PwC Response: Amendment made

21. Page 20, Scenario 2 table has to be revised based on paras 1-10 above.

PwC Response: Amendment made

22. Page 22, last para, conclusion on UNDP incorrect based on paras 1-10 above and needs to be revised.

PwC Response: Amendment made





23. Page 26, second last para has to be revised since it is incorrect based on paras 1-10 above.

PwC Response: Amendment made

24. Page 28, table on UNDP estimated project disbursements 2008-2011 has to be corrected based on paras 1-10 above. Similarly tables for UNEP, UNIDO and the World Bank on pages 29-31 would need to be revised.

PwC Response: Amendment made

25. Page 34, discussion on the Fixed Exchange Rate Mechanism (FERM): UNDP agrees with PwC that "...the major issue to address relates to the foreign currency risk borne by the implementing agencies which can create deficits and surpluses out of the control of the agencies..." and would agree with the strong recommendation that "...foreign currency risk exposures are managed centrally and not at an agency level...".

26. Page 38, middle of page. The fourth bullet proposes that "following up on implementation status, including country visits if there is evidence of undue delays or difficulties" should be considered administrative costs. However, UNDP feels that if the visit is needed to resolve technology related bottlenecks in certain projects, for which technical expertise is required, then those costs are rightly project support costs and not administrative costs.

27. Page 39, second para, fourth bullet. Recommend "procurement and legal based on the volume of transactions generated" be replaced by "procurement and legal based on the volume and dollar value of transactions generated". Large transactions in the millions of dollars have their own special and detailed procurement and legal requirements which are ignored if only the volume of transactions is considered.