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2009 CORE UNIT COSTS FOR UNDP, UNIDO AND THE WORLD BANK

Background

1. The allocation of administrative costs for UNDP, UNIDO, and the World Bank was changed in November 1998 (decision 26/41) from a flat rate of 13 per cent applied to all projects to a graduated scale. They were changed again in December 2002 to a lower scale that included a core unit grant of US \$1.5 million per agency (decision 38/68). Decision 41/94 (d) requested the Secretariat to conduct an annual review of the current administrative costs regime. Decision 46/35 extended the operation of decision 38/68 and its administrative costs regime to apply to the 2006-2008 triennium, while modifying the base rate for core unit costs for UNDP and UNIDO from US \$1.5 million to US \$1.7 million. The decision also allowed for an annual increase of up to three per cent. Annual increases have occurred for most agencies since the 46th Meeting. A review of the administrative cost regime is address in the Report on key issues from the assessment of the administrative costs required for the 2009-2011 triennium (decision 55/44) (UNEP/OzL.Pro/ExCom/56/19). Any decision taken in the context of that discussion could have an impact on the Committee's consideration of core unit costs for the 2009-2011 triennium.

2. The implementing agencies have been requested to provide actual core and administrative budget data for 2007, estimated costs for 2008, and proposed costs for 2009. Budget data for the 2006 budget and actual costs were based on information provided in the previous year's report to the Executive Committee (UNEP/OzL.Pro/ExCom/53/21). The implementing agencies have continued to provide data on the actual costs covering the core unit and other support activities in an agreed format corresponding to the data that had been submitted to the 26th Meeting.

3. Included in the analysis is an assessment of the extent to which resources available for administrative costs in 2009 could cover proposed 2009 costs. The document concludes with observations and recommendations of the Fund Secretariat.

UNDP

4. Table 1 presents the core unit budget and other information on administrative costs provided by UNDP.

Table 1**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR THE YEARS 2006-2009 FOR UNDP (US \$)**

Cost items	2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Estimated	Proposed
Core components							
Core unit personnel and contractual staff	1,376,178	1,410,734	1,414,360	1,339,423	1,496,648	1,379,606	1,420,994
Travel	215,804	175,222	227,794	243,061	185,893	250,352	257,863
Space (rent and common costs)	117,000	81,996	121,000	81,844	120,000	100,000	100,000
Equipment supplies and other costs (computers, supplies, etc)	15,000	31,105	30,000	24,631	35,000	30,000	30,000
Contractual services (firms)	30,000	7,375	30,000	18,162	5,000	10,000	10,000
Reimbursement of central services for core unit staff	280,000	210,000	280,000	210,000	200,000	200,000	200,000
Adjustment (negative amount representing an overrun of the core unit budget)*	-333,983	-216,433	-352,154	-166,120	-239,011	-166,428	-161,221
Total core unit cost	1,700,000	1,700,000	1,751,000	1,751,001	1,803,530	1,803,530	1,857,636
Reimbursement of country offices and national execution including overhead	980,000	618,875	980,000	551,649	600,000	600,000	600,000
Executing agency support cost (internal) including overhead	200,000	75,258	100,000	107,113	50,000	50,000	50,000
Financial intermediaries including overhead	220,000	216,179	200,000	191,612	200,000	200,000	200,000
Cost recovery	280,000	0	280,000	422,000	200,000	200,000	200,000
Adjustment (positive amount to reflect the overrun deducted above)*	333,983	216,433	352,154	166,120	239,011	166,428	161,221
Total administrative support costs	3,713,983	2,826,744	3,663,154	3,189,495	3,092,541	3,019,958	3,068,857
Supervisory costs incurred by MPU	200,000	81,476	200,000	0	100,000	25,000	50,000
Grand total administrative support costs	3,913,983	2,908,219	3,863,154	3,189,495	3,192,541	3,044,958	3,118,857

*The cost of the core unit is higher than the allowed subtotal of US \$1,700,000 in 2006; US \$1,751,000 in 2007; US \$1,803,530 in 2008; and US\$1,857,636 in 2009. An adjustment line and a negative adjustment were therefore introduced to arrive at the required ceiling. A corresponding positive adjustment is also provided to ensure that the total costs incurred for administrative costs also reflect the amount exceeded by the agency.

Core unit costs

5. UNDP is requesting a 2009 core unit budget of US \$1,857,636, despite the fact that it expects the costs of its core unit to exceed this amount by US \$161,221 (indicated as "Adjustments" in Table 1,

above). In 2006, 2007, and 2008, UNDP has exceeded its budget allocation for its core unit and recouped those costs from support costs earned through implementing Multilateral Fund projects. The level by which it exceeded its costs has ranged from US \$216,433 in 2006 to US \$166,120 and US \$166,428 in 2007 and 2008, respectively. UNDP indicated that the extent to which it will exceed its core unit budget for 2009 is estimated to be US \$161,221. UNDP does not provide subsidies for its Montreal Protocol operations. UNDP's 2009 proposed budget includes three per cent increases over the estimated amounts in 2008 for salary and travel while maintaining other core unit costs at the same levels as those estimated for 2008.

6. Seventy per cent of UNDP's proposed core unit budget is for staff. The travel budget item represents the next largest cost item, amounting to 13 per cent of the budget followed by 10 per cent for central services and five per cent for space rental.

7. The largest increase was for contractual services that doubled the 2008 budget amount from US \$5,000 to US \$10,000, but are projected to remain the same as the estimated amount for 2008. The travel budget was 39 per cent higher than that for 2008; the nominal increase being from US \$185,893 to US \$257,863. Staff cost are reduced as are the associated costs for rental space.

8. UNDP indicated that it estimated its travel costs for 2009 based on its estimated 2008 costs plus an increase of three per cent. The agency's request of US \$1,857,636 for 2009 represents a three per cent increase in the budget approved in 2008 which is allowed by decision 46/35.

Total administrative costs

9. Total administrative costs were US \$3.2 million in 2007, and are estimated to decrease to US \$3 million in 2008, but increase slightly to US \$3.1 million in 2009. Most of this increase is due to core unit costs. UNDP's estimated 2009 costs for reimbursement to country offices, executing agencies, financial intermediaries and cost recovery were the same as those budgeted and estimated for 2008. These amounts are paid as a percentage of delivery, and the delivery in 2009 is expected to be the same as in 2008. Supervisory costs are expected to increase from US \$25,000 to US \$50,000 since UNDP hired a Regional Coordinator for its Asia Pacific portfolio based in Bangkok last August and a full year of cost is estimated for 2009.

Resources available to cover proposed 2009 administrative costs

10. The expected resources available to UNDP for administrative costs includes both the core unit costs and the agency fees released on the basis of a disbursement against a project cost plus any balance of income for administrative costs not previously used. UNDP's input for the Reconciliation of the accounts of the implementing agencies (UNEP/OzL.Pro/ExCom/56/60) includes the fact that it had US \$5,488,430 for 2008 and 2009 administrative costs. Based on its estimated level of disbursements in 2008 of US \$22,868,173 as per UNDP's 2007 progress report, the support cost available in 2008 is estimated to have been US \$3.74 million including US \$1.86 million in core unit costs plus US \$1.88 million from agency fees released due to expected project disbursements in 2008. After subtracting the estimated administrative costs for 2008 (US \$3.04 million), this would leave US \$6.2 million for administrative costs in 2009. This level of income should result in a surplus of income over expected 2009 costs of US \$3.1 million that could be used for future programming.

UNIDO

11. Table 2 presents the core unit budget and other information on administrative costs provided by UNIDO. The figures listed as actual for UNIDO are based on a model prepared by UNIDO to estimate the support cost of the MP programme. This is done because UNIDO does not use cost accounting and

therefore cannot provide actual information. It should be noted that according to UNIDO, the same calculation methodology has been used since the establishment of core unit funding under the Fund.

Table 2

THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR THE YEARS 2006-2009 FOR UNIDO (US \$)

Cost items	2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Estimated	Proposed
Core unit personnel and contractual staff	1,308,500	1,289,500	1,454,600	1,741,600	1,406,800	1,601,700	1,651,800
Travel	89,700	127,900	84,600	170,400	152,700	95,400	192,400
Space (rent and common costs)	78,500	89,800	67,600	69,600	81,900	113,600	100,900
Equipment supplies and other costs (computers, supplies, etc)	56,000	35,800	52,500	80,600	50,900	73,400	64,100
Contractual services (firms)	21,400	5,100	15,400	12,800	10,300	31,800	10,000
Reimbursement of central services for core unit staff	444,300	420,100	451,900	542,300	440,700	577,000	564,100
Adjustment (negative amount representing an overrun of the core unit budget)*	-298,400	-268,200	-375,600	-866,300	-339,770	-689,370	-725,664
Total core unit cost	1,700,000	1,700,000	1,751,000	1,751,000	1,803,530	1,803,530	1,857,636
Reimbursement of country offices and national execution including overhead	1,450,420	931,200	1,668,460	1,233,400	1,702,100	1,631,400	2,181,000
Executing agency support cost (internal) including overhead	2,996,200	2,351,000	2,107,300	4,220,700	2,518,000	2,302,700	2,946,900
Financial intermediaries including overhead	0	0	0	0	0	0	0
Cost recovery	0	0	0	0	0	0	0
Adjustment (positive amount to reflect the overrun deducted above)*	298,400	268,200	375,600	866,300	339,770	689,370	725,664
Total administrative support costs	6,445,020	5,250,400	5,902,360	8,071,400	6,363,400	6,427,000	7,711,200
Supervisory costs incurred by MPU							
Grand total administrative support costs	6,445,020	5,250,400	5,902,360	8,071,400	6,363,400	6,427,000	7,711,200

*The cost of the core unit is higher than the allowed subtotal of US \$1,700,000 in 2006; US \$1,751,000 in 2007; US \$1,803,530 in 2008 and US \$1,857,636 in 2009. An adjustment line and a negative adjustment were therefore introduced to arrive at the required ceiling. A corresponding positive adjustment is also provided to ensure that the total costs incurred for administrative costs also reflect the amount exceeded by the agency.

Core unit cost

12. UNIDO is requesting a 2009 core unit budget of US \$1,857,636, despite the fact that it expects the costs of its core unit to exceed this amount by US \$725,664 (indicated as “Adjustments” in Table 2, above). UNIDO exceeded its 2006 budget by US \$268,200, its 2007 budget by US \$866,300 and it is estimating that it will exceed its 2008 budget by US \$689,370. While UNIDO anticipated that it would exceed its 2007 and 2008 budgets when it submitted them, it has more than doubled the extent to which it expected to exceed its core unit budgets for these years.

13. Since UNIDO’s core unit budget significantly exceeds the allocation made for it by the Executive Committee, the Secretariat questioned the source of funds from which these budget excesses were to be paid. UNIDO has again confirmed that it constitutionally supports its technical cooperation programme, and any costs beyond the core unit costs and agency fees would be subsidized through UNIDO’s regular budget.

14. Sixty-four per cent of UNIDO’s proposed core unit budget is for staff. The central services budget item represents the next largest cost item, amounting to 22 per cent of the budget followed by seven per cent for travel and four per cent for space rental.

15. The largest increase is for travel that rose by over 25 per cent of the budget amount and by more than double over the estimated amount for 2008. Salaries also increased by 17 per cent over the budget amount for 2008, but only three per cent over the estimated amount for 2008. With respect to both the increases in travel and salary, UNIDO indicated that the difference was largely due to the increase in the value of the Euro which, at the time of the 2008 budget was 1\$ = 0.801 Euro, while the 2008 estimate was calculated at the average rate of exchange of 1\$ = 0.649 Euro. Other reasons for the increases in salary include general adjustments of salaries and step increments for staff. UNIDO’s request of US \$1,857,636 for 2009 represents a three per cent increase in the budget approved in 2008 which is allowed by decision 46/35.

Total administrative costs

16. Total administrative costs were US \$8.1 million in 2007 and are expected to increase from US \$6.4 million estimated for 2008 to US \$7.7 million for 2009. The increase for 2009 includes increases in the cost categories reimbursement of country offices and executing agency support amounting to about US \$1.2 million over estimated amounts for 2008. This represents a projected 30 per cent increase in these cost categories.

17. UNIDO indicated that the 34 per cent increase in the reimbursement to country offices proposed for 2009 was due largely to the decentralization of the Organization thereby relying more on field offices. As a result UNIDO modified its model for estimating these costs. The estimate assumes that 10 per cent of field office cost is for Montreal Protocol-related activities. With respect to the 28 per cent increase in executing agency costs proposed for 2009, UNIDO indicated that most of these costs are personnel related, which are Euro-based for UNIDO.

Resources available to cover proposed 2009 administrative costs

18. In the context of the discussion at the Inter-agency Coordination Meeting on 2 October 2008 and in the light of a review of the Coopers and Lybrand definition of administrative versus project costs, UNIDO provided further information with respect to costs for reimbursement to country office and national execution and executing agency support costs. It also identified another category for additional temporary assistance for project implementation and programme development. The modifications do not affect the core unit costs, but change the overall amount of administrative costs as shown in Table 3.

Table 3

**NON-CORE UNIT ADMINISTRATIVE COSTS ASSIGNED TO PROJECT-RELATED
ACTIVITIES FOR THE YEARS 2007-2009 FOR UNIDO (US \$)**

Cost items	2007 Actual		2008 Estimated		2009 Proposed	
	Administrative Costs	Project-related Costs	Administrative Costs	Project-related Costs	Administrative Costs	Project-related Costs
Total core unit cost	1,751,000		1,803,530		1,857,636	
Reimbursement of country offices and national execution including overhead	616,700	616,700	815,700	815,700	1,090,500	1,090,500
Executing agency support cost (internal) including overhead	805,175	2,415,525	575,675	1,727,025	736,725	2,210,175
Financial intermediaries	0		0		0	
Cost recovery	0		0		0	
Additional temporary assistance for project implementation and programme development		1,000,000				
Adjustment (positive amount to reflect the overrun deducted above)*	866,300		689,370		725,664	
Total administrative support costs	4,039,175	4,032,225	3,884,275	2,542,725	4,410,525	3,300,675
Supervisory costs						
Grand total administrative support costs	8,071,400		6,427,000		7,711,200	

19. The Secretariat asked how much of UNIDO's regular budget was allocated for the administrative costs of implementing the Montreal Protocol programme for the years 2006, 2007, and 2008 since UNIDO is the only implementing agency claiming that its Montreal Protocol programme is subsidized by the agency's regular budget. UNIDO indicated that the subsidy provided was the difference between the total administrative costs incurred and the actual agency support cost received (lump sum core unit funding plus the support cost reimbursement). It further noted that it reports regularly to its member states on the overall utilization of its budgetary resources.

20. Based on its estimated level of disbursements in 2008 of US \$27,836,073 per UNIDO's 2008 progress report, support cost reimbursement could amount to US \$4.14 million including US \$1.86 million in core unit costs plus US \$2.28 million from agency fees released due to project disbursements in 2008. As this would represent an estimated level of resources for administrative costs (US \$6.43 million in 2008), the UNIDO subsidy could amount to US \$2.29 million. Taking account of the distribution of administrative costs into project-related costs, the resources received by UNIDO for administrative costs could pay for all administrative costs in 2008 (US \$3.88 million) and also contributed about US \$260,000

to future administrative costs. UNIDO does not track the balance of administrative costs from previous years so the extent to which a balance could offset future administrative costs is not known.

World Bank

21. Table 4 presents the core unit budget and other information on administrative costs provided by the World Bank.

Table 4**THE CORE UNIT BUDGET DATA AND OTHER ADMINISTRATIVE COSTS FOR THE YEARS 2006-2009 FOR THE WORLD BANK (US \$)**

Cost items	2006		2007		2008		2009
	Budget	Actual	Budget	Actual	Budget	Estimated	Proposed
Core components							
Core unit personnel and contractual staff	990,000	1,096,638	995,000	1,058,546	1,014,900	1,114,418	1,210,267
Travel	240,000	229,582	245,000	141,427	255,000	200,745	170,000
Space (rent and common costs)	50,000	53,070	50,000	60,808	55,000	60,800	63,000
Equipment supplies and other costs (computers, supplies, etc)	75,000	79,605	80,000	83,973	80,000	83,900	87,000
Contractual services (firms)	35,000	2,931	45,000	42,300	45,000	15,000	10,000
Reimbursement of central services for core unit staff	155,000	127,061	165,000	175,696	165,000	140,080	123,080
Adjustment (negative amount representing an overrun of the core unit budget)*	-45,000	-88,886	0	0	0	0	0
Total core unit cost	1,500,000	1,500,000	1,580,000	1,562,750	1,614,900	1,614,943	1,663,347
Reimbursement of country offices and national execution including overhead	3,200,000	3,489,165	3,200,000	2,102,823	3,264,000	2,120,000	2,300,000
Executing agency support cost (internal) including overhead							
Financial intermediaries including overhead	1,800,000	2,028,164	1,800,000	2,364,825	1,800,000	2,100,000	2,100,000
Cost recovery							
Adjustment (positive amount to reflect the overrun deducted above)*	45,000	88,886	0	0	0	0	0
Supervisory costs incurred by MPU							
Grand total administrative support costs	6,545,000	7,106,215	6,580,000	6,030,398	6,678,900	5,834,943	6,063,347

*The cost of the core unit is higher than the allowed subtotal of US \$1,580,000 in 2007. An adjustment line and a negative adjustment were therefore introduced to arrive at the required ceiling. A corresponding positive adjustment is also provided to ensure that the total costs incurred for administrative costs also reflect the amount exceeded by the agency.

Core unit costs

22. The World Bank requested a 2009 core unit budget of US \$1,663,347. Unlike UNDP and UNIDO, the Bank does not expect its core unit to exceed its budget. The Bank's office dealing with the Multilateral Fund does not receive a subsidy from the general budget per se although there are facility costs that may not be fully compensated by central service charges.

23. Seventy-three per cent of its proposed core unit budget is for staff. The travel budget represents the next largest cost item, amounting to 10 per cent of the budget, followed by central services (seven per cent), equipment (five per cent), space rental (four per cent) and contractual services (one per cent). This distribution reflects a change from previous years when last year's budget for example had less funds allocated for the staff (63 per cent) and more allocated for travel (16 per cent).

24. The largest increase is for salaries that rose nineteen per cent over the 2008 budget amount and nine per cent over the estimated amount for 2008. Space rental is expected to increase by 15 per cent over the budget amount in 2008, but only four per cent over the amount estimated for 2008. Equipment rental is also expected to increase by nine per cent over the 2008 budget amount and four per cent over the amount estimated for 2008. However, the nominal increase in salary for 2009 over the estimated amount for 2008 was US \$95,849 versus a US \$2,200 increase for space rental and a US \$3,100 increase in equipment costs. Travel is expected to cost less in 2009—67 per cent of the amount budgeted in 2008 and 85 per cent of that estimated for 2008. This represents a reduction of US \$30,745 from the estimated amount for 2008.

25. The Bank indicated that the increase in salaries is due to filling a position that had been vacant since 2006 while continuing to contract OORG experts for technical studies and analyses of HCFC. It advised that the amount budgeted for 2009 for travel was lower than 2008 because it expected that some of the travel costs of the core unit would be shared with the Regions through the core unit staff's provision of cross-support or direct assistance on project development on HCFCs. The World Bank's request for US \$ US \$1,663,347 in 2009 represents a three per cent increase in the budget approved in 2008 which is allowed by decision 46/35.

26. The World Bank is returning US \$17,251 from its core unit cost budget for 2007. This is the first time an implementing agency has returned unused funds for a core unit.

Total administrative costs

27. Total administrative costs are expected to be approximately the same in 2009 as for 2007 and 2008, which were US \$6.0 million in 2007, US \$5.8 million estimated for 2008, and US \$6.1 million expected for 2009. The 2009 costs for country offices (US \$2.3 million) are less (70 per cent) than that budgeted in 2008 but eight per cent more than the estimated amount for 2008. Financial intermediary costs are expected to be 17 per cent more in 2009 than budgeted in 2008 but the same level as is estimated for 2008, i.e., US \$2.1 million.

28. The Bank indicated that the country office cost component was less due to 1) of the closure of several umbrella projects (Pakistan, Turkey, Colombia, Chile, Mexico) over the last two years requiring less staff time and travel; 2) because of a winding down of individual subprojects in several other countries; and 3) the travel rebate provided in 2007. Because of a transition in Task Managers for two countries, there were also fewer supervision missions than usually the case.

29. The estimated distribution of costs to financial intermediaries is lower due largely to the closure of umbrella grant agreements, with much of the remaining work left having been to financially complete subprojects and make final payments to beneficiaries and/or suppliers. Financial intermediary fees are paid a percentage of each dollar disbursed.

Resources available to cover proposed 2009 administrative costs

30. Unlike UNDP and UNIDO, the World Bank has access to agency fees when they are approved—the Bank does not need to wait for a disbursement against a project cost for agency fees to be considered as income to the agency. Based on the business plan level for 2009 of US \$31.8 million, the Bank would receive agency fees amounting to US \$3.18 million based on the Bank's average agency fee of 10%. This amount, added to resources requested for the 2009 core unit cost (US \$1.67 million), would generate income for administrative costs of US \$4.85 million. The Bank has a balance of resources from administrative costs received estimated at US \$5 million¹. These amounts (total US \$9.85 million) would enable the Bank to cover administrative costs for 2009 of US \$6.1 million and still have surplus funds for future years.

Observations

31. UNDP, UNIDO and the World Bank requested a three per cent increase for core unit budgets in 2009 over the amounts approved for 2008.

32. UNDP and UNIDO indicate that their core unit costs will exceed their requested budgets thereby requiring the use of income generated from agency fees to cover the balance of core unit costs for UNDP and a subsidy from the Organization budget for UNIDO. However, the analysis of income available for administrative costs indicates that UNDP and UNIDO should have more income than the expected total administrative costs and that UNIDO could have received more income from administrative costs in 2008. Since total administrative costs include core unit costs, the additional income could be used to either offset additional core unit costs or as a reserve for programming future administrative costs. It should be noted that core unit costs alone are not sufficient to meet annual administrative costs thereby necessitating a reserve, in particular for those agencies that do not receive an agency subsidy.

33. The subsidy received for Multilateral Fund operations from UNIDO's general fund can be associated largely with the project-related activities according to UNIDO's application of the definition of administrative costs used in the Coopers and Lybrand Study. Since the costs of project proposals are not assessed on the basis of a subsidy from UNIDO, such project-related costs should not be considered as a cost due to UNIDO from the Executive Committee to cover administrative costs.

RECOMMENDATIONS

34. The Executive Committee may wish to consider:

- (a) The report on 2008 core unit costs for UNDP, UNIDO and the World Bank as presented in UNEP/OzL.Pro/ExCom/56/20;
- (b) The requests for core unit funding US \$1,857,636 for core unit funding for 2008 for UNDP, US \$1,857,636 for UNIDO, and US \$1,663,347 for the World Bank in accordance with decision 46/35 in the light of the above and the Report on key issues from the assessment of the administrative costs required for the 2009-2011 triennium (decision 55/44) (UNEP/OzL.Pro/ExCom/56/19).

¹ The Bank indicated that it would take some time to obtain a cumulative figure since the data will have to be collected from its regional offices.