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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Forty-second Meeting  
Montreal, 29 March - 2 April 2004

**REPORT ON PROGRAMME SUPPORT COSTS OF BILATERAL COOPERATION  
PROJECTS (DECISION 41/94 (C))**

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## Introduction

1. During its consideration of the administrative cost regime, the Executive Committee decided *inter alia* to:

“Request the Secretariat, in consultation with bilateral agencies, to compile historical data of the rates of programme support costs of the bilateral cooperation projects and the methodology used for the calculation of such rates with a view to examining the applicability of the current administrative cost regime established by Decision 38/68 to bilateral agencies, and to report thereon to the 42<sup>nd</sup> Meeting.” (Decision 41/94, para. (c))

2. The Fund Secretariat requested all Contributing Parties that have had bilateral cooperation activities to provide their views on (1) the applicability of the current administrative cost regime established by Decision 38/68 to bilateral agencies, (2) the accuracy of the historical data on bilateral cooperation support costs, and (3) any other comments on programme support costs for bilateral cooperation projects.

## Brief History of Bilateral Contributions and Programme Support Costs

3. The first bilateral contributions were approved at the 7<sup>th</sup> Meeting of the Executive Committee. Initially, no programme support costs were provided since the first bilateral cooperation activities involved technical assistance and information dissemination concerning the Fund and the Montreal Protocol. Programme support costs were first provided for the first bilateral investment project approved at the 16<sup>th</sup> Meeting of the Executive Committee in March 1995.

4. Until the 26<sup>th</sup> Meeting, bilateral agencies would indicate whether they were requesting programme support costs and the amount they were requesting. Different countries requested different amounts up to 13 per cent of the project cost that was in general provided to the implementing agencies (UNDP, UNEP, UNIDO and the World Bank). At its 26<sup>th</sup> Meeting, the Executive Committee adopted the guidelines for programme support costs that were applied to all implementing agencies (UNDP, UNEP, UNIDO and the World Bank) as well as all Contributing Parties involved in bilateral cooperation. Annex I provides a copy of the Decision that established the guidelines.

5. These guidelines were established to *inter alia* address Decision VIII/4 of the Meeting of the Parties. The decision states that:

“The Executive Committee should, over the next three years, work towards the goal of reducing agency support costs from their current level of 13 per cent to an average of below 10 per cent to make more funds available for other activities. The Executive Committee should report to the Parties annually on their progress, and the Parties may adjust the goal accordingly.” (Decision VIII/4, para. 6)

6. At its 38<sup>th</sup> Meeting, the Executive Committee approved a new administrative cost regime that was applied only to UNDP, UNIDO and the World Bank. The guidelines pursuant to Decision 26/41 from the 26<sup>th</sup> Meeting for administrative costs continue to be applied to project costs for UNEP and bilateral agencies, that were with some exceptions agreed for institutional strengthening projects and the Compliance Assistance Programme implemented by UNEP. Annex II provides the guidelines for administrative costs for UNDP, UNIDO and the World Bank pursuant to Decision 38/68.

7. At its 41<sup>st</sup> Meeting, the Executive Committee also decided to maintain the administrative cost regime for UNDP, UNIDO and the World Bank based on an assessment contained in document UNEP/OzL.Pro/ExCom/41/81, noting the need to maintain an overall rate of administrative costs below 10 per cent as was achieved in 2002 and 2003 (Decision 41/94, para. (d)).

8. The overall rate of administrative costs achieved for bilateral projects was 11.0% in 2002 and 11.7% in 2003.

### **Applicability of the Current Administrative Cost Regime Established by Decision 38/68 to Bilateral Agencies**

9. One of the main differences between the administrative cost regime applied to bilateral agencies pursuant to Decision 26/41 and the one applied to UNDP, UNIDO and the World Bank pursuant to Decision 38/68 is the funding of core units. The main reason for the funding of the core units was to eliminate the agency shares, and to guarantee the continuation of core staff to finish the implementation of large portfolios of approved but unimplemented projects and agreements. Implementing agencies, with the exception of Germany, do not have large portfolios of unimplemented projects and none have as large a programme comparable to that of any implementing agency.

10. Historically, bilateral agencies have been involved in small mostly non-investment projects. The study presented to the 26<sup>th</sup> Meeting on administrative costs recognized that the agency fees for small projects of under US \$500,000 should be a higher percentage than for larger projects but the initial US \$500,000 should be applied at 13 per cent. This larger agency fee was intended to provide sufficient administrative costs in lieu of a core unit.

11. However, as more bilateral agencies undertake multi-year agreements, the application of the administrative cost regime pursuant to Decision 26/41 could generate significantly more administrative costs for administration than the regime pursuant to Decision 38/68. For large multi-year agreements of over US \$5 million, Decision 26/41 provides that the level of administrative costs would be assessed on a case-by-case basis (para. (d)). The first tranche of the US \$11.25 million agreement with Iran provided for an agency fee of 11 per cent for the participating bilateral agencies. However, pursuant to Decision 26/41, a US \$4.9 million agreement would generate agency fees of US \$609,500 while pursuant to Decision 38/68, US \$367,500 would be the amount required.

## **Views of Bilateral Agencies**

12. At the time of writing this paper, six bilateral agencies provided their views on the applicability of Decision 38/68 to bilateral agencies including Australia, Canada, Germany, Israel, and Italy based on the request from the Secretariat, and Japan by way of its comments at the 41<sup>st</sup> Meeting.

13. In the context of the discussion on strategic planning at the 41<sup>st</sup> Meeting, one member indicated the need to address the feasibility and desirability of effective participation by bilateral agencies in the strategic planning process including the capacity and constraints to do so. One weakness was the need to allocate part of a bilateral agency's 20 per cent to include project formulation/preparation. However, the application of Decision 38/68 would not provide additional project preparation funds for a bilateral agency. Another bilateral agency indicated that any change in the 20 per cent allocation was a matter for discussion by the Meeting of the Parties.

14. It was also mentioned that factors affecting bilateral agencies' identifying and formulating bilateral cooperation projects included the lack of a global information system and constraints resulting from the budget system of the donor countries. The advance of a core unit budget for a bilateral agency might establish an infrastructure for the development of new projects; however, the core unit is intended for implementation purposes only and not development. The existing infrastructure should be taken into account in determining whether additional core units are required for project development given the level of phase-out needed to achieve compliance through 2010, as indicated in the 3-year phase-out plan for 2004-2006 (UNEP/OzL.Pro/ExCom/42/5).

15. The possibility of a core unit fund for bilateral agencies was not supported by those bilateral agencies that responded to the Secretariat's request for information. One agency indicated that the value of a core unit would be difficult to determine since the number and value of bilateral projects can vary from year to year and some bilateral agencies have few projects while a few have several projects. The agency with the largest ongoing bilateral programme and another agency indicated that the application of Decision 38/68 would require a different calculation of the applicable core funding depending upon each agency's individual situation; however, this could be administratively complex and would result in a high level of fixed costs that would be unlikely to lead to the desired reduction in agency support costs as required by Decision VIII/4.

16. Several bilateral agencies agreed to the objective of reducing agency fees below 10 per cent as per Decision VIII/4 para. 6. After considering the possibility of applying Decision 38/68 to bilateral agencies, five bilateral agencies suggested that Decision 26/41 should continue to be applied. One felt that it would support a change in the administrative costs if existing arrangements were impeding Article 5 countries' access to these agencies and if the resulting administrative cost regime would be more cost-effective, but it had not seen any evidence to suggest that this was the case. Another agency indicated that small individual projects drawing high percentages of administrative costs seem to be rapidly decreasing due to the preparation of

larger sectoral or national phase-out plans that would result in the reduction of the relative amount of support costs.

17. Although bilateral agencies did not specifically indicate their methodologies for calculating their rates of administrative costs, some did indicate their actual administrative costs for some of their projects. One agency indicated that based on its experience with one bilateral project, its administrative costs were 11 per cent of project costs and a fee of below 10 per cent would have presented difficulties in implementing the project. Another bilateral agency indicated that in the case of one regional project, its administrative costs were 11 per cent but for a halon banking project for which there have been delays, its administrative costs were 14 per cent of the project cost. Some agencies indicated that they pay for their own administrative costs from non-Fund resources and pass on the support costs approved for them by the Executive Committee to the relevant implementing agency that is implementing the project on the behalf of the bilateral agency.

## **RECOMMENDATIONS**

The Executive Committee may wish to consider:

1. Noting the Report on programme support costs of bilateral cooperation projects as contained in UNEP/OzL.Pro/ExCom/42/50.
2. Noting with appreciation the inputs from Australia, Canada, Germany, Israel, Italy and Japan.
3. Maintaining the current administrative cost regime for bilateral agencies as indicated in Decision 26/41.



**Annex I****GUIDELINES FOR THE APPLICATION OF PROGRAMME SUPPORT COSTS**

The Executive Committee, having noted the recommendations of the working group decided:

- (a) To apply an agency fee of 13 per cent on projects up to a value of \$500,000;
- (b) That for projects with a value exceeding \$500,000 but up to and including \$5,000,000, an agency fee of 13 per cent should be applied on the first \$500,000 and 11 per cent on the balance;
- (c) To assess projects with a value exceeding \$5 million on a case-by-case basis;
- (d) That the agency fee for projects submitted under the SME window (Decision 25/56) should be 13 per cent;
- (e) That agencies implementing projects under the SME window should report back to the Executive Committee on the actual administrative costs of such projects;
- (f) To request the Secretariat and the implementing agencies to develop standardized cost items for future reporting on administrative costs;
- (g) To review the results of implementation of this decision at the second meeting of the Executive Committee in 1999 and to report to the Eleventh Meeting of the Parties in 1999, in line with decision VIII/4 of the Meeting of the Parties;
- (h) To apply this decision to projects approved beginning with the current meeting.

**(Decision 26/41)**





## Annex II

### CURRENT ADMINISTRATIVE COST REGIME APPLIED TO UNDP, UNIDO AND THE WORLD BANK

Following the discussion, and based on the proposal formulated by the informal group set up to address the issue during the session, the Executive Committee decided:

- (a) To adopt a new administrative cost regime for the 2003-2005 triennium that includes US \$1.5 million, subject to annual review, for a core unit funding budget per year per agency, applying in addition:
  - (i) An agency fee of 7.5 per cent for projects with a project cost at or above US \$250,000, as well as institutional strengthening projects and project preparation;
  - (ii) An agency fee of 9 per cent for projects with a project cost below US \$250,000, including country programme preparation;
- (b) To apply the above regime to UNDP, UNIDO and the World Bank;
- (c) To urge implementing agencies to strive toward achieving optimization of these support costs, taking into account the goal of Decision VIII/4 of the Eighth Meeting of the Parties to reduce agency support costs to an average below 10 per cent, recognizing that new challenges in the implementation of projects during the compliance period would require substantial support from implementing agencies;
- (d) Review the administrative cost regime and its core unit funding budget at the 41st Meeting of the Executive Committee.

**(Decision 38/68)**

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