



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/45/49
4 March 2005



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-fifth Meeting
Montreal, 4-8 April 2005

**REPORT ON PROGRAMME SUPPORT COSTS OF BILATERAL COOPERATION
PROJECTS (FOLLOW-UP TO DECISION 43/40)**

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Introduction

1. Decision 43/40 requested the Secretariat, in cooperation with interested Parties, to prepare a paper for consideration at the 45th Meeting on a procedure for more flexible use of bilateral agency support costs, not to exceed 13 per cent value of approved projects, taking into account the discussion that took place at the 43rd Meeting of the Executive Committee.

2. The present paper addresses the principles for applying a flexible procedure for using support costs by bilateral agencies that arose during discussions at the 43rd Meeting and the Inter-Agency Coordination Meeting. It goes on to review the level of support costs received by agencies with ongoing annual bilateral programmes for the period 1999-2004, a possible budget for a core unit fund, and a review of the possible level of support costs for bilateral agencies based on the value of projects in their 2005 business plans. It concludes with some comments from the Secretariat and recommendations for procedures and guidelines for a core unit funding advance.

Principles for a flexible procedure involving a core unit funding advance

3. The following principles arose during the Executive Committee's previous discussion of the matter and during a discussion at the 1-2 February 2005 Inter-Agency Coordination Meeting attended by representatives of three bilateral agencies with ongoing annual bilateral programmes:

- (a) Support costs might be used for the purpose of a core unit funding advance as a flexible use of bilateral implementing agency support costs;
- (b) The existing guidelines for the application of support costs for bilateral agencies pursuant to decision 26/41 should continue to be applied in determining the total amount of support costs;
- (c) Bilateral agencies might choose between the current application of decision 26/41 at the time of project approval or the new alternative application of decision 26/41 with a core unit funding advance;
- (d) The funding advance should be linked to the value of support costs that would result from planned project submissions included in the bilateral agency's annual business plan;
- (e) The funding advance should be reimbursed to the Multilateral Fund from support costs derived from project approvals;
- (f) If the funding advance were not reimbursed to the Multilateral Fund from support costs derived from project approvals, those non-reimbursed components of the core unit funding advance would have to be returned; and
- (g) Since the Multilateral Fund was not intended to increase the capacity of non-Article 5 countries, any new system should not increase the amount of agency fees intended for the use of multilateral and bilateral agencies for the administration of their projects.

Agency supports costs (1999-2004)

4. Table 1 shows the total support costs received by bilateral agencies with ongoing annual bilateral programmes for the period 1999-2004 and the average for that period.

Table 1**SELECTED TOTAL BILATERAL AGENCY SUPPORT COSTS 1999-2004 AND AVERAGE (US \$)**

Agency	1999	2000	2001	2002	2003	2004	Grand Total	Average
Canada	42,380	61,227	101,736	60,450	47,509	77,825	391,127	65,188
France	151,958	12,342	53,039	105,700	110,728	174,275	608,042	101,340
Germany	518,146	364,904	310,122	584,829	643,578	311,547	2,733,124	455,521
Japan	283,500	96,158	29,055	58,942	4,404	496,502	968,561	161,427
Sweden	34,450	-	26,000	13,266	29,256	30,815	133,787	22,298
Total	1,030,434	534,631	519,952	823,187	835,475	1,090,964	4,834,641	805,774

Sample budget for a core unit funding advance

5. Based on the cost categories from the PriceWaterhouse/Coopers Study on administrative costs that led to decision 26/41, the agency core unit costs of the World Bank for example, pro-rated to US \$500,000 from the actual costs of US \$1.5 million, is presented in Table 2.

Table 2**SAMPLE BUDGET FOR A BILATERAL CORE UNIT FUNDING ADVANCE**

Core unit personnel:	US \$313,000
Travel:	US \$78,000
Equipment	US \$23,000
Rent:	US \$27,000
Contractual services	US \$17,000
Reimbursement of central services	US \$42,000
TOTAL	US \$500,000

6. The above sample budget of US \$500,000 would enable substantial travel and staff costs, but few bilateral agencies would be entitled to this level of funding in support costs given their ability to use only 20 per cent of their pledged contributions for developing large programmes (see Table 3 below).

Agency support costs in the 2005 Business Plan

7. Total bilateral agency support costs that would be eligible under the existing support cost regime for bilateral agencies pursuant to decision 26/41 are indicated in Table 3.

Table 3**TOTAL SUPPORT COSTS BASED ON VALUE INDICATED IN THE 2005 BUSINESS PLANS OF THE BILATERAL IMPLEMENTING AGENCIES**

Agency	Total in Business Plan (US \$000)	Estimated Support Costs (US \$000)
Canada	205	24
France	2,367	224
Germany	2,047	197
Italy	4,470	470
Japan	7,276	794
Sweden	398	45
Switzerland	257	33
USA	5,375	375

8. The amounts of agency support costs indicated in Table 3 might be considered the maximum levels eligible for funding if the proposed procedures and guidelines are adopted. It should be noted, however, that both multilateral and bilateral implementing agency business plans tend to have ambitious levels of approval that are often not achieved. Bilateral agencies requesting advances should take this fact into account so as to avoid having to reimburse core unit advance amounts in excess of support costs derived from actual project approvals.

CommentsUse of Support Costs by Bilateral Agencies

9. Tables 1 and 3 present the agency support costs that were or could be attributed to bilateral cooperation from 1999 to 2005. It should be noted, however, that many bilateral agencies have transferred some or all of their agency support costs to multilateral implementing agencies. Therefore, those bilateral agencies that have done this have not had access to their agency support costs. Retaining the agency fees received could be sufficient for the establishment of a core unit.

10. Under the proposed system, a bilateral agency would use those agency support costs received from actual project approvals to reimburse its core unit funding advance to the Multilateral Fund.

11. If multilateral agencies execute projects for bilateral agencies with core unit funding advances, there could be additional costs to the Fund, since the multilateral agencies' support costs would then become project costs. However, the choice of any sub-contractor by a bilateral or multilateral implementing agency would always have some overhead associated with it. The multilateral implementing agencies of the Fund have demonstrated their ability to deliver projects in Article 5 countries and members have indicated that some bilateral agencies need the expertise of these multilateral implementing agencies to implement their projects.

12. It would nevertheless be more cost-effective for the Multilateral Fund to pay only one agency fee. Those agencies that choose core unit funding should attempt to implement their own projects without the assistance of the Fund's multilateral implementing agencies to avoid the Fund paying double agency fees. This is currently the case for several bilateral agencies with ongoing projects.

Definition of Support Costs and Project Preparation

13. Annex I presents the definition of administrative support costs with respect to an implementing agency's core unit costs. The PriceWaterhouse/Coopers Study referred to a core unit as a coordinating unit. It should be noted that there is no mention of project preparation in the list of eligible costs in that definition. In fact, based on the study, costs charged to projects should not be charged as support costs.

14. Project preparation is a separate cost category for which both bilateral and multilateral implementing agencies have received funding. In fact, agency support costs are charged on top of project preparation costs. The reason for this is that project preparation is an activity that must be monitored and administered like any other project component. Therefore, in most cases, bilateral and multilateral implementing agencies receive 13 per cent support costs in addition to project preparation.

15. Nevertheless, bilateral agencies should not be prohibited from choosing to use their agency support costs for project preparation and refraining to request project preparation funds, resulting in net savings for the Multilateral Fund. Project preparation, however, should not be considered an entitlement when it comes to core unit cost items for multilateral or bilateral implementing agencies. It might be allowed as part of an advance as long as it results in net savings to the Fund.

Advantages of a Core Unit Funding Advance for Bilateral Agencies

16. The Multilateral Fund has had several bilateral agencies with a continuity of representatives that are knowledgeable about the procedures, rules and guidelines of the Multilateral Fund. It is essential for all agencies, bilateral and multilateral, to have this institutional memory in order to effectively and efficiently deliver Multilateral Fund activities to Article 5 countries. It is important, during the compliance period, for multilateral and bilateral implementing agencies, especially those bilateral agencies with ongoing annual programmes, to be able to respond quickly to the needs of Article 5 countries. It is also important for bilateral agencies to take into account the fact that their requested core funding unit advances will have to be reimbursed from actual project approvals, which tend to correspond to a lower amount than the one featured in their proposed budgets.

17. The proposed procedures and guidelines are expected to enable a lean and efficient core unit to contribute to this objective with some possible net savings but without any negative impact on the current level of agency support costs entitled to bilateral implementing agencies.

Recommendations

The Executive Committee may wish to:

1. Note the document UNEP/OzL.Pro/ExCom/45/49;
2. Decide that administrative costs could be used as project preparation if such use resulted in net savings to the Multilateral Fund; and
3. Adopt the following procedures and guidelines for a core unit funding advance:
 - (a) Bilateral agencies that choose a core unit funding advance should adopt the following procedures namely:
 - (i) Submit a budget based on the core unit cost categories indicated the Administrative Cost Study submitted to the 26th Meeting (UNEP/OzL.Pro/ExCom/26/67) that may include project preparation;
 - (ii) Submit the core unit funding advance at the same time as an annual business plan, noting that both could be submitted before the year of the business plan; and
 - (iii) Include, in requests for advances in subsequent years, an accounting of the expenditures against the previous year budget.
 - (b) The guidelines for core unit funding advances require that those bilateral agencies choosing this method of support cost funding agree:
 - (i) To limit the total value of the core unit funding advance to the level of support costs indicated in the bilateral agency's business plan based on the application of decision 26/41, but to request prudent budgets for lean and efficient core units that would be reimbursed to the Multilateral Fund from project approvals;
 - (ii) That project preparation might be included as a cost item for a core unit funding advance only if it results in net savings to the Fund and is not considered an entitlement;
 - (iii) That core unit funding advance budgets and expenditures be subject to annual review by the Executive Committee; and
 - (iv) To return any core unit advance funds that are not reimbursed to the Multilateral Fund from project approvals in the year of the advance/business plan.

Annex I

ADMINISTRATIVE SUPPORT COSTS FOR COORDINATING UNITS (From the PriceWaterhouse/Coopers Study, UNEP/OzL.Pro/ExCom/26/67, Chapter 3, “Definition of Administrative Costs”, pages 8-9.)

With respect to each implementing agency's coordinating unit, to the extent that it supports the Multilateral Fund, the following costs would be deemed to be eligible:

1. Direct costs of the coordinating unit including
 - Salaries and the associated benefits of permanent and contractual (consultants) staff;
 - Travel related to Multilateral Fund activities, and to administrative monitoring of projects.
 - Office accommodation cost including a fair allocation of operating costs, based on the proportion of useable space;
 - Equipment, office supplies, telecommunications and general expenses based on specific expenditures.
 - Contractual services related to activities of the coordinating unit.
2. A fair cost allocation from central support services of the implementing agency. This would include a fair and equitable allocation of the expense of central services such as:
 - Human resources, based on the proportionate number of staff
 - Accounting, based on the volume of transactions generated
 - Management information systems, based on the proportionate number of workstations and the actual systems used by the coordinating unit
 - Procurement and legal, based on the volume of transactions generated
 - General office and administrative services, based on the proportionate number of staff.
3. A fair allocation of country or field office costs. This allocation could be made globally on the basis of financial activity, i.e. Multilateral Fund spending vs. total agency spending.
4. Direct costs of the implementing bodies, be they executing agencies, national governments, financial intermediaries or other consultants contracted by the implementing agencies to the extent that they are involved in the administration of projects. These costs would be established by service contract or otherwise charged at rates equivalent to the fair value of the services received. These costs would exclude costs approved as part of project budgets (e.g. the cost of UNIDO's consultants in many of its projects).

Ineligible costs

It is proposed that the following items be considered as ineligible for the purposes of determining actual administrative costs:

- Travel not directly related to Multilateral Fund business, including the non Multilateral Fund portion of multi-purpose trips, trips related to activities extraneous to the implementing agency's role;
- Allocations of general expenses already provided for in the general funds of implementing agencies
- Charges aimed at underwriting deficits or costs in other programs, budgets or activities.
- Any costs charged to projects.
