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

**REPORT ON PROGRAMME SUPPORT COSTS OF BILATERAL COOPERATION  
PROJECTS (FOLLOW-UP TO DECISIONS 43/40 AND 45/57)  
(Submitted by the Government of Japan)**

Note from the Secretariat

1. In response to decisions 43/40 and 45/57, the Government of Japan submitted the attached position paper on core unit funding for bilateral agencies including proposed principles and guidelines for a core unit funding advance for bilateral agencies.
2. A copy of the “Report on Programme Costs of Bilateral Cooperation Projects (Follow-up to decision 43/40)” (UNEP/OzL.Pro/ExCom/45/49) has been placed on the Fund Secretariat’s web site for reference purposes.

## Japan

### Japan's position paper on core unit funding for bilateral agencies (Follow-up to Decision 43/40)

The Executive Committee in its Decision 45/57 (b) invited the Government of Japan to submit its proposed procedures and guidelines for a “core unit funding advance” for bilateral agencies to the 46<sup>th</sup> Meeting of Executive Committee.

The Government of Japan herewith submits its principles and guidelines.

Japan takes this opportunity of the submission of this position paper and expresses its sincere gratitude for the advice and inputs provided by the Secretariat, Interested Implementing Agencies and Executive Committee members in the past discussion on this subject, expects and requests for continued cooperation and dialogue.

### Principles

#### **(Modality of core unit funding for bilateral agencies)**

1. The purpose of Japan's proposal is to extend and promote the direct involvement of Member countries through bilateral cooperation which has distinctive merits of its own and is insightfully provided for in the Montreal Protocol, by enabling bilateral cooperation agencies to reach Article 5 countries more closely and identify their assistance needs, especially those that might be overlooked under the established assistance scheme thus ensuring the protection and recovery of the ozone layer.

2. In order to fulfill the purpose, the Government of Japan recalls that at the 42<sup>nd</sup> meeting of the Executive Committee the representative of Japan made the following statement that was included in the report of the Committee:

“ We believe that, the Executive Committee should decide to adopt the guidelines for the application of programme support costs contained in Decision 26/41, with an amendment to take into account the needs of bilateral agencies for:

(a) Ensuring adequate resources to maintain a core unit function;

(b) Adequately covering administrative costs for the identification, preparation and approval of projects, as well as any additional activities which bilateral agencies have accepted since the 26th Meeting of the Executive Committee to implement and to comply with procedures relating to the business planning, maintenance and implementation of projects applicable to bilateral agencies;”

2. “We also believe that the Executive Committee should request the Secretariat to study how the Fund can meet the needs of bilateral agencies as stated above and provide the Committee with its proposals, including adoption of a core-unit funding budget in line with the arrangement made for the four implementing agencies in Executive Committee Decision 38/68.”

(Paragraph 146 of UNEP/OzL.Pro/ExCom/42/54)

3. At the 43<sup>rd</sup> meeting, the Executive Committee decided “to request the Secretariat, in cooperation with interested Parties, to prepare a paper, for consideration at the 45th Meeting, on a procedure for using support costs, consistent with Decision 26/41, in a more flexible manner to address the issues raised in paragraph 146 of document UNEP/OzL.Pro/ExCom/42/54 while allowing bilateral agencies to decide which modalities would apply to them.” (Decision 43/40; See UNEP/OzL.Pro/ExCom/43/61/Corr.1) It should be ensured that the corrected version be quoted and used as a basis for the discussion of the Executive Committee.

4. Executive Committee Decision 43/40 (corr.1) does not limit the modality of core unit funding to a support cost advance, although the modality proposed by the Secretariat in document UNEP/OzL.Pro/ExCom/45/49 which was based upon a support cost advance reflecting inputs from the inter-sessional communications and consultation between the Executive Committee meetings. After carefully looking into the support cost advance modality, Japan concluded that the support cost advance is neither practicable nor appropriate in view of the national financial regulations in force and practices of the Governments of Member States including those of the Government of Japan; and that the Executive Committee should decide to adopt an optional modality to apply the core unit funding

currently in use for the four implementing agencies *mutatis mutandis* to bilateral agencies who so wish.

5. Executive Committee Decision 43/40 (corr.1), in addition, requests the establishment of procedure for use by bilateral agencies of the support cost regime consistent with Decision 26/41 which provides for administrative costs for the implementing agencies.

6. To summarize and clarify its position on the core unit funding, Japan proposes a modality for which bilateral agencies may opt to obtain the core unit funding

- to cover “administrative costs for the identification, preparation and approval of projects, as well as any additional activities to discharge their obligations which bilateral agencies have accepted since the 26th Meeting of the Executive Committee to implement and to comply with procedures relating to the business planning, maintenance and implementation of projects applicable to bilateral agencies” (Paragraph 146 of UNEP/OzL.Pro/ExCom/42/54);
- on the understanding that the choice whether or not a bilateral agency opts for the core unit funding is up to each bilateral agency; and
- for a bilateral agency which chooses to opt for the core unit funding, the calculation of the administrative cost should be made and the core unit funding should be annually reviewed by the Executive Committee consistent with Executive Committee Decision 38/68, which has been applied to UNDP, UNIDO and the World Bank.

**(Issues related to use of the support cost for project preparation)**

7. It should be recalled that the consultant study on administrative costs for the implementing agencies (UNEP/OzL.Pro/ExCom/26/67, excerpt of which is attached) defined the scope of activities to be covered by support costs which included project identification, preparation and approval as eligible administrative activities. The Secretariat claims in paragraph 13 of UNEP/OzL.Pro/ExCom/45/49 that the consultant report did not include project preparation in the list of reimbursable “elements of administrative cost”. Japan does not support this view. While the consultant report does

not mention project preparation, it mentions neither of all other types of activities enumerated under the list of eligible activities such as project implementation and monitoring. If project preparation were ineligible on the ground that it is not mentioned on the list of the reimbursable elements of administrative cost, it would also be possible to infer that all other types of eligible activities mentioned above would not be eligible. Japan considers that reimbursable 'elements' mentioned here are types of expenditure such as salary, travel office accommodation, expenses on management information systems etc., but not the eligible activities for support cost reimbursement.

8. On the other hand, it should also be noted that the consultant study considers project formulation/preparation "as activities to be project activities, in cases where a project preparation budget has been approved. (See Para.1.1 'Activities to be considered as project costs in Section 3 under Definition of Administrative Costs' in "Administrative Costs of the Implementing Agencies" (UNEP/OzL.Pro/ExCom/26/67). This means that expenses for project formulation/preparation should be borne by administrative support costs unless the budget for such activities is specifically approved.

9. The secretariat argues that bilateral agencies may be allowed to use support costs for project preparation but should refrain from requesting project preparation funds in such cases. It was also argued that use of support costs for project preparation is not an entitlement in the core unit cost funding (See paragraphs 14-15, UNEP/OzL.Pro/ExCom/45/49). In this respect, the Japan points out that the Executive Committee approved by its Decision 38/68 on the core unit funding and support costs for projects US \$1.5million of core unit funding for the implementing agency and in addition decided to apply an agency fee of 7.5% for project preparation. Taking into account the view of the consultant referred to in paragraph 9 above together with the consultant's definition of eligible support activities, the support cost provided through the core unit funding should accommodate the cost for project formulation/ preparation unless such costs are specifically approved in accordance with paragraph (a) (i) of Decision 38/68.

**(Estimate of the funding level to be requested for Japan's core unit funding)**

10. The budget level to be approved for core unit funding for bilateral agencies should be calculated as those for the four Implementing Agencies are calculated.

11. In the case of Japan, Japan estimates an appropriate and sufficient level to be \$186,616 in light of its past value of bilateral projects representing the average of programme support costs use over the last three years 2002-2004 (See Table 1 in document UNEP/OzL.Pro/ExCom/45/49 as a basis for this calculation). Another way to estimate the core unit funding for the bilateral agency would be based on the actual rate at 2.07% of the World Bank core unit funding at \$1.5million as percentage in its total delivery of \$723,423,036 in 2003/2004 (12 months)\* and apply it to the level of 2005 Japanese business plan of \$7.276million, which gives about \$150,000 a year.

12. When a bilateral agency opts and requests for the core unit funding, the appropriate funding level should be decided upon, based upon the calculation submitted by the bilateral agency.

**(Issues related to reporting)**

13. Japan understands that the Executive Committee would review periodically the core unit funding for bilateral agencies under the proposed modality of the core unit funding, and apply *mutatis mutandis* its Decisions 26/41 and 38/68 on the agency administrative cost regime and its core unit funding budget.

**Executive Committee decision proposal**

The Government of Japan proposes the following draft decision as the basis for discussion and consideration by the Executive Committee at its 46<sup>th</sup> Meeting:

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\* Paragraph 40, UNEP/OzL.Pro16/10, 29 September 2004, P.9.

“Executive Committee **decided:**

1. That the bilateral agency can choose to request for the core unit funding in line with Decisions 38/68 on the understanding that expenses for project formulation/preparation should be accommodated by the core unit funding unless the budget for such activities is specifically approved;
2. That the bilateral agency which chooses to request for the core unit funding should submit the cost estimate of such funding for approval at the Executive Committee based upon its average use of support costs over the latest three years but within the limit of support costs relevant to its business plans;
3. That the bilateral agency applying for the core unit funding in 2005 should be invited to submit such cost estimate to the Executive Committee for its approval at the 47<sup>th</sup> Meeting;
4. That the Executive Committee should apply *mutatis mutandis* its Decisions 26/41 and 38/68 on the agency administrative cost regime and its core unit funding budget and review annually the core unit funding for bilateral agencies; and
5. That the Executive Committee at the 48<sup>th</sup> Meeting in 2006 will review and identify relevant applicable rates of agency fee on projects with the value ranging from \$500,000 to \$5million and assess on a case by case basis projects with the value exceeding \$5million as well as the agency fee for projects under the SME window (Decision 25/56) in the light of the reports of the bilateral agencies on the actual administrative costs of such projects and the use of the core unit funding during the period from 2002 to 2005.

## **Annex 1**

Administrative costs of the implementing agencies  
(UNEP/OzL.Pro/ExCom/26/67, Pages 8 to 10): A Report of the Consultant,  
“Analysis of Option to Reducing the Level of Implementing Agencies’  
Administrative Costs”, 14 October 1998)

### **1. DEFINITION OF ADMINISTRATIVE COSTS**

In keeping with the Executive Committee's 1994 recommendation, it is important to clarify the definition of administrative costs, at least for the purposes of this study. Unless there is a clear and common understanding of what is considered to be an administrative cost and what is considered to be a project cost, there will continue to be inconsistent approaches. If there are inconsistent approaches, it is very difficult to establish a uniform reimbursement rate based on actual costs.

Following this logic, the following paragraphs will serve first to propose a method of distinguishing between administrative and project costs, and second to propose criteria to identify the elements of administrative costs which could be considered as being eligible.

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### **Distinction between administrative and project activities**

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#### **Administrative activities**

In respect of Multilateral Fund programmes, the implementing 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 implementing agencies are expected to use the administrative cost allocation for the following activities:

- distributing information about the Multilateral Fund's programme 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 implementing agencies are expected to use the administrative cost allocation for the following activities:

- co-ordinating each agency's efforts with the Secretariat;
- 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 Multilateral Fund Secretariat with policy papers and issues; and
- participating in meetings sponsored by the Executive Committee, and the Secretariat.

## **Activities to be considered as project costs**

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 an 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 delivery In other words, participation in the design of constructed equipment and training material would both be considered to be project activities.
- any activity 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 programme or project level.