UNITED
NATIONS

EP

United Nations
Environment
Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/88/68
12 November 2021

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-eighth Meeting
Montreal, 15-19 November 2021[1]

ANALYSIS OF THE ADMINISTRATIVE COST REGIME AND CORE UNIT FUNDING (DECISION 86/92(c))

Background

1. At its 84th meeting, the Executive Committee *inter alia* requested the Secretariat to present, at the 86th meeting, the outcomes of the analysis of the administrative cost regime and core unit funding, taking into consideration relevant decisions by the Executive Committee, including those at its 84th and 85th meetings, on the basis of which the Committee would decide whether the administrative cost regime of the Multilateral Fund for the 2018−2020 triennium could be maintained for the 2021−2023 triennium (decision 84/61(c)).

2. At the 86th meeting, the Executive Committee considered, under the intersessional approval process (IAP-86)[2] the UNEP Compliance Assistance Programme (CAP) budget for 2021[3] and the 2021 core unit budgets for UNDP, UNIDO and the World Bank.[4] Subsequently, the Executive Committee approved the UNEP CAP budget (decision 86/61), and the core unit budgets of the implementing agencies, noting that the levels for the 2021 core unit budgets could be adjusted based on the outcomes of the discussion on the Analysis of the administrative cost regime and core unit funding (decision 84/61(c)), at the postponed 86th meeting in March 2021 (i.e., IAP-86ext)[5] (decision 86/62).

3. At the 86th meeting, the Executive Committee also considered the analysis of the administrative cost regime and core unit funding[6] submitted by the Secretariat in response to decision 84/61(c). The document indicated that for the assessment of the administrative cost regime for the period 2021-2023 under a "business-as-usual" scenario, the Secretariat had *inter alia* analyzed the information available from projects that would have been approved at the 85th meeting and the projects that would have been submitted

[1] Online meetings and an intersessional approval process will be held in November and December 2021 due to coronavirus disease (COVID-19)
[2] The IAP-86 was held from 16 November to 3 December 2020
[3] UNEP/OzL.Pro/ExCom/86/36
[4] UNEP/OzL.Pro/ExCom/86/37
[5] The IAP-86ext was held from 29 March to 7 May 2021
[6] UNEP/OzL.Pro/ExCom/86/85

to the 86th meeting; decisions that the Executive Committee would have adopted (at the 85th and 86th meetings) on policy issues particularly related to the phase-down of HFCs and funding for institutional strengthening (IS) projects; and the document on the replenishment of the Multilateral Fund for the 2021-2023 triennium that would have been prepared by the Technology and Economic Assessment Panel (TEAP) Task Force and submitted the Thirty-Second Meeting of the Parties to the Montreal Protocol. As no decisions were made regarding the administrative cost regime at the 86th meeting of the Executive Committee, the Secretariat considered it meaningful to present the analysis of the administrative cost regime requested under decision 84/61(c) to the 88th meeting, taking into consideration the discussions and/or decisions on relevant policy matters by the Executive Committee during its meetings in 2021, and the discussions by the Parties on the replenishment of the Multilateral Fund.

4. In adopting the analysis document (under IAP-86ext), the Executive Committee allowed bilateral and implementing agencies to continue using the existing administrative cost regime for projects to be submitted in 2021, on an exceptional basis and without setting a precedent; and requested the Secretariat to present, at the 88th meeting, the outcomes of the analysis of the administrative cost regime and core unit funding, taking into consideration relevant decisions by the Executive Committee, including those from the 84th to 87th meetings, and relevant outcomes of discussions by the Parties on the replenishment of the Multilateral Fund for the triennium 2021−2023, on the basis of which the Committee would decide whether the administrative cost regime of the Multilateral Fund for the triennium 2018−2020 should be maintained for the triennium 2021−2023 (decision 86/92).

Scope of the document

5. In response to decision 86/92, the Secretariat has prepared the present document.

6. In preparing the document, the Secretariat noted that the constraints that were present when a similar analysis of the administrative cost regime and core unit funding was prepared for the 86th meeting persisted. These constraints are briefly explained below.

Impact of the COVID-19 pandemic on the operation of the Multilateral Fund

7. In 2020 and 2021, the Executive Committee has been unable to hold in-person meetings as originally planned. To ensure the continuity of compliance-related activities in Article 5 countries, the Executive Committee implemented, on an exceptional basis and without setting a precedent, IAPs for each the 85th, 86th, 87th and 88th meetings, to consider certain meeting documents, combined with online meetings (“plenary format” with interpretation, and “contact group format” without interpretation) to consider a few other documents not addressed through the IAPs.

8. However, the Committee decided to defer consideration of several of the policy-related documents, some until an-in person meeting could be held.[7] The documents that have an impact on the analysis of the administrative cost regime include:

(a) The cost guidelines for the phase-down of HFCs in Article 5 countries: Draft criteria for funding (decision 83/65(d)) (to be discussed at the 89th meeting);

(b) Potential strategies, policy measures and commitments, as well as projects and activities that could be integrated within stage I of HFC phase-down plans for Article 5 countries to ensure limits on growth and sustainable reductions in HFC consumption (decision 87/49) (to be discussed at the 88th meeting);

[7] The 89th meeting is planned to take place in-person to discuss the outstanding policy items that were unable to be concluded through the related intersessional approval process and virtual meetings in line with decision 87/60(a).

(c) Analysis of the level and modalities of funding for HFC phase-down in the refrigeration servicing sector (decisions 83/65(b) and 84/86(b)(ii)) (to be discussed at the 88th meeting);

(d) Update of the analysis of the implications of parallel or integrated implementation of HCFC phase-out and HFC phase-down (decision 84/86(b)(i)) (to be discussed at the 89th meeting);

(e) Review of institutional strengthening projects, including funding levels (decision 74/51(d)) (to be discussed at the 89th meeting);

(f) Synthesis report describing best practices and ways for the Executive Committee to consider operationalizing paragraph 24 of decision XXVIII/2 (decision 84/87(b)) (to be discussed at the 89th meeting);

(g) Analysis of and information on the incremental costs and their duration, and the cost-effectiveness of all approved investment projects (decision 84/87(a)) (to be discussed at the 89th meeting);

(h) Paper on ways to operationalize paragraph 16 of decision XXVIII/2 and paragraph 2 of decision XXX/5 of the Parties (decision 84/88); (to be discussed at the 89th meeting); and

(i) Report identifying options, and relevant procedures and conditions where applicable, for mobilizing financial resources for maintaining and/or enhancing energy efficiency when replacing HFCs with low-global-warming-potential alternatives in the relevant foam manufacturing sub-sectors and the refrigeration, air-conditioning and heat pump sectors (decision 87/51) (to be discussed at the 89th meeting).

9. The COVID-19 pandemic also had a negative impact on the projects and activities under the Fund, resulting in delays in their implementation. To partially overcome some of the delays, bilateral and implementing agencies assisted national ozone units (NOU) in adapting implementation processes through, *inter alia* video conferencing for consultations, online training programmes for customs officers and refrigeration technicians, online verification reports, regional online meetings, webinars and file sharing platforms for specific project activities (e.g., project preparatory work which does not need in-person meetings, development of terms of reference for technical experts and for equipment).

10. Further to discussions with the agencies on this matter, the Secretariat noted that activities are expected to resume during 2022 with lingering uncertainty regarding how fast the situation would return to pre-COVID-19 normalcy. Given the extensive support from bilateral and implementing agencies to implement ongoing activities under HCFC phase-out management plans (HPMPs) and recently approved activities for the preparation of HFC phase-down pans (KIPs), the Secretariat considers it relevant to continue assessing and monitoring the evolution of the COVID-19 pandemic's impact on the operation of the Multilateral Fund.

Status of the 2021-2023 replenishment of the Multilateral Fund

11. Similar to the situation of the Executive Committee, the Parties to the Montreal Protocol were unable to hold in-person meetings in 2020 and 2021. While the Parties held their meetings in the form of online work with a reduced agenda, they were unable to adopt the relevant decisions. With regard to the replenishment of the Multilateral Fund for the 2021-2023 period, the Parties adopted *inter alia* the following two decisions:

(a) At their Thirty-Second Meeting,[8] adopted an interim budget for the Multilateral Fund for the triennium 2021–2023 of US $268 million, prioritizing those funds for the year 2021 as

[8] Online meeting, held on 23–27 November 2020.

part of the triennium, until such time as the Parties could adopt a final decision on replenishment, including a revised budget, on the understanding that the interim budget would be provided from anticipated contributions due to the Fund and other sources for the triennium 2018–2020 (decision XXXII/1); and

(b) At their Thirty-Third Meeting,[9] adopted an updated interim budget for the Multilateral Fund for the triennium 2021–2023 of US $400 million until such time as the Parties could adopt a final decision on replenishment, including a revised budget for the triennium 2021-2023, on the understanding that the updated interim budget would be provided from contributions due to the Fund and other sources for the triennium 2018–2020, and from contributions already made by Parties in 2021 (decision XXXIII/1).

12. The Parties also authorized the Ozone Secretariat to organize an extraordinary Meeting of the Parties in 2022, if and when the circumstances related to the pandemic permitted it, to enable parties to take a decision on the replenishment of the Multilateral Fund for the triennium 2021–2023 (decision XXXIII/3).

Methodology

13. In light of the postponed decisions and limited information, the Secretariat undertook a preliminary analysis of the administrative cost regime for the triennium 2021-2023, based on a review of the following documents:

(a) Consolidated business plans of Multilateral Fund for 2021-2023 endorsed by the Committee at its 86th meeting,[10] to assess the total agency support costs available to the implementing agencies for their operations during this period;

(b) UNEP CAP budget for 2021 and the 2021 core unit budgets for UNDP, UNIDO and the World Bank, approved at the 86th meeting;

(c) UNEP CAP budget for 2022[11] and the core unit budgets for UNDP, UNIDO and the World Bank for 2022,[12] submitted to the 88th meeting;

(d) Update on the analysis of the implications of parallel or integrated implementation of HCFC phase-out and HFC phase-down activities (decision 84/86(b)(i)),[13] to assess the implications of these decisions/information on the administrative cost regime for the triennium 2021-2023.

14. The Secretariat also held discussions with each of the implementing agencies on the administrative cost regime implications in the triennium 2021-2023, noting that during the triennium, activities related to HPMPs would be implemented together with preparatory activities for KIPs, in view of the approval of the guidelines for the preparation of HFC phase-down plans for Article 5 countries (decision 87/50); these activities would have an impact on the levels of agency support costs needed to assist Article 5 countries.

15. In this regard, as of the 87th meeting, funding has been approved for the preparation of KIPs for 35 Article 5 countries and funding requests for an additional 19 Article 5 countries have been submitted to the 88th meeting; funding requests for the preparation of KIPs for an additional 70 and 29 Article 5 countries

[9] Online meeting, held on 23–29 October 2021.
[10] UNEP/OzL.Pro/ExCom/86/25 and decision 86/45.
[11] UNEP/OzL.Pro/ExCom/88/34.
[12] UNEP/OzL.Pro/ExCom/88/35.
[13] UNEP/OzL.Pro/ExCom/87/43.

have been included in the consolidated business plan for 2022 and 2023, respectively.[14] These activities would result in an increase in the workload of the bilateral and implementing agencies and the NOU. However, the scope and magnitude of the activities related to the submission of KIPs and, more importantly, their implementation will be better understood once discussions on outstanding HFC policy-related matters, guidelines for HFC phase-down plans, potential strategies for HFC phase-down and matters related to enhancing energy efficiency when phasing down HFCs[15] are concluded and decisions are adopted. In light of these facts, the Executive Committee requested the Secretariat to prepare an analysis related to the capacity of the Multilateral Fund institutions and Article 5 countries to address HFC phase-down, for consideration at the 91st meeting.

Overview of the administrative cost regime of the Multilateral Fund

16. Since the inception of the Multilateral Fund, the rates of the programme support costs (PSC), calculated as a ratio of project funding approvals by triennium, has generally hovered below 13 per cent, as shown in Table 1.

Table 1. Administrative costs paid by the Multilateral Fund by triennium from 1991 (per cent)[16]

Agency	**1991-1999**	**2000-2002**	**2003-2005**	**2006-2008**	**2009-2011**	**2012-2014**	**2015-2017**	**2018 -2020**	**2021-2023****
Bilateral	2.8	11.4	10.7	12.4	12.3	11.7	11.8	11.5	11.8
UNDP	12.9	12.9	13.2	18.3	14.0	13.9	12.6	14.7	12.8
UNEP*	13.0	9.7	7.3	7.9	7.6	7.0	7.6	7.7	8.0
UNIDO	12.8	13.4	11.7	14.4	11.8	13.7	13.8	16.2	14.8
World Bank	8.6	10.0	9.9	10.1	13.4	11.0	12.7	22.4	15.5
Average	**10.7**	**11.6**	**10.8**	**12.0**	**12.1**	**12.1**	**12.1**	**14.2**	**12.6**

* Includes PSC of CAP (approved for the first time in 2001), but does not include the administrative costs paid as direct costs as part of the CAP.
** Based on actual approvals at the 87th meeting, submissions to the 88th meeting and planned activities for 2022 and 2023.

17. For certain periods and related to specific implementing agencies, PSC were above 13 per cent due to the decrease in project funding approvals resulting in a corresponding proportional increase of core unit budgets (e.g., UNDP in 2003-2005, 2006-2008, 2009-2011, 2012-2014, and 2018-2020; UNIDO in 2000-2002, 2006-2008, 2012-2014, 2015-2017, and 2018-2020; and the World Bank in 2009-2011 and 2018-2020). Furthermore, during the 2006-2008 and 2009-2011 triennia, most of the funding approvals were related to addressing the phase-out of CFCs, mainly used in the refrigeration servicing sector (where the cost-effectiveness threshold was set at US $5.00/kg for non-low-volume-consuming (LVC) countries), and when investment and non-investment activities for the phase-out of HCFCs had not fully started.

A brief analysis of the 2018-2020 triennium

18. Particularly, during the 2018-2020 triennium, there was a steep decrease in project funding as compared to the 2015-2017 triennium (and previous triennia), as shown in Table 2.

[14] The consolidated business plan includes funding for KIP preparation at US $7,189,942, plus agency support costs of US $782,808 for 2022, and US $3,398,327, plus agency support costs of US $318,216 for 2023.
[15] Policy issues relating to eligibility of funding of different activities would be finalized over time after consultations on these matters in the year 2022.
[16] A similar analysis was presented in the document on the review of the administrative cost regime for the 2015-2017 triennium (UNEP/OzL.Pro/ExCom/73/51). The minor differences in some of the figures in that analysis from the analysis in Table 1 is due to projects that had been closed and balances returned to the Fund, or projects that have been transferred to other agencies.

Table 2: Administrative costs paid by the Fund for 2015-2017, 2018-2020 and 2021-2023 triennia

Agency	2015-2017*			2018-2020*			2021-2023**		
	Funding	Support costs	Support cost	Funding	Support costs	Support cost	Funding	Support costs	Support cost
Bilateral	13,137,457	1,544,708	11.76%	13,128,336	1,509,434	11.50%	9,729,722	1,148,821	11.81%
UNDP	110,970,958	14,036,859	12.65%	82,222,848	12,072,610	14.68%	116,349,367	14,922,098	12.83%
UNEP	57,099,089	4,350,070	7.62%	63,091,330	4,856,460	7.70%	80,275,275	6,437,675	8.02%
UNIDO	92,046,015	12,700,308	13.80%	67,837,355	10,990,848	16.20%	79,947,575	11,844,193	14.81%
World Bank	77,797,579	9,889,963	12.71%	31,488,575	7,046,976	22.38%	58,203,404	9,032,304	15.52%
Total	351,051,098	42,521,909	12.11%	257,768,444	36,476,328	14.15%	344,505,343	43,385,091	12.59%

(*) Actual funding
(**) Estimated as presented in the 2021-2023 consolidated business plan

19. The decrease in project funding was mainly on account of adjustments of the funding tranches for stage II of the HPMP for one Article 5 country and continued consultations on the approval of stage II of the HCFC production phase-out management plan (HPPMP) for one Article 5 country, that concluded only at the 84th meeting, i.e., in 2019, one year prior to the end of the 2018-2020 triennium and a few months before the COVID-19 pandemic was declared. From 2020, the constraints imposed by the COVID-19 pandemic resulted in project implementation delays which affected the submission of HPMP funding tranche requests. During this triennium, the 2018, 2019 and 2020 core unit funding for UNDP, UNIDO and the World Bank was approved in line with decision 79/41; on this basis, the lower levels of project funding approved resulted in a higher percentage of PSC to total funds approved.

20. However, for the 2021-2023 triennium, the overall funding for projects and activities and associated PSC would be slightly below the levels of the 2015-2017 triennium, with an overall PSC below 13 per cent, although for UNIDO and the World Bank their associated PSC are over 13 per cent. Further, due to the relative distribution of core unit to administrative support costs for different agencies, the growth in administrative support costs is lower than the growth in overall project funding growth.

21. Based on the data contained in the 2021-2023 consolidated business plan, the funding associated with the implementation of activities under HCFC, preparation of KIPs and renewals of IS projects represents over 85 per cent of the total funding. KIP preparatory activities (e.g., project planning, HFC data collection and analysis, development of the overarching HFC phase-down strategy including the refrigeration servicing sector, and HFC investment activities where applicable), would involve significant effort that would need to be managed by the bilateral and implementing agencies with support from technical experts, NOU staff and relevant national stakeholders. The agencies would be required to support countries during 2022 and 2023 for the finalization of KIPs and the initiation of KIP implementation following approval by the Executive Committee.

22. Implementation of the first set of KIPs is expected to commence as of 2023. The Executive Committee is expected to discuss several policy issues relating to HFC phase-down during the year 2022; the decisions from these discussions would determine the level of funding available for KIP implementation, future institutional strengthening project activities and associated support costs.

Conclusion

23. Keeping in view the ongoing consultations on HFC phase-down-related policy issues and the current plan for the 2021-2023 triennium, the Secretariat considers that maintaining administrative support costs for the implementing agencies at the same levels as the 2018-2020 triennium could result in continued smooth implementation support for project activities during the 2021-2023 triennium. The Secretariat further considers that, based on outcomes of the policy decisions relating to HFC phase-down, including an analysis of the capacity of the Multilateral Fund institutions and Article 5 countries to address HFC phase-down, the administrative cost regime for the next triennium should be reviewed for the 2024-2026 triennium.

Recommendations

24. The Executive Committee may wish:

(a) To note the information contained in document UNEP/OzL.Pro/ExCom/88/68 on analysis of the administrative cost regime and core unit funding (decision 84/61(c));

(b) To allow bilateral and implementing agencies to continue using the existing administrative cost regime for projects to be submitted in 2022 and 2023; and

(c) To request the Secretariat to present, at the last meeting of 2023, the analysis of the administrative cost regime and core unit funding, taking into consideration relevant decisions by the Executive Committee, including those up to the meeting prior to the last meeting of 2023, on the basis of which the Committee would decide whether the administrative cost regime of the Multilateral Fund for the triennium 2021−2023 should be maintained for the triennium 2024−2026.