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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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**ANALYSIS OF THE DUTIES AND COSTS ASSOCIATED WITH PROJECT MANAGEMENT
UNITS AND THE EXTENT TO WHICH AGENCIES PASSED ON ADMINISTRATIVE DUTIES
TO OTHER INSTITUTIONS (DECISION 79/41(f))**

Introduction

1. At its 79th meeting, the Executive Committee considered pursuant to decision 75/69(b), (c) and (d), a study on the review of the Multilateral Fund's administrative cost regime and its core unit funding budget to contribute to the assessment of administrative costs for the 2018-2020 triennium.¹ The study was to *inter alia* determine the appropriate level of programme support costs to administer projects supported by the Fund, and to update the definitions of relevant components of administrative costs, including core unit costs, the Compliance Assistance Programme (CAP), central services, executing agency, financial intermediary, and project management unit (PMU).²
2. During the discussion, the Executive Committee noted that the study contained limited information related to the potential similarities between agency administrative costs and project management costs. Furthermore, the study did not address the extent to which implementing agencies were passing on funds for the administration of projects at the national level to financial intermediaries, executing agencies or governments. Members also highlighted the relatively new and growing role of PMUs, with the suggestion that the Executive Committee would benefit from greater understanding of the costs and duties of the PMUs, particularly as they related to other institutions.
3. The Executive Committee subsequently requested the Secretariat to *inter alia* prepare for the 82nd meeting a document on the duties and costs associated with PMUs, analysing how those costs and duties related to institutional strengthening (IS), the CAP, project preparation funding, and support costs

¹ UNEP/OzL.Pro/ExCom/79/43

² The Secretariat prepared a questionnaire based on the terms of reference of the study (as contained in Annex III of document UNEP/OzL.Pro/ExCom/79/43), which was used by the implementing agencies to provide current data and information as required (the questionnaire is contained in Annex IV of the same document).

for project implementation and verification activities; as well as the extent to which agencies passed on administrative duties to other institutions (decision 79/41(f)).

4. The Secretariat has prepared the present document pursuant to decision 79/41(f).

Structure of the document

5. The document analyses PMUs in the context of the Multilateral Fund administrative cost regime, highlighting its key components and the building blocks that provide essential funding support to Article 5 Parties in order for them to meet their Montreal Protocol obligations and targets. Accordingly, this document analyses PMUs, their operation and links to bilateral and implementing agencies, their linkage with IS, the CAP, project preparation, and verification of HCFC consumption, in the context of successive administrative cost regimes that have been approved by the Executive Committee since the Fund was established. It also addresses whether agencies pass on administrative duties to other institutions and its extent if this is done.

6. The analysis is based on information in previous documents considered by the Committee on the Fund's administrative cost regime, including core unit and agency support costs; guidelines for the preparation of HPMPs and approved stages I and II of HPMPs, including project preparation and verification reporting; IS policy papers and renewal of IS projects; and the CAP.

7. The Secretariat also discussed with bilateral and implementing agencies, relevant issues presented in the present document, and had bilateral consultations on specific matters, for example, discussions with UNEP on the CAP, and with bilateral and the other three implementing agencies (France, UNDP, UNIDO, and the World Bank on PMUs). The Secretariat notes with appreciation the fruitful discussions and additional information provided by the agencies.

8. The document consists of seven sections and a recommendation as described below:

Section I: An overview of the administrative cost regimes of the Multilateral Fund

Section II: Duties and costs of project management units in phase-out activities

Section III: Institutional strengthening

Section IV: Compliance Assistance Programme

Section V: Funding for preparation of project proposals

Section VI: Verification reports

Section VII: Observations of the Secretariat

Recommendation

9. The document also contains Annex I: Selected PMU duties and costs in relation to other Multilateral Fund projects and resources.

Section I: An overview of the administrative cost regimes of the Multilateral Fund

10. The terms of reference of the Interim Multilateral Fund states that "the implementing agencies shall be entitled to receive support costs for the activities they undertake having reached specific agreements

with the Executive Committee.”³ Since the establishment of the Multilateral Fund in 1991, the Executive Committee has kept under review the Fund’s administrative costs.⁴

11. At its 26th meeting, the Executive Committee approved the definition of administrative costs and the constitution of eligible components for reimbursing such costs, differentiating them from project costs that are associated with project implementation and management (decision 26/41).⁵

12. It has been a normal practice of the Committee since the 26th meeting to regularly review the administrative costs at the start of a replenishment period to ensure that the resources are used cost-effectively. During the review of administrative cost regimes, it was recognized that in general large-scale projects involved a lower level of administrative costs due to economies of scale. Certain projects, such as non-investment projects, including small-scale projects mainly in low-volume consuming (LVC) countries had higher administrative costs. Therefore, it was important to ensure that any adjustment of agency support costs did not negatively impact on those smaller projects/countries.

13. In 2001-2002, in the context of the strategic planning of the Multilateral Fund, the Executive Committee adopted the country-driven approach,⁶ approved through decision 35/5 the establishment of the CAP⁷, and agreed to provide core unit costs to UNDP, UNIDO and the World Bank, with a reduction of the graduated agency support cost rates.⁸

14. Since the approval of the first two HCFC phase-out management plans (HPMPs) at the 60th meeting, the roles and responsibilities of national ozone unit (NOUs), PMUs and the bilateral and implementing agencies have increased. In addition to approving tranches of HPMPs that include funding for PMUs, the Executive Committee separately approves funding for demonstration projects on alternative technologies to HCFCs and for surveys on ODS alternatives; preparation of new stages of HPMPs; preparation of verification of HCFC consumption in low-volume consuming (LVC) countries; renewal of

³ Paragraph 6 of Annex I of Appendix 4 of decision II/8.

⁴ Since its establishment in 1991, the Multilateral Fund has operated under five distinct administrative cost regimes as summarized in Annex I of document UNEP/OzL.Pro/ExCom/79/43.

⁵ Implementing agencies are expected to use their existing field office networks to match the needs of Article 5 countries and the funds available from the Fund. Agencies are required to identify and submit potential projects, and to ensure that the funds are used in the manner authorized by the Committee. Agencies are expected to use the administrative cost for *inter alia* engaging with governments and establishing legal agreements; preparing, submitting for approval and following-up on implementation; mobilizing teams (e.g., consultants) for approved projects using appropriate bidding and evaluation mechanisms; preparing progress and project completion reports; preparing annual business plans based on communications with governments; providing input to the Secretariat with policy papers and issues; and participating in meetings. The following activities are not considered as administrative activities, and are conducted only on the basis of approved projects: marketing, business development and prospecting for new project formulation/preparation, in cases where a project preparation budget has been approved; project implementation, including the provision of project management and technical skills; and technical support provided at the project level.

⁶ At its 33rd meeting, the Executive Committee *inter alia* adopted as the basis for future work in strategic planning the framework on the objectives, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period (decision 33/54(a)).

⁷ UNEP/OzL.Pro/ExCom/35/67

⁸ The current administrative cost regime applicable to UNDP, UNIDO and the World Bank, consists of annual core unit funding allowing an annual increase of up to 0.7 per cent subject to annual review, and agency support costs of 7.0 per cent for projects with a cost at or above US \$250,000, including IS renewals and project preparation; agency support costs of 9.0 per cent for projects with cost below US \$250,000; and agency support no greater than 6.5 per cent, to be determined on a case-by-case basis for projects in the production sector. The administrative cost regime applicable to bilateral agencies and UNEP consists of agency support costs of 13.0 per cent on projects up to a value of US \$500,000; for projects with a value exceeding US \$500,000 but up to and including US \$5,000,000, 13 per cent applied on the first US \$500,000 and 11 per cent on the remaining balance; and for projects with a value exceeding US \$5 million, agency support costs would be assessed on a case-by-case basis; agency support costs of 8 per cent applies to UNEP CAP and no agency support costs are applicable for IS projects supported by UNEP.

IS projects (every two years) in line with decision 74/51;⁹ and budgets of UNEP CAP and the core unit costs of UNDP, UNIDO and the World Bank. Since the adoption of the Kigali Amendment at the Twenty-Eighth Meeting of the Parties, funding has also been approved for preparation and implementation of stand-alone HFC investment projects in line with decision 78/3(g),¹⁰ and funding for enabling activities in line with decision 79/46.¹¹ Each of the funding requests has its own functions and performance indicators that are reviewed by the Secretariat and submitted to the Executive Committee for decision and subsequent follow-up.

15. As presented at the 79th meeting, the rates of administrative costs calculated as a ratio of project funding approvals by triennium has generally hovered below 13 per cent, as shown in Table 1.¹²

Table 1. Administrative costs paid by the Multilateral Fund by triennium (per cent)

Agency	1991-1993	1994-1996	1997-1999	2000-2002	2003-2005	2006-2008	2009-2011	2012-2014	2015-2016 [*]
Bilateral	-	-	4.95	11.39	10.64	12.39	12.34	11.74	11.98
UNDP	12.66	13.00	12.90	12.87	13.19	18.22	14.04	13.86	12.47
UNEP**	13.00	13.00	13.00	9.68	7.26	7.85	7.67	7.17	8.18
UNIDO	12.98	12.99	12.59	13.41	11.65	14.42	11.74	13.57	12.54
World Bank	2.81	8.58	11.38	10.04	9.84	10.15	13.34	11.01	10.36
Average	6.15	10.94	11.85	11.63	10.74	12.03	12.09	12.02	11.21

(*) Includes only two years of the triennium.

(**) Includes the agency support costs for the CAP, but does not include the administrative costs paid through the CAP.

Section II: Duties and costs of project management units in phase-out activities

16. PMUs can be traced back to 1997 when performance-based funding agreements for ODS phase-out were introduced into the Multilateral Fund's operations. At its 38th meeting, the Executive Committee approved guidelines for the preparation, implementation and management of performance-based ODS phase-out plans,¹³ which *inter alia* made implementing agencies responsible in ensuring the presence of an operating mechanism to allow an effective and transparent implementation of the annual programme and accurate data reporting. The guidelines also required a full description of the management structure for the implementation of the phase-out plan.

17. At its 45th meeting, the Executive Committee considered a document on further assistance for the post-2007 period for LVC countries.¹⁴ The document indicated that in terminal phase-out management plans (TPMPs), the roles and responsibilities of major stakeholders specifically the NOUs, took on a different focus. Increasingly, the NOU played a stronger and key role in achieving ODS phase-out by coordinating and implementing the phase-out programme, which was in addition to its coordination of the Montreal Protocol obligations in the country. The creation of the PMU with funding as part of the TPMP fulfilled the major coordination requirements for implementation of the activities proposed under the TPMP. This ensured that specific functions, separate from those of the NOU, were assigned to the PMU

⁹ The Executive Committee approved all IS projects and renewals at a level 28 per cent higher than the historically agreed level, with a minimum level of IS funding of US \$42,500 per year, to continue support for compliance with the Montreal Protocol and to address the challenges related to the phase-out of HCFCs in line with the objectives of decision XIX/6 and the transition to alternatives that minimized environmental impact. The Committee also decided to review IS, including funding levels, at the first Executive Committee meeting in 2020.

¹⁰ UNEP/OzL.Pro/ExCom/78/11

¹¹ UNEP/OzL.Pro/ExCom/79/51

¹² UNEP/OzL.Pro/ExCom/79/43. Where the ratio is above 13 per cent during the 2001-2011 period, it is because of the drop in the number of project approvals after the introduction of budgets for the CAP and the core units of UNDP, UNIDO and the World Bank.

¹³ UNEP/OzL.Pro/ExCom/38/57/Rev.1. For management costs, data should be provided on the justification for funding for project management in addition to the funding provided under institutional strengthening project, the role and responsibility of the project management to be funded.

¹⁴ UNEP/OzL.Pro/ExCom/45/46

for the preparation of annual action plans, the coordination of activities with stakeholders, and monitoring and reporting. In most cases, these units were located with or managed by the NOUs. The lead agency and, where applicable, the cooperating agencies also assisted the NOUs and PMUs in implementing the activities.¹⁵

18. It was determined that the coordination needs for the implementation of activities under the TPMP by the PMU included:

- (a) Preparation of the annual national action plans, in cooperation and with the support of experts from the bilateral and/or implementing agencies;
- (b) Coordination of the phase-out activities by stakeholders (e.g., industry, customs departments, importers, refrigeration associations, and the public);
- (c) Monitoring the progress of the planned activities in order to identify implementation shortcomings, delays, and relevant issues; and
- (d) Preparation of annual progress and financial reports on the implementation of all the activities approved for submission to the relevant bilateral and implementing agency.

19. The guidance provided by the Executive Committee at its 45th meeting with regard to the funding levels for TPMP proposals, allowed for the use of up to 20 per cent of the eligible funding for each country to ensure comprehensive annual monitoring and reporting of the TPMP (decision 45/54).¹⁶

20. At its 54th meeting, the Executive Committee considered the draft guidelines for the preparation of HCFC phase-out management plans incorporating HCFC surveys.¹⁷ Based on this document, the Executive Committee adopted the guidelines for the preparation of the HPMPs (decision 54/39).¹⁸

21. With regard to project coordination and management, including monitoring and evaluation, the guidelines for the preparation of HPMPs referred to decision 45/54 as a basis for overall terms of reference for a PMU, adding that a PMU should feature: a clear indication of the roles to be assumed by government bodies, industry bodies, academic institutions and consultants; the designation of a Government entity to which the management body would be accountable; and a description of the decision-making capacity and reporting responsibilities of the different parts of the management structure. The decision also provided for discussion on the level of involvement of the relevant implementing agency in the management and implementation of the HCFC phase-out plan. It was necessary to designate a lead agency in countries where multiple agencies operated, and the role and responsibility of each agency had to be clearly defined. It provided for a clear description of the financial and substantive oversight to be exercised over the HPMP, including the institutions involved, their specific roles and responsibilities, and the type and frequency of reporting.

¹⁵ The roles and responsibilities of the principal stakeholders implementing TPMP projects are presented in Annex V to document UNEP/OzL.Pro/ExCom/45/46.

¹⁶ Decision 45/54(c): The Executive Committee decided that that future TPMP proposals for the post-2007 period might include requests for funding up to the levels indicated in the table below, on the understanding that individual project proposals would still need to demonstrate that the funding level was necessary to achieve complete phase-out of CFCs. Up to 20 per cent of approved funds should be used by the bilateral or implementing agency and/or country concerned to ensure comprehensive annual monitoring and reporting of the TPMP, including the recovery and recycling programme.

¹⁷ UNEP/OzL.Pro/ExCom/54/53

¹⁸ UNEP/OzL.Pro/ExCom/54/59

22. In establishing the terms of reference for a PMU, the Executive Committee institutionalized the management of phase-out activities, including costs associated with PMUs.¹⁹ The terms of reference of the PMU became a component of the Agreement between the Government concerned (as appropriate and relevant) and the Executive Committee for the HCFC consumption reduction in accordance with (stage I or stage II) of the HPMP (Appendix 5-A).²⁰ This was distinctly different from the terms of reference of the lead (and cooperating, where applicable) bilateral and implementing agencies (Appendices 6-A and 6-B). The institutional arrangements outlined in Appendices 5-A, 6-A and 6-B provide for checks and balances, and accountability in the implementation of the HPMP.

23. Similarly, the Agreement between the Government concerned and the Executive Committee includes PMU costs and the implementing agencies' support costs. The overall funding approved for the HPMP, specified in paragraph 3 of the Agreement, includes funding for the PMU as an integral component of the HPMP either as a distinct structure or in a broader context of project coordination, monitoring and management. However, agency support costs for implementing agencies are specified in paragraph 10 of the Agreement of the HPMP as distinct from the costs approved for the PMU.

24. In reviewing the Agreements of approved HPMPs, it was noted that in some of them, Appendix 5-A codifies the PMU and NOU functions.²¹ However, in other Agreements, Appendix 5-A is generic, broadly referring to a national institution²² and, in some cases, the PMU role is not specified, but is sometimes included in a progress report.²³ The differences in the formulation of Appendix 5-A is a recognition of national circumstances and institutional arrangements, and also of the structure of the budget and associated costs.

25. The Executive Committee's regular review of Fund resource allocations and use ensures that administrative costs and project implementation costs adhere to approved guidelines. Expenditures from these budgets are reported to the Executive Committee during the time of tranche requests, and are closely monitored from the overall project implementation context. For example, at its 81st meeting, the Executive Committee considered issues related to the PMUs in China and Kenya both arising from information

¹⁹ UNEP/OzL.Pro/ExCom/74/51. Approximately up to 5 to 10 per cent (for non-LVC countries) and up to 20 per cent (for LVC countries) of the total funding requested for an HPMP may be allocated to the establishment of the PMU, and must be justified in the project proposal as per the guidelines for national phase-out plans. PMU funding could be considered as an addition to the overall level of institutional support. However, unlike IS funding, the funding allocation for the PMU is not fixed as the country has the flexibility to reallocate PMU funds to substantive activities if required.

²⁰ The agreement template for stage II of HPMP was approved at the 76th meeting (decision 76/52). Annex XIX of document UNEP/OzL.Pro/ExCom/76/66.

²¹ For example, the Agreement of the HPMP for the Sudan states that the lead agency, in collaboration with the NOU will select a national institution to monitor all activities of the HPMP; it will submit annual progress reports on the status of implementation of the HPMP to the NOU and to the lead agency. The National Project Officer will coordinate the daily work of project implementation, and will assist the enterprises, the Government and NGOs to streamline their activities for smooth implementation of the project; and will help the Government with monitoring implementation, and reporting to the Committee (Annex XXIII of document UNEP/OzL.Pro/ExCom/75/85).

²² For example, the Agreement of the HPMP for the Bolivarian Republic of Venezuela states that the monitoring activities will include implementation of all the projects; regular monitoring of project implementation and results; production of periodic reports to facilitate corrective actions and to present progress to the Committee; and regular monitoring of market developments and trends (Annex XXIII of document UNEP/OzL.Pro/ExCom/75/85).

²³ Appendix 5-A of Brazil's Agreement with the Committee on stage II of the HPMP does not define the PMU role; however, its 2017/2018 progress report on the HPMP shows that the country works with two PMUs that are coordinated by UNDP and UNIDO. The UNDP PMU provides permanent assistance to the Ministry of the Environment (MMA) and to HPMP beneficiary enterprises in implementing investment projects in the polyurethane foam sector. The UNIDO PMU assists the MMA and beneficiary enterprises in implementing the RAC equipment manufacturing sector project.

provided in their tranche requests, and subsequently adopted two decisions²⁴ related to PMU budgets and expenditures.

26. In China, there are two operational structures with clearly defined functions, the project management office (PMO), and sectoral PMUs. The PMO, which is under the Ministry of Ecology and Environment, provided overall management, monitoring, supervision and coordination in the implementation of stages I and II of the HPMP and other Multilateral Fund-supported projects such as IS and HFC enabling activities. The IS project supports the work of the PMO, which involves policy formulation and enforcement, strengthening coordination with bilateral and implementing agencies and other stakeholders, and managing ODS phase-out activities. The PMO was also responsible for facilitating the ratification of the Kigali Amendment, and preparation for HFC phase-down activities. The sectoral PMUs were responsible for the day-to-day implementation of project activities of each sector plan under stages I and II of the HPMP. UNDP, UNEP, UNIDO, the World Bank, and the Governments of Germany, Japan and Italy were responsible for implementing their sectoral plans.²⁵

27. In the case of the PMU of the HPMP for Kenya, the Government of France (as the lead agency) indicated that the PMU played a crucial role in supporting enforcement of ODS regulations in the country, regularly discussing with officials of the National Environment Management Authority and the Kenya Revenue Authority. The PMU costs included those for coordination and implementation support (e.g., supporting enforcement procedure; organization and participation in stakeholder workshops; communication with refrigeration and air conditioning industry; assistance to the NOU to identify and select consultants to assist with project implementation; and coordination of procurement processes); costs for verification, monitoring and reporting activities; and recurrent operating costs (communications, office space and stationary retirements).

Roles of implementing agencies in relation to PMUs

28. For countries that have an established PMU, the relevant bilateral and implementing agencies have different administrative arrangements, often depending on the overall country requirements and project complexity:

- (a) UNDP is the lead agency in nine countries, which are implementing HPMPs with approved project management budgets. UNDP delegated authority to the country office to work with the relevant government entity to establish the legal basis for implementing Multilateral Fund-supported activities. The PMU budget was included in the project document, facilitating government access to the funds and the establishment of a PMU team for project implementation. A government ministry or NOU was responsible for day-to-day implementation, and reporting to UNDP on a quarterly basis on the use of quarterly cash advances. The PMU supported reporting on HPMP activities, and was generally under the oversight of the NOU or other designated official or project steering committee. UNDP indicated that project management costs were considered as direct costs of project activities that were not provided by the Montreal Protocol Unit;
- (b) UNEP is the lead agency in 72 countries and cooperating agency in 25 others. It directly worked with a PMU in the servicing sector project in China. The PMU coordinated, with UNEP technical and policy assistance, activities such as the review of the work plan and terms of reference; supported technical and policy discussions; performed financial, procurement, contracting, and human resources management; and organized travel to project sites. While UNEP did not directly work with PMUs in other countries, it indicated

²⁴ Decision 81/12 requested, on an exceptional basis, information about the PMU expenditures as input for this report on PMUs; and decision 81/46 was on, among others, the financial reporting format for annual PMU expenditures for the HPMP and HCFC production phase-out management plan (HPPMP) for China.

²⁵ Based on input provided to the Secretariat on the implementation of the IS project in China.

that it fully supported the NOU in project management. The NOU recruited consultants or project officers to assist with various HPMP activities, including implementation, monitoring data collection and collation, and targeted awareness campaigns. The UNEP CAP staff currently supported project delivery in 104 countries in which UNEP coordinated IS projects;

- (c) UNIDO is the lead agency and manages the PMU budget in 20 HPMPs in 16 countries. In addition, it manages the PMU budgets for four HPMPs in four countries in which it is the cooperating agency. UNIDO coordinated with the NOU on the required capacity of the PMU before directly establishing the unit, including staff recruitment. UNIDO also managed contracts, travel and any other administrative duties. In many countries, the PMU was located in the NOU office, but UNIDO provided office space for the PMU when needed; and
- (d) The World Bank is the lead agency in seven HPMP projects in five countries. A project implementation manual (PIM) outlined the institutional arrangements between the PMU, the authorities and other project stakeholders. The Bank had three types of PMU administrative arrangements: an autonomous PMU operating parallel to the NOU; a separate PMU reporting to the head of the NOU or other manager in the ministry/agency responsible for the Montreal Protocol; and a PMU that was integrated in the NOU and reported to the head of the NOU or other manager in the ministry/agency responsible for the Montreal Protocol. In all three arrangements, PMU staff were answerable to the government official in the NOU, who in turn coordinated implementation with the Bank and other agencies. Decisions governing the work of the PMU were made by the country signatory to the project's grant agreement with the Bank. Staff were usually consultants hired with the PMU budget and worked solely on HPMP implementation.

29. Generally, PMU costs include project coordination and execution; monitoring and regular reporting to the relevant bilateral or implementing agency; development of training components; production and distribution of targeted information on HPMP phase-out activities; assisting the NOU as appropriate and relevant; and providing updates on project progress and ODS phase-out.

30. In terms of the core unit, the implementing agencies indicated that the budgets of their core units covered the costs of staff and associated operating expenses related to coordinating the Montreal Protocol projects and activities in Article 5 countries. Funding amounts approved under the core units were not passed on for administrative duties to other institutions, and there was no overlap between core unit and PMU costs. Annex I highlights selected PMU duties and costs in relation to the PMU, IS, CAP, core unit and administrative costs.

Section III: Institutional strengthening

31. Institutional strengthening funding has over the years become synonymous with NOUs, which are on the frontline of implementing Montreal Protocol-related activities at the national level, including policies, laws and regulations, import/export data collection and management, reporting ODS consumption data to both the Fund Secretariat and Ozone Secretariat, and ODS phase-out activities at the country level.

32. The final report on the evaluation of IS projects submitted to the 56th meeting²⁶ concluded that most Article 5 countries had achieved the ODS phase-out as scheduled, and that this could not have been realized without IS funding. Taking into account the then relatively low priority of ozone issues in many Article 5 countries, as well as the administrative constraints and limitations of Government budgets, the IS projects provided in most countries the extra leverage needed to strengthen the NOUs. This enabled them

²⁶ UNEP/OzL.Pro/ExCom/56/8

to mobilize stakeholders, initiate and follow-up on legislation and ratification of Montreal Protocol amendments, and coordinate the preparation and implementation of phase-out projects and plans with bilateral and implementing agencies.

33. At its 74th meeting, the Executive Committee considered a document on the review of funding for IS projects.²⁷ The document briefly reviewed the history of IS funding, its linkage with other forms of institutional support provided through PMUs, and the CAP; and it also assessed the relevance of IS support in contributing to the achievement of Article 5 countries' compliance with the Montreal Protocol. As indicated in the document, the relevance of funding for IS support can be summarized as follows:²⁸

- (a) Assisting authorities in the ratification of the amendments to the Montreal Protocol. As of 4 December 2014 all the amendments to the Montreal Protocol had been universally ratified, and as of 31 October 2018, 35 Article 5 countries had ratified the Kigali Amendment;
- (b) Assisting authorities to put in place and enforce legislation and regulations for control and monitoring of controlled substances. For example, all Article 5 countries currently have an operational licensing and quota system for HCFC imports and, where applicable, production and exports, capable of ensuring the countries' compliance with the Montreal Protocol targets, in line with decision 63/17;²⁹
- (c) Coordinating the collection, analysis and submission of data on consumption and production under Article 7 of the Montreal Protocol and progress reports on the implementation of country programmes;³⁰
- (d) Coordinating stakeholders, namely Government institutions, including customs authorities, ODS importers/exporters and traders; industry and industry/trade associations; training centres; and non-governmental organizations (NGOs); and linking government authorities with the Executive Committee, the Fund Secretariat, and bilateral and implementing agencies;
- (e) Planning, organizing, directing and coordinating all activities required for the implementation of phase-out plans;
- (f) Integrating ozone protection issues into national plans. All Article 5 countries requesting IS funding have provided details on the role and position of the NOU within the national administration and its reporting lines, and how the ozone protection programmes are anchored within the country's government structure; and
- (g) Awareness-raising for stakeholders. All Article 5 countries have developed and implemented numerous awareness-raising activities, which target specific stakeholders or the public.

²⁷ UNEP/OzL.Pro/ExCom/74/51

²⁸ As presented in the document and subsequently updated as required.

²⁹ The Executive Committee decided to add the following paragraph both to the template for draft agreements approved in decision 61/46 and to the draft agreements submitted to the Committee for consideration at its 63rd meeting: "That, for all submissions from the 68th meeting onwards, confirmation has been received from the Government that an enforceable national system of licensing and quotas for HCFC imports and, where applicable, production and exports is in place and that the system is capable of ensuring the country's compliance with the Montreal Protocol HCFC phase-out schedule for the duration of this Agreement."

³⁰ The number of countries submitting their reports on time has increased year by year, as indicated in document UNEP/OzL.Pro/ExCom/82/9

34. Based on the above-mentioned document, the Executive Committee increased the funding levels for all IS projects to continue support for compliance with the Montreal Protocol and to address the challenges related to the phase-out of HCFCs, and decided to continue to use the existing format for IS renewals with a modification to include performance indicators (decision 74/51).³¹

35. Overall, the NOU role is central to ODS phase-out at the national level and contribution to the success of the Montreal Protocol. The legal and institutional framework facilitated by the NOU has provided the foundation for the PMU to implement HPMPs. The NOU role of monitoring, coordinating and reporting on Montreal Protocol activities is broader than that of the PMU, which has a significant impact on identifying obstacles, preventing delays, and in ensuring that project implementation is not affected by NOU capacity or otherwise.

Section IV: Compliance Assistance Programme

36. The CAP³² was approved by the Executive Committee in 2002 to *inter alia* provide services to Article 5 countries through a regional presence to ensure and sustain the countries' compliance with the Montreal Protocol measures. The CAP has been strengthening the capacity of Governments, particularly the NOUs, ministries and other national stakeholders, to elaborate and enforce the policies required to implement the Montreal Protocol, and to make informed decisions about regulatory, institutional and policy frameworks as well as alternative technologies in line with agreed phase-out targets.

37. CAP³³ provides the following core services, using a global and regional approach, therefore, distinctly different from those undertaken by PMUs, which are single country/project focused and based:

- (a) A regional capacity-building mechanism that promotes the exchange of information, experience and know-how to meet the Montreal Protocol commitments; report data, adopt and enforce policies, adopt technologies, and strengthen the NOUs. It also provides special compliance assistance, query response and training of new NOU staff and facilitate enforcement, for example, through the voluntary informal Prior Informed Consent mechanism (iPIC) or the analysis of differences in reported trade data;
- (b) A South-South and North-South-South cooperation facility that enables targeted cooperation between two or more countries on specific technical or policy challenges facing Article 5 countries in the implementation of the Montreal Protocol;
- (c) Capacity building, providing training, information and support services that strengthen the national capacity of stakeholders (e.g., customs officers, refrigeration technicians, refrigeration associations), to establish the enabling environment for the implementation of the Montreal Protocol;
- (d) A global information, communication and education clearinghouse service that provides

³¹ UNEP/OzL.Pro/ExCom/74/56

³² UNEP/OzL.Pro/ExCom/81/20

³³ Section mainly based on Annexes 1A and 1B of document UNEP/OzL.Pro/ExCom/80/28. CAP supports 145 Article 5 countries that cover a broad spectrum in terms of size, population, and consumption and production of ozone-depleting substances (ODS). The countries include 48 countries classified by the UN as Least Developed Countries (LDCs) and 38 countries classified as Small Island Developing States (SIDS). While the approaches and challenges between regions and countries differ, there are some general challenges facing Article 5 countries in implementing their national HCFC phase-out plans. CAP offers on an average over 500 compliance assistance services annually to Article 5 countries to achieve and sustain compliance. CAP services cover a wide range of topics, including technical capacity building support on regulatory infrastructure, policies, licensing and quota systems, enforcement, and refrigeration technicians. These services have enabled the national ozone officers to smoothly transition the different technology challenges, sustain compliance and meet national ODS phase-out targets since 1991.

NOUs and other stakeholders with publications, e-services and tools that can be used for national information and awareness campaigns in support of Montreal Protocol objectives; and

- (e) CAP staff provide country-specific compliance assistance services to address the individual compliance-related needs articulated by NOUs.

38. Since the CAP was established in 2002, the Committee has adopted many decisions, ranging from programmatic to administrative, that ensure *inter alia* accountability, including that its functions and costs do not overlap with those of the PMUs of HPMPs.

Section V: Funding for preparation of project proposals

39. Bilateral and implementing agencies include funding for preparation of project proposals in their business plans, which are subsequently included in their work programmes for consideration and approval by the Executive Committee, following a comprehensive review of activities and budgets by the Secretariat. Where funding is approved and implementation is confirmed, bilateral and implementing agencies have to deliver on agreed performance indicators.

40. At its 45th meeting, the Executive Committee examined issues related to CFC phase-out in the post-2007 period, including project preparation and funding for verification reports. The Executive Committee subsequently decided that additional funding of up to US \$30,000 could be requested for the preparation of a TPMP proposal on the understanding that up to US \$10,000 of this funding could be earmarked to report on the implementation of a recovery and recycling programme, where applicable; to require, on an annual basis, verification of a randomly selected sample of approved TPMPs for LVC countries (decision 45/54).³⁴

41. Further to the agreement by the Parties to the Montreal Protocol for the accelerated phase-out of HCFCs, the Executive Committee adopted at its 54th meeting guidelines for the preparation of HPMPs and indicated that countries should employ the guidelines to develop, in detail, stage I of the HPMPs, which would address the freeze in HCFC consumption in 2013 and the 10 per cent reduction in 2015, with an estimate of related cost considerations and applying cost guidelines as they were developed. The guidelines considered the situation of countries with HCFC consumption in the servicing sector only, as well as countries with consumption in both the manufacturing and the servicing sectors. The Committee decided to provide funding for assistance to include HCFC control measures in legislation, regulations and licensing systems as part of the funding of HPMP preparation, as necessary, and decided that confirmation of the implementation of the same should be required as a prerequisite for funding implementation of the HPMP (decision 54/39).³⁵

42. Based on the above-mentioned guidelines, at the 55th meeting, project preparation funding was provided to over 90 Article 5 countries.³⁶ Subsequently at its 56th meeting, the Executive Committee agreed on a cost structure for determining funding levels for preparation of HCFC investment projects and associated activities, and defined the elements for funding the preparation of an overall HPMP (decision 56/16).³⁷

43. Funding for the preparation of project proposals supports the work of international and national consultants to undertake surveys for data gathering and information, to organize stakeholder meetings and workshops, to consolidate information and to prepare analyses, in support of the preparation and submission of specific project proposals for approval by the Executive Committee.

³⁴ UNEP/OzL.Pro/ExCom/45/55

³⁵ UNEP/OzL.Pro/ExCom/54/59

³⁶ UNEP/OzL.Pro/ExCom/55/53/Corr.2

³⁷ UNEP/OzL.Pro/ExCom/56/64

44. As stage I of HPMPs were being completed, the Executive Committee adopted at its 71st meeting guidelines for funding the preparation of stage II of HPMPs³⁸ in order to ensure compliance with the control measures of the Montreal Protocol, particularly the 2020 reduction step, and to facilitate the continuity of implementation of HPMP activities between stages (decision 71/42).³⁹ The guidelines, which build on those for stage I, provide for bilateral and implementing agencies to: demonstrate that substantial progress in the implementation of stage I of the HPMP has been achieved; indicate the activities that need to be undertaken for project preparation and costs; and provide a description of the information to be gathered and updated, as well as an explanation of why that information had not been included in stage I.

45. The PMU could assist and support the preparation of stage II (or subsequent stages of an approved HPMP) through, for example, providing information on the progress achieved, and describing phase-out activities to be implemented and completed within the funding of stage I. However, surveys of manufacturing enterprises (where applicable), surveys of stakeholders in the servicing sector, and visits to relevant Government authorities and other stakeholders are not funded through the PMU.

Section VI: Verification reports

46. Similar to the approval of project preparation funding, the Executive Committee also approved at its 45th meeting verification funding⁴⁰ to support annual verification of a randomly selected sample of approved TPMPs for LVC countries under implementation.⁴¹ The Executive Committee keeps under review the submission of verification reports as a component of funding-tranche requests for all non-LVC countries and for LVC countries for which funding has been approved for verification. A verification exercise is not optional. It is a requirement for each country to meet the agreed commitments and performance indicators.

47. Paragraph 5 of the agreement for the HPMP states that the Executive Committee will only provide the agreed funding if the country meets the targets in the agreement and if the meeting of those targets has been independently verified. The lead agency is responsible for ensuring that the independent verification is planned, implemented and for findings to be reported. Furthermore, an independent verification report on the results of implementation plans and on the consumption of substances must be submitted with each tranche request. Again, the lead agency is responsible for ensuring that the independent verification is carried out and submitted to the Executive Committee.

48. The independence of the verification provides for accountability in the use of Fund resources and in meeting the phase-out obligations of an Article 5 country. The independent nature of the verification also means that none of the stakeholders involved in implementing any of the activities funded under the HPMP can assume verification functions.

Section VII: Observations of the Secretariat

49. The PMU facilitates project implementation and supports Government authorities, particularly the NOU, in implementing Multilateral Fund-supported projects, thus helping countries meet their compliance obligations under the Montreal Protocol. The PMU's added value is technical expertise that often is not

³⁸ UNEP/OzL.Pro/ExCom/71/55

³⁹ UNEP/OzL.Pro/ExCom/71/64/Corr.1

⁴⁰ UNEP/OzL.Pro/ExCom/45/55. Among other provisions, the Committee decided (decision 45/54): to require, on an annual basis, verification of a randomly selected sample of approved TPMPs for low-volume-consuming countries under implementation (i.e., 10 per cent of approved TPMPs). The costs associated with verification would be added to the relevant work programme of the lead agency.

⁴¹ Decision 61/46(c) requested the Secretariat to provide, at the first meeting of each year, a list representing 20 per cent of countries with an HCFC consumption baseline of up to 360 metric tonnes (mt) (19.8 ODP tonnes), and with an approved HPMP, to approve funding for them for verification of that country's compliance with the HPMP agreement for that year. LVC countries are not required to have verifications on a permanent basis, but only a sample of 20 per cent annually, and the Fund approves US \$30,000 to the implementing agency for the verification exercise.

available in the NOU or capacity that is critical to meeting agreed targets as agreed with the Executive Committee.

50. All activities submitted for Multilateral Fund support, including HPMPs and HPPMPs (the PMU is one of the cost components); renewals of IS projects; preparation of project proposals and verification reports for LVC countries (funded outside the HPMP); and the CAP and core unit and agency support costs of UNDP, UNIDO and the World Bank, are governed by decisions of the Executive Committee based on phase-out targets specific to each Article 5 country. All proposals are subject to comprehensive and thorough review by the Secretariat, including financial reporting and monitoring, before submission to the Executive Committee for its consideration and decisions. This review considers the risk of overlap in the functions and duties of the different stakeholders and the costs associated with project activities and monitoring, and ensures that there is no double-counting. The comprehensive review processes show complementarity rather than overlap between the PMU and other activities that are approved by the Executive Committee.

51. HPMP progress reports and tranche requests, which include PMU expenditures and administrative costs, are used in regular reviews that are conducted by the Executive Committee on Fund operations. Such reviews are based on approved guidelines, and ensure transparency and accountability in the use of resources. Fund policies also provide for agencies to return balances so that they can be reprogrammed to support other activities.

52. PMU costs are thoroughly assessed by the Secretariat during the project review process, including of progress reports and action plans, to ensure that all costs are directly related to implementation. The funding level of the PMU is directly related to the activities (and their complexity) to be implemented during a given stage of the HPMP.⁴² As PMU costs are directly linked to project implementation, there are not factored into the bilateral and implementing agencies' core unit and agency support costs, which are defined under the Fund's administrative cost regime.

53. In reviewing various Agreements of approved HPMPs, it was noted that in some cases the roles and responsibilities of the PMUs were well described in Appendix 5-A, while in other cases, they were implied, with the roles of the PMU and the NOU not clearly differentiated. This could increase the risk of overlap and duplication of activities. Therefore, it is recommended that the roles and responsibilities of the PMUs and the NOU be aligned with the objectives of the HPMP, and be clearly and comprehensively described under Appendix 5-A.

54. While implementing agencies have in the past indicated that introducing a reporting category for PMUs would present major reporting challenges⁴³ as their systems had so far not been designed to facilitate standardized reporting across different funding sources, the PMU financial reporting in progress reports of tranches of HPMPs is limited and needs review. Reporting should provide information on broader areas (such as PMU staff costs, office rental and stationary, monitoring and reporting, verification, and operating costs), taking into account the complexity of phase-out activities, national capacity and the needs of each Article 5 country. On this matter, the Secretariat has communicated with implementing agencies on the need to include the functions of the PMU in Appendix 5-A, as appropriate and relevant.

55. The information provided by bilateral and implementing agencies confirms that they have the administrative policies, systems, and measures that enable them to exercise adequate oversight over project implementation and delivery, including through PMUs.

⁴² For example, stage I of the HPMP for one country did not request funding for the PMU as the activities proposed related only to the conversion of a few enterprises with large HCFC consumption, and very limited activities related to the servicing sector. However, funding for stage II of the HPMP included a PMU, as stage II proposed extensive activities in the refrigeration servicing sector covering the entire country.

⁴³ UNEP/OzL.Pro/ExCom/79/43

56. Based on the analysis of available information and progress reporting by Article 5 countries, it appears that the Fund resources approved for PMUs, IS, the CAP, administrative and core unit costs, project preparation funding, agency support costs for project implementation, and verification activities, are utilized according to approved guidelines and funding levels, and complement rather than overlap/duplicate each other.

RECOMMENDATION

57. The Executive Committee may wish:

- (a) To note:
 - (i) The analysis of the duties and costs associated with project management units (PMUs) and the extent to which agencies passed on administrative duties to other institutions (decision 79/41(f)), contained in document UNEP/OzL.Pro/ExCom/82/63;
 - (ii) That the agency support costs received by bilateral and implementing agencies are used in supporting the implementation of approved activities, and are not considered as additional administrative costs of PMUs that are funded under HCFC phase-out management plans (HPMPs) or passed onto other institutions;
 - (iii) That funds approved for project management and monitoring through either PMUs or other arrangements are an integral part of projects, and are used for implementing such activities approved under stages I and II of the HPMPs;
- (b) To request Article 5 countries through the relevant bilateral and implementing agencies:
 - (i) To include, when finalizing their Agreement with the Executive Committee for multi-year national plans to phase out controlled substances, the specific roles and responsibilities of the PMU and the NOU under Appendix 5-A; and
 - (ii) To include in progress and financial reports submitted with HPMP tranche requests, details of the costs and progress associated with PMUs.

Annex I

SELECTED PMU DUTIES AND COSTS IN RELATION TO OTHER MULTILATERAL FUND PROJECTS AND RESOURCES

Activity funding	Duties	Costs	Comment(s) related to the PMU
Project management unit (PMU)	Main role is the day-to-day implementation of multi-year projects, particularly HPMPs. In some cases, the roles are explicitly outlined in Appendix 5-A of the agreement between the country and the Executive Committee. However, some Agreements do not specify the PMU role.	A PMU could be one consultant or a team of sector experts, and the project management budget covers staff costs, project activities such as training of customs and enforcement officers, and technicians, and reporting on progress, and drafting tranche requests.	PMU activities are complementary to activities such as those under IS and CAP, but PMU does not undertake their work or use other budgets – it only uses project management and monitoring resources.
Institutional strengthening (IS)	<ul style="list-style-type: none"> • Supports the strengthening of the National Ozone Unit (NOU). The NOU, which is often under the environment ministry, is the backbone of MP related activities at national level; • Facilitates ratification of Montreal Protocol amendments; • Supports enforcement activities, including HCFC licensing and quota system; • Supports collection, analysis and submission of HCFC consumption and production data under Article 7; and • Strengthens awareness-raising. 	IS resources go towards staff costs and NOU activities, including supporting legislative and regulatory processes, licensing and quota systems, and engaging diverse stakeholders.	IS-funded NOU facilitates the implementation of multi-year agreements, and is the interface with implementing agencies in implementing and reporting progress on HCFC phase-out activities to the Executive Committee.
Compliance Assistance Programme (CAP)	<ul style="list-style-type: none"> • Coordinates regional capacity-building; • Assists the NOU to overcome challenges related to ODS legislation enforcement, and operationalizing HCFC licensing systems; • Assists in data reporting, and enforcing policies, adopting technologies and strengthening the NOU; • Provides capacity building, including training, information and support services that strengthen the national capacity of stakeholders; • Provides a global information, communication and education clearinghouse service; • Assists Article 5 countries in preparing and implementing their HPMPs; and • Coordinates implementation of verification projects for LVC countries approved outside the HPMPs. 	Agency support costs are provided to UNEP CAP to implement these activities, except for the current 104 IS projects approved without agency support costs for UNEP in lieu of CAP.	UNEP works with a PMU in China, and provides all its other services and support by working directly with the NOU.

Activity funding	Duties	Costs	Comment(s) related to the PMU
Core unit/ administrative costs	Duties include but not limited to the following: <ul style="list-style-type: none"> • Identifies and submits potential projects to the Executive Committee, and ensures that approved funds are used as authorized by the Executive Committee; • Prepares project proposals, obtaining project preparation budgets for larger projects; • Mobilizes in implementation teams for approved projects using appropriate bidding and evaluation mechanisms; • Monitors the progress of projects from an administrative point of view; • Reports on results of projects and the programme; • Prepares annual business plans based on communications with national governments about sector needs and priorities; and • Participates in meetings sponsored by the Executive Committee, and the Secretariat. 	In the context of the MLF, programme support costs are used to recover incremental costs which include: <ul style="list-style-type: none"> • Direct costs for <i>inter alia</i> substantive and operational staffing, facilities, equipment and activities, and programme services (i.e., planning, resource mobilization, monitoring, evaluation and management). They may also include direct costs related to the administration of human, financial, physical and information technology resources (e.g., service costs); and • Indirect costs for <i>inter alia</i> central administration of human, financial, physical and information technology resources; staffing, facilities, equipment, activities and legal liabilities. They may also include indirect (or overarching) costs pertaining to central programme services (planning, resource mobilization, monitoring, evaluation and management). 	CAP and core units of implementing agencies do not draw upon PMU budgets, which are utilized at the country level in implementing HPMPs and related activities.
Project preparation	<ul style="list-style-type: none"> • Supports surveys for data gathering and information; • Supports stakeholder meetings and workshops; • Supports consolidation of information and preparation of analyses; and • Supports the preparation and submission of specific project proposals for approval by the Executive Committee. 	Funding for the preparation of project proposals supports the work of international and national consultants.	PMU can assist and support the preparation of stage II (or subsequent stages of an approved HPMP), but PMU budget cannot be used for surveys of manufacturing enterprises, surveys of stakeholders in the servicing sector, and field visits.
Verification	<ul style="list-style-type: none"> • Coordinated by implementing agencies, but totally independent of agencies and NOU; and • Consultant(s) undertake field work, interview stakeholders, and review import/export data, and enforcement of licensing and quota system. 	<ul style="list-style-type: none"> • Consultant(s) costs; • Travel; and • Report preparation. 	NOU and PMU assist with logistics, but not directly involved in undertaking verification.