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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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Item 12 of the provisional agenda¹

**ANALYSIS RELATED TO THE CAPACITY OF THE MULTILATERAL FUND
INSTITUTIONS TO ADDRESS HFC PHASE-DOWN (DECISION 89/4)**

Introduction

1. At its 89th meeting, the Committee considered document UNEP/OzL.Pro/ExCom/88/69 on the implications of parallel or integrated implementation of HCFC phase-out and HFC phase-down activities and decided to request the Secretariat to prepare an analysis related to the capacity of the Multilateral Fund (MLF) institutions to address HFC phase-down, for the consideration of the Executive Committee at its 91st meeting (decision 89/4). The Secretariat has prepared the present document in response to this decision.
2. The document presents an analysis of the capacities of these institutions to address the phase-down of HFCs while still addressing the phase-out of HCFCs. It builds on the reports, data, analyses and considerations of previous documents submitted to the Executive Committee since the adoption of the Kigali Amendment, and on an analysis of the current and past business plans of the MLF.
3. The analysis takes into account that as of 25 October 2022, a total of 99 Article 5 countries had ratified the Kigali Amendment and are therefore eligible to submit Kigali HFC Implementation Plans (KIPs).² The document reflects the consultations on the subject, held with and the information provided by the implementing agencies. The Secretariat notes with appreciation the input provided by the implementing agencies, with whom discussions, both formal at the Inter-agency Coordination Meeting (IACM) (20-22 September 2022), and informal through bilateral consultations, were held.

¹ UNEP/OzL.Pro/ExCom/91/1

² In line with decision 84/46, HFC phase-down preparation activities can be included for countries that have not ratified the Kigali Amendment but have submitted a letter indicating their Government's intent to make best efforts to ratify it.

4. The document consists of the following sections: section I, the scope of the analysis; section II, the analysis of the expected and additional workload of the implementing agencies and the Fund Secretariat to address HFC-phase-down; section III, the anticipated needs of the implementing agencies and the Fund Secretariat on the expected workload; and section IV, a recommendation.

I. Scope of the analysis

5. The analysis examines the capacity and needs of the MLF institutions, particularly the implementing agencies and the Fund Secretariat, to address HFC phase-down in the period from 2023 to 2030, during which HCFC phase-out and HFC phase-down activities will be implemented, by understanding the workload of the implementing agencies and the Secretariat in supporting the implementation of both these activities. The analysis also considers the scope and trends of the current workload for the determined timeframe. For HFC phase-down the first compliance targets are the freeze in HFC consumption by 2024 and 10 per cent reduction in 2029 for Article 5 group 1 countries; and the freeze in 2026 and 10 per cent reduction in 2032 for Article 5 group 2 countries; for HCFCs, countries are expected to reduce consumption by 67.5 per cent in 2025 and reach full phase out in 2030.³

6. In addition, the anticipated impact on the workload of Fund institutions of specific HFC-related decisions and HCFC-related decisions is also considered. These include but are not limited to: (i) additional activities to be included in existing and future HCFC phase-out management plans (HPMPs) for low-volume-consuming (LVC) countries, needed for the introduction of alternatives to HCFCs with low or zero global-warming potential (GWP) and for maintaining energy efficiency in the refrigeration servicing sector (decision 89/6); and (ii) the inclusion, in KIPs stage I and refrigeration servicing plans under HPMPs, of activities related to the environmentally sound management of used or unwanted controlled substances, including disposal (decision 90/49(b)).

7. Moreover, further needs may arise from current and future discussions and relevant decisions of the Executive Committee, all of which would impact on the workload of the MLF institutions, cost effectiveness and the quality and timeliness of the delivery of services.⁴ The scope of this document, however, does not cover those areas and intends in no way to pre-empt the discussions of the Committee.

8. The capacity of Article 5 countries is discussed in the document on the review of institutional strengthening (IS) presented to this meeting of the Executive Committee,⁵ which addresses *inter alia* the needs of National Ozone Units (NOUs).

³ 2030-2040 is a period during which limited amounts of HCFCs may be used for servicing, i.e., “servicing tail” (decision 86/51).

⁴ At this meeting the Committee will be considering: (i) Criteria for pilot projects to maintain and/or enhance energy efficiency of replacement technologies and equipment in the context of the HFC phase down (decisions 90/50 (b)(i)); (ii) An operational framework to further elaborate on institutional aspects and projects and activities that could be undertaken by the MLF for maintaining and/or enhancing the energy efficiency of replacement technologies and equipment in the manufacturing and servicing sector when phasing down HFCs in the categories set out in document UNEP/OzL.Pro/ExCom/89/12 in the context of implementing options 1 and 2 in table 3 of the document (decisions 90/50 (b)(ii)); and (iii) Criteria for a funding window to provide Article 5 countries with assistance to prepare an inventory of banks of used or unwanted controlled substances and to develop a plan for the collection, transport and disposal (including consideration of recycling, reclamation and cost-effective destruction) of such substances (decision 90/49 (c)).

⁵ UNEP/OzL.Pro/ExCom/91/60

9. Analysis of the capacity requirements for the Treasurer is not included in the present document, as it was previously indicated⁶ that any changes in funding modalities linked to additional HFC phase-down activities would entail no cost implications, as long as the resources approved for the bilateral and implementing agencies' projects were committed for bulk disbursement.

10. The document presents the analysis of the workload and relevant resource requirements but does not discuss the corresponding funding needs, which are addressed in the 2023-2025 Secretariat's budget, submitted to this meeting⁷ and in the review of the administrative cost regime, including core unit funding and the Compliance Assistance Programme (CAP), as well as agency programme support costs (PSC), to be submitted to the 93rd meeting of the Executive Committee.⁸

II. Analysis of the expected and additional workload of the implementing agencies and the Secretariat to address HFC-phase-down

11. Important changes have taken place since the adoption of the Kigali Amendment. While the phase-out of HCFCs is ongoing,⁹ the activities for the phase-down of HFCs were initiated with the approval of enabling activities for the phase-down of HFCs in 138 countries, and the preparation of KIPs for 68 countries, and may include the submission of individual HFC investment projects or sector plans in advance of the submission of stage I of the KIPs.

12. Implementing HFC phase-down activities and ongoing HCFC phase-out activities are expected to expand the scope and complexity of work under the MLF, including the implementing agencies and the Secretariat. HPMPs started at the end of 2010, when most of the CFCs had already been totally phased out. This time Article 5 countries will be preparing and implementing KIP preparation projects, first stages of KIPs and implementing multiple stages of HPMPs until 2030.

13. A review of the business plans submitted by the implementing agencies for the period 2023-2025 provides the following information:

- (a) Implementation of ongoing HPMPs for 144 countries will continue, totalling 207 tranche requests from 2023 to 2025; an additional 102 HPMP stage II and stage III requests will be submitted from 2023 with full implementation until 2030;
- (b) 127 KIP preparation activities have been approved; 76 KIP preparation activities are expected to be approved between 2023-2025; 166 KIP requests are also included. It is expected that all countries categorized as Group I will have ratified the Kigali Amendment during this period which will also impact the number of activities; and
- (c) There are 398 activities other than HPMPs or KIPs included in the business plan for this period (i.e., energy efficiency-related, HFC-investment activities, verification of consumption, production sector, IS).

14. Based on the information above, it is expected that those KIP preparation activities that were already approved, and those that will be approved at the 91st meeting will be considered by the Executive Committee for the full stage I of KIP implementation starting at the second meeting in 2023¹⁰ up until 2025, with expected implementation periods ending in 2029-2030 to meet the 10 per cent reduction in HFC

⁶ UNEP/OzL.Pro/ExCom/81/55, para. 15

⁷ UNEP/OzL.Pro/ExCom/91/7

⁸ In decision 88/74(c), the Executive Committee requested the Secretariat to present, at the last meeting of 2023, the analysis of the administrative cost regime and core unit funding.

⁹ The approval of the first HPMPs took place at the 60th meeting of the Executive Committee in December 2010.

¹⁰ The first KIP, for an LVC country, is being submitted for the consideration of the Executive Committee at the present meeting.

consumption. At the same time, HPMP implementation for the remaining stages is expected to be at full speed to enable countries to meet the phase-out scheduled in 2030.

15. In addition, related to the above activities, the Executive Committee is currently discussing policies and guidance for potential actions for maintaining and/or enhancing energy efficiency while phasing down HFCs¹¹ and possible activities and guidance related to disposal of controlled substances¹², many aspects of which need additional expertise and capacity for both the NOUs and the agencies, once and if agreed. These activities are expected to be implemented as additional components to the relevant HPMPs/KIPs.

16. IS projects are also being implemented in 140 countries; during the period 2023 to 2029, NOUs would need additional support for initiating steps for controlling and monitoring HFC phase-down and implementation of HPMP activities which are expected to conclude during the period 2026 to 2029. Implementing agencies would need to provide support to the countries to facilitate smooth implementation of different projects and other policies and regulations including setting up and managing strong data collection and monitoring systems for HFCs.

17. Overall, the above demonstrates the additional workload that would impact the capacity of both the Fund Secretariat and the implementing agencies, without including consideration on the increased complexity required for projects related to the phase-down of HFCs and its requirements. These would require responsibilities from the implementing agencies and the Secretariat in new fields that call for further training and possibly additional expertise.

III. Anticipated needs of the implementing agencies and the Fund Secretariat on the expected workload

III.1 Workload during 2023-2030 for implementing agencies

18. Implementing agencies play, in general, an active project execution support role – as opposed to just an oversight one over the wide range of different projects they are currently handling. In order to effectively address the transition from HCFC phase-out to HFC phase-down and to support countries in designing adequate interventions, including for integrated solutions, as necessary, implementing agencies need to have the appropriate technical expertise. Capacity-building and training of their own staff is needed in the implementing agencies, in order to enable them to handle the new and more complex issues.

19. Work related to HFCs has also seen most of the implementing agencies already engaging full- and part-time staff or consultants/experts to assist in implementation. While the implementing agencies have shown initiative in strengthening their core teams and engaging in-house expertise, uncertainty in forthcoming policy decisions of the Executive Committee related to the HFC phase-down continues to be a significant challenge to better define the expected workload and its implications. This is particularly demanding as implementing agencies initiate the preparation of KIPs without clarity on HFC cost guidelines, as stakeholder consultations are difficult when no transparent information can be provided on costs associated with projects. As demonstrated in section II above, in terms of numbers alone, the present workload of the implementing agencies will slowly build-up beginning in 2023, as new activities especially those related to the Kigali Amendment are approved and the Executive Committee finalizes guidelines related to these obligations.

20. Implementing agencies have also noted the need for their closer participation and hosting of Kigali Amendment-related meetings and trainings to support Article 5 countries with better understanding the requirements of the Kigali Amendment, especially with data reporting on HFC consumption and production – for an increased number of substances and blends, designing the strategy for ensuring activities for HFC

¹¹ UNEP/OzL.Pro/ExCom/91/64

¹² UNEP/OzL.Pro/ExCom/91/66

phase-down are compatible with HCFC phase-out, and preparing the framework to facilitate the safe adoption of low-GWP technologies which may be flammable or toxic.

21. Some of the aspects highlighted by the implementing agencies during the consultations with the Secretariat include:

- (a) The need for internal capacity-building and specialized support in the many fields related to HFC phase-down (i.e., customs codes, data reporting, good servicing practices handling flammable refrigerants, monitoring systems adapted to include HFCs, energy efficiency aspects, disposal of controlled substances) to strengthen their core teams to better provide reliable technical support to Article 5 countries. Developing solutions for the new challenges will also require significant discussion and consultations with stakeholders, which demands more staff time;
- (b) The need to increasingly link the work of the Montreal Protocol units (MPUs) of the implementing agencies to the climate agenda of both the relevant parts of their own institutions and of the countries being assisted, is a reality that needs close consideration in order to align the work of their MPUs with those handling the matters relating to climate and the Paris Agreement, and to build synergies and work in cooperation with related areas within their organizations, i.e., on sustainable cooling, transport, agriculture, fisheries, energy, climate, etc.; and
- (c) Technical support to LVCs needs particular attention, and should be carefully considered, especially during the first years of HFC phase-down. There is limited technical capacity in most of the LVC countries in terms of new alternatives, and gaps in technical expertise and infrastructure are important barriers to introduce new alternative technologies to HFCs and implementing agencies need to be able to assist these countries to meet compliance. The challenge also remains that LVC funding entails high transaction costs¹³ for many agencies, and these costs seem not to be sufficiently supported by the current funding provided to both these countries and the implementing agencies.

III.1.1 Ways of addressing the additional workload of the implementing agencies

22. The implementing agencies have started to take action to address some of these gaps in their capacity to implement their current workload through the following:

- (a) Change in delivery and implementation mechanisms
 - (i) Implementing agencies are working on improving the efficiency of their processes, procedures, and implementing mechanisms in order to improve cost-effectiveness, reduce bureaucracy obstacles, simplify processes and procedures - for instance to consolidate in an umbrella agreement multiple fund transfers instead of signing multiple agreements;

¹³ During past reviews of administrative cost regimes, it was recognized that in general, large-scale projects involve a lower level of administrative costs due to economies of scale. On the other hand, certain projects, such as non-investment ones, including small-scale projects, mainly in LVC countries, have higher administrative and transactional costs. Therefore, it was important to keep this fact into consideration when adjusting PSC, so as to ensure that there is no negative impact on those smaller projects/countries.

- (ii) Equipment procurement and delivery are enhanced by developing harmonised specifications and entering into long-term agreements with suppliers reducing multiple procurement requests; this ensures faster equipment delivery and timely conversion or training activities.
- (b) Internal collaboration to handle specialised areas
 - (i) Core teams of the implementing agencies are being strengthened by engaging experts already in their institutions through cooperation and synergies with other units in their organizations. While considered a temporary solution, this has helped the implementing agencies with their current need for expertise and capacity.

23. Despite these approaches, implementing agencies recognised that there is need for additional actions in order for the implementing agencies to ensure the sustainable assistance to Article 5 countries needed to meet their obligations under the Montreal Protocol. Following the analysis of the future workload vis-à-vis the implementing agencies current capacity, and consultations held, it was determined that there are mechanisms already available within the existing structures and funding of the implementing agencies and the existing guidelines of the Executive Committee that could be considered to respond to the needs of the implementing agencies. These include but are not limited to the following:

- (a) Adjustments in the core unit costs;
- (b) Adjustments in the CAP budget; and
- (c) Adjustments in the PSC for all implementing agencies.

24. It was also recognized that the three mechanisms listed above are part of the administrative support cost regime of the MLF. The last review of the administrative cost was considered by the Executive Committee at the 83rd meeting.¹⁴ At its 84th meeting, the Executive Committee requested the Secretariat to present at the 86th meeting, the outcomes of the analysis on 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 MLF for the 2018–2020 triennium could be maintained for the 2021–2023 triennium (decision 84/61(c)). However, due to postponements responding to the COVID-19 pandemic, the next review of the administrative cost regime will be considered at the 93rd meeting, in line with decision 88/74(c).¹⁵ The concerns expressed by the implementing agencies, noting their new responsibilities related to the implementation of the Kigali Amendment, would be considered during that review. In doing so, the potential adjustments referred to above would then be reviewed, together with any other possible options.

25. With regard to the adjustment to the CAP budget, UNEP submits a new work programme and budget for the CAP at the last meeting of each year, and any changes that are required to implement the workload of UNEP should be included in that budget, along with the relevant justification. It is noted that UNEP CAP's budget for 2023 is being submitted for consideration at the present meeting,¹⁶ and as such

¹⁴ UNEP/OzL.Pro/ExCom/83/39

¹⁵ In this decision the Secretariat is requested to present, at the last meeting of 2023, analysis of the administrative cost regime and core unit funding, taking into consideration relevant decisions by the Executive Committee, including those taken 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.

¹⁶ UNEP/OzL.Pro/ExCom/91/58

does not include any additional activities nor staff requirements for 2023. The core unit costs for implementing agencies are also being considered at the present meeting.¹⁷

III.2 Workload during 2023-2030 for the MLF Secretariat

26. The MLF Secretariat continues to assist and support the Executive Committee of the MLF. This support is provided by the Secretariat through its main responsibilities, which include the development of the three-year plan and budget and a system of funds disbursement; management of the business planning cycle of the Fund; monitoring the expenditures and activities of the implementing agencies; preparation of policy papers, project and other documents; review and assessment of project-related submissions of the implementing agencies; liaison between the Executive Committee, governments and the implementing agencies; and servicing the meetings of the Executive Committee. As new amendments and adjustments to the Montreal Protocol are agreed by the Parties, the task of the Executive Committee and, by extension, the Fund Secretariat, becomes more complex and demanding.

27. The implementation of the Kigali Amendment on HFC phase-down has resulted in additional and new responsibilities for the Fund Secretariat, especially in the areas of policy development, project review, and engagements with the bilateral and implementing agencies and other institutions. Since the 77th meeting the Secretariat has had to respond to new decisions¹⁸ of the Executive Committee that required additional assistance from expertise currently outside of the Secretariat's purview. The responsibilities of understanding itself and elucidating these additional and complex issues to the Executive Committee, in order to provide them with the information required for the adoption of the necessary policy guidance and to support the HFC phase-down, remain the Secretariat's.

28. As outlined in the workload of the implementing agencies above, those additional projects and activities that the implementing agencies will have to undertake will also impact on the volume of work of the Fund Secretariat as the review and analysis of these projects for the Executive Committee's consideration would be its responsibility. Thus, it might be argued that similar requirements in terms of additional expertise would also be required.

29. Moreover, the results of the 2019 assessment of the MLF by the Multilateral Organization Performance Assessment Network (MOPAN)¹⁹ identified areas for improvement that would require adjustments and changes to the Secretariat's operation to increase its efficiency and flexibility. These include the areas of the information and communication function, knowledge management, results framework, sustainability and risk assessment, gender and the evaluation function.

III.2.1 Perspectives on additional resources for the Secretariat

30. The Secretariat wishes to continue being a lean and agile body, while being able to adequately and effectively respond to the present demands of the Kigali Amendment. This would require an increase in the Secretariat's capacity and expertise in order to continue delivering its functions at a high level. The adjustments required to address new areas of work and improvements of existing areas for the Secretariat are listed below:

- (a) Develop and implement an updated comprehensive information strategy that fully integrates a new knowledge management system and a fully supported information

¹⁷ UNEP/OzL.Pro/ExCom/91/59

¹⁸ Started discussion of matters related to the phase-down of HFCs in Article 5 countries and its associated cost guidelines at the 77th meeting, including new approaches for determining the starting point and cost-effectiveness thresholds; energy efficiency and its related decisions; disposal of used or unwanted controlled substances and its related decisions. All these will continue to be discussed at the present meeting.

¹⁹ UNEP/OzL.Pro/ExCom/89/2/Add.1

technology system;

- (b) Build technical capacity on issues related to energy efficiency and other recent issues to better respond to the needs of the Executive Committee;
- (c) Restructure the current business planning and progress reporting responsibilities to focus on business intelligence and finance for enhanced analysis of the Fund's financial management; and
- (d) Strengthen project review capacity to deliver on the additional and more challenging projects that will need to be considered by the Executive Committee.

31. The changes proposed by the Secretariat are contained in documents UNEP/OzL.Pro/ExCom/91/7, Budget of the Secretariat, and UNEP/OzL.Pro/ExCom/91/70, Update of the information strategy of the Multilateral Fund including a detailed plan for information and knowledge management, the website/information technology requirements, the resources needed and clear timelines for implementation (decision 89/1(c)).

IV. Recommendation

32. The Executive Committee may wish:

- (a) To note the overall analysis related to the capacity of the Multilateral Fund (MLF) institutions to address HFC phase-down (decision 89/4) contained in document UNEP/OzL.Pro/ExCom/91/67, as a framework for the discussions that will take place under other agenda items, and further to the documents submitted under those agenda items; and
- (b) To request the Secretariat to continue discussions with the implementing agencies on their perspectives regarding additional resources needed based on the expected workload increase associated with HFC phase-down, and to consider them in its review of the MLF's administrative cost regime, to be submitted to the 93rd meeting.