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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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Item 13 of the provisional agenda¹

**OPPORTUNITIES TO FURTHER HIGHLIGHT HOW THE SUSTAINABILITY OF
ACTIVITIES SUPPORTED BY THE MULTILATERAL FUND WOULD BE ENSURED
(DECISION 89/1(c)(iii))**

Introduction

1. At its 86th meeting, the Executive Committee considered an assessment of the Multilateral Fund by the Multilateral Organization Performance Assessment Network (MOPAN)² that identified several key strengths of the Fund and five areas for improvement, including, among others, the need for a results framework, separate from the Montreal Protocol control schedule, that includes a clear set of performance measures for the Multilateral Fund itself, and greater attention for verifying and ensuring the sustainability of results achieved.

2. Regarding the latter, the assessment found that for the Multilateral Fund to maintain its effectiveness and credibility in the future, verifying and ensuring the sustainability of results achieved required greater attention. In addition, there was no results framework with a clear set of performance measures that would also address the overall quality or sustainability of results, and Multilateral Fund programme proposals do not explicitly analyze areas such as partner capacity, risks or the critical assumptions that underpin sustainability. At the 89th meeting, the Executive Committee considered the report on Secretariat activities relating to MOPAN's assessment,³ where members offered a number of specific suggestions and comments on the five areas for improvement, including suggesting that the Secretariat explore opportunities to highlight how sustainability would be ensured while acknowledging that sustainability would also be discussed under various other agenda items. One member noted that the MOPAN assessment included observations about risk management that were not fully addressed in the Secretariat's report and asked that the Secretariat consider those. Following further discussions, the Executive Committee *inter alia* requested the Secretariat to explore opportunities to further highlight how the sustainability of activities supported by the Multilateral Fund would be ensured, including by further clarifying in the documents submitted by the Secretariat how partner capacity, risks and critical assumptions

¹ UNEP/OzL.Pro/ExCom/91/1

² UNEP/OzL.Pro/ExCom/86/2/Add.1

³ UNEP/OzL.Pro/ExCom/89/2/Add.1

were considered, and to report to the Executive Committee at its 91st meeting (decision 89/1(c)(iii)). The Secretariat prepared the present document in line with that decision.

Observations and actions taken

Documents for tranches and new stages of HCFC phase-out management plans (HPMPs)

3. The Secretariat considers that a key success of the Multilateral Fund is the long-term sustainability of the projects and activities funded under the Fund. Funding under the Montreal Protocol is based on a commitment by the Article 5 country concerned to sustainably and permanently reduce the consumption and production of controlled substances. To ensure such sustainability, risk assessment and assessment of partner capacity have always been an integral part of project preparation, implementation and completion undertaken by the bilateral and implementing agencies and the project review by the Secretariat. A summary of the approach used by the implementing agencies to assess partner capacity and risk is presented in the annex to the present document. The Secretariat's project review encompasses a detailed review of the consumption and, where relevant, production data for the country concerned; the capacity of institutions and enterprises to undertake the planned activities; the policy and regulatory frameworks to support the sustained phase-out; and measures that may have been undertaken in case of delays and challenges in implementation. Some examples of the assessment of risk and partner capacity undertaken during the review of projects can be found in paragraphs 22 to 29 of document UNEP/OzL.Pro/ExCom/88/2/Add.2. To more clearly communicate those assessments, the Secretariat will implement the following changes to documents for tranches and new stages of HPMPs prepared for meetings of the Executive Committee:

- (a) For tranches of HPMPs, changing the section "Sustainability of the HCFC phase-out" to "Sustainability of the HCFC phase-out and assessment of risks." In addition to the discussion on the activities and regulatory measures implemented to ensure the sustainability of HCFC phase-out achieved through conversion(s) in the manufacturing sector, sustainability of the training programmes (so they can continue being provided by local bodies after the completion of the HPMP), and overall sustainability of the reductions in HCFC achieved through the HPMP, this section will now also include an assessment of partner capacity and a qualitative assessment of risk. As appropriate, challenges due to partner capacity, market uptake of new technologies, delays in implementation, including of policy and regulatory measures, and other challenges that could put the sustainability of the project at risk are identified, and the steps to address those challenges; and
- (b) For new stages of HPMPs, combining the sections "Regulations to support HCFC phase-out" and "Sustainability of the activities proposed under stage [II]" into a new section, "Sustainability of the HCFC phase-out and assessment of risks," that includes:
 - (i) A (qualitative) discussion of the risks to the successful implementation of the project and its sustainability, including *inter alia* partner capacity, possible challenges in the market uptake of new technologies, an assessment of the implementation timeline, the role of enterprises and organizations not participating in the project (e.g., if only part of a sector is participating in the project, or there is significant presence of non-Article 5-owned or otherwise non-eligible enterprises), and other challenges;
 - (ii) A discussion of the mitigation measures that will be implemented to address the above risks, including through activities, policy and regulatory measures that will help ensure the sustainability of HCFC phase-out achieved through conversion(s) in the manufacturing sector; improved servicing practices, and sustainability of the training programmes (so they can continue being provided by local bodies after the completion of the HPMP); policy and regulatory measures to support the

HCFC phase-out (e.g., measures to control the import of HCFC-based equipment, to avoid emissions of refrigerants during installation, servicing, and decommissioning of equipment, and others), and overall sustainability of the reductions in HCFC achieved through the HPMP, including how the phase-out will be sustained after the completion of the stage of the HPMP; and

- (iii) A description of how ensuring sustainability will be monitored and reported, including in subsequent tranche implementation reports.

Institutional strengthening (IS)

4. MOPAN noted that the Multilateral Fund's emphasis on capacity building and IS would suggest a strong likelihood that efforts to comply with the Montreal Protocol will be sustained in most countries, and that IS funding and capacity-building efforts to help Article 5 countries achieve and maintain compliance are a particular strength of the Fund. MOPAN further noted that some countries had already added financial support of national ozone units (NOUs) to their national budget, which was evidence of commitment. However, for other countries, it was not clear whether NOUs would continue to be funded beyond Multilateral Fund support. In addition, MOPAN found no requirement for bilateral and implementing agencies to jointly develop capacity analysis statements with NOUs, nor a requirement to develop strategies that address identified weaknesses in capacity.

5. To address this finding, the Secretariat will, in future reviews of IS renewal projects, include an assessment of lessons learnt from the current IS implementation phase (e.g., what were the challenges, what worked well and what experiences or actions could be implemented differently in future IS project phases).

Identification of risks and measures to mitigate those risks across projects

6. In cases where common risks are identified across planned projects or those under implementation, the Secretariat will, as appropriate, include a new section to the documents on tranche implementation delays and to the annual consolidated progress report describing common risks across projects under implementation; a new section to the overview of issues identified during project review describing policies or measures proposed under new proposed projects to mitigate risk and ensure sustainability; and, as needed, a new section in the consolidated business plan identifying possible prospective risks.

Results framework

7. In line with decision 89/1(c)(i), the Secretariat is developing a results framework and a scorecard that fit the operations of the Multilateral Fund and will present those for consideration by the Executive Committee at its 92nd meeting. At the time of finalization of the present document, the Secretariat was still considering the indicators and metrics on sustainability and risk management that could be tracked in the results framework, and how sustainability could best be reflected in the scorecard. The Secretariat will include those items in its presentation to the Executive Committee at the 92nd meeting.

8. In addition, the Secretariat will include a framework summarizing the actions taken by the Multilateral Fund to assess partner capacity and risks on the Multilateral Fund website.

Recommendation

9. The Executive Committee may wish to note the report on opportunities to further highlight how the sustainability of activities supported by the Multilateral Fund would be ensured (decision 89/1(c)(iii)), contained in document UNEP/OzL.Pro/ExCom/91/68.

Annex I

SUMMARY OF THE APPROACH USED BY IMPLEMENTING AGENCIES TO ASSESS PARTNER CAPACITY AND RISK

UNDP

1. The Enterprise Risk Management (ERM) of UNDP includes an internal controls framework and is largely performance-based, following implementation of the project and disbursing funds only once specific milestones have been reached. Advanced transfer of funding to partners is rare and is guided by the Harmonized Approach to Cash Transfers (HACT) framework, which includes both a capacity assessment of the partner prior to transferring the funding as well as an audit after implementation to independently confirm implementation; generally these are only done for low-risk government organizations. The ERM applies to all UNDP projects, including projects financed by the Multilateral Fund.

ERM

2. The scope of UNDP's risk policy¹ covers risks across all levels of the organization and in multiple contexts, including horizontal integration across all types of risks and vertical integration from projects up to corporate level. UNDP defines risk as the effect of uncertainty on organizational objectives, either positive or negative, and prioritizes preventing and managing potential negative effects while maximizing positive effects where possible. The ERM policy is the umbrella framework for risk management in the organization, developed from various UN and UNDP policies and procedures, such as the HACT framework, capacity assessments, security and anti-fraud policies, and audits and evaluations.

3. The Country Office is the first line of defence in project risk management and is accountable for monitoring, reporting, and managing project-level risks. Regional bureaus are responsible for ensuring that country offices under their supervision keep their project risk registers up to date, respond to risks appropriately, and report as necessary. Additional oversight of project risks is provided by the Bureau for Policy and Programme Support / Nature, Climate Change, and Energy Montreal Protocol Unit, who has a dedicated team in UNDP headquarters and three regional hubs, taking into account Multilateral Fund policies and guidelines.

Operational Guide of the Internal Control Framework (ICF)

4. UNDP's ICF² is a fundamental part of UNDP's risk management strategy, along with their anti-fraud policy, anti-fraud strategy, and anti-fraud action plan.

5. The ICF is structured around specific roles in the organization; for example, the project manager, approving manager, and disbursing officer hold authority for UNDP procurement, commitments, and expense and disbursement transactions, respectively. Segregation of duties is further encouraged at all staff levels to avoid conflicts of interest related to financial tasks, such as approving transactions or authorizing travel. To minimize the risk of error or fraud and help detect errors, considerations of conflicts of interest and segregation of duties are also integrated into project boards, procurement committees, and delegations of authority.

6. The head office of UNDP is required to verify compliance with key conditions of the ICF, for example:

¹ https://popp.undp.org/_layouts/15/WopiFrame.aspx?sourcedoc=/UNDP_POPP_DOCUMENT_LIBRARY/Public/AC_Accountability_Enterprise%20Risk%20Management%20Policy.pdf

² <https://popp.undp.org/SitePages/POPSubject.aspx?SBJID=7&Menu=BusinessUnit&Beta=0>

- (a) The project manager should not be approving non-purchase-order (PO) vouchers for their own projects;
- (b) No staff are assigned vendor approver or have creation rights of a voucher, vendor, or PO or prepare bank reconciliation, and must not be a sole bank signatory;
- (c) Offices do not have more than two vendor approvers, except for offices with previous year delivery above US \$50 million, who may have up to three vendor approvers;
- (d) Staff functions are not being performed by non-staff members; e.g., finance and payroll administrator roles may not be assigned to holders of a service-based contract; and
- (e) No single person should exercise first authority (project manager/committing officer) and second authority (approving manager/verifying officer) over any one transaction.

7. Further, the Enterprise Resource Planning system has automated controls that simplify and streamline conditions of the ICF so that conflicting rights cannot be granted in the first place, preventing ICF violations. Any exceptions must be granted by the Bureau for Management Services/Office of Financial Resources Management, who manages the ICF.

UNEP

8. UNEP has developed a formal risk management framework and guidelines that follow recommendations from the UN Secretariat's ERM policy³ and the results of studies on best practices in risk management. UNEP's ERM framework includes the development of risk mitigation plans and is based on partner-scoping involving due diligence, a screening process, and a partnership committee.

Risk mitigation plans

9. For each project, top risk areas are identified and response plans are developed detailing corresponding response activities. Risk is measured in terms of impact, likelihood, and effectiveness of internal controls to manage the risk. Each cycle in UNEP's risk management process includes the following elements:

- (a) Mapping and alignment of risks to UNEP's objectives, mandates, and strategic initiatives;
- (b) Assessment of risks through interviews, risk questionnaires, workshops with relevant management and staff, and other sources such as recommendations from oversight bodies;
- (c) Prioritization of risks based on their measured ratings;
- (d) Determination of response activities, implemented according to defined timelines and responsibilities; and
- (e) On-going monitoring of risks and internal controls.

10. In addition, regular training and communication is encouraged throughout the organization to foster a risk-aware culture, building adequate capacity and developing critical skills.

³ <https://policy.un.org/policy-doc/30440>

Partner-scoping approval process

11. The formal partnership determination and approval process, referred to as partner-scoping, is a five-step process to determine the need for a partnership, the nature and type of partnership envisaged, and the due diligence screening process that will be required. Following these steps is the recommendation and approval of the proposed partner.

12. A UNEP-wide partnership strategy guides the process of partner assessment and validation. The strategy includes a needs assessment, identification of the nature and types of partnership, and due diligence screening. It also outlines the roles and responsibilities of those involved in the approval of partnerships.

13. A partnership activity in relation to Multilateral Fund projects implemented by UNEP usually involves the establishment of a legal agreement with a partner (e.g., a small scale funding agreement or project cooperation agreement). Partners that UNEP typically collaborates with include national government agencies, non-governmental organizations, industry associations and professional associations, UN agencies, and, very occasionally, individual enterprises. The due diligence screening applies to both for-profit and not-for-profit partners, such as non-governmental organizations, foundations, research institutes, and philanthropic organizations; UN agencies, governmental and inter-governmental entities are exempt.

14. Following the due diligence screening, a recommendation to collaborate with a partner is formulated and sent through the Partnership Portal to the regional director of the division or regional office managing the project.

15. Either the partnership committee or division director may approve a partner recommendation, depending on the results of the screening process and the financial amount involved in the agreement; transfers above US \$200,000 must be approved by the committee.

UNIDO

16. UNIDO does not have a formal partner capacity and risk management framework in place, but rather relies on experience and expert judgement. Assessment of risk regarding sustainability of enterprises is ongoing during project implementation, with risk monitored regularly and adjustments made, if needed.

World Bank

17. World Bank Montreal Protocol (MP) Operations borrow from the World Bank's policies and procedures on investment lending and apply several requirements in the MP project and sub-project cycles that help to ensure sustainable results and outcomes. Capacity assessment and technical and financial appraisal are two examples.

18. In parallel to the Multilateral Fund project cycle, the World Bank will prepare an overarching project and legal agreement to channel Multilateral Fund funds and to establish the basis of and conditions for implementation and fund disbursement. Many World Bank requirements such as fiduciary duties, environmental and social safeguards (including gender), risk management, and monitoring based on a results framework are integrated in the design of the overarching project which is almost always recipient executed. Hence a first step in preparation is the assessment of the client's capacity on financial management, procurement, and safeguards. If the capacity is lacking in any way, the World Bank team will make recommendations to strengthen this capacity during preparation and even provide training by its fiduciary specialists, who are normally based in a client country. During preparation, the client will also be responsible (with World Bank support) for developing certain preparatory documents, such as the project implementation manual (PIM) which lays out in detail Multilateral Fund eligibility requirements, financial

and procurement procedures, disbursement conditions, and sub-project approval, implementation and monitoring steps; and the environment and social management framework.

19. Once preparation is nearly completed, the overarching project proposal (project appraisal document) may undergo a quality enhancement review by technical peer reviewers and operations specialists and then enters the appraisal stage. At appraisal, all preparation work comes together under a consolidated project proposal that is assessed for (among others) compliance with World Bank policies and procedures and adequacy of financial management, procurement, environmental and social safeguards, and institutional and implementation arrangements. Risks are reassessed which can lead to additional mitigation measures for inclusion in the proposal. (An opportunity for additional assessment and course correction is at project mid-term, where an in-depth review is carried out in addition to normal implementation support missions.)

20. A project will start implementation after successful appraisal, and negotiations and signing of the Grant Agreement. For World Bank MP projects which typically have an investment component with a number of sub-projects with individual enterprises (or groups of enterprises), the appraisal procedures are repeated by the client's project management unit (PMU). PMUs are required by the World Bank to have on staff fiduciary and safeguards specialists and for MP projects, technical staff/consultants. The PMU will be responsible for appraising the technical and financial merits of a sub-project. For the former, technical staff will review enterprise documents on consumption and production, inspect baseline equipment and the factory, calculate eligible costs and determine whether the enterprise can source and use the alternatives.

21. To ensure that the enterprise can provide any required counterpart funding and also continue to operate using newly acquired Multilateral Fund-supported assets, a review of the enterprise's books will also be carried out. Each sub-project must also contain, in addition to a baseline equipment disposal plan, an environment management plan where occupational safety and environmental issues factory-wide are mitigated. Sub-project proposals are also reviewed by the World Bank task team which in turn has dedicated staff or consultants to separately review technical, environmental/social, financial and procurement aspects and provide recommendations. This entire process can take several weeks because everything is done in close consultation with the beneficiary enterprise and may lead to requests for additional documentation or changes in sub-project design, equipment specs, etc. Detailed steps on appraising sub-projects are included in each World Bank project PIM.

22. The approved sub-project will then be an annex to the sub-grant agreement (SGA) signed by the PMU (or government representative) and enterprise. The SGA will also contain specific conditions (e.g., a commitment to cease use of the controlled substance or to avoid use of high-GWP alternatives) and other remedies.