UNITED
NATIONS

EP

United Nations
Environment
Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/93/101
30 November 2023

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Ninety-third Meeting
Montreal, 15-19 December 2023
Item 11 of the provisional agenda[1]

REVIEW OF THE ADMINISTRATIVE COST REGIME OF THE MULTILATERAL FUND
(decisions 88/74(c) and 91/67(b))

Introduction

1. At the 88th meeting, the Executive Committee decided to request the Secretariat to present, at the last meeting of 2023, an 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 (decision 88/74(c)).

2. Since the 89th meeting, the Executive Committee had taken decisions on the funding levels for institutional strengthening projects (decision 91/63), the level and modalities of funding for HFC phase-down in the refrigeration servicing sector (decision 92/37), ways to operationalize paragraph 16 of decision XXVIII/2 and paragraph 2 of decision XXX/5 of the Parties (decision 89/6), a funding window to provide Article 5 countries with assistance to prepare an inventory of banks of used or unwanted controlled substances and a plan for the collection, transport, and disposal of such substances (decision 91/66) and pilot projects to maintain and/or enhance energy efficiency of replacement technologies and equipment in the context of HFC phase-down, including a funding window for such pilot projects (decision 91/65). Further, other policy issues such as draft guidelines for funding the phase-down of HFCs, including consideration of operationalizing paragraph 24 of decision XXVIII/2, aspects relating to onsite installation and assembly sector and other issues (e.g., operational framework for maintaining and/or enhancing energy efficiency in the manufacturing and servicing sectors (decision 92/38)) are under discussions. These decisions may have a direct bearing on administrative cost levels earned by the agencies on approved projects, which in turn will affect the planning of the organizational and operational needs of the agencies.

[1] UNEP/OzL.Pro/ExCom/93/1

3. During the Thirty-Fifth Meeting of the Parties,[2] the level of replenishment for the triennium 2024−2026 was agreed at US $965 million (decision XXXV/1). This will have an impact on the future business plans of the agencies and the corresponding administrative support cost levels.

4. For the preparation of this document, the Secretariat undertook an analysis of the following documents:

(a) The consolidated business plan of the Multilateral Fund for 2024–2026,[3] to be presented at the 93rd meeting, to assess the total agency support costs available to the implementing agencies for their operations during this period, noting that the agencies submitted their business plans for the period 2024–2026 prior to decision XXXV/1 on the replenishment level for the triennium 2024–2026;

(b) The UNEP Compliance Assistance Programme (CAP) budget and the core unit budgets for UNDP, UNIDO and the World Bank, for the years 2021, 2022 and 2023;[4]

(c) The analysis on the capacity of the Multilateral Fund institutions to address HFC phase-down that was already done and presented at the 91st meeting.[5] Following the discussions on the above, the Executive Committee requested the Secretariat to continue discussions with the implementing agencies on their perspectives regarding the additional resources needed on the basis of the expected increase in workload associated with HFC phase-down and to consider them in its review of the administrative cost regime of the Multilateral Fund, to be submitted at the 93rd meeting (decision 91/67(b)).

5. The Secretariat held discussions with each of the implementing agencies on the administrative cost regime implications in the triennium 2024–2026 and also sought information through a questionnaire on the way the current administrative cost regime support costs are managed, the impact of the additional projects expected to be submitted in the next triennium, the additional support needs for countries noting that there are challenges faced by some countries in implementing multiple activities (e.g., HPMPs, Kigali HFC implementation plans (KIPs), energy efficiency related projects, unwanted ODS and HFC bank management) and the technical capacity needs of the agencies to provide assistance to low-volume-consuming (LVC) countries.

Overview of the administrative cost regime of the Multilateral Fund

6. Since the inception of the Multilateral Fund, the rates of the programme support costs (PSC), calculated as a ratio of project funding approvals per triennium, has generally hovered below 13 per cent,[6] as shown in table 1.

---

[2] Nairobi, 23-27 October 2023.

[3] UNEP/OzL.Pro/ExCom/93/25

[4] The UNEP Compliance Assistance Programme budget for 2024 (UNEP/OzL.Pro/ExCom/93/94) and the 2024 core unit costs for UNDP, UNIDO and the World Bank (UNEP/OzL.Pro/ExCom/93/95) would be considered during the 93rd meeting.

[5] UNEP/OzL.Pro/ExCom/91/67

[6] Decision VIII/4 of the Eighth Meeting of the Parties (December 1996) *inter alia* requested the Executive Committee to, over the next three years, work toward the goal of reducing agency support costs from their current level of 13 per cent to an average of below 10 per cent to make more funds available for other activities. The 25th meeting of the Executive Committee decided: (a) to defer further consideration of the subject (administrative costs of the implementing agencies) to its 26th meeting; (b) to request the implementing agencies to take into account the suggestions made and the views expressed in the course of the discussion when preparing their 1999 business plans, with a view to reaching the goal of reducing agency support costs from their current level of 13 per cent to an average of below 10 per cent so as to make more funds available for other activities (decision 25/54). The 29th meeting of the

Table 1. Percentage of administrative costs paid by the Multilateral Fund per triennium from 1991[7]

Particulars	1991-1999	2000-2002	2003-2005	2006-2008	2009-2011	2012-2014	2015-2017	2018-2020	2021-2023*	2024-2026**	Total
Bilateral	2.8	11.4	10.7	12.4	12.3	11.7	11.8	11.5	11.8	11.4	9.9
UNDP	12.9	12.9	13.2	18.3	14.0	13.9	12.8	14.7	15.2	11.0	13.7
UNEP	13.0	9.7	7.3	7.9	7.6	7.0	7.6	7.6	7.5	8.8	8.1
UNIDO	12.8	13.4	11.7	14.4	11.8	13.8	13.9	15.2	13.4	10.1	13.1
World Bank	8.6	10.0	9.9	10.2	13.4	11.0	12.7	20.1	17.1	12.7	10.8
HPMP verification										9.0	9.0
Total	**10.7**	**11.6**	**10.8**	**12.1**	**12.1**	**12.1**	**12.2**	**13.8**	**12.9**	**12.1**	**11.8**

* Based on actual approvals from the 87th to the 92nd meetings and submissions to the 93rd meeting.
** Based on Consolidated business plan of the Multilateral Fund for 2024–2026 (see paragraph 4(a) above).

7. For certain periods and related to specific implementing agencies, PSC were above 13 per cent due to the decrease in project funding approvals resulting in a corresponding proportional increase of the core unit budgets for those years. During the triennium 2021–2023, the countries across the globe were recovering from the COVID-19 pandemic. While the implementing agencies, in close coordination with the national counterparts, were supporting project implementation through different mechanisms (e.g., online training activities, online project review and implementation monitoring), the pace of implementation of activities and consequently, approval of future tranches of projects were lower than the anticipated levels; in certain cases, investment projects that involved installation and commissioning of equipment for manufacturing products using alternatives were delayed due to constraints relating to travel and supply chain issues. In the context of administrative costs earned by the agencies, this resulted in lower levels of administrative support costs for the agencies though the core unit funding was available at the applicable levels.

Analysis of the business plan for the 2024–2026 triennium

8. Table 2 presents the trends in approved funding and support costs over the last two triennia and expected funding and support costs in the 2024–2026 triennium.

Table 2. Administrative costs paid by the Fund for the 2018–2020 and 2021–2023 triennia and expected for the 2024–2026 triennium (US$)

Agency	2018–2020*			2021–2023**			2024–2026***		
	Funding	Support costs	Support cost (%)	Funding	Support costs	Support cost (%)	Funding	Support costs	Support cost (%)
Bilateral	12,871,576	1,480,854	11.5	13,241,490	1,566,928	11.8	13,101,364	1,496,409	11.4
UNDP	81,607,270	11,995,572	14.7	78,773,213	11,958,184	15.2	107,868,106	14,175,832	13.1
UNEP	55,861,709	4,259,457	7.6	75,669,166	5,667,962	7.5	103,012,835	8,238,143	8.0
UNIDO	67,120,281	10,220,280	15.2	91,911,807	12,351,350	13.4	101,900,867	13,519,288	13.3
World Bank	31,485,241	6,343,384	20.1	48,475,987	8,302,659	17.1	65,447,883	9,904,363	15.1
Total	**248,946,077**	**34,299,548**	**13.8**	**308,071,663**	**39,847,083**	**12.9**	**391,331,056**	**47,334,035**	**12.1**

* Actual funding
** Actual funding for 2021, 2022 and estimated funding for 2023
*** As explained in paragraph 4(a) above

9. During the 2018–2020 triennium, there was a decrease in project funding as compared to the previous triennium. From 2020, the constraints imposed by the COVID-19 pandemic resulted in project

Executive Committee decided that the level of administrative support costs for retroactive projects would be set at 6 per cent (decision 29/72).

[7] A similar analysis was presented in the document on the review of the administrative cost regime for the 2015–2017 triennium (UNEP/OzL.Pro/ExCom/73/51). The minor differences in some of the figures in table 1 are due to projects that had been closed and balances returned to the Fund, or projects that have been transferred to other agencies.

implementation delays, which affected the submission of HPMP funding tranche requests. For the triennium 2021–2023, the countries across the globe were slowly recovering from the pandemic.

10. For the 2024–2026 triennium, based on the adjusted business plan for the years 2024–2026,[8] the overall funding for projects and activities and associated PSC is estimated to be US $391.33 million and US $47.33 million, respectively.[9] These values are expected to be higher anticipating an increase in the number of planned submissions in view of a record level of replenishment of US $965 million for the triennium; upon agreement on costs funding guidelines for HFC phase-down for non-servicing sector and on new policy areas such as energy efficiency under consideration; and due to the fact that some countries recently ratified the Kigali Amendment and some other countries with higher HFC consumption, have not yet included their KIP projects in the business plan for the years 2024–2026 but will soon be ready to do so.

11. With an expected funding increase for new project activities, the PSC approved for the agencies would increase. The Secretariat analysed a scenario that would result in an increase in funding for new activities at a level 50 per cent higher than what is presented in the adjusted business plan; this would result in an increase in PSC of US $6.03 million compared to the PSC in the adjusted business plan for the years 2024–2026. It must be noted that realisation of these earnings is subject to achievement of the higher levels of project submissions and approvals.

Analysis related to the capacity of the Multilateral Fund institutions to address HFC phase-down

Analysis presented at the 91st meeting

12. At its 91st meeting, the Executive Committee considered document UNEP/OzL.Pro/ExCom/91/67 on an analysis related to the capacity of the Multilateral Fund institutions to address HFC phase-down.

13. The following points were highlighted in the document in the context of capacity of the Multilateral Fund institutions:

(a) The need for internal capacity-building and specialized support in the many fields related to HFC phase-down and emerging areas (i.e., customs codes, data reporting, good servicing practices handling flammable refrigerants, monitoring systems adapted to include HFCs, energy efficiency aspects, disposal of unused controlled substances). At the same time, developing solutions for the new challenges would 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 resulting in the need for closer coordination of 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 for assisting the LVC countries in implementing activities to achieve the phase-out of HCFCs, initiate KIPs and implement other activities (e.g., projects relating to energy efficiency under decision 89/6, preparation of inventory of banks of used or unwanted controlled substances). There is a need to find ways, especially during the next

[8] In the context of the consolidated business plan of the Multilateral Fund for 2024–2026 (UNEP/OzL.Pro/ExCom/93/25).
[9] UNEP/OzL.Pro/ExCom/93/25

six to seven years, to strengthen the support provided by the agencies in implementing projects to these countries. The challenge also remains that LVC funding entails high transaction costs[10] for many agencies.

14. During the consultations on the activities undertaken to strengthen their capacity, agencies mentioned that they are addressing some of these gaps through the following:

(a) *Change in delivery and implementation mechanisms*. 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. Implementing agencies are also enhancing equipment procurement and delivery processes by developing harmonised specifications and entering into long-term agreements with suppliers, thus reducing multiple procurement requests, and ensuring faster equipment delivery, timely conversion and training activities;

(b) *Collaboration with technical experts to handle specialised areas relating to Montreal Protocol projects*. 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. It is also expected that participation in technical seminars/meetings, and coordination with their organisational units handling other new areas (e.g., energy efficiency), will, over a period of time, strengthen capacity of staff and collaboration with other teams within the agencies.

Observations by the Secretariat on the support needed for the implementing agencies

Needs for the next triennium

15. In the next triennium, project activities relating to HPMPs, KIPs, funding windows for pilot projects on energy efficiency, and on disposal will need to be planned, prepared and implemented in the countries. Country capacity to implement the projects at the national ozone unit (NOU) level needs to be carefully assessed and relevant management processes need to be operationalised for cost-effective and integrated implementation. This, in turn, will have an impact on the agency capacity building requirements for providing support to the countries for implementing the projects in the next triennium.

16. The agencies also generally expressed that LVC countries face challenges, and they need special attention for ensuring systematic and smooth implementation of different activities relating to the Montreal Protocol. While the economies of scale for project implementation in the larger projects may also provide some resources to the agencies to support the LVC countries (e.g., during HPMP implementation), a more dedicated support to the LVC countries is needed. During the consultations with the agencies, it was pointed out that, though there was support provided through CAP and other agencies, the LVC countries have limited human and institutional resources, their economies are small, many are geographically remote, and they are "technology takers" with significant consumption in the service sector. The importance of providing resources to the agencies for project administration and management support and for providing technical and policy advice was emphasised.

[10] 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.

17. The agencies would need to allocate resources to plan for projects and address the country needs in the context of the replenishment decision[11] and handle the increase in activities in the next triennium. This would include additional personnel (e.g., project management personnel, subject specialist experts) to provide support for project development and implementation and strengthen the capacity of the staff of the agencies on different technical, policy and implementation aspects relating to the project. On the other hand, increase in project funding approved for different activities would provide additional project-related resources (e.g., technical assistance for implementation, technical consultants for specific project activities and overall project management) and additional administrative support costs that are linked to the level of funding approved.

18. Based on consultations with the agencies and the analysis of the above-mentioned factors, there are two areas where the implementing agencies would need more support: (a) strengthening their technical capacity for all countries and (b) strengthening the technical and management support for projects in LVC countries.

Strengthening the technical capacity for agencies

Core unit

19. As explained in paragraph 17, there is a need for resources for building capacity of the agencies in terms of additional personnel needed to support development and implementation of projects in the next triennium. To do so, additional funding, in the amount of US $200,000 per agency per year,[12] is proposed to be included in the core unit costs, from the year 2024 for the triennium 2024–2026, to strengthen the capacities of UNDP, UNIDO and the World Bank to handle the increase in workload and enable them to support Article 5 countries throughout the project cycle, starting from project development. This additional funding would result in about US $1.8 million in additional costs for core unit in the triennium 2024–2026.

Programme support costs for low-volume-consuming countries

20. On PSC, during discussions with the agencies, lower levels of PSC were highlighted as a challenge in providing assistance for LVC countries. Keeping this in view, the Secretariat analysed a scenario of an increase in PSC for KIPs for LVC countries in the triennium 2024–2026. This would translate into increasing, according to the current situation, the PSC for UNDP and UNIDO from 7 per cent or 9 per cent[13] to 13 per cent.[14] Table 3 presents the summary of this analysis.

Table 3. Analysis of an increase in PSC to 13 per cent for KIPs for LVC countries (US $)

Particulars	Project costs	PSC in the adjusted business plan for 2024–2026	PSC (13%)	Difference in PSC compared to the adjusted business plan for 2024–2026
UNDP	1,679,201	130,623	218,296	87,673
UNIDO	5,140,016	384,051	668,202	284,151
Total	**6,819,217**	**514,674**	**886,498**	**371,824**

21. From the above table, the following can be noted:

(a) The increase in PSC to 13 per cent for UNDP and UNIDO would result in an increase in PSC in the amount of US $87,673 and US $284,151, for UNDP and UNIDO, respectively, for the triennium 2024–2026;

[11] Decision XXXV/1
[12] Estimated based on cost for a mid-level professional staff member.
[13] Currently, an agency fee of 7 per cent or 9 per cent is applied depending upon project value.
[14] Assuming the total project value not exceeding US $500,000

(b) With this increase, the overall PSC as a percentage of the project costs for the triennium would be 12.2 per cent.

22. Should the Executive Committee agree on this approach, it is proposed that PSC of stage I of the KIPs for LVC countries submitted to the present meeting be adjusted accordingly.

Impact of the support on the overall administrative cost for the agencies

23. The increase in core unit funding for UNDP, UNIDO and the World Bank of US $200,000 per year, combined with the increase in agencies' PSC for KIPs for LVC countries to reach 13 per cent would result in an overall PSC as a percentage of the project costs for the triennium of 12.6 percent, based on the current adjusted business plans for the triennium 2024–2026. This proposed increase would be reviewed at the end of the triennium 2024–2026, while presenting an analysis to the last meeting of 2026 on whether the administrative cost regime of the Multilateral Fund for the triennium 2024–2026 should be maintained for the triennium 2027–2029.

Support for low-volume-consuming countries (non-administrative cost regime)

24. The Secretariat notes that increase in core unit funding and/or PSC would result in higher levels of support costs as a percentage of the total project approvals; this could, in turn, result in PSC exceeding the level of 13 per cent. To allow for additional resources for technical and policy support for LVC countries through agencies during the next triennium as explained in paragraph 16, while ensuring PSC remain within the 13 per cent threshold, the Secretariat proposes as follows.

25. There are 88 LVC[15] countries that are currently being supported by the Multilateral Fund. To address the technical and policy support needs of these countries during the triennium 2024–2026, a one-time funding in the amount of US $7,500 could be provided to each bilateral and implementing agency, as lead or cooperating agency, for its assistance to each LVC country in the implementation of KIPs. The requests for funding should follow established practice including business planning and should be submitted as part of bilateral cooperation, agencies' work programmes or work programme amendments. Activities resulting from this funding should be completed no later than 24 months from the date of approval. When agencies submit their progress reports to be considered in 2026, they should provide information on the support activities implemented thus far and their impact. Based on the analysis of the effectiveness of this funding support, future support for LVC countries could be identified.

Recommendation

26. The Executive Committee may wish:

(a) To note the review of the administrative cost regime of the Multilateral Fund (decisions 88/74(c) and 91/67(b)), as contained in document UNEP/OzL.Pro/ExCom/93/101;

(b) To consider:

(i) Increasing the core unit funding for UNDP, UNIDO and the World Bank, each by US $200,000, for each year of the triennium 2024–2026, for strengthening their capacity to provide technical and policy support to Article 5 countries;

(ii) That the administrative cost regime for the Multilateral Fund for the triennium 2021–2023 would be maintained for the triennium 2024–2026, except

[15] This is based on baseline consumption of HCFCs.

for agency fees for stage I of Kigali HFC implementation plans (KIPs) for low-volume-consuming (LVC) countries, which will be applied starting 93rd meeting as follows:

a. At 13 per cent on projects up to a value of US $500,000;

b. At 13 per cent on the first US $500,000 and 11 per cent on the balance on projects with a value exceeding US $500,000;

(iii) Outside the administrative cost regime for the Multilateral Fund for the triennium 2024–2026, providing one-time funding in the amount of US $7,500 to each bilateral and implementing agency, as lead or cooperating agency, for its technical and policy assistance to each LVC country in the implementation of KIPs, on the understanding that:

a. The requests for funding should follow established practice including business planning and be included in the bilateral cooperation, work programmes or work programme amendments of the agencies and activities resulting from this funding shall be completed no later than 24 months from the date of approval;

b. Bilateral and implementing agencies will report on the technical and policy assistance activities provided to all countries and their impact as part of the narrative of their annual progress and financial reports; and

(c) To review the administrative cost regime and its core unit funding budget at the last meeting of 2026, i.e., the last meeting of the 2024–2026 triennium, including the review of the implementation of subparagraph (b).