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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Ninety-fourth Meeting
Montreal, 27-31 May 2024
Item 11 of the provisional agenda¹

**ANALYSIS OF THE IMPLICATIONS OF DECISION 62/17 FOR IMPLEMENTATION
OF HCFC PHASE-OUT MANAGEMENT PLANS
(DECISION 93/105(a))**

Introduction

1. At the 93rd meeting, the Executive Committee considered modalities for the distribution of funding tranches for Kigali HFC implementation plans (KIPs). During the discussion, one member expressed her unease on the Secretariat's application of decision 62/17, established for HCFC phase-out management plans (HPMPs), to the KIPs, which could cause unintended hardship, and urged that Article 5 countries be allowed to set their own schedules for the distribution of tranches that met their own needs, until the Executive Committee took a specific decision on the issue. Other members accepted that, while there were difficulties with the application of decision 62/17, especially for low-volume-consuming (LVC) countries, in the case of KIPs the decision had been applied with flexibility. Another member said that, if decision 62/17 was meant as way to ensure that funds were available for the application of penalties, then one way forward would be to deduct any penalties from future stages of the KIP. Several members agreed that the Secretariat be requested to prepare a brief report, and to present its findings on the experience gained in the application of decision 62/17 to the HPMPs, as well as any challenges that had arisen in applying it to the HPMPs.²

2. Subsequent to the consideration of a draft decision submitted by one member, the Executive Committee requested the Secretariat to prepare, for consideration at the 94th meeting, an analysis of the implications of decision 62/17 for the implementation of HPMPs, with a view to enabling the Executive Committee to discuss whether and how to revise its approach to the timing and the value of the final tranche of a multi-year agreement (MYA). The Committee also decided that, pending further decision on the matter by the Executive Committee, the Secretariat, in consultation with bilateral and implementing agencies, would finalize the tranche distribution of stage I of KIPs on a case-by-case basis (decision 93/105).

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¹ UNEP/OzL.Pro/ExCom/94/1

² UNEP/OzL.Pro/ExCom/93/105, paragraphs 413-416

3. The present document is prepared in line with decision 93/105(a). It explains how decision 62/17 has been applied to HPMPs and the implications of the decision for HPMP implementation. It also contains Secretariat's observations and a recommendation.

Application of decision 62/17

4. At the 62nd meeting, the Executive Committee discussed the issue of the final funding tranche of multi-year HPMPs, in particular to ensure that 10 per cent of the total funds associated with an HPMP was left until the final tranche of the HPMP, as an incentive to meet the reduction targets in the performance-based agreement. It was pointed out that significant funding for investment components of the HPMP was required to be disbursed early in the implementation process to ensure compliance. Following the discussion, the Executive Committee requested the bilateral and implementing agencies, when preparing multi-year HPMPs, to ensure that the final tranche comprised 10 per cent of the total funding for the refrigeration servicing sector in the agreement and was scheduled for the last year of the plan (decision 62/17).

5. Decision 62/17 has been applied consistently to all stages of HPMPs since it was adopted in 2010; flexibility has been provided on a case-by-case basis under certain circumstances. For example, in the submission of a new stage of an HPMP where a country planning to have an extended phase-out commitment or a faster phase-out schedule than that of the Montreal Protocol, requests to include in its draft HPMP agreement with the Executive Committee a final funding tranche earlier than at the last year of the plan, when its need is justified, the final funding tranche could be agreed to be provided earlier. Another example is when a country needs to implement in parallel two performance-based agreements. Flexibility could be agreed to be provided in the timing of the final funding tranche of one agreement to coincide with that of the other agreement, to enable greater coordination of activities between the two agreements and ease the administrative and reporting burden on the country. It should be noted that this flexibility has been applied only to the timing of the final tranche; the requirement of 10 per cent of the total funding for the refrigeration servicing sector in the final tranche has been maintained in the HPMP agreements for these countries.

6. To ensure progress continues to be made after the final funding tranche until project completion in these countries, additional monitoring measures have been put in place, such as requests for a final progress report on the implementation of the final tranche for LVC countries or a yearly progress report on the implementation of the final tranche, together with a verification report, for non-LVC countries.³

7. At the 93rd meeting, the flexibility has also been extended on a case-by-case basis to stage I of KIPs.⁴

Implications of decision 62/17 for HPMP implementation

8. At the last Interagency Coordination Meeting,⁵ the Secretariat discussed with bilateral and implementing agencies the implications of decision 62/17 on the implementation of HPMPs. Agencies raised a number of concerns. For LVC countries, the smaller amounts of funding available, especially divided among several funding tranches, increased the administrative burden of the agencies and the

³ The Executive Committee decided for HPMPs for which the final funding tranche was requested one or more years prior to the last year for which a consumption target had been established, to request the lead implementing agency and relevant cooperating agencies to submit annual tranche implementation reports and, where applicable, verification reports on the current stage of the HPMPs until all activities foreseen had been completed and HCFC consumption targets had been met, on the understanding that, when consecutive stages of HPMPs were implemented concurrently, the verification reports should be based on the lower HCFC consumption target committed to by the country concerned (decision 74/19).

⁴ Paragraph 415 of document UNEP/OzL.Pro/ExCom/93/105

⁵ Montreal, 12-13 March 2024

countries. Further, the very-small-amount final funding tranche required the same administrative procedure as other tranches; half of the one-year implementation period could have passed when funding was received and relevant contracts were set up and signed. This resulted in delays in project completion. It was also felt that the withholding of funding for the final tranche was meant as a way to ensure that funds were available for the application of penalties in case of non-compliance with agreements; thus, decision 62/17 should not have been applied to stage I of HPMPs when there were still subsequent stages from which funding could be deducted. Regarding the use of decision 62/17 as an incentive to meet the reduction targets in the performance-based agreement, it was noted that the funding in the final tranche was part of the agreed funding, and that work could not be programmed without funds having been received, which defeated the incentive purpose. There was also discussion regarding the potential for a fewer number of tranches and their timing, in particular the timing of the final funding tranche and the subsequent reporting until project completion, to increase efficiency and reduce administrative burden.⁶

Secretariat's observations

9. As noted in the review of institutional strengthening projects including funding levels⁷ and the analysis related to the capacity of the Multilateral Fund institutions to address HFC phase-down⁸, the workload of Article 5 countries and agencies from 2023 to 2030 would significantly increase due to inter alia the implementation of both HCFC phase-out and HFC phase-down as well as other projects in new areas such as those relating to energy efficiency and the preparation of inventories of banks of used or unwanted controlled substances waste and action plans. This increase in workload would also apply to the Secretariat from the review of these projects, and to the Executive Committee from the consideration and approval of these projects. Harmonizing the timing of tranches of KIPs with that of HPMPs wherever possible and reducing the number of tranches of new stage I of KIPs wherever is meaningful would help ease the workload.

10. Taking into account the implications of decision 62/17 on Article 5 countries, in particular LVC countries, and agencies for HPMP implementation; the increased workload of Multilateral Fund institutions between now and 2030, and noting that tranche implementation has an average duration of 36 months;⁹ and that the Executive Committee has established a practice for those Article 5 countries requesting the final funding tranche one or more years prior to the last year of the Agreement to ensure continued monitoring and reporting of project implementation and countries' compliance, the following elements could be considered for stage I of KIPs:

- (a) Article 5 countries could be encouraged to harmonize the timing of tranches of KIPs with that of HPMPs;
- (b) For LVC countries, and non-LVC countries funded as LVC countries (i.e., the groups of countries that are referred to in decision 92/37(b)(ii) and (c), respectively), as well as non-LVC countries whose stage I of KIPs contain only servicing sector and amount to less than US \$500,000, their stage I of KIPs to meet the 10 per cent Montreal Protocol HFC reduction target should contain at a minimum two funding tranches, and the second and final funding tranche could be submitted, at the earliest, two years prior to the last year for which a consumption target has been established, at a funding level not lower than 40 per cent of the total funding for the plan;
- (c) For Article 5 countries other than those referred to in subparagraph (b) above, the status quo for HPMPs would be maintained in stage I of KIPs except that the final funding tranche

⁶ MLF/IACM.2024/1/2, paragraphs 28-29

⁷ UNEP/OzL.Pro/ExCom/89/4

⁸ UNEP/OzL.Pro/ExCom/91/67

⁹ MLF/IACM.2019/1/28, paragraph 29

could be submitted, at the earliest, one year prior to the last year for which a consumption target has been established noting that flexibility to the application of decision 62/17 would continue to be applied on a case-by-case base, in line with past practice;

- (d) For Article 5 countries referred to in subparagraphs (b) and (c) above, the final funding tranche approval of their stage I of the KIPs would be accompanied by a request for a final tranche implementation report, and where applicable, a verification report on the current stage of the KIPs ensuring that all activities foreseen have been completed and HFC consumption targets have been met; and
- (e) After the approval of the final funding tranche of stage I of KIPs, in any unforeseen circumstances where adjustments of funding, including those resulting from non-compliance with the KIP agreements with the Executive Committee, need to be made, these adjustments will be made in the subsequent stage of KIPs.

11. Since the implementation of all HCFC phase-out activities will be at an advanced stage when the preparation of stage II of the KIPs starts, the Executive Committee may wish to consider revisiting the elements referred to in subparagraphs (b) to (e) above in 2028 for their application to future stages of the KIPs including the required level of fund disbursement of stage I of the KIPs for the consideration of stage II. Considering the required level of funding will ensure an incentive for the implementation and completion of stage I of the KIPs.

Recommendation

12. The Executive Committee may wish:

- (a) To note the analysis of the implications of decision 62/17 for implementation of HCFC phase-out management plans (decision 93/105(a)), contained in document UNEP/OzL.Pro/ExCom/94/59; and
- (b) To consider whether and how to revise the approach to the timing and the value of the final tranche of a multi-year agreement taking into account the analysis referred to in subparagraph (a) above, in particular paragraphs 9-11.