



**United Nations
Environment
Programme**



Distr.
GENERAL

UNEP/OzL.Pro/WG.1/12/3
30 July 1995

ORIGINAL: ENGLISH

**OPEN-ENDED WORKING GROUP OF THE
PARTIES TO THE MONTREAL PROTOCOL**

Twelfth Meeting
Geneva, 28 August - 1 September 1995

**REPORT FROM THE EXECUTIVE COMMITTEE TO THE TWELFTH MEETING
OF THE OPEN-ENDED WORKING GROUP**

At its 11th Meeting, the Open-ended Working Group of the Parties to the Montreal Protocol requested the Executive Committee, *inter-alia*, to examine the Report on the Review of the Financial Mechanism (the Report), and provide advice on responding to the Report to the Parties through the Open-ended Working Group at its 12th Meeting. The requests made by the Open-ended Working Group at its 11th Meeting are reproduced as Appendix I.

2. The information provided and the actions proposed in this report constitute the response of the Executive Committee to the request. In some cases, the findings are that refinement of, and more explicit focus on, policies, activities and processes currently applied by the Executive Committee will produce the improvements in efficiency and effectiveness envisaged in the Report. In other cases, modification or further development of policies which are compatible with the Executive Committee's Terms of Reference are suggested. In one case, the course of action proposed will require consideration by the Parties. A recommendation to the Parties is presented.

3. The Report and the recommendations in it are wide-ranging and comprehensive. The Executive Committee believes that the focus should remain clearly on responding to the Report and its existing recommendations, as proposed in the request from the Open-ended Working Group. With one exception, no further recommendations, additional to those made in the Report, are proposed.

4. Action plans and performance indicators developed by the Executive Committee in response to the request of the Open-ended Working Group are presented in a tabular form as Appendix II, together with the summaries of recommendations to which they refer and the reference to the relevant paragraphs of the Report.

APPENDIX I

**EXTRACT FROM THE REPORT OF THE ELEVENTH MEETING OF THE
OPEN-ENDED WORKING GROUP**

141. After a short discussion, the Working Group decided:

(a) To request the Executive Committee to examine the report on the review of the Financial Mechanism and the discussions at the eleventh meeting of the Open-ended Working Group, and to respond to the recommendations in the following ways:

- (I) Prepare action plans for the implementation of the recommendations;
- (ii) Develop performance indicators to monitor the above action plans;
- (iii) Identify unresolved recommendations and other issues not fully addressed;
- (iv) Report to the Open-ended Working Group at its twelfth meeting. The Working Group decided that the subgroup should consider that report at a meeting in Geneva on 27 August 1995, immediately before the twelfth meeting of the Working Group;

(b) To request the Executive Committee to give special attention at its seventeenth meeting to the following issues identified by the subgroup:

- (i) Procedures for the implementation and monitoring of projects with views from the Parties and the implementing agencies;
- (ii) A strategic approach instead of a case-by-case one to the preparation and approval of projects from a programme perspective;
- (iii) Innovative mobilization of existing and additional resources in support of Protocol objectives;
- (iv) Ownership of country programmes and projects by actors at all levels including enterprises, implementing agencies and Governments; and
- (v) Cost-effectiveness of the Fund activities and agreed incremental costs in light of the experience of Article 5 countries and the need to ensure protection of the ozone layer;

The Working Group did not see the above list as an exhaustive one. Parties that were not present at the eleventh meeting of the Working Group as well as other Parties could submit their observations/comments to the Ozone Secretariat before 10 June 1995;

(c) To request the subgroup at its meeting prior to the twelfth meeting of the Working Group to consider the following and report thereon to the Working Group at its twelfth meeting:

(i) All observations/comments by Parties submitted to the Ozone Secretariat by 10 June 1995, which should be circulated to members of the subgroup; and

(ii) The Executive Committee's response to the report.

APPENDIX II

**RECOMMENDATIONS OF THE REPORT ON THE FINANCIAL MECHANISM OF THE MONTREAL PROTOCOL:
 IMPLEMENTATION PLANS AND PERFORMANCE INDICATORS PROPOSED BY THE EXECUTIVE COMMITTEE**

Contents:

- Column 1 Abbreviated recommendations from the Report, with references to paragraph numbers in the body of the Report (not the Executive Summary, which has separate paragraph numbering).
- Column 2 Progress on activities or actions proposed in the recommendations, up to June 1995.
- Column 3 Proposals by the Executive Committee for future action.
- Column 4 Proposed performance indicators to monitor progress with implementation of the recommendations.

RECOMMENDATION GROUP 1:

PROJECT PREPARATION, REVIEW, APPROVAL AND EVALUATION: A MORE STRATEGIC APPROACH

Recommendation	Progress to date	Future Action	Performance Indicators
1. Paragraphs 90/91/101. In due course, move towards more delegation to the implementing agencies after main policy issues are resolved, equipment eligibility and cost indicators agreed, Small Project Approval Procedure (SPAP) evaluated and monitoring guidelines in place.	Initial project templates completed for foam and domestic refrigeration. The implementing agencies and the Secretariat are developing a common database of project costs and designs.	Action by Executive Committee. Complete development of : a systematic approach to policy development (see Para. 92 below). monitoring and evaluation guidelines. project templates for all sectors. Examine integration of Agencies' and Secretariat's project review activities. Further delegation in due course. SPAP to be evaluated on completion of the current project group.	Project Evaluation and Monitoring system to be in place by the end of 1995. The project review process to be examined by the Executive Committee no later than six months after it has concluded that the preconditions for increased delegation set in the recommendations in paragraphs 90 and 91 have been met. Extent of delegation over time.

Recommendation	Progress to date	Future Action	Performance Indicators
<p>2. Paragraph 92. Establish administrative processes to better facilitate policy decision-making by developing a list of outstanding policy issues, having the Secretariat and a lead implementing agency develop and present a range of discrete options for Executive Committee consideration.</p>	<p>A substantial body of policy decision has been built up over 15 meetings. It is documented in the "Policies, Procedures and Guidelines" manual. Implementing agencies currently develop policy papers in cooperation with the Secretariat. Experience has shown that not all policy issues are foreseeable at any one time.</p>	<p>Action by Executive Committee. Already identified policy issues should be developed and decisions taken. List of foreseeable policy issues to be drafted with the help of the implementing agencies and the Fund Secretariat over the next two meetings. Secretariat and Implementing Agencies to produce consensus options for consideration by the Executive Committee. Decisions proposed for the consideration of the Executive Committee should clearly indicate the implications for project proposals if the decisions were to be adopted.</p>	<p>The number of policy issues clearly addressed by late 1996. <u>Note:</u> New policy issues are likely to continue to emerge, but would be dealt with more expeditiously with refined administrative processes.</p>
<p>3. Paragraph 93. Develop specific rules regarding procedure to be followed if a party is in discussion of a project in which it has a direct interest.</p>	<p>The issue was considered by the Committee at its 11th Meeting.</p>	<p>Action by Executive Committee. Ensure that the objectivity of the Committee is maintained and that all project proposals are given equal consideration by adopting rules of procedure which provide that Committee Members may participate in discussion of a project in which they have a direct interest only when invited by the Chair with the concurrence of all Members.</p>	<p>It should be evident from records of Meetings of the Executive Committee that all projects are given equal treatment by the Committee.</p>

<p>4. Paragraphs 94/95/109. The Secretariat and implementing agencies should: review procurement experiences and, in cooperation, update database of capital equipment costs based on experience in open bidding and actual implementation costs incurred; collaborate on further development of the inventory of approved equipment in investment projects and a negative indicative list, the latter of which should be endorsed by the Executive Committee.</p>	<p>The Secretariat currently maintains a database of actual project costs. At its 16th Meeting, the Executive Committee requested the Secretariat and Agencies to prepare a document on real costs from approved projects. The implementing agencies and the Secretariat have commenced developing a common database of project equipment and costs together with a list of standard project outlines (called templates).</p>	<p>Action by Executive Committee. Oversee the completion by the implementing agencies and the Secretariat, jointly, by the end of 1995 of a comprehensive, integrated database common to all agencies and the Secretariat, in conjunction with the completion of standard project outlines (templates).</p>	<p>A decrease in the number of projects undergoing substantial revision and in proposed project costs sought through the project review process in preparation for submission to the Committee. To be reviewed in mid-1996.</p>
<p>5. Paragraphs 108/581. Further clarification of incremental costs needed with some major issues still outstanding, for example production sector eligibility. Mechanism to quickly and clearly communicate precedent setting decisions should be established.</p>	<p>Action underway in relation to Paragraphs 92 (resolve policy issues) and 94 (capital equipment costs) will form the major part of the work needed to further clarify incremental costs. At its 16th Meeting the Executive Committee took measures to assist communication of policy decisions. The Executive Committee has approved various production sector projects involving halon replacements, intermediate chemicals for foam blowing. Methodologies for incremental cost calculations for CFC substitutes are being developed.</p>	<p>Action by Executive Committee. The Executive Committee will examine the effectiveness of new policy dissemination procedures in early 1996. These will include the provision of practical examples of the application of policy decisions. Operational guidelines will be developed for agencies and their consultants. The Executive Committee will consider a report on incremental costs for the production of CFC-substitutes at the 18th Meeting and establish firm compensation policies. Production sector eligibility is on the agenda of the 12th Open-ended Working Group for the consideration of the Parties.</p>	<p>The main indicators for the communication of policy decisions are the reduction in the extent of project revision during the review process, similarly to the outcome from Paragraphs 92, 94 and 109, and the degree to which national ozone protection units and consultants consider they have sufficient information to guide project development. Incremental cost guidelines for the production of CFC-substitutes completed by mid 1996.</p>

<p>6. Paragraphs 117/119. The Executive Committee should work to design a regime of cost-effectiveness boundaries that focuses on subsectors or projects with good cost-effectiveness while not unequivocally discriminating against certain countries, groups of countries, sectors or subsectors.</p>	<p>The Executive Committee developed such a regime at its 16 Meeting, using most but not all of the criteria included in the Report. The regime is to be reviewed at the end of 1995.</p>	<p>Action by the Executive Committee Evaluate the regime adopted for 1995 at the 18th Meeting taking into account the Report's recommendations, including that: "Cost effectiveness norms should be prepared based on model projects of different capacities under standard conditions. Thereafter, projects should be assessed on their own merits."</p>	<p>Adoption of a finalized regime of cost-effectiveness boundaries by the end of 1996 which is based on sectors and which differentiates countries through their consumption.</p>
<p>7. Paragraph 120. If application of the above regime excludes important groups of enterprises as defined by the Executive Committee, the Fund should consider lump sum payment.</p>	<p>Earmarking of discretionary funds for projects, sectors or countries, including low-consuming countries has been included in the 1995 cost-effectiveness scheme.</p>	<p>Action by the Executive Committee Consider in the light of experience with the 1995 interim cost-effectiveness scheme. Additionally, examine in the context of the sectoral strategy concept now being developed. Consideration of lump sum payment, as a methodology to reduce administrative cost.</p>	<p>By the end of 1996, conclusion by the Executive Committee that the issue has been satisfactorily addressed through mechanisms established for the equitable allocation of funds.</p>

**RECOMMENDATION GROUP 2:
MORE EFFECTIVE RESULTS FROM INSTITUTIONAL STRENGTHENING: PROPORTIONATE COMMITMENT; OWNERSHIP; COUNTRY PROGRAMMES; NON-FUND RESOURCES IN SUPPORT OF PHASE-OUT; SECTORAL STRATEGIES; COMMERCIAL LOANS**

Recommendation	Progress to date	Future Action	Performance Indicators
<p>Ways to advance the support for ODS phase-out and increase the benefits for ODS phase-out gained from investment and other projects in Article 5 countries include:</p>		<p>Action by the Executive Committee</p> <p>Action by the Implementing Agencies</p>	
<p>8. Paragraphs 110/112/117. A commitment both to institutional strengthening and to the provision of a proportionate commitment from recipient countries with an in-depth evaluation in 1996</p>	<p>The Executive Committee agreed at its 7th Meeting to fund institutional strengthening activities. (US \$ 10 million was allocated by the Committee to 50 Article 5 countries).</p>	<p>Relevant implementing agencies to review institutional strengthening experiences and present a combined paper to the Executive Committee at its 18th Meeting which will include guidelines on the possible proportionate commitment of Article 5 countries in such areas as financial, organizational, human resource and government support.</p>	<p>The continued availability of institutional strengthening support, proportionate commitment from the recipient countries and the development of integrated packages of measures tailored to specific sectors will produce a visible change in the effectiveness of ODS phase-out strategies.</p>
<p>9. Paragraph 114. Enactment of laws and regulations to advance the support of ODS phase-out. Development of a framework for policy dialogue.</p>	<p>Regulatory actions, if proposed, are usually addressed in country programmes. Bilateral projects are often directed to institutional, policy and regulatory capacity building and are suited to this role.</p>	<p>The Executive Committee will select a lead Agency to prepare the framework for a policy dialogue with Article 5 countries. Institutional strengthening agreements could include country goals relative to laws and regulations.</p>	<p>A visible increase at the global level in the initiation of regulatory measures to support ODS phase-out in Article 5 countries by the end of 1996.</p>

Recommendation	Progress to date	Future Action	Performance Indicators
<p>10. Paragraphs 111/112/113/121. Improvement to country programmes through development of revised guidelines and appropriate resourcing packages to promote capacity building.</p>	<p>Most but not all Article 5 countries which have submitted project proposals have prepared country programmes. Guidelines were adopted for country programmes at the 5th Meeting of the Executive Committee in June 1992. Some country programmes are now being updated</p>	<p>Request a lead Implementing Agency, with the other Agencies and the Secretariat, to develop new guidelines for country programmes, taking into account these recommendations, for presentation at the 18th Meeting. The Executive Committee will consider these guidelines in the light of its experience to date taking into account as appropriate the sectoral approach to technology transfer</p>	<p>Adoption by the Executive Committee of revised guidelines.</p>
<p>11. Paragraph 116. Stimulation and facilitation of concessional loans.</p>	<p>At its 16th Meeting, the Executive Committee requested the World Bank to prepare a study on how to set up a concessional loans mechanism.</p>	<p>The Implementing Agencies to actively promote the concept of concessional loans in addition to Multilateral Fund grants.</p>	<p>Commencement of the use of concessional loans by the end of 1996, to the extent that the need and demand exist.</p>
<p>12. Paragraph 764. Industrial consolidation may be the only cost-effective solution in some sub sectors but will be associated with great difficulty in practice.</p>	<p>A new issue related to cost effectiveness and the development of sectoral approaches.</p>	<p>The Executive Committee will have this issue examined.</p>	<p>Achievement of more effective approaches to ODS phase-out will be the measure of performance in addressing this issue.</p>

Recommendation	Progress to date	Future Action	Performance Indicators
<p>13. Paragraphs 122/782. Support for Latin American and African network should be sufficient to ensure a similar level of operation as the network in South East Asia through increased funding or bilateral support.</p>	<p>At its 16th Meeting, the Executive Committee increased the funding for these two networks over the 1994 level.</p>	<p>Action by the Executive Committee The Executive Committee will review in the light of bilateral proposals and UNEP's 1996 work program.</p>	<p>Approval of funding for Latin American and African Networks at an appropriate level.</p>
<p>14. Paragraphs 102/660. Implementing agencies should present to Executive Committee plans for integrating Protocol matters into their ongoing discussions with Article 5 countries and develop plans for mobilizing non-Fund resources for Protocol objectives, noting the relative success of the GEF in this regard.</p>	<p>This is a new initiative, but has strong links to the concept of sectoral strategies now being explored. The integration of non-Fund resources into proposals for a sector is an important element of a sectoral strategy.</p>	<p>Action by Executive Committee. Action by Implementing Agencies. The implementing agencies will report to the 18th Meeting on measures to include ODS phase-out issues into their on-going dialogue on development programming and on measures they could take to mobilize non-fund resources in support of Montreal Protocol objectives.</p>	<p>When combined with the use of concessional loans and sectoral strategies this measure will produce a visible increase in the number of ozone protection projects achievable from available resources.</p>

**RECOMMENDATION GROUP 3:
 PROJECT IMPLEMENTATION; MONITORING; EVALUATION**

Recommendation	Progress to date	Future Action	Performance Indicators
<p>15. Paragraph 96. New implementing agencies for the range of projects now being implemented are not recommended New implementing agencies may be useful to implement loan programmes and Methyl Bromide projects.</p>	<p>The Executive Committee already has a mandate to engage other implementing agencies where appropriate.</p>	<p>Action by Executive Committee. The Executive Committee will consider the need for new implementing agencies for loan programmes in the light of emerging sectoral strategy policies and for Methyl Bromide after the 7th Meeting of the Parties.</p>	<p>Not Applicable.</p>
<p>16. Paragraphs 97/98/100. UNDP and UNIDO should maintain "centralized" modes of implementation, The World Bank should concentrate on large consuming countries where the large investment needed to make national execution work is warranted. Small and medium sized countries should avoid national execution, and larger countries should persist only if they have already invested a lot and it is delivering expected benefits.</p>	<p>At present the selection of implementing agency is the prerogative of the Article 5 country concerned</p>	<p>Action by Executive Committee. The Executive Committee will urge the A-5 countries concerned to select implementing agencies and mode of implementation keeping in mind the need to implement projects without delay.</p>	<p>Not Applicable</p>
<p>17. Paragraphs 98/99. The Bank should review training provided to Financial Intermediaries to determine adequacy and relevance and should assess the incentive structure provided to Financial Intermediaries.</p>	<p>Little information is currently available on Financial Intermediaries training.</p>	<p>Action by Executive Committee. The World Bank will report on the training and incentive structure. The Executive Committee will consider a report by the World Bank in mid-1996 on this matter and its relationship to total overhead costs.</p>	<p>The Executive Committee is satisfied it is fully informed about the role, resourcing and effectiveness of Financial Intermediaries.</p>

<p>18. Paragraph 115. Article 5 countries and implementing agencies should identify legal and institutional impediments to project implementation and address them as soon as possible.</p>	<p>Presently addressed on a case by case basis in the course of project implementation.</p>	<p>Action by the Executive Committee The Executive Committee will request each implementing agency to report on this issue as and when it arises.</p>	<p>Not Applicable.</p>
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**RECOMMENDATION GROUP 4:
 OTHER RECOMMENDATIONS**

Recommendation	Progress to date	Future Action	Performance Indicators
<p>19. Paragraph 103. UNEP should continue as Treasurer; the Bank should be asked to assist with collection of contributions in arrears.</p>	<p>The Treasurer and Executive Committee have made regular attempts to secure the payment of arrears from all relevant countries.</p>	<p>Action by Executive Committee. The Executive Committee will call upon The World Bank and all other institutions associated with the financial mechanism to propose measures to assist UNEP in collecting contributions in arrears. The Executive Committee urges the World Bank to review with UNEP the processes for acceptance of promissory notes.</p>	<p>The appropriate institutions are actively pursuing the collection of contributions in arrears.</p>
<p>20. Paragraph 104. The level of Bilateral Contributions should be maintained at 20 per cent.</p>	<p>The Executive Committee has approved 65 bilateral projects and activities worth US \$ 11.5 million in 18 countries and regions.</p>	<p>Action by Executive Committee. The Executive Committee will monitor the extent to which the available bilateral component is utilized.</p>	<p>Not Applicable.</p>
<p>21. Paragraph 106. The TEAP mechanism should not be substantially altered.</p>	<p>Not Applicable.</p>	<p>Not Applicable.</p>	<p>Not Applicable.</p>
<p>22. Revised arrangements for the terms of reference of Executive Committee, to give greater continuity and stability.</p>	<p>The Executive Committee presently serves a 1 year term.</p>	<p>Recommendation to the Parties. The Executive Committee recommends that the Parties: <u>DECIDE</u>: that the terms of reference of the Executive Committee will be amended to provide for a [two] [three] year term.</p>	<p>Not Applicable</p>

