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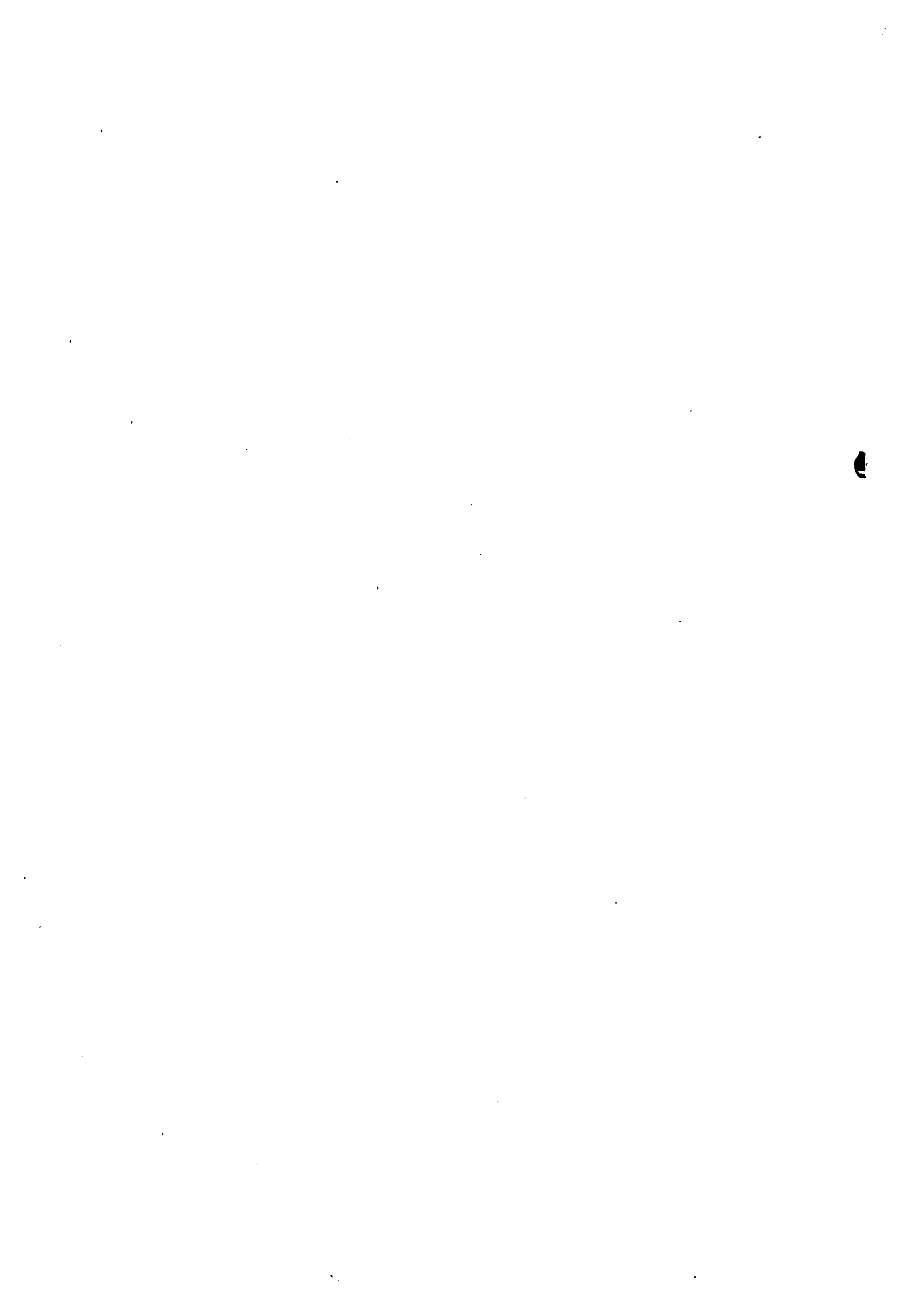
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OPEN-ENDED WORKING GROUP OF THE
PARTIES TO THE MONTREAL PROTOCOL

Thirteenth Meeting
Geneva, 26-29 August 1996

**ACTIONS TAKEN TO IMPROVE THE FINANCIAL MECHANISM FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL**

(Draft report of the Executive Committee of the Multilateral Fund for the Implementation of the
Montreal Protocol to the Eighth Meeting of the Parties)



This draft report is submitted by the Executive Committee pursuant to Decision VII/22 of the Seventh Meeting of the Parties which states:

- “1. To request the Executive Committee to consider innovative mobilization of existing and additional resources in support of Protocol objectives and any further action by the end of 1996 and to report thereon to the Eighth Meeting of the Parties;
2. That the actions set out in Annex V to the report of the Seventh Meeting of the Parties should be taken to improve the functioning of the Financial Mechanism;”

Each of the twenty one actions is reproduced below and the actions taken by the Executive Committee are indicated in bold.

Action 1

- (a) Completion of the development by the Executive Committee of (i) a systematic approach to policy development, (ii) monitoring and evaluation guidelines, bearing in mind that operational responsibility remains with Governments, financial intermediaries or the Implementing Agencies, (iii) project templates for all sectors, with a view to having a project evaluation system in place by the end of 1995.

Action taken by the Executive Committee:

- (a)(i) **The Committee has implemented a number of decisions to facilitate preparation, review and approval of projects; and to adopt business planning for the Multilateral Fund which took effect in 1996. The Committee requested the implementing agencies to include a section in their business plans on policy issues that should be addressed by the Committee during the year.**
- (a)(ii) **The Committee approved at its Eighteenth Meeting interim guidelines for monitoring and evaluation pending the development of a monitoring and evaluation system of the Multilateral Fund; the terms of reference for the design of the monitoring and evaluation system were approved at the Nineteenth Meeting. A Consultant has been engaged to undertake the task, and will present his report to the Twentieth Meeting of the Executive Committee.**

- (a)(iii) Since more than 80 per cent of the approved investment projects were in the domestic refrigeration and foams sectors, templates for the two sectors were prepared by the implementing agencies and the Secretariat at the end of 1995. These templates are being tested. The preparation of additional templates is under active consideration (e.g., halon fire extinguishers).
- (b) The Executive Committee to examine the integration of Agencies' and Secretariat's project review activities no later than six months after it has concluded that the preconditions for increased delegation set out in the recommendations in paragraphs 90 and 91 have been met.

Action taken by the Executive Committee:

- **Preconditions for increased delegation are yet to be met. Integration of the Agencies and Secretariat's project review activities will be considered no later than six months after these preconditions have been met.**
- (c) Further delegation by the Executive Committee in due course, with a view to achieving appropriate delegation on over time.

Action taken by the Executive Committee:

- **The Executive Committee will continue to pursue further delegation, as deemed appropriate, over time.**
- (d) Evaluation of the Small Project Approval Process (SPAP) by the Executive Committee on completion of the current project group.

Action taken by the Executive Committee:

- **Evaluation of the SPAP by the World Bank is in progress.**

Action 2

- (a) The Executive Committee to develop and take decisions on policy issues already identified, so that a satisfactory number of such issues have been clearly addressed by late 1996. New policy issues are likely to continue to emerge, but would be dealt with more expeditiously with refined administrative processes.

Action taken by the Executive Committee:

- **Action completed. Major steps were taken during 1995 to address all policy issues either arising from specific projects or expected to be met at a future date.**

- (b) A list of foreseeable policy issues to be drafted by the Executive Committee with the help of the Implementing Agencies and the Fund Secretariat over the next two meetings.

Action taken by the Executive Committee:

- **A list of issues was developed by the implementing agencies in the context of their 1996 business plans. The Executive Committee discussed and decided, as pertinent, the following policy issues at its Nineteenth Meeting:**
 - **Guidelines for renewal of institutional-strengthening projects.**
 - **Innovative approaches for the phasing out of ozone-depleting substances in low-ODS-consuming countries.**
 - **Approaches to phase out in small- and medium-sized enterprises.**
 - **The role of cost-effectiveness thresholds in sectoral phase-out proposals and guidelines for umbrella projects.**
 - **Re-examination of guidelines for halon fire extinguisher conversion projects.**
 - **Duration of transitional periods for incremental operating costs and savings.**
 - **Change of ownership of approved projects.**
 - **Training strategy options for the phase-out of ozone-depleting substances under the Multilateral Fund.**
 - **Terms of reference for the design of a monitoring and evaluation system for the Multilateral Fund.**
- **The Committee will consider at its Twentieth Meeting the following policy issues:**
 - **Guidelines to address incremental capital and operating costs for halon extinguisher conversion projects.**
 - **Approaches to ODS phase-out in small and medium-sized enterprises (revised).**
 - **Projects involving conversion to HCFCs.**
 - **Methyl bromide.**
 - **Further elaboration of guidelines for umbrella projects.**
 - **Production sector.**
 - **Terms of Reference for the study on Technology Transfer.**

- **Guidelines for the tobacco sector.**
- **Safety related costs in projects using hydrocarbon technology.**

(c) The Fund Secretariat and designated consortia of Implementing Agencies to produce consensus options for consideration by the Executive Committee.

Action taken by the Executive Committee:

- **Joint efforts by Implementing Agencies and the Fund Secretariat to:**
 - (a) **identify in the annual Business Plan policy issues to be considered in the year;**
 - (b) **prepare policy papers for the consideration of the Executive Committee, with options and analysis of implications.**

(d) Decisions proposed for the consideration of the Executive Committee should clearly indicate the implications for project proposals if the decisions were to be adopted.

Action taken by the Executive Committee:

- **Substantially completed.**

Action 3

The Committee members should normally refrain from speaking on projects in which they have a direct interest. However, this should not apply to projects which present policy issues, on which the Chair may invite all members to speak, in order to expedite consideration of such projects. It should be evident from records of Meetings of the Executive Committee that all projects are given equal treatment by the Committee.

Action taken by the Executive Committee:

- **Implemented.**

Action 4

The Executive Committee should 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), with a view to achieving a decrease in the number of projects undergoing substantial revision or reduction in proposed project costs due to the project review process and review the database in mid-1996.

Action taken by the Executive Committee:

- **A joint database between the Implementing Agencies and the Fund Secretariat on the inventory of approved projects is in full operation.**
- **Project templates with an extensive listing of proposed project cost items and incremental cost ranges for the domestic refrigeration and the foams sectors, due to the prevalence of projects in these two sectors, have been completed and are under trial operation. Preparation of additional templates, e.g. halon fire extinguishers, is being pursued.**
- **The development and integration of databases for other relevant sectors, e.g. aerosols and solvents, is under consideration.**

Action 5

- (a) The Executive Committee should examine the effectiveness of its policy dissemination procedures in early 1996. The procedures should include the provision of practical examples of the application of policy decisions, with a view to reducing the extent of project revision during the review process, and also examine the degree to which national ozone protection units and consultants consider they have sufficient information to guide project development.

Action taken by the Executive Committee:

- **Reports of meetings of the Executive Committee are sent on a regular basis to all Parties to the Montreal Protocol.**
- **Policy dissemination is an integral part of the UNEP IE OzonAction programme, continued funding for which has been approved by the Executive Committee.**

- **Regular coordination meetings between the Fund Secretariat and the implementing agencies and full cooperation in studies on new or emerging technologies are providing a high level of common understanding between all the players involved in project formulation and review.**
 - **A meeting of consultants working on Multilateral Fund activities was held.**
- (b) The Executive Committee should develop operational guidelines for agencies and their consultants.

Action taken by the Executive Committee:

- **Starting in 1996 each of the implementing agencies has submitted its 1996 business plan which cites both investment and non-investment activity in the Article 5 concerned. The business plan also identifies major policy issues as well as implementation indicators.**
- (c) The Executive Committee should consider a report on incremental costs for the production of CFC-substitutes and establish firm compensation policies with a view to completing incremental cost guidelines for the production of CFC-substitutes by mid-1996.

Action taken by the Executive Committee:

- **The Executive Committee decided at its Nineteenth Meeting on a number of issues relating to production sector data, technical audits and country-wide phase-out plans for the sector with a focus on closure projects. The Committee further decided to refer to a subgroup constituted from among its members to deal with other issues identified in the report of the Second Meeting of the Expert Group on the production of substitutes for ODS. The subgroup will meet in Geneva on 25 August 1996.**

Action 6

The Executive Committee should evaluate the regime adopted for 1995, taking into account the study's recommendations, including the recommendation 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.' Nonetheless, all eligible projects shall continue to be funded overtime irrespective of their relative cost-effectiveness. In case of delayed funding, however, lump-sum payments could be considered.

Action taken by the Executive Committee:

- In addition to the special provisions made by the Committee for low-ODS-consuming countries, the Committee is reviewing the cost-effectiveness thresholds adopted at the 16th Meeting to address special needs and circumstances (e.g., umbrella projects and completion of sector phase out). The Executive Committee considered at its 19th Meeting a paper on approaches to ODS phase-out in small- and medium-sized enterprises. A new paper on the subject is scheduled to be discussed at the 20th Meeting of the Executive Committee.

Action 7

- (a) Relevant Implementing Agencies should review institutional strengthening experiences and present a combined paper to the Executive Committee, which will include guidelines on the possible proportionate commitment of Article 5 countries in such areas as financial, organizational and human resource support, with a view to enhancing the effectiveness of ODS phase-out strategies.

Action taken by the Executive Committee:

- Review and consultation underway among Implementing Agencies with a view to enhancing the effectiveness of financial assistance to institutional strengthening. The consultation will result in a joint report expected to be submitted to the Executive Committee in 1997.
- (b) Institutional strengthening could include, at the request of Article 5 countries, assistance to meet their country programme goals relative to laws and regulations.

Action taken by the Executive Committee:

- Noted.

Action 8

The Executive Committee should select a lead Agency to prepare the framework for a policy dialogue with Article 5 countries by the end of 1996, with a view to enhancing regulatory support to ODS phase-out in Article 5 countries.

Action taken by the Executive Committee:

- **UNEP IE will convene a meeting late August/early September 1996 with UNEP-Environmental Law Unit , Fund and Ozone Secretariats for this purpose.**

Action 9

The Executive Committee should request a lead Implementing Agency, with the other Agencies and the Secretariat, to further develop, as appropriate, the guidelines for country programmes, taking into account these recommendations, with a view to the adoption by the Executive Committee of revised guidelines. 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. However, approval of eligible projects should not be made contingent upon revision of country programmes. Any revision of the country programme would be at the request of the Party concerned.

Action taken by the Executive Committee:

- **UNEP is developing simplified country programme guidelines for Low-Volume-Consuming countries (LVCs) and Very-Low-Volume-Consuming countries (VLVCs) to be submitted to the 20th Meeting of the Executive Committee for its consideration. Currently, UNEP is preparing the country programmes of 3 VLVC Pacific Islands using these simplified guidelines.**

Action 10

The study by the World Bank on the establishment of a concessional loan mechanism, requested by the Executive Committee at its Sixteenth Meeting, should be completed as soon as possible, and analysed and discussed by the Executive Committee at its Nineteenth Meeting, and a decision on suitable future steps be taken by the Executive Committee by its Twentieth Meeting or by the Meeting of the Parties in 1996, as appropriate, with a view to starting the use of concessional loans by the end of 1996, to the extent that the need and demand exist.

Action taken by the Executive Committee:

- **A paper on concessional loans is to be considered at the 20th Meeting of the Executive Committee.**

Action 11

The Executive Committee should examine the issue of industrial consolidation, taking into account national industrial strategies of Article 5 countries, with a view to achieving more effective approaches to ODS phase-out.

Action taken by the Executive Committee:

- **The Executive Committee has approved some projects which included components of industrial consolidation.**

Action 12

Noting that the Executive Committee approved funding for Latin American and African Networks, the Executive Committee should review the existing similar networks and establish new networks, as appropriate.

Action taken by the Executive Committee:

- **Action completed. Funding has been approved for a West-Asia network. The Executive Committee has decided that the global allocation for UNEP IE is to be used for any additional network requirement.**

Action 13

The Implementing Agencies should report to the Executive Committee on measures to include ODS phase-out issues into their ongoing dialogue on development programming and on measures they could take to mobilize non-Fund resources in support of Montreal Protocol objectives, with a view to achieving an increase in the number of ozone-protection projects.

Action taken by the Executive Committee:

- **Efforts have been made by agencies, with varying degrees of success, to mobilize non-Fund resources in support of the objectives of the Montreal Protocol, e.g., non-Fund resources were used in the preparation of country programmes of several Article 5 countries.**

Action 14

The Executive Committee should consider the need for new Implementing Agencies for loan programmes in the light of emerging sectoral strategy policies and for methyl bromide after the Seventh Meeting of the Parties.

Action taken by the Executive Committee:

- **Action in hand. The issue will be further examined by the Executive Committee after its consideration of the forthcoming paper on concessional loans and the establishment of clear guidelines for the methyl bromide projects.**

Action 15

The Executive Committee should urge the Article 5 countries concerned to select Implementing Agencies and mode of implementation keeping in mind the need to implement projects without delay.

Action taken by the Executive Committee:

- **Noted.**

Action 16

The World Bank should report on the training and incentive structure and, at its Nineteenth Meeting, the Executive Committee should consider this report and the relationship of the costs of training to total overhead costs, in order to ensure that the Executive Committee is fully informed about the role, resourcing and effectiveness of Financial Intermediaries.

Action taken by the Executive Committee:

- **The World Bank has moved away from the policy of charging the Fund separately for administration, training and financing of Financial Intermediaries to a policy of charging a lump sum amount of 13% in line with the other Implementing Agencies. Therefore, the issue here has been invalidated.**

Action 17

The Executive Committee should request each Implementing Agency to report, as and when the issue arises, on legal and institutional impediments to project implementation and measures taken to address them as soon as possible.

Action taken by the Executive Committee:

- **As part of their semi-annual progress reports on project implementation, agencies report on legal and institutional impediments, as pertinent, to project implementation and measures to address them.**

Action 18

- (a) The World Bank and all other institutions associated with the Financial Mechanism should propose measures to assist UNEP in collecting contributions in arrears.

Action taken by the Executive Committee:

- **The World Bank advised that senior management of the World Bank has taken up the issue of arrears to the Multilateral Fund on various occasions with countries which had not paid their contributions.**
- (b) The World Bank should review with UNEP the processes for acceptance of promissory notes.

Action taken by the Executive Committee:

- **The World Bank and UNEP's Treasurer have resolved the acceptance of promissory notes with those countries issuing such notes. A report by the Fund Treasurer on the use of promissory notes was considered at the 19th Meeting of the Executive Committee.**

Action 19

The Executive Committee should monitor the extent to which the available bilateral component is utilized.

Action taken by the Executive Committee:

- **Completed. The use of bilateral funding is monitored in the annual consolidated progress reports.**

Action 20

The Executive Committee should pay attention to training directly related to investment projects and consider training of technical experts from Article 5 countries, especially when addressing the needs of small-ODS users. Where the Fund supports eligible projects of research to adapt technology to local circumstances, it should encourage the involvement of Article 5 country technical experts in the discussions of technical options, and the effective involvement of local experts in field missions.

Action taken by the Executive Committee:

- **Action is in progress.**
- **All implementing agencies rely more and more on national experts, where available, for the identification, preparation and implementation of projects.**

Action 21

- (a) The Executive Committee should prepare an itemized progress report on measures taken so far, in the context of Article 10 of the Protocol, to establish a mechanism specifically for the transfer of technology and the technical know-how at fair and most favourable conditions necessary to phase out ozone-depleting substances; and at the same time.
- (b) The Executive Committee should request UNEP to intensify its efforts to collect information from relevant sources, and to prepare an inventory and assessment of environmentally sound and economically viable technologies and know-how conducive to phase out of ozone-depleting substances. This inventory should also include an elaboration of terms under which transfers of such technologies and know-how could take place.
- (c) The Executive Committee should consider what steps can practicably be taken to eliminate any impediments in the international flow of technology.
- (d) The Executive Committee should further elaborate the issue of the eligible incremental costs of technology transfer, including costs of patents and designs and the incremental costs of royalties as negotiated by the recipient enterprises.

The actions in subparagraphs (a), (b) and (c) should be completed by its Nineteenth Meeting and updated periodically, and the action in subparagraph (d) should be taken immediately.

Action taken by the Executive Committee:

- **The Terms of Reference for a consultant to prepare a report on Action 21 are being discussed by the Executive Committee.**