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**STRATEGIC PLANNING: PROPOSALS ON IMPLEMENTING THE FRAMEWORK
ON THE OBJECTIVE, PRIORITIES, PROBLEMS, AND MODALITIES FOR
STRATEGIC PLANNING OF THE MULTILATERAL FUND
IN THE COMPLIANCE PERIOD**

Introduction

1. The framework on the objective, priorities, problems, and modalities for strategic planning of the Multilateral Fund in the compliance period which was adopted at the 33rd Meeting of the Executive Committee embraced the concept of a strategic shift of the Fund operation from a project focus in the grace period to a country focus in the compliance period and called for the implementation of a “Country-driven and compliance-driven programme during the compliance period” (**Framework, modalities**). It now falls to the Executive Committee to transform this directive into funding policies, implementation modalities and operational guidelines of the Multilateral Fund, and the various institutions involved in the Fund process to reflect it in their operating procedures.

2. This is the subject of this paper and possibly subsequent ones in which the Secretariat will implement the decision of the Executive Committee which *inter alia* requested “the Secretariat to prepare specific proposals for changes in procedures, implementation mechanisms and modalities” (**Decision 33/54**).

3. The Secretariat is fully conscious that this exercise of introducing changes is proposed to be made in the modus operandi of an institution which has been in operation for over 10 years and therefore proposes to take the following approach:

- (a) Build on the existing infrastructure: Changes are proposed only after an in-depth review of the existing system to identify any specific deficiencies with a view to rectifying them to make the system function more effectively under the new circumstances;
- (b) Determine an appropriate transitional period: Since changes must be introduced without interrupting the momentum which has been created in the grace period, adequate time should be made available for the various partners involved to get acquainted with, and implement the changes;
- (c) Introduce changes step-wise: The policies, guidelines and operating procedures of the Fund have evolved over the years into an organic whole and at the same time follow a sequence either on the basis of substance or operational need. For instance the funding policies will determine the kind of implementation modalities and operational guidelines to support the policies, which will in turn, determine the operating procedures that have to be adopted. This will be the sequence that these issues will be reviewed and introduced. As a result the current paper will not address the various operating procedures and business practices, like the performance indicators of business plans, however they will have to be reviewed to determine their continued relevance in light of new operating policies and operating modalities of the Fund;
- (d) Task of this paper: This paper will review the funding policies of the Multilateral Fund, propose changes as appropriate to such policies and recommend modalities and operational guidelines to implement these policy changes.

Funding Policies of the Multilateral Fund

EMPHASIS ON PROJECT RELEVANCE

- (a) Current funding policy

4. The funding policy of a funding agency is determined by the goal the agency is set to achieve. Similarly the funding policy of the Multilateral Fund in the grace period was determined by its objective to maximize globally the amount of ODS to be eliminated with the resources available while taking due note of the need to advance progress in all sectors. The funding policy of the Fund, especially in the early years of its existence, emphasized primarily the impact of the individual projects measured in the number of ODP tonnes that were being captured by the project.

5. In addition from the very early days of the Fund, most project proposals included a discussion of the sector context of the project, which usually described the total consumption of the controlled substance in the sector and sometimes a list of projects already funded. In recent years, especially since 1996, in response to the decisions of the Executive Committee, there has been an expansion of the sector context to include a discussion of the impact of the requested project on the CFC freeze of the country concerned. This discussion however tended to be a general statement that the project would contribute to achievement of the freeze obligation.

6. This funding policy of emphasizing the impact of individual projects in isolation of national compliance targets was accepted in the grace period as the goal of compliance with the first reduction step was, in most cases, many years off. The reference to sector context was useful in understanding the sector background of the projects in the early days and, raising the awareness of Article 5 countries about the impending commitment of the freeze with the general statement on freeze impact.

(b) Inadequacy of the current funding policy for the compliance period

7. Under the current funding policy, the funding decision is made primarily on the impact of individual projects; the reference to the relevance to sector context and later the relevance to compliance with the CFC freeze was implemented in a perfunctory manner. Until the adoption of Decision 33/2 at the last meeting, there was no attempt to show the impact of the requested project on the consumption of the sector by subtracting the project-induced reduction from the sector consumption. Neither was there the effort to show the impact of the funded-reduction on the national freeze target by subtracting the project-induced reduction from national consumption of the substance.

8. As a consequence, the current funding requirement allows approval of projects notwithstanding the actual accounting of their impact on the sector consumption. Consequently there have been several instances where a country's total accumulated phaseout funded by the Multilateral Fund in a given sector has far exceeded its reported total sector consumption, and yet the country continues to submit a new project request for the same sector.

9. A more serious inadequacy of the current policy is the absence of a direct linkage between the project-induced reduction on the consumption of the concerned controlled substances on which national compliance is determined. This removes totally the possibility of measuring the relevance of funding to the national compliance, which, in accordance with Article 10 of the Protocol, is the objective of the Fund.

10. The consequences of these inadequacies of the current funding policy could potentially affect adversely the effectiveness of the Fund in achieving its objective of assisting the Article 5 countries in implementing the time-specific compliance targets and risk allocating funds to areas where the needs were less pressing in terms of compliance.

(c) Adjustment of the current funding policy

11. Emphasizing the impact of individual projects largely assisted the Fund in achieving the goal of maximizing the global reduction of ODS in Article 5 countries during the grace period. However, recognizing that all Article 5 countries have to achieve compliance simultaneously, the Executive Committee has now directed that the Fund's goal will have to shift to assisting individual Article 5 countries to implement time-bound compliance targets. This would necessitate an adjustment of the funding policy from emphasizing impact of individual projects to putting greater emphasis on demonstrated relevance of such projects to compliance. The key to the adjustment is the demonstrated relevance to compliance, as distinct from the current practice because, as noted in the strategic planning framework agreed at the last meeting, "Funding must be predicated on a commitment by the country to achieve sustainable, permanent aggregate reductions in consumption and production, as relevant." (**Framework, modalities**)

12. Demonstrated relevance to compliance is defined as a direct and quantifiable linkage between the funded ODS reduction and the specific Montreal Protocol compliance target to be achieved.

(d) Modalities to implement the adjusted funding policy

13. Depending on the preference and readiness of the country concerned, there could be two modalities to implement the adjusted funding policy of ensuring demonstrated relevance to compliance: funding of performance-based group-wide phase-out agreements; and funding of individual projects or stand-alone sector phaseout plans based on national phaseout strategies. These two modalities are discussed in the following paragraphs.

(i) Performance-based substance-wide phaseout agreements

14. Scope: A group-wide phase out agreement will encompass the total remaining consumption of the concerned controlled substance (e.g.: halons, CFCs) in all its user sectors in the country. Depending on the residual consumption in each of these sectors, the agreement could consist of more than one sector strategy or if the residual consumption is exclusively in the refrigeration servicing sector, which is usually the case towards the completion of the CFC phase out in the relevant manufacturing sectors, the agreement can be detailed as part of a refrigerant management plan, as elaborated in Decision 31/48.

15. Features: A performance-based group-wide agreement would need to include an action plan and a schedule of implementation of well-coordinated activities of industry and government, a level of funding to be agreed with the Executive Committee, a disbursement schedule by the Multilateral Fund against national ODS reduction targets, and a national management structure to ensure achievement of the objective of the agreements.

16. Advantages: The proposed agreements could offer the best chance to implement the funding policy of demonstrated relevance to compliance because funding would be tied to the compliance targets stipulated in the agreement (either according to the Montreal Protocol or, an

accelerated schedule preferred by the country), and disbursement of resources would be tied to performance milestones.

17. The agreements would offer an alternative to the sometimes cumbersome project-by-project submission and approval process. They would also provide an assurance of predictable funding by the Multilateral Fund over a period of time, and would offer the country concerned with a flexibility to use the agreed funds to implement the activities to achieve the goals of the agreement.

18. Experience to date: The modality has been applied to the phase out of ODS in the production and other sectors and also followed to a certain extent in funding of RMPs in LVCs. The sector agreements approved so far are being implemented as planned, however, most of them were prepared and negotiated on a case-by-case basis over a long period of time.

19. Operational guidelines: It is time to review the need for standard guidelines, based on the experience of the Multilateral Fund, for the preparation, implementation and management of such agreements if this modality will be increasingly adopted.

20. Recommended further steps: It is recommended that in order to enable countries which are ready to adopt the modality of performance-based substance-wide agreement, the Secretariat should work with the implementing agencies to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide phaseout agreements.

(ii) Funding of individual projects (including umbrella or terminal phaseout projects) and stand-alone sector phaseout plans based on national compliance strategy

21. The current modality of funding of individual projects can continue to be applied however such funding should be made on condition that the requested project demonstrate its position in the national compliance strategy of phasing out the concerned controlled substance. It should indicate:

- (a) the compliance target to be impacted (for instance, the CFC freeze, the 50% reduction in 2005 and others);
- (b) the impact of the on-going projects on the balance of the latest consumption of the substance and the mandatory consumption level for compliance with the specific target;
- (c) the impact of the requested project on achieving the applicable compliance target;
- (d) the impact of the requested project on remaining national consumption of the substance(s) concerned.

22. The above steps are summed up into a methodology for demonstrating relevance of requested project to compliance and presented in the following table:

TableMethodology for demonstrating relevance of project to compliance
(in ODP/Tonnes)

Year of submission:	
Project:	
Controlled substance:	CFCs, halons, methyl bromide, and others
Control measure targeted by project:	e.g. CFC freeze, CFC 50% reduction in 2005, etc.
Reported consumption last year (Article 7 data): (A)	
Consumption level mandatory for compliance: (B)	
Reduction needed for compliance: (C)	(C) = (A) – (B)
Approved phaseout under implementation: (D)	
Balance to be reduced: (E)	(E) = (C) – (D), or (A) – (B) – (D)
Contribution of project: (F)	
Remaining consumption to be reduced to meet target after funding the project: (G)	(G) = (E) – (F), or (A) – (B) – (D) – (F)
Remaining consumption of the substance unfunded in country after funding the project: (H)	(H) = (A) – (D) – (F)

23. The same requirement should be applied to a stand-alone sector phase out plan. These sector phaseout plans may include the total consumption of the concerned controlled substance, a plan of action by both industry and government and agreed funding level and disbursement schedule, as in the case of a substance-wide agreement. Since a controlled substance could be used in more than one sector, it is important to establish the direct impact of such projects on the national compliance targets of the controlled substance concerned.

24. Advantages: Requiring that funding requests be put in the context of a national compliance strategy provides the possibility of determining the impact of funding on the specific compliance target and of assessing the urgency of such requests, and therefore the funding priority. Funding projects according to the national compliance strategy provides the government the possibility of determining the pace of phase out according to its domestic demand and supply of the controlled substances and readiness of its consumers. The steps that are proposed in the above Table for analyzing the demonstrated relevance of projects to compliance will make up for the inadequacy in the current funding policy which does not link project impact with country compliance. These steps are also being proposed in the draft guidelines for the preparation of country programme updates. The proposed guidelines are intended to assist countries in the preparation of their national compliance strategies.

25. Operational guidelines: The proposed guidelines for the preparation of country programme updates which are being submitted by the Secretariat to the 34th Meeting could serve

as operational guidelines for the preparation of national compliance strategies. This was also noted by the Executive Committee which decided that “updates to country programmes and refrigerant management plans would provide Article 5 countries with a mechanism for national phase out strategies and to encourage Article 5 countries to take advantage of that opportunity” **(Decision 33/54)**.

26. Until these strategies are prepared, it is recommended that the sector context currently included in the project document be revised to provide an analysis of the demonstrated relevance of the requested funding to compliance, following the methodology proposed in the above Table.

EMPHASIS ON NATIONAL RESPONSIBILITY FOR MANAGING THE ODS PHASEOUT PROGRAMME

(a) Inadequacies of the current policy in the compliance period

27. In the grace period when implementation of ODS phaseout programme focused predominantly on project related work, project ownership was clearly identifiable with the ownership of the enterprises which gave rise to these projects and covered the managerial responsibility. The implementation of projects, especially investment projects involved mostly the delivery of project inputs, like recruiting short-term consultants and procuring and delivering equipment. Both these processes were self-propelling and could be driven externally even without a strong national government involvement.

28. However, in the compliance period the modality of implementation will increasingly adopt blanket coverages like sector or group-wide agreements. While under the current means of intervention the projects could still be submitted, government policies in the form of incentives or disincentives would become an important means of intervention. In other words, governments, rather than individuals or enterprises should be increasingly assuming project ownership and seeking to mobilize and coordinate the various components of all projects to achieve the objective of national compliance.

29. Most of the activities envisaged in the national compliance strategies will require the efforts of national actors, on a day-to-day basis, over a relatively long period of time. For instance the adoption by the government of a licensing system regulating the import of ODS and ODS-containing equipment is only the beginning. The implementation and enforcement of the system will require the establishment of a national registry of ODS importers and users, annual issuance of import licenses based on residual allowable levels of consumption, monitoring of implementation, dealing with violations etc. These can not be executed by short-term external consultants, but require stronger involvement by the government in the day to day management of the national compliance strategy.

(b) Adjustment to the funding policy on national responsibility

30. The shift from focusing on the delivery of individual projects in grace period to achieving compliance will result in a realignment of the responsibilities between the national government and the external agents in the management of the national phase out programme. “During the compliance period, the role of the country must be much more than approving the submission of

projects to the Executive Committee. During the compliance period, the country must establish and develop national goals, policies and actions necessary to ensure compliance, and must direct the agencies to work in specific areas to achieve its national compliance strategic plan.” **(Framework, modalities)**. As a result the Multilateral Fund should put greater emphasis on the national management responsibility to enable governments to be in charge of the planning, implementation and allocation of approved funding of the activities needed to achieve compliance.

- (c) Implementation modalities for the policy of greater emphasis on national management responsibility for ODS phase out programme: Linking funding of institutional strengthening to compliance needs

31. Expansion of the national responsibility from providing endorsement of projects and programmes to assuming overall responsibility for managing projects which achieve compliance would require enhancement of the national management capacities. The Executive Committee has recognized this by stating that “Article 5 government capacity should be strengthened to be able to plan and manage their national ODS phase out programme. In so doing, the results of the institutional strengthening evaluation should be taken into consideration.” **(Framework, modalities)**

32. Establishing and maintaining a national capacity for management of ODS phase out programmes is currently being funded mainly under the institutional strengthening projects, and in a few cases through additional arrangements with one or more implementing agency. However, these capacities will need further strengthening to respond to the adjusted policy of the Fund which emphasizes increased responsibility of national governments for implementing national phase out programmes. For example National Ozone Units funded through institutional strengthening projects could assume increased responsibilities for effective management of multi-component projects. That would require an examination of the current funding modality of the institutional strengthening projects, whether it should continue to be funded as a separate project as is done now or it should be integrated into funding of sector and substance-wide agreements.

33. The modality of linking the funding of institutional strengthening projects to the needs for compliance and its implications should be examined in the context of the review of guidelines for the funding of institutional strengthening projects in view of the adjusted Fund policy of emphasizing greater responsibility of governments for their national phase out programmes. The review should take into consideration the results of the recently completed evaluation of the institutional strengthening projects, funding criteria, implementation modality, and other related factors.

Recommendations

The Secretariat recommends that the Executive Committee may wish to:

1. Adopt the adjusted funding policies of the Multilateral Fund to emphasize (a) the demonstrated relevance of projects to compliance, and (b) greater government responsibility for managing national phaseout programmes;
2. Adopt the draft guidelines for the preparation of country programme updates to provide guidance for the development of country compliance strategies;
3. Pending the preparation of country compliance strategies, adopt the methodology for demonstrating project relevance to compliance as provided in paragraph 22 in this document and request that it be included in all project proposals submitted in 2002;
4. Request the Secretariat to work with the implementing agencies to develop draft guide lines for the preparation, implementation and management of performance-based substance-wide phaseout agreements;
5. Request the Secretariat and the implementing agencies to review the guidelines for the funding of institutional strengthening projects in view of the adjusted Fund policy of emphasizing greater responsibility of governments for national phase out programmes, with the objective of linking funding of institutional strengthening projects more closely with compliance needs of countries. The review should take into consideration the results of the recently completed evaluation of the institutional strengthening projects, funding criteria, implementation modality, and other related factors.
