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Executive Committee of  
the Multilateral Fund for the  
Implementation of the Montreal Protocol

Twenty-second Meeting  
Nairobi, 28-30 May 1997

**ACTIONS TO IMPROVE THE FUNCTIONING OF THE FINANCIAL MECHANISM  
(DECISION VIII/5)**

## **Introduction**

1. At its Twenty First Meeting the Executive Committee considered a report on actions to improve the functioning of the Financial Mechanism, which had been prepared in response to Decision VIII/5 of the Eighth Meeting of the Parties. In Decision 21/38, the Executive Committee decided:

- (a) that the report should be forwarded to the Open-Ended Working of the Parties at its fifteenth meeting, with the amendments agreed to by the Executive Committee at its Twenty-first Meeting; and
- (b) that, at its Twenty-second Meeting, the Executive Committee should hold a substantive discussion on measures to be taken to move forward on the actions referred to in decision VIII/5 of the Eighth Meeting of the Parties to the Montreal Protocol.

2. The Executive Secretary of the Ozone Secretariat agreed that the report could be submitted to the fifteenth meeting of the Open-Ended Working Group, after the Twenty-second Meeting of the Executive Committee. The report has now been updated to include the decisions taken at the Twenty-first Meeting and is provided in Annex I to this paper.

3. Separately, in decision VIII/7, clause 2, the Parties to the Montreal Protocol decided to request the Executive Committee to continue with further actions to implement decision VII/22 to improve the Financial Mechanism and report to the Meetings of the Parties annually. This constitutes a requirement for a second report on actions to improve the Financial Mechanism. The Executive Committee reported on the issue to the Eighth Meeting of the Parties. An update of that report is under preparation and can be made available for the Twenty-second Meeting of the Executive Committee as a conference room paper.

4. The two reports can be further updated to reflect any additional actions taken by the Executive Committee at its Twenty-second Meeting. However, consideration might be given to whether the two reports should be combined, noting that they were called for by separate decisions of the Parties.

## **Recommendations**

5. The Executive Committee may wish to use the report in Annex I as the basis for the substantive discussion referred to in Decision 21/38 (b).

6. The Executive Committee could consider whether a single, overall report on the twenty one actions should be forwarded to the fifteenth meeting of the Open-Ended Working Group and could agree that the report in Annex I as amended in the light of that discussion, should form part of the overall report.

## **ANNEX I**

### **REPORT ON ACTIONS TO IMPROVE THE FUNCTIONING OF THE FINANCIAL MECHANISM (DECISION VIII/5)**

1. At their Eighth Meeting, the Parties decided: "to request the Executive Committee to move forward as expeditiously as possible on Decision VII/22, and in particular Actions 5, 6, 10, 11, 14 and 21, and to report back to the Ninth Meeting of the Parties" (Decision VIII/5).
2. A draft report to the Parties on action taken to improve the Financial Mechanism for the Implementation of the Montreal Protocol was submitted by the Executive Committee to the 13th Meeting of the Open-Ended Working Group in July 1996 (UNEP/OzL.Pro/WG.1/13/4). This paper draws on that report and adds additional information to provide an up-to-date picture of the measures taken since the original decision that these actions be carried out was adopted by the Parties at their Seventh Meeting in November 1995.

#### **Report on Progress**

#### 3. 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.
- The Policies, Procedures and Guidelines handbook, which contains all policy and other decisions taken by the Executive Committee, is updated after every Executive Committee Meeting and made available to the Implementing Agencies.

UNEP/IE provides the electronic version of the document in its diskette information service.

- (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 submits an annual business plan which cites both investment and non-investment activity in the Article 5 country concerned. The business plan also identifies major policy issues as well as implementation indicators.
  - Operational guidelines in the form of project "templates" are in use in the domestic refrigeration and flexible foam sub-sectors.
  - At its 20th Meeting, the Executive Committee decided to request the Secretariat to prepare and maintain, for dissemination to the implementing agencies, a database of estimated costs of major equipment items obtained from approved investment projects and other sources by the Fund Secretariat (Decision 20/7(c)(i)). A trial database is being completed.
- (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 has been working on the guidelines to compensate for the phase-out of ODS production in Article 5 countries since 1994. To assist the decision making process, the Executive Committee established an Expert Group on the Production of Substitutes of Ozone Depleting Substances (ODS). At its third and fourth meetings, the Expert Group proposed to the Executive Committee a methodology for the calculation of compensation of shutting down the ODS production facilities in Article 5 countries. Before taking a decision on the methodology, the Executive Committee requests a careful examination by a consultant of the financial implications of adopting the methodology, and selected a 4-member Core Group from the Expert Group to interact with the consultant. The consultant will submit to the 22nd Meeting of the Executive Committee his report on the methodology study on the basis of two participating firms from India and China.

4. 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., 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 further paper on the subject was discussed at the 20th Meeting at which the Executive Committee requested the Secretariat to carry out additional work and bring recommendations to the 22nd Meeting.
- The Executive Committee has agreed that, for a trial period, individual project proposals in "terminal umbrella projects" which meet the relevant overall criteria, could exceed the applicable cost-effectiveness threshold by up to 100 percent (Decisions 19/32 and 20/42).
- The Fund Secretariat has prepared a 'Report on Options to Advance Phase-out in the SME Sector' (UNEP/OzL.Pro/ExCom/22/69) to provide an information basis to assess the impact of ODS phase-out of SMEs on the overall phase-out schedule. The paper is intended to facilitate the development of a framework for impact analysis of a financing window for SMEs to be provided by applying different cost-effectiveness values.

5. 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:*

At the 21st Meeting, the Executive Committee invited the submission of an innovative proposal for demonstration projects to illustrate how concessional lending and other forms of innovative funding, including finance from the private sector, may be used to advance the phase out of ozone depleting substances. The Executive Committee also approved the expenditure of US \$60,000 towards the cost of a concessional financing study to be carried out by the International Finance Corporation to examine the use of private-sector finance and to provide a final theoretical overview of ways in which concessional funding and other forms of innovative funding, including on-lending, can be used.

6. 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 projects which include components of industrial consolidation. For example, funding has been provided for the establishment of centralised filling stations for small aerosol fillers in two Article 5 countries and the Government of China is submitting projects for conversion of the manufacture of compressors for commercial refrigeration according to a strategy which involves consolidation of existing production facilities.

7. 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:*

- At this stage, the Executive Committee has not concluded that additional implementing agencies are required for concessional loan programmes.
- The interim guidelines for methyl bromide projects adopted at the 20th Meeting do not make reference to additional implementing agencies.