

Annex XVI

**ADJUSTED FUNDING POLICIES OF THE MULTILATERAL FUND, AS CONTAINED
IN DOCUMENT UNEP/OzL.Pro/ExCom/34/53 (REVISED),
AS AMENDED AT THE 35TH MEETING OF THE EXECUTIVE COMMITTEE**

(c) Adjustment of the current funding policy

1. 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."

2. Demonstrated relevance to compliance is defined as a direct and, if applicable, quantifiable linkage between the funded activities and the specific Montreal Protocol compliance target to be achieved.

(d) Modalities to implement the adjusted funding policy

3. 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 phase-out plans based on national phase-out strategies. These two modalities are discussed in the following paragraphs.

(i) Performance-based substance-wide phaseout agreements

4. 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.

5. 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.

6. 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.

7. 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.

8. 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 low-volume-consuming countries. 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.

9. 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.

10. 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 Article 5 countries, bilateral agencies and the implementing agencies to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide phase-out agreements.

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

11. 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 is understood that, until national compliance strategies have been developed, nothing will prevent the funding of individual projects or stand-alone sector phase-out plans, in accordance with the guidelines and procedures of the Fund, to the extent that these projects should indicate:

- (a) The impact of requested project on the compliance target (for instance, the CFC freeze, the 50 per cent reduction in 2005 and others);
- (b) The impact of the on-going projects on the balance of a consumption level of the substance to be determined by the Executive Committee in the discussion on the remaining ODS consumption eligible for funding and the mandatory consumption level for compliance with the specific target;

- (c) The impact of the requested project on remaining national consumption of the substance(s) concerned.

12. The same requirement should be applied to a stand-alone sector phase out plan. These sector phase-out 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.

13. 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 analysing 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.

14. 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).

15. 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.