

Annex III

IMPLEMENTATION GUIDELINES
AND CRITERIA FOR PROJECT SELECTION

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SECTION I

I. ROLES AND RESPONSIBILITIES OF EXECUTIVE COMMITTEE AND IMPLEMENTING AGENCIES

This section describes roles and responsibilities of the Executive Committee and Fund Secretariat, the United Nations Environment Programme (UNEP), the United Nations Development Programme (UNDP), the World Bank, and other agencies depending on their respective area of expertise, based on the Terms of Reference adopted at the Second Meeting of the Parties in June 1990, and the report of the Executive Committee at its first meeting in September 1990 in Montreal. The assignment of responsibilities builds on the strengths of each institution and endeavours to avoid duplication of efforts.

I.1 THE EXECUTIVE COMMITTEE

By decision II/8 of the Second Meeting of the Parties to the Montreal Protocol, the Parties established on Interim Multilateral Fund and Executive Committee.

The Executive Committee shall:

- (a) develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources;
- (b) develop the three-year plan and budget for the Multilateral Fund, including allocation of Multilateral Fund resources among the agencies identified in paragraph 6 of decision II/8;
- (c) supervise and guide the administration of the Multilateral Fund;
- (d) develop the criteria for project eligibility and guidelines for the implementation of activities supported by the Multilateral Fund.
- (e) review regularly the performance reports on the implementation of activities supported by the Multilateral Fund;
- (f) monitor and evaluate expenditure incurred under the Multilateral Fund;
- (g) consider and, where appropriate, approve country programmes for compliance with the Protocol and, in the context of those country programmes, assess and, where applicable, approve all project proposals or groups of project proposals where the agreed incremental costs exceed \$500,000;

(h) review any disagreement by a Party operating under paragraph 1 of Article 5 with any decision taken with regard to a request for financing by that party of a project or projects where the agreed incremental costs are less than \$500,000;

(i) assess annually whether the contributions through bilateral co-operation, including particular regional cases, comply with the criteria set out by the Parties for consideration as part of the contributions to the Multilateral Fund;

(j) report annually to the meeting of the parties on the activities exercised under the functions outlined above, and to make recommendations as appropriate;

(k) nominate, for appointment by the Executive Director of UNEP, the Chief Officer of the Fund Secretariat, who shall work under the Executive Committee and report to it; and

(l) perform such other functions as may be assigned to it by the Meeting of the Parties.

I.2 THE FUND SECRETARIAT

The Fund Secretariat operating under the Chief Officer shall assist the Executive Committee in the discharge of its functions.

The Fund Secretariat shall:

- a - respond to enquiries about the Fund and be the liaison with Parties, cooperating implementing agencies and other bilateral and multilateral institutions;
- b - develop the three-year plan and budget for the Fund;
- c - develop a system for disbursement of funds to the implementing agencies;
- d - dispatch to all Parties to the Protocol the proposed budget estimates at least 60 days before the date fixed for the opening of the regular meeting of the Parties at which they are to be considered;
- e - monitor and evaluate expenditures incurred under the Fund for review by the Executive Committee;
- f - assess and, where appropriate, offer recommendations to the Executive Committee regarding country programmes and work programmes developed by implementing agencies;
- g - complete reports for the Executive Committee on project proposals where the agreed incremental costs exceed \$500,000;

- h - prepare reports for the Executive Committee on disagreements for requests for funding where the agreed incremental costs are less than \$500,000;
- i - maintain and circulate periodically a current inventory of projects to avoid duplication of effort between the implementing agencies and other institutions;
- j - prepare the Executive Committee's annual assessment of whether bilateral contributions comply with criteria set out by the Parties for consideration as part of the contributions to the Multilateral Fund;
- k - prepare performance reports on the implementation of activities under the Fund for review by the Executive Committee;
- l - serve as liaison between the Executive Committee and interested governments and cooperating implementing agencies as necessary to the day-to-day functioning of the Fund;
- m - monitor the activities of the implementing agencies based on their oral and written reports;
- n - encourage the Parties to make prompt payment of their contributions towards the Fund;
- o - provide other administrative and support functions for the Executive Committee;
- p - at the end of each calendar year, the Chief Officer of the Fund Secretariat shall submit to the Parties accounts for the year. The Chief Officer shall also, as soon as practicable, submit the audited accounts for each period so as to coincide with the accounting procedures of the implementing agencies;
- q - make arrangements for meetings of the Executive Committee including the issue of invitations, preparation of documents, and reports of meetings;
- r - arrange for necessary interpretation at meetings;
- s - receive, and arrange for translation, reproduction, and distribution of the documents of meetings;
- t - publish and circulate the official documents of meetings;
- u - make and arrange for keeping of sound recordings of meetings;
- v - arrange for the custody and preservation of the documents of the meeting in the archives of the international organization designated as secretariat of the Vienna Convention; and

w - generally perform all other functions that the Executive Committee may require.

I.3 THE IMPLEMENTING AGENCIES

Under decision II/8 of the Second Meeting of the Parties to the Montreal Protocol, the Executive Committee shall discharge its tasks and responsibilities specified in its terms of reference as agreed by the Parties, with the cooperation and assistance of the Internal Bank for Reconstruction and Development (World Bank), the United Nations Environment Programme, the United Nations Development Programme, or other appropriate agencies depending on their respective area of expertise.

I.3.1 UNITED NATIONS ENVIRONMENT PROGRAMME (UNEP)

As the Fund's "treasurer", UNEP will be responsible for receiving and administering contributions, and disbursing funds to the Fund Secretariat and the implementing agencies based on the directive of the Executive Committee. Following consultation with U.N. officials, UNEP shall submit investment plans related to contributions held in reserve for the Executive Committee's approval.

According to decision I of the Executive Committee of the Multilateral Fund at its First Meeting, UNEP agreed that no additional charge would be required for operating as "treasurer" of the Fund, and that all associated costs would be covered by its overhead charges assessed against the funds it receives in its role as one of the implementing agencies.

UNEP shall co-operate and assist in the political promotion of the objectives of the Protocol, as well as in research, data gathering and the clearing-house functions.

Clearing-house functions include:

- a - assisting Parties, operating under paragraph 1 of Article 5, through country-specific studies and other technical cooperation, to identify their needs;
- b - facilitating technical cooperation to meet identified needs;
- c - distributing information, to hold workshops and training sessions, and other related activities for the benefit of Parties that are developing countries; and finally,

d - facilitating and monitoring other multilateral, regional, and bilateral cooperation available of Parties that are developing countries.

I.3.2 UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)

The United Nations Development Programme (UNDP) shall cooperate and assist in feasibility and pre-investment studies and in other technical assistance measures.

I.3.3 WORLD BANK

The World Bank shall cooperate and assist in administering and managing the programme to finance the agreed incremental costs of activities enabling countries operating under paragraph 1 of Article 5 to comply with the control measures of the Montreal Protocol. The President of the World Bank shall be the Administrator of this programme, which shall operate under the authority of the Executive Committee.

I.3.4 Other Agencies

Other agencies shall be invited by the Executive Committee to cooperate with and assist it in carrying out its functions.

SECTION II

II. FRAMEWORK FOR ACTIVITIES SUPPORTED BY THE FUND

II.1 COUNTRY PROGRAMMES

1. The Executive Committee shall invite each Party operating under paragraph 1 of Article 5 and wishing to receive support from the Multilateral Fund to develop a country programme¹ and projects in accordance with paragraph 10(g) of the Terms of Reference of the Executive Committee.
2. The country programme is expected to contain inter alia:
 - (a) a review of recent production, imports, applications and use of controlled substances by the main producers, users, and consumers. Where information is available it would be useful to indicate links to multinational producers or users.
 - (b) a description of the institutional framework governing controlled substances - (Government agencies, collaborating NGO's, consumer groups, industry associations);
 - (c) a description of policy framework, regulatory and incentive systems;
 - (d) a description of government and industry activities in response to the Protocol;
 - (e) a statement of strategy for implementation of the Protocol, indicating the respective roles of Government, supporting multilateral and bilateral agencies;
 - (f) an action plan encompassing investment and technical assistance projects, pre-investment studies, and any additional policy analysis required;
 - (g) a timetable for each activity, and for action plan review;
 - (h) a budget and financing programme for the above activities.

¹ A number of countries have already initiated or completed national or country studies which contain some of the elements of a country programme. Updated country studies containing the elements listed in paragraph 2a-h shall constitute a country programme.

3. In developing its country programme and/or individual projects, a Party may request technical assistance, other services and support from the implementing agencies within their respective areas of expertise and within the context of work programmes approved by the Executive Committee.
4. A Party operating under paragraph 1 of Article 5 shall submit its country programme to the Executive Committee for its consideration and approval in accordance with paragraph 10(g) of Appendix II of Annex IV to the Report of the Second Meeting of the Parties.
5. A country programme approved by the Executive Committee shall serve as a basis for project preparation and further co-operation between the Party and the implementing agencies. However, individual projects prepared prior to the completion of a country programme shall also qualify for funding of consistent with project eligibility criteria (see section III) approved by the Executive Committee.

II.2 WORK PROGRAMMES

1. The Executive Committee shall invite implementing agencies and other appropriate agencies depending on their expertise, to develop work programmes in cooperation with recipient countries in order to receive support from the Multilateral Fund.
2. Work programmes should specify:
 - (a) types of activities and projects on which agreement has been reached between the implementing agency and the concerned Party;
 - (b) types of activities and projects which must be sufficiently defined to allow the executive Committee to review and monitor these activities;
 - (c) means of coordinating with other implementing agencies;
 - (d) time frame for action;
 - (e) expected outcomes; and
 - (f) estimated budget by major categories and fiscal quarters.
3. The Executive Committee shall approve work programmes based on project eligibility criteria, on an annual basis and review progress under these programmes semi-annually.
4. The implementation of any aspect of the Work Programme shall be subject to the availability of funds. In the event of a shortage of available funds the Executive Committee shall provide guidance to the implementing agencies concerning priorities for implementation (see section IV).

5. Each implementing agency is responsible for implementation and supervision of projects within its work programme. The agency shall report to the Executive Committee annually on the progress of the work programmes.

II.3 PROJECT APPROVALS

1. Project proposals where the agreed incremental costs exceed \$500,000 shall be considered and approved by the Executive Committee.

2. Project proposals where the agreed incremental costs are less than \$500,000 shall be approved by the implementing agencies within the context of an approved work programme and after confirmation by the Fund Secretariat on the availability of funds and contributions in-kind.

3. Project proposals not developed in cooperation with implementing agencies shall be submitted to the Secretariat for transmittal to the appropriate implementing agencies for inclusion in their next work programme.

SECTION III

III. PROJECT ELIGIBILITY CRITERIA

This section proposes interim project eligibility criteria based on decision II/8 and Annex I of the Second Meeting of the Parties. These criteria will be clarified in the process of preparing country studies and in project-specific review and approval between the Parties and implementing agencies. This is therefore intended to be a flexible document and shall be reviewed after one year experience following its adoption.

III.1 CRITERIA

(1) Financial and technical assistance from the Multilateral Fund shall be available only to Parties operating under Article 5, paragraph 1 of the Montreal Protocol and in compliance with the requirements of the Protocol. Such assistance shall be available only to facilitate compliance with the control measures set out in Articles 2A to D of the Protocol (decision II/8, paragraph 1) and to finance the incremental costs incurred in meeting these requirements.

(2) All projects² must receive approval of the requesting Party's government.

(3) Financial assistance for capital investment projects shall be available for categories of agreed incremental costs identified in decision II/8. Appendix I of Annex 4 of the Report of the Second Meeting of the Parties³ (Attached as Appendix I of this report). Assistance for other categories of agreed incremental costs associated with capital investment projects requires approval of the Executive Committee.

(4) Projects other than capital investment projects shall also qualify for assistance under the Fund (e.g. technical assistance and clearing house functions).

² The term "projects" is used to describe any activity qualifying for assistance under the Fund. A project could include, inter alia, training, technical assistance, pre-investment studies, country programme preparation, technology development or capital investments to modify or establish a manufacturing facility.

³ Further refinement over time will be needed to implement the terms of reference adopted in London defining incremental costs.

(5) Financial and technical assistance shall be available for projects that are cost-effective and based on environmentally sound alternative technologies or substitutes to the substances restricted by the Protocol, taking into account the national industrial strategy of the recipient Party (decision II/8, Appendix I, paragraph 1a of Annex 4 of the Report of the Second Meeting of the Parties).

SECTION IV

IV. GUIDELINES FOR SETTING PRIORITIES

1. Projects with potential for the most cost-effective and efficient reduction in the emission of controlled substances.
2. Projects involving broad geographic balance.
3. Projects with ease of replication and technology transfer to other Parties operating under Article 5, paragraph 1.
4. Projects with the highest potential reduction of controlled substances in the shortest period of time in terms of global impact.

SECTION V

V. GRANTS, LOANS, AND IN-KIND SUPPORT

1. All technical assistance and pre-investment activities shall be provided in the form of grants or, in certain circumstances, in-kind support.
2. At the request of Article 5, paragraph 1 countries, in-kind support can be provided in the form of expert personnel, technology, technical documentation and training.
3. Assistance for investment projects shall generally be provided in the form of grants. However, where the investment project has a short payback period (i.e. 1-2 years), financing may take the form of highly concessional loans. If an implementing agency believes that a highly concessional loan is appropriate for a particular project, it shall recommend this action at the next meeting of the Executive Committee. The Executive Committee shall make the final decision on the terms of assistance.

SECTION VI

VI. REQUIREMENTS FOR REPORTING TO THE EXECUTIVE COMMITTEE

This section outlines the criteria for reporting by the implementing agencies to the Executive Committee based on the Terms of Reference of the Executive Committee and of the Multilateral Fund, Appendices II and IV of Annex 4 of the Report, respectively, to decision II/8.

VI.1 REPORT BY THE SECRETARIAT

The Chief Officer of the Secretariat shall submit to the Executive Committee semi-annual reports covering budget and financial issues. The Chief Officer shall also report when necessary, on the Secretariat activities during the reporting period, including those requiring action by the Executive Committee:

- a - revision of current years budget for the Secretariat;
- b - proposals for subsequent year's budget for the Secretariat;
- c - report on contributions, fund disbursements and investments;
- d - report on contributions through bilateral and regional cooperation;
- e - annual assessment of bilateral cooperation;
- f - operational policies and guidelines of the Fund;
- g - three-year plan and budget for the Fund; and
- h - performance reports and assessments of implementing agencies and their activities.

A summary of these shall be submitted to the meeting of the Parties.

VI.2 REPORTING BY THE IMPLEMENTING AGENCIES

The implementing agencies shall submit to the Executive Committee through the Secretariat:

- a - annual reports on implementation activities of prior approved work programmes and activities related to country programmes;
- b - semi-annual progress reports;
- c - reports on disagreements by requesting countries which require Executive Committee review;

- d - revision of the current year's budget where necessary and the following year's budget and workplan; and
- e - report on interagency work programme and coordination of activities.

VI.2.1 Reporting by UNDP

- a - report on status of UNDP activities related to country programmes including the activities of field offices.
- b - periodic progress reports on projects;
- c - annual report on income and expenditures for the previous years and ;
- d - final report after completion and/or termination of each project.

VI.2.2 Reporting by UNEP

- a - reporting on training, country studies, political promotion and communication efforts and clearing house activities; and
- b - annual audited reports on the income and expenditures of the Multilateral Fund.

VI.2.3 Reporting by the World Bank

- a - report on activities related to country programmes and on project proposals or groups of project proposals including those which require Executive Committee approval; and
- b - final report on operations financed by the Fund.

VI.2.4 Other Implementing Agencies (e.g. Regional Banks)

Other implementing agencies who undertake projects financed from the Fund shall be required to report as appropriate based on the nature of these activities.

Appendix I⁴

INDICATIVE LIST OF CATEGORIES OF INCREMENTAL COSTS

1. The evaluation of requests for financing incremental costs of a given project shall take into account the following general principles:

(a) The most cost-effective and efficient option should be chosen, taking into account the national industrial strategy of the recipient party. It should be considered carefully to what extent the infrastructure at present uses, thus resulting in decreased capital abandonment, and how to avoid deindustrialization and loss of export revenues;

(b) Consideration of project proposals for funding should involve the careful scrutiny of cost items listed in an effort to ensure that there is no double-counting;

(c) Savings or benefits that will be gained at both the strategic and project levels during the transition process should be taken into account on a case-by-case basis, according to criteria decided by the Parties and as elaborated in the guidelines of the Executive Committee;

(d) The funding of incremental costs is intended as an incentive for early adoption of ozone protecting technologies. In this respect the Executive Committee shall agree which time scales for payment of incremental costs are appropriate in each sector.

2. Incremental costs that once agreed are to be met by the financial mechanism include those listed below. If incremental costs other than those mentioned below are identified and quantified, a decision as to whether they are to be met by the financial mechanism shall be taken by the Executive Committee consistent with any criteria decided by the Parties and elaborated in the guidelines of the Executive Committee. The incremental recurring costs apply only for a transition period to be defined. The following list is indicative:

(a) Supply of substitutes

(i) Cost of conversion of existing production facilities:

- cost of patents and designs and incremental cost of royalties;
- capital cost of conversion;
- cost of retraining of personnel, as well as the cost of research to adapt

⁴ This is the text of Appendix I of Annex IV to the Report of the Second Meeting of the Parties.

technology to local circumstances;

- (ii) Costs arising from premature retirement or enforced idleness, taking into account any guidance of the Executive Committee on appropriate cut-off dates:
 - of productive capacity previously used to produce substances controlled by existing and/or amended or adjusted Protocol provisions; and
 - where such capacity is not replaced by converted or new capacity to produce alternatives;
 - (iii) Cost of establishing new production facilities for substitutes of capacity equivalent to capacity lost when plants are converted or scrapped, including:
 - cost of patents and designs and incremental cost of royalties;
 - capital cost;
 - cost of training, as well as the cost of research to adapt technology to local circumstances;
 - (iv) Net operational cost, including the cost of raw materials;
 - (v) Cost of import of substitutes;
- (b) Use in manufacturing as an intermediate good
- (i) Cost of conversion of existing equipment and product manufacturing facilities;
 - (ii) Cost of patents and designs and incremental cost of royalties;
 - (iii) Capital cost;
 - (iv) Cost of retraining;
 - (v) Cost of research and development;
 - (vi) Operational cost, including the cost of raw materials except where otherwise provided for;

(c) End use

- (i) Cost of premature modification or replacement of user equipment;
- (ii) Cost of collection, management, recycling, and, if cost effective, destruction of ozone-depleting substances;
- (iii) Cost of providing technical assistance to reduce consumption and unintended emission of ozone-depleting substances.