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

Twenty-first Meeting
Montreal, 18-20 February 1997

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

Introduction

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 (in bold text) 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 takes additional dissemination action, including carrying the electronic version of the document in its on-line information service.**
- **Of all the projects submitted to the Executive Committee, some 95 percent are submitted for “blanket approval”.**

- (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 Twentieth 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)). That database is in preparation.**

- (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:

Pending consideration at the 21st Meeting of the Report of the Expert Group.

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).

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:

The most recent paper on concessional lending was considered at the 20th Meeting of the Executive Committee. The Committee decided that a wider examination was needed and requested that a future report be prepared by the Secretariat and the World Bank exploring practical options for providing concessional loans, *inter-alia* through regional development banks and the private sector.

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 included components of industrial consolidation, in particular the establishment of centralised filling stations for small aerosol fillers. Projects have been approved for conversion of the manufacture of compressors for commercial refrigeration in China according to a strategy which involves rationalisation of non-CFC production facilities in less than half the number of factories now operating.

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.**