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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-fifth Meeting
Montreal, 5-7 December 2001

**STRATEGIC PLANNING OF THE MULTILATERAL FUND
REVISED DOCUMENT 34/53: FOLLOW-UP TO DECISION 34/66 (C)**

Introduction

1. Decision 34/66 requested the Secretariat to:
 - “(b) to solicit written comments from members of the Executive Committee on document UNEP/OzL.Pro/ExCom/34/53; and
 - (c) to submit to the Thirty-fifth Meeting a revised version of document UNEP/OzL.Pro/ExCom/34/53 taking into account the proposals made and the views expressed at the Thirty-fourth Meeting, as well as the written submissions by members of the Executive Committee.”
2. Accordingly, the Secretariat sent an invitation for comments to members of the Executive Committee on 31 July 2001, immediately following the conclusion of the 34th Meeting and received contributions from 11 countries, which are reproduced in Annex I.
3. Comments from members of the Executive Committee converge on five main areas:
 - (a) Basis for determining the remaining ODS consumption eligible for funding. Concerns were expressed about using the consumption of the last year as the basis, since such consumption could have inherent inaccuracies caused by economic slow-down, stockpiling, illegal trade and others. The need for adjustment of the basis was emphasized. There was also a suggestion for an appropriate methodology to account for the impact of the on-going projects.
 - (b) Modalities of implementation. Once the remaining consumption is determined, there should be flexibility in the modality of implementation, project-by-project or sector/substance-wide agreement. There is interest for greater knowledge of the modality of developing sector/substance-wide agreements.
 - (c) The measuring of impact of non-investment activities.
 - (d) The need to increase funding to institutional strengthening projects.
 - (e) Additional work on strategic planning.
4. It is to be noted that the basis for determining remaining ODS consumption eligible for funding, as well as the modalities of implementation are addressed in documents UNEP/OzL.Pro/ExCom/35/61 and UNEP/OzL.Pro/ExCom/35/62, respectively.
5. In view of the above, the sections which discuss these issues in the document UNEP/OzL.Pro/ExCom/34/53, specifically paragraphs 14 - 18, paragraph 25 and Recommendation 3 are put in square brackets, indicating that the issues are under discussion by the Executive Committee. Otherwise the revisions which are introduced are shown in ***bold italics*** for ease of identification, in paragraphs 9, 12, 20, 21 and Recommendations 1, 4, 5 and 6.
6. The revised document UNEP/OzL.Pro/ExCom/34/53 is attached as Annex II.

ANNEX I

**COMMENTS FROM MEMBERS OF THE EXECUTIVE COMMITTEE ON
DOCUMENT UNEP/OzL.Pro/ExCom/34/53**

AUSTRALIA

CHINA

**COLOMBIA CONSTITUENCY
(COLOMBIA AND ARGENTINA)**

FINLAND

INDIA

JAPAN

MALAYSIA

**DOMINICAN REPUBLIC CONSTITUENCY
(MEXICO)**

THE NETHERLANDS

POLAND

Columbia Constituency: Argentina

Comments by Argentina on the document “Strategic Planning: Responses to Implement the Framework on the Objective, Priorities, Problems and Modalities for Strategic Planning by the MFMP during the Compliance Period”

The proposal prepared by the Secretariat in compliance with Decision 33/54 (Doc. UNEP/OzL.Pro/ExCom/34/53) concentrates almost exclusively on an analysis of funding policy.

Consequently, it does not include proposals related to aspects which would need work in the future – some of them had already been identified in Dec.33/54 – i.e.:

- future treatment of users
- reduction in SME use of ODSs and the situation of small and micro users as a subset
- assistance to countries to maintain momentum
- strengthening of the National Ozone Units, although Dec. 33/2 adds tasks to their workload without providing the funding needed to carry them out.

Moreover, the Secretariat presents a debatable methodology to calculate remaining sectoral consumption, an issue that will be dealt with below.

Funding Policies and Their Relationship to Sector Consumption

The MFMP policy during the grace period, especially during the first years, emphasized the impact generated by eliminating Ozone Depleting Substances (ODSs) through the execution of each investment project. The consumption information by sector is based on estimates presented by the Ozone Units.

Following Decision 33/2, an attempt was made to establish a method of mathematical calculation to determine remaining consumption by sector based on the impact on the user market of each reconversion product.

To relate funding to consumption by sector in a linear fashion through the table proposed by the Secretariat Document poses serious difficulties, as it does not cover the following situations:

- ODSs cover very diverse and broad applications ranging from industrial activity, to research, to military, agricultural and health purposes. A single substance may have a major effect on multiple sectors.

- For the purpose of Article 7 of the MP, Controlled Substances are only pure substances and not “pre-mixed polyols” which are considered “products”. These polyols are a major source of CFC-11 consumption for the “foam” sector in many countries. It should be clarified that pre-mixed systems may be produced locally in each country or imported. In cases of polyol importation, if the percentage of CFC contained in the system is not quantified as a controlled substance, this figure would not be reflected in the reported statistics for country consumption, thus excluding that part of the ODS user market from funding (the Executive Committee has approved many projects that had a consumption dependent on these polyols as an input).

- Consumption information by sector is based on the estimates presented by the Ozone Units, using as sources official customs information and annual production figures from companies. Based on the general figures, subsequent analyses of sectoral consumption are made through the importers and distributors of these substances, who are aware of the general figures for annual and monthly demand according to their sales and orders, but who do not have a detailed knowledge of the movements of this consumption at the sectoral or sub-sectoral level.
- Companies undergoing the reconversion process without having completed the project, companies that have already completed the process and those that have concluded part of the project, for example the foaming operation, and still have to conclude the refrigeration process.
- Some companies go bankrupt or change operations, or a part of the market that was held by a reconverted company might be transferred to one that has not yet converted.
- Likewise, the existence of illicit trade affects the real figures for ODS “use”, although it is not part of the statistics.

To summarize, the consumer market behaves in a dynamic fashion and finally, *sectoral consumption continues to be an estimate and cannot be precisely calculated.*

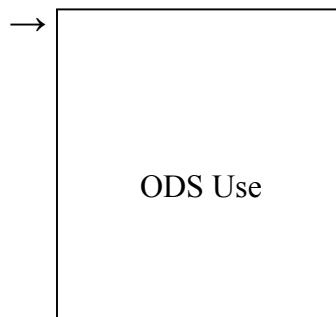
Notion of Aggregate National Consumption – Table for the Calculation of Remaining Consumption Proposed by the Secretariat

The notion of “aggregate national consumption” according to the terms proposed by the Secretariat does not reflect the true behaviour of national consumption.

The following model is proposed to analyze real consumption:

Factors Added

- Users still to be identified and end users
- New companies and non-eligible companies
- Approved projects undergoing execution
- Imports or pre-mixed polyols
- Critical uses
- Illegal trade



Eligible residual consumption?

↓ Factors Subtracted

- Completed projects
- Bankruptcy/closure of companies
- Company self-reconversion
- Emissions through venting
- Illegal trade

Establishing the last year of consumption as the basis for the calculation of remaining consumption would be inappropriate for the reasons of market dynamics explained previously.

Also, the impact values of a project taken at the date of the project's preparation do not necessarily imply the same impact on the market at a later date. Therefore, it would be appropriate to focus on the "true use" of ODSs and consequently determine which projects are eligible. The base year for calculation could be (a) the baseline established by the MP; or, (b) the average of the past three years, as this would make it possible to absorb the aforementioned fluctuations as an average.

On this point, and as a function of dealing with reconversion according to the residual remaining consumption by sector, two approaches for this analysis could be used: a qualitative, and a quantitative one.

A qualitative approach would mean designing a way of identifying users within a given sector, on a given date, and based on this presenting the Executive Committee with a project covering the reconversion of the entire sector, without taking into account the mathematical subtraction proposed by the Secretariat, but rather ensuring effective permanent reduction. This would oblige the Ozone Units to identify the remaining eligible companies in a given sector, for example, by establishing the obligation of registering by a set deadline.

As a single controlled substance may be used in different sectors, some flexibility should also be ensured for adjustments to the information delivered. This would make it possible to have a control adjustment by substance as well as by sector.

A quantitative approach would imply using a more complex method of calculation that would ensure consideration of market dynamics and lack of precision in the data collected by sector, in order not to compromise the feasibility of funding eligible companies.

In the case of Argentina, conversion of sectors according to the conditions of flexibility proposed here would guarantee equitable funding for those companies that demonstrate consumption and verify conditions of eligibility.

Modalities for Implementation

As previously indicated, the Secretariat's proposal does not include guidelines for areas such as end users, small and micro enterprises and strengthening of the National Ozone Units.

There is agreement on the country-driven approach for the preparation of goals, criteria and necessary national measures to ensure compliance with the MP and the management of ODS reduction programs. However, the greater responsibility on the national level for modalities for implementation, data checking and control should be considered from a realistic viewpoint, in order not to engage a larger amount of funds in the tasks enumerated in Dec. 33/2 and ensuring funding for the areas of government involved in these tasks.

Special attention should be given to the situation of the countries operating under the aegis of Article 5 of the Protocol, and provisions made to strengthen the capacity of those Units in need.

This may be done through non-investment projects to train officials undertaking specific tasks within the operational unit in question.

Conclusions

It is suggested that simple and practical guidelines be established, given the pragmatic nature of the operations within the framework of the Protocol, that will not endanger the success achieved until now, especially taking into account the fact that we are in the compliance period.

It is important to take into account the lack of precision in consumption data by sector and market dynamics; finally, the use of a mathematical table could endanger equitable funding for businesses that are still eligible.

**STRATEGIC PLANNING: PROPOSALS ON IMPLEMENTING THE FRAMEWORK
ON THE OBJECTIVES, PRIORITIES, PROBLEMS AND MODALITIES FOR
STRATEGIC PLANNING OF THE MULTILATERAL FUND IN THE COMPLIANCE
PERIOD: DECISION 34/66**

Input from Australia

Australia thanks the Secretariat for its invaluable efforts in preparing agenda paper 34/53 for the Executive Committee's (ExCom) consideration, and submits the following comments on the paper in accordance with Decision 34/66.

Comments on the proposed adjusted funding policies

Australia supports the proposed adjustments to the Multilateral Fund's (MLF) funding policies as appropriately reflecting the modalities adopted by the ExCom under the Strategic Framework that: "funding must be predicated on a commitment by countries to achieve sustainable, permanent aggregate reductions in consumption and production, as relevant"; and, during the compliance period, countries "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 plans."

Comments on the proposed implementation modalities

1. Modalities to implement the funding policy to emphasise "the demonstrated relevance of projects to compliance"

Australia supports the proposed modalities to the extent that both modalities seek to enable Parties operating under Article 5(1) (A5s) to demonstrate the relevance of a project proposal to their compliance obligations and provide A5s with the scope to continue to progress their ODS phase out on a project by project basis, or alternatively adopt innovative ODS phase out approaches such as substance-wide phase out agreements.

An issue directly related to these modalities is the level of funding available for their implementation. Australia notes the concerns expressed by some members in relation to the proposal that future funding be conditional upon commitment to the concept of permanent reductions in national aggregate consumption.

Australia acknowledges that allowing some fluctuation in annual levels of ODS consumption may in fact be ultimately more conducive to a sustained, cost-effective phase out of ODS than prohibiting any increase in ODS consumption from year to year. Australia notes, however, that the MLF's resources are finite and therefore it is imperative that these resources are allocated in a manner which maximises the MLF's capacity to fulfil its mandate of assisting countries' meet their compliance obligations.

To this end, Australia supports the proposal presented at the 34th Meeting to establish a baseline *ODS consumption eligible for funding* figure for each A5 by ODS, to enable the *remaining ODS consumption eligible for funding* for each A5 to be determined. In regard to the baseline figure, Australia supports a methodology:

- (i) Uses very recently reported consumption data;
- (ii) allows for some adjustment to the above reported data in exceptional cases; and
- (iii) accounts for ongoing and completed projects to date.

It envisages that the *remaining ODS consumption eligible for funding* figure would then be determined by applying the same method of accounting for projects as agreed in (iii) above.

It is therefore Australia's understanding that this modified version of the national aggregate consumption concept would have the following practical effect: in accordance with its rules and guidelines, the MLF would be liable to fund projects to address only the *remaining ODS consumption eligible for funding* figure; the *remaining ODS consumption eligible for funding* figure (but not necessarily the aggregate ODS consumption figure) would permanently decline over time through the system for accounting for approved projects agreed under (iii) above. Thus, A5s could still increase their ODS consumption above the *remaining ODS consumption eligible for funding* figure, on the understanding that such increases in consumption would be considered "consumption *not* eligible for funding".

To assist the ExCom's assessment of project proposals, the "Baseline figure of ODS consumption eligible for funding" and "Remaining ODS consumption eligible for funding" figures should be incorporated into the formats of both implementation methodologies.

In terms of accounting for approved projects against the *ODS consumption eligible for funding* figure, Australia notes agreement will need to be reached on the method for estimating the ODP value of non-investment projects. In this regard the following comments are offered:

- RMPs: are intended to achieve the total phase-out of ODS in the refrigeration and air conditioning servicing sector. On this basis, the ODS consumption in this sector could be used as the ODP value of RMPs. As RMP components are often approved separately, it may be useful to clarify that when the 'official' RMP is approved, the ODP value assigned to it (equal to the consumption in the servicing sector) is considered to account for all previously approved projects in the sector (eg recovery and recycling activities).
- Halons banking management projects for LVCs: like RMPs, are supposed to contribute to the total phaseout of halons used for servicing in the countries and could therefore be given the ODP value of halon consumption in the servicing sector.
- Non-investment projects in the methyl bromide sector: present a challenge as, unlike the above mentioned non-investment projects, the guidelines do not require that these projects are 'terminal' projects.

- Institutional Strengthening and Country Programme projects: can not be expected to have a direct measurable impact on consumption. Moreover, if an ODP value was assigned to these kinds of projects it could be considered double-counting as these projects relate to the management of the projects which have a quantifiable impact on eligible ODS consumption. (see 2. below for comments on the proposed approach to determining the level of funding for institutional strengthening)
- 'Global' resources materials prepared by UNEP: could not be given an ODP value as it is highly uncertain how much impact they have in quantifiable terms and, like institutional strengthening and country programme projects.

2. Modality to implement adjusted funding policy to emphasise "greater government responsibility for managing national ODS phase out programs"

Australia supports the proposed implementation modality of linking funding for institutional strengthening more closely with compliance needs. Australia believes this modality will provide a means by which to ensure that the greater responsibility to be assumed by A5 governments and their National Ozone Units in the compliance period is supported by the appropriate level of institutional strengthening.

Australia notes. as the "national ODS phase out programs" will form part of an A5's "national compliance strategy" (as described in the draft guidelines for Country Program Updates 34/54; referred to in paragraph 21 of 34/53. Also called "national compliance strategic plans" in the Strategic Framework documents), it should reflect an A5's compliance needs. Consequently, linking funding for institutional strengthening more closely with compliance needs should greatly assist the ExCom determine the level of financial assistance required to ensure an A5 government and its National Ozone Unit can effectively manage the national ODS phase out programs which reflect those needs.

Noting there is general agreement that responsibility for the management of national ODS phase out programs is likely expand the role currently undertaken by many A5 governments and their National Ozone Units, and noting the emerging consensus that additional funding should be considered to support this expanded role, Australia suggests that the Secretariat's review of the guidelines for funding institutional strengthening take into account the ExCom's willingness to consider additional funding for institutional strengthening (see proposed amendment to recommendation 5).

Comments on proposed recommendations

Recommendation 1: Australia supports this recommendation.

Recommendation 2: Provided the Country Program Update guidelines can be adopted at the 35th ExCom, Australia proposes this recommendation be amended to add:

"and request IAs to give priority to working with A5s to identify whether requests for assistance in preparing Country Program updates should be included in their 2002 Business Plans"

Recommendation 3: Australia believes adoption of this recommendation should be reserved until the members have further considered the modified version of the national aggregate consumption concept (as reflected in the *baseline* and *remaining ODS consumption eligible for funding* methodology) and the format through which this information is to be expressed in future project proposals.

Recommendation 4: Australia notes there are potential synergies between the Performance-based Substance-wide Phase out Agreement modality described in para 14 of 34/53 and the Performance-based National Phaseout Agreement referred to in para 19 and Part III of the draft Country Program update guidelines. In the interests of providing A5s with the earliest possible guidance on the full range of modalities available to them in progressing their national ODS phase out, Australia proposes recommendation 4 be amended to read:

"Request the Secretariat to work with the Implementing Agencies to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide and national phaseout agreements"

Australia supports this recommendation on the ground that it would be useful in clarifying all parties' expectations in relation to the new modalities. Australia notes, however, the importance of ensuring these guidelines are not prescriptive to a degree which compromises A5s' ability to use these modalities to propose innovative approaches to ODS phase out.

Recommendation 5: Noting there is general agreement that responsibility for the management of national ODS phase out programs is likely to entail an expansion in the role currently undertaken by many A5 governments and their National Ozone Units, and the emerging consensus that additional funding should be considered to support this expanded role, Australia suggests the following amendment:

"Request the Secretariat to work with the Implementing Agencies to review the guidelines for the funding of institutional strengthening projects in view of the adjusted Fund policy of emphasising greater responsibility of governments for national phase out programs, 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, the Executive Committee's willingness to consider additional funding for institutional strengthening to enable Article 5 governments and their National Ozone Units to assume these greater responsibilities, and other related factors.

Recommendations 4 and 5: In addition to the recommendation made above in relation to recommendations 4 and 5, Australia proposes these recommendations specify at which future

meeting the results of the work of the Secretariat and Implementing Agencies can be expected. If no specific meeting can be identified, Australia suggests the following phrase could be added:

"The Sec will present the [draft guidelines/review] to a meeting of the ExCom at the earliest possible opportunity."

Comments on CRP.4 (paper by Finnish delegation)

Revision to para 12

“demonstrated relevance to compliance is defined as a direct and *if applicable* quantifiable linkage between the funded ~~ODS reduction~~ *activities* and the specific Montreal Protocol Compliance target to be achieved.”

Australia understands that, currently, there is no agreed method for calculating the ODP value of non-investment projects and therefore no means for calculating a "direct and quantifiable linkage between the funding ODS reduction and the specific Montreal Protocol compliance target to be achieved" to demonstrate the relevance to compliance of a non-investment project.

As noted in Australia's comments above on the proposed implementation modalities, Australia believes the ExCom must have the ability to clearly track the extent to which the MLF has already discharged its responsibility to assist a particular country achieve compliance, in the interests of ensuring an effective, equitable allocation of the MLF's resources.

Consequently, Australia suggests that, instead of seeking to exempt non-investment activities from the requirement to demonstrate relevance to compliance, the ExCom should seek to identify a method of estimating the ODP value of such projects.

Australia notes that Recommendation 5 of 34/53 should assist the ExCom in identifying such a methodology.

Revision to para 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 *Article 5 countries, in line with the strengthening of the country ownership and the implementing agencies* to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide phaseout agreements.”

Australia can support the proposed changes as well as what Australia understood to be a proposal from the delegation of Japan that bilateral donors also be involved in the development of the draft guidelines.

In the interests of finalising a draft of the guidelines for the ExCom's consideration in a timely manner, however, Australia suggests that the Secretariat and the Implementing Agencies be entrusted with preparing the first draft of the paper, on the understanding that the draft will be

circulated for comment to A5s and bilateral agencies prior to its consideration at the relevant ExCom meeting.

Revision to para 21(c) + amendments to table

“the impact of the requested project on achieving the applicable compliance target, including the impact of the requested project on achieving effective national institutions to ensure a sustainable implementation of national compliance strategies.”

Australia can support the proposed amendment in the interests of making the table in para 22 a more comprehensive summary of the expected impact of the proposed project. It notes, however, that under the draft Country Program Update guidelines A5s would be required to provide such information with project proposals in the form of updated versions of their national compliance strategy's schedule and action plan (Note II.2, page 5 of 34/54).

Australia believes the revisions to (F) and (H) in the para 22 table will not be necessary if agreement can be reached on a method for estimating the ODP value of non-investment projects (see comments on "Revision to para 12" above).

New Recommendation 6

“Urge Article 5 countries to implement a number of minimum viable conditions for achieving phase out, inter alia instituting appropriate legislation, establishing efficiently functioning steering or advisory committees to the NOUs, actively seeking the implementation of decision 30/7 relating to the mandate of NOUs and the full support of central ministries such as Finance and Planning for the work of the NOUs.”

Australia can support this proposal noting, however, that decision 30/7 has already been given effect through amendments to legal arrangements between NOUs and the agency responsible for assisting implementation of the A5's institutional strengthening project.

New Recommendation 7

"Request the Secretariat as a matter of urgency to prepare for the ExCom at its 36th meeting a 'road map' for the implementation of decision 33/54, inter alia identifying the necessary actions required for full implementation of the framework, including an indicative timetable for this task which could be adopted in practice by the ExCom, a methodology for demonstrating relevance of institutional strengthening activities, a review of the present organisation of the ExCom's work and its supportive mechanisms, business plan guidelines and past decision of the ExCom, so as to categorize those that may hamper the development of a country driven strategy or may cause inflexibility."

Australia agrees a schedule would be useful in assisting the ExCom progress implementation of decision 33/54 in a timely manner. Australia believes the basis for determining the timing of the various "necessary actions" should be the approach detailed by the Secretariat in paras 3(a) - (c) of 34/53 which, inter alia, proposes staggering the recommendations for implementing the Strategic Framework over a number of ExCom meetings and in an order which reflects the

evolution of the Fund from its funding policies; to implementation modalities and operational guidelines; to operating procedures and business practices.

Consequently, Australia proposes that the recommendation take the following form:

"Note the Secretariat's proposed approach to implementing decision 33/54 as detailed in para 3 of 34/53, and request the Secretariat, as a matter of urgency, to use that approach as a basis for preparing for the ExCom at its 36th meeting an indicative timetable for this task."

Conclusions

Australia believes the proposals contained in 34/53 provide the ExCom with a basis from which to:

- (1) take its first step in remodelling the Fund to better serve its mandate; and
- (2) clearly identify the roles and responsibilities of all parties in executing this mandate.

Australia looks forward to continued productive collaboration with its colleagues on this issue.

Comments by China on Document UNEP/OzL.Pro/ExCom/34/53

We have following comments to the document 34/53.

Based on experience of China Ozone Action, we think the document 34/53 is a good file, which put forward two important points on ODSs phaseout. On one hand, funding policy should be changed from emphasizing impact of individual projects to putting greater emphasis on demonstrated relevance of such projects to compliance. On the other hand, funding policy on national responsibility should also be changed, NOU ability should be improved further. However, how to improve the ability of NOU? What the specific measures and steps for that? Under country-driven, what are the responsibility changes of NOU and IA? A document about above issues should be prepared by Secretariat for discussion on ExCom meetings.

Besides, the project titled “assessment and analysis on Montreal Protocol implementation in China” is ongoing now. We would like to have technical support from Secretariat or IAs. We also hope this project can be helpful for MLF strategy plan.

Comments by Colombia on Document UNEP/OzL.Pro/ExCom/34/53

STRATEGIC PLANNING

Deficiency of Current Funding Policy for the Compliance Period

Real accounting of the sectoral or national impact is not necessarily the result of a simple mathematical operation that assumes taking the latest notification into account, subtracting the reduction created by approved projects; in some cases it may be that the total cumulative elimination, funded by the Multilateral Fund, is or may be greater than the reported consumption, since one of the following situations may exist in the country:

1. Storage of controlled substances from previous periods, which were not reported in the last consumption report
2. Illicit traffic in substances
3. National economic difficulties, implying a decrease with regard to the reported average which is below the limits set by the protocol, and which once the situation is overcome will allow the reactivation of sectors consuming substances.

The absence of a direct link between the reduction induced by projects and consumption of the controlled substances for which national compliance is being determined could not be deemed to be an “**even more serious deficiency of current funding policy**”, since although some Article 5 countries are in this situation, the analysis should not overlook that most of these countries have been systematically complying with reductions in the consumption of controlled substances, which directly generates a link between the reduction induced by projects and national consumption; in several cases there is a greater effort to eliminate substances, which should be recognized by the Executive Committee as an effort permitting access to additional resources to maintain the momentum.

Adjustments to Current Funding Policy

Although the effort to bring ODS reduction to the highest level over a limited time is laudable, requiring an adjustment of funding policy from the project by project approach to greater stress on demonstrating the relevance of each project for compliance, establishing **demonstrated relevance** as the key for adjustment, it cannot be expected that **sustained and permanent reductions in consumption and production** be achieved in isolation from the current social and economic situations of the countries, insofar as they limit and/or condition the performance of countries in elimination (surprising decreases in some years contrasting with high consumption in others).

In this sense, we believe that the way to take these changes into account is by using the consumption average for the past three years, with the proviso that this does not ensure that there are no levels appearing above or below the average, for which reason the average figure should be considered with a certain degree of flexibility with special consideration of the particular case.

Agreements to Eliminate all Substances Based on Performance

Total remaining consumption, understood as the reported three-year average, reflects particular situations in the analysis of consumption, and thus a formula harmonizing these difficulties and articulating them should be chosen.

The alternative, an agreement to eliminate substances by group, upon presentation of the Refrigerant Management Plan or the updating of the Country Plan, which could contain a timeline for compliance, either in accordance with the baseline established in the Montreal Protocol or earlier, appears to be a good one.

The flexibility that could be achieved by applying this alternative is sound, but certain sensitive issues with regard to **the agreements to eliminate all substances based on performance** should be taken into account, such as:

1. The existence of a large number of small and medium enterprises with high mobility and economic dynamism, together with the lack of associations bringing them together, will hinder negotiation of agreements and call for greater administrative efforts to implement agreements.
2. The cost-effect relationship cannot be determined at the same levels used until now, as the economies of scale associated with projects, the great majority of which were executed with heavy consumers, would not be attained. National Ozone Units will have to undertake greater responsibilities, as actions directed to articulate national efforts, both public (by the various levels of government) and private, will fall to them; thus, it is necessary to consider greater levels of funding resources for this purpose.
3. The determination of relevance in direct execution by governments of the resources projected as the result of the Strategic Planning or through the Implementing Agencies should be at the countries' discretion.

Comments by the Finnish delegation to the document**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
(UNEP/OzL.Pro/ExCom//34/53)****Proposal for revision of paragraphs**

Revise Para 12

Demonstrated relevance to compliance is defined as a direct and *if applicable* quantifiable linkage between the funded ~~ODS-reduction~~ *activities* and the specific Montreal Protocol compliance target to be achieved.

Revise Para 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 *article 5 countries, in line with the strengthening of the country ownership and* the implementing agencies to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide phaseout agreements.

Revise 21 c)

the impact of the requested project on achieving the applicable compliance target, *including the impact of the requested project on achieving effective national institutions to ensure a sustainable implementation of national compliance strategies.*

Revise para 22 Table Methodology 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.
Linkage to government policy	
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, <i>if applicable</i> (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 <i>unfunded</i> in country after funding the project: (H)	(H) = (A) – (D) – (F)

Para 32. The Finnish delegation seek clarification from the Secretariat to the last part of the para 32. On our opinion institutional strengthening can not be fully integrated into project activities, although we agree that investment project should have a components of training etc

Proposal for revision of Recommendations

1. Adopt the adjusted funding policies of the MF to emphasize
 - greater government responsibility for managing national phase-out programmes;
 - the demonstrated relevance of project *defined as a direct, and if applicable quantifiable , linkage between the funded activities and the specific MP compliance target to be achieved*
2. Adopt the guidelines for the preparation of the country programmes updates to provide guidance for the development of country compliance strategies *with a view to ensuring adequate funding for necessary updates through collaboration between the Secretariat, the Implementing Agencies and the Members of the Executive Committee.*
3. Pending the preparation of country compliance strategies, adopt the methodology for demonstrating relevance to compliance for *investment* projects as provided in the *amended*

paragraph 22 in this document and request that it be included in all investment projects submitted in 2002, *additionally projects on institutional strengthening should be given due priority to support the early preparation of national compliance strategies which will become the basic document for demonstrating relevance in the future application of Multilateral Fund funding policies.*

4. Request the secretariat to work with the *Members of the Executive Committee* and the Implementing Agencies to develop draft guide lines for the preparation, implementation and management of performance-based substance-wide phase-out agreements *to be presented to Executive Committee 36.*
5. Request the secretariat *together with Members of the Executive Committee* and the implementing agencies to Executive Committee 36 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 programs, 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 fora.
6. Urge *Article 5 countries* to implement a number of minimum viable conditions for achieving phase out, *inter alia* instituting appropriate legislation, establishing efficiently functioning steering or advisory committees to the NOU:s, actively seeking the implementation of decision 30/7 relating to the mandate of NOUs and the full support of central ministries such as Finance and Planning for the work of the NOUs.
7. ***Request the Secretariat as a matter of urgency to prepare for the Executive Committee at its 36th Meeting a road map for the implementation of decision 33/5, inter alia identifying the necessary actions required for full implementation of the framework, including an indicative timetable for this task which could be adopted in practice by Executive Committee, a methodology for demonstrating relevance of institutional strengthening activities, a review of the present organization of Executive Committee work and its supportive mechanisms, business plan guidelines and past decisions of the Executive Committee, so as to categorize those that may hamper the development of a country driven strategy or may cause inflexibility.***

COMMENTS FROM INDIA ON DOCUMENT NO. UNEP/OzL.Pro/ExCom/34/53 – 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

Strategic planning of the Multilateral Fund provides an opportunity for Article 5 Countries to prepare its national sector strategy and Country Programme Update to meet the needs of the compliance period. The National Ozone Unit (NOU) should lead the preparation of the sector strategy and Country Programme Update. This exercise requires additional funding. The Executive Committee considered this issue along with the funding policies for projects submitted during compliance period by Article 5 Countries.

The current funding policy is determined by the need of developing country to achieve freeze and initial reduction targets. Funding was made available for individual projects as well as for sectoral phaseout projects. In the early period, it was assessed primarily on the impact of individual projects on freeze and reduction targets. At the same time, sectoral approach has also been considered and funded in some countries. In most of the countries individual projects and sector approach have enabled freeze and reduction targets.

All developing countries are trying to comply with the provisions of the Protocol. Each country is aiming to meet the freeze date and reduction targets as per schedule with adequate financial and technical assistance from the Multilateral Fund. The strategic planning of the Multilateral Fund as decided in 33rd meeting of the Executive Committee has to prioritize the activities and devise modalities for implementing these activities without any problem. The Executive Committee at its 33rd meeting based on the foam evaluation report decided to adopt policies on sustainable reduction from the base level by approved projects. Countries were also advised to give an undertaking in this effect. Even though it was not feasible to give an undertaking in all cases, Article 5 Countries, in order to get the approval for their projects, submitted the undertaking in the prescribed format.

Since the current policy has no direct linkage between the projects induced reduction on the consumption of concerned ODS and the national compliance target, it would not be helpful to achieve the objective of the fund.

In order to remove the inadequacy, the paper has proposed some adjustment such as commitment by the country to achieve sustainable permanent reduction in consumption and production. Modalities to implement the adjusted funding policy are outlined as:

1. Performance based substance-wide phaseout agreement
2. Funding of individual projects and sector phaseout plans based on national compliance strategy

In case of small country, the first option may be possible. However, the country should be given an opportunity to prepare the Country Programme Update. The current consumption given in the

CP Update should be treated as base line consumption data for performance based agreement. The second modality would be acceptable in case of large volume consuming countries.

The funding for individual projects should continue without any conditions such as to demonstrate its positions in the national compliance strategy and other indicators as given in para 21 of the document. Further, the methodology for demonstrating relevance of project to compliance would be very difficult to apply in the new project document. It is because the following reasons:

The current national consumption of ODS is calculated/estimated for submission to Ozone Secretariat under Article 7 provides the quantity of ODS available in the country for use of industry. At the same time, sectoral consumption data required by Multilateral Fund is estimated based on the actual consumption by existing industries. The existing industry includes ongoing projects, enterprises established after 25th July 1995, growth of enterprise established before 1995 but not funded by Multilateral Fund. The current consumption also includes the utilization of idle capacity of some industries. Since the sectoral consumption data includes some quantity, which are not eligible for Multilateral Fund funding, it would be difficult to commit a permanent reduction in that sector.

In order to avoid the complication, all countries should be encouraged to prepare national sector strategy and Country Programme Update. These documents should include full information on existing industry out of which industries and the quantities of ODS which are eligible for funding. The quantity given in the CP update should be taken as base line data.

The suggestion made in the paper for national responsibility for managing the ODS phaseout programme are acceptable subject to availability of adequate funding under Institutional Strengthening Project.

Some countries have developed their policies to control trade in ODS and to control and regulate ODS production and consumption policies are under implementation. The National Ozone Units in such cases are under tremendous pressure to implement the policies at national level. The implementation of policies requires adequate awareness creation among industries, government officials and general public. It requires adequate manpower and funds. With the present budgeted provision under ISP, it would be difficult to adopt any national policies to implement ODS phaseout programme in the compliance period. The Executive Committee under strategic planning should consider on priority for additional funding for Institutional Strengthening Project.

Japan's comments on UNEP/OzL.Pro/ExCom/34/53

Japan commends the Secretariat for the document, which, in its view, provides a useful basis for future work on strategic planning. In general, it can go along with the Secretariat's recommendations. It would like to make the following two specific comments relating to the document:

1. In the consideration of proposals on implementing the framework on the objective, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period, it will be worthwhile to note that the Executive Committee at its 34th Meeting approved the project entitled "Assistance for the implementation of strategic planning of the Multilateral Fund to promote compliance with the Montreal Protocol in the Asia and Pacific region" (Decision 34/26), which is a pilot project that is designed to support the development of national compliance strategy by government and national stakeholder in a selected Article 5 country through country consultations. The project will also assist Article 5 countries in identifying individualized help necessary for implementing the national compliance strategies and measures to strengthen national managerial capabilities. As a pilot project, lessons learned from it will be used to prepare additional projects to produce national compliance strategies in other Article 5 countries. The project is a concrete example of putting the framework the ExCom adopted at its 33rd Meeting in practice.
2. With request to 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 (Para. 31-33), concrete types of additional measures to strengthen the national capacity for the management of ODS phase-out programmes should be identified.

P.S. With respect to the concept of the permanent aggregate national reductions in ODS consumption and production, the Government of Japan will submit additional comments at a later date.

Comment from Malaysia on Draft Framework on the Objective, Priorities, Problems and Modalities for Strategic Planning of the Multilateral Fund in the Compliance Period

Malaysia had earlier on 13 February 2001 commented on this draft framework and was pleased to note that it was adopted **as the basis for future work in strategic planning** at the 33rd Meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol.

Malaysia wished to express its appreciation to the Multilateral Fund Secretariat for the excellent work done in the preparation of the Document UNEP/OzL.Pro/ExCom/34/53 following the request of the ExCom Decision 33/54.

There is no denial that Article 5 countries have entered the compliance period and a certain element of enforcement must be in place and that we must take note of all the lessons learned during the grace period. We must be ready to face new challenges if there is any and these challenges must be pragmatic and achievable to help Article 5 countries to achieve their obligations under the Montreal Protocol. However, before any changes can be introduced and implemented successfully, the concerns and fears of some of the Article 5 countries must be addressed first. In this respect, Malaysia believes that with the proper guidance given by the ExCom and the Multilateral Fund Secretariat, we should be on the right track.

Malaysia agreed that in order to ensure compliance of the commitment under the Montreal Protocol, a national compliance strategy with strong government involvement in the day to day operation of the strategy must be in place. There is a need for a paradigm shift in ODS phase out strategy. The national government should take a leading role in all aspects of compliance activities, of course with necessary technical assistance from external agencies if required and adequate funding must be provided. Article 5 countries' capacity must also be strengthened in order to enable them to manage the ODS phase out programmes efficiently together with the much-talk-about 'country-driven' approach mechanism.

On the issue of funding policy of the Multilateral Fund, with the shift in planning strategy to cater for more accountable and transparent phase out strategy (i.e. from project-by-project approach to sector approach or more comprehensively the performance-based substance-wide phase-out approach), funding policy and modality is expected to take an adjustment. It is Malaysia's sincere hope that the Secretariat of the Multilateral Fund when drafting the new funding policy and modality would give due considerations to the financial requirement of those Article 5 countries that have opted for this new strategy, and also their capacities in institutional strengthening.

On the methodology for demonstrating relevance of project to compliance as shown in the Table of the Document 34/53, the item '**Contribution of project: (F)**' needs explanation for better understanding of the subject. Maybe, a small explanatory note on all the items in the Table will be of great help to all parties concerned and any misunderstanding can be avoided.

On the issue of *sustained permanent aggregate reduction or national aggregate reduction of ODS consumption*, there seems to be confusion among parties. It is our hope that the Secretariat would use its experience to come out with a specific term or name with a clear definition to avoid future argument. Reliable and accurate data of ODS consumption do have serious bearing on the effectiveness of strategic planning. Most, if not all of the Article 5 countries do not have accurate and reliable data for ODS consumption. This deficiency must be arrested first before we can talk about **sustained permanent national aggregate reduction of ODS consumption**. Perhaps, one of the good way is to conduct a country programme update study and set the baseline for the level of national aggregates on ODS consumption.

Lastly, Malaysia wish to stress that many Article 5 countries may risk the danger of non-compliance after 2005 if pragmatic measure are not put in place for immediate actions from now. This strategic planning framework is one of the mechanism that can serve as a guide for Article 5 countries to achieve their obligations under the Montreal Protocol. Thailand and Malaysia have begun looking into the possibility of implementing one of the modalities in the proposed strategic planning.

Malaysia is in agreement with the proposed framework for strategic planning subjected to the above comments.

Dominican Republic Constituency: Mexico

**Executive Committee
Decision 34/66
STRATEGIC PLANNING**

INTRODUCTION

Base on the discussions an progress made during the 34th Executive Committee Meeting, we suggested during the discussions the imperious need of having a very simple document to proceed in the strategic planing process and discussions, since this will help Art. 5 countries to have a clear, simple document with a basic procedure to comply.

Having in mind the objective of the whole exercise of the Strategic Planing: Produce a clear and formal path for the countries to reflect the assistance received from the Multilateral Fund in their National Consumption, comply with the Montreal Protocol precepts and eventually eliminate the use of ODS.

Then Document UNEP/OzL.Pro/Excom/34/53 must be transform in a document that contains only clear principles as follows:

STRATEGIC PLANNING PROCESS

The process and the document to agree on must show four basic components:

- a. Agreed baseline consumption.
- b. Program to meet the National Targets
- c. Formal agreement from the Excom to endorse the National Programs
- d. Mechanism to ensure the compliance of the countries commitments and the MLF/EXCOM support.

Agreed Baseline

This component must be agreed with each country in order to met their needs, options:

- a. Recent year consumption
- b. Average of last years consumption
- c. Country Program Consumption (CP. Updated)
- d. Montreal Protocol's baseline
- e. Agreed figure between the Country and EXCOM

Independently of the option the important factor is that the baseline must be fully agreed by the country and must not be imposed.

This stage is the most important since the baseline will work as the fundamental starting point in which the countries commitment will be based.

As discussed the baseline must be flexible and be adapted to reality considering fluctuations on the consumption due to the factor already exposed in the discussions:

- ODS imports
- Stockpiling
- Illegal trade
- Natural sector growth
- Ongoing projects
- Etc.

This concepts must be properly accommodated in order to reflect the normal operation of any country.

National Program Targets

Once the baseline has been clearly defined, the country must present a Program to comply with agreed targets, selected by the country:

- a. National reduction by steps over a defined period of years
- b. National Consumption reduction against projects (individual or umbrella projects)
- c. Sector closures (terminal Sector projects)
- d. Other

This stage will depend very much on the advance and remaining or exiting sectors of each individual country.

The EXCOM must be very flexible in the program proposal, and the program must not be imposed, it should be a very well studied program coming from the country and realistic. It is necessary to stress at this stage that any program will be executable if does not have proper funding, since ODS consumption targets are directly linked with projects support.

Formal Agreement

Once the National Program has been produce, the EXCOM must evaluate the program proposing a fixed financial support, then the country must check the viability of activities with the proposed level of support.

At the end of this process the Excom and the country must formally agree a program with national targets (country) and the Excom must propose a fixed financial support in which both parties has mutual obligations:

- a. Country - ODS Targets
- b. EXCOM/MLF - Fixed Financial Support

Mechanism to ensure compliance

At this stage all parameter has been duly agreed between parties (EXCOM/MLF and Countries). Then in the new Strategic Planing - **Country Driven** scenario both EXCOM and Countries has clear obligations:

- a. Coutries- ODS Programmed Reductions
- b. EXCOM/MLF - Timely and Programmed Funding support

Then in case of non compliance:

- a. If there is no proper funding from MLF once agreed, the country is not obligated to comply with the program or targets, being the EXCOM responsible of disruptions and any possible additional ODS fluctuation due to the lack of support that in the future must be compensated.
- b. If the Country does not comply, then funding will cease until targets are fulfilled, having in mind possible extraordinary justifications of non-compliance (serious national economic crisis, etc.)

This simple four-stage process must be sufficient to discuss and negotiate on, rather than having lengthy papers that are difficult to understand, discuss and agree on.

Simple process:

- Baseline
- Targets
- Agreements
- Control

All issues fully negotiated and agreed with the countries.

Then any process on strategic planing must comply with the next characteristics:

- Clear
- Simple
- Short
- Operative

It is the time the countries show and reflect in their national consumption the support received from the MLF trough the Strategic Planing Process, but this exercises must be clear and fully understood by the countries and the whole concept must provide absolute equity.

Comments from the Netherlands on UNEP/OzL.Pro/ExCom/34/53

The Netherlands supports the 'comments by the Finnish delegation to the recommendation suggested on Strategy' as voiced during Excom 34 and distributed there in writing.

In particular we support point 7 made by Finland to request the Secretariat to prepare a road map for the implementation of the decision 33/54. We would like to add two elements to be included in that road map (or to be listed as separate recommendations):

- a draft terms of reference to be prepared by the secretariat and with a view to be adopted by Excom 36 for the review of the 'operating procedures and business practices' (as proposed by the secretariat in doc. 34/54 para 3c)
- an analysis, including options for alternatives, to be prepared by the secretariat and discussed by Excom 36 of the fixed target shares of the implementing agencies in relation to the country driven approach.

Finally a general request to be very clear about the meaning, role and use of the following terms to avoid any confusion: country programme updates, country compliance strategies, national compliance strategies, national phase out strategies, performance-based substance-wide national phase-out agreements, national phase-out programmes, ODS phase out programmes, and other related terms.

Comments from Poland on UNEP/OzL.Pro/ExCom/34/53

Thank you very much for giving me an opportunity to present comments on strategic planning and with respect to the document UNEP/OzL.Pro/ExCom/34/53, I propose as follows:

- in Para 20th put, after ... the Secretariat should work **with developing countries governments and the National Ozone Units** and the implementing agencies ...,
- in Para 30-33 speaking about national management responsibility it would be advisable to refer to tasks included in updated country programmes.

ANNEX II

REVISED DOCUMENT UNEP/OzL.Pro/ExCom/34/53



United Nations
Environment
Programme



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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-fourth Meeting
Montreal, 18-20 July 2001

**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. ***Undoubtedly the assistance of the Multilateral Fund has contributed significantly to the ODS phase out in Article 5 countries and their ability to comply with the CFC freeze obligation, and in many cases even the 50 percent reduction in advance. However an 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, *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

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 *Article 5 countries, bilateral agencies and* 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 impact of requested project on*** the compliance target (for instance, the CFC freeze, the 50% 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.

22. 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.

23. 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.

24. 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**).

[25. 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.]

EMPHASIS ON NATIONAL RESPONSIBILITY FOR MANAGING THE ODS PHASEOUT PROGRAMME

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

26. 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.

27. 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.

28. 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

29. 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

30. 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)**

31. 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.

32. 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) greater government responsibility for managing national phaseout programmes (b) the demonstrated relevance of projects *defined as a direct, and , if applicable, quantifiable linkage between the funded activities and the specific MP compliance target to be achieved;*
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 *described* in paragraph 21 in this document and request that it be included in all project proposals submitted in 2002;]
4. Request the Secretariat to work with *members of the Executive Committee, the bilateral agencies and* 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 *together with members of the Executive Committee* 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 *the willingness of the Executive Committee to consider*

additional funding for institutional strengthening projects to enable Article 5 governments to assume greater responsibilities.

6. *Note the Secretariat's proposed approach to implementing decision 33/54 as detailed in para. 3 of 34/53, and request the Secretariat, as a matter of urgency, to use that approach as a basis for preparing for the Executive Committee at its 36th meeting an indicative timetable for this task..*
