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**GUIDELINES FOR THE PREPARATION, IMPLEMENTATION AND MANAGEMENT
OF PERFORMANCE-BASED SUBSTANCE-WIDE AND NATIONAL ODS PHASE-
OUT AGREEMENTS/PLANS**

INTRODUCTORY NOTE

In its Decision 35/56, the Executive Committee *inter alia* requested “the Secretariat to work with members of the Executive Committee, the bilateral agencies and the implementing agencies to develop draft guidelines for the preparation, implementation and management of performance-based substance-wide and national phase-out agreements”.

The Secretariat prepared a first draft of the requested guidelines and invited parties and agencies referred to above to provide their comments. As of this writing, none of the members of the Executive Committee has responded directly. Of the bilateral and implementing agencies, only UNDP, UNEP and UNIDO have commented. The comments have been reflected, as pertinent, in the final draft that follows this note.

**GUIDELINES FOR THE PREPARATION, IMPLEMENTATION AND MANAGEMENT
OF PERFORMANCE-BASED SUBSTANCE-WIDE AND NATIONAL ODS
PHASE-OUT AGREEMENTS/PLANS
(DRAFT)**

Introduction

1. Performance-based funding agreements for ODS phase-out were introduced into the Fund operation since 1997 and are being increasingly adopted by some Article 5 countries as a preferred modality for managing their sectoral and/or national ODS phase-out programmes. Since the advantage of the performance-based phase-out plans is the matching of funding commitment by the Executive Committee with the commitment of countries concerned to comply with the Montreal Protocol obligations, it is essential that the performance targets in such agreements conform with the phase-out schedules of the various controlled substances.
2. The plans which have been prepared and implemented to-date show a great degree of similarity and convergence although in some aspects variance exists both in format and substance among these plans. At a time when such plans are becoming the predominant funding modality of the Fund, the current effort at preparing these Guidelines provides the opportunity to formalize experiences accumulated in applying the funding modality, and achieve consistency on those aspects which have not been dealt with uniformly.
3. However, it is also realized that situations in countries vary and needs are different. It would be impractical for the Guidelines to attempt to encompass every situation. Instead, an open approach is followed in developing these Guidelines whereby the purpose is to provide general principles and procedures that should be followed in developing and implementing such performance-based ODS phase-out plans. At the same time, there should be enough room left to allow users of these Guidelines to expand and adapt to suit their specific needs. This is especially true in the specific examples used in the Guidelines and the proposed Format for Annual Implementation Programme, which are mostly illustrative in nature.
4. The Guidelines contain four parts: Part I – Purpose, Applicability, Definitions, Composition and Deadline for submission; Part II – Contents of a performance-based ODS phase-out proposal; Part III – Contents of the agreement for performance-based phase-out plan; and Part IV – Implementation of the performance-based ODS phase-out plan.

Part I – Purpose, Applicability and Definition, Composition and Deadline for submission

Purpose

5. The purpose of the Guidelines for the Preparation, Implementation and Preparation of Performance-Based ODS Phase-Out Agreements/Plans (hereinafter referred to as the Guidelines) is to provide standard procedures for the preparation, implementation and management of

performance-based ODS phase-out agreements/plans. Users of these Guidelines could expand and adapt the guidelines to suit their specific needs.

Applicability

6. The Guidelines should apply to all the agreements/plans that the Executive Committee will enter into that entail a financial commitment agreed by the Executive Committee in principle and disbursed over a number of years according to performance targets as agreed and specified in such agreements/plans. The performance targets established in such agreements/plans should, at a minimum, conform with the phase-out schedules of the Montreal Protocol applicable to the countries concerned in relation to all of the controlled substances covered in the agreements/plans. These agreements/plans include ODS phase-out plans as a minimum at a sector level and at a national level. National phase-out plans could include the remaining consumption of a controlled substance, the controlled substances of an Annex/Group under the Montreal Protocol, or all the controlled substances in a country.

7. The Guidelines should not, in general, apply to projects or programmes which aim at completing the phase out at a sub-sector level such as rigid foam, flexible foam, polystyrene/polyethylene of the foam sector, or domestic refrigeration, commercial refrigeration, so-called manufacturing refrigeration and mobile air-conditioning of the refrigeration sector, unless the remaining consumption is high enough to warrant a sector/sub-sector phase-out plan. Otherwise such sub-sector projects should be either included in the context of a sector plan, or a phase out plan covering Annex A/Group I substances, or be treated as group and/or terminal umbrella projects.

Definitions

8. The terms used for the purpose of the Guidelines are defined as follows:

- *A substance*, is defined as an ozone-depleting substance controlled by the Montreal Protocol.
- *Annex/Group*, is defined as the Annexes and Groups to cluster the substances in the Montreal Protocol. These Annexes/Groups include:
 - Annex A Group I of the Montreal Protocol include CFC-11, CFC-12, CFC-113 and CFC-115;
 - Annex A Group II of the Montreal Protocol include Halon 1211, and Halon 1301;
 - Annex B Group I (CFC-13), Group II (CTC) and Group III (TCA); and
 - Annex E: methyl bromide.
- *A sector*, is defined as the industrial sector producing or using one or more ODS. These sectors include:
 - ODS production;

- Aerosol;
 - Foams;
 - Refrigeration;
 - Solvents;
 - MDIs;
 - Sterilants;
 - Fire-fighting;
 - All controlled uses of methyl bromide; and
 - Process agents.
- *A sector ODS phase-out plan* aims at eliminating the eligible consumption or production of a controlled substance of an industrial sector; in the case of methyl bromide, its controlled application.
 - *A national ODS phase-out plan* could include:
 - A national substance-wide ODS phase-out plan aims at eliminating the eligible consumption of a controlled substance in a country, such as a methyl bromide phase-out plan covering all of its controlled applications in the country; or
 - A national phase-out plan covering the controlled substances of an Annex/Group of the Montreal Protocol aims at eliminating the remaining eligible consumption of the controlled substances included in an Annex/Group of the Montreal Protocol, such as Annex A Group I: CFCs and Annex A Group II: halons; or
 - A national total ODS phase-out plan aims at eliminating the remaining eligible consumption of the controlled substances in a country.

Composition

9. A performance-based ODS phase-out plan should consist of two parts: a performance-based ODS phase-out proposal, and a draft agreement which would formalize legally the commitments of the Executive Committee and the country concerned over the duration of the plan. Before funding can be approved, the plan must be supplemented by the first annual implementation programme, which will form the basis for approval of the initial tranche.

Deadline for submission

10. A national phase-out plan covering more than one industrial sector should be submitted four weeks after an Executive Committee meeting to allow for a thorough review by the Secretariat sector experts, hiring of consultants and possibly fielding missions by the relevant Secretariat staff and consultants to the country concerned, as appropriate. A sector plan should be submitted 14 weeks prior to an Executive Committee meeting.

Part II - Contents of a fully developed performance-based ODS phase-out proposal

General Information

11. The phase-out proposal should include general information, such as name of country; type of the proposal (sector/national phase-out plan); number of controlled substances covered by the proposal; sector(s) covered and duration of the proposal.

Impact of the proposal

12. The proposal should state the impact in terms of the amount of ODP tonnes to be eliminated of each controlled substance and the impact on the national consumption and its relation to compliance. For Annex A Group I CFCs, the proposal should provide data on starting point established by Decision 35/57; consumption funded since the starting point; remaining eligible consumption unfunded as of submission of the proposal; and phase-out from the proposal as a percentage of the remaining unfunded consumption in the case of a sector plan.

13. For the other controlled substances, the proposal should provide data on eligible consumption reported the year prior to the submission of proposal; consumption funded but not implemented as of submission of the proposal; eligible consumption unfunded as of submission of the proposal after netting out the consumption funded but not implemented; and phase-out from the proposal as percentage of the unfunded consumption. Particular attention should be paid to establishing the proportion of consumption that is not eligible for funding because it arose from production capacity installed after 25 July 1995.

14. There should be an assessment of the consumption reduction schedule proposed in relation to the Montreal Protocol control schedule of the controlled substance concerned. The reduction schedule proposed should, at a minimum, conform to the Montreal Protocol control schedule.

Data collection and validation

15. The proposal should provide sector distribution of the remaining eligible consumption of each of the controlled substances covered, in terms of remaining consumption of sector; consumption funded but not implemented; and the consumption unfunded as of the time of submitting the proposal after netting out the consumption funded but not implemented.

16. There should be a description of the procedure followed in collecting and validating the data, including the name of the institutions involved, the sources of data and the methodology used. If a sampling methodology is used, there should be a discussion of the representativeness of the sampling. There should be adequate divergence of sources of data to ensure data credibility and reliability. This should follow the chain of ODS supply from the time when the substance is ordered and imported into the country to distributors and manufacturers. This could include but not limited to sources such as customs, use data from industries, enterprise surveys, data from compressor manufacturers and others.

Strategy and plan of implementation

17. The proposal should describe the strategy that will be followed to achieve the annual reductions proposed, in particular, the management of the supply and demand of ODS in the country to achieve the objectives of the proposal. This should include a discussion of policy instruments to reduce the supply of ODS, such as import quotas and price controls. This should also include the steps to be taken to gradually curtail the ODS demand (e.g. measures like completing the conversions of manufacturing industries first before taking on the demand in the refrigeration servicing).

18. The strategy should include a time frame of implementation based on the actual conditions in the country. This would entail an assessment of how much of the current consumption could be avoided with little investment with targeted awareness campaigns and evaluations carried out on the results of such campaigns in terms of actual reduction achieved.

19. There should be an implementation programme sector by sector on how the ODS demand reduction will be achieved year by year. This includes a description of the contribution of activities by industry and government. This should include annual data on reduction to be achieved; reduction from on-going projects; reduction from new conversions in the manufacturing industries; reduction from servicing; and contribution from government policy control.

20. For the refrigeration servicing, the proposal should describe the strategy to reduce the dependence on CFCs. This strategy could include measures such as legal and economical incentives and disincentives targeting suppliers, service technicians and equipment owners; training of service technicians; public awareness activities; customs control on new CFC-based equipment and vehicles; bans on the introduction of after market CFC-based MAC systems; the retirement of existing CFC-based equipment and vehicles; and the gradual increase in the supply of recycled CFCs .

Incremental costs

21. The proposal should provide the basis and justifications for the calculation of incremental costs.

22. For industry conversions, data should be provided to the extent possible on the number of enterprises, sector/sub-sector involved, enterprise ODS consumption and baseline equipment,

date of installation of production capacity, production levels, the average cost-effectiveness of the projects funded in the sector/sub-sector in the relevant country and level of exports to non-Article 5 countries. Using this data, incremental costs should be calculated at the sub-sector level. Where large enterprises are identified with potential individual phase-out costs of over US \$1 million, sub-projects should be appended to the plan establishing the incremental cost in the usual manner.

23. For refrigeration servicing, data provided should include estimated number of viable workshops in the country, their typical baseline equipment, estimated number of technicians currently working in refrigeration servicing, estimated average consumption of CFCs per workshop per year, number of recovering and recycling equipment needed and justification, including an estimate of the amount of ODS to be recovered annually, and other details.

24. For non-investment activities, the charge against the aggregate baseline ODP level should be calculated in accordance with Decision 35/57.

25. For management costs, data should be provided on the justification for funding for project management in addition to the funding provided under institutional strengthening project, the role and responsibility of the project management to be funded.

Management

26. There should be a description of the management structure for the implementation of the phase-out proposal. This should include a clear indication of the roles to be assumed by Government bodies, industry bodies, academic institutions and consultants. Accountability of the management is of paramount importance. Thus a designation of a government entity to which the management should be held accountable should be indicated.

27. There should also be a discussion of the implementing agency to be involved in the management and implementation of the phase-out proposal. If there is more than one implementing agency involved, there should be a designation of the lead implementing agency and cooperating agencies, with a clearly defined role and responsibility for each of the implementing agencies involved.

Monitoring and Evaluation

28. There should be a clear description of the financial and substantive oversight to be exercised over the plan and should include name of institutions involved, role and responsibility of each institution, type and frequency of reporting. There should be adequate provision to ensure independent confirmation of the achievement of the performance targets specified in the agreement.

Performance targets and disbursement schedule

29. A schedule of fund disbursement should provide the funding requirement in annual tranches to achieve the performance targets. Performance targets will include, inter-alia,

maximum ODS consumption levels, annual ODS reduction targets and the investment and non-investment activities proposed to be achieved in the year in question.

Part III - Contents of the agreement for a performance-based ODS phase-out plan

General Information

30. The agreement of the phase-out plan should include general information, such as name of country; type of the plan (sector or national phase-out plan); controlled substances covered by the agreement; duration of the agreement; and total funding level agreed in principle.

Impact of the agreement

31. The agreement should state the impact in terms of the amount of ODP tonnes to be eliminated of each controlled substance. For Annex A Group I CFCs, the agreement should provide data on starting point established by Decision 35/57; consumption funded since the starting point; remaining eligible consumption unfunded as of submission of the agreement; and phase-out from the agreement as a percentage of the remaining unfunded consumption in the case of a sector plan.

32. For the other controlled substances, the agreement should provide data on eligible consumption reported the year prior to the submission of agreement; consumption funded but not implemented as of submission of the agreement; eligible consumption unfunded as of submission of the agreement after netting out the consumption funded but not implemented; and phase-out from the agreement as percentage of the unfunded consumption.

Performance targets, indicators of achievement and fund disbursement schedule

33. Performance *targets* should be set in annual reduction levels of the controlled substance concerned, starting from the year that the agreement is approved. The performance targets should at a minimum meet the control schedules of the Montreal Protocol for each of the controlled substance concerned.

34. *Indicators* should be provided for each annual target to validate and corroborate the achievement of the targets. These indicators should be, to the extent possible, verifiable and quantifiable. For the purpose of illustration, they could include the import and consumption data (supply and demand) of the controlled substance, the completion of investment projects and associated phase-out, the number of CFC recovery and recycling stations in operation, the enactment and enforcement of a government policy such as import control of CFCs at a certain date, and other quantifiable indicators.

35. A schedule of *fund disbursement* should provide fund requirement in annual tranches to achieve the performance targets. Such a schedule should be in consonance with the Executive Committee guidance on the resource availability.

36. The three components can be presented in a tabular form as follows:

Year	Performance target (ODP/tonnes)	Consumption allowed under Montreal Protocol controlled schedule (ODP/tonnes)	Indicator(s) of achievement	Disbursement (in US\$)

Conditions for disbursement

37. There should be a clear enunciation of the conditions that have to be met by the government of the country concerned before the annual tranche of funding could be released. This should include, among other things, an independent confirmation of the achievement of the agreed target in the phase-out funding period, the submission of an annual work plan for the upcoming funding period, and confirmation of the achievements of the activities included in the previous annual implementation programme.

Delineation of annual funding cycle

38. There should be a delineation of the annual funding cycle in the agreement which should include time of the year that the funding request would be submitted to the Executive Committee, timing of submission of a report on the independent verification of the implementation of the target in the relevant previous funding period and the timing for submitting the annual work plan for the new funding period. Noting the time needed to audit phase-out performance, the plan should indicate clearly which previous funding period will be the basis for the verification audit.

Flexibility for using approved funding

39. The agreement may include a clause about the flexibility that should be allowed for the country concerned to reallocate the approved funds, or part of the funds according to the evolving circumstances in the country to achieve the agreed targets. Such reallocations, however should be accounted for in the verification report and reflected, as appropriate, in the annual work plan.

Monitoring and evaluation

40. There should be a clear description of the financial and substantive oversight to be exercised over the plan and should include name of institutions involved, role and responsibility of each institution, type and frequency of reporting. There should be adequate provision to ensure independent confirmation of the achievement of the performance targets specified in the agreement, including a periodic evaluation to be mounted by the Senior Monitoring and Evaluation Officer of the Secretariat.

Provisions for failing to honour commitments

41. There should be provisions for failures to honour the commitment entered into under the agreement. Such provisions should cover situations whereby the Executive Committee could not provide the level of funding agreed in the agreement when the country concerned has achieved the required ODS reduction. The provisions should also cover situations whereby the country concerned could not meet the agreed ODS reduction target when the Executive Committee has fulfilled its obligation by making available the agreed funds.

Management responsibilities

42. The country concerned should assume overall responsibility for the implementation and management of the agreement to ensure the achievement of its goals. It should, however, choose an implementing agency to assist it in implementing the agreement. In cases where the government decides to enlist the services of more than one implementing agency (bilateral agencies included), the government should indicate the lead agency and the cooperating executing agency(ies).

43. The agreement should include a description of the role and responsibility of the country concerned, the lead agency and each of the cooperating executing agencies.

Arrangement for administrative fees

44. The agreement should specify the arrangement for the payment of administrative fees for implementing the agreement, which should include the level, duration, and timing of disbursing the administrative fees.

Part IV - Implementation of the performance-based ODS phase-out plan

45. The implementation of the performance-based ODS phase-out plans should be effected through the preparation, submission and approval of annual implementation programme.

Preparation and submission of the annual implementation programme and funding requests

46. The annual work plan and the funding requests should be submitted by the lead implementing agency on behalf of the country concerned to the Executive Committee for approval. Since the verification of the achievement of the target in the preceding year is the condition for release of funding for the year of plan, the annual work plan should be submitted together with the performance verification report. If this is not possible due to the time required to complete the verification after the conclusion of the work plan of the preceding year, an interim implementation review should be submitted together with the annual work plan.

Contents of the annual implementation programme

47. What is proposed underneath are the major items which ought to be included in the annual work plan, however, the details under each item as shown here are for illustration purpose only and should be adapted according to the specific of each phase-out plan.

- ODS phase-out target: should be the same as agreed upon in the agreement. Indicators should be provided and one of them can be data on the supply, demand and stock piling of the ODS in the preceding year and the year of plan.
- Industry action: should include planned phase-out in the manufacturing industry and refrigeration servicing. For manufacturing, the plan should list by sector/sub-sector, the number of industry conversions to be completed and ODS phase-out to be realized. For refrigeration servicing, the plan should indicate the actions to be taken, such as ODS recovery and recycling and anticipated impact of such actions, which can be expressed in the amount of ODS to be recycled.
- Technical assistance: should include the planned enabling activities, their objectives, the target group to be reached and their impact.
- Government action: should include the planned measures to be taken and the schedule of implementation. These could be the enactment and enforcement of government policies on the supply and demand of ODS, and public awareness campaigns.
- Annual budget: should list the planned expenditures to be incurred on the various activities to be implemented during the year.
- Administrative fees for implementing agencies: should include name of agency, planned expenditure of the agency in the year of plan, rate of administrative fees agreed, and the total administrative fees to be paid.

48. For illustration purpose, the items discussed above are presented in a tabular form in Annex I.

Annex I

Format for Annual Work Plan

This format is proposed for use by the Article 5 country to prepare the annual work plan for the implementation of performance-based ODS phase-out plans; however, it should be modified to suit the specific needs of each plan.

1. Data

Country _____

Year of plan _____

of years completed _____

of years remaining under the plan _____

Target ODS consumption of the preceding year _____

Target ODS consumption of the year of plan _____

Level of funding requested _____

Lead implementing agency _____

Co-operating agency(ies) _____

2. Targets

Target:				
Indicators		Preceding Year	Year of Plan	Reduction
Supply of ODS	Import			
	Production*			
	Total (1)			
Demand of ODS	Manufacturing			
	Servicing			
	Stock piling			
	Total (2)			

* For ODS producing countries

3. **Industry Action**

Sector	Consumption Preceding Year (1)	Consumption Year of Plan (2)	Reduction within Year of Plan (1)-(2)	Number of Projects Completed	Number of Servicing Related Activities	ODS Phase-Out (in ODP tonnes)
Manufacturing						
Aerosol						
Foam						
Refrigeration						
Solvents						
Other						
Total						
Servicing						
Refrigeration						
Total						
GRAND TOTAL						

4. **Technical Assistance**

Proposed Activity: _____

Objective: _____

Target Group: _____

Impact: _____

5. **Government Action**

Policy/Activity Planned	Schedule of Implementation
Type of Policy Control on ODS Import:	
Public Awareness	
Others	

6. **Annual Budget**

Activity	Planned Expenditures (US \$)
TOTAL	

7. **Administrative Fees**