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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-third Meeting
Montreal, 28-30 March 2001

**STRATEGIC PLANNING
(follow-up to decision 32/75)**

Introduction

1. The Executive Committee concluded the discussion at its 32nd Meeting in December 2000 on the Strategic Planning of the Multilateral Fund in the Compliance Period with the adoption, as the basis for future work, of the “Draft framework on the objectives, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period” and a request to the Secretariat “to prepare an issue paper on this subject for submission to the 33rd meeting of the Executive Committee”.

2. In complying with this request, the Secretariat draws extensively from the following sources:

- (a) The draft framework on the objectives, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance period;
- (b) country papers submitted by members of the Executive Committee on this subject both to the 31st and 32nd Meetings of the Executive Committee;
- (c) detailed notes taken by the Secretariat on the discussions of the Executive Committee on this subject at the 31st and 32nd Meetings; and
- (d) additional ideas and comments submitted by members of the Executive Committee between the 32nd and 33rd Meetings (The comments received from Members of the Executive Committee, as well as a short summary by the Secretariat, are included in the Annex to this document).

Furthermore, the Secretariat also contributes to the thinking process its experiences and knowledge accumulated from managing the operations of the Multilateral Fund over the past 10 years.

3. The Secretariat understands the mandate from the Executive Committee as one to identify the issues which are associated with the strategic planning of the Multilateral Fund activities during the compliance period, in particular, the transition of the Fund operations from a project focus in the grace period to a country compliance focus in the compliance period. The purpose of this exercise is to flag those issues which may require further in-depth review by the Executive Committee.

4. The Secretariat has applied its best judgement and knowledge in trying to present a complete but not necessarily exhaustive list of issues in this paper. It is not considered as the mandate of this paper to propose options for resolving the issues.

ISSUES

Project focus versus compliance focus

5. Until recently, programming which was carried out primarily by the implementing agencies was focused on identifying individual projects from Article 5 countries. Very often the ODS phaseout targeted in these projects was not linked to the compliance requirement of the country concerned. Admittedly there has been an increasing emphasis by the Executive Committee on the relevance of the project proposals to the compliance of the country concerned, and standard statements have been added to the project proposals as a result, stating that the project proposed would contribute to the achievement of the CFC freeze. Currently these statements are provided by the implementing agencies, presumably with the consent of the government concerned. These standard statements could be effective in the grace period in drawing the attention to the first impending compliance deadline.

6. The issue is whether that constitutes compliance focus or whether it is adequate to achieve it when the issue of compliance is real and pressing. Should there be a greater degree of accountability by the government concerned towards the ODS reductions contained in the project proposed and how should ODS phaseout funded from individual projects be linked to country compliance?

Responsibility under the country-driven approach

7. In the early years of the Multilateral Fund, the implementing agencies were the primary initiators of actions in Article 5 countries, preparing country programmes and developing investment and other projects. The extent of the involvement of the country was clearing project or the country programme, identification of enterprises, and endorsement of project proposals.

8. The shift from an agency-driven to country-driven approach would enable the countries to initiate the actions or direct the agencies to implement necessary activities according to national compliance needs. In that context, how will the shift of responsibility impact on the accuracy and reliability of ODS consumption data, both on the project level and on the national level because it was frequently observed that countries changed their consumption data considerably, including their baseline data.

Project-by-project phaseout versus sector phaseout strategies

9. Project-by-project submission and approval has been the predominant modality for funding ODS phaseout in the majority of Article 5 countries that received assistance from the Multilateral Fund during the grace period and has been well understood and accustomed to by all stakeholders in the Multilateral Fund process. With the exception of the agreements reached concerning halon and CFC production phaseout sectors in China and India, and more recently methyl bromide sector in Jordan, where a sector phase out approach was used, there has not been a full elaboration and discussion on general guidelines and conditions for the sector phaseout approach (with the obvious exception of RMPs for low volume consuming countries), as

compared to the project-by-project approach. As a result, there are queries about the specifics of the sector approach, such as:

- (a) Are there any preconditions that countries have to meet before adopting the sector approach?
- (b) What are the components of a sector strategy?
- (c) What are the criteria for determining the funding level of the sector strategy or is it determined through negotiation between the Executive Committee and the country concerned on a case-by-case basis?
- (d) What is the average duration for approving a sector plan from the time when it is first submitted?
- (e) How is the implementation modality differentiated from the project-by-project approach? What is the flexibility provided under the sector arrangement? How does it work and what is the role of the implementing agencies if it is involved?
- (f) What is the role and responsibility of the national Government?

(i) Issues related to programming and prioritization

Balance between environmental impact and country compliance

10. Programming prioritization was achieved in the grace period primarily through the application of cost effectiveness thresholds, which achieved the objective of the period for maximizing the environmental impact on the ozone layer within the limited resources available to the Executive Committee.

11. This practice however may not be transferable in total in the compliance period since each signatory country of the Montreal Protocol has to meet the commitments it undertook when signing the Protocol and these commitments are time bound. The Multilateral Fund is mandated to assist each eligible party in meeting these commitments.

12. On the other hand, the consumption of ODS is not evenly distributed across countries. A review of the latest ODS consumption data (1999) published by the Ozone Secretariat reveals the following distribution: five of the largest consuming countries consume more than 77% of the total consumption of 88 Article 5 countries which submitted 1999 data and 19 countries consume more than 95% of the total consumption.

13. The issue is compatibility of environmental concern in terms of the protection of the ozone layer and meeting each individual Article 5 country compliance needs.

Financial planning: short term versus long term

14. Up until now, financial planning has followed the three-year replenishment cycle of the Multilateral Fund, which is further elaborated and concretized by annual business planning. This has worked well under the predominately project-by-project disbursement mode. Under the current system, the total approved funding of a project is disbursed to the responsible implementing agency at the time of approval and as a result the Fund always funds all the commitments it enters into in a given year and starts a new budget year with no or very limited obligations carried over from previous years.

15. However, the approval in principle of the sector phaseout strategies has introduced the new element of forward commitment covering several years in the future, with commitments entered into in previous years reducing the availability of resources for free programming in any new budget year. It is foreseeable that the sector approach will be increasingly used in funding ODS phaseout and as a result, will progressively take up larger portions of the annual budget of the Multilateral Fund and further reduce the resources at the disposal of the Executive Committee for free programming.

16. This presents a challenge to financial planning in the years ahead because it would require that funding in the short-term should follow clearly articulated long-term priorities which, in turn, should reflect:

- The control schedules of the Montreal Protocol;
- The status of compliance of countries;
- Replenishment cycle and funding level;
- Commitments already entered in previous years; and
- Timely payment of contributions.

(ii) Issues related to implementation modalitiesFixed shares of implementing agencies for investment projects

17. The existing fixed shares of implementing agencies for investment projects was introduced as part of the annual business planning process, which contributed to the orderly conduct of business according to predictable funding and the reduction of unconstructive competition among the three implementing agencies for investment projects. The agreement on the shares was worked out among the implementing agencies and was acknowledged by the Executive Committee.

18. The system functioned well under the existing predominately project-by-project approach where individual projects have a clear cut ODS elimination target, a relatively short implementation duration of two to three years and a limited level of funding. These relatively independent projects lent themselves to be separated and allocated to different implementing agencies.

19. However, with the size of the projects becoming increasingly smaller, it is difficult to treat each project as a separate unit and a sector approach will have to be used to address these small units, to be supported by government facilitating policies.

20. Under these circumstances the existing fixed shares could result in fragmented activities and programmes, delays in implementation, and diminished efficiency in using Fund resources.

21. The issue is to have a different mechanism which is conducive to the fostering of a partnership between the implementing agency and the Article 5 government in the compliance period, which retains the advantage of the fixed shares system for maintaining the orderly business among the implementing agencies, and at the same time benefit from the expertise of each implementing agency. For instance the national ozone unit could take the lead and work with the implementing agency of their choice as the lead agency to develop a sector plan and use the expertise of other agencies if they so desire.

(iii) Issue related to roles and functions of partners

The Executive Committee

22. The Executive Committee has been charged with the responsibility of developing and managing the operational policies of the Multilateral Fund and approving funding for projects and programmes. In the past 10 years, the Executive Committee has developed hundreds of policies related to project funding and approved projects worth over 1 billion dollars.

23. While these two main functions will continue in the compliance period, there will be a greater call on the attention of the Executive Committee to monitor the overall impact of the Multilateral Fund supported activities on country compliance. In this regard, the Executive Committee may wish to consult with the Implementation Committee in matters relating to country compliance.

24. The issue is how this potential expansion in responsibilities is reflected in the work of the Executive Committee.

The Secretariat

25. The Secretariat has been assisting the Executive Committee in discharging its functions. While this involves a multiple of activities, the major activities consist of providing policy analysis and undertaking project reviews and formulating of recommendations for the decisions of the Executive Committee.

26. While these duties will continue, there will be a greater call on the time of the Secretariat to monitoring country compliance, discovering in time trends and problems, and reporting on these to the Executive Committee. There will be a greater need to expand the scope of work on reviewing and managing sector plans/strategies. There will be a greater need to liaise with Article 5 countries on issues regarding national compliance and promoting the goals of the Multilateral Fund and the Montreal Protocol.

27. The issue is how these new functions will be translated and implemented in the day-to-day work programme of the Secretariat.

The Implementing Agencies

28. The implementing agencies have so far been assisting Article 5 countries in formulating and implementing ODS phaseout country programmes and projects financed by the Multilateral Fund. They have been the driving force behind initiating and expanding the Multilateral Fund programme to over a hundred countries.

29. However, the completion of the conversion of the major ODS consuming industries and the prevalence of disbursed users in the remaining ODS consumption sectors will reduce significantly the effectiveness of the current project-focused modality. What is increasingly called for from the implementing agencies is not project-related formulation and implementation but technical assistance in problem solving. These could be consultancy advice on the various aspects of preparation and implementation of sectors strategies and refrigerant management plans, and other services as requested by Article 5 governments.

30. The issue is how this shift in the role of the implementing agencies will enable them to maintain their effectiveness and render the services needed by the Article 5 countries in achieving their compliance.

Annex

Summary by the Fund Secretariat

The Fund Secretariat received the attached comments from the following Executive Committee members: Australia, China, Germany, Japan, Malaysia, Poland, and the United States of America. The comments received are summarized collectively as follows:

- Countries must develop, according to their own needs, strategies for compliance, with the necessary regulatory mechanisms to ensure the obsolescence of ODS technology and the sustainability of alternative technologies.
- Accurate data is needed both for the country and for the Executive Committee to understand the status of compliance and to assess needs for compliance including the needs of SMEs, the solvent sector, etc.
- Monitoring and evaluation of umbrella and sector projects is needed for guidance in approving such projects in the future.
- The ODS impact from projects, both at the enterprise level and sectoral level, should be tied to a permanent annual reduction in a country's consumption reduction efforts towards compliance (as is the case with the sector strategies and more recently the methyl bromide investment projects).
- Modalities should be developed to link the Executive Committee's efforts to assist countries with compliance and the Implementation Committee's responsibility for assessing compliance.
- Adequate resources should be provided by contributing Parties taking into account the forward commitments from multi-year funding projects, the impact of the fixed rate exchange mechanism, and receipt of 60 to 70 per cent of the pledged contributions in the year they are due.
- Alternative modalities of disbursing funds to Parties could be considered as a means of implementing performance based funding programmes.
- Non-investment projects such as, institutional strengthening, networking and customs training, should continue to be used to facilitate compliance.

Australia's Submission to the Strategic Planning Discussion
(15 February 2001)

Decision 32/75 calls upon members to submit to the MLF Secretariat their ideas for the elaboration of the Draft Framework adopted at 32ExCom. To assist progress, Australia has kept its comments to a minimum and structured these to the headings and text adopted in the Draft Framework.

PRIORITIES

The current list essentially states the existing targets of MLF resources without strategic priority. The Secretariat has advised that the last 3 years have revealed a trend in contribution payments to the Multilateral Fund such that no more than 60% of scheduled contributions are received in a given year. If this trend continued for this triennium, approx. USD61.6m will not be available until the following triennium. In addition, as illustrated in Annex I to Germany's earlier paper, a substantial level of this and future replenishments have already been committed to sector phase out plans (approx. 25% of this triennium).

Consequently, if we are to ensure the MLF serves its purpose of supporting developing countries' efforts to achieve compliance, we are going to have to decide on a ranking system. Australia suggests the priorities can be ranked and simplified as follows without losing the full range of the MLF's task:

1. **Existing commitments:** The MLF needs to honour the commits already made. As already approved disbursements, these will also determine the funds available to other priorities for the current and future trienniums

(dot point one of Draft Framework);

2. **Assistance to countries which are experiencing difficulty meeting the initial control measures:** 2000 CFC freeze, halon and methyl bromide 2002 freeze. The 2002 freeze deadlines are included as 'initial control measures' as existing information suggests more than 2 years generally elapses between project approval and completion, and therefore realisation of ODS reduction

(aggregates dot points two and three of the Draft Framework);

3. **Production sector phase-outs:** such projects will serve to contain the size of the MLF's task

(dot point eight of the Draft Framework);

4. **Assistance to countries which may have difficulty meeting the intermediate control measures:** 2003 20% CFC reduction, freeze methyl chloroform (MCL), 2005 50% CFC/halon reduction, 85% CTC, 30% MCL, 20% methyl bromide

(dot points four and five of the Draft Framework);

5. **Assistance to countries to enable compliance with post-2005 control measures:** this would encompass assistance to ensure the momentum generated in countries in compliance is maintained to facilitate post-2005 phase out and facilitate, where the commitment is present, accelerated phase out

(dot points six and seven of the Draft Framework);

Australia considers dot points nine and ten of the Draft Framework (“an appropriate mix of investment and non-investment activities in line with a country’s needs to achieve compliance” and “Strengthening NOUs in national governments under conditions and terms to be negotiated later on”) as modalities to be employed in giving affect to priorities, rather than priorities in their own right.

PROBLEMS

This heading could be redrafted more positively as “Challenges”.

ODS data

- as noted in the Draft Framework, accurate and comprehensive data is extremely valuable for effective business planning and compliance assessment. Australia notes the quality and quantity of data available to the Executive Committee has improved significantly in recent meetings owing to the collaboration between the Ozone and MLF Secretariats, the Implementing Agencies (IAs) and the Article 5 Parties (A5s).
- Australia believes this trend will continue as a natural result of:
 - increasing interaction between the Secretariats, IAs and A5s on this issue; and
 - increasingly clear understanding by NOUs of their national situation.

Urgent need to reduce halon and methyl bromide consumption/production

- Australia agrees that this should be listed as a major problem/challenge which we believe warrants the ranking Australia has proposed in the list of Priorities.

Urgent need for contributing non A5 Parties to pay dues on time under the Fixed Exchange Rate Mechanism

- Australia agrees that timely payment of annual contributions is vital to ensure budgetary uncertainty does not compromise the work of the MLF and, through that, the ability of A5s to remain in compliance.
- Australia notes that the Fixed Exchange Rate Mechanism is being trialled and that a report on it will be presented to the 13MOP. Australia believes that report should focus on the extent to which the mechanism can be said to assist or hinder the implementation of the MLF’s strategic plan.

Urgent need to reduce ODS use by SMEs and to address the ODS use of small and micro ODS users as subset

- Australia believes that this is an area which highlights the inadequacies of the project by project approach and the inflexibility of the current guidelines and policies of the Executive Committee.
- Australia suggests the specific needs of SMEs and their subsets may be more effectively addressed through sectoral or national plans, a review of existing relevant guidelines, and an appropriate mix of investment and non-investment activities.

Need to examine ways to make the MLF more effectively take advantage of the accumulation of funds with the IAs and the Treasurer

- This will require a reporting system that provided the ExCom with information on funds actually available for disbursement at any given point in the current triennium and also in future trienniums. Members need to understand the level of existing commitments, the amounts of funds that will realistically be available at any given point (including member contributions, unobligated funds returned by IAs, interest).

Urgent need to examine the issues related to fixed shares for implementing agencies, taking into consideration that flexible, rather than fixed, shares might better assist A5s in achieving compliance

- Australia agrees these issues should be examined. Australia regards the current IA fixed share arrangement as helpful for IA planning purposes and acknowledges that there is a practical balance to be struck between the advantages of this for the IAs and the imperative of facilitating A5 access to the assistance needed to remain in compliance. However, Australia believes the more important priority is for individual A5s to have the ability and capacity to choose the service providers that will best ensure their compliance.

MODALITIES

- Australia supports the country driven and compliance driven programming modality adopted in the Draft Framework, noting that this presumes a high level of commitment from A5 governments and a strong relationship between each A5 government and its NOU. In this regard, we support the strengthening of NOUs in national governments under conditions and terms to be negotiated.

Australia had expected that if a country ratified the Montreal Protocol, its government would ensure all necessary support to its NOU. However, it accepts that in some cases, this support has not been forthcoming. In such cases, we could consider funding for activities designed to generate the political will and government support that may be needed.

- Australia supports sectoral and national phaseout plans as a potentially better modality for the achievement of national compliance than the project by project approach. Members may note that this raises the question of whether the current IA fixed share arrangement helps or hinders this new approach. As stated above, Australia believes the overriding

priority is for individual A5s to have the ability and capacity to choose the service providers that will provide them with the skills and expertise most appropriate to their sectoral or national phaseout plan.

- A country driven approach may mean that the ExCom needs to consider alternative modalities for the disbursement of funds. In addition to consideration of flexible IA shares, the ExCom may also wish to consider:
 - staged disbursements direct to Parties against agreed national/sectoral plans with specific funding milestones;
 - a once-only disbursement direct to Parties against agreed national/sectoral plans; and/or
 - segregating funds for specific purposes.

Suggestions from China on the Country-Driven Modality

- I. Responsibility changes of NOUs and IAs under Country-Driven modality
 1. The key roles of NOUs to the successful implementation of the Country-Driven modality
 - 1) to formulate national phaseout plan.
 - 2) to organize the formulation of relevant policies and regulations for the ODS phaseout NOU.
 - 3) to choose appropriate IAs according to the requirement of the national business plan NOU.
 - 4) to organize the preparation of project proposals with the help of the national experts NOU.
 - 5) to organize the project implementation NOU.
 2. The capacity of NOUs needs to be improved under Country-Driven modality.
 - 1) The budget of Institution Strengthening Project should be increased to further improve NOU's capacity through more training on project management, especially on reporting skills and communication skills.
 - 2) Experience exchanges among NOUs through network meeting or other channels.
 3. The responsibilities of IAs should be changed to consultation service for NOUs
 - 1) To provide suggestions to the formulation of the national phaseout plan, the relevant policies and regulations, and projects proposals, which are prepared by NOU.
 - 2) To assist Article 5 countries to solve problems and reduce risks on society, economy and technology caused by from ozone action.
 - 3) In order to facilitate the project implementation, IAs and NOUs should establish the most effective modality and procedures for project implementation based on the existing ones. The main responsibility of IAs should be changed to supervise, audit and to provide instructions and consultations to NOUs' work.
 - 4) To abolish the fixed funds share distribution among IAs, and allocate funds according to the evaluation of the implementation of their annual business plans and the national annual business plan and project demands of Article 5 countries.
 4. Under country-driven modality, MLF Secretariat could only rely on NOUs to successfully carry out the supervision and evaluation of the effectiveness of the MP implementation.
 - 1) Comprehensive evaluation conclusions (including effects on society, economy and technology, etc.) could not be achieved by the current evaluation activities.

- 2) It is suggested that the monitor and evaluation team hold training workshops to NOUs on assessment methodology. Country-based evaluation report will then be provided by NOUs.
- 3) The project “Assessment and Risk Analysis of Montreal Protocol implementation in China” is under implementation. The main contract will be signed by the end of March 2001. China would like to be as a case study on the Country-based evaluation activities, which could establish a good basis for the global evaluation.
- 4) Large countries could help small countries to identify and resolve problems caused by the implementation of MP.

5. **Suggestions**

The Secretariat should prepare a document on Country-Driven modality for discussion in future meetings. This document should include the following key issues:

- 1) To identify what is Country-Driven.
 - 2) To clarify the responsibilities of NOU and IA under Country-Driven Modality.
 - 3) To provide exact definition of “the most flexibility” stipulated in the sectoral plan agreement between Secretariat and NOUs.
 - 4) How to settle the serious divergences from NOU and IA.
- II. The strategy plan for the coming 10 years should pay more attention to the following non-investment projects, which will play an important role to the perpetual ODSs phaseout.
- 1) Research, development and training on relevant policies and regulations, especially on the supervision and management policies on sustainable MP implementation to achieve the perpetual phaseout.
 - 2) Effectiveness evaluation methodology on project implementation.
 - 3) Development on project implementation approach.
 - 4) The global ODS phaseout target should not always be based on each country. A new phaseout concept could be introduced that the priority of project approval and phaseout progress in large countries and small countries may be different.
- III. Article 5 countries should take part in the development and formulation of the three-year business plan and the funding requirement plan.

Some additional proposals by Germany
for steps to make the draft framework (annex to document ExCom 32/43)
a solid basis for formulating implementable strategic planning
(15 February 2001)

Ownership / National strategies:

We consider sound National Strategies as the basis for any intervention by the MLF. The preparation of National Strategies is in the interest of every country, A5C and A2C alike, and is in principle expected to be financed from the country itself. In order to facilitate the process and ensure that lack of funding does not prevent A5C from preparing this crucial document, ExCom might decide to provide funding for this exercise on an exceptional basis, provided that certain requirements are strictly met.

For many countries whose ODS consumption is mainly related to the **refrigeration** sector, RMPs are or will be in place and are supposed to contain the appropriate National ODS Phase-out Strategy. The ExCom might decide to request those A5C with significant consumption **outside** the refrigeration sector to prepare National ODS Phase-out Strategies, relating to **all** consumption sectors in the country, building on the RMP Strategy Paper if there is one. Where available, recent Country Programs / updates should be used as a basis for the formulation of the National ODS Phase-out Strategy.

The National Phase-out Strategy should include a feasible **national implementation plan** with timing and milestones, monitoring requirements, institutional set-up for implementation, priority sectors, legal and other measures to be implemented by the government, potential funding sources outside the MLF, and conversion requirements by sector and by amount of ODS. This data should be supported by detailed information material about different sectors. After finalization, the National Strategy should be submitted to ExCom for **discussion** and to be used afterwards as a **basis** for funding decisions.

The ExCom might assist respective A5C by:

- requesting the MLF Secretariat to develop in cooperation with the IA and interested members of ExCom a framework for National Strategies ,
- requesting and enabling UNEP DTIE and its networks to support the countries, based on the framework developed by the MLF Secretariat ,
- providing funding for the associated activities.

In order to facilitate this process and its timely implementation, ExCom might decide to provide funding for related activities, to be presented to ExCom not later than the second ExCom meeting in 2003. Activities for additional support for the countries concerned, to be facilitated by UNEP DTIE, will cease not later than end of 2005.

With forwarding a project proposal to the MLF, concerned A5C should agree to adhere to a **tight schedule of deliveries**, with the National Strategy Document being forwarded to ExCom within 30 month after project approval. The IAs will be requested to return unspent balances 30 month after approval, independent of the status of the project.

Identifying countries in danger of not meeting their commitments

The Executive Committee might request the MLF Secretariat to **report annually** at the 2nd meeting of the year on those A5Cs which are **unlikely to meet their commitments** under the Montreal Protocol. The report should also indicate whether those countries show significant efforts to meet the commitments. [An indication might be timely progress in preparation of a National Strategy or important steps towards its implementation.]

Micro and small ODS user projects

In order to support the smaller ODS consumer projects, the ExCom may consider to increase the eligible co-ordination costs for sector or umbrella projects dealing with micro and small users of ODS. The increase should reflect the difficulties in addressing this sector, as well as the size of the ODS users.

Priority list

We had provided a priority list in our paper “Strategy for the Multilateral Fund: A contribution from Germany” distributed before the 32nd meeting of ExCom. We would like to repeat our proposals concerning priority for funding as contained in this document. We consider them as still valid.

IOC

ExCom might want to decide to fund IOC on the basis of **regional** costs for ODSs, in order to avoid a negative incentive for A5C already implementing ODS regulation policies. The MLF Secretariat might be requested to prepare in consultation with the IA a paper on how to determine regional ODS costs in a transparent, efficient and innovative way, and also to propose the composition of the regions. This paper should be presented no later than 35th ExCom.

Monitoring of sector projects by MLF Secretariat

The ExCom might request the MLF Secretariat to participate in the **auditing of existing sector projects** in order to gain first hand experience on how auditing of sector projects is handled. For future sector projects, the role of the MLF Secretariat should be to evaluate and comment on auditing reports forwarded by the IA, in order to prepare a basis for ExCom decisions whether the funding installments for the respective sector projects should be released.

Additional Monitoring and Evaluation information needed by ExCom:

ExCom might wish to request the MLF Secretariat to prepare a format for an analysis of the actual **impact** of MLF funded projects on the phase out in A5C, as proposed during the last meeting by Japan.

Solvents:

From data available it is evident that the remaining consumption in the solvent sector in A5C is likely to be between 2'000 ODP tons and 10'000 ODP tons. The inaccuracy and lack of detailed information makes it difficult to approach the sector. In order to obtain better information about size, structure and occurrence of solvent consumption, ExCom may request UNEP DTIE to carry out a respective study. The objectives of the study should be:

- to obtain more precise data on the overall solvent (especially CTC) consumption,
- to obtain information on the necessary focus of future projects both in terms of A5C involved as well as type of enterprises (micro/small/medium/large)
- raise awareness about the issue in different countries.

The work on the study should include detailed discussions with IAs and at network meetings as well as some site visits. UNEP should be asked to report back to ExCom on the matter no later than at the 35th meeting.

**Japanese Comments on the Framework on the Objective, Priorities, Modalities for
Strategic Planning of the Multilateral Fund in the Compliance Period**
(14 February 2001)

The Japanese Government finds it more productive to start implementing the framework agreed on at the thirty-second meeting of the Executive Committee rather than to work on its redrafting.

The Executive Committee at the thirty-third meeting should give specific guidance to the Fund's Secretariat and the Implementing Agencies to develop concrete plans to implement the framework. We consider that most of the agreed elements contained in the framework are self-explanatory and clear enough for them to implement.

Among the agreed elements that have to be clarified to develop concrete actions, is the need to strengthen the interactions between the Executive Committee and the Implementation Committee. We consider that once agreement is reached in this respect, it should be confirmed in the form of amendment to the non-compliance procedure.

We propose that each contracting Party should develop a national compliance plan which conforms to the obligations under the Montreal Protocol and submit it within the framework of an up-date of the country programme as a basis for the requests for the financing of sector plans, umbrella plans, terminal plans and projects. Such a document should be shared between the Executive Committee and the Implementation Committee as a common basis for assessing the observance of the control measures to phase out ODSs under the Protocol. It should be used for projecting possible non-compliance of a particular contracting party so that a timely support could be extended to the party by the Fund to keep the party into compliance. We also propose that the Executive Committee request the Secretariat to prepare for consideration by the Executive Committee a format and contents of such a document together with a draft procedure by which to prepare and submit it to the both committees.

On the other hand, in order to produce the national compliance plans in an orderly manner, the Executive Committee should establish a schedule to review such plans on a priority basis, possibly based on the latest report on the status of compliance (see UNEP/OzL.Pro./ExCom/32/38) focusing on the Parties at risk.

**Comment from Malaysia on Draft Framework on the Objective,
Priorities, Problems and Modalities for Strategic Planning
of the Multilateral Fund in the Compliance Period**
(13 February 2001)

The Government of Malaysia welcomes the effort of the Fund Secretariat to come out with a strategic '10-year dynamic' plan that provides specific basis to guide the Executive Committee, Implementing Agencies and the Fund Secretariat for setting consistence policies and guidelines for the on going support given to the Article 5 countries that help them to achieve their obligations under the Montreal Protocol.

Malaysia is in agreement that priorities to obtain funding must be clearly set. This will also encourage Article 5 countries to work harder towards the priority areas if enough funding is to be obtained to phase out ODS.

As compliance, the 'end-result' of the country phase-out programme, is a country-driven initiative, the NOU has to play a vital role in this respect besides assistance of Implementing Agencies and the Networks. Strengthening the capacity of the NOU and may be the other related government agencies should be given higher priority.

Reliability and accuracy of data do have serious bearing on the planning of compliance strategies. This is a common problem faced by most of the Article 5 countries. Pragmatic and appropriate ideas/solutions must be designed to address this issue.

Sector approach of ODS phase out can be more effective as compare to project-by-project basis. It gives a level playing field to the industries concern in the same sector and can also prevent 'reverse conversion' scenario. It is also easier for the enforcement of compliance.

Regulatory control measure is a must if ODS is to be phased out totally.

Comments from Republic of Poland
(16 February 2001)

Following your letters of 30 and 31 January 2001 regarding draft guidelines for preparing Country Program Updates as well as Draft Framework on the object, priorities, problems and modalities for strategic planning of the Multilateral Fund in the compliance, we would like to suggest, that special attention should be paid to the following:

- correctness of import and export permits issuance;
- training of custom services
- cooperation between various intergovernmental bodies responsible for monitoring controlled substances flows;
- possibility of controlled substances identification during custom procedures at the state borders.

A Non-Paper by the United States of America
Thoughts Related to Moving Forward with the Draft Framework
on Strategic Planning
(27 February 2001)

The United States believes that the time the Executive Committee put into developing the draft framework for strategic planning was worth the significant effort, and that the draft framework provides a useful blueprint for further action. However, we do not underestimate the challenge inherent in evolving the mode of operation of the Multilateral Fund system toward the vision outlined in the draft framework.

We believe that one of the key challenges in moving forward will be shifting the mind set of both the Executive Committee itself, and the implementing agencies. Specifically, we believe that some of the implementing agencies have grown so accustomed to a project-by-project mode of operation, that for various reasons, it will be difficult for them to adjust to the more country driven approach acknowledged by the Executive Committee to be essential to ensuring national ownership and compliance. By the same token, many Executive Committee members and countries have largely gotten used to the operation of the Fund in its current form. Success will depend on all related participants being open minded, within the agreed framework of the negotiated text, to address the significant challenges involved with a new country driven approach.

At the outset, it should be noted that the project by project approach, which has been nurtured over time by the Executive Committee, has achieved some important successes. It has, after all, helped many countries to achieve significant reductions and compliance with the initial freeze obligation. However, in most cases, the project by project approach has not led to the rigorous national strategic planning process and the governmental consensus on long term action that is essential to enabling a planned, integrated phase out of ODS, and overall cost effective compliance with major upcoming reductions required by the Montreal Protocol.

While many countries and members of the Executive Committee are beginning to see the way in which the project-by-project approach may impede national ODS phase out planning, some of the agencies appear very reluctant to move from the project-by-project mode of operation that has enabled them to build what they may consider to be a sustainable program of work. Specifically, over the last year, we were concerned about the overt efforts of some agencies to impede agreement on a new system for dealing with RMPs out of a belief that such an agreement would deny the agencies certain types of projects. Now we are very concerned about reports that senior representatives of some agencies may be working to undermine the efforts of other agencies in response to national governments wishes to pursue sectoral and/or national phase out approaches, consistent with the stated direction of the Executive Committee. We believe this behavior, which almost halted progress on reaching an RMP agreement, will benefit neither the ozone layer nor the ability of A5 countries to comply with their commitments under the Protocol. However, it is symptomatic of the problem and challenge that we face in changing the mind set of the primary actors in the Fund. Unfortunately, while it is a very significant challenge, it is not the only challenge we face.

Another large challenge is related to national capacity and national political will, both of which are essential to implementation of the country driven approach outlined in the ExCom planning framework. Specifically, while some countries have, over the last decade, gained both the political support and experience necessary to carry out the strategic planning that is essential to an effective phase out, other countries, which have relied almost solely on the project-by-project approach for achieving “progress”, may not be adequately prepared to take on the task of a country directed program. Finally, while some countries may have staff that are able to take on the task, the ozone officers in these countries may not have been able to mobilize the support within their national authorities to implement a national phase out plans.

Addressing these matters will not be easy, but must be considered directly. If a country faces problems in mobilizing political will, the Fund should consider co-sponsoring targeted activities designed to build a high level commitment essential to enabling implementation of national plans. If high level commitment is clearly there, but the capacity to develop an integrated plan is not, the Fund should be able to consider targeted flexibility in joint funding for institutional strengthening to enable development and implementation of strategies that meet national needs.

A targeted system that responds to the specific needs of the countries to enable their development and implementation of broader strategic phase out plans may, on its face, seem appropriate. However, this will require change, not only on the part of the agencies, but also in the Executive Committee itself, and in related countries. First, one of the hallmarks of the Fund has been relatively equal treatment of similar countries - especially in terms of Institutional Strengthening support. Further, funding for political mobilization has not generally been provided out of a belief that a country’s commitment to meet the Protocol obligations would or should have been manifest when it became a Party. Making co-funding for these activities more flexible so it could be directed in a more targeted manner would mean that the Executive Committee and countries’ expectations would have to change in order to support a new reality that would allow differential treatment on these issues depending on need. Where there is a clear, high level of commitment for action, the US would certainly be willing to entertain a more open, flexible system.

A second problem in implementing a more flexible system directed at fostering national development of sectoral or national phase out plans would be “needs assessment”. Who does it? We believe that the overall programmatic success of the Fund will, in the end, depend on the empowerment of countries to be able to develop and implement their own integrated plan which includes policy measures and projects. However, empowering countries may very well decrease the amount of work of the agencies - and asking the agencies to impartially advise us on such matters may not adequately take into account the power of the natural human instinct to protect ones own interest.

Despite the challenges outlined above, we should not overlook the fact that we have made some real progress in shifting the work of the ExCom away from the project by project approach, and towards the sectoral/national approach. First, over the last two years, we have approved sector based projects that will eliminate over 70% of the A5 CFC production capacity, and over 90% of the halon capacity. We have also approved large sector plans in China for solvents and tobacco.

In addition, in the above noted cases, and in the case of MBR, we have already begun implementing the key provision of the draft framework requiring that regardless of the implementation modality (project by project or sectoral/national approach), continued funding must be contingent on a national commitment to sustain national, permanent, aggregate reductions in consumption or production. Last and equally important, we have evolved a mechanism for funding RMPs that relies much more on each individual country to plan, target and accept responsibility for achieving a specified level of reductions with a specified level of resources. These are significant steps.

The US believes that furthering this trend is inevitable for the following reasons:

1. Compliance period: Because we have entered the compliance period, national prestige regarding the ability of a country to meet their commitment is on the line. Countries can not afford to rely on specific agency selected projects to ensure their national compliance. Further, we do not believe that compliance with steady reductions until a final phase out can be assured only through a project-by-project approach. A broader strategic approach including policy measures and import restrictions is essential to ensuring compliance, and is surely in the best interest of each individual country.

The compliance period does not only put the prestige of each country on the line regarding compliance. - The prestige of the Fund is also on the line. If, after contributing over \$1.2 billion dollars over the last 10 years, there is widespread non-compliance, the sustainability of the Fund itself could be called into question. But even this is not all - confidence in the ability of international environmental agreements to achieve agreed commitments is also on the line. The Montreal Protocol has always been viewed by the world community as the most successful global environmental agreement. If we fail to achieve our goals, the entire architecture for global action could be called into question. This raises the larger issue - the environmental cost of failure. Indeed, we owe it to this and future generations to ensure that we follow through and protect the ozone layer. Failure to achieve compliance has such high costs both in national and global terms, that it should not be seen as an option. Therefore, we cannot afford to rely on the project-by-project approach, whose past funding may have yielded reductions ; but whose continuation is not certain to deliver what the countries and the world community expect and deserve - compliance.

2. Incremental Cost: As negotiated by the Parties to the Protocol, the determination of eligible incremental cost depends on a comparison of the pre-conversion cost of doing business, with the post conversion cost. It is clear that between now and 2005, the cost of CFCs will increase as CFC plants close or reduce their-production to comply with the Protocol. This will drive up the pre-conversion cost of doing business. While what is eligible will remain consistent with the originally negotiated text, and will not change, the increased pre-conversion cost will result in significantly lower eligible compensation for projects. A clear indication that this was always understood by the Parties can be found in the indicative list of incremental cost negotiated by the Parties in 1990 at the creation of the Fund. That document clearly states that “the funding of incremental cost is intended as an incentive for EARLY adoption of ozone protecting technologies.” Those who wait to take project by project action late into the phase out may find

themselves, in future years, with little CFC, little eligible incremental cost, and little funding assistance. Indeed, the Mexico case presented to the Excom last year (which was slightly different in that production was reduced not to comply, but to “over-comply”) demonstrated what the widespread A5 reality is likely to look like in the future - insufficient eligible incremental cost to cover even the capital costs of conversion. This is worth stating again because it is critical to understand: as time goes on, the eligible incremental cost will inevitably go down significantly.

Given this reality, we believe it would be wrong for any Fund participant to suggest to countries that they should not work now on sector or national phase out plans because this will not maximize compensation. First, this line of thinking focuses more on funding than resulting ozone layer protection; this process must be about more than funding. Second, this line of thinking suggests that such participants are operating under the assumption that full funding at current levels for the project-by-project approach will be available until the end of the phase out. As explained above, this will not be the case. Given that, countries that continue to rely on the project by project approach will, in the long term, not maximize compensation - and may in fact leave themselves with no funding to phase out the residual use in their countries later. In contrast, agreement on sectoral national phase out plans now will lock in funding to ensure that over time, there will be sufficient funding to enable countries to make a thoughtful transition.

3. The Size of Projects: How do we define SMEs? How many are there? In what sectors? The area lacks clarity on a number of issues. One thing that is clear to the US and many other countries is that the project-by-project approach simply will not work for SMEs. Like the phase out generally, the phase out of ODS use by SMEs will have to depend on integrated strategies that provide a mix of funding and other non-investment support that will help them convert (possibly by consolidated efforts as in some Excom approved projects) or help them move into other activities. Again, planning and timing are critical. If countries wait five more years to plan for conversion or shifts in activity, and the cost of CFCs rises such that there is no eligible incremental cost, SMEs will suffer. No one wants this to happen. SMEs must be part of the planning for national/sectoral phase outs, and that planning work must begin now.

These factors lead us to believe that agencies, countries and the Executive Committee must work together to collaborate on a shift toward the country driven/compliance driven approach envisioned in our planning exercise. We believe such approaches are the only way to ensure that countries achieve a coherent phase out that does not leave developing countries facing large, scarcity driven costs associated with the inevitable reductions in supply. That is the goal of the RMP agreement reached last year. The larger countries with more complex uses must also consider movement to integrated sectoral and national actions.

Modalities - When, What and How do we do it?

In terms of the when and what, as noted above, many countries have already started with the RMP plans/agreements, the production sector agreements, and the MBR reduction agreements, each of which is designed to outline and implement a national strategic plan to achieve a specified reduction or a phase out in the relevant sector. This may give us a potential conceptual

construct to start with. Further, some countries have recently undertaken country program updates which may form the heart of a strategic compliance plan. We believe a key next step is to consider “needs assessment” and move towards enabling countries to demonstrate their commitment to implement national strategies. This means that, as noted in the draft framework, the movement toward the broad strategic approach will be a transition - it will not be implemented immediately. However, as noted in the draft framework, and as is being implemented in the MBR projects and sectoral approaches, in the case of either continued project-by-project work, or sector/national work, continued funding must be predicated on a commitment by the country to achieve sustainable, permanent aggregate reductions in consumption and production, as relevant. This means that we will no longer be approving projects without a national guarantee that the project will directly reduce total national consumption. This guarantee, which is essential to ensuring fulfillment of expectations of all parties for our effective operation, must be operationalized across all project work as soon as possible.

In terms of next steps, we look forward to a discussion of the issues presented in this non-paper at the Executive Committee. If some of our thoughts presented here are accepted, we also look forward to discussing how a “needs assessment” would be started, and how we can shift our operation to provide more targeted assistance to prepare for implementation of broader phase out plans and/or projects that provide assurances that all of our spending will result in sustained aggregate reductions.