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United Nations Development
Programme and of the
United Nations Population Fund**

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Special funds and programmes

Support
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**Report on UNDP activities financed by the Global
Environment Facility and the Montreal Protocol**

Issues

In considering the present report on the two largest UNDP trust funds, the Executive Board may wish to comment on the following issues:

(a) The cumulative UNDP-Global Environment Facility (GEF) portfolio for 1991-2001 amounted to \$1.23 billion, with a further \$2 billion secured in co-financing; this represents 34 per cent of the total GEF allocation. It is expected that negotiations for the replenishment of GEF for the period 2003-2006 will be finalized in early 2002; given the expanding mandate of GEF, UNDP hopes that the overall replenishment for the GEF will be in the range of \$2.5-3.5 billion;

(b) A revision of the institutional architecture of the GEF is currently under consideration. Given the positive achievements, UNDP would prefer to maintain the current institutional arrangement, which is the result of a deliberate decision to establish an innovative and cost-effective institutional mechanism;

(c) In view of the growing need to seek co-financing opportunities, the three-year replenishment of the Multilateral Fund of the Montreal Protocol (2003-2005) will probably include components such as concessional loans in addition to grants. Effective policies and procedures must be developed that will enable UNDP to deal successfully with innovative financing mechanisms;

(d) There is an increasing work load of the staff of the Montreal Protocol Unit, who act as policy advisers and managers of small, labour-intensive projects; this will have implications for support costs.

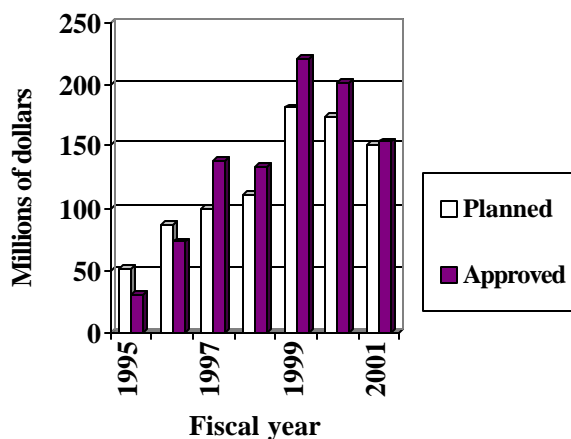
I. Global Environment Facility

A. Background

1. The Global Environment Facility (GEF) (<http://www.undp.org/gef>), established in 1991, has recently expanded its mandate and now also serves as the financial mechanism for the Biosafety Protocol and the Convention on Persistent Organic Pollutants (POPs). UNDP, the United Nations Environment Programme (UNEP) and the World Bank are the GEF Implementing Agencies.

2. *Portfolio overview.* The cumulative UNDP-GEF portfolio during 1991-2001 amounts to \$1.23 billion, with an additional \$2 billion secured in cofinancing. UNDP-GEF has exceeded the allocation targets in the past four years and its share is now at 34 per cent of the total GEF allocation. Figure 1 shows the portfolio growth for the last seven years:

FIGURE 1. ANNUAL PORTFOLIO APPROVAL, FISCAL YEARS 1995- 2001: PLANNED AGAINST ACTUAL APPROVAL^a



a) Because of financial constraints, total funding available to GEF in fiscal year 2001 was \$450 million, with consequent impact on the Business Plans.

3. The portfolio has activities in 140 countries containing over 2,400 completed and ongoing projects and about 80 projects under preparation. In addition UNDP-GEF is supporting approximately 80 countries in their preparation of country strategies, action plans and national communications under the Convention on

Biological Diversity and the Framework Convention for Climate Change. The UNDP-GEF Small Grants Programme supports 1,300 projects in 46 countries.

FIGURE 2. UNDP/GEF PORTFOLIO, FISCAL YEARS 1991 – 2001:
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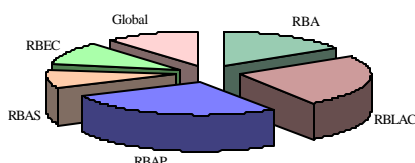
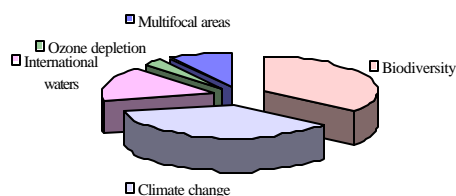


FIGURE 3. UNDP/GEF PORTFOLIO, FISCAL YEARS 1991 – 2001:
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4. **Achievements.** Independent evaluations, such as the ongoing GEF Overall Performance Study II, highlight the positive impacts and results achieved in the four GEF focal areas (biodiversity, climate change, international waters and ozone depletion), including the cross-cutting theme of land degradation. Impacts relate to conservation and sustainable use of biodiversity, reduction of green house gas emissions, addressing pollution of international waterbodies, phasing out of ozone-depleting substances and combating land degradation.

5. **Policies and legislation.** UNDP-GEF projects show significant results in supporting countries in the formulation and review of new and existing environmental policies and legislation at the national and local level. In the Madagascar Environmental Programme Support project, for example, the National Biodiversity Strategy has been finalized and validated at the national level after a series of regional consultations. The strategy highlights the contribution of the environmental sector in development and poverty alleviation and emphasizes the importance of ensuring full community involvement in its implementation. Two

laws relating to the intellectual property rights and the access to living resources were approved and will be soon submitted to the National Assembly.

6. ***Capacity development.*** In a growing number of projects, upstream and downstream capacity development are linked in an attempt to influence simultaneously the enabling environment (legal, institutional, social) and encourage cross-sectoral collaboration while improving the technical capacity of institutions. By focusing efforts on promoting a culture of integrated environmental management with the participation of different institutional and social actors, these projects are better placed to generate capacity-development processes at various levels, provided they are adjusted to the capacity levels of participants. Several projects combine policy support and direct training at the national level with regional/local pilot initiatives that strengthen decentralized capacity and produce tangible results. This helps to validate specific policy recommendations while demonstrating best practices for replication on a larger scale.

7. ***Financing and operational structure.*** UNDP-GEF is fully funded through fees earned on approved projects and does not rely on UNDP core administrative resources for its operating budget. UNDP country offices are compensated financially for all project services provided. UNDP-GEF also reimburses UNDP central services for support provided to projects and operations. UNDP-GEF has provided substantial support to designated focal points within the country offices to provide them with the skills and information required to perform their functions. The support of UNDP-GEF has been acknowledged by the country offices in the results-oriented annual report (ROAR). The UNDP country office assessment of products and services provided by headquarters (January – February 2001) and the Resident Representative Network, in the assessment of services provided by headquarters, UNDP-GEF ranked first amongst all headquarters units for the quality of services provided to the country offices.

8. In line with the restructuring targets agreed with the Executive Team in 2000, the UNDP-GEF has significantly decentralized its operations over the last 18 months.

B. Key determinants of success

9. ***Sustainable development linkages.*** UNDP-GEF addresses global environmental threats through its projects while pursuing integrated strategies for sustainable development. UNDP-GEF projects are always part of a package of interventions, funded by national governments, bilateral and multilateral donors, NGOs and the private sector, that address national sustainable development objectives while protecting the global environment. These interventions contribute to poverty reduction by protecting vital ecological goods and services upon which the poor depend. UNDP-GEF projects provide funding for capacity-strengthening across the public sectors and civil society. UNDP-GEF embeds its activities in

national sustainable development programmes through efforts that strengthen environmental governance and build national capacities to manage the environment.

10. **Partnerships.** UNDP-GEF, as an implementing agency of the GEF, has established close working relationships with other GEF entities, particularly with the World Bank, the United Nations Environmental Programme (UNEP) and the GEF Council and Secretariat. Furthermore, trusted relationships with recipient Governments, international and local non-governmental organizations (NGOs) and with the private sector are a key determinant of UNDP-GEF operations. A total of 278 NGOs participate directly in the portfolio of large projects while more than 600 NGOs participate in the Small Grants Programme.

11. **Leveraging financial resources.** The commitment of the implementing agencies to GEF is being measured by the amount of co-financing mobilized. UNDP has made a formal commitment to the GEF Council to mobilize co-financing by (a) leveraging funds from bilateral and multilateral agencies and from the private sector and (b) securing funding from recipient countries. UNDP-GEF has sought to emphasize the brokering role it plays in securing co-funding from a variety of sources. Much of this funding is scarce grant financing, in contrast to that of development banks, which typically secure loan finance. Grant financing enables countries to undertake some activities that they would otherwise be unable to undertake.

C. Challenges

12. **Replenishment.** Replenishment negotiations for GEF 3 have commenced, with a replenishment target of \$2.5-3.5 billion (commitments to GEF 2 amount to \$2.75 billion). Replenishment negotiations are expected to be finalized in early 2002. Given the expanding GEF mandate vis-à-vis new international protocols and conventions –such as the Convention on Persistent Organic Pollutants (POPs) and the Protocol on Biosafety– a successful replenishment is hoped for.

13. **Institutional architecture.** A revision of the institutional GEF architecture is currently under consideration. The GEF instrument was adopted after a series of difficult negotiations involving all GEF constituencies. The GEF architecture is the result of a deliberate decision to establish an innovative and cost-effective institutional mechanism: relying on the existing administrative and operational capabilities of three agencies and taking full advantage of their respective comparative advantages. Since these arguments are still relevant, UNDP would prefer to maintain the current institutional arrangement.

14. **UNDP commitment.** However, despite its accomplishments, the future success of UNDP-GEF is not a foregone conclusion. It is now more critical than ever that UNDP focus on maintaining its competitive edge within GEF and sustain

its investment in quality control and project-cycle management. UNDP must also continue to be responsive to the directives of the GEF Council and special needs of its partner agencies. For UNDP, success will rest on its ability to continue to provide technical, administrative and managerial guidance to client countries, to seize new opportunities emerging from the expanded GEF mandate and on its ability to broker co-financing.

II. Montreal Protocol

A. Background

15. UNDP is one of four implementing agencies (UNDP, the United Nations Industrial Development Organization (UNIDO), UNEP and the World Bank) under the Multilateral Fund (MLF) - the financial mechanism established to provide technical and financial assistance to developing countries operating under Article 5 of paragraph 1 of the Montreal Protocol ("Article 5 countries"). The replenishment of the MLF occurs every three years and contributions come from donor (i.e. non-Article 5) countries based on the United Nations scale of assessment. The Executive Committee of the MLF meets 3 times a year and has 14 members equally split between developing and donor countries. The MLF secretariat is in Montreal. The four implementing agencies participate at Executive Committee meetings as observers. Adjustments to the schedule of the Montreal Protocol phase-out of ozone-depleting substances have been made every two to three years as the science and technology advances.

16. *Portfolio overview.* Since its creation in 1990, the Multilateral Fund cumulative disbursement as of July 2001 is \$1.3 billion, of which UNDP has received \$349.7 million, including support costs. The UNDP share of investment project budgets has been capped at 30 percent of total approvals although there is no explicit cap on non-investment approvals. An additional \$4.4 million comes from UNDP implementation of bilateral programmes for Australia, Belgium, Denmark, Germany, Italy, Sweden and the United States. The \$354 million in approvals has made the Montreal Protocol the second largest UNDP trust fund, after GEF. UNDP has also received \$21.3 million through GEF for Montreal Protocol activities in countries with economies in transition; these projects are implemented jointly by the Montreal Protocol and GEF teams.

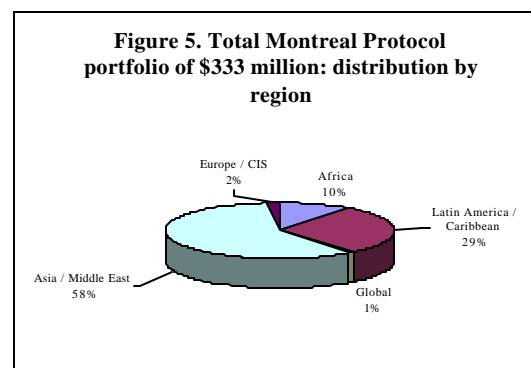
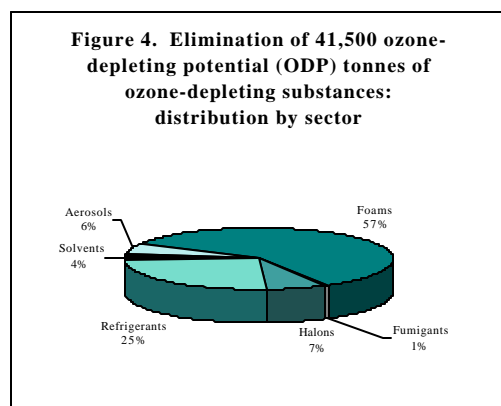
17. *Programme financing and management.* The UNDP Montreal Protocol programme (<http://www.undp.org/seed/eap/montreal>) is fully funded through the support costs earned on approved projects and does not use UNDP core resources for its operating budget. UNDP has been playing a key role in the implementation of the Montreal Protocol, working through the United Nations Office for Project Services (UNOPS) and national execution modalities in providing the technology transfer and technical cooperation necessary to help the industrial conversion process to ozone-friendly substances in 78 countries.

18. Capacity-building activities and investment and demonstration projects to eliminate methyl bromide (a highly toxic and ozone-depleting substance) in agricultural uses are mostly executed nationally, with the involvement of UNDP country offices and accredited national institutions. UNDP country offices get 3 percent of the project grant approved for nationally executed projects and 1 percent for those executed by UNOPS. Countries that have technical expertise in the new alternative technologies and associated national infrastructure for implementation have selected national execution to execute industrial conversion projects in sectors such as foams, refrigeration and solvents.

19. The Montreal Protocol Unit (MPU) of the Environmentally Sustainable Development Group of the Bureau for Development Policy (ESDG/BDP) which manages the programme has five professional staff and three programme assistants in New York and uses six international sector experts, 20 national experts and 15-20 consultants, mainly on retainer contracts and located throughout the world. Several UNDP country office staff are also supported under the programme, a few full-time and many part-time.

B. Key determinants of success

20. *Programme coverage.* With over 1,440 projects in 78 countries in all regions that will eliminate over 41,500 tonnes of ozone-depleting substances, UNDP had disbursed \$214 million as of December 2000. Activities approved will eliminate ozone-depleting substances in the aerosols, foam, refrigeration, solvents and fire-fighting as well as in agriculture uses. The sectoral distribution of ozone-depleting substances to be eliminated and the regional distribution of approved grants are shown below:



21. *Sustainable development link: Preserving jobs and strengthening national institutions.* UNDP has developed innovative approaches to assist small- and medium-sized enterprises (SMEs) - the great employment generators of development - in their conversion processes. Thus UNDP has gained valuable

experience in working with the private sector. The successful transfer of technology made it feasible for SMEs to maintain their competitiveness, and thus existing jobs are preserved and new ones created. UNDP thereby plays a key role in maintaining sustainable livelihoods in the SME sectors in developing countries where such programmes exist.

22. UNDP has over \$6.6 million in approved projects that will eliminate the use of methyl bromide as a soil fumigant in agriculture. These programmes have significant farmer-training and extension components (over 300,000 participating), which will help farmers to learn how to apply the new alternatives while maintaining or, in many cases, increasing crop yield. This assistance is critical to avoid any negative economic impact on countries that rely heavily on agriculture and on exports of agricultural products.

23. UNDP has been assisting 21 developing countries through capacity-building projects that have helped to develop more effective policies and procedures to meet the compliance targets under the Montreal Protocol. If executed correctly, they will provide the kind of governance support and capacity-building that significantly impact other areas of governance, and thereby help to improve policy decision-making.

24. *Synergism with other conventions.* Since the energy efficiency of new equipment is superior to that in old equipment and based on the industrial conversion that is taking place, the Montreal Protocol is also contributing to the more efficient use of energy, a key objective of the Kyoto Protocol. Refrigeration training for technicians is also preventing waste of chemicals as well as reducing costs and emissions.

C. Challenges

25. *Country-driven approach impact on support cost.* The new strategic planning for MLF grants allocation urges active participation of all countries and obligates implementing agencies to operate under strict country-driven approaches in all phases of project preparation, submission and implementation. Policy advice and monitoring of labour-intensive projects now play a much stronger role for the UNDP Montreal Protocol Unit, with a significant increase in the workload of its small staff.

26. Because of these implications not only for UNDP but for other agencies also, a new method to calculate support costs may be needed. One proposal is to have the support cost based on two components: a variable component for medium to larger-size technology-conversion projects and a fixed, higher-cost component for the smaller and more labour-intensive projects. Another approach is first to allocate core funding for corporate functions (as in GEF) and then apportion support costs

for individual projects; this would allow UNDP to cover its costs in providing policy advice and monitoring and evaluation of projects and programmes, thereby helping countries to meet their compliance targets.

27. ***Replenishment of the Multilateral Fund.*** The Multilateral Fund replenishment for the 2003-2005 triennium will be negotiated during the next Meeting of Parties in the second half of 2002. Previous replenishments were around \$400-500 million per triennium, with UNDP receiving approximately \$40 million per year. The negotiations may be affected by:

- (a) The global economic slowdown and the response to the September 2001 terrorist attacks;
 - (b) The possible introduction of concessional loans as part of the negotiated package. Grants now represent all funds disbursed. If concessional loans are approved, UNDP must have mechanisms in place in order to continue to be selected as one of the agencies to implement any financially significant portfolio under the Multilateral Fund.
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