

# **FURTHER ANALYSIS OF THE POSSIBLE FINANCING TRACK “NEW TRUST FUND SIMILAR TO THE MULTILATERAL FUND” FOR THE SOUND MANAGEMENT OF CHEMICALS AND WASTES**

*5<sup>th</sup> meeting of the Consultative Process on Financing Options for Chemicals and Wastes  
6 - 7 October 2011, Bangkok, Thailand*

## **BACKGROUND**

1. The fourth meeting in the consultative process on financing options for chemicals and wastes was held in Glen Cove, United States of America, on 4 and 5 May 2011, pursuant to decisions SS.XI/8 and 26/16 of the Governing Council of the United Nations Environment Programme (UNEP) and the outcome of the third meeting in the consultative process (held in Pretoria, South Africa, in January 2011), which is set out in the Pretoria Road Map.
2. Based on the Pretoria Road Map, UNEP has been requested to undertake a further analysis of the four possible financing tracks identified by the consultative process and to undertake a comparative analysis of the four elements with the objective of determining the role of each element in contributing to an integrated approach on financing options for chemicals and wastes.
3. Those four tracks were identified as follows:
  - Track 1 – Mainstreaming of sound management of chemicals and hazardous wastes;
  - Track 2 – Industry involvement, including public-private partnerships and the use of economic instruments at the national and international levels;
  - Track 3 – New trust fund similar to the Multilateral Fund; and
  - Track 4 – Introducing safe chemicals and wastes management as a new GEF focal area, expanding the existing persistent organic pollutants GEF focal area or establishing a new trust fund under GEF
4. In response to this request, the UNEP Secretariat has prepared for the fourth meeting of the Consultative Process the document entitled “Comparative analysis of four possible financing tracks that could contribute to an integrated approach to securing adequate financing for the chemicals and wastes agenda”, which has been the basis for discussions relating to integrated approaches to financing chemicals and wastes management.
5. During the discussions on track 4 on a new trust fund similar to the Multilateral Fund, the meeting discussed key elements for the success of the Montreal Protocol and the Multilateral Fund.
6. Based on the finding of these discussions, the meeting requested the UNEP secretariat to provide, working in close cooperation with the MLF and related experts, further analysis of a new trust fund for the chemicals and wastes sector similar to the Multilateral Fund.
7. The further analysis of a new trust fund similar to the Multilateral Fund is based on the document entitled “External Evaluation of the Financial Mechanism of the Montreal Protocol“ prepared in September 2004 at the request of the Parties to the Montreal Protocol.

8. As outlined in the above-mentioned comparative analysis, the Multilateral Fund (MLF) has been a successful mechanism for compliance for the Montreal Protocol on Substances That Deplete the Ozone Layer.
9. It has provided financial support to developing countries that are Parties to the Protocol in their efforts to meet their Protocol obligations. Financial support has been tied to compliance and the successful reduction of the ozone depleting substances targeted by the Montreal Protocol has resulted in praise for the MLF from both donor and recipient countries.
10. The success of the Montreal Protocol and the Multilateral Fund, as outlined in the fourth meeting of the Consultative Process, is linked, among other things, to the following key elements:
  - a. *Establishment of a compliance regime;*
  - b. *Agreed incremental costs;*
  - c. *Equal representation of developed and developing countries on the MLF Executive Committee;*
  - d. *Financial contributions to the MLF based on the UN scale of assessment;*
  - e. *MLF replenishment negotiations being based on a technical analysis;*
  - f. *Monitoring, measurement, assessment and evaluation of the progress and results;*
  - g. *MLF process being continually adaptive in dealing with policy and operational issues.*
11. The further analysis of a new trust fund similar to the Multilateral Fund follows the findings of the above key elements is contained in table entitled "Further Analysis of the Possible Financing Track 'New trust fund similar to the Multilateral Fund' for the sound management of chemicals and wastes " in the annex to the present document.
12. The document has been prepared following consultations with the MLF and related experts and seeks to complement the analysis contained in the document entitled "A Proposal for an Integrated Approach to Financing Sound Management of Chemicals and Wastes".

ANNEX:

FURTHER ANALYSIS OF THE POSSIBLE FINANCING TRACK “NEW TRUST FUND SIMILAR TO THE MULTILATERAL FUND” FOR THE SOUND MANAGEMENT OF CHEMICALS AND WASTES

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
<p>a) Establishment of a compliance regime<sup>1</sup></p>	<p><b>Executive Committee decision-making process:</b>            Although compliance goals have existed since the Fund’s inception, the ExCom’s modalities for ensuring compliance through planning and implementation review have changed over time, in accordance with the shifting phases of the Fund. Under the grace period (1990-1999)—when IAS led the phase-out efforts and projects were designed to encourage Article 5 participation and build momentum for national ODS phase-out programmes—the Ex Com’s review of the adequacy of planning and implementing programmes focused on achieving phase-out cost-effectively and in as many sectors as possible.            Conversely, under the compliance period (2000-2010)—when a greater emphasis is placed on country leadership and performance-based national and sectoral phase-out plans—the ExCom’s review of the adequacy of planning and implementing programmes is focused on achieving country compliance.</p>	<p><u>Standard, compliance-driven set of review criteria:</u>  <b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ Policy history demonstrates a record of decisions that are used as standard precedents for reviewing implementation and planning.</li> <li>▪ Review of project implementation is standardized with applicable measures to address issues revealed by review.</li> <li>▪ The ExCom’s guidance for strategic planning, which sets the planning framework, has consistently focused on compliance.</li> <li>▪ The ExCom provides a thorough review of and guidance for performance-based national and sector phase-out plans and agreements for performance-based funding.</li> <li>▪ ExCom improved guidance for project cancellation as related to compliance through establishment of guidelines at its 38<sup>th</sup> meeting.</li> </ul> <p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ Precedents, which serve as review criteria, may be difficult for new ExCom members to learn quickly.</li> <li>▪ More discussion related to what approach to take with projects that, although critical for national compliance and therefore immune to automatic cancellation procedures, have experienced repeated implementation delays, repeatedly missed milestones, and failed despite multiple attempts to phase out ODS would be beneficial.</li> </ul> <p><u>Review criteria consistently applied</u>  <b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ Review criteria (precedents) are consistently applied by the ExCom.</li> <li>▪ Consistent cancellation procedures are initiated for projects with implementation delays.</li> <li>▪ The ExCom’s review of project implementation delays is a standard process that is consistently applied.</li> <li>▪ The ExCom’s review of business plans is thorough and consistent.</li> </ul> <p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ See discussion of project cancellation above under “Standard, compliance-driven set of review criteria.”</li> </ul>
<p>b) Agreed incremental costs<sup>2</sup></p>	<p><b>Project criteria and priorities:</b>            The Multilateral Fund (the Fund) is charged with channelling grant resources to developing countries to meet the incremental costs associated with the phase-out of ODS. The broad policy of the Fund is set out in the Montreal Protocol (Article 10) and in the “Indicative List of Categories of Incremental Costs” (Appendix I to Decision II/8, adopted by the Second Meeting of the Parties in London in June, 1990). The ExCom has the leading role in interpreting these broad policy instruments while approving grants for ODS phase-out projects</p>	<p><u>Standard, compliance-driven set of review criteria is in place</u>  <b>Strengths</b></p> <ul style="list-style-type: none"> <li>▪ There is a standard set of compliance-driven criteria and precedents used for project review.</li> </ul> <p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>▪ Due to the nature of how the criteria are adopted (by precedent), they are not</li> </ul>

<sup>1</sup> see item 2.1 Term of Reference Area 1a: Planning and Implementation to Ensure Compliance

<sup>2</sup> see item 2.3 Term of Reference Area 1c: Coherence and Effectiveness in the Project Review Process

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
	<p>(UNEP/OzL.Pro/ExCom/17/59). The main objectives of the review of a project submitted to the ExCom for consideration are to:</p> <ul style="list-style-type: none"> <li>• <i>Determine project eligibility for funding under the rules of the Fund;</i></li> <li>• <i>Ensure that the technology chosen is proven, viable, transferable, and cost effective for the proposed use, and will not have unacceptable adverse environmental impacts;</i></li> <li>• <i>Identify eligible incremental costs; and</i></li> <li>• <i>Identify any policy issues not previously encountered that could require a decision by the ExCom or possibly the Meeting of the Parties.</i></li> </ul> <p>At the 3rd Meeting of the Executive Committee, guidelines were developed on the criteria and priorities for ExCom review of projects submitted for approval. The following project eligibility criteria were adopted on the basis of Decision II/8 and Annex I of the Second Meeting of the Parties:</p> <ul style="list-style-type: none"> <li>• <i>all projects must receive approval of the requesting Party's government;</i></li> <li>• <i>financial assistance for capital investment projects shall be available for categories of agreed incremental costs; assistance for other categories of agreed incremental costs associated with capital investment projects requires approval of the ExCom;</i></li> <li>• <i>projects other than capital investment projects shall also qualify for assistance under the Fund (e.g., technical assistance and clearing house functions); and</i></li> <li>• <i>financial and technical assistance shall be available for projects that are cost-effective and based on environmentally-sound alternative technologies or substitutes to the substances restricted by the Protocol, taking into account the industrial strategy of the recipient Party.</i></li> </ul> <p><b><u>Procedures for project approval:</u></b></p> <p>In April of 1991, at the 3rd Meeting of the Executive Committee, it was decided that for project proposals where the agreed incremental costs exceed US\$500,000, review and approval by the ExCom was required. For project proposals where the agreed incremental costs are less than US\$500,000, review and approval processes had to be conducted by the IAs within the context of an approved work programme (rather than individual projects), following confirmation by the Secretariat on the availability of funds and in kind contributions.</p> <p><b><u>Identification of project overlap, ineligible funding, and inflated costs:</u></b></p> <p>Together, the ExCom, Secretariat, and IAs have proven to be proficient at identifying and addressing project overlap (see discussion of TOR area 1d for more detail). Likewise, after much experience in the early years of the Fund, the ExCom and Secretariat are adept at identifying and rejecting projects that are ineligible to receive funding. The Secretariat ensures that projects only contain those incremental costs that are eligible under the ExCom's rules and policies. Any further non-eligible costs identified by the ExCom are eliminated. The ExCom's successful identification of inflated costs is apparent from the overall cost of projects, which has decreased significantly over time—despite the increasing complexity and difficulty of projects.</p>	<p>accessible in a clear, concise and easily useable format for new ExCom members.</p> <p><u>Review criteria are consistently applied</u></p> <ul style="list-style-type: none"> <li>▪ In general, the project review criteria are consistently applied.</li> </ul> <p><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul> <p><u>Review criteria are regularly updated</u></p> <ul style="list-style-type: none"> <li>▪ The criteria and precedence are appropriately updated as necessary.</li> <li>▪ Working groups are utilized to address updates needed in specific evolving sectors. For example, there is a Working Group on Revision of the Guidelines for Methyl Bromide Projects.</li> </ul> <p><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul> <p><u>Project overlap, ineligible funding, and inflated costs are identified and addressed</u></p> <p><u>Strengths</u></p> <ul style="list-style-type: none"> <li>▪ The ExCom, in coordination with the Secretariat, is adept at recognizing and removing these issues from submitted projects.</li> </ul> <p><u>Weaknesses</u></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul>
c) Equal representation of developed and developing countries on the MLF Executive Committee <sup>3</sup>	<p><b><u>Overview of ExCom plenary structure and function:</u></b></p> <p>The Executive Committee of the Multilateral Fund (ExCom) is the guiding body of the Fund and forms policies through an iterative decision-making process. The ExCom structure consists of seven representatives from Parties operating under paragraph 1 of Article 5 of the Montreal Protocol (hereafter referred to as Article 5 Parties) and seven representatives from non-Article 5 Parties. A chairperson and vice chairperson lead the ExCom and are elected by the 14</p>	<p><u>Changes in ExCom structure, roles, and functions as a result of the current country-focused, compliance driven programme</u></p> <p><u>Strengths</u></p> <ul style="list-style-type: none"> <li>▪ Important long-term projects with large forward funding commitments for compliance are reviewed by all members of the ExCom.</li> <li>▪ Decreased need for individual project approval as many multi year agreements and country programmes are already in place.</li> </ul>

<sup>3</sup> see item 2.5 . Term of Reference Area 1e: Effectiveness and Cost of Executive Committee Administrative Organization

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
<p>Committee members.</p> <p>The ExCom was established in 1990 at the 2nd Meeting of the Parties (MOP). Its role was to (Decision II/8 in: UNEP/OzL.Pro.2/3): <i>[D]evelop and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources for the purpose of achieving the objectives of the Multilateral Fund.</i></p> <p>The ExCom's main functions include approving projects and programmes and approving associated funding; developing criteria for project preparation, reporting, and other fund-related activities; evaluating and endorsing business plans, progress reports, and other reports from IAs; reviewing status reports on compliance and other fund-related issues; and reporting to the Meeting of the Parties. The chairperson rotates annually between an Article 5 and a non-Article 5 representative (Decision II/8 in: UNEP/OzL.Pro.2/3). As of 1997, the term for office of all ExCom members is one calendar year, starting January 1, following the calendar year in which the members are elected. Each group (Article 5 and non-Article 5 Parties) elects its own members, and the selections are endorsed by the Meeting of the Parties. Currently, the ExCom meets three times annually for five days (Decision IX/16 in: UNEP/OzL.Pro.9/12).</p> <p>The Terms of Reference of the ExCom were modified in September 1997 at the 9th Meeting of the Parties (Decision IX/16 in: UNEP/OzL.Pro.9/12). Although initially established for a three-year period, the ExCom has functioned as the leader and policymaker of the Multilateral Fund since its inception.</p> <p>Prior to the 42nd Meeting of the Executive Committee in March 2004, the ExCom discussed sub-committee issues brought before the representatives; overall budget considerations for the Fund, IAs, and projects; updates on Fund status and contributions from donor countries; and general Fund policy.</p> <p><b>Overview of sub-committee structure and functions:</b></p> <p>Prior to the 42nd Meeting of the Executive Committee, there were several sub-committees that functioned to support the review process and reduce time required for ExCom meetings. The first sub-committee of the ExCom, the Sub-Committee on Implementation Guidelines and Criteria for Project Selection, was formed prior to the 3rd Meeting of the Executive Committee to propose specific guidelines and criteria for project approval. The guidelines were approved at the 3rd Meeting of the Executive Committee (UNEP/OzL.Pro/ExCom/2/5/Rev.1, UNEP/OzL.Pro/ExCom/3/18/Rev. 1).</p> <p>An open-ended Budget and Finance Sub-Committee was established in April 1991, at the 3rd Meeting of the Executive Committee, to hasten review of the budget proposals for the Secretariat, fund operations, and other budgets (UNEP/OzL.Pro/ExCom/3/18/Rev.1).</p> <p>The informal Sub-Committee on Financial Matters was formed in March 1993, at the 9th Meeting of the Executive Committee, with the task of reviewing financial aspects of the Fund and, where necessary, suggesting changes in financial procedures. The informal Sub-Committee became the Sub-Committee on Monitoring, Evaluation and Finance in January 1997, at the 21st Meeting of the Executive Committee (UNEP/OzL.Pro/ExCom/21/36).</p> <p><b>Fund donors:</b></p> <p>The Fund relies exclusively on donations for its resources. Contribution amounts are determined by the United Nations Scale of Assessments, and by applying the specific Multilateral Fund requirement that no Party may contribute over 25 percent of total Fund value. Fund donors</p>	<ul style="list-style-type: none"> <li>▪ Reduced time and fewer resources necessary for meetings.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Unclear ExCom roles in select areas, such as extent to which ExCom addresses funds returned from projects with balances.</li> <li>▪ Some Plenary sessions may require more time, if difficult issues arise.</li> </ul> <p><u>Known and anticipated effects of abolishing subcommittees</u></p> <ul style="list-style-type: none"> <li>▪ Increased input for all ExCom members and more opportunity to discuss issues.</li> <li>▪ Allowed entire ExCom to increase focus on compliance and responsible use of remaining funds.</li> <li>▪ Allows all ExCom members to participate in important approval decisions.</li> <li>▪ Long-term benefits of improved structure include enabling thorough review of limited remaining fund disbursement.</li> <li>▪ ExCom, both with and without sub-committees, has minimized administrative costs through actions such as planning meetings consecutively with other Montreal Protocol-related activities (such as the MOP and the OEWG).</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Learning sub-committee-related knowledge is required for some members not familiar with those activities.</li> </ul> <p><u>Appropriate number of ExCom meetings</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Current structure may be conducive to reducing the number of annual meetings from three to two.</li> <li>▪ Two meetings may result in decreased logistical costs, cost savings for travel and subsistence funds, and reduced overall meeting time.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Two meetings may result in potentially longer ExCom meetings, but experience of the first meeting with the new structure demonstrated shorter meeting time.</li> </ul>	<p><u>Timeliness and quantity of payments received relative to payments promised</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Resources are typically adequate to fund new projects, although problems existed in earlier years.</li> </ul>
<p>d) Financial contributions to the MLF based on the UN scale of assessment<sup>4</sup></p>		

<sup>4</sup> see item 6.3 Term of Reference Area 5c: Multilateral Fund Contributions

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
	<p>include Parties to the Montreal Protocol not listed under Paragraph 1 of Article 5 of the Montreal Protocol (non-Article 5 Parties), and other voluntary donors, such as non-parties, governmental, intergovernmental, non governmental and other sources (Terms of Reference of the Multilateral Fund in: UNEP/OzL.Pro.4/15).</p> <p><b>Types of contributions:</b></p> <p>The modalities for Fund contributions were first established in June 1990 at the 2nd MOP, but have evolved over time. Originally, modalities included convertible currency, in-kind contributions, or, under special circumstances, national currency. In addition, when particular cases for regional cooperation were allowed by a decision of the Parties, bilateral cooperation or regional cooperation was also permitted (Decision II/8 in: UNEP/OzL.2/3). Promissory notes were first introduced in 1993 and modalities for encashment of promissory notes were introduced in 1994 at the 12th Meeting of the Executive Committee.</p>	<ul style="list-style-type: none"> <li>▪ Interest earned by the Fund on contributions has largely compensated for late/unpaid contributions.</li> <li>▪ For the period 1991-2003, over 92 percent of all agreed contributions have been paid (not including disputed contributions).</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Some donors continue to have contributions in arrears; specifically, for 1991-2003, 20 of the 51 donors have outstanding contributions.</li> <li>▪ Donor countries have historically typically paid at a later date than requested by the Treasurer.</li> </ul> <p><u>Form of payment</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Promissory notes and bilateral cooperation provide flexibility for donors, resulting in slightly more timely payments, and in full.</li> <li>▪ Promissory notes are encashed on a fairly rigorous schedule.</li> <li>▪ A sufficient amount of up-front cash is generally available.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Cash contributions can be invested to maximise funds.</li> <li>▪ Use of promissory notes precludes interest earnings on contributions.</li> <li>▪ Promissory notes can cause accounting and disbursement problems.</li> </ul> <p><u>Fund experience with the FERM</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The FERM's flexibility increases timely contributions and has helped offset unpaid contributions in the past.</li> <li>▪ The FERM allows contributing Parties to better budget their resources.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ When the US dollar rises, the FERM decreases Fund value.</li> </ul> <p><u>Appropriate process for preparing replenishment reports</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The TEAP Task Force takes into account many different cost elements, including project and operations costs, and considers the sensitivity of the replenishment figure to variations in many data aspects.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul> <p><u>Adequate level of collaboration between bodies</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The TEAP Task Force consults widely with IAs, the Secretariat, and other concerned bodies and stakeholders.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul>
<p>e) MLF replenishment negotiations being based on a technical analysis<sup>5</sup></p>	<p><b>Process for preparing replenishment reports:</b></p> <p>Interaction among the IAs, the Secretariat, Technology and Economic Assessment Panel (TEAP) and the Technical Options Committees (TOCs) occurs primarily during the preparation of the replenishment reports. Accordingly, this section presents the policy history of the replenishment of the Fund.</p> <p>Every three years, the TEAP is charged with determining the funding requirements for project approvals necessary for compliance during the upcoming triennium, including the funding requirement for non-investment activities, project preparation and administrative costs of the IAs, as well as the operating costs of the Secretariat and the ExCom. The Multilateral Fund has been replenished four times: in 1994, 1997, 2000, and 2003.</p> <p>During the 2nd Meeting of the Parties (MOP) in 1990, the Interim Multilateral Fund was established with a sum of US\$160 million, which could be increased by up to US\$80 million during 1991 to 1993, when more countries became Parties to the Protocol (Appendix IV of Decision II/8 in: UNEP/OzL.Pro/2/3).</p> <p>At the 4th MOP, a total contribution of US\$113.34 million was agreed upon for 1993. At that time, the Parties agreed to replenish the Fund to finance incremental costs associated with meeting the compliance needs of Article 5 Parties. A contribution level of US\$340-500 million was recommended for 1994-1996, with the stipulation that the total contribution to the Fund for</p>	

<sup>5</sup> see item 6.1 Term of Reference Area 5a: Adequacy of the Interaction between the IAs, Secretariat, and Subsidiary Bodies

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
	<p>1994 would not be less than the commitment for 1993 (Decision IV/18 in: UNEP/OzL.Pro/4/15). The budget for the Fund for 1994-1996 was adopted at the 5th MOP, at US\$510 million, and it was understood that US\$55 million of that figure would be provided by unallocated funds from the 1991-1993 period (Decision V/9 in: UNEP/OzL.Pro/5/12).</p> <p>Pursuant to the report of the ExCom on the three-year rolling business plan, and the report from the TEAP on replenishment, a budget of US\$540 million was adopted at the 8th MOP for the Fund for 24 1997-1999. Of this sum, US\$74 million was to be provided by funds that were not allocated during the 1994-1996 period. In each year from 1997 to 1999, US\$155.3 million was to be contributed by the non-Article 5 Parties (Decision VIII/4 in: UNEP/OzL.Pro.8/12).</p> <p>The ExCom was also instructed to strive to ensure that the whole of the budget was committed by the end of 1999. At the 10th MOP, the TEAP was requested to prepare a report on the appropriate level of the 2000-2002 replenishment of the Fund, to be submitted at the 11th MOP and presented through the Open-ended Working Group (OEWG) at its 19th meeting. In preparing this report, the TEAP was encouraged to consult extensively with relevant individuals, institutions, and other sources of information, and to take the following points into consideration (Decision X/13 in: UNEP/OzL.Pro.10/9):</p> <ul style="list-style-type: none"> <li>• <i>All control measures, and relevant decisions, agreed by the Parties to the Montreal Protocol, including decisions agreed by the Tenth Meeting of the Parties, in so far as these will necessitate expenditure by the Multilateral Fund during the period 2000-2002;</i></li> <li>• <i>The need to allocate resources to enable all Article 5 Parties to maintain compliance with the Montreal Protocol;</i></li> <li>• <i>Agreed rules and guidelines for determining eligibility for funding of investment projects (including the production sector) and non-investment projects;</i></li> <li>• <i>Approved country programmes;</i></li> <li>• <i>Financial commitments in 2000-2002 relating to sectoral phase-out projects agreed by the Executive Committee;</i></li> <li>• <i>Experience to date, including limitations and successes of the phase-out of ozone-depleting substances achieved with the resources already allocated, as well as the performance of the Multilateral Fund and its Implementing Agencies;</i></li> <li>• <i>The impact that the controls and country activities are likely to have on the supply and demand for ozone-depleting substances, and the effect that this will have on the cost of ozone-depleting substances and the resulting incremental cost of investment projects during the period under examination; and</i></li> <li>• <i>Administrative costs of the Implementing Agencies, taking into account paragraph 6.1 of decision VIII/4, and the cost of financing the secretariat services of the Multilateral Fund, including holding meetings.</i></li> </ul> <p>The 10th MOP also set up an Ad Hoc Working Group to review the TEAP's report on the 2000-2002 replenishment. At the 11th MOP, a budget for the 2000-2002 triennium of US\$475.7 million was approved, of which US\$35.7 million was understood to be provided by unallocated funds from the 1997-1999 period. At that time, the Parties also noted that outstanding contributions from some countries with economies in transitions (CEIT) from 1997-1999 totalled almost US\$35 million. Of the US\$440 million to be contributed during 2000-2002, US\$146.67 million was to be contributed in each year. The ExCom was again urged to ensure that the entire budget be committed by the end of 2002 (Decision XI/7 in: UNEP/OzL.Pro.11/10).</p> <p>For the 2003-2005 replenishment, at the 13th MOP, the TEAP was requested to prepare a report on the replenishment to be submitted to the 14th MOP and presented at the OEWG at its 22nd meeting. The TEAP was again encouraged to consult widely with relevant individuals and</p>	

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
<p>f) Monitoring, measurement, assessment and evaluation of the progress and results<sup>6</sup></p>	<p>institutions and was given a list of points to consider similar to those listed above for the 2000-2002 replenishment (Decision XIII/1 in: UNEP/OzL.Pro/13/10).</p> <p>Also at the 13th MOP, an Ad Hoc Working Group was set up for the 2003-2004 replenishment with nine members from both Article 5 and non-Article 5 Parties, including a co-chair from each group. The Working Group was instructed to meet after the 22nd Meeting of the OEWG to provide feedback to the TEAP and advice on sensitivity analyses (Decision XIII/2 in: UNEP/OzL.Pro/13/10).</p> <p>At the 14th MOP, a budget of US\$573 million was adopted for the 2003-2005 triennium, of which US\$76 million was to be provided by non-allocated funds from 2000-2002, and US\$23 million was to be provided from interest earned during the 2003-2005 period. Outstanding CEIT contributions from 2002-2002 were noted to total over US\$10 million.</p> <p>Of the US\$474 million replenishment, US\$158 million was to be contributed in each of the three years, and the ExCom was encouraged to ensure that the entire budget was committed by the end of 2005 (Decision XIV/39 in: UNEP/OzL.Pro.14/9).</p> <p><b>Executive Committee decision-making process:</b></p> <p>Currently, the ExCom has a single set of performance indicators for the IAs, which addresses project approval, project implementation, and administrative requirements, as well as a unique set of indicators for UNEP. The IAs' targets for each performance indicator are presented in their annual business plans, which the ExCom reviews and either modifies or approves without changes. For example, in its business plan for the years 2004-2006, UNDP indicated that its target for the indicator "number of individual projects/activities approved vs. those planned" was 35 projects/activities.</p> <p>Following the completion of the business planning year, the targets are assessed against each agency's actual performance, as indicated in the agency's annual progress reports.</p> <p>This performance evaluation is conducted by the Secretariat by awarding each IA a cumulative score. Each indicator has a point value, and each IA is assigned a score based on its achievement of the target. For example, for the 20-point indicator "activities completed/ODS levels achieved for approved multi-year annual tranches vs. those planned," up to 10 points may be given if the IA performs all of the milestones under its own control, and the full 20 points may be given if the country also achieves its agreed consumption/production levels (UNEP/OzL.Pro/ExCom/41/80). IA performance is expressed as a score that is the sum of the IA's points awarded for each weighted indicator.</p> <p><b>Multilateral Fund Secretariat Activities:</b></p> <p>Efforts to develop a monitoring and evaluation system for the Fund were started in 1995 by the Fund Secretariat, which submitted to the 17th and 18th Meetings of the Executive Committee, sequentially, two proposals on Guidelines on Monitoring and Evaluations (UNEP/OzL.Pro/ExCom/17/53 and UNEP/OzL.Pro/ExCom/18/64). The ExCom reviewed these guidelines, and the reports provided by an independent consultant, over the course of next several meetings. To move ahead with the development of an official monitoring and evaluation system, at its 21st meeting in February 1997, the ExCom reconstituted the former Sub-Committee on Financial Matters, with the added mandate to manage the monitoring and</p>	<p><u>Standard, compliance-driven set of indicators</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ There is one standard set of indicators for UNDP, UNIDO, and the World Bank, and a separate set of indicators for UNEP, as is appropriate for its unique mandate.</li> <li>▪ Indicators measure the outcome of the IAs' efforts in assisting Article 5 Parties and address investment, non-investment, multiyear, and individual projects.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Needs of LVCs are not adequately addressed in indicators.</li> <li>▪ Indicators do not specifically address the quality of project identification.</li> </ul> <p><u>Indicators consistently applied</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The indicators are consistently applied to the progress reports of each IA.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ None.</li> </ul> <p><u>Indicators are revised, as appropriate, when necessary</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Indicators are regularly reviewed and updated.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Updates to the indicators have not always been timely.</li> <li>▪ Performance continues to be monitored on some indicators that may no longer be relevant.</li> </ul> <p><u>Accuracy of performance indicators in measuring IA performance</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The indicators reflect the activities undertaken by IAs in the compliance period by including both multi-year plans and individual projects.</li> </ul>

<sup>6</sup> see items:

- 2.7 Term of Reference Area 1g: Use of Performance Indicators;
- 3.2 Term of Reference Area 2b: Monitoring of the Efficiency of the Implementation of Projects and Programmes by the Secretariat; and
- 4.2 Term of Reference Area 3b: IA Fund Management and Disbursement Policy

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
	<p>evaluation program. The ExCom also decided to modestly strengthen the Secretariat's capacity to conduct evaluations. Monitoring and evaluation officially became a Secretariat function in May of 1997.</p> <p><b><u>Activities implemented by multilateral and bilateral implementing agencies:</u></b></p> <p>Effective IA policies on fund management and disbursement are critical to the efficient and timely implementation of ODS phase-out projects. Accordingly, IA policies on fund management and disbursement aim to strike a balance between ensuring proper use of funds within Article 5 Parties and allowing timely disbursement for projects to be implemented and completed as quickly as possible.</p> <p>IA fund management and disbursement activities are guided by decisions of the Meetings of the Parties (MOP), the Executive Committee (ExCom), and the internal policies of each IA. Basic policies on the fund management and fund disbursement of IAs have been established in agreements between the ExCom and IAs.</p>	<ul style="list-style-type: none"> <li>▪ Indicators effectively assess the outcome of IAs' implementation efforts.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Indicators reflect project outcome, but quality of implementation may not be sufficiently measured.</li> <li>▪ Indicators do not assess the process by which IAs implement projects.</li> </ul> <p><u>Effective use of performance indicators to improve IA performance</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Indicators have been effective in enabling the timely submission of progress reports and project completion reports.</li> <li>▪ The indicators improve IA performance with respect to administrative tasks, such as the timely submission of progress reports.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ The performance evaluations of the IAs do not result in clear feedback loops by which the IAs learn to improve their project identification and implementation processes.</li> </ul> <p><u>Monitoring process of Secretariat is standardized</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The Secretariat has an effective, standard monitoring process.</li> <li>▪ The Secretariat continuously gathers and updates relevant information.</li> <li>▪ The Inventory of Approved Projects has been continuously updated to include data for monitoring project implementation.</li> <li>▪ The Secretariat and ExCom have recognized that a standard system for reporting and evaluating MYAs is necessary, and are taking steps to develop criteria.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ IAs do not always submit reports on time and/or with complete or accurate information; this impedes the monitoring ability of the Secretariat.</li> </ul> <p><u>Monitoring process of Secretariat results in overall improvements in project/programme implementation and fund disbursement</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Clear definitions and guidelines for handling project implementation delays have been developed as a result of the Secretariat's role.</li> <li>▪ Clear criteria for project cancellation have been developed as a result of the Secretariat's role.</li> <li>▪ Feedback mechanisms are in place to allow the Secretariat to identify and address any new issues that may emerge.</li> <li>▪ The Secretariat's reporting requirements for disbursements are enabling IAs to report more accurately and regularly on disbursements.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Results from the analyses of projects with implementation delays are not always directly applied to preventing future delays by developing concrete suggestions to avoid similar delays in the future.</li> </ul> <p><u>Policies ensure fiduciary responsibility and timely transfer and disbursement</u></p> <p><i>Strengths</i></p>

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
		<ul style="list-style-type: none"> <li>▪ Detailed policies included in IA-ExCom Agreements specifying use of project funds and support costs and report reconciliation help ensure fiduciary responsibility.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Under various circumstances, fund disbursement delays may occur.</li> <li>▪ Account reconciliation has been problematic at times, despite policies in place.</li> <li>▪ ExCom has had to make special requests for return of balances and has occasionally noted with concern inaccurate reporting of disbursements.</li> </ul> <p><u>Policies ensure transparency</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ IA-ExCom Agreements outline general financial management and disbursement policies, and allow for auditing procedures, if necessary.</li> <li>▪ The Secretariat’s reporting requirements for delayed disbursements are enabling the IAs to report more accurately and regularly on disbursements.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Flexibility clause in performance-based funding agreements limits transparency in some cases.</li> </ul> <p><u>Reporting/recordkeeping requirements of multilateral IAs, the Secretariat, and the Treasurer are adequate</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ IAs provide regular reports of key financial data.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ Differences between financial data reported in IA progress reports and in IA Accounts have been the focus of reconciliation efforts.</li> </ul> <p><u>Review criteria revised as appropriate</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ Policies on planning and implementation have been continuously updated (e.g., strategic planning).</li> <li>▪ The ExCom has requested the Secretariat to prepare documents suggesting revisions to business plan components, such as performance indicators, when guidelines and policy changed.</li> <li>▪ The ExCom has consistently revised and improved guidelines for strategic planning, and has requested the Secretariat and IAs to revise required components of business plans, such as performance indicators, as necessary.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ The ExCom has occasionally been slow to approve guidelines that are more forward-looking, such as those related to sector based plans, accelerated methyl bromide phase-out, and RMPs.</li> </ul> <p><u>Resulting improvements in planning and implementation</u></p> <p><i>Strengths</i></p> <ul style="list-style-type: none"> <li>▪ The ExCom’s extensive updating of the planning process has led to effective decisions regarding strategic planning and a countrydriven, compliance-oriented focus.</li> <li>▪ The ExCom review of ODS phase-out and compliance in Article 5 Parties</li> </ul>
<p>g)MLF process being continually adaptive in dealing with policy and operational issues<sup>7</sup></p>	<p><b><u>Review of the implementation process:</u></b></p> <p>At each meeting of the ExCom, the adequacy of the implementation process of projects is reviewed. Projects classified as “projects with implementation delays” by the Secretariat are (1) those that are anticipated to be completed more than 12 months later than indicated in the project proposal, or (2) those where funds are disbursed 18 months or more after the project approval date. The reasons for implementation delays are reported by IAs to the Secretariat, and then reported to the ExCom during meetings.</p>	

<sup>7</sup> see item 2.1 Term of Reference Area 1a: Planning and Implementation to Ensure Compliance

Key Elements of Success	Summary of key findings of the External Evaluation	Results of the Evaluation
		<p>provides IAs with clear direction on areas in which to focus activity planning.</p> <p>The ExCom's business plan review helps prevent activity overlaps that may not have been identified during the Secretariat's review.</p> <ul style="list-style-type: none"> <li>▪ The ExCom's review of planning and implementation often results in constructive suggestions for future improvements.</li> </ul> <p><i>Weaknesses</i></p> <ul style="list-style-type: none"> <li>▪ ExCom's planning for compliance has not always adequately addressed the very low-consuming countries, particular those that consume very low amounts of methyl bromide, CTC, and methyl chloroform.</li> <li>▪ Results of the review processes for planning and implementation, in particular those results from the review of project implementation delays, are not always directly applied to preventing future delays (i.e., by developing concrete suggestions to avoid similar delays in future).</li> <li>▪ Developing strategies to improve progress on projects with implementation delays at ExCom meetings may be unnecessarily time-consuming.</li> </ul>