



**United Nations  
Environment  
Programme**



Distr.  
GENERAL

UNEP/OzL.Pro/WG.1/11/7  
29 March 1995

ORIGINAL: ENGLISH

OPEN-ENDED WORKING GROUP OF THE  
PARTIES TO THE MONTREAL PROTOCOL  
Eleventh meeting  
Nairobi, 8-12 May 1995

STUDY ON THE FINANCIAL MECHANISM OF THE MONTREAL PROTOCOL

Note by the Secretariat

1. By decision IV/18, section II, paragraph 4, of the Fourth Meeting of the Parties, the Parties to the Montreal Protocol decided to evaluate and review, by 1995, the Financial Mechanism established by Article 10 of the Protocol and section I of the same decision, with a view to ensuring its continued effectiveness.

2. The terms of reference and modalities for the study pursuant to decision IV/18 were adopted by the Open-ended Working Group at its tenth meeting (see UNEP/OzL.Pro/WG.1/10/6, annex I), in accordance with the request of the Fifth Meeting of the Parties in its decision V/12.

3. By paragraph 3 of its decision VI/6, the Sixth Meeting of the Parties requested the Open-ended Working Group to consider the report of the review undertaken under decision IV/18 and to make recommendations, as appropriate, to the Seventh Meeting of the Parties.

4. Accordingly, the Secretariat is circulating herewith the executive summary of the study on the Financial Mechanism of the Montreal Protocol prepared by COWIconsult of Denmark with support from Ross Gilroy Inc. of Canada and under the guidance of the Steering Panel selected by the Open-ended Working Group at its tenth meeting. The Secretariat has already distributed the full text of the study to Governments in English only.

## **EXECUTIVE SUMMARY**

### **INTRODUCTION**

1. At their Fourth Meeting, the Parties to the Montreal Protocol requested a study be undertaken to review and evaluate the effectiveness of the Financial Mechanism as established in the Montreal Protocol, in achieving its aim of providing financial and technical cooperation to Article 5 countries to enable their compliance with the control measures of the Protocol.
2. COWiconsult of Denmark with support from Goss Gilroy Inc. of Canada has been contracted by the United Nations Environment Programme (UNEP) to undertake the Study on the Financial Mechanism. The study was carried out during the period mid-September 1994 through March 1995, with essential guidance from the Steering Panel created to supervise the evaluation process.
3. In undertaking the study, the study team visited the Fund Secretariat; the Fund Treasurer; the Ozone Secretariat; the Implementing Agencies: the United Nations Development Programme (UNDP), UNEP, the United Nations Industrial Development Organization (UNIDO) and the World Bank; and five case countries: Burkina Faso, Kenya, India, the Philippines and Venezuela. The study team attended the Sixth Meeting of the Parties in October 1994 held in Nairobi. During this it had the opportunity to discuss matters related to the Financial Mechanism with delegates of Article 5 and non-Article 5 countries as well as of NGOs. The study team further attended the Fifteenth Meeting of the Executive Committee in December 1994 in Montreal and additional meetings have been held with representatives of non-Article 5 Governments in connection with visits to the organizations involved in the Financial Mechanism. A questionnaire survey covering all Parties was conducted to solicit the Parties' experience with the operation of the Financial Mechanism.
4. It should be noted that the study does not address the resource question related to the attainment of the objectives of the Montreal Protocol. This issue was addressed by the "Review under Paragraph 8 of Article 5 of the Montreal Protocol", the terms of reference of which among other things include an assessment of the financial implications of various phase-out scenarios in achieving the targets set in the London and Copenhagen amendments.
5. As the Financial Mechanism has been operational for four and a half years only, the maturity of the Fund's investment project interventions is still not very advanced. Of the total of 275 approved investment projects, which account for 75 per cent of total funds allocated by the Fund, only 10 projects had been completed as of December 1994. This study therefore naturally focuses on the activities and processes leading to approval of projects and on the overall performance up to now of the procedures to implement projects as these are established by the implementing agencies. Of the sub-set of investment projects reviewed in this study, four have been fully implemented.
6. Data for the study were collected between mid-September 1994 and mid-February 1995. The information used in the study thus includes reports and documents from the Fifteenth Meeting of the Executive Committee, in December 1994, but not those of the Sixteenth Meeting, held in March 1995.

### **THE MONTREAL PROTOCOL AND AGENDA 21**

7. The Vienna Convention for the Protection of the Ozone Layer (1985) and the subsequent Montreal Protocol on Substances that Deplete the Ozone Layer (1987) with later amendments and adjustments have together formed the basis for global cooperation for the protection of the ozone layer. Parties to the Protocol are committed to a scheduled phase-out of ozone-depleting substances (ODS).

8. Article 5 Parties, defined as developing countries with an annual per capita consumption of ODS below a certain level, are entitled to a 10-year grace period for implementing the provisions of the Protocol. A Financial Mechanism has been established under the Protocol, utilizing the Multilateral Fund, to meet agreed incremental costs of Article 5 Parties and to support important technical cooperation and monitoring activities in their efforts to comply with the control measures of the Protocol.

9. The terms of reference (TOR) for the study require the evaluation of the Financial Mechanism to take into account chapters 9, 33 and 34 and all other relevant chapters, of Agenda 21 as adopted by the United Nations Conference on Environment and Development, held in Rio de Janeiro in June 1992.

10. One implication of Agenda 21, when it is used as a frame of reference for examining the effectiveness of the Financial Mechanism, is that the evaluation is to place considerable emphasis on those provisions of the Montreal Protocol which refer to the developmental needs of developing countries (preamble) and which explicitly call for Parties to facilitate the transfer of environmentally safe substitutes and related technologies (Article 10A) under fair and most favourable conditions.

11. At the same time, Agenda 21 emphasizes the primary role of national Governments in addressing global environmental issues and developing their own priorities, strategies and programmes for contributing to the overall programme. It emphasizes the fact that international cooperation is to supplement rather than replace the efforts of national Governments and indicates that financial support should be provided according to sound and equitable criteria.

12. In reflecting Agenda 21 and its many constituent provisions, the present study of the Financial Mechanism must balance two important principles: the basic concept that the primary responsibility for meeting phase-out goals lies with developing country Governments and the fact that the Financial Mechanism exists to assist them in meeting their commitments by providing certain forms of technical assistance and by meeting agreed incremental costs of phase-out.

It should also be pointed out that Agenda 21 goes beyond the provisions of the Montreal Protocol in explicitly emphasizing the need for long-term partnership and of systematic training and capacity-building.

## **EFFECTIVENESS OF THE FINANCIAL MECHANISM**

### **Measuring effectiveness**

13. The evaluation of the effectiveness of the Financial Mechanism is based on (i) an assessment of the degree to which the overall and immediate objectives of the Mechanism have been achieved after four years of operation and (ii) the effectiveness of the processes (actions and activities) that have led to this level of achievement of objectives.

14. In order to measure such effectiveness a series of detailed effectiveness issues (including cost-effectiveness aspects) have been identified together with indicators used to assess how the Financial Mechanism has performed in relation to each issue. The summary findings on the effectiveness and impact of the Financial Mechanism are presented below.

### **Impact of the Financial Mechanism**

15. The outcome of the operations of the Financial Mechanism up to December 1994 is a portfolio of approved projects in Article 5 countries which, when fully implemented, is expected to phase-out an annual total of

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51,500 ODP tonnes of ozone-depleting substances, (i.e. actual weight multiplied by the ozone-depleting potential (ODP) of the substances concerned). This corresponds to 35 per cent of ODP-weighted ODS consumption reported to UNEP by Article 5 countries for 1992 and 25 per cent of the estimated unconstrained ODS consumption of 208,000 ODP tonnes in Article 5 countries in 1993.

16. After approximately four years of operation, an estimated 3,000 ODP tonnes on a yearly basis have been eliminated through the implementation of projects supported by the Fund. This estimate is based on the impact of fully or nearly completed Fund projects, and phased out or reduced ODS consumption by enterprises to receive retroactive Fund compensation.

17. If no delays in implementation of approved projects had been encountered, an estimated 20,500 ODP tonnes could have been phased out (on an annual basis). By implication, the reduction in ODS consumption forgone due to implementation constraints is in the order of 17,500 ODP tonnes. This is mainly the result of long delays from project approval to actual implementation start-up caused by ineffective procedures within the Implementing Agencies, although a lack of effective implementation of projects designated for national execution has also contributed significantly to the shortfall.

18. It should be noted, however, that two very large aerosol projects approved in June 1992 and now under implementation, have not yet had any measurable impact on ODS consumption. If these projects are excluded from the portfolio, the potential impact of approved projects would only have been 8,000 tonnes ODP per year and the impact of project implementation delay on ODS phase-out would have been correspondingly smaller. Forgone or deferred ODS phase-out would have dropped from 17,500 ODP tonnes to 5,000 ODP tonnes on an annual basis.

#### **Effectiveness of the Financial Mechanism**

##### Approval of projects

19. The Implementing Agencies and Article 5 countries working together with the Executive Committee and the Fund Secretariat have increased the rate of project development and approval steadily since the Fund was established in 1991 from about US\$ 9 million allocated in the first year, to 150 million in 1994. In total, 278 million has been approved for Fund projects. This total corresponds to 15-20 per cent of the total estimated cost to the Multilateral Fund of meeting the current target of phasing out ODS in Article 5 countries by 2010 (based on estimated total requirements in the "Review under Paragraph 8 of Article 5 of the Montreal Protocol").

20. Since the establishment of the Multilateral Fund, 781 projects have been approved for 79 Article 5 countries. The majority are investment projects (275) and project preparation activities (147), followed by technical assistance (120), country programmes (89), training (85), support to institutional strengthening (49) and demonstration projects (16). It is of note that investment related projects, which lead to direct phase-out of ODS, have accounted for a rapidly increasing share of annual allocations from the Fund and now make up more than 90 per cent of total allocations.

21. The World Bank is the implementing agency for 235 projects corresponding to just over 50 per cent of total funds allocated. UNDP accounts for 288 projects covering 28 per cent of the funds allocated, while UNIDO and UNEP are responsible for 67 and 132 projects, respectively. UNIDO's share of total allocations is 14 per cent and UNEP's is four. Finally, 59 projects are being implemented by bilateral organizations.

22. As at December 1994, 176 Fund activities were completed, 243 were under implementation, 188 in preparation, 142 newly approved (at the Fifteenth Meeting of the Executive Committee), and about 32 projects were either closed, delayed or frozen. Of the 275 investment projects approved as at December 1994, only 10 had been fully completed and 93 are under implementation.

#### Effectiveness of the institutional framework

23. A key aspect of the effectiveness of the Financial Mechanism is the extent to which the institutional framework of the Mechanism has been effective in supporting the development of projects in Article 5 countries which directly phase out ODS consumption and production.

24. As already noted, the flow of ODS phase-out projects from project preparation in Article 5 countries through to review and approval by the Executive Committee has increased steadily since the Fund was established in 1991. As a result, the Mechanism has been able to develop and approve a portfolio of ODS phase-out projects which will, when fully implemented, represent significant progress to the elimination of ODS consumption in Article 5 countries. The analysis of the effectiveness of project development and the approval mechanism within the Financial Mechanism takes this basic level of success as its starting point.

25. The indicators of effectiveness for the institutional framework, which remain to be examined, include the success of the Multilateral Fund in establishing criteria for projects and costs eligible for Fund support, the success of the Mechanism in establishing policy guidelines, the effectiveness of project review procedures and the appropriateness of the division of responsibilities among the institutions involved.

26. The point of departure for funding eligibility is the base established by the Montreal Protocol itself, as amended and adjusted over time, and utilizing the indicative list of categories of incremental cost approved by the Fourth Meeting of the Parties. On this basis the Executive Committee (aided by the Fund Secretariat and the Implementing Agencies) has worked continuously to develop project approval guidelines and to clarify criteria for defining agreed incremental costs to be supported by the Multilateral Fund. Among the most difficult issues dealt with have been those related to more precise definitions of incremental costs such as the time period for which incremental operating costs would be compensated.

27. The institutions of the Financial Mechanism have approached the clarification of project-approval and cost-definition criteria primarily through a case-by-case approach in which the consideration of specific project proposals has given rise to policy issues. These are then treated as precedent setting decisions, and may give rise to the need for articulating new policies. Development of these criteria has been ongoing and has become interwoven with the development of policy. The policy development has been less proactive in this process, which has led to frustrations at the level of enterprises, Article 5 Governments and Implementing Agencies because individual projects have become subjects of outstanding policy resolution.

28. The experience of the Executive Committee in resolving the policy issues that emerge from consideration of project proposals has been mixed. Some issues have been dealt with quite quickly and reasonably decisively. Others have been only partially resolved, or require continuing, extensive

interaction. Some very difficult policy issues such as compensation for agreed incremental costs in the production sector remain unresolved. The difficulty the Financial Mechanism has experienced in resolving some policy issues is related to the structure of the Executive Committee itself (and the requirement for consensus decision-making), the significant turnover of the Committee's membership, and the interdependent nature of the policy-making process, which requires continuing cooperation from the Implementing Agencies. This is compounded by the difficulty in dealing with the "academic" concept of incremental cost in a practical economic context.

29. The process of project review and approval by the Executive Committee, supported by the Fund Secretariat, has had the effect of introducing a strong element of discipline into the project process and, thereby, avoiding the provision of Fund support for costs which are ineligible. This has, in turn, increased the number of projects which can be supported with a given amount of Multilateral Fund resources. The project review and approval process of the Executive Committee supported by the Fund Secretariat has resulted in significant, but not excessive, reductions in the approved costs of projects to be supported by the Fund. However, continued and even stronger communication of detailed funding eligibility guidelines by the Executive Committee/Secretariat to the Implementing Agencies and Article 5 countries can substantially contribute to streamlining project preparation and minimize frustrations among the parties involved.

30. Given the limited number (10) of fully implemented investment projects and the fact that potential insufficiency of Fund approved budgets particularly relate to projects approved recently according to the Implementing Agencies, there is insufficient evidence to conclude at this time that the review process has resulted in reductions in project budgets to such an extent as to impede their successful implementation. The Implementing Agencies strongly believe, however, that the recently approved budgets for some projects may result in situations where contingency funds will not even cover the difference between budget allocations and the actual cost of equipment. There is a need, therefore, to monitor the actual costs of projects as they are implemented to ensure that this does not happen.

31. With regard to the division of responsibilities among institutions of the Financial Mechanism, the study team has found that a definitive specialization or division of responsibilities among the Implementing Agencies has yet to fully emerge. The fact that three of the four Implementing Agencies are involved in the implementation of investment projects has led to a significant level of competition among them; competition which has had both positive and negative effects. On balance, the net benefits of Implementing Agency competition are positive, and they are essential if the Mechanism is to effectively meet the needs of Article 5 countries.

32. One area of concern regarding the current division of responsibilities among Implementing Agencies is the provision of concessional loans in support of projects with net incremental cost savings. The current group of Implementing Agencies have shown little interest in becoming involved in the development and implementation of concessional lending programmes in sectors where their use would be appropriate.

33. In summary, the institutional framework of the Financial Mechanism's system for development, review and approval of projects is producing an increasing flow of approved phase-out projects which is now matching (and, on one occasion exceeding) the level of resources available to the Fund. While incremental cost issues require further clarification and some important policy issues remain to be resolved, the essential issue facing the Financial Mechanism as an institutional system is less its capacity to develop, review and approve projects than its ability to implement approved projects in a timely manner.

Effective project preparation and implementation by the Implementing Agencies

34. The Implementing Agencies have responded to the Executive Committee's encouragement to develop a continuing flow of investment projects for ODS phase-out and this has improved the flow of approveable projects. The

Executive Committee acted appropriately in encouraging UNDP and UNIDO to move from preparation of pilot projects to the development and implementation of investment projects in ODS phase-out.

35. The existing Implementing Agencies have gone some way to developing distinctive modes of operation and have all invested considerable effort in modifying internal procedures and requirements to suit Financial Mechanism operations. All four agencies have hired and trained staff to undertake programme responsibilities and the value of these investments in capacity could be lost to the Fund, if they are not able to act as Implementing Agencies in the future.

36. While all three agencies involved in developing and implementing investment projects have generally used quite similar methods for identifying and developing projects, there are significant differences in some areas such as the level of involvement of enterprises in project-document preparation. Practical problems in ranking projects in order of cost-effectiveness have increased the identification of projects before the country programme and national and sectoral phase-out strategies are prepared; the use of workshop mechanisms which tend to favour larger enterprises; and the need to concentrate scarce administrative resources on relatively large projects. These factors have all impeded efforts to rank order projects by cost-effectiveness. As a result, projects are identified, developed and submitted to the Executive Committee with varying levels of cost-effectiveness. This is further dealt with below.

37. The Implementing Agencies have adopted markedly different approaches to project implementation. The World Bank approach has involved national execution through designated financial intermediaries or agents. This approach is necessary for the Bank given its constitutionally determined general mode of operation and its structure and has the potential to promote greater ownership of Montreal Protocol activities by the national Government and to build national capacity for Montreal Protocol project development and implementation. On the other hand, this approach requires substantial investments in time and resources prior to commencement of project implementation, and its benefits have not yet been proven in World Bank Multilateral Fund projects.

38. UNIDO and UNDP (with the exception of some nationally executed projects) have chosen to centralize project identification, development, and procurement operations and to avoid national systems of project implementation. In doing so they have placed a premium on implementation speed and have not emphasized the need to establish capacity at national levels.

39. The World Bank has responded to difficulties in the speed in project implementation through the development of the umbrella agreement mechanism and through reforms to the World Bank sub-project approval process. While these reforms may lead to a reduction in the time period between project approval and the beginning of actual project implementation, there is only little evidence so far that this has occurred in countries where the World Bank already has umbrella agreements in place.

40. Not surprisingly, UNDP, as compared to the World Bank, has demonstrated a considerable advantage in project processing time (from initial project

identification to Executive Committee approval from and Executive Committee approval to first disbursements) in its Fund supported-projects. This advantage has also extended to the area of disbursement of funds to approved projects. UNIDO had only completed the implementation of one investment project as at December 1994 and the study team was not able to develop an average implementation time for comparison to the other two agencies active in investment projects. UNIDO has, however, placed considerable emphasis on

streamlined and centralized systems for project development and implementation, and evidence from the project implementation experience to date suggests a level of implementation speed similar to that of UNDP.

41. Notwithstanding the differences in speed of implementation among the three Implementing Agencies, delays in project implementation in excess of the estimated minimum required time periods for processing have had a significant negative impact on the level of ODS phase-out actually achieved by Fund-supported projects, as described above.

42. A key factor in determining the speed of project implementation and the disbursement of funds to projects is the choice of an implementation modality. Where national execution is the mode chosen and complex agreements over the designation and arrangements with local intermediary organizations are necessary, implementation naturally becomes a more time-consuming and complex process with the consequent negative impact on ODS phase-out.

43. There is a demonstrable need for the development of practical guidelines for post-project monitoring and evaluation of Fund operations by all Implementing Agencies, encompassing monitoring for verification of phase-out and disposal of phased-out equipment, and monitoring for safe application of technology. Such monitoring and evaluation guidelines should be developed by the Implementing Agencies in consultation with the Executive Committee.

44. The Implementing Agencies have apparently had limited success in integrating Montreal Protocol priorities and concerns into their ongoing development policy dialogue with Article 5 countries and in influencing these countries to take regulatory, legislative or other actions as a result of such a dialogue. Certainly, there was little or no evidence of these effects in the case countries visited by the study team. There is very little evidence of efforts by Implementing Agencies to link their ODS phase-out projects and activities to other forms of development cooperation or to mobilize other sources of funding in support of ODS phase-out objectives.

45. The Fund Treasurer (UNEP) has been generally effective and punctual concerning the transfer of funds following approval by the Executive Committee. It has also been found to be effective in the reception, administration and disbursement of funds based on direction from the Executive Committee. On the other hand, the Treasurer has had little success in pressing Parties in arrears to make their outstanding contributions to the Fund and has not pursued its fund-raising mandate.

46. While there is, as yet, insufficient experience from which to judge the relative rate of implementation of bilateral investment projects when compared to those of the Implementing Agencies, there is evidence that bilateral projects (including technical assistance projects) have been represented by high quality proposals in the past, have contributed to the introduction of newer ODS phase-out technologies and the use of innovative project concepts, and are implemented in a manner no less effective than projects supported by the Implementing Agencies.

Information exchange and awareness activities

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47. The information and awareness activities supported by the Multilateral Fund are primarily made up by UNEP's clearing-house activities, comprising information exchange (including the halon bank information clearing-house), training and networking. Only one information dissemination project has been funded outside the clearing-house function. Article 5 countries express a strong need for "neutral" and up-to-date technical information. Generally, UNEP's implementation modality involves building local expertise in national ozone protection units by providing them with information and managements tools.

48. In the early stages of UNEP's Montreal Protocol operations the information distributed was not always perceived by the potential users as comprehensive and updated. There has been a strong need for case-studies on conversion projects, drawing on experience from both developed and developing countries, lists of technology suppliers and an overview of technology choices made by the larger ODS users in developed countries. Further, small and medium-sized enterprises in developing countries have often been neglected and need to be targeted for information-sharing.

49. UNEP has addressed these needs by compiling technical case-studies produced by industry and Governments, and is developing new case-studies in key sectors. In addition, sectoral catalogues of alternative and currently available technologies and on technology suppliers are being prepared. UNEP disseminates the information to the national ozone protection units in printed format and plans to include the case-studies in future issues of its diskette version database.

50. In the field of creating and sustaining information networks between government ozone protection units, UNEP has rightly received much recognition. The three regional networks for Asia, Africa and Latin America have proven an effective means of institutional capacity-building for ODS phase-out management. The networks in Africa and Latin America have not achieved the same operational level as the one in Asia, primarily because of the relatively lower level of resources made available to them.

51. In summary, UNEP has responded quite effectively, especially in recent years, to the information needs of the Article 5 countries and the information is proving useful to the relevant parties in Article 5 countries.

#### Contributing to the transfer of appropriate technologies

52. The Implementing Agencies have all taken the same basic approach to technology choice and technical advice provided to the enterprises they assist. They have relied on the work of the Technology and Economic Assessment Panel (TEAP) and its technical options committees and have respected the principle that the basic choice of phase-out technology is the prerogative of the enterprise in question, as long as it is an approved phase-out technology.

53. The study team has not encountered any evidence of demonstrable systemic bias in the technology choices being supported by the Implementing Agencies' technical reviewers. Technical reviewers appointed by the Implementing Agencies have exercised caution in recommending non-proven alternative technology choices for use in Article 5 country conditions, but this is seen by industry and government in Article 5 countries as appropriate in light of the commercial and technical risks faced by enterprises seeking the support of the Fund.

54. While a substantial volume of investment projects have been approved by the Executive Committee of the Multilateral Fund over the first four years of operation of the Financial Mechanism, the actual flow of funds and technology

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to the shop-floor level has, at least until very recently, been only moderate in volume. This has been primarily a result of the slow pace of project implementation. While some enterprises in Article 5 countries indicate that licence fees for technology transfer are high and that production licenses for alternative substances are difficult to obtain, the study team found no evidence of substantive impediments in the international flow of technologies supported by the Multilateral Fund.

55. There is no experience to date of support by the Multilateral Fund for the development of indigenous technology for ODS phase-out (as opposed to local adaptation of international technology). This has occurred despite an Executive Committee decision that indigenous research on substitutes and equipment for recycling and destruction could be supported on a case-by-case basis. The issue of indigenous technology development for ODS replacement is a difficult one for the Financial Mechanism, primarily because of the non-indigenous nature of the current reserve of technological experience in ODS phase-out.

#### Contributing to meeting agreed incremental costs

56. As noted above, the flow of project approvals, and the process of Executive Committee and Fund Secretariat review of projects indicates that the Financial Mechanism is supporting the agreed incremental costs of projects of ODS phase-out in Article 5 countries. Stronger efforts to further define project incremental cost criteria and to resolve outstanding policy issues (especially the very difficult issue of incremental cost compensation in the production sector) are required on the part of all institutional actors in the system. The detailed review of approved projects undertaken by the study team indicates that the gap between amounts originally requested for funding in projects and the amounts finally approved can best be narrowed through continued efforts to clarify guidelines and criteria and to solve existing policy problems. In addition, there is a need to ensure that evolving criteria and guidelines are communicated in a clear and consistent manner to international experts acting on behalf of the Implementing Agencies and to national authorities and enterprises in Article 5 countries.

57. A development initiated by the Fund Secretariat (the Inventory of Approved Equipment in Investment Projects) and another initiative undertaken by the Secretariat at the request of the Executive Committee (the Negative Indicative List), together have the potential to improve the clarity of understanding of incremental cost guidelines among the various institutional actors in the Financial Mechanism. The Inventory of Approved Equipment in Investment Projects, if continually updated with actual costs of equipment procured for Fund-supported projects could serve to improve common understanding of the range of applicable equipment prices. On the other hand, the Negative List, if agreement can be secured between the Committee and the Implementing Agencies and the List can be endorsed by the Committee, represents a potentially powerful means of reducing the gap in understanding of agreed incremental costs which occasionally is evident between the enterprise and the Implementing Agencies and the Fund Secretariat and the Executive Committee.

58. The only significant area in which the Financial Mechanism has funded costs which are outside the Indicative List of Incremental Cost Categories has been in support of institutional strengthening activities aimed (a) at strengthening systems within an Article 5 country to facilitate implementation of projects (usually an ozone protection unit) and (b) at ensuring effective liaison between the country on the one hand and the Executive Committee, the Fund Secretariat and the Implementing Agencies on the other. This limited commitment to institutional strengthening by the Executive Committee represents a response to the practical requirement for at least a minimal level of institutional strengthening if country programmes and ODS phase-out

projects are to be effectively implemented in Article 5 countries. The study has confirmed that more emphasis on institutional strengthening is likely to yield both a faster project implementation and overall ODS phase-out.

#### Effectiveness and utility of country programmes

59. For a number of countries, especially the low-consuming ones, the assistance provided for country programme preparation has not helped produce valid country programmes with fully perceived government ownership. The study has confirmed the importance of internalizing the country programme preparation process in order for Governments to develop ownership of the programmes and to ensure that the programmes realistically reflect the conditions in the country. Without local anchoring, the value-added of assistance to country programme preparation is very limited. In many Article 5 countries, the country programme assistance is one of the first government initiatives in the implementation of the Protocol. Limited government capacity to implement environment programmes has often made the country programming assistance largely external to the Government. While this may not in itself impede the implementation of some investment projects, it weakens the effect of the Fund on government policy and regulatory measures.

60. The quality of the country programmes varies significantly and consequently so does the utility of the programmes. For the Implementing Agencies, country programmes were intended to be the main basis for project identification in a sector strategy context and a point of departure for policy dialogue. The programmes have proved useful for project identification in high-consuming countries in particular, but often significant additional sector information has been required. The country programmes have proved of little use for sector and project prioritization or for sequencing projects over time.

61. Preparation of country programmes has helped sensitize Governments of Article 5 countries to the ODS issue. Relevant actors have formed committees and, through this vehicle, have had an opportunity to become acquainted with the salient aspects related to the issue. While the preparation process has been instrumental in policy and strategy formulation, the loose policies and strategies which have been produced have in many cases been declarations of intent rather than commitments to actions, particularly in the area of legislation and regulation. Many programmes do not prioritize projects, and where such ranking exists it is often more indicative than authoritative.

#### Effectiveness of institutional strengthening

62. Although assistance for institutional strengthening was originally negotiated off the indicative list of categories of incremental cost during its preparation, the Executive Committee in mid-1992 decided to approve funds for such activities, based on their own merits. This decision has proved very valuable for the effective execution of Fund activities at country level where the institutional-strengthening assistance provided, including the support of well-functioning ozone-protection units, has significantly enhanced government capacity to manage the ODS issue. However, of the 49 institutional-strengthening projects approved as at December 1994, however, only about 30 are currently under implementation.

63. The country case-studies have established that the existence of an effective national institutional framework to deal with the ODS issue is of highest importance for the effective participation in the formulation of country programmes for initiation of phase-out activities together with the agencies and for facilitating cooperation between the Implementing Agencies and the project proponents. For the small to medium-sized countries, it is concluded that although ODS officers have temporarily been employed under

government funding, lack of communications facilities, office equipment and funds for day-to-day operation of the ozone protection units has seriously reduced the effectiveness with which they carry out their responsibilities. Thus, while Fund support of institutional strengthening is essential, it will not be effective if adequate support for the units established is not provided by Article 5 Governments.

#### Effectiveness of Article 5 countries in supporting fund activities

64. Article 5 Parties are obliged to comply with the control measures of the Montreal Protocol, but are entitled to a 10-year grace period compared with non-Article 5 countries for implementing its provisions. While the Financial Mechanism is intended to support them, the primary responsibility to meet the targets remains with the Article 5 countries themselves. There is no explicit requirement for the countries to take legislative or regulatory action, but Governments act in a formal capacity to facilitate the elimination of ODS use and production. Thus, the Article 5 countries are expected to demonstrate a commitment to introduce legal and regulatory measures to maximize the effectiveness of Fund activities.

65. While the country programmes of most of the Parties include policy and strategy statements and an agenda for legislative and/or regulatory actions intended to support ODS elimination, the overall conclusion is that the majority of Article 5 countries have not as yet been able effectively to demonstrate support to the operations of the Fund through legal and regulatory measures. In the comparatively few cases where legislative and regulatory initiatives have been taken they predominantly relate to the regulation of imports through licensing or quotas, and in a relatively limited number of cases, to sector-specific bans on ODS use.

#### Factors influencing effectiveness at country level

66. The ODS phase-out process in Article 5 countries is to take place largely within existing institutional and legal frameworks. Based on experience from the case countries, a number of related aspects are impeding or possess the potential to impede the speed and ease of ODS phase-out. The main obstacles identified are: (i) limited priority given to ODS phase-out requirements due to more pressing local environmental problems competing for administrative and financial resources; (ii) lack of a clear division of responsibilities for ODS phase-out between ministries and other government institutions; (iii) complicated and bureaucratic project approval procedures; and (iv) legal requirements affecting project implementation, notably in regard to obtaining waivers on taxation of grants and import duties for project inputs.

67. Although several such examples exist, particularly in the early stages of the ODS programme, these impediments are not solely to be referred to the Article 5 countries. The Implementing Agencies, which have many years of experience in working with institutions and bureaucracies in developing countries, have not always adequately managed to adapt their internal administrative procedures to the administrative capacities and realities of Article 5 countries. However, making this observation, it should be noted that some of these apparent deficiencies are a result of the mandates, by-laws and rules which the Implementing Agencies' constituencies (the international community) have set up as the operational modalities of the organizations.

#### Effectiveness of providing concessional loans

68. As noted, the Executive Committee has approved the provision of concessional loans to projects with net incremental savings but up to now there is only limited evidence of the need or demand for such loans. This may be explained by availability of loan capital from other financial institutions, disinclination on the part of the enterprises to obtain loans

through government/Fund channels, lack of knowledge about Fund loans or uncertainty about the actual savings to be realized and hence no sufficient incentive to invest in conversion.

69. Given a seemingly limited demand for concessional-loan financing, there is no basis at this point for concluding that the effectiveness of the Implementing Agencies and the Article 5 country Governments in making use of this provision has been particularly inadequate although, on the other hand, Implementing Agencies have not been proactive in pursuing opportunities for loan financing. In addition, they have failed to make known the existence of the facility and to encourage its utilization and have thereby contributed to a limited interest among enterprises.

Cost-effectiveness of Fund activities

70. For investment projects it is concluded that cost-effectiveness has not necessarily been the most important criterion for the Implementing Agencies and the Article 5 Governments in selecting ODS phase-out projects. Neither the most cost-effective subsectors nor the most cost-effective projects within subsectors with substantial economies of scale have, in any consistent way, been given prominence. While this to a large degree may be a reflection of past encouragement and efforts to get investment projects processed and implemented as early as possible to demonstrate the effectiveness and impact of the Financial Mechanism, it is not in line with the Fund policies as also illustrated by the Executive Committee decision of July 1994 that projects with the highest cost-effectiveness should be given priority. Thus, the Implementing Agencies and the Article 5 countries, in their various forms of cooperation, have not been able to maximize the impact (ODP tonnes to be avoided) of the resources approved by the Fund for ODS phase-out projects.

71. In average terms, this study has shown that projects in countries with low volumes of ODS consumption, including countries characterized by a comparatively large number of small companies, are just as cost-effective as projects in countries with medium-volume ODS consumption. Not surprisingly, projects in countries consuming high ODS volumes are generally more cost-effective than those in the other two groups, as a result among other things of a number of very large and highly cost-effective projects.

72. There is no statistically significant difference in the cost-effectiveness of projects implemented by the three Implementing Agencies. Variance tests for three ODS sectors-foam, refrigeration and solvents - show that the cost-effectiveness of projects in the three sectors, taking size of the projects into account, do not differ significantly between the World Bank on the one hand and UNDP and UNIDO on the other. This analysis, however, does not take into account a number of projects for which there are no impact estimates in terms of ODP tonnes to be phased-out. These primarily include projects in the refrigeration and a few other sectors such as production of compressors, mobile air-conditioner parts, recycling programmes, production of substitutes for foaming agents, etc. The bulk of these projects are implemented by the World Bank.

73. Study findings point to the conclusion that inadequate budgets for country programme preparation may lead to poor quality of programmes with strategies that are only remotely related to reality. There are cases where funds for country programme preparation have been largely wasted for this reason. There appears to be a strong relationship between estimated ODS consumption in a country and the amount of funds approved for country programme preparation. Though this may be reasonable to some extent given the more limited scope of the task, there is a minimum requirement in terms of expert/specialist trips to the country, interviews with government authorities, general assessments of technologies and regulatory actions, etc. that should be met if a country programme is to be of sufficient quality to prove useful.

74. In comparison with other forms of development cooperation the resources allocated from the Fund for institutional strengthening would seem quite small. There may be cases where the resources, which have been provided, have not been adequately matched by Article 5 countries or have not been efficiently spent, but there seems to be no evidence that the Multilateral Fund is over-investing in supporting capacity development in Article 5 countries. It remains a fact, however, that the Fund's support of institutional strengthening is not a direct investment in ODS reduction, and some view this expenditure as an overhead element which is, in effect, increasing the administrative cost of the operation of the Fund.

**RECOMMENDATIONS FOR IMPROVED EFFECTIVENESS AND EXPECTED IMPACT****Recommendations for improved effectiveness of the Financial Mechanism**

75. The main recommendations arising from the findings on the effectiveness of the Financial Mechanism are presented below. In their presentation, the structure (headings) is the same as that applied in the above section on study findings.

Effectiveness of the institutional framework

76. The study team does not recommend any immediate fundamental alterations to the current structure for reviewing and approving the project proposals presented to the Executive Committee. Experience has confirmed the utility of Executive Committee review and approval as well as the legitimacy of the Fund Secretariat's role in reviewing project proposals in order to make a report to the Executive Committee. In addition, the experience of the GEF pilot phase highlights the importance of effective means of Party oversight of project development, selection and approval.

77. However, the team is of the opinion that in due course a move towards more delegation to the Implementing Agencies of definitive project review and approval authority (especially for smaller projects) is clearly warranted. This will be the case once: (i) the main outstanding policy issues have been resolved; (ii) decisions on eligible equipment items are made and guidelines regarding acceptable standard equipment costs based on procurement experience are developed; (iii) the appropriateness and usefulness of the Small Project Approval Procedure (SPAP) can be fully judged; and (iv) ex post monitoring guidelines and procedures are satisfactorily in place.

78. In order to improve on the process of policy development and clarification of project eligibility criteria it is recommended that the Executive Committee establish administrative processes which would better facilitate policy decision-making within the Multilateral Fund system. Some possible measures would include:

(a) Having the Secretariat and the Implementing Agencies develop a list of outstanding policy issues to be addressed by the Executive Committee in the coming year, based on recent project proposals and anticipated projects;

(b) Having the Secretariat and the Implementing Agencies agree on those policy issues which do not, in their opinion, require further study prior to clear policy choices being presented to the Executive Committee with a preferred recommendation made by the Implementing Agencies and the Secretariat jointly;

(c) For remaining issues, having policy documents developed jointly by the Secretariat and one (lead) or more Implementing Agencies designated to act on behalf of all Implementing Agencies (and required to seek their views); and,

(d) Having the designated consortia (with Secretariat participation) present a range of discrete options on the relevant policy question to the appropriate subcommittee of the Executive Committee on a unified basis.

79. In order to expedite consideration of projects which occasionally present policy issues, the Executive Committee should develop specific rules regarding the procedure to be followed if a Party is in discussion of a

project in which it has a direct interest.

80. In order to counter any risk that project-review and approval processes lead to reductions in cost estimates which could, potentially, impede project implementation, it is recommended that the Fund Secretariat, on behalf of the Executive Committee, should cooperate with the Implementing Agencies to review recent experience in open bidding (and other) practices for procuring capital equipment with a view to supplementing data in approved project budgets currently used as references with data on actual experience in implemented projects. It is further recommended that a database of capital equipment costs in past project approvals and actual costs paid be developed by the Secretariat and the Implementing Agencies acting in cooperation.

81. The study team does not, at this time, recommend that the Executive Committee take measures to significantly limit the access which Article 5 Parties have to the services of any of the current Implementing Agencies (thereby limiting the degree of competition among the agencies). It is recommended, however, that the Implementing Agencies cooperate more fully and openly to promote common technical and project incremental cost (and cost-effectiveness) standards so that the more negative aspects of Implementing Agency competition can be kept to a minimum.

82. The study team does not, at this time, recommend the invitation of new organizations to act as Implementing Agencies in support of investment projects. A new agency, if it were to be active in investment programming would be forced into competing for the same pool of technical expertise which services the needs of the existing Implementing Agencies and would be unlikely to bring new value-added to the process of preparing and implementing Fund-supported projects. On the other hand, the Executive Committee may wish to invite participation from new agencies with an interest and a capacity for involvement in the development and implementation of loan programmes in relation to projects with net incremental cost savings. In addition, new agencies may be required for work in emerging subsectors such as methyl bromide.

#### Effective project preparation and implementation by the Implementing Agencies

83. It is recommended that, as well as preserving freedom of access by Article 5 countries to whichever Implementing Agency is most able to assist them in meeting phase-out commitments, that the Executive Committee encourage UNDP and UNIDO in maintaining modes of implementation which are distinctly different from that of the World Bank and which place a priority on fast project development and implementation.

84. It is recommended that the World Bank should concentrate its operations in support of the Multilateral Fund to those countries which are large enough and have significant enough ODS consumption and production to warrant the very large investment in time and administrative effort to warrant negotiation of umbrella agreements and the designation, negotiation with and training of a financial intermediary. It is also recommended that the Bank undertake a review of technical assistance and training provided to financial intermediaries to establish the adequacy and relevance of such technical assistance to the development of national ODS phase-out capacity.

85. Given that some of the World Bank's local financial intermediaries consider the Bank's remuneration for project execution inadequate to make the activity of commercial interest, the Bank should assess the incentive structure provided to the financial agents in order to ensure efficient handling of ODS-programme implementation. To the same effect, it is important that the World Bank sustains an appropriate level of training in Bank- and

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Fund-operating modalities for the financial intermediaries.

86. It is recommended that smaller and medium-sized ODS-consuming and producing countries avoid the use of national execution models of project implementation through financial agents or other fund trustees given the length of time and the national government administrative resources required in their negotiation and establishment. While this model may be preferred for longer term environmental actions, it has been demonstrated to be a key factor in delaying project implementation and may threaten national efforts to achieve timely phase-out. Even larger countries should persist in using this model only if they have already invested considerable time and effort in its establishment and if it can be shown to be delivering the expected benefits.

87. It is recommended that the Executive Committee and the Implementing Agencies, supported by the Fund Secretariat, collaborate on the development of practical guidelines for post-project monitoring and evaluation encompassing monitoring for verification of phase-out and disposal of phased-out equipment and monitoring for safe application of technology. Operational responsibility for carrying out ex post monitoring and evaluation may remain with Governments, financial intermediaries or the Implementing Agencies, but the agencies themselves, in cooperation with Executive Committee, have a responsibility for ensuring that an appropriate level of monitoring takes place and that the information is fed back to the Executive Committee.

88. It is recommended that Implementing Agencies develop and present to the Executive Committee plans for integrating the discussion of Montreal Protocol matters and priorities into their ongoing development programming discussions with Article 5 countries. In addition, Implementing Agencies should develop action plans for mobilizing non-Multilateral Fund resources in support of Montreal Protocol objectives for presentation to the Executive Committee.

89. It is recommended that the Fund Treasurer retains responsibility for the ongoing treasury operations of the Multilateral Fund. In addition, however, it is recommended that the World Bank be encouraged to assist the Treasurer (UNEP) in collecting contributions in arrears and mobilizing funds, drawing on the Bank's experience as an international financing agency with strong ties to the Governments of the Parties.

90. It is recommended that the maximum level of bilateral contributions from smaller donors be maintained at the current 20 per cent level based on the argumentation: (i) none of the smaller countries have expressed that 20 per cent is generally considered inadequate; (ii) the need to preserve the multilateral character of the Financial Mechanism and encourage adequate utilization of capacity investments made by the Implementing Agencies; but (iii) acknowledging the requirement to maintain a bilateral channel as agreed by the Parties.

#### Information exchange and awareness activities

91. Continuous updating of information on ODS issues, especially on alternative technologies, is required. Further, creation of awareness is an ongoing process as new developments take place and as priorities keep changing. It is therefore recommended that the UNEP Industry and Environment Programme Activity Centre, supported by the Fund, should sustain its efforts to meet the information needs of developing countries (through case-studies from practical conversion projects; neutral, up-to-date technical information; and lists of suppliers/vendors of equipment, etc.), and to increase awareness among ODS users and the general public. The primary target

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of national ozone protection units should be maintained.

Contributing to the transfer of appropriate technologies

92. The study team does not recommend at this time that the Executive Committee and the Parties substantially alter the Technology and Economic Assessment Panel mechanism. As noted above, there is no evidence of systemic bias or inappropriate advice on technology choice emanating from the Technology and Economic Assessment Panel or being recommended either by the Ozone Operations Resource Group (OORG) or the independent technical experts working for UNDP and UNIDO.

93. The major current impediment to the flow of technology to shop floor level in Article 5 countries has been the slow rate of project implementation. For that reason, the study team reiterates the recommendations in paragraphs 83-86 above, in the belief that an accelerated rate of project implementation represents the most effective strategy possible for improving the rate of ODS phase-out technology flow to the shop-floor.

Contributing to meeting agreed incremental costs

94. The study team recommends continued efforts by the Executive Committee, assisted by the Secretariat and the Implementing Agencies, to further refine and clarify definitions of agreed incremental costs. In addition, it is recommended that a mechanism be developed to ensure that precedent-setting decisions made at each meeting of the Executive Committee are communicated as quickly as possible and in as clear terms as possible to international experts working for the Implementing Agencies and to appropriate government ministries and enterprises in Article 5 countries.

95. It is recommended that the Fund Secretariat and the Implementing Agencies collaborate on further development of both the Inventory of Approved Equipment in Investment Projects and the Negative Indicative List and that, following further development, the Negative Indicative List be endorsed by the Executive Committee as a means of clarifying incremental cost criteria.

96. It is recommended that the Executive Committee continue to provide funding for institutional strengthening even though such costs are outside the indicative list of incremental costs. In addition, however, the Executive Committee should mandate an evaluation of the effectiveness of institutional-strengthening projects to date, and the Implementing Agencies should review their experience in undertaking institutional-strengthening projects with a view to sharing lessons learned with the Executive Committee.

Effectiveness of country programmes and institutional strengthening

97. Implementing Agencies and the Executive Committee should cooperate in the development of revised guidelines for the preparation of country programmes, making a distinction between small and medium-to-large countries. The guidelines should incorporate a revised institutional assistance concept with emphasis on sustained and active Implementing Agencies participation as well as the involvement of local consultants/institutions and national government and industry cooperation in the process (in line with UNEP's present methodology). The guidelines should further include modalities for ensuring transfer of knowledge to the Article 5 countries in the preparation process.

98. The Executive Committee should reaffirm its commitment to provide the level of institutional support required to assist Article 5 countries in implementing programmes and projects under the Montreal Protocol. It may also wish to further reinforce the requirement that Fund-supported institutional-strengthening activities must be matched by a proportionate commitment of

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Article 5 country financial, organizational and human resources, as well as sufficient political commitment.

99. The Implementing Agencies, in cooperation with the Fund Secretariat, should develop strategies for integrating country programme assistance and institutional strengthening where possible given the advanced stage of the programme, and to use country-programme development assistance as a capacity-building instrument. A preliminary basic level of institutional assistance needs to be timed with the country-programme assistance and the follow-up institutional-strengthening project should emphasize both support to the operating costs of the ozone protection unit and training, skills and knowledge transfer to the ozone protection unit from the Implementing Agencies, consultants, etc.

#### Effectiveness of Article 5 countries in supporting Fund activities

100. It is recommended that Article 5 countries carefully review the scope for taking legislative and regulatory action in line with statements made in their country programmes and that they be strongly encouraged to enact laws and regulations with a view to advancing the support of ODS phase-out activities. In support of such actions it is further recommended that a framework be developed for policy dialogue between the Article 5 countries on the one hand and the Fund and the Implementing Agencies on the other, particularly in countries with significant ODS consumption and programme requirements. The Article 5 government counterpart among the Implementing Agencies may be a designated lead agency to be agreed upon between the Government and the Implementing Agencies.

#### Factors influencing effectiveness at country level

101. It is recommended that the institution(s) in Article 5 countries responsible for handling ODS issues, together with the Implementing Agencies, should identify potential institutional and legal obstacles to project implementation as early as possible. These obstacles should subsequently be addressed jointly as quickly as possible with the purpose of finding acceptable solutions in advance of programme implementation.

#### Effectiveness of providing concessional loans

102. To explore the potential benefits of providing concessional loans to projects with net incremental savings the following approach is recommended:

(a) The Implementing Agencies (or other institutions to be designated for this undertaking) that wish to become involved in the provision of concessional loans should be encouraged to take a stronger interest in promoting the concept. This should be accompanied by incentives for them to develop projects for loans and for their direct or indirect loans administration. A survey of the need and demand for concessional loans should initially be carried out by the Fund through the use of the Implementing Agencies, involving ozone protection units at country level to the extent possible;

(b) If the above-mentioned survey documents a demand for loans, the facility should be advertised and promoted at country level by the Governments (ozone protection units) with the assistance of the Implementing Agencies. Furthermore, the Implementing Agencies should start developing modalities for the transfer to enterprises of concessional loans and for their subsequent administration, repayment and the use of repayment proceeds;

(c) Concessional loans may appropriately be provided on the basis of sector strategies (for example for the aerosol sector), or on a regional

basis. Such potential should be explored in detail by the Government together with a designated Implementing Agency; and local banks, and possibly industry organizations, to handle the facilities, should be identified;

(d) The Article 5 countries should enact legislation that would stimulate the demand for loans, either from the local banking systems or for Fund loans.

#### Cost-effectiveness of Fund activities

103. It is recommended that the Implementing Agencies, together with the Article 5 country Governments, should be encouraged to increase their focus on projects in subsectors with relatively high cost-effectiveness, or on projects with high cost-effectiveness because of economies of scale. This should be based on carefully prepared strategies for the ODS sectors and subsectors in a joint effort by the Article 5 country Governments and the Implementing Agencies.

104. In order to establish workable and acceptable cost-effectiveness boundaries it is recommended that the Secretariat conduct a detailed analysis of project cost-effectiveness based not only on the simple method of calculating cost-effectiveness, but also on one which takes into account the full costs to the economies concerned, e.g., the unit abatement cost (UAC) method. A series of well defined model projects with different capacities should be analysed to establish accurately the cost-effectiveness under "standard" conditions. The outcome should be related to the composition of projects by sector, subsector and size for Parties or groups of Parties to determine the effect of imposing alternative cost-effectiveness minimum criteria. The objective would be to design a regime of boundaries that does not unequivocally discriminate against certain countries, groups of countries and/or sectors and subsectors.

105. The Executive Committee and the Implementing Agencies should agree on the use of these boundaries or norms for the cost-effectiveness of projects by sector and size. They should be used to assess projects on their own merits and ensure that projects are within bounds of reasonable cost-effectiveness given that they utilize accepted non-ODS technology and are seeking support for agreed incremental costs. This recommendation should be implemented carefully and in those sectors in which the Implementing Agencies have accumulated considerable project experience.

106. Application of cost-effectiveness boundaries may lead to cases where important groups of enterprises with a combined large scope for ODS elimination fall outside the acceptance range given their size, limited accessibility, and high administration cost of ODS phase-out projects that could conceivably be implemented to eliminate ODS consumption. In such instances a system for lump-sum compensation should be considered.

107. As most of the countries that do not yet have a country programme are low-ODS-consuming countries, the Implementing Agencies should work to ensure that the scale and complexity of the country programmes they assist in preparing are proportional to the size and complexity of ODS consumption and production issues in the countries concerned. For the majority of these countries the country programming exercise should be limited to registration of reliable consumption data, identification of obvious projects and development of basic sector strategies (including legislative and regulatory aspects) with a view to prioritizing projects among and within sectors and over time, based, inter alia, on cost-effectiveness considerations. While the level of funding for country programme preparation assistance should correspond to this relatively modest level of ambition, it should be sufficient to ensure good quality programmes, i.e. the country programmes prepared should exceed the "critical quality level" below which they are of no

use.

108. In light of the recorded success and cost-effectiveness of the UNEP-assisted "ODS Officers" network (ODSONET) in the South-east Asia region, UNEP should work to ensure that similar networks in Africa and Latin America are able to attain a similar level of operations. This will require a greater level of support from the Fund. Alternatively, the area of network support in Africa and Latin America may be a suitable channel for bilateral activity.

#### **Expected impact of recommendations**

109. The key focus of the vast majority of the recommendations listed above is the improvement of the administrative, policy and organizational environment of the Financial Mechanism of the Montreal Protocol so that it may contribute more effectively to the goals of the Protocol and the protection of the ozone layer. It is the view of the study team that the existing deficiencies in the administrative and institutional environment of the Financial Mechanism have the potential to seriously delay the achievement of the goals of the Protocol in relation to Article 5 countries. It is further believed that accelerated ODS phase-out would be achieved by emphasizing areas and projects for ODS phase-out with high cost-effectiveness.

110. If acted on in a positive and cooperative spirit by all Parties, the recommendations have the potential to reduce or eliminate the gap between the ODS phase-out which should be achieved under a reasonably expeditious implementation of projects and programmes and the current disappointing rate of project implementation. A more deliberate pursuit of cost-effective projects, where appropriate, will increase the speed of eliminating ODS use and thereby augment the impact on the ozone layer both in absolute terms and in a time perspective.

111. No attempt at quantifying the impact of the recommendations in terms of accelerated and increased phase-out of ODS has been made given the host of factors that combine to produce such outcome. However, if key administrative, institutional and policy issues are not addressed, and a stronger orientation towards cost-effective activities not endeavoured, it seems clear that the options for accelerated phase-out detailed in the draft Report on the Review under Paragraph 8 of Article 5 will be unlikely to prove attainable, regardless of the resources which are made available.

112. It is the view of the study team that the body of recommendations detailed in this section represents a balanced package of actions which have the potential to restore the confidence of non-Article 5 countries that the Fund is being used to support cost-effective and sound projects and programmes of ODS phase-out. At the same time, these actions will strengthen the clear commitment of the Fund to meet the institutional needs of Article 5 countries which are directly related to effective programming and to support legitimate incremental costs across a wide range of sectors and project types, while respecting their requirement for the pursuit of national socio-economic development. The study team believes it is essential that Parties act in a balanced way to reaffirm their commitment to the goals of the Protocol and of the Financial Mechanism.

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