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**Sixteenth Meeting of the Parties  
to the Montreal Protocol on  
Substances that Deplete the  
Ozone Layer**  
Prague, 22–26 November 2004  
Item 5 (a) of the provisional agenda\*

**Consideration of issues related to the Multilateral Fund  
for the Implementation of the Montreal Protocol:  
evaluation and review of the financial mechanism  
of the Montreal Protocol (decision XV/47)**

**Evaluation of the financial mechanism of the Montreal Protocol:  
Executive summary**

**Note by the Secretariat**

The Secretariat has the honour to circulate, in the annex to the present note, the executive summary of an evaluation of the financial mechanism of the Montreal Protocol prepared by ICF Consulting.

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\* UNEP/OzL.Pro.16/1.

# 1 EVALUATION OF THE FINANCIAL MECHANISM OF THE

## 2 MONTREAL PROTOCOL: EXECUTIVE SUMMARY

3 In 1985, the Vienna Convention for the Protection of the Ozone Layer was signed, obligating  
4 signatories to take measures to protect human health and the environment from the adverse affects  
5 related to human activities that deplete the ozone layer. Two years later, in 1987, the Montreal  
6 Protocol on Substances that Deplete the Ozone Layer, a landmark international agreement to restore  
7 the Earth's deteriorating stratospheric ozone layer, was adopted. As of April 2004, 186 countries had  
8 ratified the Montreal Protocol. The global success of this effort to protect our environment requires  
9 that the world's developed and developing countries that are Parties to the Protocol eliminate  
10 production and consumption of most ozone-depleting substances (ODS).

11 To assist developing countries that might not otherwise have the technical and financial means  
12 necessary to phase out ODS, the Financial Mechanism of the Montreal Protocol was established to  
13 meet, on a grant or concessional basis as appropriate, and according to criteria to be decided upon by  
14 the Parties, the incremental costs incurred by Article 5 Parties to enable their compliance with the  
15 control measures set out in Articles 2A through 2E of the Montreal Protocol. The Financial  
16 Mechanism, including the Multilateral Fund that was provided for in Article 10 of the Montreal  
17 Protocol, was established by the 4<sup>th</sup> Meeting of the Parties in November 1992, following the creation  
18 of an Interim Multilateral Fund for the Implementation of the Montreal Protocol in 1990, which  
19 operated until December 1992. All technical assistance (including technology transfer) and pre-  
20 investment activities provided through the Financial Mechanism have generally been in the form of  
21 grants or, in certain circumstances at the request of an Article 5 Party, in-kind support.

22 The remainder of the Executive Summary is organized as follows:

- 23 • Section ES.1 introduces the purpose of the evaluation;
- 24 • Section ES.2 describes the methodology used to conduct this evaluation;
- 25 • Section ES.3 summarizes the findings of this evaluation;
- 26 • Section ES.4 presents the actions recommended by this evaluation; and
- 27 • Section ES.5 discusses future opportunities and threats for the Multilateral Fund.

### 28 ES.1 Purpose

29 The purpose of this study is to evaluate and report on the function of the various processes and  
30 bodies associated with the Financial Mechanism of the Montreal Protocol. This external evaluation is  
31 being conducted at the request of the Parties to the Montreal Protocol with a view to ensuring  
32 effective management of the Financial Mechanism in meeting the needs of Article 5 Parties and non-  
33 Article 5 Parties in accordance with Article 10 of the Montreal Protocol. The evaluation was  
34 conducted in accordance with Decision XIII/3 of the 13<sup>th</sup> Meeting of the Parties, which laid out the  
35 Terms of Reference for the analysis based on the recognized need to periodically review the  
36 operation of the Financial Mechanism to ensure maximum effectiveness in addressing the goals of the  
37 Montreal Protocol. This study follows a previous analysis performed in 1995.

38 In particular, this assessment aims to address the strengths, weaknesses, opportunities, and threats  
39 for the Financial Mechanism and to provide findings and actionable recommendations, where  
40 relevant, in light of the compliance and phase-out needs of Article 5 Parties. To this end, five key  
41 areas were explored in detail:

- 1       ➤ Executive Committee decision-making process;
- 2       ➤ Multilateral Fund Secretariat activities;
- 3       ➤ Activities implemented by multilateral and bilateral implementing agencies;
- 4       ➤ Fund management; and
- 5       ➤ Additional matters.

6 Under the five topics listed above, 23 activity areas were explicitly identified for consideration in the  
7 Terms of Reference (TOR) for this analysis:

## 8 Executive Committee Decision-Making Process

- 9       ➤ **1a.** Review of the adequacy of planning and implementation process of activities to ensure  
10 compliance
- 11       ➤ **1b.** The adequacy of information presented to the ExCom to enable it to take decisions on  
12 projects and policies
- 13       ➤ **1c.** Coherence and effectiveness in project review process
- 14       ➤ **1d.** Cost effectiveness of approved ODS phaseout projects and programmes
- 15       ➤ **1e.** Effectiveness and cost of the administrative organization of the ExCom, including the  
16 structure and functions of the Subcommittee for Project Review and the Subcommittee for  
17 Monitoring, Evaluation, and Finance and their role in the ExCom. This should include  
18 analysis of options for management in the future, given implementation of the new country  
19 driven/compliance focused programme
- 20       ➤ **1f.** Assessment of the necessary level of confidentiality of the ExCom meeting  
21 documentation, bearing in mind the interest of project proponents
- 22       ➤ **1g.** Use of performance indicators

## 23 Multilateral Fund Secretariat Activities

- 24       ➤ **2a.** Appraisal of the efficiency and effectiveness of the review process of ODS phaseout  
25 projects and programmes with respect to the goals of the Montreal Protocol and decisions of  
26 the Meetings of the Parties
- 27       ➤ **2b.** Monitoring the efficiency of the implementation of projects and programmes, in particular  
28 the monitoring and management of fund transfer and disbursement
- 29       ➤ **2c.** Adequacy and comprehensiveness of the information provided to the ExCom on the  
30 financial reports submitted for the ExCom's consideration

## 31 Activities Implemented by Multilateral and Bilateral Implementing Agencies

- 32       ➤ **3a.** Review of the adequacy in identifying plans and projects to assist national compliance  
33 with the Montreal Protocol
- 34       ➤ **3b.** Evaluation of the fund management and disbursement policy of each implementing  
35 agency
- 36       ➤ **3c.** Investment strategy of cash advances
- 37       ➤ **3d.** Assessment of the use of the administrative costs, with special consideration to smaller  
38 versus larger projects
- 39       ➤ **3e.** Cost effectiveness of each agency, taking separately into account the investment projects  
40 and other activities (institutional support, ODS officer network management, etc.)
- 41       ➤ **3f.** Assessment of the proportion of approved funds between investment and non-investment  
42 projects in the different agencies
- 43       ➤ **3g.** Adequacy and effectiveness of fund disbursements, and fund disbursement management,  
44 including reporting to the Multilateral Fund secretariat

- 1       ➤ **3h.** Additional costs for the Multilateral Fund, if any, of overlapping activities between  
2       agencies

### 3 Fund Management

- 4       ➤ **4a.** Assess past experience of fund management as performed by the Treasurer  
5       ➤ **4b.** Compare to management and financial practices of other funds (Global Environment  
6       Facility, development banks) as benchmarks

### 7 Additional Matters

- 8       ➤ **5a.** Adequacy of the interaction between the implementing agencies, the Multilateral Fund  
9       Secretariat and relevant subsidiary bodies  
10      ➤ **5b.** Analysis and reconciliation of financial data from different sources (Treasurer,  
11      implementing agencies, MLF secretariat accounts, and audited UNEP Fund accounts)  
12      ➤ **5c.** Performance of donor countries in fulfilling their obligation vis-à-vis the MLF

## 13 ES.2 Methodology

14 The methodology used to undertake this study was developed by ICF Consulting (ICF) in close  
15 consultation with the Steering Panel on the Evaluation and Review of the Financial Mechanism of the  
16 Montreal Protocol (Steering Panel). The general framework consisted of the following steps:

- 17 • Step 1: Obtain and review background documentation.  
18 • Step 2: Draft preliminary questions for stakeholders and conduct first round of interviews with key  
19 stakeholders.  
20 • Step 3: Develop performance metrics and ranking scheme for all 23 activity areas and draft  
21 targeted questions as appropriate.  
22 • Step 4: Select case study countries that are representative of Article 5 diversity in terms of size,  
23 industry, ODS consumption, and region.  
24 • Step 5: Draft additional, targeted questions and conduct further interviews with stakeholders.  
25 • Step 6: Prepare Draft Report for review by the Steering Panel.  
26 • Step 7: Finalize report based on comments from the Steering Panel.

27 For the performance metric(s) defined for each of the 23 subject areas, a scheme was devised to  
28 “grade” actual performance on a scale of one to five. Based on quantitative assessment where  
29 possible (e.g., cost effectiveness) and/or on qualitative assessment, each metric was evaluated based  
30 on the grading scheme contained in Exhibit ES-1. The grade assigned to each metric is a result of  
31 the judgment of ICF. A summary of these findings and evaluations is provided in Section ES.3.

### 32 Exhibit ES-1: Grading Scheme Definitions

Grade	Definition
1	Poor performance
2	Less than adequate performance
3	Adequate performance
4	Greater than adequate performance
5	Excellent performance

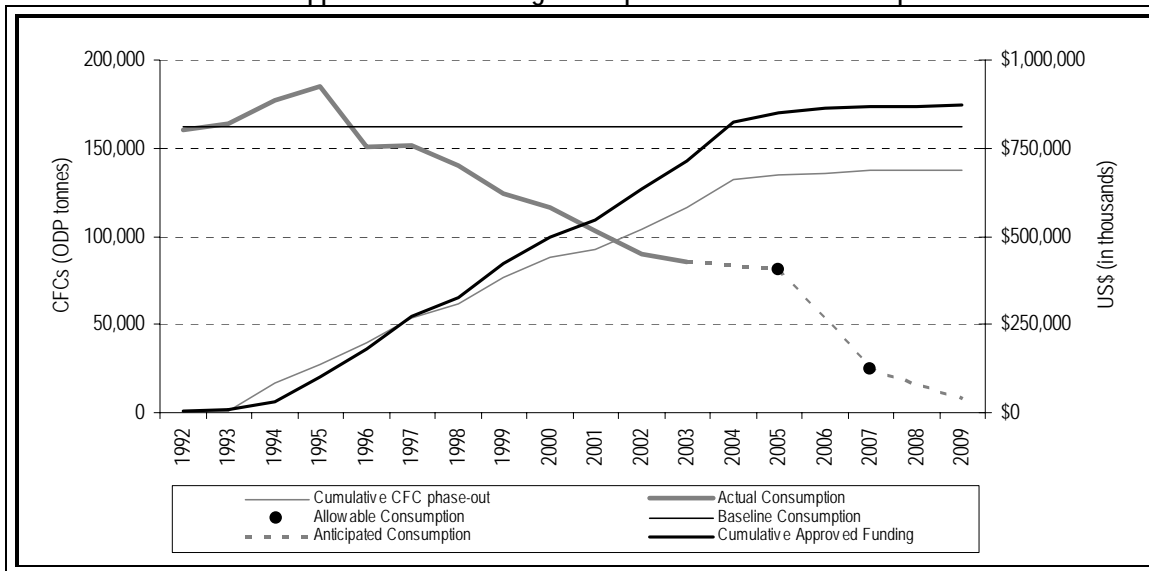
33 Based on evaluations and determination of strengths and weaknesses for each metric,  
34 recommendations were developed for each of the 23 term of reference areas under the five key  
35 headings identified for the report. In areas without weaknesses, the report simply suggested that the  
36 relevant body continue its activities related to the metric. Recommendations targeted at existing  
37 weaknesses aimed to suggest specific actions to address such weaknesses. A summary of these  
38 recommended actions is provided in Section ES.4.

1 **ES.3 Summary of Findings**

2 The Multilateral Fund has been very successful in phasing out ODS and enabling compliance of  
 3 Parties operating under Article 5 of the Montreal Protocol. By December 2003, the nearly US\$1.6  
 4 billion in contributions paid by Article 2 countries had supported about 4,600 projects and activities in  
 5 134 developing countries. It is anticipated that projects approved through 2002 will result in the  
 6 phase-out of the consumption of about 127,890 ODP tonnes and of about 52,260 ODP tonnes of ODS  
 7 production. Moreover, the ExCom has funded the establishment and operation of ozone offices in  
 8 131 Article 5 Parties.

9 Exhibit ES-2 presents an overview of funding approved by the ExCom and its impact on Article 5  
 10 consumption and compliance. After 2003, the graph displays funding that has already been approved  
 11 for future years (i.e., multi-year agreements), and the anticipated CFC phase-out associated with that  
 12 funding. Because additional funding has been approved in 2004, the ExCom appears to have  
 13 planned well to enable Article 5 compliance with the phase-out schedule set out in the Montreal  
 14 Protocol.

15 **Exhibit ES-2. Overview of Approved MLF Funding and Impact on Article 5 Consumption**



16 Source: Inventory of Approved Projects, Updated December 2003

18 During this evaluation of the Fund, strengths and weaknesses were identified related to the ExCom's  
 19 decision-making process, the Fund Secretariat's activities, the activities implemented by multilateral  
 20 and bilateral IAs, Fund management as performed by the Treasurer, as well as additional matters.  
 21 Exhibit ES-3 presents an abbreviated summary of these strengths and weaknesses.

22 **Exhibit ES-3. Summary of Strengths and Weaknesses**

Strengths	Weaknesses
<i>Executive Committee Decision-Making Process</i>	
<ul style="list-style-type: none"> <li>➤ The ExCom's guidance for strategic planning, which sets the planning framework, has consistently focused on compliance.</li> <li>➤ The ExCom review of ODS phase-out and compliance in Article 5 Parties provides IAs with clear direction on areas in which to focus activity planning.</li> <li>➤ The ExCom's business plan review helps prevent activity overlaps that may not have been identified during the Secretariat's review.</li> </ul>	<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>➤ Developing strategies to improve progress on projects with implementation delays at ExCom meetings may be unnecessarily time-consuming.</li> <li>➤ None.</li> </ul>

<ul style="list-style-type: none"> <li>➤ The quantity of information provided to the ExCom is sufficient to allow ExCom members to make informed decisions on projects and policies.</li> <li>➤ Important long-term projects with large forward funding commitments for compliance are reviewed by all members of the ExCom.</li> <li>➤ The Guidelines on confidentiality regarding technology not in the public domain adequately maintains the confidentiality of technical information in project proposals.</li> <li>➤ The performance indicators reflect the activities undertaken by IAs in the compliance period by including both multi-year plans and individual projects.</li> </ul>	<ul style="list-style-type: none"> <li>➤ None.</li> <li>➤ Some Plenary sessions may require more time, if difficult issues arise.</li> <li>➤ The involvement of all Parties to the Montreal Protocol could be increased by reclassifying all meeting documentation as general distribution.</li> <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><i>Multilateral Fund Secretariat Activities</i></p>	
<ul style="list-style-type: none"> <li>➤ The Secretariat's diligence in eliminating project overlap supports the most cost effective achievement of compliance.</li> <li>➤ The Secretariat has an effective, standard monitoring process. 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> <li>➤ The quantity of financial information provided by the Secretariat allows for thorough review of all financial issues.</li> </ul>	<ul style="list-style-type: none"> <li>➤ New or less experienced ExCom members and NOU representatives may have difficulty identifying and compiling the precedents that comprise the Secretariat's review criteria.</li> <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> <li>➤ ExCom members that have not served on the Sub-Committee on Project Review and Monitoring, Evaluation and Finance, as well as Article 5 ExCom members, are less familiar with the financial information.</li> </ul>
<p><i>Activities Implemented by Multilateral and Bilateral Implementing Agencies</i></p>	
<ul style="list-style-type: none"> <li>➤ IAs have sufficient and appropriate information available to them to undertake targeted, compliance-focused project identification and planning.</li> <li>➤ IA-ExCom Agreements outline general financial management and disbursement policies, and allow for auditing procedures, if necessary.</li> <li>➤ Individual IAs consider liquidity and risk carefully when investing cash advances.</li> <li>➤ Current administrative cost regime is flexible and provides different agency fee rates for different sizes and types of projects.</li> <li>➤ Core costs for UNDP, UNIDO, and World Bank were at appropriate consistent levels.</li> <li>➤ Typically, actual disbursement by IAs has been roughly equal to targeted disbursement.</li> <li>➤ Speed of first disbursement appropriately reflects the implementation modalities of the IAs.</li> <li>➤ Significant overlap in recently approved and/or implemented projects has been largely prevented, indicating that the Fund does not incur significant additional costs associated with overlap activities.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Project identification and planning should better take into account regional considerations.</li> <li>➤ Differences between financial data reported in IA progress reports and in IA Accounts have been the focus of reconciliation efforts.</li> <li>➤ None.</li> <li>➤ None.</li> <li>➤ IAs have not always met disbursement goals set by the ExCom, though some disbursement delay may be justifiable.</li> <li>➤ Because some bilateral IAs do not have expected roles and sometimes have less history than multilateral IAs implementing projects under the Fund, the roles of bilateral IAs can be less predictable. This can lead to potential incidences of project overlap—particularly because they have not been actively involved in inter-agency coordination meetings.</li> </ul>

*Fund Management*

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| <ul style="list-style-type: none"> <li>➤ The Treasurer has thoroughly explained the methodology and assumptions that are used to prepare the status report on contributions and disbursements, as well as the data and tables that are contained therein.</li> <li>➤ Promissory notes allow contributing Parties to manage their payments since the notes are encashed only as agreed.</li> <li>➤ Promissory notes allow IAs to make commitments on their projects against future cash flows by use of the notes.</li> <li>➤ By investing with the UN pool, funds are diversified, invested at reduced risk, and earn a slightly better return than if all funds were invested short-term by the Treasurer.</li> <li>➤ In its new agreement with the ExCom, as Treasurer, UNEP will design and maintain a financial reporting system for the Fund that is transparent and consistent, to promote comparability and reconciliation with the Secretariat, ExCom, and IAs.</li> <li>➤ Increased communication between the IAs and the Treasurer when promissory notes are encashed could reduce these discrepancies in the accounts of the IAs and the Treasurer.</li> <li>➤ Additional resources and staff (hired as a result of the recent decision to financially compensate the Treasurer) will likely help to improve recordkeeping.</li> </ul> | <ul style="list-style-type: none"> <li>➤ None.</li> <li>➤ Available resources are reduced since no interest is earned on promissory notes.</li> <li>➤ There is an exchange rate risk associated with encashing promissory notes, which is increased by the time it takes to encash the notes.</li> <li>➤ The Treasurer has less control by investing as part of pool rather than independently.</li> <li>➤ In the past, transitions between Treasurers have been difficult because internal policies and procedures have not been adequately documented.</li> <li>➤ In some instances, contributing Parties have not made their payments because they did not receive a request for payment from the Treasurer.</li> <li>➤ Discrepancies among the accounts have tended to involve timing (e.g., when project approval occurs late one year and funds are transferred the next year), disputed start-up costs, IA inclusion of promissory notes held by the Treasurer, and IA inclusion of support costs in progress reports.</li> </ul> |
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*Additional Matters*

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| <ul style="list-style-type: none"> <li>➤ The TEAP Task Force consults widely with IAs, the Secretariat, and other concerned bodies and stakeholders during the preparation of the replenishment report.</li> <li>➤ Audit/reconciliation discrepancies are identified and resolutions are sought.</li> <li>➤ Certified independent accountants audit accounts on an annual basis.</li> <li>➤ For the period 1991-2003, over 92 percent of all agreed contributions have been paid (not including disputed contributions).</li> <li>➤ Promissory notes and bilateral cooperation provide flexibility for donors, resulting in slightly more timely payments, and in full.</li> <li>➤ The FERM allows contributing Parties to better budget their resources.</li> </ul> | <ul style="list-style-type: none"> <li>➤ None.</li> <li>➤ Many problems uncovered in audits can be fairly easily resolved, but the resolutions often require significant time.</li> <li>➤ Financial discrepancies indicate opportunities for improvement in transparency and consistency in financial accounting across agencies.</li> <li>➤ Some donors continue to have contributions in arrears; specifically, for 1991-2003, 20 of the 51 donors have outstanding contributions.</li> <li>➤ Promissory notes can cause accounting and disbursement problems.</li> <li>➤ When the US dollar rises, the FERM decreases Fund value.</li> </ul> |
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## 1 ES.4 Summary of Recommended Actions

- 2 Exhibit ES-4 summarizes the recommended actions presented in the report to improve the  
 3 management of the Multilateral Fund. These recommendations are organized thematically in three  
 4 categories: organizational, technical, and financial recommendations.

## 1 Exhibit ES-4. Summary of Report Recommended Actions

General Recommendation	Recommended Action
<i>Organizational Recommendations</i>	
<ul style="list-style-type: none"> <li>➤ Make further structural changes to the ExCom, if necessary, to specifically address compliance.</li> <li>➤ Continue to evaluate ExCom structure and consider reduction of annual meeting numbers.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Consider establishing a sub-committee or working group on Compliance in Planning, Implementation, and Review.</li> <li>➤ Consider implementing a one-year trial period of two ExCom meetings in the future. Request a brief evaluation paper from the Secretariat for the first meeting in the year following the trial period to determine the effectiveness of this system.</li> </ul>
<i>Technical Recommendations</i>	
<ul style="list-style-type: none"> <li>➤ Develop a primer to provide background on the Fund for new ExCom members.</li> <li>➤ Ensure that results of review of project implementation delay are not only applied to determine project cancellation, monitoring, or removal from the list of delays, but also to inform IAs of how to avoid future delays.</li> <li>➤ Request the Secretariat to take action to develop prescriptive approaches to address project implementation delays.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Provide new members of the ExCom with a concise primer that provides background on the Fund.</li> <li>➤ Request the Secretariat to add a new section to the document "Lessons learned on project implementation delays," providing specific suggestions for how various types of delays could be avoided in future. Create an internal website for IAs that summarizes and compiles these lessons learned.</li> <li>➤ Delegate to the Secretariat the authority to take action on projects with implementation delays, prior to ExCom meetings. The Secretariat should work with IAs to develop prescriptive approaches for improving progress and submit progress reports to each ExCom meeting.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Build on Decision 40/19 and the subsequent report submitted by UNEP (UNEP/OzL.Pro/ExCom/41/Inf.2) to assist countries that consume very low quantities of methyl bromide, CTC, and methyl chloroform.</li> <li>➤ Continue to collaborate with the Secretariat and IAs to maintain effectiveness in dealing with issues of project overlap, ineligible funding, and inflated costs.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The ExCom should fully consider the implications of continued nominal consumption by LVCs and develop an appropriate strategy to ensure that countries meet their compliance obligations.</li> <li>➤ The ExCom should provide more guidance to IAs regarding the approval of flexible funding in multi-year agreements.</li> <li>➤ The ExCom should encourage and/or support stronger collaboration and communication between the IAs to reduce project overlap at all stages, including project planning.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Reclassify ExCom meeting documentation as general distribution.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The ExCom may wish to provide a password to Parties to access all ExCom meeting documentation prior to ExCom meetings. Project proponents and IAs should be granted the right to request that certain documentation be restricted to limited distribution if information contained therein is considered to be confidential.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Extend performance indicators to bilateral implementing agencies.</li> <li>➤ Add performance indicators to address project identification.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Form a contact group including bilateral and multilateral IAs and the Secretariat to discuss the possible modalities for extending the indicators to bilateral IAs.</li> <li>➤ Request that the Secretariat, IAs, and ExCom members propose project identification performance indicators for the 45th meeting.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Increase the weighting of the performance indicator "ODS phased-out for individual projects vs. those planned per progress reports."</li> </ul>	<ul style="list-style-type: none"> <li>➤ Request that the Secretariat and IAs discuss and prepare a paper on the appropriate weighting for this indicator to adequately represent the compliance needs of LVCs.</li> </ul>

<ul style="list-style-type: none"> <li>➤ Continue process of developing qualitative indicators.</li> <li>➤ Share results of performance evaluations with upper management of IA.</li> <li>➤ Eliminate select administrative indicators if relevant administrative problems are resolved.</li> <li>➤ Increase efforts to improve country level data reporting.</li> <li>➤ Continue efforts to reduce/avoid project implementation delays.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The ExCom should verify with the Secretariat that progress is being made on qualitative indicator development, in advance of the 44th meeting.</li> <li>➤ Request that the Secretariat prepare a document presenting the possible modalities for sharing evaluation results. This document should be discussed at the 45th meeting.</li> <li>➤ Eliminate indicators on which IAs repeatedly achieve 100 percent.</li> <li>➤ Request feedback from countries that have been, or may be classified as non-compliant for non-reporting, and work with IAs to provide all assistance possible to eliminate instances of non-reporting of data.</li> <li>➤ Prepare a summary of "lessons learned" on suggested courses of action to minimize or prevent common types of project delay.</li> </ul>
<i>Financial Recommendations</i>	
<ul style="list-style-type: none"> <li>➤ Increase communication between IAs and the Treasurer when promissory notes are transferred, received and encashed.</li> <li>➤ Continue to maximize proportion of budget spent on implementation and minimize proportion of budget spent on core components.</li> <li>➤ Request IAs to explain significant increases in their core budget expenses.</li> <li>➤ Conduct a study regarding the efficiency of IA administration of smaller projects.</li> <li>➤ Monitor the use of funds for non-investment versus investment activities within national or sectoral phase-out plans.</li> <li>➤ Provide in Table 1 of the status report on contributions and disbursements the <i>incremental</i> income, allocations and provisions, and balance available for new allocations, in addition to the cumulative totals of these financial components.</li> <li>➤ Document the internal procedures and practices of the Treasurer.</li> <li>➤ Take action to encourage timely payment by the donor countries.</li> <li>➤ Implement internal quality control measures to improve the accuracy of recordkeeping.</li> </ul>	<ul style="list-style-type: none"> <li>➤ IAs and the Treasurer should increase communication when promissory notes are transferred, received, and encashed to reduce exchange differences in accounts during reconciliation.</li> <li>➤ At the next annual and three-year budget sessions, the ExCom and the Treasurer should jointly remind IAs to maximize the share of budget spent on implementation and minimize the share spent on core components.</li> <li>➤ The ExCom should request IAs to explain significant increases in their core budget target and provide funding options for any overruns.</li> <li>➤ The ExCom should undertake a modest study regarding efficiency methods to administer small projects.</li> <li>➤ The ExCom should request that the Secretariat prepare a paper on the feasibility of monitoring the use of funds within phase-out plans.</li> <li>➤ In addition to its current cumulative financial reporting, the ExCom should request the Treasurer to present incremental income, allocations and provisions, and balance available for new allocations.</li> <li>➤ The ExCom should request that the Treasurer document internal procedures and practices to preserve institutional knowledge, facilitate staff transitions, and increase the transparency of its accounting methodology.</li> <li>➤ The Secretariat should send a written announcement at the beginning of the year to all donor countries that timely payment is important for proper financial functioning.</li> <li>➤ The ExCom should require donor countries that are in arrears to submit a written explanation stating the reason for payment delay and the steps being taken to resolve it.</li> <li>➤ The Treasurer should implement an internal system for quality assurance and control.</li> </ul>

<ul style="list-style-type: none"> <li>➤ Clarify how, when, and what financial data should be accounted and reported by IAs.</li> <li>➤ Consider engaging an independent auditor to assist with account reconciliation if financial discrepancies persist.</li> <li>➤ Continue to analyse the FERM's effect on Fund value.</li> </ul>	<ul style="list-style-type: none"> <li>➤ The ExCom should request the Treasurer to create a concise guidance document summarizing accounting Fund procedures and clarifying those that have previously been the source of confusion/discrepancy. The Treasurer should be sure to include procedures for transferring, encashing, and recording promissory notes.</li> <li>➤ The ExCom should develop policy regarding the threshold for which an independent auditor is needed to reconcile accounts.</li> <li>➤ If excessive losses result from the FERM, the ExCom should consider revising FERM policies.</li> </ul>
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1 **ES.5 Summary of Opportunities and Threats**

2 While Sections 3 and 4 have identified the current strengths and weaknesses of the Multilateral Fund  
 3 and suggested recommended actions to improve the management of the Fund, this section reflects  
 4 on future opportunities and threats for the ExCom, Secretariat, IAs, Treasurer, and the Fund  
 5 generally. Because opportunities frequently arise from threats, however, the distinction between the  
 6 two concepts is often blurred. Bearing this in mind, Exhibit ES-5 summarizes the threats that the  
 7 Study Team anticipates the Fund will encounter in the near future, and the opportunities that will  
 8 evolve from these threats.

9 **Exhibit ES-5. Summary of Potential Opportunities and Threats**

<b>Possible Threat</b>	<b>Opportunity</b>
<i>Executive Committee</i>	
<ul style="list-style-type: none"> <li>➤ Potential incompatibility of the structure of the ExCom with the changing portfolio of projects and type of monitoring required for multi-year agreements.</li> <li>➤ Enabling compliance of Article 5 countries with phase-out targets for lower ODP substances, such as HCFCs and methyl bromide.</li> <li>➤ Ensuring the sustainability of phase-out (i.e., ensuring that there is no backsliding after funding ends).</li> <li>➤ Enabling all Article 5 countries to achieve compliance.</li> <li>➤ Enabling very low-volume consuming countries to achieve compliance, especially LVC countries that consume very low quantities of carbon tetrachloride, methyl bromide, and methyl chloroform.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Adapt the structure of the ExCom to the changing portfolio of projects (i.e., the increasing number of multi-year agreements) to ensure that the structure maximizes effectiveness and efficiency of meetings.</li> <li>➤ The ExCom has already begun to adapt its structure, for example, when the Sub-Committees were abolished at the 41<sup>st</sup> Meeting for a one-year trial period.</li> <li>➤ Apply lessons learned in planning, approving, and implementing past projects to HCFCs and methyl bromide in order to increase the effectiveness and efficiency of new projects.</li> <li>➤ Use remaining institutional strengthening funding to build capacity and promote awareness within Article 5 countries to enable sustainability.</li> <li>➤ Consider regional implications when planning and approving projects to minimize illegal trade of ODS.</li> <li>➤ Specific agreements (i.e., performance-based) are an important step to achieving compliance.</li> <li>➤ Take further steps to recognize the threat and encourage IAs to prepare projects for these countries. The ExCom has begun this process by requesting IAs to assist these LVCs and to determine what consumption is eligible (Decision 40/19).</li> </ul>
<i>Fund Secretariat</i>	
<ul style="list-style-type: none"> <li>➤ Potential incompatibility of the monitoring and evaluation system with the changing portfolio of projects.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Adapt the monitoring and evaluation system to the increasing number of multi-year agreements.</li> </ul>

<ul style="list-style-type: none"> <li>➤ Potential incompatibility of the structure of the Secretariat with the changing portfolio of projects.</li> <li>➤ Enabling compliance for all Article 5 Parties.</li> </ul> <p><i>Implementing Agencies</i></p> <ul style="list-style-type: none"> <li>➤ Not all NOUs have a sense of in-country ownership; this may jeopardize NOUs' incentive to phase out after all the funding is promised through 2010.</li> <li>➤ Compliance will be threatened if timely implementation of already approved projects is not achieved.</li> </ul> <p><i>Treasurer</i></p> <ul style="list-style-type: none"> <li>➤ Future reconciliations could be protracted and difficult.</li> <li>➤ Potential future transitions between Treasurers could be difficult if the policies and procedures of the Treasurer are not written down to preserve institutional memory.</li> </ul>	<ul style="list-style-type: none"> <li>➤ Augment the structure of the Secretariat to fit the portfolio of projects; for example, the types of experts employed by the Secretariat should reflect the types of projects that are largely being implemented.</li> <li>➤ Effectively and efficiently monitor projects to ensure that Article 5 Parties are assisted in reaching their compliance goals through timely disbursement of funds and implementation.</li> <li>➤ Enhance national commitment to reduce consumption and production of ODS; ensure active involvement of the NOU in project identification, development, and implementation; and develop appropriate institutional capacity.</li> <li>➤ IAs should visit countries more often to speak with government representatives and increase the importance of ozone-related issues on the national agenda.</li> <li>➤ Reduce fund disbursement and implementation delays to ensure that Article 5 Parties achieve compliance.</li> <li>➤ Use the recently approved remuneration to improve recordkeeping to reduce the need for future reconciliations of accounts. New staff hired as a result of the Treasurer's new compensation can help implement a quality control system to minimize human error in data entry.</li> <li>➤ Document the internal policies and procedures to facilitate any future transitions between Treasurers and to clarify to contributing Parties, the Secretariat, and IAs the steps required to standardize recordkeeping.</li> </ul>
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- 1 In general, the ExCom, Secretariat, IAs, and Treasurer will be tasked with further adapting the current
- 2 structure and practices of the Fund to the compliance-oriented, country-driven modality and to the
- 3 changing portfolio of MLF projects (e.g., the increasing proportion of multi-year agreements).
  
- 4 In the end, however, the ExCom, Secretariat, IAs, and Treasurer must collaborate to enable Article 5
- 5 Parties to achieve long-term compliance. Over the next five years, the Fund will deal with difficult
- 6 issues such as HCFCs, methyl bromide, destruction technology, and second-hand equipment. Fund
- 7 participants should aim to apply important lessons learned in past project work to these issues so as
- 8 to improve management practices. In particular, the ExCom, Secretariat, and IAs may find that the
- 9 objectives of the Fund and the Montreal Protocol can be best achieved by planning, approving, and
- 10 implementing projects that build in-country capacity and show promise to be sustainable after the
- 11 allocated funds are spent.