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**Evaluation of the financial mechanism of the
Montreal Protocol**

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

Note by the Secretariat

By its decision XXII/2, the Twenty-Second Meeting of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer approved the terms of reference and funding for an evaluation of the financial mechanism of the Montreal Protocol. In accordance with those terms of reference, a steering panel convened and selected an independent evaluator to carry out the evaluation. The evaluation is now complete. The executive summary of the final report of the evaluator is set out in the annex to the present note. It is reproduced as received, without formal editing. The full report, which includes an appendix containing comments submitted by the parties, is set out, in English only, in the annex to document UNEP/OzL.Pro.24/INF/4, which is available from the Secretariat's conference portal (conf.montreal-protocol.org).

* UNEP/OzL.Pro.24/1.

Annex

Executive Summary

Introduction

To help Article 5 countries meet their ozone-depleting substance (ODS) reduction targets, financial and technical assistance is provided to Article 5 countries through the Multilateral Fund for the Implementation of the Montreal Protocol (MLF), with contributions coming from developed countries. Recognizing the need to periodically review the operation of the financial mechanism to ensure maximum effectiveness in addressing the goals of the Montreal Protocol, the Parties to the Montreal Protocol requested evaluation studies which were carried out in 1994-1995 and 2003-2004. Since it has been more than five years since the last evaluation, the Twenty-Second Meeting of the Parties decided it was appropriate to evaluate and review the financial mechanism again in 2011 to ensure its effective functioning (Decision XXII/2).

While previous studies focused on the management of the financial mechanism, the Parties decided that this study should focus its scope on: (a) the results of the financial mechanism, (b) policies and procedures, (c) other issues, and (d) lessons learned associated with the financial mechanism. The full terms of reference (TOR) were provided in Annex 1 of Decision XXII/2.

The evaluation was carried out by an independent evaluator, ICF International, and guided by a Steering Panel comprised of eight members representing Austria, Canada, Colombia, India, Japan, Nigeria, the Former Yugoslav Republic of Macedonia, and the United States of America. The evaluation methodology involved gathering evidence through literature review, quantitative databases, and stakeholder consultations, and then applying qualitative and quantitative analyses to these data. Input from all Parties was solicited via a request through the Ozone Secretariat, and interviews were conducted with a representative sample of Article 5 and non-Article 5 countries, as well as with key members of the MLF Secretariat and implementing agency staff.

Summary of Findings

Extent to which both investment and non-investment projects approved under the MLF have contributed to phasing out ozone-depleting substances in Article 5 countries in accordance with Montreal Protocol compliance targets

- Investment projects are responsible for 95% of ODS consumption and 100% of ODS production phased out through MLF projects to-date.
- Investment projects would not be as successful without the foundation of non-investment activities. Looking forward, non-investment activities will have continued importance for supporting HCFC phase-down in Article 5 countries.

Total reductions of ozone-depleting substances in ODP-tonnes and metric tonnes resulting from MLF activities

- From 1993 to 2011, MLF-funded projects have resulted in the successful phase out of 256,153 ODP tonnes of consumption and 192,628 ODP tonnes of production in Article 5 countries.
- MLF activities have been successful in phasing-out ODS consumption and production across multiple chemical groups, including CFCs, carbon tetrachloride (CTC), halons, methyl bromide, and 1,1,1-trichloroethane (TCA or methyl chloroform).
- MLF activities have been successful in phasing-out ODS consumption and production across numerous industry sectors.

Analysis of some other environmental and health co-benefits, including climate benefits, as well as adverse effects resulting from activities funded by the MLF to phase out ODS

- Numerous environmental benefits, health benefits, and co-benefits for Article 5 countries are associated with activities funded by the MLF.
- MLF activities have led to substantial climate benefits given the high global warming potential of many ODS. The net reduction in consumption and production of greenhouse gases from 1993-2011, relative to the consumption and production baseline, is estimated at 1,387 million metric tonnes of carbon dioxide equivalent (MMT_{CO₂eq}) and 943 MMT_{CO₂eq}, respectively.
- Using conservative emission factors in each end-use and calculating reductions over a 15-year period, it is estimated that overall GHG emission reductions are 6,700 MMT_{CO₂eq}.

<p>Comparison of ODS phase-out planned in approved projects and ODS phase-out achieved</p> <ul style="list-style-type: none"> Completed projects have achieved, and even exceeded, the targeted level of ODS phase-out. 100% of the planned 235,608 ODP tonnes of consumption and 105% of the 181,494 ODP tonnes of production have successfully been phased-out.
<p>Comparison of planned cost-effectiveness of approved projects and actual cost-effectiveness</p> <ul style="list-style-type: none"> On average, the actual cost-effectiveness of MLF projects has been very close to planned cost-effectiveness at the time of Executive Committee approval. ODS consumption projects have been about 3% more cost-effective than planned, while ODS production projects have been about 9% more cost-effective than planned.
<p>Comparison of planned project implementation time and implementation time achieved</p> <ul style="list-style-type: none"> Projects funded under the MLF have generally taken longer to complete than initially anticipated. On average, projects have a planned implementation time of 20 months, but take 31 months to reach completion (relative to the date that funding was approved). Planned versus achieved implementation time vary across time and projects categorized by agency, project type, and sector.
<p>Effectiveness of capacity-building provided, including institutional strengthening and compliance assistance</p> <ul style="list-style-type: none"> Support for developing ODS legislation, establishing licensing and quota systems, and preventing illegal trade are seen as some of the most effective contributions of the Compliance Assistance Program (CAP) managed by UNEP. Stakeholders interviewed for this evaluation agreed that CAP has facilitated information exchange and cooperation among NOUs through regional network meetings, workshops, and South-South cooperation activities. Many stakeholders regard institutional strengthening (IS) activities as the most effective of the non-investment project types and a fundamental component contributing to the overall success of the Montreal Protocol.
<p>Effectiveness of timing between meetings, submission deadlines and reporting deadlines</p> <ul style="list-style-type: none"> Timing between Executive Committee meetings is currently appropriate, given the high volume of HPMPs requiring review and approval. The amount of time currently allotted for each stage of project submission review is already at the minimum necessary level. Revising the deadlines is not likely to be feasible.
<p>Effectiveness, consistency and efficiency of procedures and practices to develop, review and approve project proposals under the MLF</p> <ul style="list-style-type: none"> A consensus emerged that procedures to develop, review, and approve project proposals are effective, transparent, and generally efficient. The ability of the MLF system to accommodate the large volume of projects recently seen with HPMPs—including on the part of agencies to prepare proposals, the Secretariat to review those proposals, and the Executive Committee to approve them—should be considered a testament to effectiveness and efficiency of its project approval procedures. The MLF funding process is largely considered straightforward by stakeholders.
<p>Ability of the project and activity planning and implementation process to ensure compliance</p> <ul style="list-style-type: none"> The MLF has achieved an exceptional track record for compliance. 100% of Article 5 countries that reported 2010 consumption were compliant with the complete phase-out of CFCs in 2010. Up to 30 countries may need to make additional reductions to comply with the phase-out of methyl bromide in 2015. Some countries may need additional assistance from the MLF to achieve the phase-out. While many Article 5 countries consulted for this evaluation expressed satisfaction with their HPMP process, delays in the finalization of Stage I HPMPs could threaten compliance with upcoming HCFC phase-down targets.
<p>Effectiveness and efficiency of monitoring, reporting procedures and practices</p> <ul style="list-style-type: none"> Monitoring and reporting practices are effective, particularly in terms of monitoring financial progress, identifying achievement of milestones, detecting and monitoring project impediments and delays until resolution, and determining when requirements have been met to justify the approval of the next tranche of funding. Current monitoring and reporting procedures are not as streamlined or efficient as they could be. The evaluation found a consensus among the agencies, Executive Committee, and Secretariat that some overlap in reporting requirements exists in terms of what agencies must submit to the Secretariat. Preliminary activities have taken place to review the reporting requirements and identify opportunities for streamlining.

Ability and efficiency of internal evaluation and verification mechanisms to monitor and confirm results

- The breadth of the MLF's evaluation function is appropriate given the MLF's limited scope of activities and that results can be confirmed through reporting under Article 7.
 - Verification is found to generally have a positive impact by providing additional information on import licensing and quota systems, as well as serving as a cross-check of import data against multiple sources, including customs data and other government data to help confirm that phase-out has actually taken place.
- Article 5 countries generally provided positive feedback on the verification process, but limited access to data was frequently reported by stakeholders as a challenge to the verification process.

Extent to which policies and procedures are adapted or improved based on experiences and relevant circumstances

- Adapting policies and guidelines based on new issues or circumstances is integral to how the Executive Committee operates, and an important contributor to the overall success of the MLF.
- There is a perception among some stakeholders that policies and procedures are not so much "adapted" or "improved" as simply added.

Review of the distribution of funding among regions where parties operating under paragraph 1 of Article 5 are located, as well as between low-volume consuming countries and non-low-volume consuming countries

- LVC countries have received roughly 10% of total MLF funds, an amount that is proportionately higher than their share of consumption (about 3% of total Article 5 ODS consumption).
- To-date, it can be inferred that an appropriate balance has been achieved and funding has been sufficient, given the high compliance rates for the Montreal Protocol.
- There is a concern among some stakeholders that LVC countries may not be receiving adequate funds to achieve compliance with HCFC phase-out.

Extent to which programmes and projects approved under the financial mechanism have facilitated the implementation of the technology transfer provisions under Articles 10 and 10A of the Montreal Protocol and related decisions of the Parties, taking into account the geographical origin by region of technology provided in representative sample of projects

- Agency technology procurement processes are found to be open and consider cost-effectiveness, technical effectiveness, ability to implement, and other objective factors.
- Technology selection is not systematically reported in project documentation, nor recorded in any data management system by the MLF.
- Geographical proximity of non-Article 5 countries may influence technology selection in Article 5 countries, and the Executive Committee has the ability to influence the direction of technology selection.

Lessons learned in view of the future challenges of the Montreal Protocol and the MLF

- Some of the key features of how the MLF operates have been instrumental to its success, including: a compliance-oriented approach, straightforward and relatively fast access provided to project funds, consistent application of the principle of incremental costs, a transparent and collaborative business planning process, continued support for institutional strengthening and capacity building efforts, and decision-making informed by comprehensive technical analysis.
- A strong policy framework must be in place before implementing the phase-out, including creating regulatory and legal frameworks, developing customs training, and implementing quota and licensing systems.
- Stakeholders noted the value of demonstration projects and urged the use of these projects to allow for innovation in the second phase of HPMPs.
- Article 5 countries noted the importance of strong relationships with industry during the CFC phase-out and implied that it would be important to maintain these through the HCFC phase-down.
- Near-term opportunities should be weighed against long-term objectives in future phase-out.
- Policies and guidelines must be adapted to address particular issues and changing circumstances.
- The MLF's country-driven approach has enabled personnel in Article 5 countries to take ownership and gain capacity.
- The Fund has built institutional knowledge and technical learning over the past quarter of a century that is a resource for future sector conversions.

Lessons learned from other international environmental institutions and agreements

- Private entity and government sustainability and commitment are critical drivers in the success of GEF investments in the ODS focal area, as they also are in the MLF. Strong private sector involvement, including through providing co-financing, contributed to the rapid and enduring phase-out of ODS.
- In CEITs, the national ozone units ceased to function after GEF support ended, which may prevent measures being put in place to address the remaining threats to the ozone layer, including the phase-out of HCFCs and destruction of unwanted ODS stockpiles.
- GEF operations have been less cost-effective than those of the MLF, in part because GEF projects did not always adhere to incremental financing procedures.

Strengths, Weaknesses, Opportunities, and Threats

The terms of reference for the evaluation requested the identification of strengths, weaknesses, opportunities and threats associated with the financial mechanism. Based on consultations with Parties, agencies, the Secretariat, and other stakeholders, as well as an extensive desk review, several items have been found in each category.

Based on the MLF's positive accomplishments and what has worked well to produce those results, the evaluator found a number of strengths. The overall model for the financial mechanism of the Montreal Protocol works exceptionally well and could be considered a model for other multilateral environmental agreements (MEAs); it has clear objectives, universal participation, and directly links funding and compliance. Procedures to develop, review, and approve project proposals are effective, transparent, and generally efficient. This is demonstrated by the ability of the MLF system to accommodate a large volume of funding requests and move them quickly through the approval process. In addition, the process to obtain funding is straightforward, and there are clear guidelines that are applied consistently across stakeholders. Another strength is the adaptability of the financial mechanism; policies and guidelines are regularly updated based on new issues or circumstances that arise, for example, through project proposals.

Executive Committee decisions and guidelines are based on robust negotiations, and are supported by a large amount of data and technical expertise through access to the TEAP. Stakeholders generally agree that the Executive Committee is fair and allocates funds in a way that achieves an equitable balance.

The MLF's country-driven approach promotes capacity-building and ownership and has been successful at transforming industry and producing sustainable results. Institutional strengthening funding and capacity building efforts to help Article 5 countries achieve and maintain compliance are a particular strength of the mechanism, and these efforts will continue to be important with HCFC phase-down. Furthermore, the ability to confirm results through reported Article 7 data has proven to be an important contributor to demonstrating the success of the Fund, ensuring compliance and effectively measuring progress. Due to these strengths, the MLF has achieved truly remarkable success in phasing out ODS consumption and production across multiple chemical groups and across numerous industry sectors.

The MLF's compliance-oriented approach may be seen as both an important strength and a weakness of the Fund. As noted previously, the MLF's focus on compliance throughout project planning and implementation has resulted in an exceptional track record of compliance with ODS phase-out targets and is a recognized advantage of the MLF model. However, this approach, combined with tight compliance schedules, has resulted in a limited ability for the MLF to address other issues relevant to ODS phase-out, but not relevant to compliance with the Protocol, including destruction and other end-of-life control of ODS.

Additional weaknesses were also noted. The evaluation found a consensus that some overlap in reporting requirements exists in terms of what agencies must submit to the Secretariat. In addition, agencies and the Secretariat may have different interpretations of the approved HPMP guidance, and there are areas where clearer guidance on HPMPs would be beneficial. In some ways, these largely administrative or procedural weaknesses further demonstrate the overall strength of the MLF funding model—i.e., despite some procedural weaknesses or inefficiencies, significant results are still achieved. As a specific example, regardless of the experience of project implementation delays as quantified in section, the vast majority of Article 5 Parties have still been able to meet

their compliance goals under the Montreal Protocol. Similarly, planned ODS phase-out has been essentially equal to phase-out achieved. The achievement of these metrics reflects positively on the overall functioning of the financial mechanism.

Two major opportunities were identified, both of which involve pursuing linkages with other environmental issues to further ozone objectives. One potential opportunity to promote ODS destruction is by linking it with the collection and destruction of persistent organic pollutants (POPs). The Executive Committee might wish to consider collaborating with the Conference of the Parties of the Stockholm Convention on Persistent Organic Pollutants to pursue mutually beneficial destruction opportunities; collaboration would also be required with the Stockholm Convention's financial mechanism, the Global Environment Facility. Additional potential opportunities exist in the linkage between ozone and climate. Co-financing may be available through the carbon market—both through the Kyoto Protocol Clean Development Mechanism (CDM) or a future crediting mechanism agreed upon under the international climate regime, and through the voluntary market—as well as through other multilateral environmental funds with a climate mandate such as the Global Environment Facility (GEF) and the Green Fund, to promote energy efficiency co-benefits associated with HCFC phase-down. Some agencies are already seeking these synergies in their projects, integrating programs across funding mechanisms. In addition, co-funding may be available through the voluntary carbon market to support the recovery and destruction of ODS in Article 5 countries. The Voluntary Carbon Standard (VCS) has recently approved a new methodology for these ODS destruction project activities. The Executive Committee should consider encouraging NOUs and agencies to look at and pursue these synergies and linkages, as they serve to further the ozone agenda. It is important to note, however, that the pursuit of these synergies have associated costs and challenges; some “resource mobilization” activities have already been approved.

Looking forward, the MLF also faces some threats to its future success. Several countries are expected to require additional assistance in order to be compliant with the 2015 phase-out of methyl bromide, and agencies noted some potential for backsliding since some farmers have indicated their dissatisfaction with methyl bromide alternatives, particularly in Africa and Central America. With regard to HCFCs, 35 countries are expected to submit HPMPs in 2012, although six countries have not completed preliminary activities required to finalize their HPMPs. Given that project implementation typically takes several years, some Article 5 countries may face difficulties with meeting the 2013 freeze and 2015 phase-down target. Some stakeholders also expressed concern over the ability of LVC countries to meet future HCFC phase-down milestones, given perceived low funding levels and expected disbursement schedules. These concerns will require the attention of the Executive Committee to ensure that its policies support these compliance objectives, and the attention of the agencies and NOUs to ensure that their plans are reasonably expected to achieve compliance.

Achieving stable funding in the future could be another challenge. As was noted in the TEAP Replenishment Task Force Report for 2012-2014, funding requirements for HPMPs show an increasing trend up to the year 2020. Funding requirements for the triennia 2015-2017 and 2018-2020 are higher than funding levels in any previous triennium to support increasing reductions in HCFC consumption.

Recommendations

The TOR for this evaluation—as approved in Annex 1 of Decision XXII/2—predominately focuses on the results achieved and administrative procedures of the financial mechanism. In these areas, the evaluators have found that the MLF is performing commendably. As described in the findings above, the MLF has been remarkably successfully in achieving the phase-out of ODS consumption and production, and the funding mechanisms have been honed throughout a quarter century of project experience. As such, the evaluators do not recommend any major changes to improve results and restructure administrative procedures, and commentary on specific policy issues is outside the scope of this evaluation. That said, there is always room for improvement, particularly given new challenges associated with the phase-down of HCFCs. Thus, as requested in the TOR, recommendations are provided with regard to: results achieved; organizational effectiveness and decision-making processes; information dissemination and capacity-building activities; effectiveness of technology transfer; and cooperation with other organizations.

Results Achieved:

- Encourage Article 5 countries to submit remaining Stage I HPMPs as soon as possible and begin implementing strategies in approved Stage I HPMPs without delay.
- Encourage the Executive Committee to approve project preparation funding for Stage II HPMPs as early as possible.
- Ramp up efforts to phase out methyl bromide in order to meet the 2015 milestone.

Organizational Effectiveness and Decision-Making Processes:

- Review and streamline reporting requirements given the new complexity of HPMPs and other MYAs.
- Improve the accessibility and consistency of guidance on HPMP preparation.
- Evaluate the quality of HPMP preparation.

Information Dissemination and Capacity-Building Activities:

- Consider future availability of institutional strengthening funding, especially for LVCs.

Effectiveness of Technology Transfer:

- Consider systematically tracking technology transfer.

Cooperation with Other Organizations:

- Pursue climate, POPs, and ozone synergies and linkages to further the ozone agenda.
-