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**CRITERIA FOR THE ASSESSMENT OF THE PROGRESS REPORTS AND
VERIFICATION AUDITS OF MULTI-YEAR AGREEMENTS (DECISION 41/15)**

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CRITERIA FOR THE ASSESSMENT OF THE PROGRESS REPORTS AND VERIFICATION AUDITS OF MULTI-YEAR AGREEMENTS (DECISION 41/15)

Introduction

1. It is clear now that multi-year agreements (MYAs) will occupy a predominant position in the project portfolio of the Multilateral Fund in the future. Depending on the method of funding agreed by the Executive Committee, MYAs can be divided into two groups; I—those which receive full funding at approval, and II—those which received a commitment in principle to a funding level but disbursement takes place over a number of years in the future. Group I includes all the refrigerant management plans (RMP) for the majority of the LVCs and a number of methyl bromide projects, and currently there are 101 agreements in this group. Group II includes the national phase out plans for CFC and methyl bromide, and a few sector plans in mostly the medium and large consuming countries, and this group consists of 50 agreements.

2. In spite of the different financial arrangement, the MYAs in both groups converge in substance. This is especially true with regard to those on CFCs. With the completion, or near completion of the phase out in the CFC-consuming manufacturing sectors in the medium and large consuming countries, what remains to be addressed in the national phase out plans is the CFC consumption in the refrigeration servicing sector, the same challenge that the LVCs are confronted with in their RMPs. The MYAs, which integrate both government policy control and industry activities, constitute in most cases the action plan for the concerned countries to achieve their compliance obligations. By monitoring effectively the performance of these MYAs, it is possible to monitor the status of the countries in implementing their agreed phase-out schedules. All MYAs mandate an annual verification audit (AVA) to be submitted to the Executive Committee and, in addition, MYAs in Group II make AVA mandatory for the purpose of releasing the next tranche of funds.

3. The AVAs could provide an unique opportunity for all stakeholders, national governments, the responsible implementing agencies and the Executive Committee to take stock of the situation in respect of implementation of the MYA in the country concerned and identify potentially problematic areas. It could serve as an early-warning mechanism and so enable the parties concerned to propose any changes necessary for compliance purposes, taking advantage of the flexibility clause built in many of the MYAs.

4. The position regarding rate of submission of AVAs by MYAs under implementation falls into two categories following the pattern of the two groups. None of the MYAs in Group I have submitted an AVA except a performance review of the 1st phase of the RMP at the time when the request for funding the RMP update is submitted. There could be various reasons for this situation, one of them being that the relatively limited funding of the RMPs may not warrant annual performance reports. *(However, in most cases the RMP and the institutional strengthening project are the only activity funded by the Multilateral Fund in these countries, and it is proposed that the Committee should consider requiring an AVA for those programmes. This would provide the opportunity to detect early enough any signs of actual or*

potential non-compliance and thereby the ability to initiate remedial measures. However, in order to avoid too many duplicating reporting requirements, it is proposed to merge the following existing reports into the newly proposed AVA:

- *the Country Programme report (currently due in May of each year)*
- *status report and workplan to obtain funding for the extension of the institutional strengthening project (currently every two year, would now be provided yearly)*
- *progress reports needed when applying for an RMP Update*

A format combining the reporting requirements of the above three reports would be prepared and it is suggested to request such report by 20 September of each year to ensure conformity with the consumption data being submitted to the Ozone Secretariat at that time. -- UNDP)

5. The compliance rate of Group II for the submission of APRs is 100% and the request for the next tranche of funding is certainly a contributing factor. However, due to lack of uniform standards, the quality of AVAs varies considerably, except for those in the ODS production sector which follow specific guidelines approved by the Executive Committee in 2000. A number of the AVAs include a detailed description of the institution carrying out the verification, such as the authority and accreditation of the institution, the qualification of the individuals carrying out the audit, and its relationship to the government. These reports describe the legal provision of the government concerned for controlling ODS imports; the designation of the government departments for enforcing such provisions; the methodology used in the audit; the auditor's accessibility to the records; the size of the sampling; and the issues identified and conclusions. On the other side of the spectrum, a number of other AVAs provide a very sketchy description of the process followed and limited data but still conclude that the targets were met.

6. It is obvious that one of the main tasks of the Executive Committee, the national governments and the implementing agencies in the years to come is to monitor the MYAs, and an informative AVA would provide the tools to carry out the monitoring function. An informative AVA will also enable the Executive Committee to exercise its financial responsibility with ease and confidence when processing the annual disbursement requests from MYAs in Group II. This necessitates the development of common criteria and procedures both for preparing the AVAs and assessing the adequacy of the data in the AVAs. It also provides the rationale for the decision of the Executive Committee to request "the Fund Secretariat, in co-operation with the implementing agencies, to develop criteria for the assessment of the progress reports and verification audits of multi-year agreements with the aim of submitting a paper to the 43rd Meeting" (Decision 41/15).

7. The objective of this paper is to propose the criteria for data collection and corroboration of the performance verification of MYAs, which will include a basis for data collection, the procedure to be followed and the qualifications of the team to perform such verification.

8. The Secretariat sent a draft of the paper to the implementing agencies for peer review and received comments from UNDP and the World Bank as of the time of dispatch of the document. The proposed changes are either incorporated in the paper or included as alternative texts and shown in *bold italics and with attribution*.

Issues associated with performance verification of MYAs

9. The MYAs present a challenge to the current programme monitoring system, which focuses on individual project performance. The impact of an investment project, which is defined by the number of ODP tonnes of a controlled substance to be forfeited by an enterprise, can be corroborated by the examination of the level of ODS used by the enterprise in product manufacture, the inventory of ODS in storage and the record of sales. However the MYAs set phase out targets at national level and measure the performance of the country rather than that of any individual enterprise. This calls for the collection of consumption data from all sectors where the ODS concerned is used.

10. In theory national data is an aggregation of the data of all the users in the country but in practice collecting ODS consumption data at end-user level could be difficult to achieve. For some ODS, this may involve a limited numbers of industries, like for instance halons. However for CFCs, it will include a significant number of small users in certain sectors; the most challenging is the refrigeration servicing sector which could have numerous servicing shops of varying sizes with quick turn-over, and businesses importing ODS-based equipment. Any serious data collection campaign to cover a large number of users, even on a representative sampling basis would be costly and mounting the campaign every year would be unfeasible.

11. Assuming that a national survey could cover all the users, big and small, the data collection would require each user to distinguish the ODS that was purchased in the year of the verification from any ODS that was purchased in previous years but had not been consumed, since the stockpiles from the previous years should have already been recorded in the consumption of the country for the year in which they were imported. If included again in the consumption of the year of the verification, this would result in double counting. Unless it is expected that the owner of each servicing shop maintains a clean record of purchases, the margin of error in such a survey could be significant.

12. Compared with the industry user data which has the complication of double counting, the import data offers a more reliable source for measuring the actual ODS consumption of a country for a given year. It records the quantity of the ODS entering the country, and for that matter also leaving the country in the case of an ODS-producing country that exports. It has little chance of being mixed up with stockpiles, and therefore could be a good measurement of national consumption, provided that a functioning import control regime had been established. Therefore the verification of imports should include, as an integral part, the examination of the import control policy and the enforcement regime in order to add credence to the data collected.

13. Using imports to confirm consumption is consistent with the definition of consumption used under the Montreal Protocol where consumption is defined as production plus imports minus exports. For the majority of the Article 5 countries which do not produce the ODS and where the imports are not re-exported, the formula can be simplified to become consumption equals imports. For those countries where the ODS is produced, the verification of consumption has to include data on production which is independently verified, as well as imports and exports.

14. An effective import control on ODS is essential for the success of the MYAs, because it is only by curtailing the supply of ODS through controlling import of ODS and ODS-containing equipment that the price shift between ODS and their substitutes will eventually take place in favour of the latter. Conversely data on the prices of ODS, their substitutes and their supply, will provide an indication and corroboration of the effectiveness of the import control regime and the likelihood of any ODS illegally entering across national borders.

Criteria for annual performance verification of MYAs

Purpose

15. The purpose of the Criteria is to provide guidance for the annual verification audits of the MYAs.

Applicability

16. The general guidelines are intended for multi-year agreements for sectoral and national phase out plans in CFCs, halons, CTC, TCA, and methyl bromide. *(The recommendations will be applied in a flexible manner to take into account (1) the reporting requirements contained in existing ExCom agreements and (2) cost limitations related to any added auditing and reporting requirements. -- UNDP)* They do not apply to ODS production sector phase out agreements which are governed by guidelines approved by the Executive Committee in the year 2000.

Time of Submission

17. AVAs for MYAs with a funding request should be submitted according to the schedule as prescribed in the agreements. AVAs for MYAs without a funding request should be submitted to the Fund Secretariat no later than 1 May (*20 September -- UNDP*) of each year.

Basis for Verification Audits of MYAs

18. Since the MYAs define their achievement targets in annual national maximum allowable consumption of an ODS, the MYAs should use the Montreal Protocol definition of consumption as the basis for the verification of the targets. For those Article 5 countries which do not produce the ODS and the imports are not re-exported, the formula can be simplified to be consumption equals imports. The collection and verification of the data on imports would be the means for confirming the national aggregate consumption of the ODS concerned in a country in a given year. For those countries where the ODS is produced, the verification of consumption has to include verification of production data using the guidelines approved by the Executive Committee, and the criteria defined herein to verify imports and exports.

Data Corroboration

19. To corroborate the import data and indicate the effectiveness of the import control regime, the following data for the year of the verification and the two preceding years (***and the two preceding years if available -- UNDP and World Bank***) should be provided covering:

- (a) The quantity and prices (***retail prices -- World Bank, average prices -- UNDP***) of the ODS imported;
- (b) The quantity and prices (***average prices -- UNDP***) of the substitutes imported; (***delete quantities -- UNDP***) and
- (c) The amount of new and second-hand ODS-based equipment imported (***if available -- UNDP***).

Procedure of the Verification

20. The verification of ODS imports should (***be carried out in accordance with international or national standards -- World Bank***) include:

- (a) Review of the policy of the Government for controlling ODS and ODS-containing equipment, which should include the nature of the policy (for instance, a government decree, a law, etc), date of its enactment, the scope of its coverage etc;
- (b) The Government department(s) designated for enforcement of the policy such as the department for issuing import quota and export license, and the responsibility of the customs and the department of statistics;
- (c) The registration of ODS importers and exporters, and if possible the distributors (***that are directly buying ODS from those importers -- UNDP***);
- (d) (***If available -- UNDP***) The registration of importers of ODS-based equipment; and
- (e) (***For a sample of entry points -- UNDP***) The adequacy of the control at major ports, including (***the training received by custom officers and awareness of the ODS issue -- World Bank***) the availability of technical means for detecting ODS imports and exports.

Data to be Reviewed

21. For the verification process, the following information should be available:

- (a) List of the importers and exporters authorized by the government;
- (b) List of distributors authorized by the government, if available;

- (c) Annual import and export quota issued; and
- (d) Actual imports and exports by the authorized importers and exporters, supported by customs declaration forms, *(any/or other supporting documentation, if available -- UNDP)*.

The Verification Team

22. The verification should be carried out by reputable audit institutions that have international or national accreditation, such as certified accountants. *(Its selection will be determined with due consultation with the government concerned. -- UNDP)* The team should include an accountant and *(if deemed necessary -- UNDP, World Bank)* a chemist or chemical engineer. *(Unless stipulated otherwise in the Multi-Year Agreements (MYAs) with the country concerned, the costs for these audits will be borne by the MLF and will be in addition to the funding that has been allocated to the MYA. -- UNDP)*

23. *(We finally suggest to add a PARAGRAPH 23, stating that a format for the AVA will be developed by the MLFS in cooperation with the Implementing Agencies to be considered at the 44th meeting of the Executive Committee. -- UNDP)*
