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A DRAFT REPORT ON THE OPERATION OF THE FINANCIAL MECHANISM SINCE 1 JANUARY 1991

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EXECUTIVE SUMMARY

Widespread international concern over the destruction of the ozone layer led to the signing of the Montreal Protocol on Substances that Deplete the Ozone Layer in 1987. The Protocol embodies a schedule for controlling most of the substances known to deplete the ozone layer.

Though the ozone layer depletion problem has resulted primarily from ozone depleting substances (ODS) consumption of the developed world, the Parties to the Protocol recognized that an effective solution requires the participation of developing countries. Without their participation, as these countries sought to improve their standards of living, they too would expand their production and consumption of ODS, thereby compounding the already grave threat to the ozone layer. It was decided, therefore, to create a Fund that would make resources available to developing countries encouraging them to pursue alternatives to the use of ODS.

The Multilateral Fund for the Implementation of the Montreal Protocol (the Fund) represents a formal commitment by developed countries ("donor countries") to help developing countries (Article 5 countries) meet global environmental obligations. The Fund is administered by an Executive Commnittee which is assisted by a Secretariat. Four international agencies, namely, the UNDP, UNEP, UNIDO, and the World Bank, are the implementing agencies of the Fund. The creation of the Fund has been hailed as a demonstration of international co-operation that could become the model for similar and even more complex undertakings in the future.

The Fund began formal operations in January 1991. Despite typical growing pains associated with the start-up of any multinational organization, the Fund has made substantial progress during its first two years of operation. As of November 1992, nine country programmes defining comprehensive ODS elimination strategies, had been submitted and approved for 9 developing countries and funding for the preparation of 30 more country programmes had been approved. Specific projects to finance the incremental cost of ODS elimination had been approved for 14 countries including China, the developing world's largest consumer of ozone-depleting substances. These projects alone, when completed, will eliminate an estimated 31,000 tonnes of ozone-destroying substances annually.

While these successes are important, much remains to be done. The present report was requested by the Parties at their Fourth Meeting held in Copenhagen in November 1992 (decision IV/18, part II,1a). It is designed to provide a review of the first two years of operation of the Multilateral Fund.

In assisting Article 5 countries, the Implementing Agencies have been tasked with a variety of functions. Article 5 countries are also identifying their own staffing and resource requirements to work efficiently with the Implementing Agencies.

Each of the Implementing Agencies has a unique style of doing business. The World Bank tends to take a "pro-active" approach and actively seeks out opportunities for providing its services. The UNDP, on the other hand, will wait to be asked before engaging in any discussions with a country. Whatever the approach, the response of Article 5 countries has varied. Factors that seem to contribute to a successful relationship include: sensitivity to the capacity of the Article 5 country to meet Implementing Agency requirements; assistance in building local capacity (through institutional strengthening); a willingness to adapt and modify procedural requirements where appropriate; trust; and a common understanding of the means and objectives of the proposed activities/programme.

There are various qualitative and quantitative indicators of the performance of the Fund. Perhaps the most important final output is the amount of ODS eliminated in Article 5 countries. Many impatient observers and participants are critical of the fact that after two years of operations, the amounts eliminated remain minuscule.

From the outset, the donor countries have been concerned with how much they will have to contribute, how their contributions will be used, and how decision-making will be conducted. There are now several estimates of the total amounts that will be required to conduct the programme and these should allay some concerns about the size of the contributions required. While the amounts involved are by no means insignificant, they are not large in comparison with other national and global expenditures and will probably result in a very high benefit cost ratio.

While the Executive Committee, the Secretariat and the Implementing Agencies are striving to obtain quicker actions, the efficiency of the Fund's operation seems comparable to that found in the normal operations of the executing agencies and the participating state institutions. In fact, evidence suggests that the supervisory and co-ordinating role assigned to the Executive Committee and supported by the Secretariat has improved the approach, co-ordination, procedures and outputs of the implementing agencies. The Executive Committee and the Secretariat currently absorb only around 3 per cent of total disbursements and are likely to remain at current levels while disbursements increase. This suggests that money spent on administration is both cost-effective and well worth it in terms of overall gains to the Programme.

A more important outcome of the Fund's operation is the fact that this co-operative effort seems to have overcome many of the earlier suspicions on the part of both donors and recipients. It is significant that those who are closest to the process have developed the greatest faith in it. Parties that have participated in the Executive Committee tend to be more positive in their assessment of achievements and future performance. Within the participating countries, the Ministries that have been most directly involved in the work of the Multilateral Fund are more optimistic than those that are only peripherally engaged. This process of confidence building is vital to the ultimate outcome, as it will affect both contributions from donor countries and implementation in the Article 5 countries.

Over the next year, the Fund may be in a position to take additional steps to improve confidence further. The Executive Committee, Secretariat and Implementing Agencies are gaining enough experience to establish reasonable expectations in the form of phase-out targets by sector. Additionally, there is a recognition that measurable achievements should be more clearly communicated to the different stake holders. Countries should more actively pursue the practice of taking representatives from neighbouring countries to EC meetings. This has proved to be an effective means of increasing knowledge of the process and building confidence in their fairness and effectiveness.

There has been some tension between the GEF and the Multilateral Fund as each attempts to define its role. The recent decision of the Parties to transform the status of the Multilateral Fund from interim to permanent may help resolve certain ambiguities among the stake holders and overcome lingering resistance to the Fund on the grounds that it would not survive.

A positive overall assessment of the Multilateral Fund process should not be taken to imply that there have been no problems or that progress might not have been faster. Such challenges, however, are normal in any new programme and are to be expected in anything as complex as the Montreal Protocol. One positive feature is that identified problems have been addressed by the actors involved and steps have been taken to overcome them.

Many Article 5 countries only began to take the question of implementation seriously after the London Amendment was agreed upon a little over two years ago. Many still do not have policies and institutions in place to begin implementation. In the coming two years, the rate at which projects are implemented will depend on the determination and ability of the Article 5 countries to overcome current barriers within their own environments. As they do so, they will make new demands on the Implementing Agencies to improve their own contributions to the process.

INTRODUCTION

The Fund is designed to finance the activities of developing countries seeking to comply with the Montreal Protocol. This work has a finite time frame (the year 2010) and an attainable, measurable goal (elimination of the production and consumption of ODS in developing countries). More specifically, the Parties to the Protocol have agreed that the Fund shall finance country-specific studies to identify the needs of developing countries; facilitate technical co-operation to meet those needs; disseminate information, organize training, and facilitate and monitor the opportunities for co-operation available to the developing countries that are Parties to the Protocol.

Countries that are eligible to receive funding and technology transfer to eliminate ODS are defined in paragraph 1 of Article 5 of the Protocol and are thus referred to as "Article 5 countries." These developing countries consume less than 0.3 kilograms of ODS per capita per annum. All other Parties to the Protocol submit contributions to the Fund, based on the UN scale of assessments (Article 10, paragraph 6) and contribute to the technology transfer process (Article 10A).

The Fund began formal operations in January 1991. The creation of a suitable and acceptable mechanism for managing the start-up process was both difficult and challenging. Since this was truly a new endeavour, the Fund had no clear models to emulate. Creating the infrastructure and policy guidelines to make the mechanism function effectively and efficiently has been challenging.

The Parties to the Protocol have established the following principles according to which they will operate the Fund:

1. Equal participation in the governance of the Fund by developed and developing countries.
2. The use of a small secretariat to provide the necessary minimum of administrative support for the management of the Fund.
3. The use of existing multilateral agencies to undertake the required work under the Fund and so avoid the creation of new bodies.
4. The provision of both technical and financial assistance to developing countries. Financial assistance may be in the form of grants or loans and will pay for all incremental costs for the removal of ODS and for the necessary technology transfers to attain those objectives.

It was agreed that initial capitalization of the Fund would be set at US $160 million for the three-year period 1991 through 1993. This was raised to US $200 million when China signed the Protocol in 1991 and raised again to US $240 million when India signed in 1992. Payments began in 1991 and as of December 31, 1992, a total of US $91,559,920 million had been paid into the Fund. Fund disbursements as of December 31, 1992, totalled US $64,552,913 million which represented 70 per cent of the funds paid and 51 per cent of funds pledged.

Despite the normal difficulties associated with the start-up of any multilateral organization, the Fund has made substantial progress during its first two years of operation. As of November, 1992:

(1) Agreements between the Executive Committee and UNDP, UNEP, UNIDO and the World Bank were signed.
(2) Work programmes of UNDP, UNEP, and World Bank for 1991 and 1992 were approved.
(3) Nine country programmes were approved.
(4) Funding for preparation of 29 country programmes was approved.
(5) Sixty projects, including investment projects, were funded, when implemented they will result in elimination of 31,000 metric tonnes of ozone depleting substances.

By Decision IV/18, the Fourth Meeting of the Parties requested the Executive Committee to prepare a report on the operation of the Financial Mechanism since January 1, 1991. This report is intended to fulfil that request by providing the Parties with a clear understanding of the Fund's mode of operation, and the challenges it faces in the months and years ahead.

ADMINISTRATIVE STRUCTURE

The Fund is administered by an Executive Committee which is supported by a Secretariat. The implementation of the activities sponsored by the Fund is carried out by four established organizations: the World Bank (WB), the United Nations Development Programme (UNDP), the United Nations Environmental Programme (UNEP), and most recently, the United Nations International Development Organization (UNIDO). UNEP (Nairobi) also acts as Treasurer for the Fund.

Article 5 countries collaborate with their choice of implementing agencies on the development of project proposals designed to eliminate the use of ozone depleting substances. Following a technical review, and with the approval of the country, the proposals are then submitted through the Secretariat to the Executive Committee for its consideration.

Following Executive Committee approval, the implementing agencies work with Article 5 countries to refine project costs and develop specific legal agreements which will control the expenditure of the approved funding. The grant agreement process often involves the identification and selection of a financial intermediary for in country disbursement of funds, as well as the selection and agreement on the organization which will be responsible for actual project execution. Final agreement on the grant often requires the involvement and agreement of many agencies within an Article 5 country. As a consequence, grant negotiation can take many months. Following negotiation of the grant agreement, actual project implementation can begin.

The following sections outline the role and operational activities of the Executive Committee, Secretariat, and the Implementing Agencies in this process. They further explain the project cycle used by the World Bank and UNDP, and discuss areas of potential delays.

Executive Committee

The Executive Committee (EC) consists of 14 members, half from Article 5 countries and half from donor countries. Both the Chair and the Vice-Chair are chosen from the 14 members of the EC and serve for one year. One of the two officers represents the Article 5 countries and the other the remaining countries.

The 14 members of the EC are selected by the Parties. Article 5 countries are organized into three regions with two representatives from each region sitting on the Executive Committee. The additional seat rotates among the regions. The donor countries are organized into six groups - the European Community; the United States; Japan; Canada, Australia and New Zealand; the Nordic countries; and the Russian Federation. Members of the Executive Committee are nominated at a meeting of the countries within each group for varying terms—generally one to three years.

The EC makes decisions by consensus where possible. If a consensus cannot be reached, decisions require two-thirds majorities among both Article 5 and non-Article 5 countries. In practice, however, the Executive Committee proceeds by consensus and to date the Parties have reached every decision unanimously.

In seeking to deal as quickly and as effectively as possible with the problem of ozone-depleting substances in the developing world, the EC has streamlined and accelerated its own processes and those of the implementing agencies. For example, it has developed clear guidelines to help in programme presentation and analysis.

According to its terms of reference, the Executive Committee shall develop and monitor the implementation of specific operational policies, guidelines and administrative activities including:

(i) *Review and approval* of all country programmes and projects with a value in excess of US $500,000. It also reviews the work programmes of the implementing agencies, including all funding requests less than US $500,000.
(ii) *Monitoring and evaluating* the performance of the Implementing Agencies through a review of their work programmes and progress reports.
(iii) *Development of policies, guidelines and administrative practices* that facilitate and clarify the process. (The specifics are discussed in the Section entitled Review of Fund Activities.)

(iv) *Managing the funding process*. It ensures that fund needs can be met by contributions, prepares three-year plans and budgets, and reviews bilateral contributions.
(v) *Reporting to the Parties* about its activities on a regular basis and providing a formal progress report to the Annual Meeting.

Secretariat

The Secretariat provides the Executive Committee with administrative support. Located in Montreal, it consists of eight professional staff and six support staff. In addition to the chief officer, the professional staff includes two deputy chiefs, four programme officers and one information officer. The Secretariat's staffing was initially constrained by the UN's slow hiring process as well as by the requirements of programme start-up, though most staff positions have now been filled.

The staff is broadly representative of the Parties with two staff members coming from Asia, two from Africa, one from North America, one from Latin America, and two from Europe. It is highly qualified with professional training and expertise in a wide range of areas vital to Fund activities including: environmental engineering, economics, UN operations, the negotiation and management of global environmental treaties; the co-ordination of national programmes; environmental and economic analyses; and project evaluation and assessment.

The role of the Secretariat embraces the following broad areas of responsibility and activity:

(i) *Preparation and documentation* for the meetings of the Executive Committee, sub-committees and the annual co-ordination session of the Implementing Agencies.
(ii) *Policy analysis and review.* At the request of the Executive Committee, the Secretariat has already prepared several policy papers.
(iii) *Analysis and review of programme and fund activities.* The Executive Committee has requested the Parties and the Implementing Agencies direct proposals and plans through the Secretariat. This expedites the approval process by ensuring that presentations are complete and conform to the guidelines. In addition, for projects in excess of US $500,000, the Secretariat is now responsible for preparing the analysis and recommendations for the Executive Committee.
(iv) *Monitoring the activities of the Implementing Agencies.* It reviews the agencies' work programmes and progress reports, and reports to the Executive Committee. The Secretariat also ensures an up-to-date inventory of projects and programmes is maintained. To better co-ordinate the activities of the implementing agencies and reduce duplication, the Secretariat also produces an annual report that consolidates the individual work programmes of the agencies.
(v) *Communications and public relations.* The Secretariat participates in workshops, seminars and conferences to promote the activities and purpose of the Fund. It has produced a general information brochure about the Fund, papers on policy issues, and an information kit. In addition, as the Parties and the Executive Committee only meet periodically, the Secretariat serves as the central point of contact for inquiries about the

operation of the Fund.

(vi) *Administrative support, co-ordination, and liaison* for the Executive Committee. The Secretariat plays an important role in co-ordinating the fund activities undertaken by the Implementing Agencies as well as bilateral co-operation programmes.

(vii) *Financial management/monitoring of the Fund.* While the United Nations Environmental Programme (Nairobi) acts as Treasurer for the Fund, its function is primarily one of a bank and the Executive Committee is ultimately responsible for financial planning. The Secretariat supports the EC by preparing three-year budgets and operating budgets and by monitoring contributions and disbursements.

Implementing Agencies

Pursuant to the London Amendment of June 1990, the EC invited: the International Bank for Reconstruction and Development (the World Bank), the United Nations Environmental Programme (UNEP), and the United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDO) and the Regional Banks to participate in the process.

In addition to a tripartite interagency agreement between UNDP, UNEP and the World Bank signed in March 1991, each of the three agencies signed specific agreements with the Executive Committee in June 1991. UNEP as the Treasurer, signed an agreement with the Executive Committee in November 1991. UNIDO subsequently signed in October 1992. The agencies prepare annual work programmes and project proposals. They present these to the EC for consideration and approval and participate in meetings of the EC as observers. Given their responsibilities for different aspects of the overall implementation programme and their own specialization in the type of support they offer, interagency co-ordination is crucial. That co-ordination was insufficient in the first year of operation and because of concerns over duplication in the work programmes, the EC requested that the Secretariat play a co-ordinating role in developing a consolidated work programme for the agencies. The profiles as described by the respective agency, World Bank, UNDP and UNEP, have been summarized in the tables that follow.

Table 1. United Nations Environmental Programme (UNEP)	
Role	• Fund treasurer: receives all financial contributions, transfers money according to EC instructions and keeps accounts at no charge to the Fund and according to UN financial rules. • Functions as a clearinghouse to assist Article 5 countries in identifying needs and facilitating technical co-operation. • Helps smaller countries prepare their ODS country programmes. • Focuses on research, training, data collection and information dissemination; repackages and disseminates information through on-line data bases, diskettes, technical brochures, newsletters, workshops, and training programmes.
Organization	• The treasury function is located in Nairobi . • The ozone clearinghouse and promotional activity is part of the Paris-based Industry and Environment Programme Activity Centre. • The Ozonaction Programme's full-time staff consists of one co-ordinator, one secretary, one administrative assistant, and an information clerk. Contract employees staff the information, training, and networking activities. • The activity of formulation of country programmes is aided by consultants familiar with UNEP's methodology. Country programme logistics and follow-up on other activities are managed through UNEP's regional offices.
Operating Philosophy	• Committed to the "Bottom-up" approach in identifying needs and devising the programmes. • Encourages involvement by Article 5 countries; provides tools and knowledge to help develop local capacity to make informed decisions.
Co-ordination	• Regional workshops introduce developing countries to the Montreal Protocol process and encourage exchange of ideas and experiences. • Co-operates with several other agencies including Swedish International Development Agency, the Finnish International Development Agency, USEPA, and UNDP. • Regional offices will be invited to co-ordinate activities and keep in close contact with Article 5 countries for which they are responsible.
Process	• The interactive and consultative approach is exemplified by a broad-based Advisory Group from the Executive Committee, Secretariat, industry, NGOs, and developed and developing countries. • The consultative approach is used to inform, educate and motivate country programme consultants through regular meetings.
Constraints	• UN guidelines permit no more than 13% for administrative overhead; staff is limited and other resources must be used. • The consultative approach is time-consuming, particularly during the start-up phase of a project. UNEP believes that this is an effective way of gaining commitments from the Article 5 countries and achieving lasting results.

Table 2. United Nations Development Programme (UNDP)	
Role	• As a funding and programming agency, it carries out activities through UN agencies or through national governments. • Assists with a number of country programmes. • Responsible for technical assistance and pre-investment activities including feasibility studies, technology assistance, demonstration projects, and training. • Involved in investment projects, when requested.
Organization	• With field offices in 120 developing countries, it is currently involved with 25 in Fund-related activities. Its Environment and Natural Resources Group (ENR), the Montreal Protocol Headquarters, has 2 senior officers, one for day-to-day and policy activities and the other for technical review and project management. • Field Office staff have financial, legal, and administrative authority to deal with countries. The China office has been very active and India is expected to be equally active. • Five sector experts (aerosols, foams, solvent, halon and refrigeration) are on part-time retainer. Consultants are recruited on a *"when needed basis"*. • The ozone programme plans to add two full-time staff in 1993 — a manager technical training in refrigeration and air conditioning, and a manager of technical workshops.
Operating Philosophy	• Assists countries only on their specific request. Develops local human resources and institutional capacities and uses local talent wherever possible. In the country programme developed for China, it used over 30 Chinese experts and 9 international experts.
Co-ordination	• Co-operates with a wide range of other players including national governments, local consultants, NGOs, and other international agencies such as the World Bank, UNEP and UNIDO.
Process	• Activities were constrained by the efforts required to start up concurrently at the national, regional and sectoral levels.
Constraints	• The emphasis on building local capabilities requires time and money but the net result — the creation of locally managed, self-sustaining programmes — is well worth the effort and cheaper in the long run.

Table 3. International Bank for Reconstruction and Development (World Bank)	
Role	• Helps develop country programmes for large ODS consumers and producers in the developing world. • Identifies, evaluates, and implements investment projects, technical training, and institutional strengthening to contribute to ODS elimination.
Organization	• A much larger permanent staff than either UNEP or UNDP and an established network of independent environmental consultants. • The manager of the Montreal Protocol Operations Group is also the co-ordinator for the Bank's Global Environmental Facility. A small staff reports to him and remains in contact with four regional co-ordinators and approximately 12 task managers working in the geographic bureaus in Washington. Co-ordinators meet every six to eight weeks and task managers are in ongoing contact with the Montreal Protocol staff at the World Bank. Field staff are used for logistical support and monitoring. • The Montreal Protocol Ozone Technical Advisory Team are in-house technical experts providing internal project review and made up of task managers and others who have specific technical expertise and experience. • The Ozone Operations Research Group (OORG) provides external reviews of country programmes and project preparation/implementation by recognized independent experts. • To improve performance, the Bank created the Ozone Operations Research Group (OORG), improved project documentation, made managers more accountable and streamlined its organizational structure. • The Global Environmental Steering Committee consists of senior regional managers who advise on operational and policy issues.
Operating Philosophy	• A "*results-oriented and pro-active*" approach seeks a speedy turn-around in preparing country programmes by depending on technically competent consultants familiar with World Bank procedures. Local talent is only used if "*speed is not compromised*".
Co-ordination	• The World Bank enjoys established relations with most of the countries with which it works on Fund activities, especially with the US EPA whose bilateral activities are often done in concert with the Bank. • Co-ordination with the other Implementing Agencies is informal and ad hoc, except for the annual work programme consolidation exercise sponsored by the Fund Secretariat. The World Bank and UNDP have clarified their responsibilities to reduce overlap. UNIDO's focus on smaller projects will relieve the Bank from managing such projects.
Process	• Established procedures are effective in lending activities but must be adapted to the small size and unconventional features of Fund activities. Changes in reporting have been made to adapt to the EC's requirements.
Constraints	• Traditionally financing very large projects, involvement in the Montreal Protocol has required that the Bank adapt to smaller initiatives and work on non-financial matters such as institution building, co-ordinating government participation, and technology transfer.

Article 5 Countries

There is no single common organizational structure that handles Fund activities in Article 5 countries or in Donor countries. In general, most policy and programme operations are housed in each country's Environment/Ecology Ministries, legal and financial agreements tend to be managed by the Finance Ministries, while external and international relations are the responsibility of the Department of External Affairs/Relations. Effectiveness is improved when there is a mechanism to facilitate interdepartmental co-ordination and one department/ministry is given the authority to sign legal and financial documents for all Multilateral Fund projects.

Communication both within and between governments tends to be ad-hoc. EC representatives can provide a valuable service of supplying information to the countries they represent. There is, however, no formal mechanism for this communication (or funding available) and it is often done over the telephone or while discussing other matters.

UNEP workshops provide an opportunity for countries within a region to meet and exchange views. Representatives from Ministries of the Environment have been the principal participants in these workshops. The UNEP newsletter is also found to be useful but in many cases it is not reaching its target audience.

Article 5 countries are active in accessing the Fund and complying with Protocol requirements at different level of intensity and speed. Many Article 5 countries have been preparing country programmes, institutional strengthening requests, and investment project proposals. Some — such as Venezuela, and Malaysia — have done much of the preparatory work on their own. Others, such as Mexico and Ecuador, have participated in bilateral agreements with organizations such as the US EPA. Article 5 countries often want to work with the Implementing Agencies because of the latters' technical capabilities. They report, however, that the agencies' procedural requirements tend to slow down approvals and make them difficult to work with.

A lack of local expertise may be preventing many countries from taking advantage of opportunities offered by the Fund to develop country programmes and project proposals. The availability of expertise tends to depend on the size of country and its level of industrialization. However, even in countries with large pool of talent, international expertise may still be required. A key issue to expedite implementation of the Fund is to ensure the development of local capabilities.

Donor Countries

Despite some national differences, donor countries tend to follow a similar pattern in administering their Fund activities. The Ministry of the Environment handles policy issues and acts as lead manager in co-ordinating interdepartmental meetings. Financial contributions are the responsibility of the Ministry of Finance or Treasury Department, while external relations are handled by an appropriate External Affairs Ministry or Department. The effectiveness of a donor country's Fund activities tends to depend on the amount of interdepartmental co-ordination there is within the government and on the commitment of individuals, departments, and ministries to the Fund. There appears to be a greater commitment to the Fund when a country has a representative on the Executive Committee. Only the US has an interdepartmental Ozone Co-ordinator whose full-time responsibility is managing Multilateral Fund activities.

Communication within and between donor countries about Fund activities tends to be informal though several of them have taken formal steps to improve communications. Non-members of the Executive Committee have indicated that current methods and levels of information dissemination have been inadequate.

PROJECT CYCLES

The following describes the project cycle employed by the World Bank and the UNDP in preparing and submitting projects for approval. The procedures and processes used by the World Bank and UNDP are based on their own internal requirements. These have been adapted to meet the needs of the Multilateral Fund.

World Bank

Though the World Bank employs a standard procedure for processing projects, it has moved to streamline these procedures to deal with MP projects more expeditiously. The process involves steps, many of which may be taken concurrently. Even so, many factors influence the time it takes to develop and process a project and flexibility is vital. For example, at the time that collaboration on a project is requested some projects may be well documented with detailed engineering and economic analysis while others may consist of a mere concept. Projects may involve proven technology or involve "transitional technologies" where the definition of incremental costs and follow-up funding become problematic. Finally, implementation has been delayed when the recipient country does not have a financial intermediary to accept funds or a designated agency or Ministry with which the Bank can negotiate its legal agreements. The following is a summary of the normal World Bank Project Cycle:

Phase I - Project Identification and Documentation

1. Project Identification

Identification occurs in one of three ways:

(i) during the process of assisting with preparation of country programmes;
(ii) the Bank is asked by a country to serve as the implementing agency for a particular project;
(iii) the Secretariat refers an Article 5 country request to the Bank.

2. *Project Request Review*

The Bank reviews the request to ensure full government support and then assigns a Task Manager to the assignment. In terms of setting priorities, the Bank considers the extent of the ODS problem, the technology available, the cost-effectiveness of the technology and the capabilities of its own internal staff. Liaison with local industry usually tends to be co-ordinated by the Government.

3. *Initial Mission*

The Bank visits the country to review and develop the parameters of the project. It meets with the Government and asks that it identify a financial intermediary which can receive the Funds. The lack of such an intermediary has tended to slow down the implementation process.

4. *Executive Project Summary*

The Bank drafts an Executive Project Summary based on its findings from the mission and its knowledge of the type of project involved. This document is the primary tool used by the Bank to describe and seek approval for MP projects.

5. *Independent Technical Review*

The Bank submits the Executive Summary to its Ozone Operations Research Group (OORG) to assess and provide comments on the quality and cost effectiveness of its project proposal.

6. *Bank Review*

The Bank examines the project from the standpoint of incremental costs and performs a further technical review by a panel of technical experts resident in the Bank. At this point, the project is ready to be submitted to the Executive Committee. To date, this part of the exercise has taken an average about eight months to complete.

Factors which expedite the process include: a commitment on behalf of the Article 5 country to get things moving; the availability of technology for similar projects; easily determined incremental costs; co-operation and support by industry; established viable technology (e.g. aerosols); and an institutional structure with the country to lend support to the project.

Factors which have stalled the process include: lack of an institutional structure within the country, a change or disruption in who was responsible for the MP activities; emerging technologies which have not been proven and the costs of which are uncertain; the desire to use less harmful ODS transitional solutions while new technologies are being developed; situations where the incremental costs cannot be easily defined or where benefits cannot be immediately quantified; situations where the company that will receive the funding is not financially sound.

Phase II - Approval

7/8. Documentation Preparation and Submission/Project Assembly

The Bank prepares the document, based on feedback received in steps 5 and 6, and submits the summary, with the required Project Cover Sheet to the Secretariat for review and delivery to the Executive Committee. (The Bank's purpose is to agglomerate projects and get approval and funding on that basis.)

9. Secretariat Review and Submission to he Executive Committee

The Secretariat reviews the document and prepares an evaluation which is then sent to the Executive Committee for its consideration.

10. Executive Committee Review

The Executive Committee can respond with an approval, a disapproval or a permission to proceed.

This phase generally takes about six weeks, depending on when the project documentation is received. Areas of concern at this stage include: receipt of documents in enough time to thoroughly review them; the Secretariat's review process and technical evaluations and assessments; the lack of a firm definition of incremental costs; ensuring flexibility without descending into arbitrariness.

Phase III - Implementation

11. Development of Project Documentation

Though a normal part of World Bank review procedures, the preparation of a final Executive Project Summary has been eliminated for MP projects. In its place, the Bank converts the Summary developed for EC review into a Memorandum of the Director of the Country Department (MOD). This detailed project document is necessary to secure senior management authorization to formalize the grant agreement.

12. Project Appraisal

The project appraisal document serves as an agreement between the Bank and the Government to insure that the project provisions are acceptable. While appraisals are generally prepared prior to submission, they cannot be confirmed until receipt of the funds is assured, i.e. after EC approval. In some cases, the advanced stage of MP project development has served as the equivalent of an appraisal (retrospective appraisal).

13. *Yellow Cover Review*

The appraisal (or a decision of retrospective appraisal), the MOD, together with other project documentation is reviewed at a "Yellow Cover Review Meeting". A yellow cover notes all the changes made to the document and these are fully considered by Bank officials. The Grant Agreement and MOD are then finalized.

14. *Legal Document Issued*

Legal documents are sent to the country for review and approval. Negotiations can be conducted by fax, rather then face-to-face, which is normal Bank practice. This has reduced the time by several weeks. In addition, at this time, the Bank once again submits a request for the identification of a financial intermediary.

15. *Authorization*

A Regional Vice President must review and sign all project documentation for projects in excess of US $2.5 million. All others are signed by the Country Director. Formerly, all projects were subject to review by the Regional Vice President.

16. *Grant Agreement Signed*

Once the grant agreement is signed, the funds are disbursed. Normally, getting to this stage can take anywhere from nine to eighteen months. MP projects which have been approved and where grant agreements have been signed or are imminent, to date, have generally taken the lower end of that range. There are, however, a number of projects in the works which will take considerably longer. There are a variety of factors that could speed up the process considerably:

(1) early identification of a financial intermediary for receiving and distributing the funds;
(2) simplification of the Bank's legal agreements: it was suggested that the Bank's grant agreements are too much like loan agreements and contain restrictions, covenants and reporting requirements that are too onerous and complex;
(3) developing umbrella grant agreements with countries to cover all environmental grant programmes (similar to UNDP's system) which would eliminate the need to have a whole new agreement for each project. The Bank has in the past requested its own umbrella agreement with the Executive Committee in the form of a line grant for an individual country; and
(4) the choosing of a single authority within the country to co-ordinate and assume responsibility for signing and negotiating. Currently in many Article 5 Countries

there is no one authority with whom the Bank can cover all issues.

17. *Start-up and Supervisory Missions*

The Bank generally sends a mission to assist in the start-up of a project. In addition, for larger projects, it sends a formal supervisory mission twice a year in conjunction with other activities, to minimize costs.

18. *Progress Reports*

Information gathered during a supervisory mission is sent to the OORG member who reviewed the project, to the Secretariat and to the EC through the Bank's progress reports. At present, there has not been enough experience at this stage to comment on this activity.

UNDP

The UNDP is a funding body. The ozone initiative is housed in its Energy and Natural Resources Group (ENR) at the UNDP headquarters in New York. It is responsible for programme development and technical project monitoring, while the actual implementation of projects is handled by one of UNDP's many executing agencies. UNDP in the past has used the Office of Project Services (OPS) for most of its Montreal Protocol activities. It also works directly with national governments or organizations.

UNDP works with countries to implement technical assistance, technical training, demonstration projects, and investment projects. Initially, the World Bank was to be responsible for all investment projects, with the UNDP providing technical assistance. The UNDP has been requested by some recipient governments to take an active role in investment projects in countries where the UNDP has a long-standing relationship.

Phase I - Project Identification and Documentation

1. *Project Selection*

The country Government is the source of UNDP's projects. Projects are generally identified as a result of a national priority or during the preparation of a country programme. Requests for assistance can come from a variety of sources:

(i) Government to UNDP Field Office;
(ii) Government to ENR;
(iii) A part of a country's programme where UNDP is the implementing agency;
(iv) From UNDP consultant hired at government request to help identify projects;
(v) Fund Secretariat.

2. *Project Preparation and Approval*

A draft project document (PRODOC) is prepared by ENR with the assistance of the UNDP Field Office, and the Government concerned. In some instances a first draft of PRODOC is prepared by the Government itself. The PRODOC details the activities to be performed, their rationale and justification, expected results , the project budget, the work schedule and the responsibilities and inputs of each party to the project. The document is evaluated by independent sector experts who are recruited on a project by project basis. The approval process is as follows:

(i) For all project and programme activities under US $1 million, the PRODOC is reviewed by the designated executing agency (e.g. OPS) Following incorporation of changes and modification, the PRODOC is signed by the executing agency, by the Government and by ENR on behalf of UNDP. In the event of national (government) execution, a project appraisal committee/PAC meeting is conducted by the UNDP Field Office with ENR providing technical expertise as required.

(ii) For projects over US $1 million, following assistance by ENR and the designated executing agency in PRODOC formulation the UNDP Office of the Local PAC. The project is then submitted to UNDP's regional area bureau (at headquarters) for approval at the bureau PAC, then must be further approved by UNDP's Action Committee which is comprised of senior UNDP management. This procedure would apply under both executing agency and national execution modalities.

This project approval process now takes place before Executive Committee approval when it is deemed appropriate and when it will expedite the process. Because UNDP now does much of the appraisal and internal approvals prior to EC review, this process takes most of the time at the beginning stages of putting a project together. Despite this, out of 15 projects approved in February 1992, six are yet to start and one is in the planning stage. Two large demonstration project in solvents signed in June 1992, however, have begun to be implemented.

Phase II - Executive Committee Approval

3. Documentation is submitted to the Fund Secretariat for review and feedback as part of their work programmes (or amended work programmes) for projects less than US $500,000. Projects in excess of US $500,000 are submitted individually. Changes are made, documents are revised, PACS are signed, and then the document is sent to the Executive Committee for consideration. The Executive Committee then makes its project approval decisions taking into consideration Fund Secretariat recommendations. Where the Executive Committee requires only minor changes, the PRODOC is amended accordingly and signed by the parties concerned. In the event the EC changes a project drastically or funds only part of the total requested costs, an additional technical and financial review may be needed to determine how the project should be implemented and the PRODOC amended accordingly, if the concerned government and/or company is of the opinion that the project is no longer implement able at the reduced funding level, UNDP would so inform the EC and funding received would be returned to the Fund

Treasurer.

Phase III - Implementation

4. UNDP has been involved with over 120 developing countries for many years. It has an established way of doing business and managing grants. UNDP has signed "umbrella grant" agreements with all the countries with which it does business. It only requires an addendum to the agreement for each new project, and this is a fairly straight-forward process. UNDP does not need a financial intermediary since financial transactions and accounting are the responsibility of UNDP executing agencies or the UNDP Field Office in the case of nationally executed projects.

UNDP has tried to streamline the UNDP process by getting the agreement and most of the work done up front. Activities during 1992 were constrained by the efforts required to start up concurrently at the national, regional and sectoral levels. They have been remedied and no such problem are foreseen in 1993.

REVIEW OF FUND ACTIVITIES

The Fund has supported activities in 39 countries. Such activities were initiated by the country itself, an implementing agency or through bilateral co-operation. Generally, Article 5 countries have begun with preparing an assessment of their ODS situation, which was incorporated in a country programme - a strategic plan for ODS elimination. In other cases, in advance of completion of the country programme, they have moved to identify and propose obvious, high priority projects. Activities such as project preparation, country programme preparation or technical assistance are identified in the implementing agencies' work programmes, and are then submitted to the Executive Committee for approval. Projects which have a value in excess of US $500,000 are submitted individually.

In the following, we will discuss work programmes as prepared by the implementing agencies, country programmes and investment projects and the related project cycles.

The Multilateral Fund is involved in three major types of activities —country programmes, investment projects, and work programmes. This section of the report reviews these initiatives. Training, institutional strengthening, and information will be examined under the broad heading of work programmes. In addition, administrative and policy issues will be reviewed.

Country Programmes

The country programme is a vehicle by which countries can take stock of their production and consumption of ODS and develop a plan of action to deal with these substances. It includes a review of the country's production, import and export, and use of controlled substances. The capabilities of the country's institutional structure to deal with this initiative are assessed and needs identified. The policy framework, regulatory framework, and incentive systems are examined, as are government and industry activities in response to the Protocol.

A country programme includes a strategy for elimination of ODS and an action plan for which funding will be required. It also includes a timetable, a budget, and a financial needs analysis for activities identified. These activities are determined based on the following criteria: the size of the ODS problem; the available technology; cost effectiveness; and, national industrial strategies.

Country programmes can be prepared by the countries themselves, or in co-operation with an implementing agency or through bilateral co-operation. In general, the three implementing agencies split responsibilities for country programmes according to the size of the country. UNEP works with small ODS-consuming countries, UNDP with medium-sized countries, and the World Bank with large countries where annual ODS consumption is in excess of 1000 tonnes. Despite these general guidelines, countries are free to choose whichever implementing agency they feel best meets their needs. The country programmes are prepared according to the guidelines approved by the Executive Committee (UNEP/OZL.Pro/ExCom/5/13, Annex).

Submission and Approval Process

When activities are sufficiently detailed in a country programme and incremental costs are provided, approval of the country programme also serves as an approval for the requested budget and implementing the country programme, for example, Chile and Costa Rica. Otherwise, country programmes are approved without concurrent approval and financial support for activities identified.

Cost and Timing

The cost to the Fund of preparing country programmes has varied from a low of US $0 to a high of approximately US $250,000. The cost depends on a number of factors including the availability of data (country study), the size of the problem, bilateral support, country capabilities, and the approach of the implementing agency. UNEP has been praised for its cost-effective and collaborative approach in which it allocates only US $30,000 per programme.

UNDP's average cost has ranged between US $25,000 and US $45,000 per country programme, with the exception of China (US $200,000) and Indonesia (US $226,000). The World Bank's average cost has been approximately US $100,000. Based on implementing agencies' work programmes and progress reports, the country programmes have taken anywhere from 5 to 17 months to prepare and to receive in-country approval in preparation for submission to the Executive Committee. Because they involve local people and institutions in the process, UNEP's and UNDP's approaches tend to be time-consuming at the front-end. On the other hand, the World Bank develops the programme quickly with less local input. but then must often spend more time obtaining country approval at the end of the process.

At present, there are a large number of country programmes nearing completion. As a result, the number of projects underway should increase significantly in the coming year.

Status of Country Programmes to Date

During the period under review, the Executive Committee disbursed US $2,786,549 to UNEP, UNDP, and the World Bank for the preparation of country programmes in a total of 39 of 55 eligible Article 5 countries. The three implementing agencies have all made important contributions to the Fund during the period under review. Nine country programmes have been approved. China's country programme will be approved at the Ninth Meeting. With the approval of China's Country Programme, more than 85 per cent of developing world consumption will be accounted for.

Investment Projects

Investment projects are generated and approved either as individual initiatives or as part of a country programme. In many cases, the country programmes have been instrumental in helping countries identify projects that will best help them achieve their ODS reduction objectives.

Projects whose costs are less than US $500,000 each, are approved as part of the Implementing Agencies' work programmes, and those over US $500,000 require individual approval by the Executive Committee.

Investment projects are naturally sector-based, some of the examples include: recycling and retrofitting in the refrigeration sector, substitution in foams and aerosols, etc. The sector-based approach provides an opportunity for the development of projects that can be duplicated quickly at decreased cost across many countries. Global (multi-country) projects are under preparation for solvents, halons, refrigerants, and mobile air conditioning.

Process

Promising investment projects are generally identified in the process of preparing country programmes. Projects are often submitted before the completion of a country programme. In this way, progress in reducing ODS can be made quickly, prior to the development and approval of the full country programme.

The World Bank and UNDP are the only agencies who have submitted investment projects in 1992. Both have taken steps to overcome some of the problems they encountered in starting up these projects.

Status Report

As of December 31, 1992, more than 60 projects have been approved by the Executive Committee of which 40 have been investment projects. These projects are expected to result in the elimination of 31,000 metric tonnes of controlled substances per year, when implemented.

Work Programmes

Work programmes are planning documents prepared by the implementing agencies to provide the Executive Committee with the information it needs to manage and co-ordinate the Fund's activities effectively. Work programmes include all requests for the funding of projects under US $500,000; country programme preparation; project preparation; training, technical assistance (including information); demonstration projects; and, institutional strengthening. Naturally the three implementing agencies have varying work programmes depending on their activities.

- The UNEP is engaged in country programmes for low consuming ODS countries, and clearing-house/information services.
- The UNDP's work programme includes country programmes preparation, technical assistance, training, demonstration projects and project preparation.
- The World Bank's work programme includes country programme preparation, some project specific training and project preparation.

Process

After the annual work programmes are prepared by the individual implementing agencies, they are consolidated in a single document at a one to two-day co-ordination meeting sponsored by the Secretariat. It is during this meeting that conflicts and overlaps among the agencies' work programmes are resolved.

The Secretariat submits the consolidated document to the Executive Committee some six weeks prior to the annual meeting. At the meeting, the Executive Committee reviews and approves the work programmes. During the year, additional projects or modifications to the work programmes are included in amendments which are submitted by the implementing agencies to the Executive Committee as part of their regular progress reports. .

Demonstration Projects

Demonstration projects are used to demonstrate new technology and promote ODS substitutes. Such projects will result in considerable savings and have the advantage of easy replication within the country and also in other Article 5 countries.

Information Services and Networking

UNEP's information programmes include an information exchange, the Ozonaction Clearing House, a newsletter, and the preparation of technical brochures. UNEP's information exchange service was established in June 1991. The information exchange offers technical information that can be accessed by hard copy or electronically. It provides a mechanism for Article 5 countries to keep abreast of changes in technology. In its first year of operation, the service responded to more than 500 questions from industry, governments, research institutions, and NGOs. Approximately half of these originated from Article 5 and non-Party developing countries.

UNEP's Ozonaction Clearing House includes an on-line data base. It is also available in hard copy and will be available on diskette in April 1993. The on-line system became operational in February 1992. The database contains a wealth of information about ozone-depleting substances and about government, corporate, NGO, and other international organization phase-out activities. UNEP also publishes technical brochures and a regular newsletter that is distributed to more than 15,000 individuals and organizations.

Regional Workshops: UNEP organized four regional workshops during 1991 and 1992 to introduce Article 5 countries to the Multilateral Fund and to provide a networking forum for countries within specific regions. The four workshops were held in Thailand, Egypt, Venezuela and Kenya. The feedback from participants was highly favourable.

Technical Assistance and Training

During the review period, out of 24 technical assistance projects approved in 7 countries, 12 were implemented. The technical assistance projects cost over US $2.7 million. UNDP's technical assistance includes:

1. *Regional Training Courses:* UNEP offered one regional training course — on refrigeration in Africa in December 1992. The course included practical demonstrations on recovery and recycling, and on servicing practices. Thirty-five participants from 11 countries attended.

2. *Technical Training:* UNDP had planned to offer a number of regional workshops to train end-users directly but was unable to complete the project because of resource limitations. UNDP did, however, assist the EPA with some of its technical training workshops.

3. *Training Related to Investment Projects:* The World Bank and UNDP will be responsible for providing technical training as it relates to investment projects once these are under way. No investment projects have yet been implemented.

Institutional Strengthening

Many developing countries lack the institutions needed to develop and manage a country programme. They may face prohibitively high costs in creating such institutions. The purpose of funding for institutional strengthening is to provide a short-term mechanism to manage a country programme. Without this type of funding, many developing countries would be unable to actively participate in Fund programmes to eliminate ODS. The Executive Committee has recognized the need for capacity enhancement in relevant national institutions. Institutional strengthening, as it is currently defined in the guidelines, is not intended to cover project management expenses. It was suggested that greater flexibility and a broader range within categories of expenditures would enhance the programme.

Administrative and Policy Review

This is a new funding mechanism. It has hired most of the required staff and brought them up to speed. It has developed many of the procedures and processes needed to transact its business effectively and efficiently, for example some issues addressed include:

- The development of procedures for the presentation of country programmes and project proposals to the Executive Committee;
- Guidelines for assessing bilateral and regional activities for cost purposes;
- A decision on retroactive support; and,
- A decision on non-funding for transnational corporations.

The pace of activity is accelerating and the Fund is now at the stage where projects and programmes are moving swiftly through the approval process and starting into implementation. Policy issues such as institutional strengthening, incremental costs and in-kind contribution have been considered and criteria and guidelines have been developed to deal with these.

The Secretariat has taken several steps to streamline procedures and make the Fund more effective. By reviewing project and programme proposals before submission to the Executive Committee, the Secretariat is able to ensure that the proposals are complete and meet Fund criteria. The Secretariat has also been effective in promoting co-operation among the implementation agencies by working with them to consolidate their working programmes.

CONTRIBUTIONS AND DISBURSEMENTS

Contributions

Contributions to the Fund are made on the basis of the UN rate of assessment. A total of 36 countries have been identified as contributors to the Fund.

Year	Total Pledge	Received	Outstanding		
			Total	Transitional Economics	Other
1991	53,320,777 (100%)	48,673,195 (84.5%)[1]	11,561,275 (23%)	7,393,692 (14%)	244,784 (.5%)
1992	73,339,613 (100%)	55,562,981 (75%)[2]	23,059,196 (38.5%)	10,501,752 (14%)	7,274,880 (10%)

(1 includes US $450,000 in bilateral aid from U.S.A. and US $3,922,799 in promissory notes from France)
(2 includes US $1,726,722 in bilateral aid from the US, Australia and Germany and US $5,282,564 in promissory notes from France)

The transitional economies, (Eastern Europe and the Russian Federation), are hoping to make their contributions in-kind, as hard currency remains a problem. In the past six months, contributions have been made much more quickly than in the first eighteen months. This is seen to be a good sign and a vote of confidence in the Fund.

Process

At the Annual Meeting of the Parties, a list of contributors based on UN scale of assessment is drawn up and is included in the Report of the Meeting. There is no other formal mechanism. At the beginning of every year, the Treasurer writes to each country and inform it of the amount of its contribution and invite payment as soon as possible.

Payment Schedule

Payment of contributions tends to be made either when the foreign exchange rate favours the contributing country or when the funds are approved by whatever budgetary procedure is used in each respective country. There is no set date for when contributions must be made. Because projects are only now getting started, there has been no cash-flow problem to date. This situation will have to be monitored more closely, though, as more projects come on-stream.

Bilateral Contributions

At the Fourth Meeting of the Executive Committee, guidelines to deal with bilateral and regional co-operation were approved. Guidelines on how to assess bilateral and regional aid were adopted at the Seventh Meeting of the Executive committee. To date, there has been a limited amount of bilateral activity though what has occurred has been well received and very effective.

In practice, all of the bilateral assistance for 1992 (there was US $480,000 in 1991) was approved as eligible as a contribution after the fact (i.e. retroactive approval). For large projects, bilateral contributors will be seeking approval from the Executive Committee.

Only the United States has been a major contributor of bilateral aid. Both Australia and Germany spent a small amount to support participation in technical workshops. US activity has focused on: technical assistance in project preparation and feasibility studies; regional workshops; training; technical assistance and demonstration projects; and support for country programmes. This represents a total of 16 projects at a cost of US $2,149,000. The US is contributing less than half of its bilateral allocation and expects that the level to remain constant in the coming years. It has four bilateral specialists at the EPA, in addition one staff member who has full-time responsibility for co-ordinating MP activities. Other countries have indicated that they will be contributing more in bilateral aid in the coming years, once they get organized to do so.

Disbursements

The disbursements for the first two years of operation have been as follows:

	US $
UNDP	9,857,995
UNEP	3,597,920
UNIDO	0
World Bank	43,545,000
Secretariat	4,624,600
Programme Support	301,993
Total	61,927,508

Process of Disbursing Fund to the Implementing Agencies

Contributions are submitted to UNEP (Nairobi) which acts as Treasurer. When the Executive committee approves either a work programme or a project, UNEP is notified and the fund release process is initiated. In principle, the funds should reach the implementing agencies almost immediately.

How Disbursements Are Used

Funding is used for work programmes which include projects under US $500,000, the preparation of proposals and country programmes, feasibility and demonstration projects as well as technical assistance including information services. It covers the costs of co-ordinating and supervising the Implementing Agencies' activities (overhead). Funding is also provided for projects approved by the Executive Committee which are in excess of US $500,000.

Cost of Administration

1. The Secretariat's expenditures for the first two years of operating totalled US $4,624,600, including costs associated with the operation of the Executive Committee. This represented 7 per cent of total disbursements. Its budget will remain fairly constant and as the level of activity increases, the percentage will decline significantly.

2. The activities managed under the Montreal Protocol tend to be small and very labour intensive. This requires much more co-ordination and management (as a percentage of costs) than large investment projects. In fact, in a survey of activities performed by UNDP executing agencies, it was found that the actual administrative and co-ordinating costs of managing a training/workshop activity is around 21 per cent of the total project costs. However this is offset by lower investment project costs.

3. The UNEP administrative costs covered from the Fund totalled US $539,688 for the first two years of operation. This represented 13 per cent of total budgets, which is in keeping with the UN guidelines but did not cover all of UNEP's costs relating to the Protocol.

4. UNDP is a granting authority which provides grants to a number of UNDP executing agencies which are responsible for the actual execution of the project. Funds provided by the MP fund are allocated directly to an executing agency which is responsible for programme/project design, development and monitoring. For this service, the executing agency is paid a fee of 13 per cent, as per UN guidelines. In order to have the necessary funds to manage the implementation of projects and programmes and co-ordinate activities at headquarters and at their field offices, UNDP must apply to the Fund for specific funding as a project.

5. The World Bank has a small allocation for direct administrative costs provided by other centres within the Bank, such as legal and accounting. This amounted to less than half a percent for the first two years of operation. All other administrative expenses are built into the cost of doing projected, programmes etc. They do not operate on the basis of direct costs, primarily because they are a Bank and not a granting agency.

COMPARATIVE ANALYSIS

COMPARATIVE ANALYSIS

The time frames examined may not be indicative of the future performance as these reflect start-up activities during the Fund's first two years of operations.

There has been much concern expressed among the Parties regarding the efficiency of the Funds operation. At the writing of this report, The consultant could only get the co-operation of only one bilateral aid agency. Based on this one experience therefore, a few parameters compare the performance of the Fund against that of other Implementing Agencies. These criteria include:

	The Fund	Other
Administrative cost of operation	3%	4%
Project cycle time:		
project conception	6-8 months	3 months-2 years
project approval	4-6 weeks	1 week-6 months
project implementation (estimated)	3-6 months	6 weeks-2 years
fund disbursement	1 month	1 month

1. Time required to get programmes off the ground varies a great deal, depending on the programme and the country, as well as its past history in the country programme area. Timing is also dependent on the resources and the amount of money to be spent on the activity. It can be anywhere from 3 months to two years to conceptualize and develop the initiatives, including time required to seek funding approval for the programme. Once the programme or project has been approved it can take anywhere from 6 weeks for projects under US $500,000 to two (2) years for the larger ones.

The reasons for the time lag include:

- Its process of internal review and approval
- Political approvals - any projects over US $15M must be approved by donor government's Treasury.
- Discussions and consensus building within the country designated to receive funding.
- Time required to identify and hire the right contractor, through competitive bidding process, to execute the project.
- Time required to by the contractor to hire the right resources to carry out the project.
- Delays cause by the fact during certain seasons the project may be difficult to execute.
- Time required to contract with consultant who will execute the project.
- Changes made as a result of learning of the country situation first hand.

2. Time required to fill Staffing needs vary on the urgency of the programme/initiative and the availability of the people. Staffing in the government is a competitive process which can take a considerable amount of time 6 months to a year.
   As far as the staffing of the project contractor, this also can take a great deal of time.

3. Much of the administrative procedures and guidelines are already in place. It is more a questions of tailoring what already exists to the requirements of the initiatives.

4. The cost of getting a programme/initiative up and running is difficult to determine and depends on how the calculations are made. At the moment it has an overall administrative cost of 4 per cent of the total departmental budget. However a project could have a 40 per cent overhead cost associated to it.

5. General Problems one encounters in the start-up stage.
   - Delays in contracting process - signing on contractor, contract finding the right sub-contractors
   - Delays in getting government officials of country in question to sign
   - Project set-up time requires more lead time than expected as a result of the difference the original plans and the reality of the situation

Where countries lack the infrastructure or capacity to receive, it will provide assistance to hire local national consultants to establish the required structure.

Fund Impact

Results Since Funds Were First Received, June 1991 (Number of Projects Approved)			
Project Types	World Bank	UNDP	UNEP
Country Programmes	6*	1	2
Approved			
Complete		1	9 (almost)
In process	6*	9	7
			9 (non-Party)
Projects Approved			
Investment	26	4	N/A
Demonstrations	2	4	N/A
Institutional Strengthening	3	4	0
Training	1	17	4
Technical Assistance	0	26	3
Project Preparation	42	4	N/A

Source: Secretariat Project Document, 1992
** includes country-led programmes*

CONCLUSION: ISSUES FOR THE FUTURE

The achievement of final, measurable success in eliminating ODS requires the efficient working of policies, institutions, and programmes in scores of Article 5 countries, each one of which has a different set of concerns, different sectoral priorities, and different expertise. Each of these countries is looking for a specific type of assistance and each has started out on this programme at a different point in time. It also requires the co-operation of the donor countries which bring different sets of resources, concerns and expectations to the table. This co-operative process has been managed by a small secretariat, the 14 members of the Executive Committee and the four Implementation Agencies.

For every one of these actors, the Programme has involved working in new areas, confronting unprecedented challenges, developing new procedures, and linking to a different type of clientele. Under such complex and novel circumstances, the institutions and procedures of the Montreal Protocol have performed well. If the Parties continue to demonstrate the same degree of co-operation as hitherto and the various agencies continue to improve their performance, future progress is likely to be both significant and cost-effective. On the basis of discussion with a broad range of parties, the following issues appear to be especially important in developing effective co-operation among all the Parties.

1. Donor country representatives have questioned the level of administrative expenses involved in the Fund compared to the services and resources delivered. This cannot be fully resolved in this study. When a new programme is being established and there are few final outputs, administrative expenses will predominate. These ratios should and will decline over time to the levels that are normal among international agencies. There are also wide variations in procedures and accounting practices among the agencies and this suggests that these ratios may well vary significantly among agencies.

2. Interviews with a number of representatives from Donor and Article 5 countries suggest a certain level of suspicion about the Fund and its activities. Continued suspicion of the efficiency of operations on the one hand and the fairness and responsiveness of the Fund on the other can become a serious barrier to successful implementation. Overcoming such barriers requires a better flow of information between the Secretariat and the Implementing Agencies as well as a more active and participatory stance by the Parties.

3. Experience and information presently available could facilitate the development of phase-out targets by the implementing agencies and the Secretariat. Communication of such targets and other realistic goals could help establish expectations and provide an agreed upon basis to measure Fund progress.

4. The question of recycling of ODS, particularly in refrigeration applications needs to be examined further as the incremental costs are expected to be high in this sector especially in low consuming countries. A strategy for recycling needs to be developed for small ODS consuming countries.

5. A country's ability to take advantage of MP activities has often been hampered by a lack of suitable internal organizations. Institutional strengthening addresses this concern. The Executive Committee has imposed certain limits on how much money should be spent. The World Bank wants this amount increased, in part to cover project management costs that may by deemed incremental costs. The UNDP feels present levels are adequate and that project management costs should be built into project budgets. There is also some concern that the guidelines are too rigid.

APPENDIX A: CAPACITY OF THE IMPLEMENTING AGENCIES TO PERFORM ACTIVITIES DURING THE NEXT THREE YEARS

The implementing agencies will be called on to provide increased services in the coming years. UNEP will have a growing data base and increased numbers of people wishing to use its information services, and it will have many more small countries (new Parties) for which to do country programmes. UNDP will have additional country programmes to start and complete, and will be engaged in many more training exercises, additional technical assistance and demonstration projects, and a number of specific projects which result from these demonstration projects and experience gained in other areas. The World Bank will become increasingly involved in implementing projects which have received approval and where grant agreements are now in place, in addition to identifying and developing further projects. Do the agencies have the combined wherewithal to meet the demands of this period? There are a variety of criteria by which we can ascertain their capacity to meet these requirements.

Experience

While it is difficult to make a judgement on an agency's capacity, based on an operational history of less than 24 months, there are certain indicators which are positive signs. One, they have completed and received approval for nine country programmes, and China, the largest, will be submitted for approval at the March meeting. Over sixty projects have been submitted and approved and many of the training and technical assistance projects are ongoing. While investment projects have been slow starting, it appears that the implementation of major projects in Egypt, Mexico, Venezuela, and China are imminent. Two, the agencies have learned certain lessons from their experience to date which should prove instructive in the coming years - institutional capacity within the Article 5 country must be encouraged; the key department/agency involved in the process must be identified and agreed to early in the process; certain technologies are easier and more cost-effective to implement; country participation from the very beginning is essential; communication is essential to keep each other informed about potential problem areas (lack of information breeds misunderstanding); and a certain level of trust that each participant in the process is working to the same end is essential.

People and Expertise

Having the right people, whether it be at the implementing agency or within the Article 5 country, is essential. The capacity of the implementing agencies to deliver will depend on the quality and number of people within their respective organizations and within the Article 5 countries. The UNDP's and UNEP's approach to capacity building and their reliance on local consultants and experts bodes well for the Fund activities. The World Bank feels it will best be served by a commitment to more institutional strengthening funds. It would appear in countries, where there has been bilateral assistance, such as that provided by the US EPA, that capacity building and programme development have progressed more quickly. While the World Bank did not have any internal staffing constraints, they did indicate that there is a finite and small pool of technical and sectoral talent available in the ozone area. The UNDP were not at full staff capacity at their headquarters and that resulted in their having to choose which activities to pursue (China) and which to postpone (technical workshops). This situation will be improved in 1993 as they plan to hire tow additional staff people. The UNEP indicated that they were operating at full capacity and that staffing was a concern. With increased activities planned for 1993, their overhead allocation will increase and this will go some way to their hiring additional resources to manage their portion of the MP initiatives.

Procedures and Process

Environmental grants are a new and growing area. The implementing agencies are refining and fine-tuning how they administer and deliver these activities. It has been a learning process for all involved. It has not been a definitive exercise rather an iterative one. This has been somewhat frustrating for agencies which are used to knowing what the procedures and guidelines are from day one. The agencies have had to adapt and adjust their procedures and processes to meet the requirements of the Executive committee, while remaining faithful to the requirements established by their own internal authorities. They have come some way - with the World Bank streamlining and clarifying its internal processes, and UNDP streamlining and reordering how it approves projects (see section on process for more detail). There is still some progress to be made, and the will appears evident, if not the way. The implementation process is being stalled for a variety of reasons - some within the agencies' control, many others not. The initial steps have been taken, and while progress is not proceeding at the desired pace, relative to other start-up situations, the process is working more quickly than most.

Appropriateness

While the various roles have evolved from the initial terms of reference, the agencies are now quite comfortable with their respective responsibilities. One potential area of weakness given the Bank's procedures and requirements and UNDP's co-ordination challenges is the administration and implementation of small investment projects. This has been addressed by inviting UNIDO to act as an implementing agency. The training responsibilities are also being decide based on the agencies' proven competencies. In terms of dealing with the Article 5 countries, all the agencies are cognizant of the specific challenge of developing local capacity and establishing strong working relationships. The World Bank is reshaping its image and performance to better reflect its change from lending agent to granting agent, although their grant agreement process is still problematic. The UNDP is staffing up to deliver its programme. UNEP's role is clear while immediate measures of its success are not easily quantified, the response of Article 5 countries has been very favourable about the type of service provided, particularly the workshops, and feel it is an essential service.

Agency Culture

While the agencies have very different operating styles/cultures - World Bank, pro-active, controlling and bureaucratic; UNDP - capacity developer, local talent enhancer and bureaucratic; UNEP - collaborative, and bureaucratic - there is an implicit appreciation for the importance of their work and what they are trying to accomplish. These agencies have demonstrated a strong degree of co-operation, in many cases assisted by the Secretariat, and are well-positioned in terms of their good working relationships with each other to meet the requirements of the future.