



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/25/4
28 July 1998

ORIGINAL: ENGLISH

**EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL**

Twenty-fifth Meeting
Montreal, 29-31 July 1998

**REPORT OF THE FIFTH MEETING OF THE SUB-COMMITTEE
ON MONITORING, EVALUATION AND FINANCE**

Introduction

1. The Sub-Committee on Monitoring, Evaluation and Finance of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol met in Montreal on 27 and 28 July 1998.
2. The meeting was opened by the Chairman of the Sub-Committee, Mr. Charles Chipato (Zimbabwe), who welcomed the participants. The meeting was attended by the members of the Sub-Committee, the representatives of Belgium, Canada, Costa Rica, Japan, Jordan and Zimbabwe. Representatives of Switzerland, the implementing agencies, the Ozone Secretariat, the Alliance for Responsible Atmospheric Policy, and Friends of the Earth also attended as observers.

AGENDA ITEM 1: ADOPTION OF THE AGENDA AND ORGANIZATION OF WORK

3. The Sub-Committee adopted the following agenda:
 1. Adoption of the agenda and organization of work.
 2. 1997 accounts of the Multilateral Fund.
 3. Promissory notes.
 4. Project implementation delays: bankruptcy.
 5. Evaluation of 1997 business plans.
 6. Progress reports as at 31 December 1997:
 - (a) Consolidated progress report;
 - (b) Progress report on bilateral cooperation;
 - (c) UNDP progress report;
 - (d) UNEP progress report;
 - (e) UNIDO progress report;
 - (f) World Bank progress report.
 7. Consolidated project completion report.
 8. Summary status report on ODS phase-out in Article 5 countries.
 9. Other matters.
 10. Adoption of the report of the Sub-Committee.
 11. Closure of the meeting.

AGENDA ITEM 2: 1997 ACCOUNTS OF THE MULTILATERAL FUND

4. The Treasurer presented his report on the 1997 Accounts of the Multilateral Fund (UNEP/OzL.Pro/ExCom/25/5), which contained the 1997 Statement of income and expenditure (Schedule 1.1), the 1997 Statement of assets and liabilities (Schedule 1.2), the 1997 Multilateral Fund Secretariat expenditures (Schedule 1.3), the managed activities in 1991–1997 of UNEP, UNDP, UNIDO and the World Bank (Schedules 1.4, 1.5, 1.6 and 1.7 respectively) and the implementing agency summary 1991–1997 (Schedule 1.8), noting a slight decline in the excess of income over expenditure due to speedier disbursement.

5. The Sub-Committee took note of the 1997 Accounts of the Multilateral Fund.

AGENDA ITEM 3: PROMISSORY NOTES

6. The Sub-Committee considered suggestions to overcome certain problems relating to the use of promissory notes, notably the fact that amendments had to be made to the agreements between the Executive Committee and UNDP and UNIDO to enable them to accept promissory notes as commitable resources, and the impact of exchange rate fluctuations for promissory notes denominated in currencies other than the United States dollar (UNEP/OzL.Pro/ExCom/25/6 and Corr.1) and recommended that the Executive Committee:

- (a) approve the proposed amendments to the agreements between the Executive Committee and UNDP and UNIDO appended to the document;
- (b) decide that, in view of the significant shift in the composition of cash and promissory notes in the resources of the Multilateral Fund and operational needs, the Treasurer should have the flexibility to implement the Executive Committee decision on accelerated encashment on need, provided that any accelerated encashment was done on a pro-rata basis across all the promissory notes received by the Treasurer, to provide fairness, and with a reasonable period of time of advance notice;
- (c) decide that contributing parties which issue promissory notes in currencies other than the United States dollar should be responsible for the upward or downward movement of the value of their promissory notes due to exchange rate fluctuations. The variance between the value of the note when it was deposited and the value of the note when it was cashed should be credited or debited to the account of the note-issuing party and reflected in the contribution due from the party in the following year.

AGENDA ITEM 4: PROJECT IMPLEMENTATION DELAYS: BANKRUPTCY

7. The Sub-Committee considered the report (UNEP/OzL.Pro/ExCom/25/7) prepared by the Secretariat in response to Decision 24/7 of the Executive Committee, which listed the bankruptcy cases reported by implementing agencies and reviewed the consequences of bankruptcies on the ODS phase-out and the assets of the Multilateral Fund.

8. The Sub-Committee discussed the possibility that a bankrupt company's market share might be taken over by another company, possibly using ODS and thereby negating the phase-out.

9. The Sub-Committee also discussed the usefulness of implementing agencies or national ozone units seeking the advice of financial experts who would be in a position to provide information on the financial viability of a company prior to projects being approved.

10. After discussing a number of issues raised by bankruptcy, the Sub-Committee recommended that the Executive Committee:

- (a) request the implementing agencies:
 - (i) to carry out some preliminary screening of the financial viability of companies when preparing project proposals;
 - (ii) to take appropriate action, in consultation with the ozone unit in the country concerned, if there was any indication of a possibility of bankruptcy;
 - (iii) to report to the Sub-Committee on Monitoring, Evaluation and Finance any slowdown expected as a result of bankruptcy and to present the most cost-effective options to protect the Fund's assets, in collaboration with the ozone unit;
 - (iv) to sell or redeploy equipment within an appropriate time-frame in accordance with the recommendations made by the implementing agencies and the ozone unit and approved by the Sub-Committee on Monitoring, Evaluation and Finance and the Executive Committee;
 - (v) to reflect instances of bankruptcy and their impact on ODS phase-out in project completion reports;
- (b) consider seeking advice from external auditors or lawyers, as appropriate, on bankruptcy issues with a view to protecting the Fund's assets.

AGENDA ITEM 5: EVALUATION OF 1997 BUSINESS PLANS

11. The Sub-Committee reviewed the evaluation of the 1997 business plans of the implementing agencies (UNEP/OzL.Pro/ExCom/25/8), which was based on the performance indicators adopted by the Executive Committee at its 22nd Meeting (Decision 22/18).

Reallocation of agency shares

12. On the subject of agency shares, the Sub-Committee recalled that at its 20th and 24th meetings the Executive Committee had decided that agency shares would be discussed during the evaluation of the agencies' 1997 business plans (Decisions 20/11 and 24/5). The Secretariat pointed out that there were different perspectives on the agencies' performance depending on the extent to which they had met their targets. In many cases, the agencies had achieved 90 per cent or more of their targets and in eight cases had exceeded them. In a number of instances however, they had not been achieved even though the targets under each performance indicator had been

established by the agencies themselves. As none of the agencies had completely met all their targets, the Sub-Committee discussed whether to reduce the shares and by what means, or whether to eliminate the current 15 per cent overprogramming provision, but finally took the view that reduction of shares would be a more effective incentive. Noting that review of the allocation of shares would be undertaken annually, the Sub-Committee accordingly recommended that the Executive Committee reduce the share of UNDP by 1 per cent, that of the World Bank by 2 per cent and that of UNIDO by 3 per cent. The unallocated amount could be bid for by each agency, for up to half of the unallocated amount.

13. Recalling the need for special incentives to promote aerosol and halon projects, the Sub-Committee also recommended that the Executive Committee attribute the unallocated amounts resulting from the above reductions to such projects on the basis of merit.

14. Furthermore, observing that the shortage of projects in the aerosol and halon sectors was perhaps due to the reluctance of enterprises to embark upon projects, the Sub-Committee recommended that the Sub-Committee on Project Review be requested to examine barriers to the submission and implementation of such projects.

Non-investment projects

15. The Secretariat drew attention to Table 3 of the document before the Sub-Committee, which showed implementing agencies' performances relating to non-investment projects.

16. The Sub-Committee took note of the Table and indicated that, in future, it intended to review performance relating to non-investment projects more closely.

Assessment of performance

17. The Sub-Committee discussed the relative importance of the present indicators and the need to include new indicators such as the number of project completion reports received, the distribution of projects among countries in business plans so as to ensure that low-volume consuming countries received due attention, and the cumulative amount of ODP emissions attributable to implementation delays. The Sub-Committee noted that some of the current indicators, namely cost of project preparation and cost-effectiveness, might need revising.

18. In connection with investment projects, the Sub-Committee recommended that the Executive Committee request the Secretariat, in collaboration with the implementing agencies:

- (a) to make proposals on the appropriate indicators for the evaluation of business plan performance;
- (b) to consider how to give different weighting to indicators;

- (c) to take into account the importance of the indicators relating to ODP reduction, speed of delivery and distribution of projects among countries when making proposals;
- (d) to consider the need to revise the cost of project preparation and cost-effectiveness performance indicators;
- (e) to apply any new or weighted indicators to evaluation of 1998 business plans.

19. Concerning non-investment project performance indicators, the Sub-Committee recommended that the Executive Committee request the Secretariat, in collaboration with the implementing agencies, to consider adding other indicators concerning the assessment of the success of performance of such projects. In this regard, it was noted that UNEP had made extensive use of performance indicators and that this should be taken into account by the Secretariat in its discussions with implementing agencies concerning modifications to performance indicators.

Business planning process

20. Regarding the proposal to discontinue the practice of allowing agencies to complete their business plans during the following year, the Sub-Committee recommended to the Executive Committee that, in order to allow a period of grace in view of the changes made to the business planning process, for 1998 agencies be allowed to submit projects up to the first meeting in 1999. The Sub-Committee would then reconsider whether to discontinue the practice of allowing agencies to complete their business plans during the following year.

AGENDA ITEM 6: PROGRESS REPORTS AS AT 31 DECEMBER 1997

(a) Consolidated progress report

21. The Sub-Committee considered the consolidated progress report prepared by the Secretariat showing progress in the implementation of projects as at 31 December 1997 (UNEP/OzL.Pro/ExCom/25/9).

22. Concern was expressed that only one implementing agency had submitted its progress report by the required date of 1 May and also that discrepancies remained between the progress report and the Inventory of Approved Projects.

23. The Sub-Committee noted that agencies had identified 214 projects with implementation delays and discussed whether, in addition to the procedure for monitoring such delays, a separate procedure should be introduced to allow it to consider whether some ongoing projects, particularly those approved some seven years previously, should be cancelled. It was the general

view that any cancellation should be approached with caution, bearing in mind the legal and financial commitments already made.

24. The Sub-Committee accordingly took note of the consolidated progress report and recommended that the Executive Committee:

- (a) request the implementing agencies and the Treasurer to work further to reconcile data in the progress reports with the Annual Report on the Accounts of the Multilateral Fund and reduce the occurrence of data discrepancies;
- (b) endorse the Secretariat's proposal for a workshop on the requirements of progress reporting;
- (c) request the Secretariat to provide to the next meeting a list of ongoing projects up to 1992 and, if possible, 1993, with suggestions for action, to permit the Executive Committee to determine whether or not they should be cancelled.

(b) Progress report on bilateral cooperation

25. The Secretariat introduced document UNEP/OzL.Pro/ExCom/25/10, which contained the progress reports of the governments of Australia, Canada, Denmark, France, Germany, Singapore, Switzerland and the United States of America on their bilateral cooperation activities.

26. The Sub-Committee took note of the progress reports of the governments of Australia, Canada, Denmark, France, Germany, Singapore, Switzerland and the United States of America, and recommended that the Executive Committee approve the offsetting of US \$68,517 against future approvals for bilateral cooperation of the United States of America.

- (c) **UNDP progress report**
- (d) **UNEP progress report**
- (e) **UNIDO progress report**
- (f) **World Bank progress report**

27. The progress reports of UNDP (UNEP/OzL.Pro/ExCom/25/11), UNEP (UNEP/OzL.Pro/ExCom/25/12), UNIDO (UNEP/OzL.Pro/ExCom/25/13) and the World Bank (UNEP/OzL.Pro/ExCom/25/14) were introduced by the representatives of the respective organizations.

28. The Sub-Committee noted the explanations given by the representatives of the implementing agencies concerning the reasons for implementation delays and adjustments, as well as the justification for the proposed cancellation of certain projects.

29. The representatives of the implementing agencies welcomed the suggestion that the Executive Committee or the Secretariat should send a letter to a country or enterprise warning

them that a project was likely to be cancelled before taking any definite steps as that was sometimes sufficient to move a project forward.

30. The Sub-Committee recommended that the Executive Committee:

- (a) approve UNIDO's request for adjustment as a result of over-vuns and under-runs, as noted in Table 10 of UNIDO's progress report, amounting to a net balance of US\$147,598 to be returned to the Fund;
- (b) approve UNDP's request to cancel the following four projects: (i) Argentina Market Costan (ARG/REF/18/INV/034) and return the balance of US\$421,642 plus support costs to the Fund, (ii) India Meenakshi Aerosols and Cosmetics (IND/ARS/22/INV/140) and return the full funding of US\$98,940 plus support costs; (iii) India Antofil PVT. Ltd (IND/FOA/19/INV/070) and return the full funding of US\$103,125 plus support costs; (iv) Vietnam project preparation (VIE/REF/22/PRP/017) and return the full funding of US\$25,000 plus support costs;
- (c) approve UNDP's request to return the remaining balance of US\$10,000 plus support costs under Cuba Phaseout Strategy in Refrigeration (CUB/REF/13/TAS/003);
- (d) approve UNDP's request, following a request from Egypt, to transfer US\$40,000 approved at the 24th Meeting of the Executive Committee for preparation of two MeBv alternative demonstration projects to Germany and return the applicable support costs to the Fund;
- (e) request the Secretariat, in cooperation with the implementing agencies, to develop a procedure and criteria for cancellation of projects, bearing in mind the need to ensure that cancelled projects were not resubmitted within a period of time to be specified, and to consider this within the context of the business planning process.

31. The Sub-Committee agreed to convey to the Executive Committee the concern expressed by the representative of the Ozone Secretariat that some 20 Article 5 countries were not reporting any data because their country programmes were not complete. UNEP was urged to help them complete their country programmes so that they could report data by 1 July 1999.

AGENDA ITEM 7: CONSOLIDATED PROJECT COMPLETION REPORT

32. The Sub-Committee considered the consolidated project completion report covering information provided by UNIDO and the World Bank in 67 completion reports submitted up to 18 June 1998 (UNEP/OzL.Pro/ExCom/25/15). UNDP explained that it had not been able to provide completion reports because, although 32 completion reports had been sent out, no response had been received from any enterprise or ozone office within the submission deadline.

In accordance with UNDP procedures, project completion reports could not be considered submitted until government responses had been received. However UNDP would be pleased to provide informal reports to permit further analysis.

33. The Sub-Committee considered that operational guidelines were needed to ensure that project completion reports were prepared in a more consistent manner in the future. Noting that it might be necessary to revise some completion reports already received on the basis of those guidelines to ensure that all information in the data bank was consistent, the Sub-Committee also underlined the importance of consistent data as an essential planning tool.

34. The Sub-Committee therefore recommended that the Executive Committee request the Secretariat to develop operational guidelines to ensure that in the future project completion reports were prepared in a consistent manner by all implementing agencies and request UNDP to submit copies of its project completion reports as soon as possible.

AGENDA ITEM 8: SUMMARY STATUS REPORT ON ODS PHASE-OUT IN ARTICLE 5 COUNTRIES

35. The Sub-Committee considered the summary status report of the survey conducted by the Secretariat on ODS phase-out in Article 5 countries (UNEP/OzL.Pro/ExCom/25/16/Rev.1). The report was considered very useful. It was observed that consumption data on CFCs, without which it was not possible to evaluate whether commitments would be met, was very incomplete. UNEP could no doubt play a useful role in facilitating data reporting. The report also highlighted the need for improved monitoring, further consideration of the proposed licensing system and the need for assistance from the Multilateral Fund on training, investment projects, technical assistance and information. It was also suggested that the questionnaire might be sent out earlier and include more space for countries' comments. The Sub-Committee considered whether any modifications were required for inclusion in the 1999 version of the report and agreed that, in order to complete the analysis of the status of ODS phase-out in Article 5 countries, the Secretariat should prepare for the next meeting of the Executive Committee a summary table providing information for each country.

36. The Sub-Committee recommended that the Executive Committee:

- (a) take note of the summary status report;
- (b) request that implementing agencies address in their 1999 business plans how to complete or accelerate preparation of country programmes to ensure that all countries have data against which to report and measure progress in time for the 1999 freeze;
- (c) request the Secretariat in consultation with implementing agencies to prepare a summary table providing information for each country with the following data: funds approved to date; funds disbursement; percentage of approved funds

disbursed; 13 per cent support cost; 1995 consumption data; approved ODP phase-out for the country; actual ODP phase-out; percentage of approved consumption phase-out; the approved phase-out in the production sector; and a synthesis of information readily available to the Secretariat on performance of national ozone units.

37. UNEP offered to assist the Secretariat through its Regional Networks in expediting status reports, verifying the data by discussion during Network meetings and assessing the freeze. It also could assist in developing the indicators for evaluating the performance of national ozone units.

AGENDA ITEM 9: OTHER MATTERS

38. There was no discussion under this agenda item.

AGENDA ITEM 10 ADOPTION OF THE REPORT OF THE SUB-COMMITTEE

39. The Sub-Committee adopted the present report on the basis of the draft report contained in UNEP/OzL.Pro/ExCom/25/SCMEF/L.1.

AGENDA ITEM 11 CLOSURE OF THE MEETING

40. The Chairman declared the meeting closed at 7.10 p.m. on Tuesday, 28 July 1998.