



United Nations
Environment
Programme



Distr.
GENERAL

UNEP/OzL.Pro.8/6
14 November 1996

ORIGINAL: ENGLISH

EIGHTH MEETING OF THE PARTIES TO
THE MONTREAL PROTOCOL ON SUBSTANCES
THAT DEplete THE OZONE LAYER
San José, 25-27 November 1996

**REPORT OF THE EXECUTIVE COMMITTEE
TO THE EIGHTH MEETING OF THE PARTIES**

Introduction

1. The terms of reference of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol (UNEP/OzL.Pro.4/15, annex X) require the Executive Committee to report annually to the Meeting of the Parties. The present report, which covers the activities undertaken by the Executive Committee since the Seventh Meeting of the Parties, is submitted in fulfilment of that requirement.
2. During the reporting period, the nineteenth and twentieth meetings of the Executive Committee were held in Montreal, from 8 to 10 May 1996 and from 16 to 18 October 1996. Each meeting was preceded by a two-day meeting of the Sub-Committee on Project Review.
3. The meetings of the Executive Committee were attended by Australia, Austria, Denmark, Japan, the Russian Federation, the United Kingdom of Great Britain and Northern Ireland, and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by Chile, Colombia, Egypt, India, Kenya, the Philippines and Senegal, representing Parties operating under paragraph 1 of Article 5. The meetings were chaired by H.E. Professor S.K. Ongeru (Kenya) and Mr. D. Turner (United Kingdom) acted as Vice-Chairman. Mr. Omar E. El-Arini, Chief Officer, acted as Secretary.

4. In accordance with the decisions taken by the Executive Committee, the following participants attended the meetings as observers:

Representatives of the Implementing Agencies: United Nations Development Programme, United Nations Environment Programme, United Nations Industrial Development Organization, and the World Bank;

Representatives of the Technical and Economic Assessment Panel attended the Nineteenth Meeting;

Representatives of the Ozone Secretariat and the secretariat of the Global Environment Facility;

Representatives of the Alliance for Responsible Atmospheric Policy (ARAP), the Commission of the European Communities, Friends of the Earth, Greenpeace, the Skies Above Foundation, the Société du Centre de Conférences internationales de Montréal, the State University of New York at Albany and the Université du Québec à Montréal.

5. The decisions taken by the Executive Committee at its nineteenth and twentieth meetings are summarized below under the appropriate headings.

A. Procedural matters

Project review

6. The Sub-Committee on Project Review was composed of the representatives of Australia, Colombia (Chairman), Egypt, India, the United Kingdom and the United States of America. The terms of reference of the Sub-Committee were revised at the Executive Committee's twentieth meeting to allow three NGO representatives - one nominated by environmental NGOs, one by industry NGOs and one by NGOs from the academic community - to attend, but not participate in, the Sub-Committee's meetings.

7. During the period under review, the Sub-Committee on Project Review considered proposals for projects and activities, and continued to study policy issues identified by the Fund Secretariat in connection with project proposals.

Sub-Committee on Financial Matters

8. The Sub-Committee on Financial Matters, composed of the representatives of Australia, Austria, Philippines (Chairman) and Senegal also continued to meet in conjunction with the meetings of the Executive Committee to consider, inter alia, the level of funding available and the financial reports of the Implementing Agencies.

Expert Group on the Production of Substitutes for Ozone-depleting Substances

9. The Expert Group on the Production of Substitutes for Ozone-depleting Substances held two meetings to further elaborate guidelines for calculating the incremental costs of phasing out the production of ozone-depleting substances.

Subgroup on the Production Sector

10. The Executive Committee constituted at its nineteenth meeting a Subgroup from its members to study the recommendation of the Expert Group on the Production of Substitutes for Ozone-depleting substances. The Subgroup held one meeting and will hold its second meeting prior to the Twenty-first Meeting of the Executive Committee.

Preparation of policy papers

11. At its twentieth meeting, the Executive Committee decided to review, at the end of each Meeting, its requests for policy papers from the Secretariat so that a realistic timeframe could be agreed for their preparation and discussion.

Non-submission of project proposals in the event of disagreement between the Secretariat and the implementing agencies on capital and operating costs

12. At its twentieth meeting, the Executive Committee decided that no project proposals should be submitted to the Executive Committee until agreement had been reached between the implementing agency and the Secretariat on the cost of items of capital equipment and the operating costs required to implement the project. Where no agreement had been achieved, the underlying basis of the disagreement should be presented to the Executive Committee for consideration prior to consideration of the project.

Meetings of the Executive Committee in 1997 and future years

13. The Executive Committee agreed at its twentieth meeting that it would meet three times in 1997. At its first meeting, to be held from 17 to 19 February 1997, the Committee would consider the implementing agencies' 1997 business plans and work programmes, and any residual projects from 1996. The second and third could be held close to the dates of the meetings of the Open-ended Working Group and the Meeting of the Parties, respectively, with the precise dates to be determined later in the year, but if the Twenty-second meeting was held in the same venue as the meeting of the Open-ended Working Group, it would not constitute a precedent and subsequent meetings of the Executive Committee would normally be held in Montreal.

B. Financial matters

Status of contributions and disbursements

14. As at 18 October 1996, the total income to the Multilateral Fund, including interest and miscellaneous income, amounted to US \$565,567,336. The disbursements against this income totalled US \$562,630,184. The balance available amounted to US \$2,937,152.

15. The cumulative contributions amounted to US \$534,029,263, including US \$16,693,532 in the form of bilateral assistance. The yearly distribution of these contributions against pledges are as follows:

<u>Year</u>	<u>Pledges</u> <u>US \$</u>	<u>Contributions</u> <u>US \$</u>	<u>Arrearages/outstanding</u> <u>contributions</u> <u>US \$</u>
1991	53,308,224	46,046,338	7,261,886
1992	73,322,709	63,543,627	9,779,082
1993	112,897,375	100,482,625	12,414,750
1994	148,369,289	130,813,545	17,555,744
1995	148,143,050	130,432,067	17,710,983
1996*	152,011,031	62,711,061	89,299,970
TOTAL	688,051,678	534,029,263	154,022,415

* Disputed contributions amounted to US \$6,529,485

Contributions in arrears

16. As at 18 October 1996, arrears for 1991-1995 stood at US \$64,722,445, of which almost 99 per cent is attributed to 7 countries with economies in transition; and the remaining 1.0 per cent is attributed to one developing country not operating under paragraph 1 of Article 5. Outstanding contributions for 1996 amounted to US \$89,299,970.

Bilateral contributions

17. In accordance with the Guidelines for Bilateral and Regional Contributions and the criteria set out by the Parties, the Executive Committee approved during the period under review requests to credit bilateral assistance amounting to a total of US \$3,700,507 against contributions of Australia, Austria, Canada, Finland, France, Switzerland and the United States of America to the Fund for the years 1995 and 1996. This brings the total for bilateral cooperation to US \$16,693,532, which represents 2.95 per cent of paid contributions to the Fund.

18. Activities under bilateral programmes approved during the reporting period include implementation of investment/demonstration projects, training workshops, technology transfer

workshops, institutional strengthening, country programme preparation and project preparation. Of the 89 bilateral projects and activities approved through the nineteenth meeting, approximately 67 per cent have been completed.

Fund Secretariat budget

19. At its twentieth meeting, the Executive Committee approved the revised budget for the Fund Secretariat for 1997, on the understanding that a further revision of the budget for that year might be necessary to reflect the Committee's decisions on the monitoring and evaluation system for the Multilateral Fund.

Fund availability

20. During the period under review, the funds available were adequate to cover the costs of the projects approved by the Committee at its nineteenth and twentieth meetings, as well as those carried over from its eighteenth meeting, held in November 1995.

Use of promissory notes

21. UNDP and UNIDO have both agreed in principle to the treatment of promissory notes as committable resources.

C. Resource management

Resource allocation

22. Pursuant to the decision adopted at its Sixteenth Meeting, the Executive Committee continued to use the following categories for resource allocation:

- (a) A discretionary fund, which could be utilized for projects, sectors or countries to which the Executive Committee might wish to give special consideration or to target;
- (b) Recovery and recycling projects (including halon banking);
- (c) Projects in the mobile air-conditioner and compressor sub-sectors, where the cost-effectiveness thresholds are difficult to determine;
- (d) Implementing Agencies' work programmes and support projects;

- (e) Low-ODS-consuming countries, in addition to any funds received by those countries as a result of approval of projects that qualified under the cost-effectiveness thresholds;
- (f) Other investment projects.

Business plans/programmes of the Implementing Agencies for 1996

23. At its nineteenth meeting, the Executive Committee decided that, with the exception of project preparation and activities related to country programme preparation and institutional-strengthening projects, activities additional to the 1996 business plans should not be funded in the 1996 programme. It also requested the implementing agencies, commencing with the 1997 business plans, to set aside 10 to 15 per cent of their total project preparation funding to cover unforeseen project preparation activities.

Business plans and work programmes for 1997

24. At its twentieth meeting, the Executive Committee requested the implementing agencies to prepare their 1997 business plans and work programmes after consultation with the Article 5 countries with whom they would be working in 1997 and to focus on compliance with commitments under the Montréal Protocol, with due attention to Executive Committee decision 19/4, which requested the implementing agencies and countries to include with each project proposal submitted for approval by the Executive Committee a brief description of how the project would contribute to helping the country to achieve the 1999 freeze on production and consumption of controlled substances in Group I of Annex A to the Protocol. The Executive Committee also decided at the same meeting that it would examine the status of implementation of decision 19/4 at its twenty-first meeting.

Agencies' share of investment funds

25. The Executive Committee decided at its twentieth meeting that on a one-time basis UNDP would receive its full share in 1997 and that UNIDO and the World Bank would receive an additional amount to make up their full share for 1996. The actual figures for the shares for 1997 would be discussed during the consideration of the implementing agencies' 1997 business plans.

D. Operational matters

ODS phase-out

26. To date, 12,612 ODP tonnes of ODS have been phased out. The phase-out has occurred in all sectors in the following amounts: foam, 4,061 ODP tonnes; refrigeration, 3,087 ODP tonnes; halon, 4,293 ODP tonnes; aerosol, 701 ODP tonnes, and solvents, 470 ODP tonnes.

Country programmes

27. During the period under review the Executive Committee supported the preparation, completion and updating of five country programmes. It approved 17 additional country programmes bringing the total to 76 approved country programmes covering estimated production of 67,788 ODP tonnes and consumption of 148,320 ODP tonnes of controlled substances. In approving the country programmes, the Executive Committee requested the Parties concerned to provide annually information on progress being made in the implementation of their country programmes.

28. Having noted discrepancies between data reported to the Fund Secretariat and those reported to the Ozone Secretariat, the Committee requested the Fund Secretariat to reconcile and bring to its attention the discrepancies in the two sets of data. It further requested the Fund Secretariat to prepare a revised paper on the question of discrepancies in data to clearly describe the two parallel streams of data reporting existing under the Montreal Protocol, bearing in mind any decision that might be taken on the matter by the Eighth Meeting of the Parties. The Committee also indicated the need to explore ways to reconcile and harmonize the two streams of data reporting in order, on the one hand, to avoid duplication of work and reporting, and, on the other, to ensure greater transparency of data provided. At the same meeting, the Executive Committee requested the Secretariat to ensure that decision 17/12 adopted at its Seventeenth Meeting, relating to discrepancies between ODS consumption data provided in project documents and those reported in approved country programmes, was fully implemented.

Investment projects

29. During the period under review, the Executive Committee approved US \$92,567,066 (including agency support costs) for 194 investment projects. The implementation of these projects will eliminate an estimated quantity of 11,492 ODP tonnes of ozone-depleting substances. A breakdown by sector is as follows:

Sectors	ODP tonnes to be phased out	Total allocation (US \$)
Aerosol	1,347.7	4,377,249
Foam	3,580.8	21,505,744
Halon	400.0	1,130,000
Refrigeration	5,903.9	59,660,051
Solvent	260.1	5,894,022
TOTAL	11,492.5	92,567,066

Institutional strengthening

30. During the period under review, US \$3,505,043 was approved for commencement of institutional strengthening projects in 14 Article 5 countries and renewal of six existing institutional strengthening projects, bringing the total approvals by the Committee to US \$14,813,726 for institutional-strengthening projects in 74 Article 5 countries.

31. At its nineteenth meeting, the Executive Committee decided, in the case of countries requesting institutional-strengthening projects for the first time, approval would be for three years. Initial renewals would be at the same level of funding as the first approval, would be for two years, and would be conditional upon a report of progress and an articulated plan of future actions, this report to be submitted six months before the end of the three-year approval period. Any subsequent renewal would also be for two years; and would also be conditional upon a report of progress and an articulated plan of future actions.

32. At its twentieth meeting, the Executive Committee requested implementing agencies, when preparing institutional-strengthening projects for low-volume consuming countries, to give due consideration to the need for formulating a refrigerant management plan, including recovery and recycling projects in the refrigeration sector. In that connection, it further decided that, while the implementing agencies could proceed immediately with the disbursement of the first one-year tranche of the funds approved for institutional strengthening in low-volume-ODS-consuming countries, subsequent disbursements would be contingent on the submission of a report to the Executive Committee on the status of development of a refrigerant management plan, including a recovery and recycling project, for the country concerned.

Technical assistance

33. Technical assistance has been provided by the Fund in several areas including country programme preparation, project preparation, workshops, training programmes, and for the development of sectoral phase-out strategies. Project preparation has occurred in 59 Article 5 countries.

34. Of a total of 191 technical assistance programmes approved, 27 have been implemented in 16 Article 5 countries, 10 at the regional level and 48 at the global level. Nine out of 26 demonstration projects have been completed in the refrigeration and halon sectors.

35. To date, the Executive Committee has approved 118 training programmes at the national, regional and global levels, costing over US \$11,665,811. To date, 28 national training programmes in 17 Article 5 countries, 23 regional workshops and 10 global training activities have been completed.

Sectoral strategies

36. At the twentieth meeting, the Committee heard a presentation by the World Bank on the plan for halon phase-out in China and recommended that, once the Eighth Meeting of the Parties had elected a new Executive Committee, the Chairperson of that Committee should be invited to establish as quick as possible a sub-committee to deal with the modalities and technical issues arising from the halon-sector strategy, with a view to presenting proposals to the Committee at its twenty-first meeting. It further requested the World Bank to circulate a list of specific issues requiring consideration by the new Executive Committee.

Work programmes of the Implementing Agencies

37. During the period under review, the Executive Committee approved the following allocations to the Implementing Agencies including Agencies' support costs, for activities contained in their 1996 work programmes:

· UNDP	US \$1,870,489
· UNEP	US \$4,203,374
· UNIDO	US \$ 172,777
· World Bank	US \$ 277,980

Regional distribution of projects

38. By region, 697 activities have been approved in Asia and the Pacific, followed by Latin America and the Caribbean (393 activities), Africa (270 activities), and Europe (42 activities). Additionally, 115 global activities have been approved since the inception of the Fund.

Progress and financial reports of the Implementing AgenciesDisbursement from the Implementing Agencies

39. The table below gives the amounts allocated to, and disbursed by, each of the Implementing Agencies for activities approved since 1991.

Status of disbursement

Agency	Funds allocated	Funds disbursed
UNDP	156,656,142	50,231,173
UNEP	22,089,442	12,601,255
UNIDO	102,884,550	35,836,904
WORLD BANK	243,084,231	48,333,455
Bilaterals	16,693,532	9,476,670
TOTAL:	541,407,897	156,479,457

E. Policy matters

40. During the period under review, the Executive Committee decided on the following issues.

Projects involving conversion to HCFCs

41. In the light of decision VII/3 of the Seventh Meeting of the Parties to control HCFCs, the Executive Committee decided at its nineteenth meeting that in the future, in cases where conversion to HCFCs was recommended, the implementing agencies should be requested to provide a full explanation of the reasons why such conversion was recommended, together with supporting documentation that the criteria laid down by the Executive Committee for transitional substances had been met, and should make it clear that the enterprises concerned had agreed to bear the cost of subsequent conversion to non-HCFC substances. The Executive Committee reconfirmed at its twentieth meeting this decision and requested the Implementing Agencies to ensure that adequate information on all alternative technologies was provided to enterprises converting from CFCs. It also reaffirmed the above-mentioned decision taken at its nineteenth meeting.

Methyl bromide

42. At its nineteenth meeting, the Executive Committee noted the need to coordinate work on this subject and requested the Fund Secretariat to consult with other interested parties, such as agricultural departments at the national level and the Food and Agriculture Organization of the United Nations at the international level, to ensure that all concerned were aware of and working towards the same goals. It also invited the United Nations Industrial Development Organization to take the lead in preparing, in collaboration with the other implementing agencies, a brief paper on the work currently in progress on alternatives to methyl bromide, funded both on bilateral and multilateral bases through financial programmes other than the Multilateral Fund, and to present it for the consideration of the Executive Committee at its twentieth meeting. Having considered that report, together with a proposal for policy guidelines for methyl bromide, the Executive Committee decided to adopt the interim guidelines on methyl bromide projects included in Annex VI to the report on the work of its twentieth meeting (UNEP/OzL.Pro/ExCom/20/72) and to allocate a sum of US \$100,000 to implementing agencies for preparation of demonstration projects on alternatives to methyl bromide. It also requested the implementing agencies to prepare a coordinated first tranche of projects with a total cost not exceeding US \$3 million. The applicability of the interim guidelines will be re-examined by the Committee at its twenty-second meeting.

Funding of safety-related equipment in enterprises that are no longer using CFCs

43. At its nineteenth meeting, the Executive Committee approved a payment of 50 per cent of the cost of two aerosol projects to install safety-equipment in enterprises that had already completed the phase-out of ODS, on the strict understanding such approval did not set a precedent and that similar projects would not be considered as eligible for funding in the future.

At its twentieth meeting, the Committee clarified that that decision applied to all projects, regardless of sector, for the installation of safety equipment in enterprises that were no longer using controlled substances.

Transnational corporations

44. At its seventh meeting, the Executive Committee had decided that the Fund should not finance phase-out activities relating to enterprises that were wholly owned subsidiaries of transnational corporations or enterprises permitted to operate in “free zones” and whose output was for export only (UNEP/OzL.Pro/ExCom/7/30, para. 88). At its twentieth meeting, the Committee decided that that decision should not apply to corporations owned by enterprises in countries that had always operated under Article 5. Projects involving transnationals owned by enterprises in countries that had been reclassified as Article 5 countries should be considered on a case-by-case basis, taking into account paragraph (e) of decision VI/5 adopted by the Sixth Meeting of the Parties.

The admissibility of using operating costs to fund non-incremental capital costs

45. At its twentieth meeting, the Executive Committee decided that where the Secretariat, in reviewing a project that did not claim all the eligible operating costs in order to keep its cost-effectiveness within the established threshold, determined that part of the capital costs were ineligible, the value of those ineligible costs could be compensated by an increase in the eligible operating costs provided that:

- (a) The original eligible operating costs were claimed for less than the allowable period;
- (b) The compensation did not result in the allowable period being exceeded; and
- (c) The overall cost of the project remained within the threshold established for the sector or subsector.

46. It further decided that transfers from operating costs to capital costs during implementation of such a project could only occur to fund cost overruns for eligible capital equipment items that had been included in the project approval, in which case, a report would have to be submitted to the Executive Committee providing an explanation and justification for the transfer.

Change of technology after approval

47. The Executive Committee decided at its twentieth meeting that the implementing agencies should exceptionally be allowed to propose changes in the technology approved by the Executive Committee for particular projects but that adequate and detailed justification should be provided

for any changes proposed. The implementing agencies were urged to keep additional project preparation to a minimum.

Priority for projects in countries with legal and institutional impediments to project implementation

48. At its twentieth meeting, the Executive Committee decided that when preparing projects in countries where serious delays in implementation were likely to occur, the implementing agencies could raise these issues with the Executive Committee in those cases where it seemed that the Executive Committee might be able to help remove the impediment, and submit projects only when such impediments had been resolved. Noting that it could be the case that one agency's projects in a given country were proceeding smoothly, while another's were seriously delayed, the Committee further decided that an agency not encountering such major delays should continue to submit projects for that country.

Innovative approaches for the phasing out of ozone-depleting substances in low-ODS-consuming countries

49. At its nineteenth meeting, the Executive Committee endorsed the methodology in a report submitted by UNEP for approaches to institutional strengthening and country programme formulation in low- and very-low-volume-ODS-consuming countries and to encourage UNEP to implement the methodology on a trial basis. It also requested UNEP, in keeping with subparagraph (d) of decision VII/25 of the Seventh Meeting of the Parties, to continue its work for the preparation of an overall approach in addressing the needs of low-volume-ODS-consuming countries by, *inter alia*, drawing on the experience and ongoing activities of other organizations and to submit a report thereon to the Executive Committee at its twentieth meeting. Having reviewed that report and noting that most ODS consumption in LVCs is concentrated in the refrigeration sector, mainly in the servicing and maintenance sectors, and that phase-out of ODS could be achieved largely through non-investment projects, the Committee requested UNEP to ensure that adequate consultations were undertaken so that any policy formulated for LVCs fully reflected the needs of those countries and endorsed in principle the proposed modality for further action, including the development of refrigeration management plans, subject to a review of the operational details to be presented in the UNEP work programme. It also encouraged UNEP to continue exploring ways and means of addressing the needs of LVCs, bearing in mind the requirement to freeze consumption of controlled substances in Group I of Annex A of the Protocol in 1999 and requested UNEP to consolidate the proposals contained in its report with a view to discussion and endorsement by the Executive Committee and, in doing so, to assess whether the funding allocated for projects in LVCs will be sufficient to enable compliance by those countries with the 1999 control measures.

Approaches to ODS phase-out in small and medium-sized enterprises

50. At its nineteenth meeting, the Executive Committee considered a joint report of UNDP and UNEP on approaches to ODS phase-out in small and medium-sized enterprises. Having

considered the report, the Committee decided to pursue consideration of approaches to phase-out of ODS in small and medium-sized enterprises and to request comments in writing from members of the Executive Committee on the approaches outlined in the document with a view to the Secretariat preparing a new document in consultation with the implementing agencies for consideration by the twentieth meeting. It further decided to consider requests in projects related to small and medium-sized enterprises for unavoidable and unintentional technology upgrades on a case-by-case basis. At its twentieth meeting, the Committee decided to request the Secretariat, in cooperation with the implementing agencies and the countries concerned, to provide the Executive Committee with relevant information about SMEs, including the best available information on the SME sector and any available information that could be helpful in assessing the impact on the overall phase-out schedule. It further requested the Secretariat, on the basis of this information, and inter alia taking into account the UNDP/UNEP paper and the comments thereon:

- (a) To refine the definition of small and medium-sized enterprises;
- (b) To make recommendations to the twenty-second meeting of the Executive Committee for options to advance phase-out in the SME sector, including the possibility of a funding window with appropriate cost-effectiveness thresholds.

The role of cost-effectiveness thresholds in sectoral phase-out proposals and guidelines for umbrella projects

51. The Executive Committee decided at its nineteenth meeting to consider, for a trial period of 18 months, an umbrella project as eligible for funding if it met all the following conditions:

- (a) The umbrella project included all the remaining enterprises in a sector or subsector for which cost-effectiveness thresholds had been established by the Executive Committee;
- (b) The country concerned would submit no further requests for funding from the Multilateral Fund for any enterprise in that sector or subsector;
- (c) The overall cost-effectiveness of the umbrella project fell within the sectoral threshold established by the Executive Committee;
- (d) No individual enterprise proposal had a cost-effectiveness threshold more than 100 per cent above the established threshold.

52. At its twentieth meeting, the Committee decided that, for the purposes of that decision, a maximum limit of US \$4 million would apply to terminal umbrella projects and that the issue should remain open for further discussion and should be reconsidered prior to the end of the 18-month period. The original decision would not prejudice such reconsideration.

Halon extinguisher conversion projects

53. At its nineteenth meeting, the Executive Committee decided that there was no need at present to amend any of the existing provisions of the guidelines for halon fire extinguisher conversion projects. At its twentieth meeting, the Committee decided that priority funding should be given for the preparation of projects in the halon fire-extinguisher subsector in its business planning for 1997 and that, as an interim measure before the Committee took a decision on whether or not to endorse the agreement on eligible cost categories in the Secretariat's report on the subject (UNEP/OzL.Pro/ExCom/20/66) as an addition to the guidelines, the Implementing Agencies should use those categories in preparing projects for the halon fire-extinguisher subsector for submission to the next meeting of the Executive Committee.

Report of the second meeting of the expert group on the production of substitutes for ODS

54. At its nineteenth meeting, the Executive Committee decided that each Article 5 producer country should complete the Preliminary Data on the Production Sector form in Annex VI to the report of that meeting and submit it to the Fund Secretariat by 31 December 1996. It further decided that the Article 5 producer country should inform the Executive Committee eight months before it is ready to submit its sector phase-out plan according to the format provided in Annex VII to that report. The Executive Committee should commission a technical audit of the production sector of the country concerned in conjunction with the preparation of the sector plan. This will enable the results of the technical audit to be incorporated into the sector plan and serve as a reference point for reviewing the sector plan. The Executive Committee should approve funding for the preparation of the sector plan and the technical audit. The Executive Committee also agreed on terms of reference for the technical audit, which should be conducted by a combined team of local and international experts. Pending the completion of sector plans, the Executive Committee should focus on closure projects which could be considered according to interim guidelines with the understanding that guidelines on other types of projects, e.g. conversions and erecting ODS substitutes production, should be developed at a later date. It was further agreed that in general, the cost of dismantling the old plant should be offset by the scrap value of the old plant. However, this should be examined on a case-by-case basis. The environmental clean-up of the ODS-producing facility should not constitute an incremental cost but should, however, be done in an environmentally responsible manner.

55. At the same meeting, the Committee also approved formats for preliminary data on the production sector and the form for the sector phase-out plan and appointed a Subgroup composed of the representatives of Australia, Chile, India, Philippines, the United Kingdom and the United States to study the non-approved parts of the report.

56. Following the report of that Subgroup at the Committee's twentieth meeting, it was decided to refer the report back to the Expert Group on Production of Substitutes for Ozone-Depleting Substances for further work in the light of the comments made by various representatives. It was also decided to request India to make a presentation on enforced idleness

to the Expert Group and to recommend that the Executive Committee to be appointed by the Eighth Meeting of the Parties re-establish the Subgroup on the Production Sector as a matter of urgency. The Expert Group was requested to resubmit the report, including information on enforced idleness, through the Subgroup on the Production Sector, to the twenty-first meeting of the Executive Committee.

Terms of reference for the study on technology transfer

57. In accordance with decision VII/26 of the Seventh Meeting of the Parties, a final report on the subject of technology transfer was to be presented to the Eighth Meeting of the Parties. At its nineteenth meeting, the Committee appointed a Subgroup composed of the representatives of Australia, Austria, Colombia, India, Philippines and the United States to try to reconcile the various proposals. The Subgroup was, however, unable to resolve the differences that had emerged in the discussion. Likewise, at the twentieth meeting, a subgroup was established to resolve the various differences that had emerged during the discussion. The subgroup reported back that the main point still at issue was a concern of principle, namely the degree to which action 21 of the actions that the Seventh Meeting of the Parties had, by its decision VII/22, decided should be taken to improve the functioning of the Montreal Protocol required that the term "fair and most favourable conditions necessary to phase-out ODS" be defined, and whether the term applied to all of the other tasks covered by the Terms of Reference, whether or not it was specifically used. Finally the Executive Committee agreed that no decision on the terms of reference for preparing the report on transfer of technology could be taken at this time. It was agreed that consultations should continue, and it was hoped to find a mutually acceptable way around the difficulty.

Change of ownership of approved projects

58. At its nineteenth meeting, the Executive Committee agreed on the procedure to be followed in the event of an ownership shift to a non-eligible (i.e. non-Article-5-owned) entity at various points in the project cycle and decided:

- (a) Where, following project approval by the Executive Committee, an implementing agency is notified ex post facto that an ownership shift occurred in the period after project submission to the Fund Secretariat but before formal approval by the Executive Committee, the implementing agency shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;

- (b) Where an ownership shift occurs after Executive Committee approval but before signature of the project document or grant/sub-grant agreement, the implementing agency shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;
- (c) Where an ownership shift occurs after the implementing agency and the government/company have already signed the project document or grant/sub-grant agreement but before the equipment procurement process has started, implementing agencies shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;
- (d) Where an ownership shift occurs after the implementing agency and the government/company have signed the project document or grant/sub-grant agreement and the equipment procurement process is under way and financial obligations raised and/or servicing contracts have been entered into, implementing agencies shall continue project implementation as usual, consistent with their legal obligations;
- (e) Implementing agencies should ensure that all project documents and grant/sub-grant agreements include a condition that, should a partial or complete shift in ownership of an Article 5 enterprise to a non-Article 5 entity occur following project approval by the Executive Committee, the grant component shall be reduced or cancelled in accordance with the above-specified circumstances, and unutilized funds returned by the implementing agency to the Multilateral Fund.

Training strategy options for the phase-out of ozone-depleting substances under the Multilateral Fund

59. At its nineteenth meeting, the Executive Committee considered a report on training strategy options for the phase-out of ODS under the Multilateral Fund, which had been prepared by UNEP in response to a request by the Executive Committee at its Ninth Meeting, in March 1993. The Executive Committee decided on the preferred framework for considering training

strategies from among the options presented in the report. It further decided that it was not necessary to establish a training advisory committee.

Design of a monitoring and evaluation system for the Multilateral Fund

60. At its nineteenth meeting, the Executive Committee endorsed terms of reference for the design of a monitoring and evaluation system for the Multilateral Fund and authorized the Secretariat, in cooperation with the implementing agencies, to proceed with the preparation of a draft monitoring and evaluation system for submission to the Executive Committee at its Twentieth Meeting. At its twentieth meeting, the Committee, having heard a presentation by a consultant on preliminary concepts for a monitoring and evaluation system, decided to request the consultant to do further work, for submission to a subsequent Meeting, concentrating on the following considerations:

- (a) While significant changes were proposed in the evaluation area, the proposed system of monitoring was largely in place already, embodied in the present system of reporting;
- (b) It was important that the monitoring and evaluation function should not engender excessive costs, nor inflate a presently lean and efficient Secretariat;
- (c) Evaluations had to involve all stakeholders;
- (d) Decisions on the scope of external evaluations, and on the number performed in a year, might have to remain in the hands of the Parties.

61. The Committee also invited additional comments in writing from members in order to facilitate the work of the consultant.

Concessional lending for ODS phase-out

62. At its twentieth meeting, the Executive Committee considered a joint World Bank/Fund Secretariat document on concessional lending for ODS phase-out (UNEP/OzL.Pro/ExCom/20/59). Following a discussion of the approaches outlined in the document and the comments of the Secretariat, the Executive Committee took note of the information provided during the discussion in the Committee on the interest expressed by the Inter-American Development Bank in providing concessional loans for ODS phase-out and the possibility of mobilizing funding from other sources, including the private sector. It also took note of the reservations expressed by some members of the Committee with respect to the provision of concessional loans from the Multilateral Fund. The Committee further decided that there was a need for a wider examination of the various possibilities of concessional lending for ODS phase-out and requested the Secretariat and the World Bank to prepare for submission to the Executive Committee, through its Sub-Committee on Financial Matters, a further report

exploring the practical options for providing concessional loans for ODS phase-out in Article 5 countries, through, inter alia, regional development banks and the private sector.

Guidelines for calculating incremental costs in the tobacco sector

63. It will be recalled that, at its eighteenth meeting, the Executive Committee requested the Secretariat to prepare draft guidelines for calculating incremental costs in the tobacco sector for consideration at the Committee's twentieth meeting. Having considered those guidelines at that meeting, the Executive Committee invited the World Bank to submit a project that it is preparing in Indonesia to the next meeting of the Committee, using the draft guidelines for the calculation of incremental costs and, for the purposes of comparison, calculating royalty fees as a technology transfer fee in terms of both capital and operating costs.

Safety-related costs in projects using hydrocarbon technology

64. At its twentieth meeting, the Executive Committee approved the recommendations in a Secretariat report on safety-related costs in projects using hydrocarbon technology, which had been prepared in accordance with Executive Committee decision 17/14 (UNEP/OzL.Pro/ExCom/20/65), on the understanding that the Secretariat should consider further information on conversion in the commercial refrigeration sector and report back to the Executive Committee at its twenty-second meeting.

F. Matters relating to the Meeting of the Parties

65. In response to Decision VII/23, the Executive Committee submitted the three-year rolling business plan of the Multilateral Fund for the period 1996 - 1998 to the Thirteenth Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol, in August 1996 (UNEP/OzL.Pro/WG.1/13/3). The plan will be revised pending a decision on the amount of 1997-1999 replenishment to be decided by the Eighth Meeting of the Parties.

66. In response to Decision VII/22, the Executive Committee submitted a report on actions taken to improve the financial mechanism for the implementation of the Montreal Protocol (UNEP/OzL.Pro/WG.1/13/4)

67. In addition to the actions reported in UNEP/OzL.Pro/WG.1/13/4, the Executive Committee informed the Parties that a number of actions were to be decided at its twentieth meeting. These actions and the paragraphs in this reports where they are cited are listed below:

. Action 1(a)(ii): Monitoring and evaluation guidelines: paragraph 60.

. Action 2(b): New policy issues: paragraphs 41, 42, 50, 51-52, 53, 63, 64.

Action 5(c): Production sector: paragraphs 54-56.

Action 9: Low volume and very low-volume-consuming countries: paragraph 49.

Action 10: Concessional lending: paragraph 62.

Action 17: Legal and institutional impediments: paragraph 48.

Action 21(c): Technology transfer: 57

G. Fund Secretariat Activities

68. In the reporting period the Fund Secretariat prepared documentation and provided conference services for the nineteenth and twentieth Meetings of the Executive Committee and for two meetings of the Sub-Committee on Project Review. The Fund Secretariat analyzed and reviewed proposals for 260 investment projects and activities from implementing agencies and bilateral donors and commented on 17 country programmes. Comments and recommendations were provided as appropriate on all proposals submitted for the consideration of the Executive Committee.

69. With the cooperation of the implementing agencies, the Fund Secretariat completed the development of a comprehensive, integrated database for reporting physical and financial progress in the implementation of all projects and activities approved by the Executive Committee.

70. The Fund Secretariat prepared or contributed to the preparation of 24 papers on emerging or on-going policy issues. In addition to specific policy papers, the Fund Secretariat presented other operational policy issues to the Executive Committee in the overview papers prepared for each meeting. The Fund Secretariat also prepared a draft three-year rolling business plan for the years 1996-1998 of the Multilateral Fund, and a report on actions that the Executive Committee had taken pursuant to Decision VII/22 of the Seventh Meeting of the Parties to the Montreal Protocol to improve the financial mechanism for the implementation of the Protocol. Both reports were submitted to the Thirteenth Meeting of the Open-ended Working Group.

71. In response to decisions of the Executive Committee, the Fund Secretariat convened two meetings of the Expert Group on the Production of Substitutes for ODS, in March and November 1996. During the reporting period, the Fund Secretariat also convened two coordination meetings with the implementing agencies to define the programme of activities and actions necessary to implement the decisions taken by the Executive Committee and to ensure full coordination of agencies' on-going programmes.

72. The Fund Secretariat made presentations, or was otherwise represented at 26 seminars, workshops and meetings during the reporting period.

73. In response to a decision of the Executive Committee, the Fund Secretariat consulted with the Food and Agriculture Organization of the United Nations on efforts taken by it for the transition to alternatives to methyl bromide.

74. Archival and reference documents including the Inventory of Approved Projects and the Policies, Procedures and Guidelines handbook were updated and circulated as appropriate.

H. Reports of the Executive Committee

75. The reports of the nineteenth and twentieth meetings of the Executive Committee (UNEP/OzL.Pro/ExCom/19/64 and UNEP/OzL.Pro/ExCom/20/72) were sent to all Parties.