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TENTH MEETING OF THE PARTIES TO THE
MONTREAL PROTOCOL ON SUBSTANCES
THAT DEplete THE OZONE LAYER
Cairo, 23-24 November 1998

**REPORT OF THE EXECUTIVE COMMITTEE TO THE TENTH MEETING
OF THE PARTIES TO THE MONTREAL PROTOCOL**

Introduction

1. The terms of reference of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol (UNEP/OzL.Pro.9/12, annex V) 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 Ninth Meeting of the Parties, is submitted in fulfilment of that requirement. The annex to the present report, prepared in response to decision IX/14, updates information on action taken by the Executive Committee to improve the financial mechanism.
2. During the reporting period, the twenty-third, twenty-fourth and twenty-fifth meetings of the Executive Committee were held in Montreal from 12 to 14 November 1997, 25 to 27 March 1998, and 29 to 31 July 1998, respectively, and the twenty-sixth meeting was held in Cairo from 11 to 13 November 1998.
3. It will be recalled that, in its decision IX/16, the Ninth Meeting of the Parties modified the terms of reference of the Executive Committee, as adopted by the Fourth Meeting of the Parties, to the effect that the Committee members whose selection had been endorsed at the Eighth Meeting would remain in office until 31 December 1997 and that, thereafter, the term of office of Committee members would be the calendar year commencing on 1 January of the calendar year after the date of their endorsement by the Meeting of the Parties.

4. Accordingly, the twenty-third meeting of the Executive Committee was attended by Australia, Belgium, Japan, Switzerland, 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 Antigua and Barbuda, China, Costa Rica, India, Peru, Senegal and Zimbabwe, representing Parties operating under paragraph 1 of Article 5. That meeting was chaired by Mr. David Turner (United Kingdom), and Mr. Marco Antonio González (Costa Rica) acted as Vice-Chairman.

5. The twenty-fourth, twenty-fifth and twenty-sixth meetings of the Committee were attended by Belgium, Bulgaria (only the twenty-sixth meeting), Canada, Italy, Japan, Switzerland, and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by Burkina Faso, China, Costa Rica, India, Jordan, Peru, and Zimbabwe, representing Parties operating under paragraph 1 of Article 5. Those meetings were chaired by Mr. Marco Antonio González (Costa Rica), and Mr. Paul Horwitz (United States of America) acted as Vice-Chairman.

6. Mr. Omar E. El-Arini, Chief Officer, acted as Secretary for all four meetings.

A. Procedural matters

Sub-Committee on Project Review

7. In the reporting period, the Sub-Committee on Project Review, composed, in 1997, of the representatives of India, Peru, Senegal, Switzerland (Chairman), the United Kingdom and the United States of America, and, in 1998, of the representatives of Burkina Faso, India (Chairman), Italy, Peru, Switzerland, and the United States of America, met five times: on 18-19 September 1997 and immediately prior to the four meetings of the Executive Committee. The Sub-Committee considered projects and activities and related policy issues and made recommendations thereon to the Executive Committee.

Sub-Committee on Monitoring, Evaluation and Finance

8. The Sub-Committee on Monitoring, Evaluation and Finance, composed, in 1997, of the representatives of Antigua and Barbuda, Australia (Chairman), Belgium, Costa Rica, the United Kingdom, and Zimbabwe and, in 1998, of the representatives of Belgium, Canada, Costa Rica, Japan, Jordan, and Zimbabwe (Chairman), also met on 18-19 September 1997 and immediately prior to the four meetings of the Executive Committee. The Sub-Committee considered, and made recommendations to the Executive Committee on, inter alia, the implementation of the 1997 business plans, the consolidated 1998 business plan and the consolidated draft 1999 business plan of the Multilateral Fund, the 1998 business plans and the draft 1999 business plans of the Implementing Agencies; the 1997 accounts of the Multilateral Fund; promissory notes; the timing of the evaluations in the monitoring and evaluation work programme; the format and status of preparation of project completion reports; the recruitment process for the monitoring and evaluation post in the Fund Secretariat; project implementation delays; the draft Evaluation Guide; non-investment-project milestones; co-financing; the status of ODS phase-out in Article 5 countries; and the proposed budget of the Fund Secretariat for 1999.

Membership of the Sub-Committees

9. At its twenty-third meeting, the Executive Committee decided that the membership of both the Sub-Committee on Monitoring, Evaluation and Finance and the Sub-Committee on Project Review should be balanced between Parties representing Article 5 countries and Parties representing non-Article 5 countries and that it was within the purview of each geographical group to decide which Parties would be represented on each Sub-Committee. It further decided that nothing precluded a Party from being represented simultaneously on both Sub-Committees, should that be the decision of the group concerned.

Subgroup on the Production Sector

10. The Subgroup on the Production Sector, composed, in 1997, of the representatives of Australia, China, Costa Rica, India, the United Kingdom and the United States, and, in 1998, of the representatives of Canada, China, Costa Rica, India, Italy and the United States, held four meetings, in Montreal, on 18 September 1997 and 26 July 1998, in Washington, D.C., from 17 to 19 February 1998, and in Cairo on 9 and 10 November 1998, to continue its consideration of the guidelines for assessing compensation for the closure of ODS-production facilities. It also held an informal planning meeting on 12 November 1997.

Informal group on technology transfer

11. The informal group on technology transfer, established in accordance with decision VIII/7 of the Eighth Meeting of the Parties, continued to meet in conjunction with the meetings of the Executive Committee with a view to preparing advice on what steps could be taken to eliminate potential impediments to the transfer of ozone-friendly technologies. The group held extensive discussions to formulate a common position, as requested by the Eighth Meeting of the Parties, but to date no full agreement could be reached.

Host Government Agreement between the Government of Canada and the Multilateral Fund

12. At its twenty-fifth meeting, the Executive Committee authorized its Chairman to sign the Host Government Agreement between the Government of Canada and the Multilateral Fund for the Implementation of the Montreal Protocol. It also requested the Chief Officer to seek legal advice from the United Nations Office of Legal Affairs as to who should sign the Agreement between the United Nations and the Government of Canada concerning the Privileges, Immunities and Other Facilities of United Nations officials servicing the Secretariat of the Multilateral Fund.

B. Financial matters

Status of contributions and disbursements

13. As at 13 November 1998, the total income to the Multilateral Fund, including interest and miscellaneous income, amounted to \$847,230,749. The total amounts for project approved and cleared for approval by the Executive Committee was \$876,927,323. The yearly distribution of contributions against pledges is as follows:

<u>Year</u>	<u>Pledges</u> <u>US \$</u>	<u>Contributions</u> <u>US \$</u>	<u>Arrears/outstanding</u> <u>contributions</u> <u>US \$</u>
1991	53,308,224	46,830,898	6,477,326
1992	72,797,293	63,544,667	9,252,626
1993	108,923,724	99,983,374	8,940,350
1994	142,630,330	128,528,325	14,102,005
1995	142,404,091	129,051,666	13,352,425
1996	147,905,193	126,347,255	13,459,671
1997	157,144,159	130,002,132	27,142,027
TOTAL (1991-1997)	825,113,014	724,288,318	100,824,696
1998 (to date)	157,545,040	64,342,480	93,202,560

Contributions in arrears

14. As at 10 November 1998, arrears for 1991-1997 stood at \$100,824,696. Outstanding contributions for 1997 only amounted to \$27,142,027.

Bilateral contributions

15. During the period under review, the Executive Committee approved requests to credit bilateral assistance amounting to a total of \$7,830,113. This brings the total for bilateral cooperation to \$25,234,976, which represents 2.9 per cent of paid contributions to the Fund. The range of bilateral projects approved included demonstration projects, training workshops, technology transfer workshops, institutional strengthening, project preparation and investment projects.

Promissory notes

16. At its twenty-fifth meeting, the Executive Committee approved an amendment to the agreements between the Executive Committee and UNDP and UNIDO and authorized the Chairman of the Executive Committee to sign them on its behalf. The text of the amendment may be found in annex II to the report of that meeting (UNEP/OzL.Pro/ExCom/25/68). It also decided 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. In addition, the Committee decided that contributing Parties which issued 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.

C. Resource management

Business plans of the Implementing Agencies for 1998

17. At its twenty-third meeting, the Executive Committee decided that the Sub-Committee on Monitoring, Evaluation and Finance should consider and make recommendations to the Executive Committee on the draft and final versions of the Implementing Agencies' business plans. Having considered the report of the Sub-Committee at its twenty-fourth meeting, the Executive Committee approved the 1998 business plans of the Implementing Agencies and adopted the target of phasing out, by the end of 1998, 34,237 ODP tonnes of consumption (including the shortfall of 5,696 ODP tonnes not realized from the 1997 business plans) and 11,400 ODP tonnes of production from previous approvals, as indicated in table 4 of the consolidated business plan (UNEP/OzL.Pro/ExCom/24/6). It further adopted a target of 70 per cent for disbursement by the agencies for projects approved and funded up to the end of 1997.

Draft 1999 business plans of the Implementing Agencies

18. At its twenty-sixth meeting, the Executive Committee requested the Implementing Agencies to finalize their 1999 business plans taking into account the considerations and comments made by the Sub-Committee on Monitoring, Evaluation and Finance with a view to their final approval by the Executive Committee at its first meeting in 1999

Performance indicators for the evaluation of the business plans of the Implementing Agencies

19. At its twenty-sixth meeting, the Executive Committee decided to maintain two sets of indicators for investment projects, the first set to track various aspects of the work of agencies, and the second set of weighted indicators to guide the allocation of agencies' shares. It also decided to maintain two sets of indicators for non-investment projects, the first set of four weighted indicators to track results associated with non-investment projects and the second non-weighted set would relate to appropriate and timely policies initiated by countries and the reduction in ODS consumption over and above that effected by investment projects. The details of the indicators and the weighting may be found in paras. 19 and 20 of the report of the Committee on the work of its twenty-sixth meeting (UNEP/OzL.Pro/ExCom/26/70).

D. Fund achievement

20. During the period under review, the Executive Committee approved 710 projects and activities, with a planned phase-out in the consumption of 37,369 tonnes and in the production of 16,565 tonnes of controlled substances, and approved/cleared for approval \$229.8 million for their implementation.

Total ODS phase-out

21. Up to the end of 1997, the implementation of projects supported by the Multilateral Fund had resulted in the phase-out of 46,158 ODP tonnes of ODS with the following sectoral distribution:

<u>Sector</u>	<u>ODP tonnes phased out</u>
Aerosols	14,278
Foams	7,539
Halons	6,431
Production	4,800
Refrigeration	7,170
Solvents	769
Non-investment	5,171

Regional distribution of projects

22. By region, 1,127 activities have been approved in Asia and the Pacific, followed by Latin America and the Caribbean (684 activities), Africa (469 activities), and Europe (107 activities). Additionally, 178 global activities have been approved since the inception of the Fund.

Investment projects

23. During the period under review, the Executive Committee approved/cleared for approval \$193.91 million (including agency support costs) for 392 investment projects. The implementation of these projects will eliminate an estimated quantity of 37,079 ODP tonnes in the consumption of ozone-depleting substances and 16,565 tonnes in the production of ozone-depleting substances. A breakdown by sector is as follows:

<u>Sectors</u>	<u>ODP tonnes to be phased out</u>	<u>Total allocation (US \$)</u>
Aerosol	1,839	3,175,851
Foam	11,766	76,041,082
Halon	16,466*	26,109,933
Fumigant	49	14,051,671
Refrigeration	6,340	87,366,106
Solvent	579	5,407,326

* In the consumption sector and 16,565 in the production sector.

Country programmes

24. During the period under review the Executive Committee approved 15 additional country programmes. This brings the total number of approved country programmes to 98, covering the estimated production of 70,000 ODP tonnes and consumption of 155,000 ODP tonnes of controlled substances. This represented respectively 95 per cent and 100 per cent of the total ODS consumption and production in Article 5 countries. In approving the country programmes, the Executive Committee requested the Parties concerned to provide annually information on progress being made in their implementation.

Institutional strengthening

25. During the period under review, \$4,975,231 was approved for commencement of institutional-strengthening projects in 15 Article 5 countries and renewal of 21 existing institutional-strengthening projects. This brings the total approvals by the Committee to \$21.8 million for institutional-strengthening projects in 97 Article 5 countries.

Technical assistance and training

26. Since the inception of the Multilateral Fund, a total of 1,219 technical assistance projects and activities have been approved, at a total cost of \$37.33 million, for workshops, awareness campaigns, ODS recovery and recycling programmes, training programmes, the development of sectoral phase-out strategies, and project preparation. The total includes 154 training programmes at the national, regional or global levels, costing \$13.7 million. To date, 86 national training programmes, regional workshops and global training activities have been completed.

27. At its twenty-third meeting, the Executive Committee authorized UNEP to proceed with the implementation of the training guidelines for identification of needs and coordination of activities, as contained in document UNEP/OzL.Pro/ExCom/23/Inf.4.

Allocations to Implementing Agencies

28. During the period under review, the Executive Committee approved/cleared for approval the following allocations to the Implementing Agencies, including Agencies' support costs, for investment projects and non-investment projects and activities:

- UNDP \$70,440,593
- UNEP \$9,851,193
- UNIDO \$156,049,322
- World Bank \$85,642,727

Disbursement by the Implementing Agencies

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

Agency	Funds allocated (as of November 1998)	Funds disbursed (to end 1997)
UNDP	248,547,854	97,626,887
UNEP	37,143,450	19,275,414
UNIDO	181,696,135	64,587,560
World Bank	358,925,091	131,186,483
Bilateral	25,234,976	11,621,523
TOTAL:	851,547,506	324,297,867

E. Monitoring and evaluation

Slow disbursement and delays in project implementation

30. At its twenty-third meeting, the Executive Committee requested the Sub-Committee on Monitoring, Evaluation and Finance to maintain a watching brief on project implementation delays.

31. At its twenty-fourth meeting, the Committee decided that, as there were relatively few projects suffering from serious delays, they could be highlighted on a case-by-case basis at each meeting, when any appropriate guidance could be provided to the Implementing Agencies. It also requested the Secretariat to analyse specific types of delay, such as bankruptcy, with the Implementing Agencies and to present a paper on the subject at the next meeting.

32. At its twenty-fifth meeting, the Executive Committee addressed the question of project implementation delays resulting from bankruptcy. It decided to request the Implementing Agencies to carry out some preliminary screening of the financial viability of companies when preparing project proposals and to take appropriate action, in consultation with the ozone unit of the country concerned, if there was any indication of a possibility of bankruptcy. The Implementing Agencies were also requested 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 financial assets of the Fund, in collaboration with the ozone unit.

33. At its twenty-fifth meeting, in dealing with projects with extended delays, the Executive Committee decided to request the Secretariat to provide to the Executive Committee at its twenty-sixth meeting a list of ongoing projects up to 1992 and, if possible, 1993, with suggestions for action, to permit the Committee to determine whether or not they should be cancelled.

34. At its twenty-sixth meeting, the Executive Committee endorsed two procedures for project cancellation and discussed at length the problem of taxation and customs clearance, which was jeopardizing the implementation of projects in certain countries. It decided to draw the attention of the Meeting of the Parties to the problem and called on all countries to resolve any outstanding customs clearance and taxation issues.

Implementing Agencies 1999 shares

35. At its twenty-fifth meeting, on the merit of their performance in fulfilling their 1997 business plan targets, the Committee decided to reduce in 1999 investment project shares of UNDP by 1 per cent, that of the World Bank by 2 per cent and that of UNIDO by 3 per cent. Funds so spared should be reserved for the high ODP-value projects in the aerosol and halon sectors and could be bid for by each agency for up to half of the unallocated amount.

Evaluation Guide

36. At its twenty-third meeting, the Executive Committee took note of the Evaluation Guide, which it recognized as the first version of what was intended to be a dynamic document that would be revised by the monitoring and evaluation officer in the light of experience with its use

by countries and Implementing Agencies. The Committee invited its members to provide their comments on the Guide, and Implementing Agencies to continue to offer their advice on the subject in the light of their experience. It also requested the senior evaluation officer, when appointed, to take such comments and advice into account in preparing future proposals for improvements and/or amendments to the Guide for the consideration of the Sub-Committee on Monitoring, Evaluation and Finance and to ensure that the impacts of evaluated projects were considered in the light of their impact on the sector as a whole at the national level.

Project completion reports

37. Having adopted a format for project completion reports for investment projects at its twenty-third meeting, the Executive Committee approved the format for project completion reports for non-investment projects at its twenty-fourth meeting, and requested the Implementing Agencies to accelerate the preparation of investment project completion reports.

38. At its twenty-sixth meeting, the Executive Committee considered a consolidated report on project completion reports, recognizing that it would have to be updated.

Standard components on monitoring and evaluation in project proposals

39. To facilitate project monitoring and evaluation, the Executive Committee adopted a set of standard components which should be included in investment project proposals.

Status of implementation of the monitoring and evaluation work programme

40. At its twenty-sixth meeting, the Executive Committee requested the Multilateral Fund Secretariat to prepare a monitoring and evaluation work programme for submission to the Executive Committee at its first meeting in 1999.

F. Special initiatives

Halon-sector phase-out plan for China

41. At its twenty-third meeting, the Executive Committee decided to approve in principle \$62 million in total for funding for the implementation of the China halon-sector strategy of which \$12.4 million was disbursed in 1998. It also agreed in principle that it would continue to provide funds on the basis of annual programmes submitted in accordance with the schedule set out in paragraph 27, section (B), of the report of the work of the twenty-third meeting (UNEP/OzL.Pro/ExCom/23/68), subject to a number of conditions, including, *inter alia*, that adequate progress was maintained in phasing out halons in accordance with the schedule agreed to by China and the other requirements of the agreement.

42. At its twenty-sixth meeting, the Executive Committee approved the second tranche of funding for the programme in the amount of \$9.7 million, which will phase out 5,826 ODP tonnes.

China MAC ODS phase-out sector plan

43. Also at its twenty-sixth meeting, the Committee approved a project at the level of funding of \$7.7 million aimed at eliminating ODS consumption in the entire mobile air-conditioner sector in China, on the understanding that China had committed to meeting the target of 31 December 2001 for CFC phase-out in new MAC production.

Small and medium-sized enterprises

44. At its twenty-fifth meeting, the Executive Committee decided to include an allocation of \$10 million from the resource allocation for 1999 for a funding window designed to facilitate pilot conversions of significant groups of small firms that met a number of criteria, including, inter alia: that they were restricted to the aerosol or foam sector only; that Group projects should be at a level of \$1 million or less, and should have an overall cost-effectiveness of no more than 150 per cent of the level of the current relevant cost-effectiveness thresholds; that the group project should be put forward with a government plan, including policies and regulations designed to ensure that the specific level of agreed reduction to be achieved was sustained; and that no single country may apply for more than \$1 million from this pilot funding window although projects from one country may cover more than one sector.

G. Policy matters

Strategy and guidelines for the methyl-bromide sector

45. At its twenty-fourth meeting, the Executive Committee approved the strategy and guidelines for the methyl-bromide sector, as contained in annex IV to the report of that meeting (UNEP/OzL.Pro/ExCom/24/47).

Refrigerant management plans

46. Following the approval of the guidelines for the preparation of refrigerant management plans at its twenty-third meeting, the Committee decided at its twenty-fourth meeting that, in the preparation of such plans, it was not necessary for unduly restrictive conditionalities to be set. However, at the time of approval of such a plan, it was highly important that a clear political commitment be shown by the country concerned and that the plan be prepared in a high-quality, comprehensive way, containing a strategy, including institutional and legislative aspects, for phasing out CFCs in the entire sector, and including consideration of how to approach the problem of the informal sector.

Equipment to be destroyed or rendered unusable

47. At its twenty-fourth meeting, the Executive Committee decided that project implementation would not go forward until a list of equipment to be destroyed or made unusable had been prepared, and an undertaking given by the enterprise concerned that the dismantling or destruction would be carried out. It also decided that projects should not be prepared in cases where the countries or enterprises involved did not agree to destruction of the equipment.

Production sector

48. At its twenty-fourth meeting, the Executive Committee decided to approve \$600,000 to be used by the Secretariat for conducting technical audits and that the Secretariat should arrange for technical audits of the CFC-producing facilities in CFC-producing Article 5 countries to be carried out in accordance with Committee decision 19/36 in those countries that have submitted satisfactory data on the production sector according to the agreed format and subject to the views of any member of the Subgroup on the Production Sector on those data.

49. At its twenty-fifth meeting, the Executive Committee decided that requests for project preparation funds for the production sector could be forwarded to the Subgroup on the Production Sector for submission to the Executive Committee once preliminary production data and the draft sectoral plan for the country had been submitted. It also decided that, with regard to the project proposal for which China had received preparation funds, if China was disposed to submit an innovative project proposal prior to the final receipt of the audited data, it could informally submit such a project proposal to the Subgroup Facilitator for circulation. Other CFC-producing Article 5 countries wishing to request funds for project preparation must meet the requirements laid down in earlier decisions of the Executive Committee in this regard, submit the data and a draft sectoral strategy according to the approved format so that the procedure outlined for China could be followed in their case as well.

50. With a view to expediting the conclusion of the work for the production sector, the Executive Committee decided at its twenty-sixth meeting to expand the mandate of the Subgroup on the Production Sector to include discussions on actual project proposals and the formulation of recommendations on projects relating to the closure of ODS production sector facilities, in order to enable the Subgroup to bring its recommendations on projects directly to the Executive Committee for its consideration. It also requested the Secretariat to retain the services of the technical audit consultant for an additional mandate to assist the Subgroup in its deliberations on projects during the first part of 1999 and to entrust the Subgroup with drafting the terms of reference for the services of the consultant, following the completion of the technical audit report.

Status of ODS phase-out in Article 5 countries

51. At its twenty-fifth meeting, the Executive Committee requested Implementing Agencies to address how to complete or accelerate preparation of country programmes so as to ensure that all countries had data against which to report and measure progress in time for the 1999 freeze.

52. At its twenty-sixth meeting, the Executive Committee considered a summary status report on ODS phase-out in Article 5 countries and requested the Secretariat to update the report and submit it to the Executive Committee at its second meeting each year. It also requested the Secretariat to ensure that data in its documents were consistent and to take steps to validate and update the data.

Hydrocarbon safety

53. At its twenty-fifth meeting, the Executive Committee decided to approve a Hydrocarbon Safety Cost Study to be used as guidance for the Implementing Agencies, for enterprises in Article 5 countries in the preparation of investment projects and for the Secretariat in reviewing the submitted projects.

Baseline equipment

54. At its twenty-fifth meeting, the Executive Committee decided that the baseline concept should be adopted and implemented selectively, through application of its decision 18/25, on technological upgrade, utilizing pro-rating of equipment costs, for the domestic and commercial refrigeration and rigid polyurethane foam subsectors and for the solvents sector.

55. At its twenty-sixth meeting, the Committee decided that unavoidable technological upgrade was to be taken into account in determining eligible incremental costs. As an example of the procedure to be followed, in the domestic and commercial refrigeration and rigid polyurethane foam subsectors, the incremental cost of providing new foam machines where they were essential for conversion and none existed in the baseline, should be based on either the difference between the cost of a low-pressure and a high-pressure foam machine, where a high-pressure machine was essential, or, alternatively, an agreed percentage of the cost of a low-pressure machine. It further decided that those guidelines should be applied for a period of one year, after which the issue could be brought forward again to the Executive Committee for further guidance, as pertinent.

Incremental operating costs for compressors

56. At its twenty-sixth meeting, the Executive Committee agreed on guidelines for the assessment of incremental operating costs for compressors. In doing so, it endorsed a number of principles, including the avoidance of double-counting of compensation for the capital cost of conversion of compressor manufacture, and the incremental operating costs associated with compressors for downstream manufacturers of refrigerators.

57. It also requested relevant countries to provide the necessary basic information on their refrigeration sectors and agreed that the boundary between domestic and commercial refrigeration be delineated by compressor power rating and that refrigerators using hermetic compressors of 250 rated watts and below be classified as belonging to the domestic subsector. The guidelines will be applied for a period of one year, after which the issue may be brought again to the attention of the Executive Committee for further guidance, as pertinent. The full text of the guidelines may be found in paragraph 63 of the report of the Committee on the work of its twenty-sixth meeting (UNEP/OzL.Pro/ExCom/26/70).

Retrofit of commercial refrigeration equipment

58. At its twenty-sixth meeting, the Executive Committee considered a report prepared by the World Bank on the retrofit of commercial refrigeration equipment. In the light of the report and the discussion thereon, it requested the Secretariat, in conjunction with the Implementing Agencies, to prepare a paper on the circumstances under which the Committee could consider projects from Article 5 countries to retrofit commercial refrigeration appliances and on how the

incremental costs of such projects should be calculated. The draft paper would be sent to Executive Committee members for review and would subsequently be finalized by the Secretariat with the aim of giving the Sub-Committee information on which to base a recommendation on the subject to the Executive Committee at its next meeting.

Determining ODS consumption in project proposals in the foam and refrigeration sectors and eligibility of ODS consumption arising from losses during production

59. At its twenty-sixth meeting, the Executive Committee requested the Implementing Agencies, in the preparation of projects, to take extreme care to ensure the reliability and accuracy of data on ODS consumption and make available to the Secretariat figures normally provided by enterprises on ODS purchased by the enterprises and ODS used in the products being produced. It further requested that the enterprises for which projects were being prepared make available their relevant records to provide the best available information to the Implementing Agencies concerning ODS purchased and used.

60. Also at the twenty-sixth meeting, it was noted that a number of projects submitted in the foam sector included in the consumption claimed for the enterprise an amount of ODS corresponding to "evaporation losses". The Committee considered the question of whether evaporation losses should be included in the stated consumption of an enterprise for the purposes of determining the eligible level of compensation to be provided and requested the Secretariat and the Implementing Agencies to examine in detail the technical issues of such losses, as well as the question of how they should be taken into account in determining the eligible level of compensation to be provided to an enterprise, with a view to submitting a report on their findings to the Sub-Committee on Project Review at its sixteenth meeting. Finally, the Committee agreed that any similar projects submitted to the next meeting should be reviewed and approved consistent with the conclusions reached by the Sub-Committee on that report.

Data on the import and consumption of ozone-depleting substances

61. In its review of three phase-out projects from Malawi and the United Republic of Tanzania, the Secretariat noted problems of discrepancies in ODS consumption data and sought guidance from the Executive Committee on how to proceed. Following its discussion and approval of the projects, at its twenty-sixth meeting, the Executive Committee stressed the need for each country to obtain and ensure reliable data on imports of ODS, particularly through a system of import licensing and control, and in that context stated that customs training was of special importance. In addition, it requested the Fund Secretariat to notify the Implementation Committee of the Montreal Protocol of this problem at its next meeting in Cairo and suggest that the Implementation Committee might send letters to the Governments of Malawi and of the United Republic of Tanzania requesting them to provide updated data on ODS consumption.

Review of projects involving conversion to HCFCs

62. At its sixteenth meeting, the Executive Committee decided that where, upon review by the Fund Secretariat, a project proposal requesting HCFC technology was considered to provide inadequate information justifying the choice of that technology, the project should be submitted for individual consideration by the Sub-Committee on Project Review.

Terminal umbrella projects

63. At its twenty-fifth meeting, the Executive Committee decided upon a number of modalities to be adopted on a trial basis with regard to terminal umbrella projects. The modalities to be adopted may be found in paragraph 87 of the report of that meeting (UNEP/OzL.Pro/ExCom/25/68).

Concessional lending

64. At its twenty-fifth meeting, the Executive Committee decided to establish an open-ended contact group, with no specific terms of reference, to consolidate all views and formulate a consensus on concessional lending. The group should begin its discussions immediately and should report back to the next meeting of the Executive Committee. The contact group subsequently reported that its first meeting had helped to identify elements for a methodology to be circulated to participants. At its next meeting, the group would determine the best possible approach to follow.

65. The contact group later met during the twenty-sixth meeting of the Executive Committee and made progress in gaining a better understanding of both the fears of countries in initiating concessional financing and the broad conceptual framework under which such financing could exist. There was agreement that it would be useful to more fully develop potential models for such financing and to provide examples that, to the degree possible, described how the fears were addressed. Finally, it was agreed that it would be useful to ask Implementing Agencies, bilateral donors, Article 5 countries and companies, if they so desired, to bring forward innovative ideas in the area for the consideration of the Committee.

H. Matters relating to the Meeting of the Parties

66. In response to decisions VIII/5, VIII/7 and IX/14, paragraph 2, the Executive Committee is annexing hereto its report to the Tenth Meeting of the Parties on actions taken to improve the financial mechanism for the implementation of the Montreal Protocol.

Administrative costs of the Implementing Agencies

67. At its twenty-sixth meeting, the Executive Committee decided to apply a sliding scale for administrative support costs with immediate effect, providing for percentages ranging from 13-11 per cent for projects not exceeding \$5 million. The administrative costs applicable to projects exceeding \$5 million would be assessed on a case-by-case basis. The implementation of this decision would be reviewed and a report addressed to the Eleventh Meeting of the Parties in line with decision VIII/4.

I. Fund Secretariat activities

68. In the reporting period, the Fund Secretariat prepared documentation and provided conference services for the twenty-third, twenty-fourth, twenty-fifth and twenty-sixth meetings of the Executive Committee, five meetings each of the Sub-Committee on Project Review, the Sub-Committee on Monitoring, Evaluation and Finance, and the Subgroup on the Production Sector.

69. The Fund Secretariat analysed and reviewed proposals for 968 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.

70. The Fund Secretariat also prepared or contributed to the preparation of 10 papers on emerging or ongoing policy issues. In addition to specific policy papers, the Fund Secretariat presented other operational policy issues to the Executive Committee in overview papers prepared for each meeting.

71. The Fund Secretariat also organized a workshop on progress reports and business plans and three coordination meetings with the Implementing Agencies.

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

73. The Fund Secretariat administered the following contracts:

- (a) Prices of chemicals;
- (b) Administrative costs of the implementing agencies;
- (c) Technical audits of CFC-producing plants in China and India;
- (d) Implementation of the work programme on monitoring and evaluation.

74. Secretariat staff undertook several missions relating to the programme of the Multilateral Fund, meetings of the Parties, and GEF Council meetings.

J. Reports of the Executive Committee

75. The reports of the twenty-third, twenty-fourth and twenty-fifth meetings of the Executive Committee (UNEP/OzL.Pro/ExCom/23/68), UNEP/OzL.Pro/ExCom/24/47, and UNEP/OzL.Pro/ExCom/25/68 have been distributed to all Parties to the Montreal Protocol. The report of its twenty-sixth meeting (UNEP/OzL.Pro/ExCom/26/70) is being made available at the Tenth Meeting of the Parties.

ANNEX

**ACTIONS TAKEN TO IMPROVE THE FINANCIAL MECHANISM FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL**

This report is submitted by the Executive Committee pursuant to Decisions VIII/5 and VIII/7 of the Eighth Meeting of the Parties and clause (2) of Decision IX/14 of the Ninth Meeting of the Parties, which state, respectively:

“To request the Executive Committee to move forward as expeditiously as possible on decision VII/22, and in particular Actions 5, 6, 10, 11, 14 and 21, and to report back to the Ninth Meeting of the Parties”;

“To request the Executive Committee to continue with further actions to implement decision VII/22 to improve the Financial Mechanism and report to the Meetings of the Parties annually”; and,

“To request the Executive Committee to continue with further actions to implement decision VII/22 to improve the Financial Mechanism and to include in its annual report to the Meeting of the Parties an Annex updating information on each action that has not been previously completed, as well as a list of actions that have been completed.”

This report is based on the report originally submitted to the Ninth Meeting of the Parties, updated to reflect recent decisions of the Executive Committee up to and including those taken at the twenty-sixth meeting held on 11-13 November 1998. The changes introduced to the report submitted to the Ninth Meeting are presented *in bolded italics*. Information on each Action that has not previously been completed (on-going) is presented in Part I. Part II contains a list of Actions that have been completed. Part III presents those Actions which either have become a standard practice of the Multilateral Fund or have been overtaken by other developments. It is the intention of the Secretariat/the Executive Committee to continue reporting to the Meeting of the Parties on Actions in Part I of the report, with particular emphasis on Actions 5, 6, 10, 11, 14, and 21, as requested in Decision VIII/22.

PART I: ACTIONS NOT COMPLETED (ON-GOING)

Action 1

- (a) Completion of the development by the Executive Committee of (ii) a monitoring and evaluation guidelines, bearing in mind that operational responsibility remains with Governments, financial intermediaries or the Implementing Agencies

Action taken by the Executive Committee:

- (a)(ii) The Committee approved at its Nineteenth Meeting the terms of reference for the design of a monitoring and evaluation system. The Committee at its Twenty-first Meeting decided to establish a standing sub-committee to be called the Monitoring, Evaluation, and Finance Sub-Committee. The first meeting of the Monitoring, Evaluation, and Finance Sub-Committee was held in May 1997.

Subsequently at its Twenty-second Meeting, the Committee approved a work programme for the monitoring and evaluation of activities supported by the Multilateral Fund for 1997-1998 including action oriented indicators for monitoring project progress; a set of performance indicators for investment and non-investment projects; formats for project completion reports for investment and non-investment projects and a proposal for standardized component on monitoring and evaluation in project proposals. The work programme also includes preparation of an evaluation guide for investment projects and non-investment projects; evaluation of completed projects in the foam and refrigeration sectors and of non-investment project focusing on training activities and institutional strengthening.

The Executive Committee at its Twenty-third Meeting in November 1997

- *noted the Evaluation Guide for Investment and Non-Investment Projects and requested the Evaluation Officer to revise the Guide in the light of experience with its use by countries and implementing agencies;*
- *adopted the standard components on monitoring and evaluation in project proposals which have been introduced by the implementing agencies in their investment project proposals;*
- *adopted the project completion report format for investment projects which has been used by implementing agencies for preparing completion reports. Up to the Twenty-sixth Meeting, 114 completion reports have been received using this format;*
- *approved the job description of the Evaluation Officer. The recruitment process was completed and the recommendation of the Fund Secretariat was sent to UNON and a decision was pending.*

The Executive Committee at its Twenty-fourth Meeting in March. 1998

- *adopted the project completion format for non-investment projects which has been used by implementing agencies for preparing completion reports. Up to the Twenty-sixth Meeting, 38 completion reports have been received using this format;*
- *adopted milestones for non-investment projects which were communicated to the implementing agencies to be included in future project proposals.*

- *decided to engage a consultant, pending the appointment of the Senior Evaluation Office. The consultant prepared a consolidated project completion reports received up to the Twenty-sixth Meeting, updated the Evaluation Guide and drafted terms of reference for the three sector evaluations.*

The Executive Committee at its Twenty-sixth Meeting, in November 1998

- *revised the performance indicators for the evaluation of business plans for both investment and non-investment projects.*
- (b) The Executive Committee to examine the integration of Agencies' and Secretariat's project review activities no later than six months after it has concluded that the preconditions for increased delegation set out in the recommendations in paragraphs 90 and 91 have been met.

Action taken by the Executive Committee:

Preconditions for increased delegation are yet to be met. Integration of the Agencies and Secretariat's project review activities will be considered no later than six months after these preconditions have been met.

There has been no new development since the last report.

- (c) Further delegation by the Executive Committee in due course, with a view to achieving appropriate delegation on over time.

Action taken by the Executive Committee:

The Executive Committee will continue to pursue further delegation, as deemed appropriate, over time.

There has been no new development since last report.

- (d) Evaluation of Small Project Approval Process (SPAP) by the Executive Committee on completion of the current project group.

Action taken by the Executive Committee:

Evaluation of the SPAP by the World Bank is in progress.

There has been no new development since the last report.

Action 4

The Executive Committee should oversee the completion by the Implementing Agencies and the Secretariat, jointly, by the end of 1995 of a comprehensive, integrated database common to all agencies and the Secretariat, in conjunction with the completion of standard project outlines (templates), with a view to achieving a decrease in the number of projects undergoing substantial revision or reduction in proposed project costs due to the project review process and review the database in mid-1996.

Action taken by the Executive Committee:

- A joint database between the Implementing Agencies and the Fund Secretariat on the inventory of approved projects is in full operation.
- Project templates with an extensive listing of proposed project cost items and incremental cost ranges for the domestic refrigeration and the foams sectors, due to the prevalence of projects in these two sectors, which have been used by the agencies and the Secretariat since 1995, will be revised.
- A database on the cost of major capital equipment items is currently under development jointly by the Fund Secretariat and the Implementing Agencies. The database will reflect, *inter alia*, the actual cost of equipment procured for approved projects.

Project templates with extensive listing of proposed project cost items and incremental cost ranges for the domestic refrigeration and the foams sectors, due to the prevalence of projects in these two sectors, remain in use.

A data base on the cost of major capital equipment items has been developed jointly by the implementing agencies and the Secretariat for key equipment in the foam and refrigeration sectors. The data base reflects the actual cost of equipment procured for approved projects and is being extended to cover equipment in some other sectors.

Action 5

- (a) The Executive Committee should examine the effectiveness of its policy dissemination procedures in early 1996. The procedures should include the provision of practical examples of the application of policy decisions, with a view to reducing the extent of project revision during the review process, and also examine the degree to which national ozone protection units and consultants consider they have sufficient information to guide project development.

Action taken by the Executive Committee:

- Reports of meetings of the Executive Committee are sent on a regular basis to all Parties to the Montreal Protocol.
- Policy dissemination is an integral part of the UNEP IE OzonAction programme, continued funding for which has been approved by the Executive Committee.
- Regular coordination meetings between the Fund Secretariat and the implementing agencies and full cooperation in studies on new or emerging technologies are providing a high level of common understanding between all the players involved in project formulation and review.
- A meeting of consultants working on Multilateral Fund activities was held. Familiar with the contents of the database of major capital equipment.
- The Policies, Procedures and Guidelines handbook, which contains all policy and other decisions taken by the Executive Committee, is updated after every Executive Committee Meeting and made available to the Implementing Agencies. UNEP/IE provides the electronic version of the document in its diskette information service.

Two further meetings of consultants working on Multilateral Fund activities in the foam sector were held, one by means of a telephone conference. Additional meetings are foreseen as necessary to discuss continuing technological developments and their effect on equipment requirement.

In addition, the Secretariat has established a web site which will include all Executive Committee decisions related to project development, review and approval and will be continuously updated.

- (b) The Executive Committee should develop operational guidelines for agencies and their consultants.

Action taken by the Executive Committee:

- Each of the implementing agencies submits an annual business plan which cites both investment and non-investment activity in the Article 5 country concerned. The business plan also identifies major policy issues as well as performance indicators.
- Operational guidelines in the form of project “templates” are in use in the domestic refrigeration and foam sub-sectors.
- A database on the cost of major capital equipment items is currently under development jointly by the Fund Secretariat and the Implementing Agencies. The database will reflect, inter alia, the actual cost of equipment procured for approved projects.

A data base on the cost of major capital equipment items in the foam and refrigeration sectors is in use. The data base reflects the actual cost of equipment procured for approved projects.

The Secretariat and the implementing agencies agreed on a standard format for project proposals.

- (c) The Executive Committee should consider a report on incremental costs for the production of CFC-substitutes and establish firm compensation policies with a view to completing incremental cost guidelines for the production of CFC substitutes by mid-1996.

Action taken by the Executive Committee:

- The Executive Committee has been working on the guidelines to compensate for the phase-out of ODS production in Article 5 countries since 1994. To assist the decision making process, the Executive Committee established an Expert Group on the Production of Substitutes of Ozone Depleting Substances (ODS) and a Subgroup on the Production Sector. At its third and fourth meetings, the Expert Group proposed to the Executive Committee a methodology for the calculation of compensation of shutting down the ODS production facilities in Article 5 countries. Before taking a decision on the methodology, the Executive Committee requested a careful examination by a consultant of the financial implications of adopting the methodology, and selected a 4-member Core Group from the Expert Group to interact with the consultant.
- At the Twenty-second Meeting, the Executive Committee noted that there remained a number of complex issues which would merit further discussion by the Subgroup with the view to resolving those issues as expeditiously as possible; requested the Subgroup to meet in September 1997 to discuss remaining issues and to review the consolidated report to be prepared by the Secretariat on the guidelines and recommendations made by the Expert Group and modified by the Subgroup and any relevant decision of the Executive Committee; and requested the Secretariat to advise the Subgroup, at its meeting in September 1997, whether resources are available to permit it to hold an extra meeting prior to December 1997.

The Executive Committee:

- *reconstituted at its Twenty-third Meeting in Nov. 1997 the Sub-group on the Production Sector from its membership in 1998;*
- *approved at its Twenty-fourth Meeting \$ 600,000 to be used by the Secretariat to conduct technical audits in those countries that have submitted satisfactory data; agreed to consider funding requests for sector plan and project preparation once data have been submitted, and requested the Subgroup to examine further issues related to timing and funding of production sector related activities at its next meeting;*
- *decided at its Twenty-fifth Meeting in July 1998 that CFC-producing countries could request project preparation funding once they have submitted preliminary production data and the draft sector plan. China could, if it so wishes, submit informally a project proposal to the Subgroup which would forward it to the Project Review Sub-Committee if it found the proposal to be ready for review by the Sub-Committee. Final approval would have to be subject to the data from the technical audit. Other CFC-producing countries could do similarly as China once they have submitted preliminary data and the draft sector plan.*
- *Technical audits of the CFC production facilities in China and India are in progress, and an interim progress report on the audit findings was considered by the Executive Committee at the Twenty-sixth Meeting. A final audit report will be submitted to the Subgroup on the Production Sector by mid-December 1998.*
- *decided at its Twenty-sixth Meeting to expand the Subgroup's mandate to include discussions on actual project proposals and the formulation of recommendations on projects relating to the closure of ODS-production-sector facilities, in order to enable the Subgroup to bring its recommendations on projects directly to the Executive Committee for its consideration. It also requested the Secretariat to retain the services of the technical audit consultant for an additional mandate to assist the Subgroup in its deliberations on projects during the first part of 1999 and to entrust the Subgroup with drafting the terms of reference for the services of the consultant, following the completion of the technical audit report.*

Action 6

The Executive Committee should evaluate the regime adopted for 1995, taking into account the study's recommendations, including the recommendation that: "Cost-effectiveness norms should be prepared based on model projects of different capacities under standard conditions. Thereafter, projects should be assessed on their own merits." Nonetheless, all eligible projects shall continue to be funded overtime irrespective of their relative cost-effectiveness. In case of delayed funding, however, lump-sum payments could be considered.

Action taken by the Executive Committee:

- The Committee has taken a decision that the cost-effectiveness thresholds should not apply to projects from LVCs, a group which makes up the majority of Article 5 countries to the Protocol. In addition, the Committee is reviewing the cost-effectiveness thresholds adopted at the Sixteenth Meeting to address special needs and circumstances (e.g., completion of sector phase out) of larger consuming countries. The Executive Committee considered at its Nineteenth Meeting a paper on approaches to ODS phase-out in small-and medium-sized enterprises. A further paper on the subject was discussed at the Twentieth Meeting at which the Executive Committee requested the Secretariat to carry out additional work and bring recommendations to the Twenty-second Meeting.
- Based on a paper submitted by the Secretariat to the Twenty-second Meeting, the Executive Committee noted that several representatives expressed concern about problems associated with accessing the relevant data and with its reliability; invited countries to provide the Secretariat and the Executive Committee with explanations of the factors responsible for these problems; noted also that several representatives expressed concerns that advancing phase-out in the SME sector required moving beyond relying on "a project approach" and focusing instead on other types of support measures to assist individual Article 5 Parties meet the ODS control schedules in the Protocol.
- In this context the Committee decided to establish a contact group that would meet at the next Executive Committee meeting to continue the discussion on SMEs focusing on problems and challenges in achieving SMEs phase-out; proposals on national strategies and plan to move ahead on SME phase-out. The Executive Committee also decided to set up a pilot programme on SMEs at the next meeting. To that end the contact group will present proposals on the Sectors and Sub-sectors to be focused on and the criteria to be applied.
- The Executive Committee has agreed that, for a trial period, individual project proposals in "terminal umbrella projects" which meet the relevant overall criteria, could exceed the applicable cost-effectiveness threshold by up to 100 percent.

The Executive Committee decided to include an allocation of US \$10 million from the resource allocation for 1999 for a funding window designed to facilitate pilot conversions of significant groups of small firms that met the following criteria:

Given the fact that SME projects for low-volume consuming countries are currently fully eligible, this window should apply only to group projects from countries with annual ODS consumption of 360 ODP tonnes or more;

Eligible group projects for this initial pilot programme should be in the aerosol or foam sectors only, and should include firms with annual ODS consumption not exceeding the following:

<u><i>Aerosols:</i></u>		<i>20 ODP tonnes/yr.</i>
<u><i>Foams:</i></u>	<i>Flexible</i>	<i>25 ODP tonnes/yr.</i>
	<i>Extruded polyethylene/polystyrene</i>	<i>25 ODP tonnes/yr.</i>
	<i>Flexible integral skin</i>	<i>10 ODP tonnes/yr.</i>
	<i>Rigid polyurethane foams</i>	<i>10 ODP tonnes/yr.</i>

Group projects should be at a level of US \$1 million or less, and should have an overall cost-effectiveness of no more than 150 per cent of the level of the current cost-effectiveness thresholds for the relevant eligible subsectors.. Such group projects should use the most cost-effective technologies reasonably available, and should consider the possible use of centralized/group use of equipment and industrial rationalization;

The group project should be put forward with a government plan, including policies and regulations designed to ensure that the specific level of agreed reduction to be achieved was sustained;

No single country may apply for more than US \$1 million from this pilot funding window although projects from one country may cover more than one sector.

Action 7

- (a) Relevant Implementing Agencies should review institutional strengthening experiences and present a combined paper to the Executive Committee, which will include guidelines on the possible proportionate commitment of Article 5 countries in such areas as financial, organizational and human resource support, with a view to enhancing the effectiveness of ODS phase-out strategies.

Action taken by the Executive Committee:

- At its Twenty-second Meeting, the Executive Committee decided on a work plan for monitoring and evaluation which includes evaluation of institutional strengthening projects.

The Executive Committee has decided to request implementing agencies to submit a full report on the activities carried out under the institutional strengthening project as part of the request for a renewal of the project.

At the same time the terms of reference for the evaluation of the institutional strengthening programme have been drafted.

Action 10

The study by the World Bank on the establishment of a concessional loan mechanism, requested by the Executive Committee at its Sixteenth Meeting, should be completed as soon as possible, and analyzed and discussed by the Executive Committee at its Nineteenth Meeting, and a decision on suitable future steps be taken by the Executive Committee by its Twentieth Meeting or by the Meeting of the Parties in 1996, as appropriate, with a view to starting the use of concessional loans by the end of 1996, to the extent that the need and demand exist.

Action taken by the Executive Committee:

- At the Twenty-first Meeting, the Executive Committee invited the submission of an innovative proposal for demonstration projects to illustrate how concessional lending and other forms of innovative funding, including finance from the private sector, may be used to advance the phase out of ozone depleting substances. The Executive Committee also allocated US \$60,000 towards the cost of a concessional financing study to be carried out by the International Finance Corporation (World Bank Group) to examine the use of private-sector finance and to provide a final theoretical overview of ways in which concessional funding and other forms of innovative funding, including on-lending, can be used.

At its Twenty-fifth Meeting in July 1998, the Executive Committee received the IFC's study on the scope for a non-grant financing facility for ODS phase out together with a pilot lending request resubmitted by the World Bank for a Chiller Replacement Programme in Thailand. The Executive Committee decided to establish an open-ended contact group, with no specific terms of reference to consolidate all views and formulate a consensus on concessional lending. The group started its work at the Twenty-fifth Meeting and continued its discussion of the issue at the Twenty-sixth Meeting.

Action 11

The Executive Committee should examine the issue of industrial consolidation, taking into account national industrial strategies of Article 5 countries, with a view to achieving more effective approaches to ODS phase-out.

Action taken by the Executive Committee:

- The Executive Committee has approved projects which include components of industrial consolidation. For example, funding has been provided for the establishment of centralized filling stations for small aerosol fillers in three Article 5 countries. Furthermore, the Executive Committee has approved projects for conversion of the manufacture of compressors for commercial refrigeration according to a strategy which involves consolidation of existing production facilities in China.

At its Twenty-third Meeting in November, 1997, the Executive Committee approved in principle \$62 million in total funding for the implementation of the China halon strategy which would phase out the entire halon production and consumption. Implementation of the strategy would involve industrial restructuring and consolidation.

At the Twenty-sixth Meeting the Executive Committee approved a project for CFC phase-out in the MAC sector in China, following the same approach.

Action 13

The Implementing Agencies should report to the Executive Committee on measures to include ODS phase-out issues into their ongoing dialogue on development programming and on measures they could take to mobilize non-Fund resources in support of Montreal Protocol objectives, with a view to achieving an increase in the number of ozone-protection projects.

Action taken by the Executive Committee:

- Efforts have been made by agencies, with varying degrees of success, to mobilize non-Fund resources in support of the objectives of the Montreal Protocol, e.g., non-Fund resources were used in the preparation of country programmes of several Article 5 countries. Non-Fund resources are used for supporting the South-east Asia network.

At the Twenty-sixth Meeting the Executive Committee approved a Chiller Replacement Programme in Thailand under which a joint loan financing is being requested from the Multilateral Fund and the Global Environment Facility (GEF).

Action 14

The Executive Committee should consider the need for new Implementing Agencies for loan programmes in the light of emerging sectoral strategy policies and for methyl bromide after the Seventh Meeting of the Parties.

Action taken by the Executive Committee:

- At this stage, the Executive Committee has not concluded that additional implementing agencies are required for concessional loan programmes.
- The interim guidelines for methyl bromide projects adopted at the Twentieth Meeting do not make reference to additional implementing agencies.

The discussion on setting up a lending programme under the Multilateral Fund took place at the Twenty-fifth Meeting and continued at the Twenty-sixth Meeting.

Action 17

The Executive Committee should request each Implementing Agency to report, as and when the issue arises, on legal and institutional impediments to project implementation and measures taken to address them as soon as possible.

Action taken by the Executive Committee:

- As part of their progress reports on project implementation, Implementing Agencies report on legal and institutional impediments, as pertinent, to project implementation and measures to address them.
- 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 should submit projects only when such impediments had been resolved.
- At its Twenty-second Meeting the Executive Committee requested the Implementing Agencies to include a "List of Projects With No Significant Activity In the Last Two Years" in all future progress reports. The Executive Committee also decided that where no disbursement had occurred 18 months after the date of approval of a project, a full explanation of the reason for the delay should be submitted by the implementing agencies to the next meeting of the Executive Committee for review; that where a project had not been completed 12

months after the proposed completion date in the progress report of the Implementing Agencies to this Executive Committee, a full explanation of the reason for the delay should also be submitted by the implementing agencies to the next meeting of the Executive Committee for review. The Committee decided to review the reports on a case-by-case basis and decide upon the action required. On the basis of the experience gained through consideration of these reports, the Executive Committee would consider the development of guidelines to ensure that the project preparation process included measures to prevent any delays in implementation or completion in the future.

- The Executive Committee was informed by relevant parties and implementing agencies at the Twenty-second Meeting that significant legal and institutional impediments in two countries had recently been overcome.

At its Twenty-third Meeting, the Executive Committee requested the Sub-Committee on Monitoring, evaluation and Finance to maintain a watching brief on project implementation delays.

At its Twenty-fourth Meeting, the Executive Committee requested the Secretariat to analyze specific types of delays such as bankruptcy, with the implementing agencies and present a paper to the next meeting.

At its Twenty-fifth Meeting the Executive Committee decided to 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;*

At its Twenty-sixth Meeting the Executive Committee urged all recipient Governments operating under Article 5 to expedite customs clearance and to refrain from levying any taxes or duties, in accordance with the terms of their agreement with the implementing agencies relating to the levying of taxes and duties on equipment and incremental costs during project implementation.

Action 21

- (a) The Executive Committee should prepare an itemized progress report on measures taken so far, in the context of Article 10 of the Protocol, to establish a mechanism specifically for the transfer of technology and the technical know-how at fair and most favorable conditions necessary to phase out ozone-depleting substances; and at the same time.
- (b) The Executive Committee should request UNEP to intensify its efforts to collect information from relevant sources, and to prepare an inventory and assessment of environmentally sound and economically viable technologies and know-how conducive to phase out of ozone-depleting substances. This inventory should also include an elaboration of terms under which transfers of such technologies and know-how could take place.
- (c) The Executive Committee should consider what steps can practicably be taken to eliminate any impediments in the international flow of technology.
- (d) The Executive Committee should further elaborate the issue of the eligible incremental costs of technology transfer, including costs of patents and designs and the incremental costs of royalties as negotiated by the recipient enterprises.

The actions in subparagraphs (a), (b) and (c) should be completed by its Nineteenth Meeting and updated periodically, and the action in subparagraph (d) should be taken immediately.

Action taken by the Executive Committee:

- Following the report of the Executive Committee to the Eighth Meeting of the Parties concerning its relevant activities in relation to this action, the Parties decided to constitute an Informal Group on the Transfer of Technology.

The facilitator of the Group informed the Executive Committee at its Twenty-second Meeting, which was held subsequent to the Group's first meeting, that relevant Parties will be requested to provide information on issues associated with technology transfer and that the Group will convene its next meeting at the time of the Ninth Meeting of the Parties for further discussion.

The informal group on technology transfer met during the course of the Twenty-second, Twenty-third and Twenty-fourth Meetings of the Executive Committee to prepare advice on what steps could be taken to eliminate potential impediments to the transfer of ozone-friendly technologies. The informal group has held extensive discussions to formulate a common position, as requested by the Eighth Meeting of the Parties, but to-date no full agreement could be reached.

PART II: ACTIONS COMPLETED

Action 2

- (a) The Executive Committee to develop and take decisions on policy issues already identified, so that a satisfactory number of such issues have been clearly addressed by late 1996. New policy issues are likely to continue to emerge, but would be dealt with more expeditiously with refined administrative processes.

Action taken by the Executive Committee:

- Action completed. Major steps were taken during 1995 to address all policy issues either arising from specific projects or expected to be met at a future date.
- (b) A list of foreseeable policy issues to be drafted by the Executive Committee with the help of the Implementing Agencies and the Fund Secretariat over the next two meetings.

Action taken by the Executive Committee:

- A list of issues was developed by the implementing agencies in the context of their 1996 business plans. The Executive Committee considered all and decided some of the following policy issues between its Nineteenth and Twenty-second Meetings:
 - Guidelines for renewal of institutional-strengthening projects.
 - Innovative approaches for the phasing out of ozone-depleting substances in low-ODS-consuming countries.
 - The role of cost-effectiveness thresholds in sectoral phase-out proposals and guidelines for umbrella projects.
 - Re-examination of guidelines for halon fire extinguisher conversion projects.
 - Duration of transitional periods for incremental operating costs and savings.
 - Change of ownership of approved projects.
 - Training strategy options for the phase-out of ozone-depleting substances under the Multilateral Fund.

- Guidelines to address incremental capital and operating costs for halon extinguisher conversion projects.
- Projects involving conversion to HCFCs.
- Methyl bromide.
- Further elaboration of guidelines for umbrella projects.
- Production sector.
- Terms of Reference for the study on Technology Transfer.
- Guidelines for the tobacco sector.
- Safety related costs in projects using hydrocarbon technology.
- Progress of implementation of country programmes.
- Monitoring and evaluation system for the Multilateral Fund.
- Concessional lending for ODS phase-out.
- Phase-out of ozone-depleting substances in small- and medium-sized enterprises.
- Residual sectoral consumption and umbrella projects.
- Study on low-pressure versus high-pressure foaming machines.
- Administrative costs of the implementing agencies (status report)
- Summary status report on ODS phase-out for Article 5 countries
- Indicators for the evaluation of the performance of the implementing agencies
- Progress of implementation of country programmes: Implications of using different baseline years
- Discrepancy between data reported to the Ozone and Fund Secretariats: Reconciliation and harmonization of the two parallel streams of data reporting
- Guidelines for proposals to change technology in approved projects
- Incremental operating costs for domestic refrigeration compressors
- Training guidelines for identification of needs and coordination of activities
- Work programme and work plan for monitoring and evaluation of activities supported by the Multilateral Fund
- Cycle of business planning and the submission of work programmes
- Retroactive funding
- Sector plan for phase-out in China
- Wider applicability of sector approach

- (c) The Fund Secretariat and designated consortia of Implementing Agencies to produce consensus options for consideration by the Executive Committee.

Action taken by the Executive Committee:

- Joint efforts by Implementing Agencies and the Fund Secretariat to:
 - (a) identify in the annual Business Plan policy issues to be considered in the year;

- (b) prepare policy papers for the consideration of the Executive Committee, with options and analysis of implications.
- (d) Decisions proposed for the consideration of the Executive Committee should clearly indicate the implications for project proposals if the decisions were to be adopted.

Action taken by the Executive Committee:

- Completed.

Action 3

The Committee members should normally refrain from speaking on projects in which they have a direct interest. However, this should not apply to projects which present policy issues, on which the Chair may invite all members to speak, in order to expedite consideration of such projects. It should be evident from records of Meetings of the Executive Committee that all projects are given equal treatment by the Committee.

Action taken by the Executive Committee:

- Implemented.

Action 8

The Executive Committee should select a lead Agency to prepare the framework for a policy dialogue with Article 5 countries by the end of 1996, with a view to enhancing regulatory support to ODS phase-out in Article 5 countries.

Action taken by the Executive Committee:

- The Executive Committee has funded under UNEP work programme several activities regarding policy and legislation, inter-alia: training modules on policy design and setting up of legislation; disseminate awareness materials, technical and policy information, and; development of a handbook on the practical use of policy instruments.
- In 1996, UNEP IE convened a meeting with the UNEP-Environmental Law Unit, the Multilateral Fund and Ozone Secretariats and representatives of the Implementing Agencies for this purpose.

The Action is completed.

Action 9

The Executive Committee should request a lead Implementing Agency, with the other Agencies and the Secretariat, to further develop, as appropriate, the guidelines for country programmes, taking into account these recommendations, with a view to the adoption by the Executive Committee of revised guidelines. The Executive Committee will consider these guidelines in the light of its experience to date taking into account, as appropriate, the sectoral approach to technology transfer. However, approval of eligible projects should not be made contingent upon revision of country programmes. Any revision of the country programme would be at the request of the Party concerned.

Action taken by the Executive Committee:

- The Committee at its Twenty-second Meeting requested UNEP to adjust country programmes presently under preparation to accommodate the requirements of Draft Refrigerant Management Plan Guidelines; and, in cases where no country programmes for VLVC/LVC Parties have yet to be started, to reach out to those countries to develop Refrigerant Management Plans/country programme combination documents based on the draft guidelines.
- In addition, the Committee authorized LVCs that have approved country programmes and now need to take near-term action in this area to meet the freeze, to submit Refrigerant Management Plans based on the Draft Guidelines along with any associated projects, to the next meeting of the Executive Committee.

The Action is completed.

Action 12

Noting that the Executive Committee approved funding for Latin American and African Networks, the Executive Committee should review the existing similar networks and establish new networks, as appropriate.

Action taken by the Executive Committee:

- Action completed. Funding was approved at the Nineteenth Meeting for a West-Asia network. Within the global allocation for UNEP IE, the Latin American network has been replaced by three networks for South America, Central America and Mexico and the English speaking Caribbean.

In 1997, the Executive Committee approved funding for setting up the South Asian Regional Network.

Action 15

The Executive Committee should urge the Article 5 countries concerned to select Implementing Agencies and mode of implementation keeping in mind the need to implement projects without delay.

Action taken by the Executive Committee:

- Noted.

Action 16

The World Bank should report on the training and incentive structure and, at its Nineteenth Meeting, the Executive Committee should consider this report and the relationship of the costs of training to total overhead costs, in order to ensure that the Executive Committee is fully informed about the role, resourcing and effectiveness of Financial Intermediaries.

Action taken by the Executive Committee:

- The World Bank has moved away from the policy of charging the Fund separately for administration, training and financing of Financial Intermediaries to a policy of charging a lump sum amount of 13% in line with the other Implementing Agencies. Therefore, the issue here has been invalidated.

Action 18

- (a) The World Bank and all other institutions associated with the Financial Mechanism should propose measures to assist UNEP in collecting contributions in arrears.

Action taken by the Executive Committee:

- The World Bank advised that senior management of the World Bank has taken up the issue of arrears to the Multilateral Fund on various occasions with countries which had not paid their contributions.

The Action is completed.

- (b) The World Bank should review with UNEP the processes for acceptance of promissory notes.

Action taken by the Executive Committee:

- The World Bank and UNEP's Treasurer have resolved the acceptance of promissory notes with those countries issuing such notes. A report by the Fund Treasurer on the use of promissory notes was considered at the 19th Meeting of

the Executive Committee. UNDP and UNIDO have submitted proposals to amend their agreements with the Executive Committee in order for them to make commitments against promissory notes held by the Treasurer. These amendments are expected to be discussed by the Executive Committee at its Twenty-third Meeting.

At its Twenty-fifth Meeting in July 1998, the Executive Committee decided to amend its agreements with UNDP and UNIDO to enable the two agencies to commit against promissory notes held by the Treasurer.

The Action is completed.

Action 19

The Executive Committee should monitor the extent to which the available bilateral component is utilized.

Action taken by the Executive Committee:

- Completed. The use of bilateral funding is monitored by the Fund Secretariat on the basis of the progress reports submitted by bilateral partners. The Secretariat reports the information in the consolidated progress reports to the Executive Committee.
- At the Twenty-second Meeting, a mid-year assessment of utilization of the annual provision of funding for bilateral activities was agreed.

PART III: ACTIONS ALREADY INCOPORATED INTO THE OPERATIONS OF THE MULTILATERAL FUND

Action 1

- (b) Completion of the development by the Executive Committee of (i) a systematic approach to policy development, and (iii) project templates for all sectors, with a view to having a project evaluation system in place by the end of 1995.

Action taken by the Executive Committee:

- (a)(i) The Committee has implemented a number of decisions to facilitate preparation, review and approval of projects; and to adopt business planning for the Multilateral Fund which took effect in 1996. The business plans of the implementing agencies include a section on policy issues that should be addressed by the Committee during the year.

The system has become a standard practice in the operations of the Multilateral Fund since 1996 and therefore this action is completed.

- (a)(iii) Since more than 80 per cent of the approved investment projects were in the domestic refrigeration and foams sectors, templates for the two sectors were prepared by the implementing agencies and the Secretariat at the end of 1995.

The current templates remain effective and are still in use. Extension of their use into other relevant sectors has not been found to be necessary at this stage but will be reviewed as part of the business requirement of the Fund.

Action 7

- (b) Institutional strengthening could include, at the request of Article 5 countries, assistance to meet their country programme goals relative to laws and regulations.

Action taken by the Executive Committee:

- Noted. Several institutional strengthening project proposals under implementation included support for development of laws and legislation regarding ODS phase-out programmes.

The Executive Committee requested the implementing agencies to use the opportunity to develop refrigerate management plans to help countries to think through measures they need to take to facilitate compliance with the Protocol.

The Executive Committee approved UNEP's request to work with China for policy development and country programme update.

It is expected that with the approaching of the 1999 freeze and other Protocol obligations, the policy development aspect will assume an increasing degree of importance in the institutional strengthening projects and the business of the Multilateral Fund as a whole.

Action 20

The Executive Committee should pay attention to training directly related to investment projects and consider training of technical experts from Article 5 countries, especially when addressing the needs of small-ODS users. Where the Fund supports eligible projects of research to adapt technology to local circumstances, it should encourage the involvement of Article 5 country technical experts in the discussions of technical options, and the effective involvement of local experts in field missions.

Action taken by the Executive Committee:

- Action is in progress.
- All implementing agencies rely more and more on national experts, where available, for the identification, preparation and implementation of projects.

This action will continue to be implemented as an integral part of the operations of the Multilateral Fund.
