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FIFTEENTH MEETING OF THE PARTIES
TO THE MONTREAL PROTOCOL ON
SUBSTANCES THAT DEplete THE
OZONE LAYER
Nairobi, 10-14 November 2003

**REPORT OF THE EXECUTIVE COMMITTEE TO THE
FIFTEENTH 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.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 Fourteenth Meeting of the Parties, is submitted in fulfilment of that requirement. The report includes an annex (Annex I), prepared in response to Decision X/31, updating information on actions taken by the Executive Committee to improve the financial mechanism.
2. During the reporting period, the 39th and 40th Meetings of the Executive Committee were held in Montreal on 2 and 3 April 2003 and from 16 to 18 July 2003 respectively. The reports of those meetings of the Executive Committee are contained in documents UNEP/OzL.Pro/ExCom/39/43 and UNEP/OzL.Pro/ExCom/40/50 respectively.
3. In accordance with Decision XIV/38 of the Fourteenth Meeting of the Parties, the 39th and 40th Meetings of the Executive Committee were attended by Austria, Belgium, Canada, France, Japan (Chair), and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by Bolivia, Burundi, El Salvador (Vice-Chair), India, Jordan, Mauritius, and Saint Lucia, representing Parties operating under paragraph 1 of Article 5. The 39th Meeting was also attended by Hungary, a member of the Executive Committee not operating under paragraph 1 of Article 5. The 39th and 40th Meetings were chaired by Mr. Tadanori Inomata (Japan), with Mr. Francisco E. Guevara Masis (El Salvador) acting as Vice-Chair.

4. Dr. Omar E. El-Arini, Chief Officer, acted as Secretary for the meetings.

A. Procedural matters

Sub-Committee on Monitoring, Evaluation and Finance

5. The Sub-Committee on Monitoring, Evaluation and Finance, composed of the representatives of Austria, Belgium, Canada (Chair), El Salvador, Hungary, Jordan and Mauritius, held its 19th and 20th Meetings back-to-back with the meetings of the Executive Committee. The reports of the Sub-Committee to the 39th and 40th Meetings of the Executive Committee are provided in UNEP/OzL.Pro/ExCom/39/6 and UNEP/OzL.Pro/ExCom/40/7 respectively.

Sub-Committee on Project Review

6. In the reporting period, the Sub-Committee on Project Review, composed of the representatives of Bolivia, Burundi, France (Chair), India, Japan, Saint Lucia and the United States of America, held its 28th and 29th Meetings back-to-back with the meetings of the Executive Committee. The reports of the Sub-Committee to the 39th and 40th Meetings of the Executive Committee are provided in UNEP/OzL.Pro/ExCom/39/19 and Corrs.1 & 2 and UNEP/OzL.Pro/ExCom/40/26 respectively.

Subgroup on the Production Sector

7. At the 39th Meeting, the Executive Committee decided to reconstitute the Subgroup on the Production Sector and agreed that it would be composed of Bolivia, Canada, El Salvador, France, India and the United States of America. The Subgroup accordingly met in the margin of the 39th and 40th Meetings and selected Canada as facilitator. The Subgroup's meetings were also attended by representatives of UNIDO and the World Bank as observers.

Recruitment Committee Pursuant to Decision 39/58(g)

8. At the 39th Meeting, the Executive Committee by its Decision 39/58(g) constituted the Recruitment Committee on the nomination of a Chief Officer headed by Japan and composed of representatives of Bolivia, Burundi, France, India and United States of America. The Recruitment Committee met on 4 and 5 July at the premises of the Multilateral Fund Secretariat. Mr. Shafqat Kakakhel, Deputy Executive Director of the UNEP and Mr. Marco Gonzalez, Executive Secretary of the Ozone Secretariat attended the meeting as observers. Dr. Omar El-Arini, Chief Officer, was also present. The Recruitment Committee reported in confidence to the heads of delegations on the Executive Committee.

B. Financial matters

Status of contributions and disbursements

9. As at 11 July 2003, the total income to the Multilateral Fund, including interest, bilateral contributions and miscellaneous income, amounted to US \$1,642,665,554, and the total disbursement amounted to US \$1,540,744,536. The balance available at 11 July 2003 amounted to US \$101.9 million.

10. The yearly distribution of contributions against pledges is as follows:

Year	Pledged contributions US \$	Total payments US \$	Arrears/outstanding pledges US \$
1991 – 1993	234,929,241	210,392,697	24,536,544
1994 – 1996	424,841,347	393,401,887	31,439,460
1997 – 1999	472,567,009	427,119,830	45,447,179
2000-2002	440,000,001	427,712,793	12,287,208
2003	158,000,000	45,634,842	112,365,158
Total:	1,730,337,598	1,504,262,049	226,075,549

Note: As of 11 July 2003

Contributions in arrears

11. As at 11 July 2003, the accumulated arrears for 1991-2002 stood at US \$113,710,292. Of this amount, US \$99,554,175 is associated with countries with economies in transition (CEITs), and US \$14,156,217 is associated with non-CEIT countries. Outstanding contributions for 2003 amounted to US \$112,365,158.

Bilateral contributions

12. During the period under review, the Executive Committee approved requests by Canada, Czech Republic, Germany, Hungary, Slovak Republic, and Sweden to credit bilateral assistance amounting to a total of US \$3,777,445. This brings the total for bilateral cooperation to US \$64,952,165, which represents approximately 4.3 per cent of funds approved. However, it was noted that approved funds not utilised for bilateral cooperation activities under French and German implementation, amounting to US \$125,665 and US \$81,000 respectively, would be offset against future approvals. The range of bilateral projects approved included, *inter alia*, refrigerant management plans (RMPs) and RMP updates, project preparation/technical assistance for the halon sector, CFC phase-out plans, methyl bromide phase-out, conversion of TCA-based cleaning process, terminal phase-out management plan for ODS, prevention of illegal trade, and regional networks.

Issues pertaining to contributions

13. At its 39th Meeting, the Executive Committee noted that the shortfall caused by the implementation of the fixed-exchange-rate mechanism and encashment of promissory notes had decreased and amounted to US \$11.214 million. The shortfall had decreased further by the 40th Meeting due to changes in the US \$/euro exchange rate.

14. The Executive Committee continued to view with concern the low level of rates of payment of contributions in the light of the importance of paragraph 7 of Decision XI/6 of the Eleventh Meeting of the Parties which urges Parties to strive to pay their contributions as early as in the calendar year not later than 1 June of each year and once again underlined the need for reconciled financial accounts in order to facilitate its financial decisions.

2002 accounts of the Multilateral Fund

15. At its 40th Meeting, the Executive Committee took note of the report on the 2002 accounts and requested implementing agencies to submit audited accounts to the Treasurer no later than 1 September 2003 for consideration at its 41st Meeting.

Service of the Treasurer

16. At its 39th Meeting, the Executive Committee noted that the Executive Director of UNEP had informed the Committee that UNEP could no longer assume the role of Treasurer free of charge owing to the extra burden of work imposed by the introduction of the fixed-exchange-rate mechanism and promissory notes. The Secretariat was requested to explore with UNEP, the World Bank and other bodies which might act as Treasurer, their experience, potential services and fees.

17. Pursuant to this decision, at its 40th Meeting the Executive Committee considered a study on the service of the Treasurer, which indicated that four agencies were willing to take on the role at a cost ranging from US \$301,000 to US \$2 million.

18. The Executive Committee agreed to amend paragraph 3.1 of Article III of the agreement between the Executive Committee and UNEP in order to allow the Treasurer to be reimbursed for costs incurred. It was also agreed to request UNEP to continue acting as Treasurer of the Multilateral Fund, against reimbursement of US \$301,000 per annum as of 1 September 2003, until the modalities of cost estimates and reimbursement could be agreed and to re-examine the issue at the 41st Meeting.

C. Business Planning and Resource Management

Financial planning for the triennium 2003-2005

19. In the light of the decision of the Fourteenth Meeting of the Parties concerning the 2003-2005 replenishment of the Multilateral Fund (Decision XIV/39), at its 39th Meeting the Executive Committee decided to adopt a resource allocation of US \$224 million in 2003,

US \$191 million in 2004, and US \$158 million in 2005. It also agreed that the US \$248 million in resources available for new commitments should be allocated according to the compliance needs of Article 5 countries and that the total allocation for bilateral projects during the triennium was US \$47.4 million for planning purposes only, not as an absolute cap on the value of bilateral projects that could be submitted noting that the level of the bilateral allocation planned for the triennium does not limit the right of a party to use up to 20 per cent of its contribution for bilateral projects.

2003 business plans of the Multilateral Fund

20. At its 39th Meeting, the Executive Committee considered the consolidated business plan of the Multilateral Fund, which consists of the business plans of the four implementing agencies and of those non-Article 5 countries that have bilateral cooperation programmes. The Executive Committee also endorsed the 2003 business plans of the implementing agencies, noting the withdrawal of some projects and the rephrasing of others. It adopted 2003 phase-out targets of 22,936 ODP tonnes for consumption and 10,663 ODP tonnes for production, with a 2003 disbursement target of US \$121 million for activities financed by the Multilateral Fund. It also approved the performance indicators targets for the various implementing agencies.

21. At its 40th Meeting, the Executive Committee noted the additional business plans submitted by non-Article 5 countries for bilateral cooperation activities and the evaluation of the implementing agencies' performances against their 2002 business plans.

2003 work programmes

22. The 39th Meeting approved the work programmes for 2003 of UNDP, UNIDO and the World Bank, making amendments to certain projects. It also approved amendments to UNEP's 2003 work programme, attaching criteria to some of the projects and expressing observations to governments.

23. The 40th Meeting approved amendments to the implementing agencies' 2003 work programmes, subject to a number of comments on individual projects and observations conveyed to certain governments.

D. Fund achievement

Total ODS phased out

24. Since 1991, 4322 projects and activities have been approved with the following geographic distribution: 1,937 projects and activities have been approved for countries in Asia and the Pacific; 1,111 for countries in Latin America and the Caribbean, 829 for countries in Africa, 212 for countries in Europe and 233 with global coverage. Of the 236,638 ODP tonnes of ODS to be eliminated when all these projects are implemented, a total of 179,985 ODP tonnes of ODS had already been phased out as of the end of 2002. The sectoral distribution of this phase out is indicated in the table below:

Sectors	ODP tonnes phased out*
Aerosol	23,612
Foam	41,169
Fumigant (methyl bromide)	541
Halon: production and consumption	59,166
Projects in multiple sectors	36
Process agent	552
National phase out plan	97
Production (CFC)	24,581
Refrigeration	27,097
Solvent	2,420
Sterilant	21
Tobacco expansion	694
Total:	179,985

*Excluding Cancelled and Transferred Projects

Funding and disbursement

25. The total funds approved since 1991 by the Executive Committee to achieve this phase out and to implement both ongoing investment projects and all non-investment projects and activities are US \$1,495,128,386, including US \$141,108,737 for agency support costs. Of the total project funds approved, the amounts allocated to, and disbursed by, each of the implementing agencies and bilateral agencies, are indicated in the table below:

Agency	US \$ approved (1)	US \$ disbursed (2)
UNDP	409,330,049	293,087,692
UNEP	73,484,623	50,208,139
UNIDO	328,762,371	236,174,124
World Bank	618,769,160	436,995,608
Bilateral	64,782,183	39,123,580
Total	1,495,128,386	1,055,589,143

(1) As at 16 September 2003 (Excluding Cancelled and Transferred Projects)

(2) As at 31 December 2002 (Excluding Cancelled and Transferred Projects)

Projects and activities approved during the period under review (December 2002-September 2003)

26. During the period under review, the Executive Committee approved a total of 118 additional projects and activities, with a planned phase-out of 9,462 ODP tonnes in the production and consumption of controlled substances. It approved US \$77,412,511, including US \$5,542,221 for agency support costs, for their implementation, as follows:

Agency	US \$	US \$ Support	US \$Total
UNDP	8,745,722	667,573	9,413,295
UNEP	1,766,666	106,742	1,873,408
UNIDO	10,714,164	814,508	11,528,672
World Bank	47,213,467	3,559,207	50,772,674
Bilateral	3,430,271	394,191	3,824,462
Total	71,870,290	5,542,221	77,412,511

Investment projects

27. Of the total funds approved in the period under review, the Executive Committee allocated US \$69,021,101 including US \$4,891,481 for agency support costs for the implementation of 25 investment projects which will eliminate an estimated quantity of 9,124 ODP tonnes in consumption and production of ODS when implemented.

28. The following is a breakdown by sector:

Sector	ODP	US \$	US \$ for project preparation
Aerosol	0	0	32,250
Foam	33	391,999	16,125
Fumigant	67	1,632,864	188,125
Halon consumption and production	0	0	85,295
Multiple sectors	0	0	43,000
National phase out plan	418	8,579,654	267,195
Process agent	2,638	21,500,000	0
Production	4,783	26,122,500	0
Refrigeration	314	1,313,258	308,574
Solvent	677	7,020,473	123,625
Sterilant	15	310,353	0
Tobacco	180	2,150,000	0
Total	9,124	69,021,101	1,064,189

29. Following the sectoral and/or national phase-out approach, at its 39th and 40th Meetings the Executive Committee reviewed the progress of sectoral and national phase-out projects for the total elimination of ODS.

30. At its 39th Meeting, the Executive Committee approved in principle a total of US \$700,000 in funding for the phased reduction and complete phase-out management plan for Papua New Guinea, for which the Government of Germany would be the implementing agency, and a total of US \$379,700 for the terminal CFC phase-out management plan for Croatia, for which UNIDO would be the lead implementing agency, with the Government of Sweden as co-implementing agency for component I. At the same Meeting, it also agreed in principle to provide US \$653,125 for the complete phase-out of production and consumption of all ODS in Albania, for which UNIDO would be the lead implementing agency and UNEP the cooperating implementing agency.

31. Following the recommendations of the Subgroup on the Production Sector, at its 40th Meeting the Executive Committee approved in principle the total funding of US \$52 million to support the implementation of the India CTC phase-out plan for both the consumption and production sectors, the funding to be provided in instalments with US \$30 million to be released during the 2003-2005 triennium and the balance during the subsequent triennium. It agreed that the first tranche, amounting to US \$5 million and associated agency support costs, would be released at the 40th Meeting to enable India to proceed with the implementation of the plan, on the understanding that priority would be given to the consumption sector. India was also given maximum flexibility in using the funds so as to meet the production and consumption targets set in the project documents. The Executive Committee requested that a detailed agreement for the plan's implementation be prepared for the consideration of the 41st Meeting of the Executive Committee and that the question of discrepancy of data on CTC imports be addressed.

32. The Executive Committee also approved a total of US \$31.85 million in funding for the gradual reduction and complete phase out of CFC-production in Mexico, including US \$0.85 million for the project management unit. By this approval, the Government of Mexico will ensure the phase out of 22,000 ODP tonnes of CFC-11 and CFC-12 production by the end of 2005 (save for any CFC production agreed by the Parties to meet Mexico's essential uses).

33. The 40th Meeting of the Executive Committee approved a total of US \$460,000 for the phased reduction and complete phase-out of CFCs in Trinidad and Tobago, to be implemented by UNDP.

34. The corresponding agreements were approved at the 39th and 40th Meetings.

Non-investment activities

Technical assistance and training

35. During the period under review, 26 technical assistance and training projects amounting to US \$4,782,235 including US \$453,696 for agency support costs were approved, bringing the cost of technical assistance projects and training activities approved since the inception of the Multilateral Fund to a total of US \$134,787,967. This amount does not include the non-investment components of the multi-year phase out agreements.

Compliance Assistance Programme (CAP)

36. The 40th Meeting of the Executive Committee set targets for the Compliance Assistance Programme with a view to full data reporting by Article 7 countries based on performance indicators showing the number of countries that were reporting data in compliance with Article 7 and the number that had received specific CAP assistance for data reporting in order to determine compliance baselines but had not submitted complete data. UNEP was requested to indicate clearly the assistance provided.

Institutional strengthening

37. During the period under review, US \$30,000 was approved for institutional strengthening projects in Guinea-Bissau and US \$2,392,686 including agency support costs of US \$103,055 for renewal of institutional strengthening projects in countries. This brings the total approvals by the Executive Committee to US \$40,669,904 for institutional strengthening projects in 129 Article 5 countries.

Country programmes

38. Country programmes for Albania and Haiti were approved during the period under review, bringing the total number of approved country programmes to 125, covering the estimated production of 82,093.0 ODP tonnes of CFCs and halons and consumption of 177,268.5 ODP tonnes of controlled substances (as stated in country programme documents).

39. At its 40th Meeting, the Executive Committee considered the country programme update for the Democratic People's Republic of Korea and requested UNEP and UNIDO to address the issues regarding CTC data discrepancies and revise the country programme update accordingly.

E. Monitoring of project implementationProgress reports

40. At its 40th Meeting, the Executive Committee took note of the progress report on bilateral cooperation, the progress reports of the implementing agencies and of the consolidated progress report prepared by the Secretariat, as at 31 December 2002.

41. The implementing agencies were requested to take measures to reduce the amount of time taken to obtain signatures of agreements and project documents and to require letters from governments accepting the projects/agreements in the amount recommended by the Fund Secretariat prior to final approval.

42. At the 40th Meeting, the implementing agencies and the Secretariat were requested to address the financial inconsistencies between the agencies' progress reports and the Secretariat's Inventory of Approved Projects in the context of the reconciliation of accounts to be submitted to the 41st Meeting of the Executive Committee.

43. In connection with bilateral cooperation, the 39th and 40th Meetings made a number of comments on the bilateral projects submitted and requested the Treasurer to offset the amounts approved against the contributions of the countries concerned.

44. The Executive Committee noted that the implementing agencies had a total of 544 projects completed for over one year, with remaining balances amounting to US \$14,634,694. Implementing agencies were urged to abide by the requirement to return balances from projects completed over 12 months previously.

45. The 39th Meeting requested the Chair of the Executive Committee to send letters to the Administrator of UNDP and the Director-General of UNIDO expressing the Multilateral Fund's strong concern with regard to the large amounts corresponding to non-reimbursed balances for projects completed two years previously and requesting that those amounts be returned immediately to the Multilateral Fund for reprogramming.

46. At its 40th Meeting, the Executive Committee noted with appreciation the letters from the Administrator of UNDP and the Director-General of UNIDO regarding the non-reimbursed balances.

47. The Executive Committee noted with concern at its 40th Meeting that disbursements reported to the 38th Meeting were inaccurate and requested the implementing agencies in question to ensure that future reports on balances were accurate, complied with Executive Committee financial reporting decisions and distinguished disbursements from obligated and unobligated balances.

48. In the course of its meeting held in the margin of the 39th Meeting of the Executive Committee, the Subgroup on the Production Sector was briefed by the Secretariat on developments in the ODS production sector since the 38th Meeting of the Executive Committee and received updates on the technical audits under way. The Subgroup requested that the technical audit report of the CTC production sector be distributed to members as soon as it had been completed. It was also informed that the technical audits of the CFC production sector in India and the CTC/TCA production sector in China were being implemented, but that the technical audit of the CFC production sector in Venezuela had temporarily been suspended.

49. During the 40th Meeting of the Executive Committee, the Subgroup met four times to receive clarification regarding the CTC production and phase-out plan in India and the project for closure of the entire CFC production capacity in Mexico.

Project implementation delays

50. At the 39th Meeting, the Executive Committee noted that the Secretariat and the implementing agencies would take the established action concerning projects with implementation delays; it decided to cancel five projects by mutual agreement, and to cancel part of one project.

51. The Executive Committee's 40th Meeting decided to cancel four projects by mutual agreement with the Governments concerned and seven project preparation activities.

52. The Executive Committee also noted that the implementing agencies had classified 160 projects as projects with implementation delays, some of which had already been classified as such in 2002. It therefore requested that reports on those projects be submitted to its 41st Meeting.

Performance indicators

53. At its 39th Meeting, the Executive Committee approved the performance indicators for the implementing agencies, as well as those unique to UNEP.

54. The 40th Meeting invited Parties to submit proposals for performance indicators to the Secretariat prior to its 41st Meeting and asked the implementing agencies to explore the feasibility of including rapidity of financial completion of projects as an indicator.

Completed projects with balances

55. During the reporting period up to and including the 40th Meeting, the implementing agencies returned a total of US \$6,882,367 including US \$1,152,772 for agency support costs to the Multilateral Fund from completed and cancelled projects, as indicated in the table below:

Agency	Total funds returned (US \$)	Total support cost returned (US \$)
UNDP	4,071,135	527,494
UNEP	1,265,686	105,255
UNIDO	930,066	120,152
World Bank	615,480	399,871
Total	6,882,367	1,152,772

Implementation of monitoring and evaluation work programmes for 2002 and 2003

Institutional procedures of monitoring and evaluation in relevant international financing institutions

56. The 39th Meeting of the Executive Committee took note of the consultant's report on the institutional monitoring and evaluation procedures in relevant international financing institutions, which had been examined by the Sub-Committee on Monitoring, Evaluation and Finance at its 19th Meeting. The report reviewed evaluation practices in eight multilateral organizations, including the Multilateral Fund. It was emphasized that the evaluation units occupied a special place in all the organizations reviewed and, in the final analysis, the purpose of evaluation reports was essentially advisory. The Executive Committee considered that a number of points required further clarification and agreed to return to the issue at its 41st Meeting.

Extended desk study on RMP evaluation

57. The 39th Meeting noted the information provided on the extended desk study, which set out an approach for further evaluations of RMPs and highlighted a number of evaluation issues.

Final report on the evaluation of the halon sector

58. The Executive Committee considered the final report on the evaluation of the halon sector at its 40th Meeting. The report summarized the findings of evaluation missions to five Article 5 countries and contained a number of suggestions arising out of the missions and for future evaluations relating to the halon sector.

Desk study on the evaluation of the implementation of CFC-production sector agreements

59. The 40th Meeting also considered the desk study on the evaluation of the implementation of the CFC-production sector agreements, which described the main features of such agreements, the modalities for their implementation, the results achieved so far and their verification, and set out a number of issues for further analysis.

Information on current procurement procedures of implementing agencies

60. At the 39th Meeting, the Secretariat was requested to obtain information on the criteria applied by each implementing agency when establishing rosters of suppliers, the procedures they applied when inviting new competent suppliers to be included in the rosters, the contact point in each implementing agency, information on the international competitive bidding procedure, and how to access the rosters established by each implementing agency. The implementing agencies were also urged to update rosters of competent suppliers regularly, taking into consideration the need to add new competent suppliers.

61. The information requested by the Executive Committee was considered at the 40th Meeting and it was decided to request implementing agencies to exchange information on the capacity, efficiency and experience of suppliers and consultants in delivering projects and to include in the Fund Secretariat's web site links to the implementing agencies' relevant sites to assist those interested in providing services or goods.

F. Potential compliance with the initial and intermediate control measures of the Montreal Protocol

62. At its 40th Meeting, the Executive Committee took note of the report submitted by the Secretariat on the status of Article 5 countries in achieving compliance with the international and intermediate control measures of the Montreal Protocol, welcoming the information that the 2002 data reported to the Fund Secretariat for eight countries that had been found to be in non-compliance by the Fourteenth Meeting of the Parties were below the CFC freeze baseline levels.

63. The Executive Committee urged implementing agencies and countries involved in bilateral cooperation, in particular UNEP, to assist countries that consumed small amounts of methyl bromide, CTC and TCA but were not included in any of the agencies' three-year business plans, to determine the proportion of such consumption eligible for phase-out and, after verifying the information, to include activities for the countries identified in their 2004-2005 business plans.

G. Information strategy for the Multilateral Fund

64. At the 39th Meeting, the Executive Committee considered the paper on the information strategy for the Multilateral Fund, prepared by the Secretariat as a follow-up to Decision 38/78. The purpose of the strategy was clearly linked to the Multilateral Fund's compliance-driven mission and focused on delivering key messages about the Fund to three target audiences, namely, government policy- and decision-makers, especially in Article 5 countries, National Ozone Officers and the beneficiaries of the Fund, as well as global policy-makers and those who influenced them. The key partners for the implementation of the strategy were the Chief Officer of the Multilateral Fund Secretariat, the members of the Executive Committee, the implementing agencies and the Ozone Secretariat.

65. The Executive Committee then held an in-depth discussion on the proposed strategy and made a number of suggestions for its revision. It requested the Secretariat to take those proposals into account and submit a work plan to the 40th Meeting, together with the cost estimates for the strategy, taking into account the need to use the existing resources through the Fund's normal budgeting procedure.

66. The work plan, time frame and cost estimates were submitted to the Executive Committee at its 40th Meeting. After hearing an explanation of the strategy and replies to a number of questions raised, the Executive Committee approved US \$104,750 to develop the information strategy.

H. Policy matters

Criteria for project funding to accelerate phase-out and/or to maintain momentum

67. At its 39th Meeting, the Executive Committee requested the Secretariat to propose criteria for the redeployment of identified funds to projects designed to meet additional compliance needs of Article 5 Parties in order to assist early phase-out and/or maintain momentum. An in-depth discussion on the proposed criteria was held at the 40th Meeting and the Executive Committee decided the following:

- (a) The funds listed in subparagraphs (i), (ii) and (iii) below could be allocated to a funding window to accelerate phase-out, maintain momentum and meet the as yet unidentified compliance needs of Article 5 countries:
 - (i) funds not required in the current year's business plan defined as the difference between the value for each activity in the business plan and the amount approved for it by the Executive Committee;
 - (ii) funds returned from balances, cancellations, and changes in ownership from projects approved during the triennium; and

- (iii) funds from annual tranches not approved during the business plan year due to a delay in submission and approval, taking into account the funds required for the entire triennium;
- (b) The funds identified in accordance with subparagraphs (a) (i), (ii) and (iii) above could be redeployed to projects/agreements for the following in descending order and on the basis of cost-effectiveness within each category so as to accelerate phase-out, maintain momentum and meet the as yet unidentified compliance needs of Article 5 countries:
 - (i) new Parties to the Montreal Protocol and its amendments;
 - (ii) countries with low levels of consumption of methyl bromide, halon, CTC and TCA;
 - (iii) LVC countries that have received funding for an RMP pursuant to Decision 31/48;
 - (iv) countries for which project preparation has been approved and utilized;
 - (v) countries with a low level of residual consumption on a case-by-case basis; and
 - (vi) countries for the purpose of phasing out ODS production;
- (c) The above criteria would expire after the 42nd Meeting of the Executive Committee unless previously re-approved or modified by the Executive Committee.

Liquid carbon dioxide (LCD) technology and guidelines for LCD projects

68. The 39th Meeting requested the Secretariat to make a small number of on-site visits to companies that were successfully using LCD technology in Article 5 countries and to submit relevant additional information to the 41st Meeting. Until it had had an opportunity to consider such information, the Executive Committee would not approve any projects utilizing LCD technology.

Phase-out from cancelled projects

69. The 39th Meeting adopted the following two options for calculating the amount of ODS phased out:

- (a) If an enterprise was provided with equipment needed for conversion to non-ODS technology, the full amount of ODS envisioned for phase-out in the approved project should be recorded as the phase-out;
- (b) If an enterprise was provided with some items of equipment and such items could not be transferred by the implementing agency concerned to another enterprise(s)

in the country or the region, the cost-effectiveness of the approved project should be used to calculate an amount of ODS phase-out proportional to the cost of equipment items and other associated costs, by dividing the amount of funds disbursed to the enterprise by the cost-effectiveness value. The resulting amount should be recorded as the phase-out.

70. Subsequently, at the 40th Meeting, the Executive Committee once again considered phase-out from cancelled projects and decided the following:

- (a) Reasons for project cancellation should be specified by the implementing agencies and taken into account by the Executive Committee in its decisions on project cancellation;
- (b) Projects cancelled due to the non-provision by the beneficiary of its non-incremental counterpart contributions could be resubmitted on a case-by-case basis;
- (c) The resubmission of cancelled projects would be considered on a case-by-case basis where their completion enabled compliance with control measures provided that the enterprise was determined to be financially viable and, preferably, that the implementation time frame was accelerated; and
- (d) Enterprises with cancelled projects eligible for resubmission pursuant to Decision 29/8 could submit a request to reinstate the cancelled projects with the incremental costs adjusted by the amount of funds disbursed on the cancelled projects, and the level of phase-out based on the original approval as modified by paragraph 70(b) above.

Refrigerant management plans (RMPs)

71. The 39th Meeting considered the responsibilities of implementing agencies for the preparation and implementation of refrigerant management plans and requested the agencies to coordinate their project preparation requests associated with RMPs or RMP updates so that the total funding sought remained within the limits established by the guidelines in Decision 31/48. It also decided that the first project preparation request should specify all the agencies that would be involved in the RMP and the lead agency responsible for overall RMP implementation. Nevertheless, in order to be consistent with the country-driven approach, a country could change the agency responsible or request additional support from another agency (within the limits of the approved financing) and the Secretariat would then be notified of such changes.

72. The question of converting RMP updates into terminal phase-out management plans was discussed by the 40th Meeting, which decided to urge low-volume-consuming countries to consider carefully whether it was in their interests at the present stage to request final funding to achieve total phase-out of CFCs. Implementing and bilateral agencies were urged to give priority to assisting countries to implement approved RMPs to meet their 2005 and 2007 CFC control targets. All Article 5 countries concerned were requested to ensure that all the provisions of Decision 38/64 were applied before submitting projects for terminal phase-out management

plans and that the acceleration of phase-out implied by the terminal phase-out management plan had met the criteria established by the Executive Committee for prioritizing accelerated phase-out.

73. The 40th Meeting also decided to set up an open-ended working group to discuss ways of reorienting the approach to RMPs so as to facilitate compliance. The group would be composed of members chosen from the two Sub-Committee and representatives of the implementing agencies and would meet in the margins of the 41st Meeting.

Work of the Sub-Committees on Monitoring, Evaluation and Finance and Project Review

74. The 39th Meeting of the Executive Committee requested the Secretariat to submit proposals on how to reorganize the work of the Sub-Committees in order better to monitor national phase-out plans and ensure compliance through them. Pursuant to this decision, the 40th Meeting of the Executive Committee considered the document prepared by the Secretariat and made a number of suggestions to streamline and facilitate the work of the Sub-Committees and the Executive Committee. Following the discussion, the Executive Committee decided that henceforward the financial plan of the Fund, the three-year and annual business plans and major compliance-related problems should be addressed by the plenary Executive Committee. Issues such as the return of balances from cancelled or completed projects and any other routine activities decided by the Executive Committee should be handled administratively between the Secretariat and the responsible implementing agencies, with the appropriate reports including audited financial reports being submitted to the Executive Committee. Lastly, the Secretariat was requested to prepare a document for the 41st Meeting so that the Executive Committee could explore further options.

I. Fund Secretariat activities

75. During the period under review, the Fund Secretariat had prepared documentation and provided conference services for the 39th and 40th Meetings of the Executive Committee, two meetings each of the Sub-Committee on Project Review and the Sub-Committee on Monitoring, Evaluation and Finance, and meetings of the Subgroup on the Production Sector.

76. The Fund Secretariat had received proposals for projects and activities from implementing agencies and bilateral donors with a total value of US \$307,895,145. It had analysed, reviewed and provided comments and recommendations, as appropriate, on all proposals submitted for the Executive Committee's consideration.

77. The annual and triennial business plan submitted during the period under review had been the first submitted under the compliance-driven approach.

78. For the first time, a post-meeting summary of decisions had been circulated to meeting participants and regional network officers of UNEP's Compliance Assistance Programme (CAP), as well as being posted on the Secretariat's website.

79. A consultant had been recruited to prepare a report on the institutional procedures for monitoring and evaluation in other relevant financial institutions, as requested by the 38th Meeting. The document prepared by the consultant had been considered by the Executive Committee at its 39th Meeting (see paragraph 56 above).

80. In the light of UNEP's communication that it could no longer continue to act as Treasurer unless it could recover the costs incurred, the Secretariat had recruited a consultant to review the tasks of the Treasurer and explore the suitability of institutions to assume the role. The study prepared by the consultant was reviewed by the Executive Committee at its 40th Meeting (see paragraph 16 above).

81. During the period under review, the Chief Officer and other members of the Secretariat had attended a number of important meetings, including a visit to Costa Rica in December 2002 on the occasion of the consultation of the Chairman and the Vice-Chairman of the Executive Committee with the Minister of Environment and Energy then acting as Chairman of the Ministerial Consultative Council on Environment and Development of the Central American Integration System and discussed the agreement on implementation of the methyl bromide project in Costa Rica. The Chief Officer also visited London to meet with representatives of UNDP and two pharmaceutical companies regarding the negotiations on transferring ozone friendly MDI technology to Cuba.

J. Post of the Chief Officer

82. At its 39th Meeting, the Executive Committee heard a report of the Chairman on the visit to United Nations Headquarters he conducted pursuant to Decision 38/80 for the purpose of discussing an extension of the contract of the Chief Officer. The Chair reported that he had discussed the issues related to the Chief Officer's post with Mr. S. Iqbal Riza, Chef de Cabinet of the Secretary-General, and Mr. Denis G. Beissel Officer-in-Charge of the Office of Human Resources Management of the United Nations. At the invitation of the Chair, Mr. Shafqat Kakahel, Deputy Executive Director of UNEP addressed the Meeting. He expressed his deeply felt appreciation to Dr. El-Arini for his competence, dedication, and hard work in advancing the objectives of the United Nations and pledged UNEP's support during the process of selecting a new Chief Officer, as well as the issue of a further extension of the term of office of Dr. El-Arini beyond 31 August 2003.

83. The Committee took note with appreciation of the report of the Chair, endorsed the understandings reached by the Chair and the United Nations Headquarters officials with respect to the terms of reference of the Chief Officer, process of recruitment, nomination and appointment of the Chief Officer and further extension of the term of office of the current incumbent, Dr. El-Arini, beyond 31 August 2003; decided to amend the job vacancy announcement and requested the United Nations Secretariat to reissue the amended announcement without delay. It also decided to apply mutatis mutandis the procedure employed in 1990 for the appointment of the current Chief Officer and set up a recruitment committee chaired by Japan and composed of the representatives of Bolivia, Burundi, France, India and the

United States of America which might review all applications, interview leading candidates and make a recommendation to the 40th Meeting of the Executive Committee, it being understood that:

- (a) The recruitment committee was authorized to meet early in July 2003 to establish a shortlist with a possibility of prior teleconferencing early in June 2003 if necessary.
- (b) The recruitment committee was also authorized to invite the Executive Secretary of the Ozone Secretariat to attend as an observer;
- (c) A representative of the UNEP Secretariat, accompanied by supporting staff, would assist the recruitment committee technically and administratively throughout the process of selecting the candidates and would provide a briefing on the use of the established interviewing method within the United Nations.

84. The Committee also decided to nominate the Chief Officer for appointment by the Secretary-General at its 40th Meeting and requested the Secretary-General of the United Nations and the Executive Director of UNEP to expedite the timely appointment of the Chief Officer in order to ensure continuity of the work of the Multilateral Fund.

85. At its 40th Meeting, based upon the report of the Recruitment Committee, the Executive Committee held a number of closed sessions to discuss a recommendation on the nomination for the post of Chief Officer. The Executive Committee adopted the report pertaining to this agenda item and decided to keep it confidential under embargo until the Secretary-General appoints the new Chief Officer on the understanding that it would be eventually incorporated in the body of the normal report of the Executive Committee as appropriate.

86. At the close of the 40th Meeting, the Chief Officer gave an address on the occasion of his retirement, which was followed by expressions of deep gratitude to the Chief Officer by Article 5 countries and non-Article 5 countries, as well as representatives of the implementing agencies and the Secretariat staff. In this regard, upon the proposal of the Chair, the Executive Committee decided:

- (a) To express deep gratitude to Dr. Omar El-Arini for his outstanding contribution to the development and management of the Multilateral Fund Secretariat, as well as his excellent assistance to the Executive Committee in the formulation of Fund policies, planning, management and evaluation;
- (b) In view of his remarkable contribution to the work of the Multilateral Fund over an extended period from its inception, to grant the title of "Honorary Chief Officer" to Dr. Omar El-Arini, which he might use in his post-career life after his retirement;
- (c) To note the Executive Committee's own intention to continue to benefit from Dr. Omar El-Arini's experience and knowledge for its work as appropriate; and

- (d) To convey the Executive Committee's best wishes to the Chief Officer for the future.

K. Matters relating to the meeting of the Parties

87. In response to Decisions VIII/5, VIII/7, IX/14 and X/31, the Executive Committee is annexing hereto its report to the Fifteenth Meeting of the Parties on actions taken to improve the Financial Mechanism for the implementation of the Montreal Protocol (Annex I).

88. Annex II shows by country the amount of HCFC-141b consumption phased-in through projects using HCFCs as replacement, pursuant to Decision 36/56 (e) which *inter alia* states "That the annual Executive Committee report to the Meeting of the Parties should state by country the amount of HCFC-141b consumption phased in through projects using HCFC as replacements, a consumption which would - in application of Decision 27/13 - be excluded from funding at future stages."

Study to evaluate the financial mechanism of the Fund

89. The 40th Meeting noted that a proposal on funding a study to evaluate the Fund's financial mechanism would be discussed by the Fifteenth Meeting of the Parties. Pending the decision by the Parties on how the study should be funded, the Executive Committee decided to set aside US \$500,000 from the funds returned by the implementing agencies at the 40th Meeting.

L. Reports of the Executive Committee

90. The reports of the 39th and 40th Meetings of the Executive Committee (UNEP/OzL.Pro/ExCom/39/43 and UNEP/OzL.Pro/ExCom/40/50, respectively) have been distributed to all Parties to the Montreal Protocol. These reports, as well as the reports of the Sub-Committees and all earlier reports, can be accessed at the website of the Fund Secretariat (www.unmfs.org).

Annex I

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

INTRODUCTION

This report is submitted by the Executive Committee pursuant to the following decisions of the Meetings of the Parties:

“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”;

Decision VIII/5

“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”;

Decision VIII/7

“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”, and,

Decision IX/14

“To request the Executive Committee to report annually to the Meetings of the Parties on the operation of the Financial Mechanism and the measures taken to improve the operation.”

Decision X/31

PART I: ACTIONS WHICH HAVE NOT PREVIOUSLY BEEN COMPLETED

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 analysed 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.

As reported previously:

At its Twenty-seventh Meeting, the Executive Committee requested the Secretariat, in cooperation with the Implementing Agencies, to compile a compendium of past decisions and experiences so far and to collaborate on real-life scenarios, highlighting relevant issues and problems.

In considering the discussion paper prepared in response to the above decision, the Executive Committee took note of principles presented by the representative of Canada and invited the members of the Executive Committee to submit to the Secretariat comments on these or further such principles, for inclusion in a broad framework document to be considered at the Twenty-ninth Meeting of the Executive Committee;

At the Twenty-ninth Meeting, the Executive Committee decided to take note of the documents on the subject, as a useful basis for further discussion, and to seek the guidance of the Meeting of the Parties on how to proceed further.

At its Thirtieth Meeting the Executive Committee decided to include concessional lending in the agenda for the Thirty-first Meeting.

At the Thirty-first Meeting, in the absence of agreement on the timing for initiation of future discussions, the Executive Committee decided to defer further consideration of concessional lending.

After discussions on the timing of initiation of further debate on the issue of concessional lending at the 32nd and 33rd Meetings, the Executive Committee decided to place the issue on the agenda of the 34th Meeting.

At its 34th Meeting the Executive Committee decided to consider a proposal for a technical workshop from the Government of Japan as a basis for its discussion at its 35th Meeting. At the same time, the Executive Committee decided to request the Secretariat to recirculate a number of documents on concessional lending, and prepare a compilation of the experience of the Multilateral Fund in applying innovative funding.

In accordance with Decision 35/62 of the Executive Committee, a one-day technical workshop was held in July 2002 under the sponsorship of the Government of Japan (as a bilateral contributor) to exchange views on the objectives and modalities of concessional lending including pros and cons; deepen understanding of operations of any practical and workable concessional lending schemes and review relevant experience of the Multilateral Fund and the implementing agencies as well as Article 5 countries in innovative financing in this field. This was done through the presentation and discussion of ten case studies; several such studies were introduced by programme managers from the field.

At the 38th Meeting, the Executive Committee considered a report on the technical workshop on concessional lending approved for the Government of Japan as a bilateral contribution and noted the significant progress achieved in discussing the issue of concessional lending both at the workshop and at the Executive Committee, and decided to continue its deliberations on the issue at its next meeting.

Update since the Fourteenth Meeting of the Parties:

- ***The Executive Committee resumed its consideration of financing ODS phase out under concessional lending terms at its 39th Meeting, and decided to defer further discussion to the 41st Meeting when historical documentation on concessional lending would be made available by the Secretariat.***

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 mobilise non-Fund resources in support of Montreal Protocol objectives, with a view to achieving an increase in the number of ozone-protection projects.

As reported previously:

In addition to the Thai chiller project which was reported to the Tenth Meeting of the Parties as a co-financing scheme between the Multilateral Fund and the Global Environment Facility, the Executive Committee approved funding in 1999 to be supplemented by a local funding source in Mexico to implement the chiller replacement programme in the country.

National CFC phase-out plans for Malaysia, Thailand and Turkey have incorporated rotating funds through which enterprises engaged in recycling or servicing, and in some cases equipment replacement, will repay a proportion of the cost of equipment provided under the project.

Update since the Fourteenth Meeting of the Parties:

- ***There have been no new developments since the last report. Implementing and bilateral agencies remain aware of the benefits from mobilisation of non-Fund resources.***

Action 21

- (a) The Executive Committee should prepare an itemised 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 favourable 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.

As reported previously:

At its Twenty-seventh Meeting, the Executive Committee decided to authorise UNEP to prepare a data base containing a description and characteristics of available ODS-substituting technologies and the terms under which such technologies were available for transfer, pending completion of the report of the informal group on technology transfer and formulation of terms of reference for this study.

At its 28th Meeting the Executive Committee was informed that the report of the Informal Group was completed.

In relation to Action 21(d), at its 34th Meeting the Executive Committee approved funding for technology transfer as part of the incremental capital cost for projects in the foam and process agent sectors.

Update since the Fourteenth Meeting of the Parties:

- ***There have been no new developments.***

PART II: ACTIONS COMPLETED

The following actions were included in the Report for the Fourteenth Meeting of the Parties as having been completed, having become a standard practice of the Multilateral Fund or having been overtaken by other developments.

Actions 1, 2, 3, 4, 5, 6, 7, 8, 9, 11, 12, 14, 15, 16, 17, 18, 19 and 20

Annex II

AMOUNTS OF HCFCs¹ CONSUMPTION PHASED-IN (ODP TONNES)

Country	CFC phased out in projects using HCFC technologies	HCFC phased in
Algeria	37.0	3.4
Argentina	736.5	67.0
Bahrain	15.1	1.4
Bolivia	10.9	1.0
Bosnia and Herzegovina	28.8	2.6
Brazil	4,804.0	434.7
Chile	178.7	13.8
China	10,049.3	742.4
Colombia	639.0	58.1
Costa Rica	32.8	3.0
Cuba	0.8	0.1
Dominican Republic	134.1	12.2
Egypt	482.8	35.8
El Salvador	18.2	1.7
Guatemala	45.0	4.1
India	4,180.2	369.9
Indonesia	1,487.8	130.5
Iran	1,036.1	94.2
Jordan	327.5	29.8
Kenya	22.6	2.1
Lebanon	80.4	7.3
Libya	60.9	5.5
Macedonia	74.4	6.8
Malaysia	1,216.1	108.2
Mauritius	4.2	0.4
Mexico	1,880.2	159.3
Morocco	109.3	9.9
Nicaragua	7.9	0.7
Nigeria	348.9	31.7
Pakistan	571.8	52.0
Panama	14.3	1.3
Paraguay	67.0	6.1
Peru	145.5	13.2
Philippines	514.3	46.8
Romania	190.3	17.3

Country	CFC phased out in projects using HCFC technologies	HCFC phased in
Serbia and Montenegro	43.8	4.0
Sri Lanka	7.2	0.7
Sudan	4.4	0.4
Syria	622.8	56.6
Thailand	2,025.7	183.3
Tunisia	233.6	19.0
Turkey	368.8	33.5
Uruguay	103.6	9.4
Venezuela	693.1	63.0
Vietnam	44.0	4.0
Yemen	9.6	0.9
Zimbabwe	11.2	1.0
Total	33,720.5	2850.1

Note 1: ODP values as follows:

HCFC-123: 0.02
 HCFC-22: 0.055
 HCFC-141b: 0.11
