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FIFTH MEETING OF THE PARTIES TO THE
MONTREAL PROTOCOL ON SUBSTANCES
THAT DEplete THE OZONE LAYER

Bangkok, 17-19 November 1993

**REPORT OF THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND
FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL TO THE
FIFTH MEETING OF THE PARTIES**

I. INTRODUCTION

1. In accordance with the terms of reference of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, the Committee shall report annually to the Meeting of the Parties (Annex X to the report of the Fourth Meeting of the Parties contained in document UNEP/OzL.Pro.4/15). This report, which covers the activities undertaken by the Executive Committee during 1993, is submitted in fulfillment of that requirement.

2. The Ninth and Tenth Meetings of the Executive Committee were held in Montreal from 8 to 10 March 1993 and 28 June to 1 July 1993 respectively. The Eleventh Meeting was held in Bangkok, Thailand, from 10 to 12 November 1993. The reports of the Ninth and Tenth Meetings, which are contained in documents UNEP/OzL.Pro/ExCom/9/20 and UNEP/OzL.Pro/ExCom/10/40, were sent to all Parties to the Montreal Protocol. The report of the Eleventh Meeting (UNEP/OzL.Pro/ExCom/11/36) was made available to Parties at the Fifth Meeting.

3. Meetings of the Executive Committee were attended by Canada, France, Norway, Japan, Netherlands, Russian Federation and the United States of America representing Parties not operating under paragraph 1 of Article 5, and by Brazil, Egypt, Ghana, Jordan, Malaysia, Mauritius and Venezuela representing Parties operating under paragraph 1 of Article 5. The meetings were chaired by Ms. E. Claussen (United States of America) and Mr. Tan Meng Leng (Malaysia) acted as Vice-Chairperson. Mr. O. El-Arini, Chief Officer, acted as Secretary.

4. In accordance with the decision taken by the Executive Committee at its Second Meeting, the following participants attended the meetings as observers:

- The President of the Bureau of the Meeting of the Parties to the Montreal Protocol;
- Representatives of the implementing agencies: United Nations Development Programme, United Nations Environment Programme, United Nations Industrial Development Organization, and the World Bank;
- Representatives of Commonwealth Science Council, Friends of the Earth and Greenpeace; and
- Representatives of Climate Change Secretariat and Université du Québec à Montréal.

II. POLICY MATTERS CONSIDERED

Country programmes

5. At its Tenth Meeting, the Executive Committee considered a status report on the country programmes that had been sponsored by the Fund, and decided to request Parties operating under paragraph 1 of Article 5 (Article 5 Parties) and the implementing agencies collaborating with them (i) to give priority to early completion of country programmes, (ii) to strive to submit completed country programme documents within nine months of the

disbursement of the funds to the Article 5 Parties for their preparation, (iii) when submitting project proposals prior to approval of their country programmes, to submit proposals for priority projects consistent with the country's emerging strategy for phasing out ozone depleting substances, (iv) to present annually information to the Executive Committee on progress being made in the implementation of their country programmes and (v) requested Article 5 Parties and the implementing agencies collaborating with them in preparing projects on institutional strengthening, to make provisions to address the needs of the country with respect to the data submission requirements of Article 7 of the Montreal Protocol.

Incremental costs

6. At its Tenth Meeting, the Executive Committee held a seminar and actively debated a document prepared by the Fund Secretariat on incremental costs. On this basis, it adopted the following policy decisions regarding incremental cost (UNEP/OzL.Pro/ExCom/10/39):

- (i) The Multilateral Fund would not finance such costs as taxes, duties or other such transfer payments, nor the loss of economic subsidies or rates of return in excess of cost of capital which might incorporate non-economic financial effects such as administered prices or interest rates. Funding of the enterprises' financial costs by the Multilateral Fund would effectively be making the country a grant that exceeded the country's actual additional costs, which was not the intention of the Parties;
- (ii) Given the uncertainty associated with projecting future cash flows, recurrent costs would be considered for a transitional period as defined in the document and its Annexes. In cases where recurrent costs were not considered as defined in the document and its Annexes, a justification for that approach must be given to the Executive Committee by the implementing agency;
- (iii) The policy of the Fund was to take savings and benefits into account when determining the grant amount. Savings and benefits of the project would be taken into account as outlined in the document and its Annexes. Where the savings and benefits of the project were uncertain, the estimate of the present value should, while remaining realistic, be made conservatively. The savings and benefits must be discounted to the net present value. In cases where savings and benefits were not considered as defined in the document and its Annexes, a justification for that approach must be given to the Executive Committee by the implementing agency.
- (iv) Incremental costs would not be financed by the Fund where there was evidence of double-counting.

Status of used equipment

7. At its Eleventh Meeting, the Executive Committee decided that any equipment that has been replaced through a project financed by the Fund, in particular low pressure foam machines replaced with high pressure machines, should be destroyed.

Streamlining the Executive Committee's Project Review Process

8. At its Tenth Meeting the Executive Committee requested the Fund Secretariat to prepare a paper which would set out on the one hand how the Committee's project review efforts could be streamlined and, on the other, how to deal with policy issues, for the Committee's consideration.

9. At its Eleventh Meeting the Executive Committee considered a discussion paper submitted on the matter by the Fund Secretariat and adopted the following recommendations:

1. Documentation for country programmes distributed to all Committee members may be limited to country programme cover sheets, executive summaries, and Fund Secretariat comments although the full country programme will be made available upon request.

2. Implementing agencies and the Fund Secretariat should meet in December to consider work programme activities for the following year and to establish their relation to the three-year plan and budget.

3. Documentation for project proposals distributed to all Committee members should be limited to the executive project summary, the technical review and response, and the Fund Secretariat's comments although project proposal background material will be made available upon request.

4. Projects for which all issues have been resolved in advance of Committee meetings may be submitted for blanket approval.

5. Approval on a non-objectional basis should be adopted by the Committee and implementing agencies should be encouraged to submit proposals for non-objectional approval.

6. Consultants used in the preparation of proposals should not be allowed to review them.

7. Implementing agencies and the Fund Secretariat should develop a standard format for technical reviews for the Executive Committee's consideration at its next meeting.

8. The Executive Committee should establish a sessional Project Review Sub-Committee when deemed necessary.

9. Conclusions of the Executive Committee on policy issues arising out of projects are to be considered as guidance in the development of future project proposals.

10. Policy issues should be presented for consideration of the Executive Committee by the Fund Secretariat to the earliest available Committee meeting as part of a separate agenda item on policy issues.

11. The Fund Secretariat should prepare a meeting overview paper for distribution to Committee members before Committee meetings.

10. The Executive Committee requested the Fund Secretariat and the implementing agencies to prepare a paper for its consideration at the Twelfth Meeting on the technical review of projects, taking into consideration the paper submitted by the United States and Canada to the Eleventh Meeting of the Executive Committee.

III. MATTERS RELATED TO THE FOURTH MEETING OF THE PARTIES

Operation of the Financial Mechanism since 1 January 1991

11. Pursuant to a request by the Fourth Meeting of the Parties to the Montreal Protocol, the Fund Secretariat assisted in the preparation of a report on the operation of the Financial Mechanism since 1 January 1991. The Executive Committee at its Ninth Meeting established a working group to review the report and requested the Fund Secretariat to restructure and expand the document to report on progress, processes and issues. A revised report was approved at the Tenth Meeting of the Executive Committee, and was presented by the Chairperson of the Committee to the Ninth Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol (UNEP/OzL.Pro/WG.1/9/3).

Proposed three-year plan and budget of the Multilateral Fund (1994-1996)

12. The Fourth Meeting of the Parties to the Montreal Protocol requested the Executive Committee to prepare a document on the proposed three-year plan and budget of the Multilateral Fund (1994-1996), based on: (i) the needs of Article 5 Parties, (ii) the capacity and performance of the implementing agencies, and (iii) the strategies and projects to be implemented by Article 5 Parties. The Executive Committee reviewed the draft document at its Ninth Meeting and instructed the implementing agencies to provide input on their capacity to deliver projects on a sector and sub-sector basis. A revised report was approved at the Tenth Meeting of the Executive Committee, and was presented by the Chairperson of the Committee to the Ninth Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol (UNEP/OzL.Pro/WG.1/9/4).

Temporary Difficulties Encountered by Hungary, Bulgaria and Poland

13. Pursuant to a request by the Fourth Meeting of the Parties to the Montreal Protocol on temporary difficulties encountered by Hungary, Bulgaria and Poland, the Executive Committee at its Tenth Meeting considered a report prepared by the Fund Secretariat on this matter, and requested:

- the Fund Secretariat and the implementing agencies to take appropriate actions to explore the possibility of making use of the in-kind contributions proposed by Hungary in implementation of projects in the refrigeration sector in Article 5 Parties as a test case for consideration by the Executive Committee of possible policy issues arising from in-kind contributions; and
- the Fund Secretariat to explore further the potential of in-kind contributions from Bulgaria and other countries for which in-kind contributions might be used for outstanding contributions and to report to the Fifth Meeting of the Parties.

14. The Executive Committee also urged these countries to cooperate with UNEP IE/PAC to provide information on available technologies and expertise in those countries for dissemination to Article 5 countries, and encouraged them to contact Article 5 countries to identify opportunities for cooperation through in-kind contributions.

15. The report was presented by the Chairperson of the Executive Committee to the Ninth Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol (UNEP/OzL.Pro/WG.1/9/5).

IV. COUNTRY PROGRAMMES

16. During the period under review the Executive Committee disbursed US \$1,108,220 for the preparation, completion and updating of 27 country programmes.

17. During the same period it approved the country programmes of the following countries: Algeria, Burkina Faso, Cameroon, China, Cuba, Fiji, Guatemala, India, Iran, Jordan, Maldives, Mauritius, Panama, Philippines, Senegal, Syria, Thailand and Uruguay.

18. Total annual consumption of controlled substances covered by the country programmes approved at the Ninth, Tenth and Eleventh Meetings amount to 86,430 metric tonnes (88,270 ODP weighted tonnes). Implementation of the approved country programmes would phase out 1,341,202 tonnes of ODS by the year 2010.

V. PROJECTS

19. During the period under review, the Executive Committee approved US \$70,450,738 for disbursement by the Treasurer to the four implementing agencies for implementation of projects and other activities in 38 Article 5 countries as follows:

Institutional strengthening

20. US \$5,119,267 of the amount approved was allocated for strengthening national institutions in 23 Article 5 countries.

Investment projects

21. The Executive Committee approved 82 investment projects to be implemented in the following Article 5 countries: China, Ecuador, Egypt, India, Indonesia, Iran, Kenya, Malaysia, Philippines, Thailand and Venezuela.

Technical assistance and training programmes

22. Twenty seven technical assistance programmes and 10 training programmes were approved to be implemented at the national and regional levels.

VI. IMPLEMENTING AGENCIES

23. During the period under review, the Executive Committee allocated US \$21,816,197 to the implementing agencies for activities contained in their 1993 work programmes as follows:

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| • United Nations Development Programme | US \$11,679,374 |
| • United Nations Environment Programme | US \$ 3,304,441 |
| • United Nations Industrial Development Organization | US \$ 3,195,022 |
| • World Bank | US \$ 3,637,360 |

These funds cover projects under US \$500,000 and administrative costs.

24. During its Tenth Meeting, the Executive Committee requested the Fund Secretariat to work with the implementing agencies to develop a standard format for communicating progress and the reasons for delays in implementation of projects. In future reports, the implementing agencies were requested to provide detailed information on funds disbursed.

VII. BILATERAL CONTRIBUTIONS

25. In accordance with the guidelines for bilateral and regional contributions adopted at its Fifth Meeting, the Executive Committee at its Tenth and Eleventh Meetings approved the following requests to credit bilateral assistance amounting to a total of US \$2,234,086 against their contributions to the Fund:

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|-----------------------------|---|
| • Canada: | US \$ 759,000 (against 1993 contribution); |
| • Singapore: | US \$ 31,976 (against 1993 contribution); |
| • Republic of South Africa: | US \$ 30,000 (against 1994 contribution); |
| • United States of America: | US \$1,413,110 (against 1993 contribution). |

VIII. FINANCIAL MATTERS

Sub-committee on financial matters

26. At its Ninth Meeting, the Executive Committee established a standing Sub-committee on Financial Matters, appointed for a period of one year coinciding with the term of the Chair and Vice-Chair. It will be responsible to review and assess the existing financial arrangements and procedures, and recommend modifications, where appropriate. It will pay particular attention to the need for:

- (i) a uniform format for financial reporting by the implementing agencies and methodology of tracking financial transactions, on an ongoing basis;
- (ii) modalities for the disbursement of funds to implementing agencies and the development of cash flow requirements;

- (iii) independent financial and project audits, as appropriate. It will address issues pertaining to the receipt of contributions to the Fund, and any other matter that the Executive Committee deems appropriate.

27. The Sub-committee shall consist of two Executive Committee members from Parties operating under paragraph 1 of Article 5 of the Protocol and two Committee members from Parties not so operating. The Chair of the Sub-committee will be determined by the membership and alternate among members from one meeting to the next. The Treasurer and the Fund Secretariat will assist the Sub-committee in its work and participate in Sub-committee meetings. Implementing agencies may be invited to participate. The Sub-committee is empowered to require the attendance of any implementing agency on any financial matter causing concern to the Sub-committee.

Proposed budget for the Fund Secretariat 1994-1996

28. At its Eleventh Meeting, the Executive Committee approved the proposed budget for the Fund Secretariat for 1994-1996, as shown in document UNEP/OzL.Pro/ExCom/11/36, Annex III.

Status of the Fund

29. As at 12 November 1993, the total income to the Fund stood at US \$161,484,016, of which US \$139,039,306 has been disbursed leaving a balance of US \$22,444,710, as shown in document UNEP/OzL.Pro/ExCom/11/36, Annex I.

30. The status of contributions and disbursements as at 12 November 1993 is shown in document UNEP/OzL.Pro/ExCom/11/36, Annex I. The contributions amounted to US \$157,990,172, including US \$4,415,175 as bilateral contributions. This was made up of contributions for 1991 of US \$45,682,302 (against a total pledge of US \$53,320,777) and US \$59,351,082 for 1992 (against a total pledge of US \$73,339,613) and US \$52,956,788 (against a total pledge of US \$114,653,369) for 1993.

31. As at 12 November 1993, outstanding contributions for 1991 and 1992 stood at US \$21,627,006. About 82 per cent of this is attributed to six countries with economies in transition; 17 per cent is attributed to developed countries; and the remaining 1 per cent is attributed to developing countries not-operating under paragraph 1 of Article 5.

32. Of the developed countries with contributions in arrears, two have submitted promissory notes which have facilitated access to a portion of their 1991 and 1992 pledges and one has not made any contribution at all.

33. Outstanding contributions for 1993 amounted to US \$61,696,581.

34. The Executive Committee decided, at its Tenth Meeting, to take the following actions:

- The Treasurer should send regular notification and follow-up letters reminding the Parties concerned about delays and problems caused by its delays. The countries concerned should be requested to clarify the expected payment dates.

The Executive Committee should authorize its chairman to send letters to the Parties regarding its outstanding contributions to explain the implications for the Multilateral Fund if such contributions are not paid. These letters should be sent to the Foreign Ministry, the Finance Ministry and the Environment Ministry within a country, as appropriate.

- High officials of the Montreal Protocol institutions, e.g. President of the Bureau, UNEP Executive Director, Chair of the Executive Committee of the Multilateral Fund, should use their good offices to alert the political administrations of the countries concerned, whenever possible, with the aim of reaching agreement in respect to modalities and timing of payment of outstanding contributions. Similarly, countries on the Executive Committee which represent regions in which one or more countries are in arrears, should take the opportunity of pre-meeting coordination to discuss this issue with those countries, and report back to the Executive Committee on impediments to timely payment.
- Following each Executive Committee meeting, the Treasurer and the Fund Secretariat should update the status of the contributions and provide: (i) a list of countries in arrears reflecting annual and total outstanding contributions as at the date of the Committee's report; and (ii) where available, expected payment dates, and other information on non-payment. The status of contributions should be distributed to the Parties and used as part of public information material in Executive Committee press releases and in newsletters e.g. in UNEP IE/PAC "OzonAction". This could increase public awareness on the progress of action actually being taken by governments to address this concern.

35. The Executive Committee, at its Tenth Meeting, took the following recommendations related to the outstanding contributions of Belarus, Hungary, the Russian Federation, Ukraine and Czechoslovakia (now known as the Czech Republic and the Slovak Republic) as Parties experiencing temporary difficulties and not operating under Article 5, paragraph 1:

- The statement made by the Czech Republic regarding payment of a contribution should be followed up by the Treasurer;
- The Fund Secretariat should follow up its approaches to Belarus and the Slovak Republic;
- The Fund Secretariat should explore further the potential of in-kind contributions by the five Parties and should report to the next meeting of the Executive Committee.

36. The representative of the United States of America informed at the Eleventh Meeting of the Executive Committee that his Government had recently transferred the amount of US \$6,000,000 of its 1993 contributions to the Fund. The representative of the Netherlands also informed the meeting that his Government and the Government of Denmark had transferred their 1993 contributions amounting to US \$1,998,543 and US \$282,855 respectively to the Fund.

37. The Treasurer of the Fund announced at the Eleventh Meeting of the Executive Committee that the Fund had received the contribution for 1992 from Bulgaria. The Committee noted with appreciation that the Government of Bulgaria had heeded the Committee's earlier recommendation to all Parties not operating under paragraph 1 of Article 5 to meet their financial obligations.

Clarification of the eligible methods of payment in an effort to ensure that pledged funds are available when they are needed for implementation of approved projects

38. At its Tenth Meeting the Executive Committee decided to request the Treasurer, in consultation with the Sub-Committee on Financial Matters, the Fund Secretariat and the implementing agencies, and in particular with the Resource Mobilization Group of the World Bank, to prepare a discussion paper on how promissory notes would operate within the context of the Multilateral Fund taking into consideration, inter alia:

- how encashment (draw down) schedules of promissory notes would be implemented to avoid cash flow problems;
- how promissory notes worked in other international financial institutions and international organizations;
- the impact of promissory notes on the amount of interest earnings;
- the implications of the wide-scale use of promissory notes by Parties not operating under Article 5, paragraph 1;
- the implications on the approval of projects by the Executive Committee in advance of encashment of promissory notes, given the provisions of the Montreal Protocol, the decisions of the Parties and agreements with implementing agencies;
- whether the use of promissory notes was in accordance with the existing financial procedures of the Fund;
- whether the Executive Committee was required to seek a mandate from the Meeting of the Parties on the use of promissory notes; and,
- the fact that the Multilateral Fund was a relatively new mechanism.

39. At its Eleventh Meeting the Executive Committee discussed the "Paper from the Treasurer on Promissory Notes within the context of the Multilateral Fund" and decided as follows:

- Promissory notes did constitute committable resources and that the deposit of a promissory note would be considered to be payment of a country's contribution to the Fund.
- Promissory notes would be encashed on a fixed schedule with the option of accelerated encashment on demand by the Treasurer in light of needs on a pro rata basis. If there was a need for an accelerated encashment, notes deposited prior to 1994 should be encashed before accelerated encashment of notes deposited in 1994 or after was required.
- The scheduling of draw down from 1994 promissory notes would begin in 1995. If the notes deposited before 1994 were encashed in totality in 1994, the draw down from 1994 promissory notes could begin in 1994.
- The Treasurer would submit a draft schedule of promissory notes at the next meeting of the Executive Committee, taking into account the Committee's decisions concerning the scheduling of promissory notes.

40. The Executive Committee noted that those Parties contributing in cash could determine when to pay their contributions within the year during which they were due.

Impact of Non-committed Resources at the end of 1993 on the 1994-1996 Assessments

41. The Ninth Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer requested the Executive Committee to prepare a report for its consideration prior to the Fifth Meeting of the Parties to the Montreal Protocol covering the impact of non-committed resources at the end of 1993 on the 1994-1996 assessments to support a decision to be taken by the Fifth Meeting on the replenishment of the Multilateral Fund.

42. At its Eleventh Meeting the Executive Committee considered a paper prepared by the Fund Secretariat which included five scenarios based on different interpretations of "non-committed resources". The Committee decided to transmit to the Fifth Meeting of the Parties all five scenarios as included in document UNEP/OzL.Pro/ExCom/11/36, Annex IV.

IX. INFORMATION

43. At its Ninth Meeting, the Executive Committee decided to continue supporting the OzonAction Information Exchange Clearing-House (OAIC) programme being implemented by UNEP's Industry and Environment Programme Activity Centre. It also approved the Information Kit on the Multilateral Fund, prepared by the Fund Secretariat. The information kit has been translated into all UN languages and was transmitted to all Parties to the Montreal Protocol.

X. FUND SECRETARIAT

44. During the period under review, the Fund Secretariat carried out the following tasks inter alia:

- Prepared policy papers considered by the Executive Committee;
- Evaluated country programmes, work programmes of the implementing agencies and project proposals and prepared recommendations for action by the Executive Committee;
- Prepared all the documentation and made the necessary arrangements for meetings of the Executive Committee and other meetings;
- Participated in meetings of the Open-ended Working Group of the Parties and other meetings;
- Participated in seminars and workshops;
- Maintained liaison with Article 5 Parties, the implementing agencies and the Executive Committee.