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

Nairobi, 3-7 October 1994

REPORT OF THE EXECUTIVE COMMITTEE TO THE SIXTH 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, require the Executive Committee to 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 since the Fifth Meeting of the Parties, is submitted in fulfilment of that requirement.
2. During this reporting period, the Twelfth and the Thirteenth Meetings of the Executive Committee were held in Montreal, 28-31 March 1994 and 25-27 July 1994, respectively, and the Fourteenth Meeting was held in Nairobi, Kenya, 29-30 September 1994.
3. Meetings of the Executive Committee were attended by Australia, Denmark, France, Norway, Japan, Poland and the United States of America, representing Parties not operating under paragraph 1 of Article 5, and by Algeria, Argentina, Brazil, Cameroon, India, Malaysia and Venezuela, representing Parties operating under paragraph 1 of Article 5. The meetings were chaired by Mr. Tan Meng Leng (Malaysia) and Mr. John Whitelaw (Australia) acted as Vice-Chairman. Mr. Omar E. 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:
 - Representatives of the Implementing Agencies: United Nations Development Programme, United Nations Environment Programme, United Nations Industrial Development Organization, and the World Bank;
 - Representative of the President of the Bureau of the Fifth Meeting of the Parties to the Montreal Protocol (observed the Fourteenth Meeting only);

- Representatives of Commonwealth Science Council, Friends of the Earth and Greenpeace; and,
- Representatives of Alliance for Responsible Atmospheric Policy, Environmental Defense Fund, European Fluorocarbon Technical Committee, Harvard University, State University of New York at Albany and Université du Québec à Montréal, as well as consultants for the report on the review under paragraph 8 of Article 5 of the Montreal Protocol.

Financial matters

Status of contributions and disbursements

5. As at 30 September 1994, the total income to the Multilateral Fund amounted to US\$ 245,800,520. The cash disbursements against this income totalled US\$ 204,673,752, and promissory notes transferred or earmarked totalled US\$ 21,380,450. The balance available amounts to US\$ 19,746,318.

6. The cumulative contributions amounted to US\$ 238,702,290 including US\$ 196,236,887 in cash payments, US\$ 35,228,261 in promissory notes and US\$ 7,237,142 in the form of bilateral assistance. The yearly distribution of these contributions against their respective pledges are as follows:

	<u>Pledges</u>	<u>Cash Payments</u>	<u>Bilateral</u>	<u>Promissory</u>	<u>Total Payment</u>
1991	53,320,777	45,321,555	480,000	0	45,801,555
1992	73,339,613	57,784,915	1,726,772	3,283,914	62,795,601
1993	114,627,731	81,105,589	2,282,736	7,994,173	91,382,498
1994	151,672,304	12,024,828	2,747,634	23,950,174	38,722,636
TOTAL	392,960,425	196,236,887	7,237,142	35,228,261	238,702,290

Promissory notes

7. Pursuant to the decision taken at the Eleventh Meeting of the Executive Committee to consider promissory notes as committable resources to the Fund, the Treasurer submitted a draft encashment schedule for promissory notes which was adopted at the Twelfth Meeting of the Executive Committee as an initial encashment schedule which could be modified later on the basis of experience gained. Following consultations between the Treasurer and the World Bank, the mode of transfer of the promissory notes from the Treasurer to the World Bank was determined. The Executive Committee at its Fourteenth Meeting noted the transfer modalities thus agreed.

8. At the request of the Executive Committee, the Treasurer sent letters to the Parties not operating under Article 5, paragraph 1, asking them to indicate the form of payment of their contributions, including a schedule for such payments. As of 30 September, only six countries (Bulgaria, Canada, France, Germany, Netherlands and United Kingdom) had informed the Treasurer that they would pay their contributions in promissory notes and provided the schedule of payments.

Contributions in arrears

9. As at 30 September 1994, outstanding contributions for 1991-1993 stood at US\$ 41,308,467, about 76 per cent of which is attributed to eight countries with economies in transition; 18 per cent is attributed to developed countries; and the remaining 6 per cent is attributed to developing countries not operating under paragraph 1 of Article 5. Outstanding contributions for 1994 amounted to US\$ 112,949,668.

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10. At its Twelfth Meeting, the Executive Committee had expressed great concern that a number of countries continued to be in arrears in contribution payments. At its Fourteenth Meeting, the Executive Committee considered a report from the Treasurer on contributions in arrears and decided that the correspondence between the Treasurer and countries with contributions in arrears should be made available to the Executive Committee. If that procedure did not yield results, the Executive Committee would consider what further steps could be taken.

11. The Executive Committee also decided that arrears for 1993 and prior years should be paid in cash in accordance with the decision taken at the Eleventh Meeting of the Executive Committee on establishing promissory notes for payment of future contributions. However, in view of the difficulties experienced by countries with economies in transition in paying their contributions, the Executive Committee decided to extend to them the facilities of payment of their arrears through promissory notes. The Government of Bulgaria has indicated its intention to use this facility and submitted its schedule of payment for its contribution for 1994-1996.

Bilateral contributions

12. In accordance with the Guidelines for Bilateral and Regional Contributions and the criteria set out by the Parties, the Executive Committee approved during the period under review requests to credit bilateral assistance amounting to a total of US\$ 2,923,174 against contributions of the following Parties to the Fund:

• Australia	US\$	66,800	(against 1994 contribution);
• Canada	US\$	109,500	(against 1993 contribution);
• Republic of France	US\$	342,874	(against 1994 contribution);
• Republic of Singapore	US\$	40,000	(against 1994 contribution);
• United States of America	US\$	2,364,000	(against 1994 contribution).

13. Of the six countries active in bilateral programmes, progress reports have been received from Australia, Canada, Singapore and the United States of America. France started its bilateral programme in 1994 with country programme preparation in Mauritania and Viet Nam and implementation of the projects contained in the Mauritania country programme. Out of 45 projects and activities approved so far, approximately 60 per cent of the activities undertaken in this form of contribution have been completed. Activities under these bilateral programmes include implementation of investment/demonstration projects, training workshops, country programme preparation and project preparation. The geographical coverage of these activities is presented below:

<u>Country</u>	<u>Geographical Coverage</u>
Australia	South-East Asian countries
Canada	Brazil, China, Venezuela
France	Mauritania, Viet Nam
Singapore	South-East Asian countries
South Africa	Neighbouring countries
United States of America	Argentina, China, Ecuador, Malaysia, Mexico, Panama, Thailand, Uruguay and Venezuela

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Administrative costs of the Financial Mechanism

14. At its Fourteenth Meeting, the Executive Committee reviewed a paper on admissible administrative costs prepared in response to its request at the Twelfth Meeting. The paper examined the administrative costs charged to the Financial Mechanism by the Implementing Agencies and the Fund Secretariat tried to define norms for admissible administrative costs involved in implementing the Multilateral Fund's approved programme of activities; and compared these costs to the administrative cost ratios of the Global Environment Facility and other aid programmes. The paper has shown that the administrative costs charged to the Financial Mechanism were comparable with those under other financial mechanisms.

15. The Executive Committee decided that the paper should be refined, in particular with respect to the elaboration of the agreed categories of administrative costs and project-related costs.

Activities approved by the Executive Committee

Country programmes

16. During the period under review the Executive Committee disbursed US\$ 1,093,440 for the preparation, completion and updating of 21 country programmes.

17. During the same period, the Committee approved the country programmes of the following countries: Argentina, Bangladesh, Botswana, Brazil, Colombia, Côte d'Ivoire, Indonesia, Kenya, Malawi, Mauritania, Seychelles, Sri Lanka, Sudan, Uganda and Zimbabwe. Total annual consumption of controlled substances covered by the country programmes approved at the Twelfth, Thirteenth and Fourteenth Meetings amount to 23,750 tonnes (ODP).

18. This brings the total approved by the Executive Committee to 42 country programmes covering estimated consumption/production of controlled substances of 135,450 ODP tonnes which represents over 90 per cent of the total consumption of ODS in developing countries.

19. Article 5 Parties were advised to report their data to the Ozone Secretariat as required by Article 7 of the Protocol following completion of their country programmes. ODS consumption data collected in the course of country programme preparation can be reported to the Ozone Secretariat with small format adjustment.

20. Country programmes have been extensively used as a source of information for the Executive Committee, the Fund Secretariat in formulating policy decisions and for the Implementing Agencies in developing project proposals.

21. The Executive Committee adopted the format for presentation of information on progress of implementation of country programmes. Article 5 Parties have been requested to present their reports annually.

Investment projects

22. The Executive Committee decided, at its Twelfth Meeting, to set up a project review Sub-Committee composed of representatives of Algeria (Chairman of the Sub-Committee), Argentina, Australia, France, Malaysia and the United States of America to study policy issues identified by the Fund Secretariat in connection with project proposals. The Sub-Committee facilitated to a great extent the project approval process by the Executive Committee.

23. During the period under review, the Executive Committee approved US\$ 61,959,747 in funding for 95 investment projects. The implementation of these projects will eliminate an estimated quantity of 12,300 tonnes of ozone-depleting substances. A breakdown by sector is as follows:

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Sectors	N° of Projects	ODS Phased out (tonnes ODP)	Total Allocation (US\$)
Aerosol	2	4,092	1,413,510
Foams	49	3,868	19,567,854
Halons	5	1,402	2,068,000
Refrigeration	33	1,747	36,231,190
Solvents	6	134	2,679,193
TOTAL	95	11,243	61,959,747

From the above table, it is apparent that the largest number of projects fall into the foam sector whereas, in terms of dollar value, the refrigeration sector ranks first.

24. At its Fourteenth Meeting, the Executive Committee agreed that a sum of US\$ 4,000,000 should be earmarked for the six-month pilot phase of an overall agreement between India and the World Bank. Funds would be disbursed by the Treasurer to the World Bank in the amount approved by the Executive Committee after the Executive Committee's approval of each individual project.

Institutional strengthening

25. Funds are allocated to eligible Article 5 countries to provide necessary resources to enable them to strengthen an institution within the country to facilitate expeditious implementation of projects for speedy and effective phase-out of the controlled substances in the country, as well as to ensure effective liaison between the country on the one hand, and the Executive Committee, the Fund Secretariat, and the Implementing Agencies on the other.

26. During the period under review, US\$ 2,112,759 was approved for institutional strengthening in fifteen Article 5 countries, bringing the total approvals by the Committee to US\$ 9,220,341 for institutional strengthening projects in forty-five Article 5 countries.

Technical assistance

27. Technical assistance has been provided by the Fund in several areas including country programme preparation, project preparation, workshops, training programmes, and for the development of sectoral phase out strategies. Project preparation has occurred in twenty-five Article 5 countries. Project preparation may serve as an incentive for companies to phase out without further assistance from the Fund when the project preparation activity results in a financial analysis that indicates that the project would be self-financed.

28. Workshops have been conducted for the dissemination of information about the Protocol, funding procedures, and technological options. Workshops are also used in identifying potential project proposals. Training is often conducted in combination with the provision of equipment that results in reduced demand for ozone-depleting substances.

29. In order to coordinate activities within a country, and in some cases on a global and regional basis, the Fund has supported the development of sector strategies. Sector strategies are intended to describe how various project proposals are interrelated and how the phase-out of one activity is not replaced by increased consumption or production of ozone-depleting substances in another area within the same country, within the limits prescribed by the Montreal Protocol.

Work programmes of the Implementing Agencies

30. During the period under review, the Executive Committee allocated US\$ 79,347,463 to the Implementing Agencies for investment projects and for activities contained in their 1994 work programmes as follows:

• United Nations Development Programme	US\$ 35,951,281
• United Nations Environment Programme	US\$ 4,093,894
• United Nations Industrial Development Organization	US\$ 16,846,350
• World Bank	US\$ 22,455,938

31. These funds include agencies' support costs.

32. Since the establishment of the Fund, more than US\$ 207.79 million, including agency support costs, has been allocated to the four agencies for the implementation of the investment projects and other activities. These activities will lead to the eventual phase-out of over 42,000 tonnes (ODP) of ozone-depleting substances. The largest allocation of funds corresponds to projects under the refrigeration (US\$ 70.37 million) and foam (US\$ 48.79 million) sectors.

33. By region, 298 activities were approved in Asia and the Pacific, followed by Latin America and the Caribbean (140 activities), Africa (120 activities), and Europe (13 activities). Additionally, 69 global activities were approved.

Progress of implementation of the Multilateral Fund

Institutional strengthening

34. As of 30 June 1994, 18 of the 32 countries for which institutional-strengthening funds had been approved by the Executive Committee had received part payment (corresponding to the first year's operation) or full payment. US\$ 1.95 million of the total approved institutional-strengthening funds (approved as of 30 June 1994) of US\$ 6.79 million had thus been made available to the countries. Where the funds have been made available by the Implementing Agencies, the ozone units supported by the Multilateral Fund are already operational or at the final stage of becoming operational.

Technical assistance

35. The Executive Committee has approved 79 training programmes at the national, regional and global levels, costing over US\$ 7 million. So far, 17 national training programmes in twelve Article 5 countries, 13 regional workshops and 8 global training activities have been completed.

36. Of a total of 109 technical assistance programmes approved, 16 have been implemented in eight Article 5 countries and 12 at the global level. Four out of 15 demonstration programmes have been completed in the refrigeration and halon sectors.

Investment projects

37. The investment projects approved by the Executive Committee are at different stages of implementation. Six investment projects in the foam sector, three projects in the refrigeration sector, and two projects in the solvent sector have become operational. In total, 951 tonnes ODP of the controlled substances have been phased out as a result of the implementation of these projects.

38. The Executive Committee however requested the Implementing Agencies to report to the Committee at its Fourteenth Meeting on the possibility of having new projects approved against uncommitted funds that had been allocated for previously approved projects. The Implementing Agencies have been also requested to review the technology suggested for dormant projects to see if it was still the best available and to advise the countries accordingly, on the

understanding that the final decision as to whether to proceed with the project with the original technology would be the prerogative of the country concerned.

39. To further expedite approval of small projects, the Executive Committee approved at its Thirteenth Meeting the expedited process for approval of projects under US\$ 500,000 with several steps for implementation of the streamlined mechanism.

Disbursement from the Implementing Agencies

40. Disbursements from the Implementing Agencies are still at a low level, as indicated in the table below. Both UNDP and UNEP have reported improved disbursement rates. The World Bank's commitment for projects, project preparation advances, and engineering studies represented by signed grant and letter agreements stood at US\$ 35.4 million, which amounts to 39.3 per cent of the total funds allocated. However, the actual disbursement from existing Bank agreements is US\$ 5.1 million or 5.7 per cent of total fund allocation.

Status of Disbursement as at 31 May 1994

(US\$ millions)

Agency	Funds Allocated ¹	Funds Disbursed
UNDP	43.8	14.8 (34%)
UNEP ²	11.6	4.0 (34%)
UNIDO ²	6.8	1.2 (18%)
WORLD BANK	90.1	14.0 ³ (16%)

Fund Secretariat activities

41. The Secretariat is responsible for assessing and offering recommendations to the Executive Committee regarding: country programmes and implementing agency work programmes, project proposals, and progress and financial reports submitted by Implementing Agencies and for the Parties providing bilateral cooperation.

¹ Interest earned is not included. Support costs for UNDP, UNEP and UNIDO and administrative cost of Bank operations are included.

² As at 31 December 1993.

³ Includes US \$5.1 million disbursed on agreements and US \$8.9 million disbursed through agency work programmes.

42. As a result of these assessments and upon requests from the Executive Committee, the Secretariat has prepared several policy papers concerning issues raised pertaining to work programmes, project proposals and progress and financial reports. Following presentation of these policy papers, the Executive Committee has taken decisions on the following issues:

- (a) Technical reviews of investment projects:

Guidelines for project reviews have been approved to determine eligibility for funding under the rules of the Multilateral Fund; to ensure that the technology chosen is proven, viable, transferable, cost-effective and will not have an unacceptable adverse environmental impact; to identify eligible incremental costs; and to identify any policy issues that had not been encountered before and could require a decision by the Executive Committee or possibly the Meeting of the Parties. A format for the technical review was adopted by the Executive Committee at its Twelfth Meeting.

- (b) Strategic options for retrofitting of mobile air conditioners and chillers:

The Executive Committee approved recommendations outlining its strategy concerning such issues as chillers and Mobile Air Conditioning (MAC) replacement, recycling and containment practices and conversion of MAC and chiller manufacturing facilities and their comparable benefits relative to chillers and MAC retrofitting because of the latter's poor cost-effectiveness and low reliability. The Committee recognized the need to follow closely progress in the development of MAC retrofitting technology in the developed countries.

- (c) Impact on the Fund of various operational cost durations in the domestic refrigerator sector:

Due to the great impact on the Fund of operational costs in the domestic refrigeration sector, the Executive Committee in cooperation with the Implementing Agencies agreed on certain conditions in considering the operational cost duration in this sub-sector.

- (d) Use of transitional substances as substitutes for ozone-depleting substances:

The Executive Committee recommended that the consideration of the use of transitional substances in the Multilateral Fund supported projects should be sector-specific.

- (e) Projects that might realize net incremental savings:

The Executive Committee has determined that only incremental costs should be financed with grants and projects with net savings may be funded through concessional loans. The Executive Committee encouraged Implementing Agencies, regional development banks and other lending institutions to provide loans for those projects in Article 5 countries. It was also recommended that consideration of projects with net incremental savings might be provided through the consideration of sector strategies for each country.

- (f) Cost-effectiveness of ODS phase-out projects:

The Executive Committee recognized the importance of cost-effectiveness in considering projects in Article 5 countries. The Executive Committee thereupon agreed that projects which will result in the elimination of the maximum amount of ODS should be given priority. The Executive Committee also recognized the significant

problems facing the small- and medium-scale sector in several countries. It therefore recommended that the Implementing Agencies give special attention to the development of efficient and feasible strategies to address their specific situation.

(g) Contingency costs:

Recommendations have been approved regarding current and future contingency charges incorporated in investment project costs.

(h) Data collection and data reporting:

The Executive Committee agreed that, given the opportunities provided through the regional networks, other regional and training workshops, the process of country programme preparation and institutional-strengthening activities, there should normally not be a need for regional workshops specifically on data collection and reporting. It further agreed that, on the understanding that there were no financial implications for the Fund in such a project, UNEP should be invited to proceed with the preparation of a manual on data collection.

43. At the request of the Executive Committee, the Fund Secretariat prepared, with the assistance of a consultant, a report on the total administrative costs charged to the Financial Mechanism.

44. In connection with its other responsibilities, the Fund Secretariat has provided documentation, archiving, and conference services for all the meetings of the Executive Committee and the Sub-Committees. It has responded to enquiries about the Fund and liaised with Parties, Implementing Agencies and other bilateral and multilateral institutions.

45. The Secretariat also maintains and circulates a current inventory of projects to avoid duplication of efforts between the Implementing Agencies and other institutions. The Inventory of Approved Projects is available to all Parties at the annual Meetings of the Parties along with the Information Kit which provides background information on the Multilateral Fund. The Secretariat has also prepared a database which includes all decisions taken by the Parties and the Executive Committee regarding the Multilateral Fund.

Review under paragraph 8 of Article 5

46. Pursuant to decision V/11 of the Fifth Meeting of the Parties, which called on the Executive Committee to prepare a report on the situation of Parties operating under Article 5, paragraph 1, the Executive Committee established a Sub-Committee consisting of Australia (Chairman of the Sub-Committee), Brazil, Denmark, India, United States of America and Venezuela to oversee the preparation of the required report. The Sub-Committee selected a consulting firm which is undertaking the study. The preliminary draft report of the Consultant was submitted to the Fourteenth Meeting of the Executive Committee.

47. The Executive Committee discussed the report and commented that the review was on track and that the Consultant's work would prove very useful to the Parties to the Protocol. It noted that the role of the Executive Committee - and its Sub-Committee - was to ensure that the Parties were provided with a comprehensive, readily intelligible document within the terms of reference and that discussion of the scenarios therein was reserved for the Parties themselves. The Executive Committee decided that the composition of the Sub-Committee should remain unchanged until its mandate had been completed.

Reports of the Executive Committee

48. The reports of the Twelfth and Thirteenth Meetings (UNEP/OzL.Pro/ExCom/12/37 and UNEP/OzL.Pro/ExCom/13/47) were sent to all Parties. The report of the Fourteenth Meeting will be made available to the Parties at their Sixth Meeting.
