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**Eighteenth Meeting of the Parties
to the Montreal Protocol on
Substances that Deplete the Ozone Layer**

New Delhi, 30 October–3 November 2006

Item 4 of the provisional agenda of the high-level segment **

**Presentation by the Chairman of the Executive Committee of
the Multilateral Fund for the Implementation of the
Montreal Protocol on the work of the Executive Committee,
the Multilateral Fund Secretariat and the Fund's implementing agencies**

**Report of the Executive Committee of the Multilateral Fund
for the Implementation of the Montreal Protocol to the
Eighteenth 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 Seventeenth Meeting of the Parties, is submitted in fulfilment of that requirement. The report includes three annexes: Annex I containing tables with data on project approvals; Annex II containing an assessment report on implementation of the recommendations contained in the 2004 evaluation and review of the financial mechanism and Annex III showing the amounts of HCFC consumption phased in.

2. During the reporting period, the 48th and 49th Meetings of the Executive Committee were held in Montreal from 3 to 7 April 2006 and 10 to 14 July 2006 respectively. The reports of those meetings of the Executive Committee are contained in documents UNEP/OzL.Pro/ExCom/48/45 and Corr.1 and UNEP/OzL.Pro/ExCom/49/43 respectively and are available on the Fund's website (www.multilateralfund.org).

3. In accordance with decision XVII/44 of the Seventeenth Meeting of the Parties, the 48th and 49th Meetings of the Executive Committee were attended by Australia (Vice-Chair), Belgium, the Czech Republic, Italy, Japan, Sweden and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by Brazil, Burundi, Guinea, India, Mexico, the Syrian Arab Republic (Chair) and Zambia, representing Parties operating under paragraph 1 of Article 5 and were chaired by Mr. Khaled Klaly (Syrian Arab Republic), with Ms. Lesley Dowling (Australia) acting as Vice-Chair. Ms. Maria Nolan, Chief Officer, acted as Secretary for the 48th and 49th Meetings.

* Reissued for technical reasons

** UNEP/OzL.Pro.18/1.

A. Procedural matters

1. Open-ended contact group on two process agent projects in China

4. At its 48th Meeting, the Executive Committee agreed to set up an open-ended contact group, to be chaired by the representative of the United States of America, to deal with two process agent projects in China, namely, phases I and II of the phase-out of production and consumption of CTC for process agent and other non-identified uses, in light of the interpretation of decision XVII/6 of the Seventeenth Meeting of the Parties. The results of the contact group's deliberations appear in paragraph 33 below.

2. Subgroup on the Production Sector

5. The 49th Meeting agreed to reconstitute the Subgroup on the Production Sector, composed of Australia (facilitator), Brazil, Burundi, India, Italy, Sweden, the Syrian Arab Republic and the United States of America to review the verification report on the CTC production and consumption in India in 2005 and the request of China to exceed export limits set in the Accelerated Phase-out Plan (APP) to supply for essential uses. The results of the Subgroup's deliberations appear in paragraph 34 below.

B. Financial matters

3. Status of contributions and disbursements

6. As at 7 July 2006, the total income to the Multilateral Fund, including cash payments, promissory notes held, bilateral contributions, interest earned and miscellaneous income, amounted to US\$2,116,405,056, and total allocations, including provisions, amounted to US\$1,929,415,143. The balance available at 7 July 2006 therefore amounted to US\$26,672,599.

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

YEARLY DISTRIBUTION OF CONTRIBUTIONS AGAINST PLEDGES

Year	Pledged contributions US \$	Total payments US \$	Arrears/outstanding pledges US \$
1991 – 1993	234,929,241	210,359,139	24,570,102
1994-1996	424,841,347	393,465,069	31,376,278
1997-1999	472,567,009	433,883,108	38,683,901
2000-2002	440,000,001	429,113,771	10,886,230
2003-2005	474,000,001	429,555,895	44,444,105
2006	133,466,667	60,965,800	72,500,866
Total :	2,179,804,265	1,957,342,782	222,461,482

Note: As of 7 July 2006.

4. Interest collected during the 2003-2005 triennium

8. As at 7 July 2006, the total level of interest recorded in the Treasurer's accounts amounted to US\$19,374,449 for the 2003-2005 triennium.

5. **Bilateral contributions**

9. During the period under review, the Executive Committee approved requests by Canada, France, Germany and Japan to credit bilateral assistance amounting to a total of US\$6,337,093. This brings the total for bilateral cooperation, since the inception of the Multilateral Fund Secretariat, to US\$114,779,347 representing approximately 5.6 per cent of funds approved. The range of bilateral projects approved included, inter alia, CFC and ODS phase-out plans, project preparation/technical assistance for the phase-out of methyl bromide and for a terminal phase-out management plan, a chiller sector strategic demonstration project and institutional strengthening. The bilateral activities of Germany exceeded 20 per cent of the country's contributions for 2006 and, as a result, funds from projects approved at both the 48th and 49th Meetings were assigned to Germany's contribution of 2007.

6. **Issues pertaining to contributions**

Contributions in arrears

10. As at 7 July 2006, the accumulated arrears for 1991-2006 stood at US\$222,461,482. Of this amount, US\$108,954,984 is associated with countries with economies in transition (CEITs), and US\$113,506,498 with non-CEIT countries. Outstanding contributions for 2006 amounted to US\$72,500,866.

11. The percentage of payments in relation to pledged amounts for 2006 was 45.68 per cent as at 7 July 2006. Parties were once again urged to make their contributions in a timely manner and, where payment was not possible by 1 June each year, to notify the Treasurer of when payment could be expected.

Timely payment by donor countries

12. At both the 48th and 49th Meetings, Members of the Executive Committee expressed concern at the late payment of pledges and the amount of arrears, which had an adverse impact on the Fund's administrative activities and on the cash flow needed to carry out projects. One representative informed the Meeting that in future, his country would be devoting its contribution entirely as a multilateral contribution, and would therefore not withhold for a bilateral programme under the Multilateral Fund. Any future bilateral projects would be funded above and beyond the multilateral contributions to the Fund. At the 49th Meeting, the Treasurer was requested to ask the Fund's primary contributors with arrears for 2005 to indicate the date on which their payment could be expected.

Promissory notes

13. It was noted with concern at the 49th Meeting that US\$95,637,792 in promissory notes, representing approximately two-thirds of the Fund's annual budget, had not been encashed and countries holding promissory notes were urged to take the necessary action to accelerate their encashment before the 50th Meeting.

Fixed-exchange rate mechanism (FERM)

14. The 48th Meeting noted that, pursuant to decision XVII/41 of the Seventeenth Meeting of the Parties directing the Treasurer to extend the FERM for a further trial period of three years, eligible FERM users had to advise the Treasurer in writing of their preferred currency of payment under the FERM, calculating their contributions on the basis of the average United Nations exchange rate for the six-month period commencing 1 July 2004 and that the currency selected could not be changed throughout the course of the triennium.

15. The Treasurer informed the 49th Meeting that there had been a gain of US\$11,468,684 since the FERM's inception and that 11 countries had confirmed that they would be using the FERM for the 2006-2008 triennium.

7. **Accounts of the Multilateral Fund**

Accounts for the years 1991-2004

16. The 49th Meeting considered the audited accounts for the years 1991-2004, noting the action taken by the Treasurer to reflect adjustments resulting from the reconciliation of the 2003-2004 accounts exercise.

Provisional 2005 accounts

17. The Committee had before it the 2005 provisional accounts of the Fund. It was informed by the Treasurer of the preliminary observations of the Board of External Auditors in respect of the long outstanding receivables of the Fund which have not been written off. It was also advised of the Treasurer's concern that some of the issues raised by the auditors might recur with regard to the 2006 accounts and of his suggestion that the matter might be drawn to the attention of the Eighteenth Meeting of the Parties.

Reconciliation of accounts

18. The 48th Meeting considered a report on options for a consistent approach to the application of miscellaneous income, exchange rate losses and gains, and bank charges for funds approved by the Executive Committee and any consequences of alternative approaches. The reconciliation of the implementing agencies' 2004 accounts had shown that agencies appeared to be taking different approaches to the application of miscellaneous income and, in order to address the issue, a contact group convened by the United States of America and composed of representatives of the Secretariat, the implementing agencies and interested Executive Committee Members was set up to discuss ways of dealing with the unapproved expenditure. Based on the conclusion of the group that responsibility for the error of including unapproved expenditure should be shared, Members expressed reluctance to commit themselves until the amounts involved had been clearly identified. The 48th Meeting therefore confirmed that all costs approved for implementing agencies should be classified as either project or administrative costs and requested implementing agencies that had charged costs during the past replenishment period that were neither project nor administrative costs to identify them and inform the Executive Committee accordingly. The information requested was submitted to the 49th Meeting, which noted that the implementing agencies had either assigned the expenditure to project or administrative costs or would continue efforts to do so.

8. Revised 2006, 2007 and 2008 budgets of the Fund Secretariat

19. The 48th Meeting considered the revised budgets of the Fund Secretariat for 2006, 2007 and 2008, adjusted to take into account the 8.5 per cent increase in the salary scale and allowances for general service staff in Montreal as of 1 January 2005. The Meeting approved an increase of US\$349,717 in the 2006 budget to cover both the 2005 retroactive payment and the 2006 payment of the salary increase, resulting in a revised budget of US \$5,085,732 for 2006; and an increase of US\$59,458 in the 2007 and US\$82,198 in the 2008 budgets to cover the 8.5 per cent salary increase.

9. Service of the Treasurer

20. The 48th Meeting once again discussed the service of the Treasurer and heard a report from the Chief Officer on the follow-up to the issue. Some Members expressed the view that the question of the appointment of the P5 officer had not been addressed to the satisfaction of the Executive Committee. The Meeting agreed to continue to withhold US\$100,000 pending further consultations with UNEP.

21. At the 49th Meeting, the Executive Committee's attention was drawn to the reply received from UNEP and the Committee agreed to release the US\$100,000, even though it still considered that the appointment of a P5 officer was needed in order to provide services at the level and standard required. It therefore decided to address the matter again, when considering the release of funding for 2007 treasury fees at its 50th Meeting.

C. Business planning and resource management

10. Financial planning for the triennium 2006-2008

22. The 48th Meeting considered the document on financial planning prepared by the Secretariat, which addressed the elements of decision XVII/40 of the Seventeenth Meeting of the Parties concerning the 2006-2008 replenishment. It was noted that, during the 2003-2005 replenishment period, 67 per cent of pledged contributions had been paid in the year in which they were due and that, on average, about half the funds pledged were available in cash for commitment by the Executive Committee because some promissory notes could not be encashed

immediately. If that trend continued, the Executive Committee might not have sufficient cash to commit the budget for the triennium fully. After considering the suggestion that the annual budgets for the triennium should be evenly distributed, the Executive Committee agreed that “front-loading” (i.e. a higher percentage of the fund carried over from the previous triennium being allocated in the earlier years of the triennium) would be advisable because of the possible effects on cash flow. It therefore agreed to adopt a resource allocation of US\$164.47 million in 2006, US\$165.57 million in 2007 and US\$139.96 million in 2008.

11. 2006-2008 business plan of the Multilateral Fund

23. The 2006-2008 consolidated business plan of the Multilateral Fund, encompassing the bilateral and multilateral agencies’ 2006-2008 business plans, was considered by the 48th Meeting. The Executive Committee urged bilateral and multilateral agencies to increase their efforts to implement approved projects to facilitate achievement of the 2007 reduction in controlled substances. With this aim in mind bilateral and implementing agencies were also requested to submit as many terminal phase-out management plans (TPMPs) included in their 2007 business plans as possible to the 50th Meeting of the Executive Committee in November 2006.

24. The 48th Meeting also discussed the need for ODS destruction projects (see also paragraphs 58 and 59 below) and decided to remove any such projects from the 2006-2008 business plans, with the exception of a project proposed by Japan, which was moved from 2006 to 2008.

25. Changes to the 2006-2008 business plans were submitted to the 49th Meeting, which noted that some US\$40 million of the triennium budget had not been allocated and requested that this be considered at the 50th Meeting. The 49th Meeting also agreed that the needs for assistance would be identified at the beginning of each year at the annual inter-agency business planning coordination meeting and that the activities to be undertaken would be based, inter alia, on specific requests from countries, activities already proposed in individual projects and/or in multi-year agreements, and actions associated with institutional strengthening projects.

12. 2006 work programmes

26. The 48th Meeting considered and approved the 2006 work programmes for UNDP, UNIDO and the World Bank, which covered projects all of which were submitted for blanket approval. It also approved the amendments to the UNEP work programme.

27. At the 49th Meeting, the Executive Committee approved amendments to the 2006 work programmes of UNDP, UNEP and UNIDO, subject to a certain number of criteria and comments relating to individual projects.

D. Fund achievements since inception

13. Total ODS phased out

28. Since 1991, 5,109 projects and activities have been approved with the following geographical distribution: 2,210 projects and activities for countries in Asia and the Pacific; 1,304 for countries in Latin America and the Caribbean, 1,055 for countries in Africa, 283 for countries in Europe and 257 with global coverage. Of the 384,231 ODP tonnes of ODS to be eliminated when all these projects are implemented, a total of 305,622 ODP tonnes of ODS had already been phased out by the end of 2005. The sectoral distribution of this phase-out is indicated in the table below:

Sectors	ODP tonnes phased out*
Aerosol	25,038
Foam	61,662
Fumigant (methyl bromide)	3,147
Halon: production and consumption	65,605
Projects in multiple sectors	455
Process agent	31,156
National phase out plan	10,497
Production (CFC)	60,743
Refrigeration	38,935
Several	388
Solvent	6,677
Sterilant	45
Tobacco expansion	1,274
Total:	305,622

*Excluding cancelled and transferred projects

14. Funding and disbursement

29. 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\$2,048,250,887, including US\$198,780,756 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	504,067,647	396,253,458
UNEP	111,379,772	84,699,105
UNIDO	449,420,839	346,697,930
World Bank	868,603,282	671,315,967
Bilateral	114,779,347	64,454,797
Total	2,048,250,887	1,563,421,257

(1) As at 22 August 2006 (excluding cancelled and transferred projects)

(2) As at 22 August 2006 (excluding cancelled and transferred projects)

E. Funding approvals during the reporting period

15. Projects and activities approved during the reporting period (48th and 49th Meetings of the Executive Committee)

30. During the reporting period, the Executive Committee approved a total of 142 additional projects and activities, with a planned phase-out of 23,037 ODP tonnes in the production and consumption of controlled substances. The total funds approved amounting to US \$89,057,621, including US \$6,450,400 for agency support costs, for project/activity implementation, are as follows by agency:

Agency	US \$	US \$ Support	US \$ Total
UNDP	6,595,782	512,150	7,107,932
UNEP	2,394,351	146,460	2,540,751
UNIDO	6,439,716	475,111	6,914,827
World Bank	61,529,780	4,627,238	66,157,018
Bilateral	5,647,592	689,501	6,337,093
Total	82,607,221	6,450,400	89,057,621

16. Investment projects, including production sector

31. Of the total funds approved in the period under review, the Executive Committee allocated US\$81,643,437, including US\$5,885,297 for agency support costs, for the implementation of 42 investment projects which will eliminate an estimated quantity of 22,843 ODP tonnes in consumption and production of ODS. A breakdown by sector is given in table 2 of Annex I.

32. The Executive Committee also approved seven new agreements, with commitments in principle totalling US \$53,505,573. It also approved one amended and three revised agreements. Details of the amounts per country and sector can be found in table 3 of Annex I.

33. Also, the 48th Meeting heard an update on the status of implementation of phase-out in the CFC production sector in Article 5 countries. At the 48th Meeting, the Executive Committee, based on the report of the open-ended contact group, decided to release the 2006 tranche for the CTC sector plan (phase I) for China. It also approved the revision of the maximum allowable CTC production target in the 2006 annual work programme for phase I from 32,044 ODP tonnes to 28,618 ODP tonnes and the balance of funding for the 2006 annual work programme for phase II.

34. At the 49th Meeting, the Subgroup on the Production Sector considered the verification report of the 2005 CTC production and consumption and the proposed 2006 annual work programme of the CTC phase-out plan and a request submitted by the World Bank on behalf of China to exceed the export limit on. After hearing the Subgroup's recommendations, the Executive Committee decided to approve the 2006 annual work programme for the India CTC phase-out plan, subject to certain conditions, and clarified the CFC export limit for the Accelerated Phase-out Plan (APP) in China.

17. Non-investment activities

Technical assistance and training

35. During the period under review, 5 technical assistance and training projects amounting to US \$643,800, including US \$63,800 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\$192,988,319. This amount does not include the non-investment components of the multi-year phase-out agreements.

Institutional strengthening

36. During this period, US\$2,735,146, including agency support costs of US\$105,415, were approved for institutional strengthening projects. This brings the total approvals by the Executive Committee to US\$58,193,666 for institutional strengthening projects in 139 Article 5 countries.

Country programmes

37. The 48th and 49th Meetings approved country programme updates for Bangladesh and India respectively. The total number of country programmes approved since its inception is 137 covering the estimated baseline production of 140,088.1 ODP tonnes of CFCs and halons and baseline consumption of 196,112.2 ODP tonnes of controlled substances (as stated in the country programme documents).

F. Monitoring and evaluation

18. Progress reports

38. The 49th Meeting noted the consolidated progress report of the Multilateral Fund for 2005, as well as the progress reports on bilateral cooperation and those of UNDP, UNEP, UNIDO and the World Bank for 2005. The Executive Committee made a number of requests for further information and status reports and noted, in particular, that the World Bank's definition of a project completion date differed from that used by the other agencies.

19. Project completion reports

39. A report prepared by the Secretariat on issues related to project completion reports (PCRs) was considered by the 48th Meeting, which made a number of recommendations to bilateral and implementing agencies on timely collection of data for PCRs and in respect of following-up on the lessons learnt reported in PCRs.

20. Project implementation delays

40. At the two Meetings held during the period under review, the Executive Committee noted that, with regard to projects subject to implementation delays, the Secretariat would take the established action according to its assessment of status and would notify the governments and implementing agencies concerned. At the two Meetings, the Secretariat provided information on the extent to which the milestones set by the Executive Committee for projects experiencing delays had been achieved. A number of changes to due dates for submission of annual tranches of multi-year agreements in relation to projects being bilateral and implemented by implementing agencies were approved, and it was agreed to take the requisite action in relation to the annual tranches where submission was subject to delay.

41. During the period under review, it was decided to cancel one project by mutual agreement with the government concerned, and one project was automatically cancelled according to the established procedure.

21. Implementation of approved projects with specific reporting requirements

42. At both Meetings held during the reporting period, the Executive Committee considered progress reports on the implementation of approved projects with specific reporting requirements and made a number of relevant recommendations.

22. Completed projects with balances

43. During the reporting period, the implementing agencies returned to the Multilateral Fund a total of US\$5,698,368, including US\$617,030 in agency support costs. At the 48th Meeting, US\$5,388 plus support costs of US\$7,607 were returned to the World Bank to account for funds previously returned in error for one project. The total funds returned from completed or cancelled projects are indicated in the table below:

Agency	Total funds returned (US \$)	Total support costs returned (US \$)
UNDP	1,022,884	128,505
UNEP	187,340	22,355
UNIDO	464,451	54,513
World Bank	3,406,663	411,657
(minus funds and support costs returned)	-5,388	-7,607
Total	5,075,950	609,423

44. The 49th Meeting noted that the implementing agencies had a number of projects that had been classified as completed two years previously and that remaining balances totalled US \$14,550,486 as at July 2006. The details are shown in the table below:

Agency	No. of projects	Remaining balances (US \$)
UNDP	37	366,760
UNEP	14	258,155
UNIDO	3	223,151
World Bank	8	13,702,420
Total	62	14,550,486

23. Performance indicators

45. The 48th Meeting decided to replace the performance indicators previously agreed for the Compliance Assistance Programme (CAP) with new indicators, data, methods of assessment and 2006 targets.

46. Subsequently, the 49th Meeting was informed that the implementing agencies and the Secretariat had agreed on proposed modifications to performance indicators that would enable all agencies to report on policy and regulatory assistance, commencing with the 2007 business plans.

24. Evaluation of the implementation of the 2005 business plans

47. After considering an evaluation of the performance of the implementing agencies in respect of their 2005 business plans, the 49th Meeting noted the largely sustained and overall improved performance of the agencies.

25. Implementation of the monitoring and evaluation work programme

Final report on the intermediate evaluation of refrigerant management plans and national phase-out plans in non-low-volume-consuming countries, focusing on the refrigeration servicing sector

48. The 48th Meeting considered the final report on the intermediate evaluation of refrigerant management plans and national phase-out plans in non-low-volume-consuming countries,

focusing on the refrigeration servicing sector and requested the Senior Monitoring and Evaluation Officer to develop a comprehensive and categorized compendium of recommendations relevant to the evaluation, distinguishing between new recommendations and those already approved by the Executive Committee, for submission to the 49th Meeting.

49. The compendium prepared was discussed by the 49th Meeting. After establishing a contact group, chaired by Sweden, to address the issues raised the Executive Committee adopted the compendium while approving a number of amendments.

Recommendations on the evaluation of customs officers training and licensing system projects

50. The 48th Meeting discussed the recommendations on the evaluation of customs officers training and licensing system projects contained in the Executive Committee's report to the Twenty-fifth Meeting of the Open-ended Working Group and, after agreeing some amendments, decided to forward the recommendations related to policies to the Ozone Secretariat in the context of the ongoing studies and discussion on how best to deal with illegal trade in ODS. This also included those related to customs training to the implementing and bilateral agencies, in particular to UNEP.

Desk study on the evaluation of CTC process agent projects and phase-out agreements

51. The report on this desk study, which focused on CTC used as process agents and on CTC production, was submitted to the 48th Meeting of the Executive Committee. Following a discussion about the scope of the terms of reference and the empirical investigations during the suggested field visits, the Executive Committee decided to take note of the desk study, including the proposed evaluation issues and the work plan for the second phase of the evaluation.

Desk study on the evaluation of the Compliance Assistance Programme (CAP)

52. The 49th Meeting considered the report on the desk study on the evaluation of the CAP, which identified the main issues to be covered in the full evaluation to be presented to the 52nd Meeting of the Executive Committee and proposed a tentative work plan for the field phase of the review of CAP activities. Following the discussion the Executive Committee took note of the information provided in the desk study, including the proposed evaluation issues and work plan for the second phase of the evaluation.

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

26. Status of Article 5 countries in achieving compliance with the initial control measures of the Montreal Protocol

53. The Executive Committee, at its 49th Meeting, considered a report on status/prospects of Article 5 countries in achieving compliance with the control measures of the Montreal Protocol, and made a number of requests to bilateral and multilateral implementing agencies aimed at meeting compliance targets.

54. The 49th Meeting also examined the specific circumstances of some Article 5 Parties with plants manufacturing metered-dose inhalers (MDIs) that might be at serious risk of not meeting the 85 per cent reduction in CFC consumption in 2007. The Executive Committee requested the Governments of those countries, with the assistance of the relevant implementing agencies, to include activities that would enable them to comply with the control measure. The Executive Committee also requested the Fund Secretariat to present a revised policy paper on MDIs to the Executive Committee at its 51st Meeting, taking into account any new information that might come to light and the implications of decisions to be taken at the Eighteenth Meeting of the Parties.

H. Policy matters

27. **Submission of terminal phase-out management plans (TPMPs) for blanket approval**

55. The 48th Meeting addressed the issue of whether TPMPs could be submitted for blanket approval. It was agreed that they could provided they were in accordance with the relevant policies and decisions of the Multilateral Fund, namely, that no policy issues were involved and that all technical and cost issues had been resolved.

28. **Relative merits of replacing the current requirements for submission of requests for renewal of an institutional strengthening project by a simplified arrangement**

56. The Secretariat informed the 49th Meeting that after considering the possibility of employing a simplified system it had concluded that some of the key features of the current arrangements, especially those associated with financial management and accountability, would need to be maintained. After considering a document that proposed fine-tuning the existing arrangements for conveying the views of the Executive Committee to governments of countries whose institutional strengthening projects had been renewed, the Committee decided to maintain the current arrangements for submission and consideration of requests for renewal of institutional strengthening projects for the time being. However, it also requested the Secretariat to continue examining opportunities for fine-tuning the institutional strengthening renewal process and to address any additional findings in the context of the review of institutional strengthening funding post-2010, to be presented to the Executive Committee at the end of 2007.

29. **Future work in relation to the issues raised at the Twenty-sixth Meeting of the Open-ended Working Group of relevance to the Executive Committee**

57. The 49th Meeting took up the paper submitted at the Twenty-sixth Meeting of the Open-Ended Working Group on the future of the Montreal Protocol, which outlined a series of questions designed to help initiate a broad discussion on the long-term evolution and adaptation of the ozone regime to reflect the new challenges and circumstances the Protocol could expect to face. Following the exchange of views, the Executive Committee decided to include a relevant item in the agenda of its 50th Meeting, taking into account any comments made on the issue at the Eighteenth Meeting of the Parties.

30. **Terms of reference, budget and modalities for a study regarding collection, recovery, recycling, reclamation, transportation and destruction of unwanted ODS and implementation of monitoring and evaluation work programmes**

58. The Secretariat submitted the report on a meeting of experts held in Montreal from 13 to 15 March 2006 to assess the extent of current and future requirements for the collection and disposal of non-reusable and unwanted ODS in Article 5 countries. The experts dealt with the definition of terms, collection of ODS, CFCs, including their recovery from foams and refrigeration, halons, CTC, transportation issues, including the application of the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, and other influencing factors. Following an in-depth discussion of the report, the Executive Committee requested the Secretariat to forward it to the Technology and Economic Assessment Panel (TEAP), through the Ozone Secretariat, as an input for consideration by the TEAP when it prepared terms of reference for the conduct of case studies in Article 5 countries on the technology and costs associated with a process for the replacement of CFC-containing refrigeration and air-conditioning equipment, pursuant to decision XVII/17 of the Seventeenth Meeting of the Parties.

59. The 49th Meeting was informed that the TEAP had reported to the Twenty-sixth Meeting of the Open-ended Working Group, which had prepared a recommendation on the issue for the Eighteenth Meeting of the Parties. The Executive Committee decided to inform the Parties, through a letter from its Chair to the Ozone Secretariat, that the Committee was discussing the terms of reference and was of the view that there were substantial commonalities between these and the terms of reference being considered by the Parties. The Committee also decided to inform the Parties that the issues raised by both sets of terms of reference could be considered by the Executive Committee of the Multilateral Fund, given that it had already held substantial discussions and initiated some work with respect to studying the issue of collection, recovery, recycling, reclamation, transportation and destruction of unwanted ozone-depleting substances.

It also considered that the Executive Committee could be requested to develop consolidated terms of reference and if agreed by the Executive Committee to initiate a study based on these, and then report to the Nineteenth Meeting of the Parties on the progress made in that respect. Finally, the Executive Committee decided to consider the issue anew at its 50th Meeting, in light of any guidance provided by the Eighteenth Meeting of the Parties.

I. Information

60. The 48th Meeting was informed that the draft Executive Committee primer originally submitted as a draft document to the 47th Meeting had been circulated to Executive Committee Members following the review in 2005. The document would be updated on an ongoing basis.

J. Fund Secretariat activities

61. During the period under review, the Fund Secretariat had prepared documentation and provided conference services for the 48th and 49th Meetings of the Executive Committee. It had received proposals for projects and activities from implementing agencies and bilateral partners for a total value, as submitted, of US\$99,096,904 and had analyzed and reviewed them and provided comments and recommendations for the Executive Committee's consideration. The requested level of funding, following project review, for approval at the two meetings amounted to US\$96,377,697.

62. In addition to the documents customarily prepared for Executive Committee Meetings, the Secretariat had also prepared documents, inter alia, on issues connected with project completion reports, annual tranche submission delays, the application of miscellaneous income, exchange rate losses and gains and bank charges, recommendations on the evaluation of refrigerant management plans and national phase-out plans in non-low-volume-consuming countries, the relative merits of replacing the current requirements for submission of requests for renewal of institutional strengthening projects with simplified arrangements, options for addressing the situation of countries that might be at risk of not meeting the 85 per cent reduction in CFC consumption in 2007, and destruction of ODS.

63. In response to decision 47/53, the Secretariat revised the draft primer (document UNEP/OzL.Pro/ExCom/47/58) based on comments made at the 47th Meeting and those submitted to the Secretariat in January 2006. The draft primer was circulated to the 2005 Executive Committee members for final clearance and subsequently distributed to 2006 Executive Committee members in March 2006.

64. The Chief Officer and other members of the Secretariat had attended many important meetings, including the Seventeenth Meeting of the Parties, the International Conference on Chemicals Management and the 9th Special Session of the Governing Council. The Secretariat was also represented at a number of regional network meetings where Secretariat staff provided information on key decisions of recent Executive Committee meetings and other relevant matters.

65. The Secretariat hosted an Inter-Agency Coordination Meeting from 23-24 January 2006 attended by Secretariat staff, all four multilateral implementing Agencies, one bilateral agency (Canada) and the Executive Secretary of the Ozone Secretariat. The meeting enabled the Secretariat and implementing agencies to discuss a wide range of issues including the mandates handed down from the Seventeenth Meeting of the Parties, business planning for 2006-2008, draft guidelines on project completion reports (PCR) for non-investment projects and submissions to the 48th Meeting.

31. Cooperation with other multilateral environmental agreements

66. Following a discussion on cooperation with other Multilateral Environment Agreements (MEAs) at the 49th Meeting, the Executive Committee asked the Secretariat to include information on forthcoming interactions with MEAs in its report on Secretariat activities presented to each meeting. In addition the Chair of the Executive Committee was requested to inform the Parties, through the Ozone Secretariat and prior to the Eighteenth Meeting of the Parties, of the invitation by the first session of the International Conference on Chemicals Management (ICCM) to the Montreal Protocol and its Multilateral Fund to consider whether and

how these might support implementation of appropriate and relevant strategic approach objectives within their mandates and to report to the ICCM. The Chief Officer would also inform UNEP of this process.

67. At the 48th Meeting, the Chief Officer informed the Executive Committee that the Executive Director of UNEP had appointed Ms. Cecilia Mercado to replace Mr. Valery Smirnov.

68. At the 49th Meeting, she informed the Committee that Mr. Tony Hetherington, Deputy Chief Officer (Technical Cooperation), would be retiring from the Secretariat in September 2006.

69. Lastly, the 49th Meeting marked 15 years of the Fund's operation in Montreal and a celebration was held on that occasion in the margins of the 49th Meeting.

K. Matters relating to the meeting of the Parties

70. In response to decision XVI/36 of the Sixteenth Meeting of the Parties, requesting the Executive Committee to include a component in its annual report on the progress made and the issues encountered in its consideration of the recommendations contained in the executive summary of the 2004 evaluation and review of the financial mechanism of the Montreal Protocol, the Executive Committee has annexed hereto its progress report to the Eighteenth Meeting of the Parties (Annex II).

71. Annex III provides, by country, the amount of HCFC-141b consumption phased-in through projects using HCFCs as a replacement. This is in response to decision 36/56 (e), which states, *inter alia* "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."

L. Reports of the Executive Committee

72. The reports of the 48th and 49th Meetings (UNEP/OzL.Pro/ExCom/48/45 and Corr.1 UNEP/OzL.Pro/ExCom/49/43 respectively) have been distributed to all Parties to the Montreal Protocol. These reports can be accessed at the website of the Fund Secretariat (www.multilateralfund.org).

Annex I

Table 1: Sectoral distribution of phase-out in all approved projects and activities since inception*

Sector	ODP approved	ODP phased out
Consumption		
Aerosol	25,698	25,038
Foam	64,029	61,662
Fumigant	5,321	3,147
Halon	44,890	35,617
Multi-sector	670	455
Other	1,380	1,274
Process agent	6,002	5,690
Refrigeration	43,758	38,935
Solvent	6,887	6,677
Sterilant	55	45
Phase-out plan	27,895	10,497
Several	724	388
Total consumption	227,309	189,425
Production		
CFC	70,730	57,793
Halon	41,658	31,188
CTC	42,514	25,466
TCA	34	0
MBR	231	0
Multiple ODS	1,755	1,750
Total production	156,922	116,197

* Excluding cancelled and transferred projects

Table 2: Sectoral distribution of approved investment projects since inception

Sector	ODP tonnes	US \$ approved
Foam	181	1,590,959
Fumigant	120	1,543,761
Other	150	1,612,500
Process agent (consumption and production)	6,874	29,025,512
Production	11,570	22,980,638
Refrigeration	732	1,528,869
Phase-out plan (consumption and production)	3,216	23,361,198
Total	22,843	81,643,437

Table 3: Agreements approved during the reporting period

Country	Project	To be implemented by	Total phase-out ODP tonnes	Funding approved in principle (US \$)		
				Project funds	Support costs	Total
Phase-out plans						
China	Phase-out of ODP process agent applications (Phase II)	World Bank	5,951	46,500,000	3,487,500	49,987,500
Croatia*	Terminal CFC phase-out management plan	UNIDO and Sweden	98	379,700	28,478	408,178
Cuba*	National phase-out of Annex A (Group I) and Annex B (Group II) substances	UNDP	361.3	2,145,000	193,092	2,338,092
Dominica	Terminal phase-out management plan	UNEP and UNDP	0.74	217,000	24,090	241,090
Democratic People's Republic of Korea**	Phase-out of CTC	UNIDO	1,634.2	5,684,844	426,363	611,207
Democratic Republic of the Congo	National CFC phase-out plan	UNEP and UNDP	51.5	625,000	62,688	687,688
Grenada	Terminal phase-out management plan for Annex A (Group I) substances	UNEP and UNDP	2.99	250,000	27,700	277,700
St. Kitts and Nevis	Terminal phase-out management plan	UNEP and UNDP	1.8	252,000	28,440	280,440
Syrian Arab Republic	Phase-out of ODS	UNIDO	498.7	754,050	56,554	810,604
Tunisia	Phase-out of ODS	UNIDO	342	1,135,395	85,155	1,220,550
Costa Rica*	Methyl bromide phase-out	UNDP	342	4,845,283	415,792	5,261,075

* Revised agreement

** Amended agreement

Annex II

**ASSESSMENT REPORT ON THE RECOMMENDATIONS IN THE 2004 EVALUATION AND
REVIEW OF THE FINANCIAL MECHANISM OF THE MONTREAL PROTOCOL**

A. INTRODUCTION

1. This report is submitted by the Executive Committee pursuant to the following decision of the Meeting of the Parties:

(a) *“To request the Executive Committee of the Multilateral Fund, within its mandate, to consider the report on the 2004 evaluation and review of the financial mechanism of the Montreal Protocol, with a view to adopting its recommendations, whenever possible, in the process of continuous improvement of the management of the Multilateral Fund, and having in mind the need to contribute to the assessment of the Technology and Economic Assessment Panel of the 2006-2008 replenishment of the Multilateral Fund;*

(b) *To request the Executive Committee regularly to report back to and seek guidance from the Parties on the subject. To this effect, the Executive Committee shall submit a preliminary assessment to the Open-ended Working Group at its twenty-fifth meeting and include a component in its annual report to the Meeting of the Parties, on progress made and issues encountered in its consideration of the recommended actions contained in the executive summary of the evaluation report.”*

DECISION XVI/36

2. A first report on the recommendations from the 2004 evaluation and review of the financial mechanism of the Montreal Protocol was prepared by the Secretariat for consideration by the Executive Committee at the 45th Meeting, as a follow-up to decision 44/60 (document Unep/Ozl.Pro/ExCcom/45/51). The report was noted and the Executive Committee decided to “forward its assessment report on the recommendations in the 2004 evaluation and review of the financial mechanism of the Montreal Protocol for consideration at the 25th Meeting of the Open-ended Working Group” (decision 45/59).

3. The assessment report (document UNEP/OzL.Pro.WG.1/25/INF/3), based on the deliberation at the 45th Meeting, grouped the 28 recommendations contained in the 2004 Evaluation and Review of the Financial Mechanism of the Montreal Protocol into 3 categories, as follows.

Category I:

“11 general recommendations are related to ongoing activities of the Executive Committee, the Secretariat, the Implementing Agencies and the Treasurer and do not need any new action, but instead require regular follow-up at meetings of the Committee. The Executive Committee will report back to the Meeting of the Parties on these recommendations, as appropriate, in the context of its Annual Report”. These include: recommendations 2, 6, 7, 15, 16, 18, 21, 22, 24, 25 and 28.

Category II:

“Ten general recommendations are related to ongoing activities of the Executive Committee, the Secretariat, the Implementing Agencies and the Treasurer but may require new actions in the short term. The Executive Committee will report back to the Meeting of the Parties on these recommendations, as appropriate, in the context of its Annual Report”. These include recommendations: 1, 3, 4, 9, 11, 12, 17, 20, 23 and 26.

Category III:

“Seven general recommendations were considered not necessary to be implemented. Six because future action would be redundant in the light of recent developments or existing practices. One because of the potential negative incentive. The Executive Committee considers that there is no need for further reporting on these recommendations”. These include recommendations 5, 8, 10, 13, 14, 19 and 27.

4. The following report therefore covers the recommendations falling under the first two categories where further work needed to be done and new information was available.

B. RECOMMENDATIONS UNDER THE FIRST CATEGORY

GENERAL RECOMMENDATION 2: Continue to evaluate Executive Committee structure and consider reduction of annual meeting numbers.

5. The Executive Committee will consider a Report on the Operation of the Executive Committee at its 50th Meeting, under agenda item 11, as a follow-up to decision 46/40.

GENERAL RECOMMENDATION 15: Increase efforts to improve country-level data reporting.

6. The Executive Committee continues to seek improvements in data reporting by supporting institutional strengthening projects and UNEP's Compliance Assistance Programme. The revised format for reporting in the context of Country programme implementation, approved at the 46th Meeting, was already in place during the reporting period for data due by 1 May 2006. Based on the feedback of the use of the new reporting format presented by the Secretariat, the Executive Committee decided:

“(c) To request bilateral and multilateral implementing agencies to assist Article 5 countries to complete fully the data/information required in the new reporting format for country programme data”; and

“(d) To request UNEP to include, where appropriate, as an agenda item in its network meetings taking place prior to May 2007, a discussion on completing the new reporting format for country programme data.”

(Decision 49/5)

GENERAL RECOMMENDATION 24: Take action to encourage timely payment by the donor countries.

7. The Executive Committee continued to take action to encourage timely payment by the donor countries and adopted to this effect decisions 48/1. Additional information is provided in paragraph 12.

8. Efforts in respect of recommendations 6, 7, 16, 18, 21, 22, 25 and 28 identified below have taken place on a regular basis as already reported in the past. No further action in addition to the existing practice of the Executive Committee is required with respect to this recommendation.

- GENERAL RECOMMENDATION 6: Build on decision 40/19 and the subsequent report submitted by UNEP (UNEP/OzL.pro/ExCom/41/Inf.2) to assist countries that consume very low quantities of methyl bromide, CTC, and methyl chloroform.
- GENERAL RECOMMENDATION 7: Continue to collaborate with the Secretariat and implementing agencies to maintain effectiveness in dealing with issues of project overlap, ineligible funding, and inflated costs.
- GENERAL RECOMMENDATION 16: Continue efforts to reduce/avoid project implementation delays.
- GENERAL RECOMMENDATION 18: Continue to maximize proportion of budget spent on implementation and minimize proportion of budget spent on core components.
- GENERAL RECOMMENDATION 21: Monitor the use of funds for non-investment versus investment activities within national or sector phase-out plans.
- GENERAL RECOMMENDATION 22: Provide in Table 1 of the status report on contributions and disbursements the incremental income, allocations and provisions, and balance available for new allocations, in addition to the cumulative totals of these financial components.
- GENERAL RECOMMENDATION 25: Implement internal quality control measures to improve the accuracy of recordkeeping.

- GENERAL RECOMMENDATION 28: Continue to analyze the FERM's effect on Fund value.

C. RECOMMENDATIONS UNDER THE SECOND CATEGORY

GENERAL RECOMMENDATION 1: Make further structural changes to the Executive Committee, if necessary to specifically address compliance.

9. As indicated under recommendation 2 above, the Executive Committee will consider a Report on the Operation of the Executive Committee at its 50th Meeting, under agenda item 11, as a follow-up to decision 46/40.

GENERAL RECOMMENDATION 3: Develop a primer to provide background on the Fund for new Executive Committee members.

10. The Executive Committee considered a draft primer at its 47th Meeting. The Primer was finalised and circulated to the Executive Committee members prior to the 48th Meeting. Additional information is provided in paragraph 63.

GENERAL RECOMMENDATION 20: Conduct a study regarding the efficiency of implementing agency administration of smaller projects.

11. Further action will be taken in the post-2007 RMP review.

GENERAL RECOMMENDATION 26: Clarify how, when, and what financial data should be accounted and reported by implementing agencies.

12. The issue of a consistent approach to the application of miscellaneous income, exchange rate losses and gains, and bank charges for funds approved by the executive committee and any consequences of alternative approaches was addressed at the 48th Meeting and 49th Meetings of the Executive Committee. Additional information can be found in paragraph 18 of this report.

13. Efforts in respect of recommendations 4, 11, 12, 17 and 23 identified below have taken place on a regular basis as already reported in the past. No further action in addition to the existing practice of the Executive Committee is required with respect to this recommendation.

- GENERAL RECOMMENDATION 4: Ensure that results of review of project implementation delay are not only applied to determine project cancellation, monitoring, or removal from the list of delays, but also to inform implementing agencies of how to avoid future delays.
- GENERAL RECOMMENDATION 11: Increase the weighting of the performance indicator "ODS phased-out for individual projects versus those planned per progress reports".
- GENERAL RECOMMENDATION 12: Continue process of developing qualitative indicators.
- GENERAL RECOMMENDATION 17: Increase communication between implementing agencies and the Treasurer when promissory notes are transferred, received and encashed.
- GENERAL RECOMMENDATION 23: Document the internal procedures and practices of the Treasurer.

Annex III

AMOUNTS OF HCFCs¹ CONSUMPTION PHASED -IN (ODP TONNES)

Country	CFC phased out in projects using HCFC technologies	HCFC phased in
Algeria	54.12	5.36
Argentina	743.09	73.64
Bahrain	15.28	1.51
Bolivia	10.99	1.09
Bosnia and Herzegovina	29.09	2.88
Brazil	4,830.77	476.10
Chile	236.55	20.21
China	10,082.90	775.96
Colombia	644.90	63.91
Costa Rica	33.10	3.28
Cuba	0.78	0.08
Dominican Republic	135.31	13.41
Egypt	484.40	37.40
El Salvador	18.32	1.82
Guatemala	45.40	4.50
India	4,501.76	434.58
Indonesia	2,180.36	209.90
Iran	1,045.48	103.61
Jordan	330.26	32.73
Kenya	22.76	2.26
Lebanon	81.05	8.03
Libya	61.49	6.09
Macedonia	75.08	7.44
Malaysia	1,226.47	118.46
Mauritius	4.22	0.42
Mexico	2,106.34	193.57
Morocco	118.05	11.70
Nicaragua	7.99	0.79
Nigeria	383.19	37.97
Pakistan	781.14	77.41
Panama	14.43	1.43
Paraguay	66.48	6.59
Peru	146.90	14.56
Philippines	518.92	51.42
Romania	192.03	19.03
Serbia	44.18	4.38
Sri Lanka	7.25	0.72
Sudan	4.40	0.44
Syria	628.45	62.28
Thailand	2,022.79	199.63
Tunisia	234.91	20.31
Turkey	372.19	36.88
Uruguay	98.09	9.72
Venezuela	699.06	69.28
Vietnam	44.40	4.40
Yemen	9.66	0.96
Zimbabwe	11.32	1.12
Grand total	35,406.10	3,229.27

Note 1: ODP values as follows: HCFC-123: 0.02
 HCFC-22: 0.055
 HCFC-141b: 0.11