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Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol

Tenth Meeting
Montreal, 28 June-1 July 1993

**REPORT OF THE TENTH MEETING
OF THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND
FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL**

I. INTRODUCTION

1. The Tenth Meeting of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol was held at Montreal from 28 June to 1 July 1993. The Meeting was convened in pursuance of decisions IV/18 and IV/20 adopted at the Fourth Meeting of the Parties to the Montreal Protocol, held in Copenhagen from 23 to 25 November 1992 (UNEP/OzL.Pro/4/15).

II. ORGANIZATIONAL MATTERS

A. Opening of the Meeting

2. The Meeting was opened by Ms. E. Claussen (United States of America), Chairperson of the Executive Committee, who welcomed participants, in particular Ms. Christina Amoako-Nuama, Minister for Environment of Ghana, and Mr. Kamal Nath, Minister for Environment and Forests of India, attending in his capacity as President of the Bureau of the Meeting of the Parties.

3. The Chairperson drew attention to the heavy workload facing the Committee, which would have to approve inter alia 11 country programmes, projects amounting to approximately US \$37 million, and the three-year plan and budget which had to be submitted to the meeting of the Open-ended Working Group to be held in Geneva in August 1993. She noted that, while progress had been made by the implementing agencies, there was still room for improvement in the quality of the documentation, and that would require effort on the part of the implementing agencies to ensure quality control, and an effort on the part of the Executive Committee to clarify its policies.

4. His Excellency, Mr. Kamal Nath, Minister for Environment and Forests of India, President of the Bureau of the Meeting of the Parties, noted with satisfaction the progress made in implementing the Montreal Protocol. He emphasized that the decisions taken by the Committee were particularly important because they conveyed a signal to the world and especially to developing countries. He noted the importance of research and development, and the need for implementing agencies to work closely together, and he stated that the success or failure of the Fund would be an example for other Conventions, therefore, the Fund must live up to the hopes placed in it.

B. Attendance

5. The Meeting was attended by representatives of the following countries, members of the Executive Committee in accordance with decision IV/20 adopted by the Parties at their Fourth Meeting:

- (a) Parties not operating under paragraph 1 of Article 5 of the Protocol:
Canada, France, Japan, Netherlands, Norway, Russian Federation and United States of America;
- (b) Parties operating under paragraph 1 of Article 5 of the Protocol:
Brazil, Egypt, Ghana, Jordan, Malaysia, Mauritius and Venezuela.

6. In accordance with the decision taken by the Executive Committee at its Second Meeting, representatives of the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organization (UNIDO) and the World Bank attended as observers.

7. Pursuant to the decision taken by the Executive Committee at its Second Meeting, the President of the Bureau of the Meeting of the Parties to the Montreal Protocol also attended.

8. Representatives of the United Nations Climate Change Secretariat, Commonwealth Science Council, Friends of the Earth, Greenpeace, United Nations Association of Canada and the Institut des sciences de l'environnement of the University of Quebec at Montreal also attended the meeting.

C. Adoption of the Agenda

9. The Meeting adopted the following agenda:

- 1. Opening of the Meeting.
- 2. Organizational matters:
 - (a) adoption of the agenda;
 - (b) organization of work.
- 3. Report by the Fund Secretariat:
 - (a) Secretariat activities;
 - (b) contributions and Fund disbursements.
- 4. Financial matters:
 - (a) report from the Treasurer - 1992 accounts;
 - (b) request for bilateral contribution: - United States of America;
 - (c) contributions in arrears.

5. Implementing agencies:
 - (a) progress reports:
 - consolidated progress report;
 - UNDP progress report;
 - UNEP progress report;
 - UNIDO progress report;
 - World Bank progress report.
 - (b) Work programme amendments:
 - 1993 UNDP work programme amendment;
 - 1993 UNIDO work programme amendment;
 - 1993 World Bank work programme amendment.
 - (c) Financial reports:
 - UNDP;
 - UNEP;
 - World Bank.
6. Country programmes:
 - (a) Cameroon;
 - (b) Cuba;
 - (c) Fiji;
 - (d) Guatemala;
 - (e) Iran;
 - (f) Jordan;
 - (g) Maldives;
 - (h) Mauritius;
 - (i) Panama;
 - (j) Philippines;
 - (k) Uruguay.
7. Project proposals:
 - (a) China;
 - (b) Egypt;
 - (c) India;
 - (d) Thailand.
8. Status report on country programmes.

9. Issues related to the Open-ended Working Group of the Parties:
 - (a) Draft report on the operation of the Financial Mechanism since 1 January 1991;
 - (b) Proposed three-year plan and budget of the Multilateral Fund (1994-1996);
 - (c) Temporary difficulties encountered by Hungary, Bulgaria and Poland (decision IV/21 of the Fourth Meeting of the Parties).
10. Draft report on incremental cost policies and operational interpretation.
11. Other matters.
12. Adoption of the report.
13. Date of the Eleventh Meeting of the Executive Committee.
14. Closure of the Meeting.

D. Organization of work

10. The Committee decided that agenda items 4(a), 5(c) and 9(c) should be transmitted to the Sub-Committee on Financial Matters.

III. SUBSTANTIVE MATTERS

Agenda item 3: Report by the Fund Secretariat

(a) Secretariat activities

11. The Chief Officer reported on the activities of the Secretariat since the Ninth Meeting and introduced document UNEP/OzL.Pro/ExCom/10/2.

12. The Executive Committee took note with appreciation of the report on Secretariat activities.

(b) Contributions and Fund disbursements

13. The representative of UNEP, speaking as Treasurer of the Fund, introduced document UNEP/OzL.Pro/ExCom/10/3/Rev.1, drawing particular attention to footnotes 1 and 2 regarding the receipt of two promissory notes.

14. Several representatives expressed their concern at the introduction of payment modalities that had not been endorsed by the Executive Committee. In their view, payments should be made in cash and promissory notes were not acceptable. In response, one representative pointed out that paragraph 6 of Article 10 of the Montreal Protocol, as amended at the Second Meeting of the Parties, only specified that, with the exception of certain circumstances, contributions should be in convertible currency and the modality of payment was not defined; the method used could be decided upon by a sovereign State.

15. A number of representatives proposed that, since payment modalities had serious implications for the functioning of the Fund, the matter should be discussed at the Meeting of the Parties.

16. Following the Treasurer's presentation and a suggestion made by one representative, the Committee agreed that the Sub-Committee on Financial Matters should be asked to look into the possibility of establishing a standardized method for payment of contributions.

17. The representative of Canada, Chairman of the Sub-Committee on Financial Matters, introduced the Sub-Committee's report and recommendations.

18. The Executive Committee requested 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 fully 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.

The discussion paper should also address other pertinent issues as deemed necessary for consideration by the Executive Committee at its Eleventh Meeting.

19. The Executive Committee also authorized the Chairman of the Sub-Committee on Financial Matters to convene a meeting of the Sub-Committee to finalize the discussion paper, as appropriate.

Agenda item 4: Financial matters

(a) Report from the Treasurer - 1992 accounts

20. The Executive Committee took note of the report from the Treasurer - 1992 Accounts (UNEP/OzL.Pro/ExCom/10/4).

(b) Request for bilateral contribution: United States of America

21. The Chief Officer, introducing document UNEP/OzL.Pro/ExCom/10/5 concerning funding for a bilateral project, said that the request by the United States was consistent with the guidelines on bilateral contributions approved at the Fifth Meeting of the Executive Committee and did not exceed the ceiling of 20 per cent, therefore, the Secretariat recommended that it should be approved.

22. The Executive Committee approved the request by the United States of America to credit against its 1993 contribution the amount of US \$396,110 provided for Stage 1a (Model Prototype Development and Testing) of the Staged Project to produce CFC-free refrigerators in China.

23. The representative of Canada informed the Committee that agreement had been reached with Brazil and China on projects for the transfer of technology and it would submit a request for the offsetting of bilateral contributions to the Eleventh Meeting of the Committee.

(c) Contributions in arrears

24. The representative of Malaysia, chairman of the sub-committee on contributions in arrears, introduced the report of the sub-committee (UNEP/OzL.Pro/ExCom/10/6/Rev.2).

25. Several representatives expressed great concern at the amount of contributions in arrears, and particularly at the fact that no information concerning the reasons for the outstanding contributions had been obtained from some countries.

26. The representative of the Russian Federation informed the Committee that the continued gravity of the economic situation in his country meant that it was not yet in a position to pay its contribution. However, it reiterated its willingness to pay part of its contribution in kind, even though no method for such payment had yet been established and he proposed that the Executive Committee should set up a small group together with the implementing agencies to meet with countries which wished to contribute in kind in order to establish an appropriate mechanism.

27. Several representatives emphasized that all contributions should be made in cash and countries experiencing temporary difficulties should make every effort to pay their contributions in cash.

28. One representative suggested that consideration might be given to allowing countries which were in a position to do so to make advance contributions to the Fund so as to ensure that project implementation was not handicapped by a temporary shortage of funds.

29. The Executive Committee took note of the report by the sub-committee on contributions in arrears and agreed to implement its recommendations.

Agenda item 5: Implementing agencies

(a) Progress reports:

- Consolidated progress report (as at May 1993)

30. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/8 and several representatives expressed satisfaction at the consolidated report.

31. Other representatives suggested possible improvements, for example the inclusion of the total ODSs to be phased-out, approved funding and funds disbursed at the end of every page as appropriate.

32. Another representative requested that, where appropriate, the relationship of the various projects to the relevant country programmes should be shown and that there should also be an indication as to whether the priorities set out in the country programme had been reflected.

33. After extensive discussion of potential options to address the issue, the Committee decided that it would examine the matter further when it took up agenda item 8 concerning the status report on country programmes.

- UNDP progress report

34. The representative of UNDP introduced document UNEP/OzL.Pro/ExCom/10/9, drawing particular attention to the five measures taken by UNDP to meet the concerns expressed by the Executive Committee at its Ninth Meeting: (i) strengthening of its Montreal Protocol

Unit; (ii) speeding up of the financial disbursement process; (iii) more rapid preparation of country programmes; (iv) development of internal mechanisms to accelerate project implementation; and (v) speeding up implementation of sectoral and global projects. Country programmes for Cuba, Iran, the Philippines, and Uruguay were under consideration for approval at the present meeting. As of June 1993, UNDP had disbursed half of all the funds it had received from the Fund and had been able to transfer funds to beneficiary countries under institutional strengthening projects within two to three months following receipt of funds.

35. Many representatives commended UNDP on its rapid response to the concerns expressed at the Ninth Meeting of the Executive Committee.

36. Some representatives enquired about the presentation concerning their countries. One representative stated that the information given on sub-activities in his country was incomplete and he therefore requested UNDP to ensure that the information given on his country in the report was correct.

37. A representative commented that it was difficult to analyze the financial information provided in the UNDP reports and to relate disbursements to project expenditures and he expressed the hope that the presentation would be clearer in the future.

38. Two representatives requested UNDP to ensure that its project technical evaluations were carried out by external experts and UNDP concurred.

39. In response to the issues raised, the representative of UNDP thanked the Executive Committee for acknowledging its efforts to accelerate project implementation and agreed to provide more detailed financial information at future meetings. He also stated that UNDP's sector technical experts were collaborating closely with their colleagues on the World Bank's Ozone Operations Resource Group (OORG).

- UNEP progress report

40. The representative of UNEP introduced document UNEP/OzL.Pro/ExCom/10/10 and commented on UNEP's activities in the area of information exchange, training and networking and country programmes. Two country programmes had been approved by the Executive Committee and six were under consideration for approval at its present meeting. Syria's country programme had been received too late to be considered for approval and a clear copy of Algeria's country programme had not been ready for review.

41. Several representatives emphasized that UNEP's strength lay in priority areas of training and networking activities and the preparation of country programmes, and others noted the importance of UNEP's role in the International Halon Bank Management Information Clearinghouse which should make available information regarding halon alternatives and other technologies and their required funding.

42. The observer for Greenpeace suggested that it would be useful for NGOs to obtain updated information on ODS phase-out activities and training, including results of programmes, such as the halon banking system proposal and evaluations of expenditure of funds.

43. The representative of UNEP replied that at the April 1993 meeting with the Halons Technical Options Committee it had been decided that the International Halon Bank Management Information Clearinghouse should provide information inter alia on existing halon banks, the availability of halons, standards for recycled halons and recycling equipment. UNEP was continuously evaluating the OzonAction Information Clearinghouse to ensure that it met the information needs of all countries.

- UNIDO progress report

44. The representative of UNIDO introduced document UNEP/OzL.Pro/ExCom/10/11, emphasizing that UNIDO's main task was to provide direct support for technological change at the plant or sector levels. UNIDO was integrating ODS phase-out activities within its existing framework and staff expertise. It emphasized inter-agency cooperation, in particular with the World Bank, and hoped to enlarge its sphere of cooperation with UNDP in implementing China's country programme.

45. The representative of Egypt said that five experts and one coordinator had visited his country in connection with UNIDO's refrigeration strategy, resulting in an overly detailed document, and suggested that resources should be utilized more rationally to meet better the requirements of country programmes and to avoid duplication.

46. One representative commended UNIDO on its first report and urged it to begin slowly and do the best job possible in a limited number of countries, involving a limited number of projects, so that its capacity as an implementing agency could be evaluated.

47. The representative of UNIDO replied that the organization was attempting to consolidate its position in certain countries before moving forward, however, it had not yet reached its limits in terms of capacity.

- World Bank progress report

48. The representative of the World Bank introduced document UNEP/OzL.Pro/ExCom/10/12 and reported on the significant progress to date, adding that it would be difficult for the World Bank and its clients to finalize various projects if the next meeting of the Executive Committee was scheduled for early October 1993, and he requested that the meeting be postponed until late November. A number of important results had been achieved since the progress report had been submitted, for example, work on a number of projects previously approved had been advanced significantly. Most of the projects approved at previous meetings had been cleared and were ready for approval by governments. While disbursements remained small, there were real prospects for improvement. There had been

important decisions regarding streamlining and special procedures including for the first time a grant agreement with a private company and the framework agreement with Brazil, making it possible to avoid separate legal negotiations and documentation for each activity approved by the Executive Committee. The Bank proposed to expand the OORG to seven members and provide minutes of all meetings to representatives of the Executive Committee. Internal submission deadlines had been advanced by two weeks, which would significantly improve the quality of the documentation forwarded to the Secretariat.

49. One representative commended the World Bank for its significant progress in grant agreements, but noted the need for an Executive Committee policy to cover on-lending and the repayment of lent funds.

50. The representative of Brazil said that a grant agreement between Brazil and the World Bank was currently being negotiated and would permit the financing of many projects, while only requiring a single grant agreement approval by Brazil.

51. One representative requested clarification from the World Bank as to why certain projects had been classified as being closed. He also wondered whether it might not be appropriate for large projects which had been evaluated by the OORG to be sent back to the Group if they were modified subsequently.

52. Another representative asked implementing agencies to consult the government concerned before cancelling projects or reimbursing funds.

53. Several representatives requested further information from the Bank concerning the grant resources to the Government of Turkey to be on-lent on concessional terms to the private sector enterprises participating in the project. One of them was concerned that lending funds to a private company in such a way might even be a disincentive and delay the phase-out in the country.

54. Another representative thanked the World Bank for following the Secretariat format in its report, thus making it easier to assess the results achieved. He felt that the Executive Committee should study carefully the question of grants which subsequently became loans and that pre-authorization should be required to ensure that funds derived from the reimbursement of loans were used for ozone-related projects. He requested that a document be prepared on the subject so that a decision could be taken at the next meeting.

55. The representative of the Russian Federation recalled that, at the previous meeting of the Executive Committee, the World Bank had agreed to a request by the Russian Federation that it look into the possible use of Russian technology in projects carried out in developing countries, to be offset against the Federation's contributions to the Fund. He regretted that no progress was yet apparent in that regard and requested that concrete measures be taken.

56. The representative of the World Bank said that a mission had recently been sent to Russia and that a note on the Bank's findings would be submitted to the Executive Committee. As to the money which would be granted to Turkey, he felt that the Executive Committee should

provide guidance and define a procedure in that regard. Nevertheless, such arrangements might

increase the impact of the Montreal Protocol by providing an opportunity for funds to be recycled within a country. In the case of Turkey, the company concerned had agreed to an incentive framework in connection with the loan. He explained that the activities which had essentially been closed at the end of 1992 had been reported to the Executive Committee at the previous meeting. Some closed activities had been transferred to other agencies. Other projects had failed to materialize and the resources involved had been transferred back to the Fund. In reply to another question, he said that whenever a project was changed in such a way as to affect its final outcome, that was reported to the Executive Committee. Where the changes were only minor and not such as to affect the final outcome, it was felt that there was no need for further approval by the Committee.

(b) Work programme amendments:

- 1993 UNDP work programme amendment

57. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/13/Add.1/Rev.1.

58. One representative said that the Nanjing Wire Works and Chengdu Qianfeng Radio Instrument Factory projects were good solvent sector prototype demonstration projects which would result in substantial replication and encouraged UNDP to continue working on such projects. The vacuum insulation panel project involved a large institutional component, however, and it would be necessary to ensure that any information acquired as a result of the research and development was made available without restriction. He understood that the automobile MAC retrofitting demonstration project in Malaysia would be deferred and urged that the OORG become involved in the matter.

59. Another representative enquired whether resources could not be used more effectively than in the project on revising design standards for cold storage.

60. The observer for Friends of the Earth said that the apparent reason given for not approving the project on the testing of vacuum insulation panels for domestic refrigeration was that it did not lead directly to ODS reductions, and expressed a belief that that was inconsistent with past practice. She hoped that the current decision would not prejudice similar projects in the future.

61. One representative suggested approval of the above project if it was agreed that the results of the small research and development component to be financed through the Fund would become publicly available.

62. A discussion then ensued regarding the automobile MAC retrofitting project in Malaysia. One representative stated that the purpose was to demonstrate that the use of alternative substances was viable, and to provide valuable information in terms of public education. Furthermore, since four projects dealing with similar issues in the refrigeration

maintenance sector had been funded in the past, it would not be appropriate to deny funding for the present project.

63. The Chief Officer pointed out that the Secretariat was not recommending approval nor non-approval for the MAC retrofitting project, but merely that decisions on retrofitting be deferred in order to consider policy implications of retrofit projects.

64. The representative of UNDP suggested that the part of the Malaysian project which dealt with training could be funded at present and that the retrofit component could be deferred pending advice on the subject of retrofitting from the OORG. The representative of the World Bank said that the Bank would be happy to have the OORG review the matter.

65. A representative of the President of the Bureau of the Meeting of the Parties stated that, as indicated in the presentation made by UNEP of its Progress Report, a project proposal on the development of the retrofitting of domestic refrigerators had been submitted to the Secretariat. That project proposal and its concept might also be included as part of OORG's proposed deliberations.

66. The representative of UNDP pointed out that the project on revising design standards for cold storage was a critical component of follow-up investment projects. He also agreed with the suggestion that the vacuum insulation panel project could be resubmitted provided the project results were made available to other Article 5, paragraph 1, countries.

67. The Executive Committee approved the amount of US \$3,296,652 for the following amendments to the UNDP work programme:

Brazil	Institutional strengthening	US \$ 403,100
China	Elimination of CFCs in cleaning operations at the Nanjing Wire Works	US \$ 409,000
	Elimination of CFCs in cleaning operations at the Chengdu Quianfeng Radio Instrument factory	US \$ 394,700
	Strategy and action programme for the elimination of CFCs in the manufacture of foams	US \$ 200,000
	Revising design standards for cold storage	US \$ 200,000
	Implementation of the halons phase-out plan for China: Current situation, revision of national codes and education and training	US \$ 280,000
	Implementation of the halons phase-out plan for China: Transfer of technology on alternatives to halon fire protection systems	US \$ 300,000
Ecuador	Training and technology dissemination	US \$ 40,000
Indonesia	Institutional strengthening	US \$ 314,780
Malaysia	Elimination of CFC-12 in the manufacture of extruded polystyrene foam sheet at Jumaya Industries	US \$ 235,811

	National ODS Conference, 20-21 July 1993	US \$ 40,000
	Technical assistance, demonstration and investment project preparation	US \$ 50,000
Thailand	Technical assistance, demonstration and investment project preparation	US \$ 50,000
	Sub-total	US \$2,917,391
	Project Support Costs (13 per cent of sub-total)	US \$ 379,261
	Total	US \$3,296,652

68. It also endorsed the transfer from UNDP to UNEP, as implementing agency, of the 1991 refrigeration sector training and demonstration activities in Ghana and Kenya, as well as implementation of the remaining five 1992 regional refrigeration training and demonstration workshops, with a concurrent transfer of funds of US \$470,081, including programme support costs, from UNDP to UNEP.

- 1993 UNIDO work programme amendment

69. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/14/Add.1.

70. One representative referred to the institutional strengthening proposal for Syria, and felt that the Executive Committee should avoid approving projects when a country programme was to be submitted at the next meeting.

71. Another representative said that institutional strengthening was very important and would not conflict with the country programme to be submitted later.

72. The Chairperson pointed out that it was the Executive Committee's policy to permit consideration of individual projects in advance of a country programme

73. The Executive Committee approved the amount of US \$873,071 for the following amendments to the UNIDO work programme:

India	Feasibility study for the recovery and recycling of CFC refrigerants	US \$ 55,000
	Project formulation for phasing-out of ODSs in the unorganised sector	US \$ 55,000
	Project formulation for the conversion of electronic cleaning processes to non-CFC cleaning	US \$ 74,000
Jordan	Preparation of investment projects for phasing-out CFCs in the refrigeration sector	US \$ 90,000
Egypt	Support for a National Coordination Unit for the Montreal Protocol-related activities	US \$263,450

Syria	Support to strengthen the General Commission for Environmental Affairs to implement Montreal Protocol-related activities	US \$235,180
	Sub-total	US \$772,630
	Project support costs (13 per cent of sub-total)	US \$100,441
	Total	US \$873,071

- 1993 World Bank work programme amendment

74. The Chief Officer introduced the proposed amendment to the 1993 World Bank work programme (UNEP/OzL.Pro/ExCom/10/15), noting that it contained seven supplementary activities each costing below US \$500,000. He indicated that, subsequent to the preparation of the Secretariat's comments and recommendations, certain matters had been clarified and that the Secretariat accordingly recommended that the full request from the Bank for the sum of US \$1.22 million should be approved, and that the other concerns raised in the Secretariat's comments be discussed as appropriate.

75. Concern having been raised over a possible overlap between the China User-Sector Pre-investment Studies project and the United States bilateral project, the Committee was assured that the possible potential for overlap between the work of the United States and that of the Bank was well recognized, and that the United States would be working very closely with the Bank to ensure that that would not occur.

76. The Executive Committee approved the amount of US \$1,220,000 for the following amendments to the World Bank work programme:

Argentina	User sector project identification and preparation	US \$ 100,000
China	Production sector pre-investment studies	US \$ 240,000
	User sector pre-investment studies	US \$ 280,000
Thailand	User sector pre-investment studies	US \$ 150,000
Malaysia	User sector pre-investment studies	US \$ 75,000
	Country programme update	US \$ 25,000
Global	Aerosols project	US \$ 350,000
	Total	US \$1,220,000

(c) Financial reports

- UNDP
- UNEP
- World Bank

77. The representative of Canada, Chairman of the Sub-Committee on Financial Matters, said that the Sub-Committee had considered the financial reports submitted by UNDP (UNEP/OzL.Pro/ExCom/10/16), UNEP (UNEP/OzL.Pro/ExCom/10/17) and the World Bank (UNEP/OzL.Pro/ExCom/10/18).

78. The Executive Committee took note of the financial reports and requested the Treasurer, in cooperation with the implementing agencies and the Fund Secretariat, to provide for approval at the Eleventh Meeting of the Executive Committee a uniform format for future annual reports taking into consideration the sample format provided in Annex III, establish uniform definitions of the categories and sub-categories used in those reports, and establish a definition of the category "Funds Disbursed" found in column 6 of the Consolidated Progress Report (Annex IV).

79. It also requested the implementing agencies, in future annual reports, to provide information in the uniform format to be approved by the Executive Committee and to provide information on "Funds Disbursed" at the same level of detail as given in the approval of the Executive Committee and as recorded in the Consolidated Progress Report.

80. The Executive Committee further requested UNDP to clarify the apparent low amount of interest included in the 1992 financial report. It requested the Treasurer and the implementing agencies to show in their future financial reports their average investment earnings calculated on the basis of the interest earned/cash available ratio.

Agenda item 6: Country programmes

81. The Committee noted that there were 11 country programmes to be examined, prepared by UNDP, UNEP and the World Bank.

82. The representative of UNDP presented the country programmes for Cuba (UNEP/OzL.Pro/ExCom/10/21/Corr.1), Iran (UNEP/OzL.Pro/ExCom/10/24), Philippines (UNEP/OzL.Pro/ExCom/10/29) and Uruguay (UNEP/OzL.Pro/ExCom/10/30).

83. The representative of UNEP presented the country programmes for Cameroon (UNEP/OzL.Pro/ExCom/10/20), Fiji (UNEP/OzL.Pro/ExCom/10/22), Guatemala (UNEP/OzL.Pro/ExCom/10/23), Maldives (UNEP/OzL.Pro/ExCom/10/26), and Panama (UNEP/OzL.Pro/ExCom/10/28).

84. The representative of Mauritius presented the country programme for Mauritius (UNEP/OzL.Pro/ExCom/10/27).

85. The representative of Jordan presented the country programme for Jordan (UNEP/OzL.Pro/ExCom/10/25).

86. The Executive Committee approved the country programmes presented. However, this approval did not denote prior approval of funding levels contained in the country programmes,

with the exception of those mentioned below.

87. The Executive Committee approved the followed funding for institutional strengthening as requested in the relevant country programmes:

to be implemented by UNDP:

Cuba	US \$172,000
Uruguay	US \$173,800

to be implemented by UNEP:

Guatemala	US \$172,000
Mauritius	US \$ 50,000
Panama	US \$172,500.

88. The relevant implementing agencies support costs of 13 per cent should be added to the above figures.

89. The Executive Committee further approved the amount of US \$20,200 for the training of customs officers as requested in the country programme for Cameroon, to be implemented by UNEP. Support costs of 13 per cent should be added to that figure.

90. Several representatives stated that UNEP's mandate under the clearinghouse function indicated in its agreement with the Executive Committee, in addition to UNEP's Charter, precluded it from undertaking the implementation of investment projects.

91. The representative of UNEP IE/PAC concurred.

Agenda item 7: Project proposals

(a) China

92. The Chief Officer introduced documents UNEP/OzL.Pro/ExCom/10/31 and Add.1.

93. One representative requested that in future project proposals should only be submitted to the Executive Committee once all outstanding issues raised by reviewers had been resolved, except in cases where it had not be possible to reach an agreement among the Article 5,

paragraph 1, country concerned, the implementing agency and the Fund Secretariat on specific points.

94. Another representative pointed out that the 50 per cent reduced CFC foam technology

proposed was being overtaken by other modern technologies and the Executive Committee should receive an assurance that the equipment required for the project could be used to switch to newer technologies at a later stage.

95. In response to the comments made, a representative of the World Bank said that the issues outstanding were only minor ones and the above project had been thoroughly appraised. Regarding new technologies, she emphasized that the projects were technically sound, and the related equipment would be used in the total phase-out of CFCs. In response to the Secretariat's comments on perceived double-counting in two projects, she explained that, if the Executive Committee accepted the Secretariat's recommendation to fund research at only one design institute, the project was likely to need reformulation.

96. Following a full discussion of related issues, the Executive Committee accepted the Secretariat's recommendations concerning the 50 per cent reduced CFC foam project and approved the following two projects subject to the Secretariat's comments as set out in document UNEP/OzL.Pro/ExCom/10/31/Add.1:

- (i) Tianjin conversion to CFC-free technology in the manufacture of flexible polyurethane foam (to be implemented by UNDP): US \$1,080,000 (plus 13 per cent project support costs);
- (ii) 50 per cent reduced CFC foam: US \$3,495,000 in addition to the funds already approved (to be implemented by the World Bank).

(b) Egypt

97. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/32/Rev.1.

98. Several representatives supported the Secretariat's recommendations and approval of the projects proposed by Egypt.

99. One representative expressed grave concern that the original Advechem request had been for US \$2 million, while a technical review had revealed that half that amount was sufficient. The Multilateral Fund should not be asked to pay for such extravagant and unnecessary conversion costs. It was essential that the Executive Committee be able to trust that the implementing agencies would take into consideration the cost effectiveness of the technologies selected.

100. The representative of Egypt stressed that his country's experience with the ODS phase-out, especially in the foam sector, could be beneficial to the Executive Committee and other

countries in terms of its time value. He also noted that the Advechem project was the first project submitted to the Executive Committee by UNIDO with regard to Egypt.

101. Several representatives suggested that the Executive Committee conduct a study of new policies regarding the selection of interim technologies and related conversion costs.

102. The representative of UNIDO replied that the Advechem proposal had been the organization's first project submitted for consideration by the Executive Committee and that UNIDO was attempting to provide the best technical and commercial solutions available.

103. The Executive Committee approved the following three projects subject to the Secretariat's comments as noted in document UNEP/OzL.Pro/ExCom/10/32/Rev.1:

- (i) Elimination of CFC-11 in the manufacture of molded rigid polyurethane foam at Cairo Light Industries Co ("Olympic Electric") (to be implemented by UNDP): US \$940,000 (plus 13 per cent project support costs).
- (ii) Elimination of CFC-11 in the manufacture of molded flexible polyurethane foam at Modern Building Carpentry Co (Mobica) (to be implemented by UNDP): US \$434,000 (plus 13 per cent project support costs).
- (iii) Phase-out of the use of CFC-12 in the manufacture of extruded polystyrene foam at Advanced Chemical Engineering Systems (Advechem) (to be implemented by UNIDO): US \$904,000 (plus 13 per cent project support costs).

(c) India

104. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/33/Rev.1.

105. Several representatives raised safety, environmental and cost-related issues regarding the introduction of new technologies and the use of transitional substances.

106. The representative of the World Bank said that the Bank had considered the safety issues surrounding the use of certain substances, such as HCFC-123. The introduction of non-ODS technologies in new product production would significantly reduce the early retirement cost of equipment and, over time, the stock of equipment using CFCs.

107. The Executive Committee approved the following two projects for implementation by the World Bank subject to the Secretariat's comments as noted in document UNEP/OzL.Pro/ExCom/10/33/Rev.1:

- (i) Substitution of CFC-11 refrigerant by HCFC-123 in centrifugal chillers: US \$567,000;
- (ii) Conversion of compressor manufacture from CFC-12 to HFC-134a design: US \$685,000.

(d) Thailand

108. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/34, and Add.1 which covered 14 projects in Thailand for which the Bank was seeking final approval, and six for which they were requesting permission to proceed.

109. In opening general remarks, the representative of the World Bank said that the essence of the relationship between the Bank and the Executive Committee was one of building confidence in the Bank and in its capacity to implement projects which were cost effective and consistent with the guidelines of the Protocol and with the Executive Committee's interpretation of those guidelines. In that regard, the Bank assured the Executive Committee that its final appraisal of projects always took into account the comments and concerns of the Secretariat and the OORG. He agreed that clear guidance was needed regarding the funding of transitional requirements and other issues, and that such guidance was critical to the efficient operation of the Fund.

110. The Chairperson felt that it would be premature to accede to the World Bank's request that the Executive Committee show more trust in the Bank's judgement since there were some issues which had to be resolved before that could happen. Firstly, the Bank would have to take account of their own technical reviewers' comments prior to the submission of project proposals. While the Bank assured the Executive Committee that it would do this, it must demonstrate that its new procedures were working. Secondly, she felt that the Executive Committee had not yet given the Bank nor the other implementing agencies sufficient broad policy guidance or sector-specific guidance. When those two things had been done, it was hoped that the Committee would not need to consider individual projects in as much detail as it did at present.

111. One representative said that the issue at hand was not really a question of trusting the Bank or not trusting it. It must be remembered that the Executive Committee had allowed the Bank to act on its behalf: that was not tantamount, however, to authorizing the Bank to take its place and the Executive Committee had to fulfil its own responsibilities. As a rule, all projects should be mature when they were submitted to the Committee, but where contentious issues still existed, the relevant information should be provided to the Committee and it was up to the Committee to resolve them.

112. Several representatives expressed the view that the Committee was spending too much time scrutinizing the technical issues involved in individual projects and should devote more time to developing policy guidelines which would enable the implementing agencies to do their work more effectively. The Committee had to define its strategy concerning such issues as chillers and MAC retrofitting, recycling as opposed to retrofitting, and other important issues.

113. Other representatives felt that it would be necessary for the Committee to continue to spend part of its time discussing the specifics of individual projects and that it should allow for

a certain amount of experimentation bearing in mind the gestation period that the Fund was undergoing and that it was evolving. Policy and guidelines should only be decided when the issues involved were clear. In that regard, maintaining a balance between policy formulation and examining project specifics was necessary. It was also felt that the Committee should not place too much reliance on traditional cost-benefit analysis in issues related to the environment; that

could have negative implications for both the Fund and the developing countries.

114. In response to those comments, the Chairperson noted that the issues that had been raised fell into broad categories covering wider policy issues, operating procedures and sector specific strategies. She then asked the representative of Norway to draft some suggestions for taking action on those issues for discussion later in the meeting (see paragraphs 172 to 180).

115. In returning to the projects from Thailand, the representative of the World Bank noted that certain of its projects included two phases, and that the Bank would not seek full approval of phase II activities in Thailand at present. It hoped, however, that permission would nevertheless be given to proceed. As to the issue of funding testing facilities which would only be needed for two years, but which would be useful for much longer, the Bank had always believed that a beneficiary which would never have decided to incur the expense of acquiring certain equipment on its own should not be asked to pay for an unintended benefit. He suggested that the Executive Committee could assist the implementing agencies by taking a policy decision in that regard. Finally, the Bank proposed to withdraw the proposal on A.P. National.

116. One representative felt that it had been clearly agreed that side benefits such as those associated with the test rooms should be looked at on a case-by-case basis. He also felt that any movable test room equipment in Thailand which was not needed in the future should be moved and sold or reused if possible. He further suggested that the Executive Committee should not give permission to proceed with one project because its cost effectiveness was very poor.

117. With regard to the proposed solvent projects, one representative said that some manufacturers seemed to be reluctant to use no-clean technologies. He felt that the Committee should always take care that its decisions aimed at protecting the ozone layer did not lead to other forms of pollution.

118. The representative of the World Bank replied that any projects which might have an environmental impact were subject to environmental review and had to be cleared before the Bank would proceed with them.

119. The observer for Greenpeace, speaking also on behalf of Friends of the Earth, found it puzzling that the Bank was recommending aqueous cleaning processes when their own technical reviewers favoured no-clean technologies. She felt that the views of the technical reviewers should be taken into account since there seemed to be a consensus in favour of no-clean technologies. She was also concerned that so many appliance-related projects were being funded at a time when the technology was evolving rapidly, which could put Thailand in a difficult position if the rest of the world decided that a different technology was better.

120. One representative stressed that the proposed MAC project in Thailand was a demonstration project which would only involve the retrofitting of 50 vehicles; its main purpose was to educate the public concerning the alternatives which existed. In making its decision, the Committee should therefore make it clear whether it supported demonstration projects or not. The question of retrofitting all vehicles was another matter entirely. In the proposed further study, those two issues should be dealt with separately and it should be borne in mind that a possible

consequence might be that without the necessary support to switch over to non-CFC alternatives governments might be compelled to allow or even encourage the continued consumption of CFCs for such equipment facilities.

121. Another representative felt that the Committee could approve the demonstration projects in Malaysia and Thailand pending guidance from the OORG on the subject of retrofitting in general.

122. The Chief Officer recommended that the Committee seek advice from the OORG before granting permission to proceed with retrofitting.

123. The Executive Committee decided to defer all the retrofitting projects pending an assessment report by the OORG, which would take account of all the issues raised in the debate, including the state of retrofit alternatives in the refrigeration area, their costs, reliability, cost effectiveness, and comparative benefits relative to recycling efforts, as well as the concerns expressed in paragraph 120 above. Based on that, the Secretariat and the implementing agencies should propose strategic options which would enable the Committee to take a policy decision on the matter at its next meeting.

124. As to the testing facilities, since the World Bank had agreed to remove the most expensive component, the Committee agreed to approve the rest of the project on the understanding that the Bank's grant agreement would contain wording allowing the equipment to be moved for use in future refrigeration projects, or sold for the benefit of the Fund after two years if such actions proved technically and economically feasible. It also approved the solvents project, but decided to take a broader look at how best to deal with solvents at a subsequent meeting.

125. The Executive Committee approved the amount of US \$10,673,000 for the following projects for implementation by the World Bank:

Solvent projects

Conversion to wet media blasting and aqueous cleaning solvents (Hana Semiconductor)	US \$1,010,000
Conversion to high-purity water cleaning (GSS Array Technology)	US \$ 316,000
Conversion to high-purity hot water cleaning (Saha Union Corporation)	US 2,573,000
Conversion to aqueous cleaning (Thai Heat Exchange Corporation)	US \$ 268,000
Conversion to aqueous cleaning (C.I. Group Company)	US \$ 277,000

Refrigeration projects

Elimination of ozone-depleting substances used in the production of household refrigerators (Thai Toshiba Electric Industries)	US \$ 823,000
Elimination of ozone-depleting substances in the production of household refrigerators (Kang Yong Electric)	US \$1,140,000
Elimination of ozone-depleting substances used in the production of household refrigerators (Hitachi Consumer Products)	US \$ 553,000
Elimination of ozone-depleting substances used in the production of household refrigerators (Sanyo Universal Electric)	US \$1,864,000
Conversion of compressor manufacture from CFC-12 to HFC-134a design (Sanyo Universal Electric)	US \$ 989,000
Conversion of compressor manufacture from CFC-12 to HFC-134a designs (Kulthorn Kirby)	US \$ 686,000

Foam project

Replacement of CFC-11 with HCFC-141b as a foam blowing agent (Technic Foam)	US \$ 174,000
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126. The Executive Committee gave permission to proceed with phase II activities in Thailand refrigerator projects, as well as with the following two projects:

Elimination of ozone-depleting substances used in the production of household refrigerators (A.P. National)

Conversion of electronic cleaning from CFC-113 to high purity water cleaning (Team Tronics).

127. It denied permission to proceed on the Admiral refrigerator project and deferred a decision on the MAC and chiller retrofit projects.

128. The representative of UNEP stressed that the outputs of all the projects being funded by the Multilateral Fund, including research and development projects, the studies and reports related to project development, project investment and evaluation of technologies, should be

forwarded to UNEP's OzonAction Clearinghouse by all the implementing agencies as soon as they were available so that they could be of benefit to other countries.

Agenda item 8: Status report on country programmes

129. The Chief Officer presented for the Committee's consideration the status report on country programmes (UNDP/OzL.Pro/ExCom/10/35). The report covered several aspects: the legislative authority for the country programmes and action by the Executive Committee related to country programmes, and a discussion of pertinent issues. It presented a number of conclusions together with three recommendations for action by the Committee.

130. All of the representatives who spoke congratulated the Secretariat on its preparation of an excellent report.

131. In respect of the first recommendation, there was widespread agreement that the nine-month period suggested for preparation of country programmes should have as its point of departure the date of disbursement rather than approval of funds, since the various stages between the Committee's approval of funding for country programme preparation and subsequent disbursement of the approved funds sometimes involved a substantial period of time.

132. In so far as the second recommendation was concerned, several representatives stressed that it was the prerogative of the country concerned to establish the order of priority in which the projects were to be presented, in line with the strategic plan it had adopted.

133. Several speakers felt that the third recommendation required clarification as to its implications for countries and implementing agencies. It should be the responsibility of the countries to report periodically to the Executive Committee on the progress being made in the implementation of their country programmes, but that should not be mandatory. It was proposed that the last part of the recommendation relating to compliance with Article 7 of the Montreal Protocol be deleted. It was emphasized that Article 7 referred to the required submission of data and that the Implementation Committee had several times stated its concern that some countries had difficulty in meeting their obligations under that Article. It was suggested that that was something that should be taken into account when the Executive Committee was considering the institutional strengthening issue. It was also generally recognized that the Executive Committee needed to receive on a regular basis information from countries on the implementation of their country programmes.

134. The Executive Committee requested Parties operating under Article 5, paragraph 1, and the implementing agencies collaborating with them:

- to give priority to early completion of country programmes;
- 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;
- in preparing projects on institutional strengthening, to make provision to address the needs of the country with respect to the data submission requirements of Article 7 of the Montreal Protocol.

135. The Executive Committee also requested Parties operating under Article 5, paragraph 1:

- when submitting project proposals to the Executive Committee 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.
- to present annually information to the Executive Committee on progress being made in the implementation of their country programmes.

Agenda item 9: Issues related to the Open-ended Working Group of the Parties

(a) Draft report on the operation of the Financial Mechanism since 1 January 1991

136. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/36 and Corr.1.

137. The Executive Committee approved the report (Annex I) for submission to the meeting of the Open-ended Working Group to be held in Geneva in August 1993 and decided that the Treasurer's report should be annexed thereto.

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

138. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/37.

139. One representative recalled that the final decision on the size of the Fund would be taken subsequently. She therefore suggested that the matter of the Fund's size should be discussed at the forthcoming meeting of the Open-ended Working Group.

140. A number of representatives, while commending the Secretariat on the proposed plan and budget, said that some areas required further clarification. One representative asked whether provision had been made for the inclusion of projects related to methyl bromide if and when a decision was taken that they should be covered by the Fund.

141. The representative of France indicated that he would have preferred an analysis with greater substantiation of assertions. For example, he felt that the implementing agencies' capacity to delivery projects should have been explained in light of the ratio of expenditure to contributions. He considered that actual planned expenditures under approved country programmes should be separated from those forecasted. The budget should have taken into consideration the hierarchy of cost-effectiveness measurements of the various industrial sectors and should have shown scenarios for reductions based on cost-effectiveness for lower funding levels. A strategy should have been included in the activities budgeted for the production sector.

The ratio between administrative costs and project costs would be an important criterion for the Parties when making their decision. He stated that the adoption of the three-year plan and budget should not prejudice a Party's position on the final decision to be taken at the Meeting of the

Parties.

142. The Chairperson replied that the Executive Committee did not have the ability to fund projects involving methyl bromide and that that subject would be taken up by the Open-ended Working Group.

143. The Chief Officer said that the asserted costs in the report had been discussed at a previous meeting with the implementing agencies and deemed realizable and, in some instances, conservative.

144. The Executive Committee approved the proposed three-year plan and budget for submission to the forthcoming meeting of the Open-ended Working Group to be held in Geneva in August 1993 (Annex II).

(c) Temporary difficulties encountered by Hungary, Bulgaria and Poland (decision IV/21 of the Fourth Meeting of the Parties)

145. The representative of Canada, Chairman of the Sub-Committee on Financial Matters, said that the Sub-Committee had considered the item and presented a number of recommendations for the consideration of the Executive Committee.

146. The Executive Committee welcomed the statement made by Poland regarding payment of outstanding contributions. It requested the Treasurer to send official notification to the authorities in Poland regarding the amount of outstanding contributions.

147. The Executive Committee 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, paragraph 1, countries as a test case for consideration by the Executive Committee of possible policy issues arising from in-kind contributions.

148. The Executive Committee also requested 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.

149. The Executive Committee urged the above-mentioned countries to cooperate with UNEP IE/PAC to provide information on available technologies and expertise in those countries for dissemination to Article 5, paragraph 1, countries. It also encouraged those countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

150. Pursuant to the recommendation made by the Sub-Committee, the Executive Committee decided to submit the paper on temporary difficulties encountered by Hungary, Bulgaria and Poland to the forthcoming meeting of the Open-ended Working Group of the Parties (Annex V).

151. The Chairman of the Sub-Committee on Financial Matters said that the Sub-Committee had also considered the question of temporary difficulties encountered in meeting contributions by Parties not operating under Article 5, paragraph 1, and had formulated recommendations for the Executive Committee (Annex VI).

152. The Executive Committee decided that the statement made by the Czech Republic regarding payment of a contribution should be followed up by the Treasurer.

153. The Executive Committee requested the Fund Secretariat to follow up its approaches to Belarus and the Slovak Republic and to explore further the potential of in-kind contributions by the five Parties identified by the sub-committee on contributions in arrears. The results of those interactions should be reported to the next Meeting of the Executive Committee.

154. The Executive Committee urged those countries to cooperate with UNEP IE/PAC to provide information on available technologies and expertise in those countries for dissemination to Article 5, paragraph 1, countries. It also encouraged those countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

Agenda item 10: Draft report on incremental cost policies and operational interpretation

155. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/10/39.

156. A number of representatives questioned the implications of the Secretariat's recommendation B regarding recurrent costs. One representative requested that the economic terms used in the report be clearly defined to avoid confusion and suggested that the same time period be used when assessing recurrent costs and savings and benefits.

157. One representative questioned whether it was not premature to adopt the recommendations, given that the length of projects and transitional periods might vary significantly. He also asked how incremental costs were to be calculated when substitute substances were used by producers.

158. One representative stressed that the economic terms used in the report had been utilized for the past two years by the Committee and that the recommendations reflected existing practices and were meant to serve as general guidelines.

159. Another representative pointed out that generic terms were now being used to describe some specific usage in past projects; in that regard, such generic terms, being very broad, could present difficulties in interpretation in future project preparation and approval.

160. Several representatives commented that the use of enterprise incentives under recommendation C merited further consideration and particular emphasis. Also, the production of substitute substances required in-depth study, perhaps in the form of workshops.

161. The Chief Officer responded to questions and comments by explaining that the issue of incremental costs had been reviewed and revised at several stages by expert consultants and that the report had been devised to serve as a guideline for standard projects.

162. One representative said that the incremental cost document would provide valuable assistance to the consultants who prepared country programmes and would help to harmonize the treatment of incremental costs. He suggested that the Committee should take note of the document but delete the recommendations from it.

163. Some other representatives felt that the recommendations could not be separated from the report. They constituted the best available guidance at the moment and were the basis for the Committee's activities at present. The report should therefore be adopted on the understanding that it would be subject to change later.

164. The representative of the World Bank said that the Bank strongly supported the recommendations since the matters they covered arose in every project and the principles concerned had proven to be effective in field operations. He considered the recommendations to be a minimum basis on which the Committee could continue to build. It was very important for the Committee to take advantage of the present opportunity to provide guidance to the implementing agencies.

165. One representative felt that the recommendations should be called recommended guidelines and that some amendments should be made to the wording.

166. Another representative said that although he would prefer to see a consensus on the entire document at the present meeting, if consensus was not possible he could support merely taking note of the document.

167. One representative was in favour of deferring a decision on recommendation B until the next meeting.

168. Another representative said that recommendations B and C went together and should be dealt with at the same time.

169. One representative was in favour of approving recommendation A immediately since it was important for the present meeting to provide the implementing agencies with some guidelines. He did not consider recommendation D to be necessary since the principle concerned had long been recognized. As to the matters covered by recommendations B and C, he doubted whether a policy could be approved at the present meeting and felt that if language acceptable to all could not be found, a decision on those two recommendations should be deferred until the next meeting.

170. After further discussion, the Executive Committee took note of the report (UNEP/OzL.Pro/ExCom/10/39).

171. It should be noted that with respect to the document (UNEP/OzL.Pro/ExCom/10/39), the

following recommended guidelines were developed based on circumstances encountered and decisions taken to date and could be subject to further interpretation and/or amendment at the project preparation and approval and strategic levels. Policy decisions on all guidelines would be taken by the Executive Committee. The Committee decided the following:

- A. 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;
- B. 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;
- C. 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 that 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;
- D. incremental costs would not be financed by the Fund where there was evidence of double-counting.

Agenda item 11: Other matters

172. At the request of the Chairperson, the representative of Norway presented for the Committee's consideration a document on "Future Work Procedures of the Executive Committee", which attempted to set out in a very informal manner some of the elements of concern which were expressed by a number of representatives during the discussions on projects (see paragraph 114). It was in no way intended as a statement of how the work of the Executive Committee should be carried out in future. Section 3 of the paper reflected his delegation's feeling that the broad policy, specific sector policy and financial policy guidelines should be

priority areas at every meeting of the Committee. The most important part of the paper was Section 4, setting out three possible approaches to achieving the desired improvement in the Committee's working procedures. The objective of the suggestions for streamlining work on projects was to leave room and time for the Committee to take policy decisions. The suggestion on policy and evaluation reports reflected his delegation's belief that Committee members, in

preparing for meetings, should receive the guidance of the Secretariat regarding the policy issues that would be tabled for discussion, perhaps in the form of a short overview paper prepared by the Secretariat in consultation with the Chairman. Finally, it was vital that at the end of each Committee meeting attention be focused on instructions to the Secretariat for policy issues that should be prepared for discussion at the following meeting.

173. All representatives who spoke congratulated and thanked the representative of Norway for taking the initiative on such an important subject. There was an obvious need for improvement in the way the Committee carried out its responsibilities and the document was a good starting point.

174. One representative emphasized that, if the Secretariat and the implementing agencies could together identify the impediments to progress, the Executive Committee could then deal with them. The Executive Committee should delineate policy issues, suggest options for dealing with them and focus its discussion on policy, eschewing technical discussions. He pointed out that there were two types of policy issues: those relating to operational problems and those relating to policies per se.

175. Another representative expressed the view that the Committee should concentrate on projects where there were outstanding issues, even though it should never abrogate its overall responsibility for project approval.

176. A representative considered that the Committee would save time by studying projects only when they were virtually complete and it should adopt a policy in that regard. It could then deal with any remaining contentious issues. He added that by associating those who were directly involved in the preparatory work of assessing or evaluating projects in their respective countries the Executive Committee could work in a more concrete manner.

177. Another representative did not agree with the proposal to set up a new technical group, although he welcomed the ongoing procedure described in the document.

178. One representative agreed that it was not necessary to set up a technical group to examine projects. The Executive Committee had considerably improved its project approval procedure and what was required now was a balance between its project approval activities and its policy and guidance responsibilities.

179. Upon a recommendation from the Chief Officer, the Committee authorized the Secretariat to meet with the implementing agencies to prepare, on the basis of the document submitted by the representative of Norway and taking into account the views expressed during the discussion, a paper for the Committee's consideration at its next meeting that 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. In addition, several policy papers should be prepared so that

the Committee could see not only the choice of options available to it but also concrete examples of how the Committee could proceed to take policy decisions. There should also be a paper on process alternatives.

180. One representative pointed out that the Multilateral Fund had incurred exchange losses of approximately US \$25,000 to date. He urged the adoption of measures such as those followed by other United Nations agencies in order to avoid such losses. The Treasurer indicated he would raise the matter with the UN Comptroller.

181. A summary of the decisions taken by the Executive Committee at its Tenth Meeting is annexed (Annex VII).

IV. ADOPTION OF THE REPORT

Agenda item 12: Adoption of the report

182. The Executive Committee adopted the present report, on the basis of the draft report contained in document UNEP/OzL.Pro/ExCom/10/L1, at its closing session on 1 July 1993.

V. DATE OF THE ELEVENTH MEETING OF THE EXECUTIVE COMMITTEE

Agenda item 13: Date of the Eleventh Meeting of the Executive Committee

183. The Committee decided to hold its Eleventh Meeting in Bangkok from 10 to 12 November 1993. It was understood that this did not constitute a precedent, and that subsequent meetings of the Executive Committee would normally be held in Montreal.

VI. CLOSURE OF THE MEETING

184. Following the customary exchange of courtesies, the Chairman declared the Tenth Meeting of the Executive Committee closed.

ANNEX I

**REPORT ON THE OPERATION
OF THE FINANCIAL MECHANISM
SINCE 1 JANUARY 1991**

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EXECUTIVE SUMMARY

1. The Multilateral Fund for the Implementation of the Montreal Protocol represents a formal commitment by developed countries (donor countries) to help developing countries that are Parties to the Protocol (Article 5 countries) meet global environmental obligations and eliminate their production and consumption of ozone depleting substances (ODS).

2. The Multilateral Fund began formal operations in January 1991. At the Fourth Meeting held in Copenhagen in November 1992, the Parties requested that the Executive Committee prepare a descriptive report on the operation of the Financial Mechanism. The Parties asked the Executive Committee to submit this report to the Open-ended Working Group in August 1993.

3. In response, the Executive Committee has prepared this report to provide a clear understanding of the Fund's mode of operation and the challenges it faces in the months and years ahead. The report comprises the following four chapters:

The Structure of the Multilateral Fund

The Process

Progress

Issues Encountered, Resolved and Outstanding

The Structure of the Multilateral Fund

4. The Fund is administered by an Executive Committee which consist of 14 members, selected by the Parties, half from Article 5 countries and half from donor countries. Both the Chair and the Vice-Chair are chosen from the 14 members of the Executive Committee and serve for one year. One of the two officers represents the Article 5 countries and the other the remaining countries.

5. The Fund Secretariat provides the Executive Committee with administrative support. Located in Montreal, it consists of nine professional staff and nine support staff. In addition to the Chief Officer, the professional staff includes two Deputy Chiefs, a Fund and Administrative Officer, four Programme Officers and an Information Officer. The staff is broadly representative of the Parties with two staff members from Asia, two from Africa, one from North America, one from Latin America, and two from Europe.

6. Implementation of Fund sponsored projects is facilitated by the four Implementing Agencies: the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organization

(UNIDO) and the World Bank (WB). UNEP also acts as Treasurer for the Fund. The Implementing Agencies work with the Parties to prepare annual work programmes and project proposals. They present these to the Executive Committee for consideration and approval and participate in meetings of the Executive Committee as observers.

7. Countries that are eligible to receive funding to eliminate ODS are defined in Article 5 of the Protocol and are thus referred to as "Article 5 countries". As of 16 April 1993, the number of Article 5 countries stood at 72.

8. Contributions to the Fund are made by Parties not operating under Article 5 of the Protocol and are referred to as "donor countries". Contributions to the Fund are made on the basis of the adjusted United Nations scale of assessment, an index system based on country economic factors. A total of 36 countries have been identified as contributors to the Fund.

9. Initial capitalization of the Fund was set at US \$160 million for the three-year period 1991 through 1993. This Fund total was subsequently raised to US \$200 million in 1991 and to US \$240 million in 1992 with the ratification of more Article 5 countries.

The Process

10. The activities financed by the Multilateral Fund are presented for review and approval by the Executive Committee in three types of documents: agency work programmes, country programmes, and project proposals.

11. As per the agreement with the Executive Committee, the Implementing Agencies are required to prepare annual work programmes in consultation with and with the approval of the Article 5 countries concerned. Work programmes of the Implementing Agencies are consolidated into a single document by the Secretariat. Following approval by the Executive Committee, funds are released to the Implementing Agencies by the Fund Treasurer.

12. The country programme is a vehicle by which a country develops a strategy and an action plan for elimination of ODS. The action plan consists of regulatory measures, priority projects, a timetable and a budget. Once the country programme is completed, the Government concerned submits it to the Fund for consideration by the Executive Committee. Country programmes can be prepared by the countries themselves, or in co-operation with an Implementing Agency or through bilateral co-operation.

13. Opportunities for project proposals are often identified as a result of a national priority or during the preparation of a country programme. Generally, the country and the Implementing Agency collaborate on the development of the project proposal for submission to the Executive Committee. Project proposals are developed based on the extent of the ODS problem, the technology available and the cost-effectiveness of the technology.

14. All project proposals must meet the Executive Committee's specific information requirements for project preparation before they are considered by the Executive Committee. Once the project is approved, legal documents are signed by the Implementing Agency and the country. For larger investment projects, local institutions are often responsible for project appraisal and implementation over-view; the Implementing Agency's role is to monitor project implementation.

Progress

15. Despite typical growing pains associated with the start-up of any multinational organization, the Fund has made substantial progress during its first two years of operation. With regard to its administrative procedures and personnel, the Fund has hired and trained most of the staff it requires and has developed many of the procedures and processes needed to transact its business effectively and efficiently.

16. In terms of its primary mission, as of March 1993, the Fund had approved almost 300 activities in 45 developing countries. These include 53 investment and demonstration projects in sixteen countries expected to result in the elimination of an estimated 31,000 tonnes of ozone-destroying substances annually. As well, funding for the preparation of 44 country programmes had been authorized and disbursed, and of these, ten programmes had been approved. These country programmes account for the consumption of 69,000 metric tonnes of ODS. Nine additional country programmes are scheduled for consideration at the June 1993 Executive Committee Meeting. Other activities supported by the Multilateral Fund include 50 training programmes at regional and national levels, 47 technical assistance activities, regional workshops, and information exchanges organized around UNEP's OzonAction Clearinghouse.

Issues Encountered and Resolved, and Outstanding

17. The pace of activity is accelerating and the Fund is now at the stage where projects and programmes are moving swiftly through the approval process and into implementation. Major policy and operational issues, such as institutional strengthening and inter-agency co-ordination, have been addressed and resolved. Steps are being taken to deal effectively with issues still outstanding, such as incremental costs and in-kind contributions.

INTRODUCTION

18. The Fourth Meeting of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer requested the Executive Committee of the Multilateral Fund to submit, to the Open-ended Working Group of the Parties, a descriptive report on the operation of the Financial Mechanism since 1 January 1991. The Parties asked for the Executive Committee to submit this report to the Open-ended Working Group scheduled in August 1993. The same Decision also specifies that a separate evaluation and review of the Financial Mechanism should be conducted by 1995 (paragraph 4 of Decision IV/18).

19. In response the Executive Committee has prepared this report to provide a clear understanding of the Fund's mode of operation, and the challenges it faces in the months and years ahead.

20. The report comprises the following chapters:

The Structure of the Multilateral Fund: a brief description of the key players of the Multilateral Fund (i.e., the Executive Committee, the Fund Secretariat, the Implementing Agencies, Article 5 Countries and Donor Countries), as well as contributions to the Fund.

The Process: an outline describing the different steps of the Multilateral Fund process in chronological order, including the Implementing Agencies' work programmes and the project cycle.

Progress: a presentation of the results achieved during the period under review based on work programmes, country programmes and project proposals that were approved.

Issues Encountered, Resolved and Outstanding: a description of the main issues that were encountered and resolved during the period under review as well as those still outstanding.

THE STRUCTURE OF THE MULTILATERAL FUND

21. The Multilateral Fund for the Implementation of the Montreal Protocol (the Fund) represents a formal commitment by developed countries (donor countries) to help developing countries Parties to the Protocol (Article 5 countries) meet global environmental obligations and eliminate their production and consumption of ozone depleting substances (ODS).

22. The Multilateral Fund began formal operations in January 1991. The Parties to the Protocol have established the following principles according to which they will operate the Fund:

1. Equal participation in the governance of the Fund by developed and developing countries.
2. A small secretariat to provide the necessary minimum of administrative support for the Fund.
3. The use of existing international agencies to undertake the required work under the Fund and so avoid the creation of new bodies.
4. The provision of both technical and financial assistance to developing countries. Financial assistance may be in the form of grants or concessional basis and will pay for all incremental costs for the removal of ODS and for the necessary technology transfers to attain this objective.

23. The Fund is administered by an Executive Committee which is assisted by a Secretariat. Implementation of Fund sponsored projects is supported by the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Organization (UNIDO) and the World Bank (WB). The following provides a brief description of the roles and responsibilities of the participants of the Fund.

The Executive Committee

24. The Executive Committee consists of 14 members, selected by the Parties, half from Article 5 countries and half from donor countries. Both the Chair and the Vice-Chair are chosen from the 14 members of the Executive Committee and serve for one year. One of the two officers represents the Article 5 countries and the other the remaining countries.

25. Article 5 countries have organized themselves into three regions (Asia, Africa and Latin America and the Caribbean) with two representatives from each region sitting on the Executive Committee. The additional seat rotates among the regions. The donor countries have organized themselves into six groups: the European Community; the United States; Japan; Canada,

Australia and New Zealand; the Nordic and EFTA countries; and the Russian Federation. Members of the Executive Committee are selected at a meeting of the countries within each group for varying terms, generally for one to three years. Their selection, as well as that of the Chair and Vice-Chair, is then endorsed by the Parties.

26. Decisions by the Executive Committee shall be taken by consensus whenever possible. If all efforts at consensus have been exhausted and no agreement reached, decisions shall be taken by a two-thirds majority of the Parties present and voting, representing a majority of the Parties operating under paragraph 1 of Article 5 and a majority of the Parties not so operating present and voting.

27. According to its terms of reference, the Executive Committee shall develop and monitor the implementation of specific operational policies, guidelines and administrative activities including:

- (i) *Review and approval* country programmes, project proposals and the work programmes of the Implementing Agencies.
- (ii) *Monitoring and evaluating* the performance of the Implementing Agencies through a review of their work programmes and progress reports.
- (iii) *Development of policies, guidelines and administrative practices* to facilitate and clarify the process.
- (iv) *Managing the funding process*. It ensures that fund needs can be met by contributions, prepares three-year plan and budgets, and reviews bilateral contributions.
- (v) *Reporting to the Parties* about its activities on a regular basis and providing a formal progress report to the Annual Meeting.

The Fund Secretariat

28. The Fund Secretariat provides the Executive Committee with administrative support. Located in Montreal, it consists of nine professional staff and nine support staff. In addition to the Chief Officer, the professional staff includes two Deputy Chiefs, a Fund and Administrative Officer, four Programme Officers and an Information Officer. The staff is broadly representative of the Parties with two staff members from Asia, two from Africa, one from North America, one from Latin America, and two from Europe.

29. The Secretariat has responsibility for the following:

- (i) *Preparation and documentation* for the meetings of the Executive Committee, sub-committees and the annual co-ordination session of the Implementing Agencies.

- (ii) *Policy analysis and review.* At the request of the Executive Committee, the Secretariat prepares policy papers.
- (iii) *Analysis and review of programme and fund activities.* The Executive Committee has requested the Parties and the Implementing Agencies to direct proposals and plans through the Secretariat. This expedites the approval process by ensuring that presentations are complete and conform to approved Executive Committee guidelines. In addition, for projects in excess of US \$500,000, the Secretariat prepares an evaluation and recommendation for the Executive Committee.
- (iv) *Monitoring the activities of the Implementing Agencies.* It reviews the agencies' work programmes and progress reports, and reports to the Executive Committee. The Secretariat also ensures that an up-to-date inventory of projects and programmes is maintained. To better co-ordinate the activities of the Implementing Agencies and reduce duplication, the Secretariat also produces an annual report that consolidates the individual work programmes of the agencies.
- (v) *Communications and public relations.* The Secretariat participates in workshops, seminars and conferences to promote the activities and purpose of the Fund. It has produced a general information brochure about the Fund, papers on policy issues, and an information kit. In addition, since the Parties and the Executive Committee only meet periodically, the Secretariat serves as the central point of contact for inquiries about the operation of the Fund.
- (vi) *Administrative support, co-ordination, and liaison* for the Executive Committee. The Secretariat plays an important role in co-ordinating the fund activities undertaken by the Implementing Agencies as well as bilateral co-operation programmes.
- (vii) *Financial management/monitoring of the Fund.* The Secretariat supports the Executive Committee by preparing a three-year budget and an operating budget and by monitoring contributions and disbursements.

The Implementing Agencies

30. Implementation of the activities approved for funding is facilitated by the four Implementing Agencies. UNEP also acts as Treasurer for the Fund. A copy of the Treasurer's report on 1992 Accounts is presented in Annex I. In addition to a tripartite interagency agreement between UNDP, UNEP and the World Bank, all of the Agencies, including UNEP as the Treasurer, signed specific agreements with the Executive Committee. The Implementing Agencies work with Article 5 countries to prepare annual work programmes and project proposals. They present these to the Executive Committee for consideration and approval and participate in meetings of the Executive Committee as observers.

31. Apart from specializing in preparing studies for countries of a certain size, the Implementing Agencies also specialize in the type of supporting activities they offer. This specialization arises from the comparative advantages of each agency. Profiles of the Implementing Agencies are summarized in Annex II.

Article 5 Countries

32. Countries that are eligible to receive funding to eliminate ODS are defined in paragraph 1 of Article 5 of the Protocol and are thus referred to as "Article 5 countries." As of 24 June 1993, the number of Article 5 countries stood at 74.

33. There is no single common organizational structure that handles Fund activities in Article 5 countries. In general, most policy and programme operations are housed in each country's Environment Ministries/Department, legal and financial agreements tend to be managed by the Finance Ministries, while external and international relations are the responsibility of the Department of External Affairs/Relations. A sub-committee established by the Executive Committee to assess delays in implementing Fund approved projects found that effectiveness is improved when there is a mechanism to facilitate interdepartmental co-ordination and one department/ministry is given the authority to sign legal and financial documents for all Multilateral Fund projects.

Donor Countries

34. Contributions to the Fund are made by Parties not operating under Article 5 of the Protocol and are referred to as "donor countries". Despite some national differences, donor countries tend to follow a similar pattern in administering their Fund activities. The Ministry of the Environment handles policy issues and acts as lead manager in co-ordinating interdepartmental meetings. Financial contributions are the responsibility of the Ministry of Finance or Treasury Department, while external relations are handled by an appropriate External Affairs Ministry or Department. There appears to be a greater commitment to the Fund when a country has a representative on the Executive Committee. Only the US has an interdepartmental Ozone Co-ordinator whose full-time responsibility is managing Multilateral Fund activities.

35. Communication within and between donor countries about Fund activities tends to be informal though several of them have taken steps to formalize them. Non-members of the Executive Committee have indicated that current methods and levels of information dissemination have been inadequate.

Contributions

36. It was agreed that initial capitalization of the Fund would be set at US \$160 million for the three-year period 1991 through 1993. This Fund total was subsequently raised to US \$200

million in 1991 and to US \$240 million in 1992 with the ratification of more Article 5 countries.

37. Contributions to the Fund are made on the basis of the adjusted United Nations scale of assessment. The UN scale of assessment is an index system based on country economic factors. Since the index includes both industrialized and developing countries, the index is adjusted to apply only to donor countries.

38. Donor countries may channel up to 20 per cent of their contribution to the Fund through bilateral or regional assistance. At the Annual Meeting of the Parties, a list of donor countries, along with their assessed contribution, is drawn up and is included in the Report of the Meeting. A total of 36 countries have been identified as contributors to the Fund. At the beginning of every year, the Fund Treasurer writes to each country and informs it of the amount of its contribution and invites payment as soon as possible.

39. In accordance with Article 10, contributions to the Fund may be made in convertible currencies, or in certain circumstances, in-kind and/or, in native currency. To date, all contributions have been made in convertible currency, although some interest has been expressed in in-kind contributions, and one promissory note was submitted.

40. The total contribution to the Fund for 1991 and 1992 was US \$99,040,881 out of the total pledge of US \$126,660,390, leaving outstanding contributions of US \$27,619,509 or 22 per cent of the pledge as of June 1993. As has been the case in previous years, contributions at the beginning of 1993 have been slow in coming. In addition, US \$1,982,732 was earned as interest. Thus, the total amount available in the Fund was US \$119,241,438, as at 24 June 1993. The Government of Canada has contributed US \$1,442,103, in addition to its assessment, towards hosting the Secretariat in Montreal. Canada's "counterpart contribution" to the Fund is a yearly contribution.

Bilateral Contributions

41. In its decision to establish the Multilateral Fund, the Parties agreed that "Bilateral and, in particular cases agreed by a decision of the Parties, regional co-operation may, up to 20 per cent and consistent with any criteria specified by decision of the Parties, be considered as a contribution to the Multilateral Fund, provided that such co-operation as a minimum: (a) strictly relates to compliance with the provisions of the Protocol; (b) provides additional resources; and (c) meets agreed incremental costs".

42. Bilateral contributions amounted US \$2,206,772 of which the United States has been a major contributor. Both Australia and Germany have spent funds to support Article 5 participation in technical workshops. The United States activity has focused on: technical assistance in project preparation and feasibility studies; regional workshops; training; technical assistance and demonstration projects; and support for country programmes.

THE PROCESS

43. This section describes the different steps of the Multilateral Fund process, including the Implementing Agencies' work programmes and project cycles.

44. The activities financed by the Multilateral Fund are presented for review and approval by the Executive Committee in three types of documents: agency work programmes, country programmes and project proposal.

Agency Work Programmes

45. As per the agreement with the Executive Committee, the Implementing Agencies are required to prepare annual work programmes in consultation with and with the approval of the Article 5 countries concerned. Work programmes are planning documents which provide the Executive Committee with the information it needs to manage and co-ordinate the Fund's activities. Work programmes include requests for funding of activities with a cost of below US \$500,000. Work programmes often include requests for funding of country programmes, project preparation, training programmes, technical assistance, information exchange, demonstration projects, institutional strengthening and small investment projects.

46. After annual work programmes are prepared by the Implementing Agencies, they are consolidated by the Secretariat into a single document. The document is discussed at an Implementing Agency co-ordinating meeting convened by the Fund Secretariat, to review the programmes, resolve conflicts, and eliminate any overlap before its consideration by the Executive Committee. Following approval by the Executive Committee funds are released to the Implementing Agencies by the Fund Treasurer. During the course of the year, Implementing Agencies may submit work programme amendments, requesting funds for additional activities costing below US \$500,000.

Country Programmes

47. The country programme is a vehicle by which countries review their production, import, export and consumption of controlled substances and delineates a strategy and an action plan for elimination of ODS. The action plan consists of regulatory measures, priority projects which the country envisions implementing along with a timetable and budget estimates.

48. Once the country programme is completed, the Government concerned submits it to the Fund Secretariat for review by an official letter of transmittal six weeks before the meeting of the Executive Committee at which it is to be considered for approval. When sufficient information including incremental cost estimates are provided for projects identified in a country programme, then approval of the country programme may include approval of funding for those

projects. An approved country programme may be updated when necessary and resubmitted for further consideration.

49. Country programmes can be prepared by the countries themselves, or in co-operation with an Implementing Agency or through bilateral co-operation. The country programmes are prepared according to the guidelines approved by the Executive Committee.

The Project Cycle

50. While each Agency has its own requirements for project development and review, (which will be discussed later in this section) the following section describes the general path that all projects must take in relation to the Executive Committee as shown in Figure 1.

Project Proposal Development

51. Projects are often identified as a result of a national priority or during the preparation of a country programme. Generally, the country and the Implementing Agency collaborate on the development of the project proposal for submission to the Executive Committee. In some cases, the project proposal is prepared by an Article 5 country; if no Implementing Agency is identified when the project approaches Executive Committee review, the Secretariat collaborates with the Article 5 countries in the identification of an Implementing Agency. In few other cases, a project is initiated through bilateral co-operation in which a donor country collaborates with an Article 5 country on the development of the proposal. Project proposals are developed based on the extent of the ODS problem, the technology available and the cost-effectiveness of the technology.

52. All project proposals must meet the Executive Committee's specific information requirements for project preparation before they are considered by the Executive Committee. These requirements cover a number of key topics; mandate that a technical review accompany project proposals, and help to ensure that sufficient information is available to the Executive Committee to enable it to carry out an adequate review.

53. Once the project proposals are developed, they must be submitted to the Fund Secretariat at least six weeks prior to the date of the Executive Committee meeting at which they are to be considered.

54. Immediately following submission, the Secretariat begins an intensive review of the project proposals to ensure their consistency with the policy and incremental cost guidelines established for the Fund. During its first year of operation, the Secretariat moved from project review directly to the delineation of comments and recommendations. This process resulted in a discussion at the Executive Committee of a number of project specific issues. Over the last year, the Secretariat has been working more closely with the Implementing Agencies in an effort

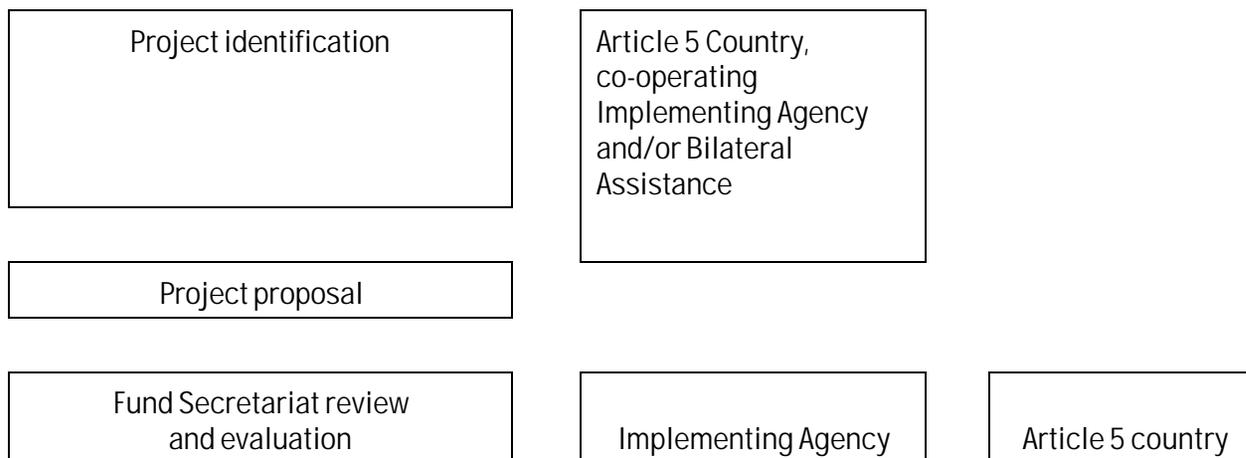
to resolve project related issues before the Executive Committee meeting. While this does consume at least two weeks of the six week review time, the Executive Committee is of the opinion that this has increased the quality of projects while significantly reducing the number of issues which must be addressed at each Executive Committee meeting.

55. Following its review and discussion with the Implementing Agencies, the Secretariat prepares its comments and recommendations on projects, and sends them, together with the projects, to the Executive Committee for its review.

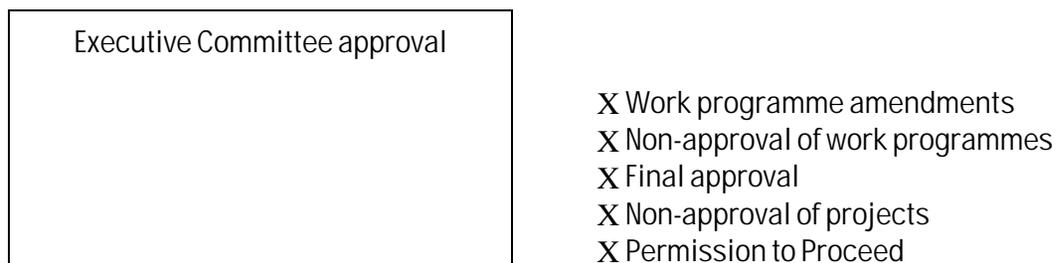
THE PROJECT CYCLE FOR MULTILATERAL FUND PROJECTS

GENERAL FLOW CHART

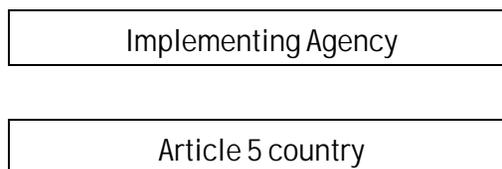
Proposal Development



Approval



Implementation



Project Approval

56. Project review and approval is different for projects under US \$500,000 (which are included in Agency work programmes) and projects over US \$500,000, which need specific Executive Committee approval. While the Executive Committee criteria do call for a certain minimum amount of information for projects under US \$500,000, these projects are not typically individually considered by the Executive Committee unless the Secretariat review reveals an issue of consistency with Executive Committee guidelines. In contrast, each project over US \$500,000 is, in accordance with the terms of reference of the Executive Committee, individually considered.

57. In deciding on each project, the Executive Committee has before it, a project summary sheet, the project proposal, a copy of the technical review of the project, and the Secretariat's comments and recommendations. The Executive Committee is provided time for discussions of each project, and, in practice, it takes one of the following five actions:

1. Work programme amendments: projects involving costs below US \$500,000 which would be approved and funded as amendments to Implementing Agency work programmes;
2. Non-approval of work programmes: projects involving costs below US \$500,000 which would not be approved on policy grounds;
3. Final approval: projects over US \$500,000 which would be fully and finally approved and funded without the need for further documentation;
4. Non-approval of projects: projects over US \$500,000 which would not be approved on policy grounds;
5. Permission to Proceed: allows Implementing Agencies to proceed with further development of a project or group of projects. Does not constitute Executive Committee approval of the project or necessitate the transfer of funds.

58. Following Executive Committee's action, funds for approved projects are disbursed by the Fund Treasurer to the Implementing Agencies who will then initiate the necessary actions to ensure implementation of the projects.

The Project Cycles of the Implementing Agencies

59. Only UNDP, UNIDO and the World Bank are involved in the preparation of investment projects. A description of UNEP's activities is also included in this section. Although they employ their own standard procedure for processing project proposals, these have been adapted to meet the needs of the Multilateral Fund. The following section describes the project cycle followed by these Implementing Agencies in preparing and submitting projects for approval.

UNDP

60. UNDP has set up a Montreal Protocol Unit which is located within its Environment and Natural Resources Group (ENR) at UNDP headquarters in New York. The Unit is headed by the Montreal Protocol Task Manager, a senior-level staff position. There are additionally five staff in the Unit comprising one senior technical expert, two middle-level staff and two programme assistants. UNDP has also appointed five sectoral experts on retainer contracts in the aerosols, foams, solvents, halons and refrigeration training areas. The Unit is responsible for programme development and technical project monitoring, while actual project implementation is handled by one of UNDP's executing agencies (e.g. the Office of Projects Services) or executed by governments directly.

61. Requests for assistance for project development can come from an Article 5 country to UNDP (either to a Field Office or to Headquarters), as part of a country programme or from a UNDP consultants recruited at government request to help identify projects.

62. A draft project document is prepared by UNDP Headquarters with the assistance of the UNDP Field Office, and the Article 5 country concerned. In some instances a first draft of project document is prepared by the Government itself. In either case, the project document details the activities to be performed, their rationale and justification, expected results, the project budget, the work schedule and the responsibilities and inputs of each party to the project. Once the project document is drafted, it is evaluated by an independent sector expert, recruited on a project by project basis.

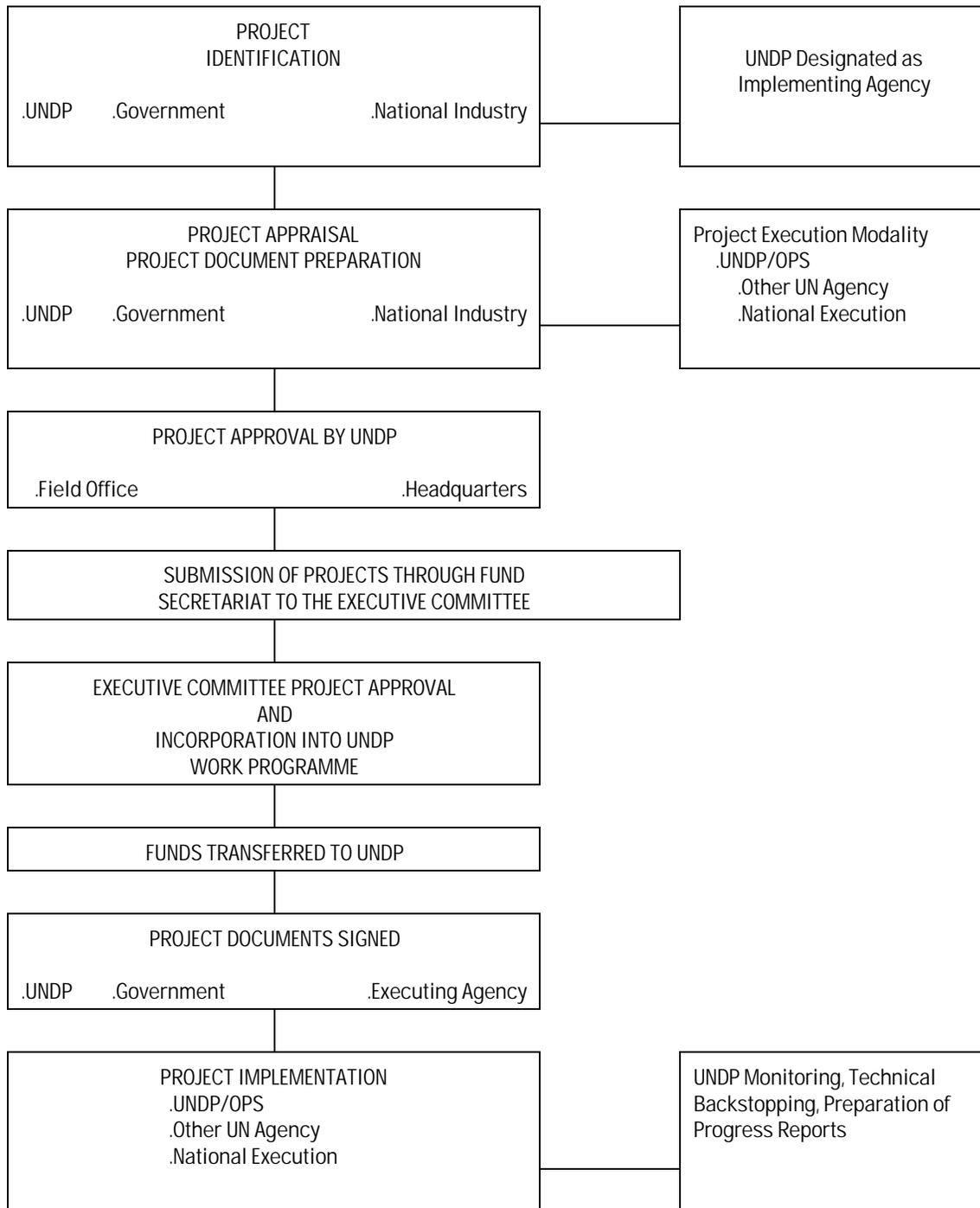
63. Project proposals are reviewed and modified by the designated executing agency (UN agency or national government) and approved by the government, by UNDP and by the executing agency.

64. Once the project document has been approved by UNDP Headquarters, is submitted to the Fund Secretariat for review, feedback, and dispatch to the Executive Committee. The Executive Committee then makes its project approval decision, taking into consideration the Fund Secretariat's recommendations. Where the Executive Committee requires only minor changes to the project proposal, it is amended and signed by the parties concerned. In the event the Executive Committee changes a project drastically or funds only part of the total requested costs, an additional technical and financial review by UNDP may be needed to determine how the project should be implemented and amended. If the concerned government and/or company concludes that the project is no longer feasible at the reduced funding level, UNDP would so inform the Executive Committee and funding received would be returned to the Fund.

65. The project document is signed by UNDP and the Government concerned after it has been approved by the Executive Committee. Transfer of funds is a straight-forward process since for each new project UNDP only requires an addendum to the "umbrella grant" agreement which UNDP has signed with over 120 countries. UNDP does not need a financial intermediary since financial transactions and accounting are the responsibility of UNDP executing agencies; in case of projects executed directly by governments, the UNDP Field Office assists in the financial intermediary functions. Figure 2 shows UNDP's project cycle.

FIGURE 2

SUMMARY OF UNDP PROCEDURES
FOR PROJECT DEVELOPMENT AND IMPLEMENTATION



UNIDO

66. UNIDO's project cycle begins with the identification of an ODS problem in an Article 5 country. The identification of the problem leads to the development of project ideas and the characterization of the assistance that might be required for developing the project proposal. While country programmes provide a structured approach for the development of project ideas, they may also be developed by an Article 5 country, by UNIDO field staff or Headquarters staff on mission, or by another United Nations agency. In all cases, the UNIDO Area Programmes Division systematically gathers the project ideas and makes them available to all departments of UNIDO, field offices and the Article 5 country concerned, at regular intervals. If the project requires joint development and/or implementation with another Implementing Agency, co-operation is established during these initial stages.

67. The project formulation phase entails collecting and analysing background information, designing and drafting the project proposal, in accordance with applicable guidance, in order to ensure its relevance, technical soundness and feasibility.

68. The project formulation requires close co-operation between various units at Headquarters, as well as among UNIDO, the recipient Article 5 country, and other Implementing Agencies. During this phase, the Project Appraisal Section can provide advice, if required.

69. When the draft project document is completed, it is cleared by:

- The specialized branch which confirms that the project is feasible from technical and economic viewpoints; and
- The Area Programmes Division which confirms that an official Government request has been received, the project complies with the country programme or with the request by an Article 5 country, and the project design is in accordance with the relevant formats and meets design standards.

70. Following the internal approval of UNIDO, the project is submitted formally to the Executive Committee of the Multilateral Fund for review and approval. Following the approval of the Executive Committee, the project is signed by UNIDO and the Government of the Article 5 country concerned.

71. Figure 3 shows UNIDO's project cycle.

WORLD BANK

72. The World Bank Country Department for the country concerned assigns a task manager to each project from its inception. To initiate discussions, the task manager leads a mission to consult with the government on the project and the necessary measures which must be taken to ensure its preparation, approval and eventual implementation. In the context of most Bank projects, this often includes the selection of a financial intermediary who will handle in-country public sub-project appraisal, and disbursement of funds for project execution. Working with the country early in the process to select the financial intermediary and determine the terms of procurement, disbursement and sub-project eligibility criteria are critical to ensuring timely implementation of MP Bank projects.

73. Following the initial mission, the Bank drafts what it calls an Executive Project Summary (EPS). This document contains virtually all of the components that the Executive Committee requires for project review, and is the primary vehicle that the Bank uses to obtain internal approval of a project. Annexes to the EPS include sub-project documentation in the form agreed with the Multilateral Fund Executive Committee for its approval. Sub-project documentation, not the EPS per se, are submitted to the Executive Committee for review.

74. To ensure that the best possible advice is provided in the technical review of ozone projects, the Bank has established the Ozone Operations Resources Group (OORG). This body, which is made up of internationally recognized experts, serves as a resource to the Bank, and through it, the Multilateral Fund. Following OORG review of the sub-projects listed in the annexes to the EPS and other available technical documentation, the Bank holds an internal review meeting with the Country Department. This meeting is also attended by a Bank Technical Advisor, peer reviewers and staff from the Bank's Global Environment Coordination Division, which is the focal point for MP operations co-ordination.

75. Initial internal approval to submit the project for Executive Committee consideration is received at this meeting. Following this approval, and the endorsement of the country, the Bank submits the project documentation to the Fund Secretariat. As discussed above, the Bank indicates the kind of action it is requesting the Executive Committee to take (approval as a Work Program amendment, final project approval, or permission to proceed).

76. The Executive Committee approval initiates the final project approval steps. Following Executive Committee approval, the Bank must change the EPS into a Memorandum of Recommendation and prepare, or continue the process of developing, a legal grant agreement which are key documents on which Bank management can approve release of funds from the Ozone Projects Trust Fund for an Executive Committee (EC) approved project. The need for Bank management approval is in keeping with the obligations of the Bank as defined in the agreement with the EC, including its fiduciary and project appraisal and supervision responsibilities.

77. The grant agreement process is in some cases the most time consuming portion of the project approval process. There are several reasons for this. First, there are often a number of Agencies in the recipient country that are involved. Thus, final approval requires a high degree of coordination, both between the Bank and the Agencies and between the Agencies themselves.

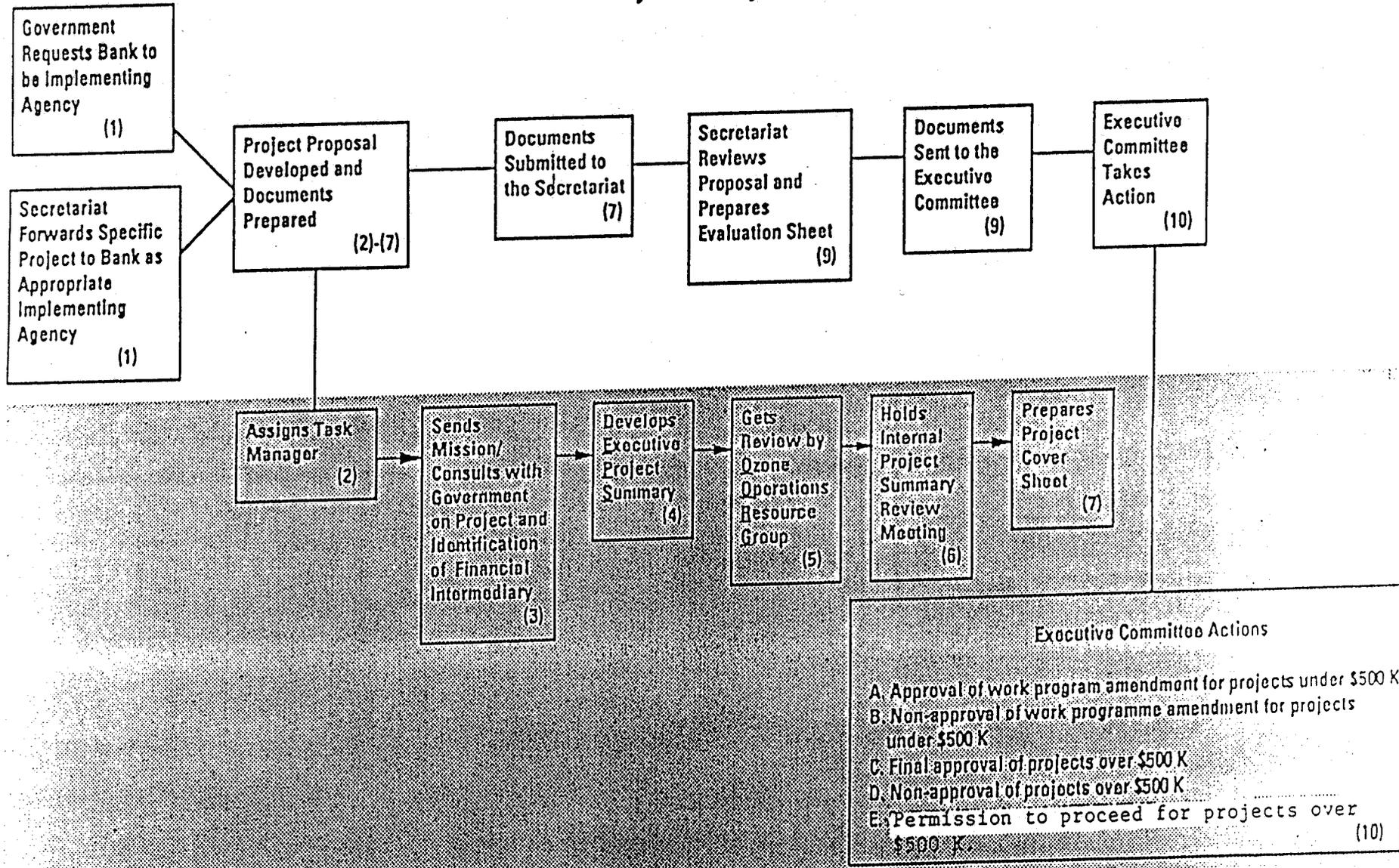
78. The Bank has addressed these issues by initiating discussions of grant-related issues during the project's development, rather than waiting until the project has been approved. In that regard, the Executive Committee has encouraged relevant Implementing Agencies to implement sub-projects under one unique legal framework (umbrella agreement) with the relevant intermediary in the recipient country. To expedite Article 5 country approval of grant agreements, the Executive Committee also recommended that Article 5 countries consider the selection of a focal point and use interministerial bodies, as appropriate. As a result of these activities, it is expected that the development of subsequent grant agreements in Article 5 countries will be much easier, as many of the issues will have been worked out in the initial agreements.

79. Before the grant agreement can be finalized, the Bank must have a final appraisal of the project. This involves a detailed costing of the project subcomponents and review of local implementation arrangements and requirements. Over the last year, in order to expedite project implementation post Executive Committee approval, the Bank has moved in the direction of undertaking the functional equivalent of a pre-appraisal prior to Executive Committee submission. In any event, a final appraisal document must accompany the proposed grant agreement through the Bank for the final project sign-off.

80. Once the project is authorized, the legal documents are signed by the Bank and the country, and the funds can be disbursed in accordance with its terms. In most cases, the money will be disbursed to a financial intermediary who will be responsible for local sub-project appraisals and implementation overview. This is because the Bank does not execute investment projects. Instead, their role is to monitor project implementation through regular supervision missions.

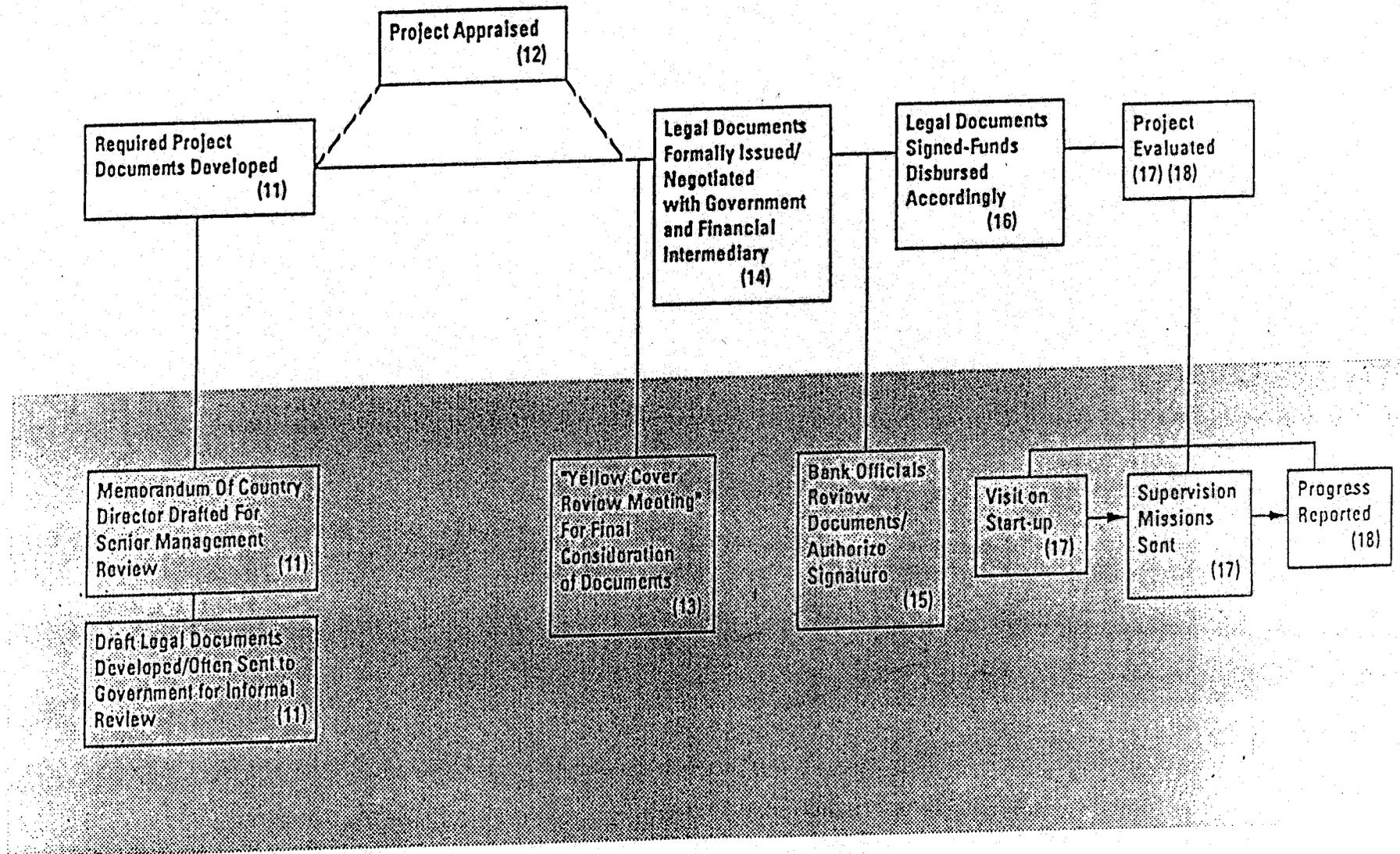
81. One last unique attribute of the Bank's operation is that whenever possible, it combines what would normally be considered as several discrete projects, into a single "umbrella project". While this may slow approval of sub-projects which are awaiting the development of additional sub-projects before a unified submission, the Bank believes that it reduces the administrative burden on its clients and its staff, and by including all the sub-projects in one grant, saves substantial time during project processing, as well as administrative costs. In any event, the Executive Committee reviews each sub-project which has an incremental cost of over US \$500,000. Figure 4 shows the World Bank's project cycle.

World Bank Montreal Protocol Project Preparation



Areas in white provide an overview of procedures.
 Shaded areas describe detailed procedures.
 (#)s refer to paragraphs in accompanying narrative.

World Bank Montreal Protocol Project Implementation Following Executive Committee Review



Areas in white provide an overview of procedures.
Shaded areas describe detailed procedures.
(#)'s refer to paragraphs in accompanying narrative.

UNEP

82. UNEP, as per its agreement between the Executive Committee of Interim Multilateral Fund, has been tasked with the following work:

- a) political promotion of the objectives of the Protocol;
- b) research and data-gathering, according to the provisions of the Protocol; and
- c) clearing-house function comprising of the following activities:
 - (i) assist Parties operating under paragraph 1 of Article 5 of the Protocol, through country-specific studies and other technical co-operation, to identify their needs for co-operation;
 - (ii) facilitate technical co-operation to meet these identified needs;
 - (iii) collect and disseminate information and relevant materials, hold workshops and training sessions and other related activities for the benefit of Parties that are developing countries; and
 - (iv) facilitate and monitor other multilateral regional and bilateral co-operation available to Parties that are developing countries.

83. UNEP has prepared its work programmes for the year 1991 (approved in June 1991) and for the year 1992 (approved in February 1992) in order to carry out these tasks. Information Clearinghouse, Training, Workshops and Networking and Country Programmes for Low-volume-ODS consuming countries are the three main areas of UNEP's Work Programmes.

PROGRESS

84. The Fund began formal operations in January 1991. Since its creation, it has hired and trained most of the staff it requires and has developed many of the procedures and processes needed to transact its business effectively and efficiently. Despite the usual difficulties associated with the start-up of projects of this nature, the Fund has made substantial progress during its first two years of operation. As at March, 1993:

Agreements between the Executive Committee and UNDP, UNEP, UNIDO and the World Bank were signed;

Work programmes of UNDP, UNEP, and World Bank for 1991, 1992 and 1993 were approved;

Almost 300 activities in 45 developing countries have been approved;

Fifty-three investment and demonstration projects (including those costing below US \$500,000) in sixteen countries expected to result in the elimination of the consumption of approximately 31,000 metric tonnes of ODS per year have also been approved in all sectors. These projects account for US \$54.7 million of the fund disbursements;

A total of about US \$26.11 million has been allocated for the work programmes of the Implementing Agencies for preparation of country programmes and project proposals, feasibility studies, technical assistance and demonstration projects, and institutional strengthening, distributed as follows:

UNDP	US \$10.20 million
UNEP	US \$ 5.89 million
UNIDO	US \$ 0.49 million
World Bank	US \$ 9.53 million;

Out of the 44 country programmes for which US \$3.2 million was disbursed to the Implementing Agencies for their preparation, ten have been completed and approved. These are those of Chile, China, Costa Rica, Ecuador, Egypt, Ghana, Malaysia, Mexico, Turkey and Zambia. These country programmes account for the consumption of ODS of 78,300 metric tons. Nine additional country programmes are scheduled for consideration in June of 1993.

85. Other activities which were also supported by the Multilateral Fund include 50 training programmes at regional and national levels, 47 technical assistance activities, and information exchange organized around UNEP's Ozonation Clearinghouse. The Ozonation Clearinghouse

includes an on-line data base which became operational in February 1992, which contains information on ODS and on government, other international organizations ODS phase-out activities. From August through December 1992, 500 query-response exchanges were made on the computerized information system. UNEP also publishes technical brochures and a regular newsletter. Five issues were published and disseminated to approximately 15,000 individuals or organizations. Also, five brochures in three languages were prepared by the end of 1992 and distributed to over 3,000 contacts.

86. UNEP organized four regional workshops during 1991 and 1992 to introduce Article 5 countries to the Multilateral Fund and to provide a networking forum for countries within specific regions.

ISSUES ENCOUNTERED AND RESOLVED, AND OUTSTANDING

87. The pace of activity is accelerating and the Fund is now at the stage where projects and programmes are moving swiftly through the approval process and into implementation. Several major policy and operational issues, such as institutional strengthening and inter-agency co-ordination, have been encountered and resolved. Steps are being taken to deal with issues still outstanding, such as incremental costs and in-kind contributions. This section of the report describes some of the major issues that have been addressed by the Executive Committee.

Issues Encountered and Resolved

Policy and Operational Issues

88. At its second meeting, the Executive Committee established a sub-committee to prepare implementation guidelines and criteria for project selection. The Committee approved the guidelines at its third meeting, on the understanding that they would be further developed after one year in the light of the experience gained and supplemental guidelines were approved at the seventh and eighth meetings.

89. Preparation of country programmes was one of the first activities undertaken by the Implementing Agencies and/or Article 5 countries. Since the first country programmes submitted for approval contained different levels and kinds of information, the Executive Committee asked the Fund Secretariat to develop guidelines for the presentation of country programmes. The guidelines, adopted by the Committee at its fifth meeting, facilitated the preparation and review process for country programmes.

90. The Executive Committee, at its third meeting, also decided to develop criteria and procedures for bilateral and regional contributions, which were adopted in February 1992.

91. At its seventh meeting, the Executive Committee adopted a number of policy decisions including retroactive support; support to subsidiaries of transnational corporations or enterprises permitted to operate in "free zones" and whose output is for export only; and support to enterprises that are wholly or partly owned by countries that are not Parties to the Protocol.

Capacity Building in Article 5 Countries

92. There is no single common organizational structure that handles Fund activities in Article 5 countries. A lack of local expertise may prevent many of these countries from taking advantage of opportunities offered by the Fund to develop country programmes and project proposals.

93. The Executive Committee, recognizing the need for capacity enhancement in relevant national institutions, decided to provide limited funding for institutional strengthening. The Fund provides necessary resources to strengthen a national institution that can, in turn, facilitate implementation of projects and ensure effective liaison between the country, the Executive Committee, the Fund Secretariat, and the Implementing Agencies. UNEP's clearing-house function, including information exchange and training, is also expected to contribute to capacity building in Article 5 countries, leading to faster ODS phase-out.

Inter-agency Co-ordination

94. Because of concerns over duplication of activities by the Implementing Agencies, the Executive Committee decided to integrate the work programmes into one document, and asked the Secretariat to play a co-ordinating role in developing such a document. The Executive Committee also decided that the Implementing Agencies should adopt a sector-based approach for their work programmes. The intent of the approach is to identify paradigmatic projects that can be replicated through Article 5 countries. The Committee has used the sector-based approach in the development of the 1992 and 1993 consolidated work programmes and in preparing its three year plan and budget for 1994 through 1996.

Development of Project Proposals

95. Several factors caused delays in the project proposal development stage for the first proposals submitted to the Executive Committee by Article 5 countries. These factors included an absence of appropriate guidelines and criteria; lack of an institutional structure within the country; a change in the personnel responsible for Montreal Protocol activities; emerging technologies which are unproven and have uncertain costs; the desire to use less harmful ODS transitional solutions while new technologies are under development; situations where the incremental costs cannot be easily defined or where benefits cannot be immediately quantified; and situations where the company that will receive the funding is not financially sound.

96. The steps from project identification to project approval by the Executive Committee have been expedited by the adoption of guidelines and criteria for project proposals. In addition, Article 5 countries and Implementing Agencies have gained a fuller understanding of requirements. Finally, co-operation and support by industry has increased, and institutional structures within countries have been strengthened.

97. For some investment project proposals, the Executive Committee provided the Implementing Agencies with "permission to proceed" to allow for the expeditious negotiation of grant agreements in advance of the actual approval and allocation of funds.

Expediting Project Implementation

98. Delays in the signing of the agreement between the government concerned and the Implementing Agency, once the project proposal has been approved by the Executive Committee, have also been a major cause of delays in the implementation of projects. Some projects that were approved over 18 months ago have yet to be implemented. The average length of time for obtaining signature of a grant agreement is currently 11 months. However, Implementing Agencies are hopeful that, with the experience gained in drafting and negotiating the initial grants, this time lag can be significantly reduced.

99. To speed up the implementation process, the Executive Committee established a subcommittee to evaluate a representative sample of approved projects with a view to identifying barriers to speedy project implementation. The sub-committee reported back to the eighth meeting and recommended the following to accelerate project implementation.

that Article 5 countries should select Implementing Agencies before they prepare projects for submission;

that Article 5 countries and Implementing Agencies should develop legal and disbursement arrangements in parallel with the investment project preparation;

that they should have agreed timelines for project preparation and implementation; and,

that "permission to proceed" might be used as a vehicle for proceeding with grant agreements before final project approval is obtained.

Issues Outstanding

Contributions

100. More than 70 per cent of the pledged contributions to the Fund for the years 1991 and 1992 has been received. A copy of the Treasurer's report on the Status of the Contributions and Disbursements to the Fund is included in Annex III. The contributions in arrears are attributable mainly to countries with economies in transition who may be hoping to make their contributions in-kind, as hard currency remains a problem. The Executive Committee has asked the Secretariat to continue its consultations with the Implementing Agencies and the appropriate Governments with a view to elaborating modalities for practical utilization of contributions in-kind. The Committee recently established a sub-committee to develop recommendations on actions that can be taken to encourage timely payment to the Fund. Additionally, the Executive Committee recently established a standing Finance Sub-Committee which can address the issue of in-kind contributions in the future.

101. Some non-Article 5 countries have discussed alternative methods of making contributions to the Fund, such as promissory notes. The standing Finance Sub-Committee will also be addressing this issue.

102. There is no set date for making contributions to the Fund. While there has been no cash-flow problem to date, on two occasions, the Executive Committee committed virtually all of its cash on hand. This situation, however, will have to be monitored more closely as, in accordance with its Terms of Reference, the Executive Committee cannot approve projects in the absence of funds on hand.

Incremental Cost

103. The Indicative List of Categories of Incremental Costs is the basic document on project eligibility for the Multilateral Fund. However, with increasing numbers of project proposals, operational guidance on items to consider in the calculation of incremental costs is a necessity.

104. The Executive Committee at its seven meeting considered and took note of documents prepared separately by the Secretariat and the World Bank on incremental costs. The Executive Committee decided that it would follow the Indicative List adopted at the London Meeting of the Parties and, in cases where the Indicative List proved not to provide sufficient guidance, it would consult the two documents.

105. Pursuant to a request by the seventh meeting of the Open-ended Working Group of the Parties to the Montreal Protocol, the Executive Committee recommended at its eighth meeting that, for the present, the existing Indicative List of Categories of Incremental Costs should be left unchanged, and that the Executive Committee could consider proposals regarding research and development on substitutes, and equipment production facilities for recycling and destruction on a case-by-case basis provided that the costs incurred were of an incremental nature.

106. A document is currently being developed to further clarify certain incremental cost issues. Incremental cost issues that have not yet been addressed by the Executive Committee through project submissions include, inter alia: commercial risk, enterprise incentive, unintended benefits, no-price barriers, distribution issues, premature retirement, and social welfare costs.

APPENDIX I

REPORT FROM THE TREASURER 1992 ACCOUNTS

Accounts for the first year of the biennium 1992-1993
ended 31 December 1992

1. The statement contained in this document reflects the status of the Fund as at 31 December 1992. This statement was submitted as part of the accounts of the United Nations Environment programme to the United Nations Board of Auditors.
2. Schedules 1.1 to 1.4 provide details of expenditures in 1992 in respect of the Secretariat and the three implementing agencies, namely, the United Nations Environment Programme, the United Nations Development Programme and the World Bank.

Statement IV

I. Statement of income and expenditure for the first year of the biennium 1992-1993 ended 31 December 1992

(United States dollars)

Income

Pledged contributions	71,612,841
Interest	1,757,933
Miscellaneous	522,219
Total income	73,892,993

Expenditure

Staff and other personnel costs	999,686
Consultants 205,644	
Travel 78,846	
Meetings and conferences	184,517
Rentals	497,340
Operating expenses	69,653
Acquisitions	19,563
Reporting costs	45,201
Sundry	54,150
Hospitality	5,197
Loss on exchange	24,603
Programme support costs	105,784
UNEP managed activities	1,778,518
UNDP managed activities	1,265,595
World Bank managed activities	3,263,742
Total expenditure	8,598,039

Excess of income over expenditure**65,294,954**

II. Statement of assets and liabilities as at 31 December 1992

(United States dollars)

Assets

Cash at banks	31,121,203
Pledged contributions unpaid	34,569,756
Accounts receivable	79,917
Accrued interest	138,145
Due from Fund of UNEP	426,212
Advances to implementing agencies	49,285,691
Total assets	115,620,924

Liabilities

Accounts payable	5,186
Unliquidated obligations	272,858
Total liabilities	278,044

Fund balance

Balance available 1 January	50,592,268
Adjustment to prior year's accounts	(544,342)
Add: Excess of income over expenditure	65,294,954
Balance available 31 December	115,342,880
Total liabilities and fund balance	115,620,924

Certified correct

N. Gopalratnam
Chief, Finance Section

Schedule 1.1**Secretariat of the Multilateral Fund**

US \$

Income

Approved 1992 budget	2,766,710
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Expenditure

Staff	999,686
Consultants 205,644	
Travel 78,846	
Meetings and conferences	184,517
Rentals	497,340
Operating expenses	69,653
Acquisitions	19,563
Reporting costs	45,201
Sundry	54,150
Hospitality	5,197
Loss on exchange	24,603
Programme support costs	105,784
Total expenditure	2,290,184

Excess of income over expenditure**476,526**

Schedule 1.2**U N E P Managed Activities**

US \$

Income

Funds transferred for approved projects	1,921,000
Interest	75,848
Total income	1,996,848

Expenditure

Staff	162,647
Consultants 281,835	
Travel 40,354	
Contractual services	399,587
Meetings and conferences	362,184
Rentals	80,202
Operating expenses	45,027
Acquisitions	24,906
Reporting costs	93,079
Sundry	82,863
Hospitality	1,226
Programme support costs	204,608
Total expenditure	1,778,518

Excess of income over expenditure**218,330**

Schedule 1.3**U N D P Managed Activities**

	US \$
Income	
Funds transferred for approved projects	9,826,195
Interest	25,937
Total income	9,852,132
Expenditure¹	
Project costs	849,082
Administrative costs	27,670
Total expenditure	876,752
Excess of income over expenditure	8,975,380

¹ Covers the period 1 January - 30 September 1992.

Schedule 1.4**World Bank Managed Activities**

US \$

Income

Funds transferred for approved projects	37,315,000
Interest	630,569
Total income	37,945,569

Expenditure

Project costs	513,589
Administrative costs	2,750,153
Total expenditure	3,263,742

Excess of income over expenditure **34,681,827**

APPENDIX II

DESCRIPTION OF THE IMPLEMENTING AGENCIES

United Nations Environmental Programme (UNEP)	
<i>Role</i>	<p>Fund treasurer: receives all financial contributions, transfers money according to EC instructions and keeps accounts at no charge to the Fund and according to UN financial rules.</p> <p>Functions as a clearinghouse to assist Article 5 countries in identifying needs and facilitating technical co-operation.</p> <p>Helps smaller countries prepare their ODS country programmes.</p> <p>Focuses on research, training, data collection and information dissemination; repackages and disseminates information through on-line data bases, diskettes, technical brochures, newsletters, workshops, and training programmes.</p>
<i>Organization</i>	<p>The treasury function is located in Nairobi .</p> <p>The ozone clearinghouse and promotional activity is part of the Paris-based Industry and Environment Programme Activity Centre.</p> <p>The Ozonation Programme's full-time staff consists of one co-ordinator, one secretary, one administrative assistant, and an information clerk. Contract employees staff the information, training, and networking activities.</p> <p>The activity of formulation of country programmes is aided by consultants familiar with UNEP's methodology. Country programme logistics and follow-up on other activities are managed through UNEP's regional offices.</p>
<i>Operating Philosophy</i>	<p>Committed to the "Bottom-up" approach in identifying needs and devising the programmes.</p> <p>Encourages involvement by Article 5 countries; provides tools and knowledge to help develop local capacity to make informed decisions.</p>
<i>Co-ordination</i>	<p>Regional workshops introduce developing countries to the Montreal Protocol process and encourage exchange of ideas and experiences.</p> <p>Co-operates with several other agencies including Swedish International Development Agency, the Finnish International Development Agency, USEPA, and UNDP.</p> <p>Regional offices will be invited to co-ordinate activities and keep in close contact with Article 5 countries for which they are responsible.</p>
<i>Process</i>	<p>The interactive and consultative approach is exemplified by a broad-based Advisory Group from the Executive Committee, Secretariat, industry, NGOs, and developed and developing countries.</p> <p>The consultative approach is used to inform, educate and motivate country programme consultants through regular meetings.</p>
<i>Constraints</i>	<p>UN guidelines permit no more than 13% for administrative overhead; staff is limited and other resources must be used.</p> <p>The consultative approach is time-consuming, particularly during the start-up phase of a project. UNEP believes that this is an effective way of gaining commitments from the Article 5 countries and achieving lasting results.</p>

United Nations Development Programme (UNDP)	
<i>Role</i>	<p>As a funding and UN co-ordinating agency for technical assistance, it carries out activities through OPS, UN agencies or through national governments.</p> <p>Assists in the preparation as well as the implementation of a number of country programmes.</p> <p>Responsible primarily for technical assistance and pre-investment activities including feasibility studies, technology assistance, demonstration projects, and training.</p> <p>Involved in investment projects only when requested.</p>
<i>Organization</i>	<p>UNDP acts on a highly decentralized basis with a field office network of 120 national offices and with staff supporting Montreal Protocol activities in offices where programmes exist.</p> <p>UNDP has created a Unit fully dedicated to managing its Montreal Protocol activities. It is currently staffed with 6 full-time staff including two senior-level staff (one of which is the Montreal Protocol Task Manager) and two mid-level staff. In addition, UNDP has 5 sectoral experts on retainer contracts (aerosols, foams, solvents, refrigeration training, halons). [The aerosols sector expert is also on the World Bank's OORG.]</p> <p>The Montreal Protocol Unit is placed within the Environment and Natural Resources Group (ENR) which is responsible for co-ordinating all environmental activities in UNDP and whose Manager is ultimately responsible for Montreal Protocol programme activities implemented by UNDP.</p> <p>To assist in project design and implementation, UNDP has a large roster of experts and consultants who are contracted on a project by project basis.</p> <p>UNDP Field Office staff have financial, legal and administrative authority to deal with countries. [The China office has been very active and the India office is expected to be equally active.]</p>
<i>Operating Philosophy</i>	<p>Assists countries only on their specific request. Focuses on developing local human resources and institutional capacities and uses local talent wherever possible. [In the country programme developed for China, it used over 30 Chinese experts and 9 international experts.]</p>
<i>Co-ordination</i>	<p>UNDP acts as co-ordinator of UN system operational activities.</p> <p>Co-operates with a wide range of players including national governments of both developed and developing countries, local consultants, NGOs, and other international bodies. Greater efforts being placed on strengthening co-ordination with the other Implementing Agencies (World Bank, UNEP, UNIDO).</p>
<i>Process</i>	<p>Emphasis on team building with local consultants, international experts and government decision makers co-ordinated by a UNDP project manager (consultant or ENR member) and managed through ENR.</p> <p>The internal process reflects its role as a financing agency. Improvements have and are being made to streamline approvals. Activities were constrained by efforts required to start up concurrently at the national, regional and sectoral levels.</p>

<i>Constraints</i>	The emphasis on building local capabilities requires time and money but the net result - the creation of locally manager, self-sustaining programmes is well worth the effort and cheaper in the long run.
International Bank for Reconstruction and Development (World Bank)	
<i>Role</i>	Helps develop country programmes for large ODS consumers and producers in the developing world. Identifies, evaluates, provides resources and supervises investment projects, technical training, and institutional strengthening to contribute to ODS elimination.
<i>Organization</i>	A much larger permanent staff than either UNEP or UNDP and an established network of independent environmental consultants. The Montreal Protocol Operations Team is located within the Global Environment Coordination Division (GECF) which is itself part of the Central Environment Department. The co-ordination function which was previously in the region has been centralized in the GECF. The MP Operations Team consists of an Operations Coordinator, a Technical Coordinator and two Regional Operations Coordinators. Task Management responsibilities are handled mainly by the Country Departments, with assistance from the MP Operations Team. The Ozone Operations Research Group (OORG) provides external reviews of country programmes and project preparation/implementation by recognized independent experts. To improve performance, the Bank created the Ozone Operations Research Group (OORG), improved project documentation, made managers more accountable and streamlined its organizational structure. The Global Environmental Steering Committee consists of senior regional managers who advise on operational and policy issues.
<i>Operating Philosophy</i>	A " <i>results-oriented and pro-active</i> " approach seeks a speedy turn-around in preparing country programmes by depending on technically competent consultants familiar with World Bank procedures. Local talent is used whenever possible and appropriate.
<i>Co-ordination</i>	The World Bank enjoys established relations with most of the countries with which it works on Fund activities, especially with the USEPA whose bilateral activities are often done in concert with the Bank. Co-ordination with the other Implementing Agencies which was informal and ad hoc has been consolidated through annual work programme co-ordination sponsored by the Fund Secretariat and regular communications and mission co-ordination among Implementing Agencies. The World Bank and UNDP have clarified their responsibilities to reduce overlap. UNIDO's focus on smaller projects will relieve the Bank from managing such projects.
<i>Process</i>	Established procedures are effective in lending activities but must be adapted to the small size and unconventional features of Fund activities. Changes in reporting have been made to adapt to the EC's requirements.
<i>Constraints</i>	Traditionally financing very large projects, involvement in the Montreal Protocol has required that the Bank adapt to smaller initiatives and work on non-financial matters such as institution building, co-ordinating government participation, and technology transfer.

UNIDO

UNIDO was established by the United Nations in 1967 with a mandate to help developing countries achieve growth. UNIDO sees environmental issues as critical to future development. To help the developing countries acquire the expertise they need and use innovative technologies to deal with environmental issues, UNIDO has started a Technology Information Bank; it mounted intensive training programs on environmental issues; and it dedicated resources to the examination of clean technologies. UNIDO's growing concern with environmental issues has led UNIDO to become more interested in the activities of the Montreal Protocol.

UNIDO sees its own role as that of an Implementing Agency that can deploy technology experts to provide concrete technology assistance to developing countries. Many developing country enterprises are now hiring UNIDO to implement projects in their countries. UNIDO identifies experts and sometimes takes care of the staffing and operational requirements of entire manufacturing plants.

Despite the size of some of its undertakings, UNIDO believes that it is best equipped to work on smaller projects with the Montreal Protocol Fund. Its own in-country involvement promises an expeditious approach to implementation.

UNIDO is responding to its direct involvement with the operations of the Fund by assigning it to a special task force composed of four people in the Industrial Operations Technology Division. This group will interface directly with the Secretariat on a day-to-day basis in order to implement projects properly.

The agreement between UNIDO and the MFMP was signed in October 1992 and ratified by the UNIDO Board in November. Since then, UNIDO has sent six missions to developing countries that have asked it to implement Montreal Protocol projects. Some of these projects were also presented to the other Implementing Agencies and improved co-ordination will be needed to avoid duplication. At a meeting on February 4th and 5th, 1993, the four Implementing Agencies discussed their respective approaches and agreed that each should specialize in certain areas. UNIDO will define its specialization by June, 1993.

APPENDIX III**CONTRIBUTIONS AND FUND DISBURSEMENTS****MULTILATERAL FUND
FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL****Status of the Fund as at 24 June 1993**

US dollars

INCOME

Contributions received	115,816,603
Interest	1,982,732
Miscellaneous income	1,442,103
TOTAL	119,241,438

DISBURSEMENTS

UNDP	15,305,953
UNEP	5,886,820
UNIDO	491,500
World Bank	58,156,840
Secretariat	6,571,276
Programme support	284,452
TOTAL	86,696,841

BALANCE AVAILABLE 32,544,597

TRUST FUND FOR THE MULTILATERAL FUND UNDER THE MONTREAL PROTOCOL

(as at 24 June 1993) (US dollars)

Country	Unpaid Contributions as at 31.12.92	Net Contributions for 1993	Collection in 1993	Unpaid Contribution for prev yrs	Unpaid Contribution for 1993	Total unpaid Pledges
Australia	(17,094)	2,007,550	0	0	1,990,456	1,990,456
Austria	625,456	999,272	625,456	0	999,272	999,272
Bahrain	29,457	39,971	0	29,457	39,971	69,428
Belgium	988,896	1,412,304	988,896	0	1,412,304	1,412,304
Belarus	486,043	639,534	0	486,043	639,534	1,125,577
Bulgaria	126,782	173,207	0	126,782	173,207	299,989
Canada	522,340	4,143,646	3,267,479	0	1,398,507	1,398,507
Czechoslovakia	418,394	732,799	0	418,394	732,799	1,151,193
Denmark	0	866,035	0	0	866,035	866,035
Finland	0	759,446	0	0	759,446	759,446
France ²	9,205,363	7,994,173	2,680,497	6,524,866	7,994,173	14,519,039
Germany	(18,378)	11,897,994	0	0	11,879,616	11,879,616
Greece	216,145	466,327	0	216,145	466,327	682,472
Hungary	309,300	239,825	0	309,300	239,825	549,125
Iceland	0	39,971	25,356	0	14,615	14,615
Ireland	0	239,825	0	0	239,825	239,825
Israel	0	306,443	0	0	306,443	306,443
Italy	1,082,074	5,715,834	0	1,082,074	5,715,834	6,797,908
Japan	0	16,587,909	0	0	16,587,909	16,587,909
Korea, Rep. of	0	919,330	0	0	919,330	919,330

² The Government of France has deposited Ffr 93 177 637,01 in a treasury bill current account at the Banque de France in the name of Montreal Protocol Multilateral Fund representing the equivalent of its 1991, 1992 and 1993 contributions. Of this amount, Ffr 14 300 506,87 equivalent to US \$2,680,497.38 has been encashed and deposited in the Multilateral Fund Account in New York as indicated in the table. The Government of France has indicated to the Treasurer that the balance will be made available to the Multilateral Fund according to the following encashment schedule - 30 June 1993: Ffr 18 635 527,40; 30 June 1994: Ffr 18 635 527,40; 30 June 1995: Ffr 18 635 527,40; 30 June 1996: Ffr 14 362 422,45; 30 June 1997: Ffr 8 608 125,49.

Country	Unpaid Contributions as at 31.12.92	Net Contributions for 1993	Collection in 1993	Unpaid Contribution for prev yrs	Unpaid Contribution for 1993	Total unpaid Pledges
Kuwait	0	286,549	0	0	286,549	286,549
Liechtenstein	(8,437)	13,324	0	0	4,887	4,887
Luxembourg	0	79,942	50,713	0	29,229	29,229
Malta	21	13,324	0	21	13,324	13,345
Monaco	0	7,483	0	0	7,483	7,483
Netherlands	0	1,998,543	0	0	1,998,543	1,998,543
New Zealand	0	319,767	319,767	0	0	0
Norway	0	732,799	0	0	732,799	732,799
Poland	0	626,210	0	0	626,210	626,210
Portugal	265,115	266,472	0	265,115	266,472	531,587
Russian Federation	14,713,852	8,940,150	0	14,713,852	8,940,150	23,654,002
Saudi Arabia	0	756,928	0	0	756,928	756,928
Singapore	0	159,883	90,883	0	69,000	69,000
South Africa	0	546,268	546,268	0	0	0
Spain	0	2,638,077	0	0	2,638,077	2,638,077
Sweden	15	1,478,922	0	15	1,478,922	1,478,937
Switzerland	15	1,545,540	0	15	1,545,540	1,545,555
Ukraine	1,841,073	2,491,517	0	1,841,073	2,491,517	4,332,590
United Arab Emirates	279,843	279,796	0	279,843	279,796	559,639
United Kingdom ³	3,714,654	6,688,458	2,388,140	1,326,514	6,688,458	8,014,972
United States	(211,172)	28,334,903	15,000,000	0	13,123,731	13,123,731
Uzbekistan	0	216,390	0	0	216,390	216,390
T O T A L	34,569,757	114,602,640	25,983,455	27,619,509	95,569,433	123,188,942

³ The Government of the United Kingdom has deposited a Promissory Note in an Account in the name of the UNEP Montreal Protocol Multilateral Fund at the Bank of England covering the balance of its pledge up to 1993 to the Multilateral Fund. The Government of the United Kingdom has indicated to the Treasurer the following schedule of encashment against this Promissory Note: July 1993 \$1,332,495; December 1993 \$1,332,495; July 1994 \$1,332,495; December 1994 \$1,332,495; July 1995 \$1,332,495; December 1995 \$1,330,024.

ANNEX II

PROPOSED THREE-YEAR PLAN AND BUDGET OF THE MULTILATERAL FUND (1994-1996)

INTRODUCTION

1. The Fourth Meeting of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer requested ". . . the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol, in the light of its terms of reference, and drawing on the various reports and assessments it has at its disposal, and with the cooperation and assistance of the implementing agencies, and independent advice as appropriate or necessary, to submit to the Open-ended Working Group of the Parties at its next meeting a report comprising:

- (a) A report on the operation of the Financial Mechanism since 1 January 1991;
- (b) Its three-year plan and budget (as required by paragraph 10 (b) of its terms of reference) based on:
 - (i) The needs of Parties operating under paragraph 1 of Article 5 of the Protocol;
 - (ii) The capacity and performance of the implementing agencies; and
 - (iii) The strategies and projects to be implemented by Parties operating under paragraph 1 of Article 5 of the Protocol" (UNEP/OzL.Pro.4/15, Decision IV/18, Part II, para. 1, page 20).

2. This document derives a budget based on a well-defined strategic plan of action. Its intent is to focus the activities of implementing agencies and the Parties on attainable goals for the elimination of ozone depleting substances (ODS) in Article 5 countries during the period 1994 through 1996.

3. The plan of action provides a profile of projects that should be targeted by implementing agencies and Parties for funding during the budget period. These projects are identified by sector and sub-sector. The plan focuses primarily on the identification and implementation of projects which use proven cost-effective technologies that can be easily replicated throughout Article 5 countries; the promotion of good handling practices in ODS use; recovery and recycling; conversion and reduction of ODS use during the manufacture of intermediate goods; and, conversion of ODS production facilities to non-ODS technologies. Implementation of the

number of projects indicated in the plan could be expected to result in the elimination of targeted levels of ODS during the budget period.

4. This three-year plan builds upon the sector-based approach presented at the Fifth Meeting of the Executive Committee and the experience gained during the Fund's first two years of operation. The plan and the annual budgets and allocation among the implementing agencies will be further articulated in the annual planning process of the Executive Committee which is embodied in the work programmes of the implementing agencies. Finally, the projects included in the plan should be implemented within the context of the approved country programmes of Article 5 Parties. Consequently, the plan envisions the rapid completion of outstanding country programmes and the updating of country programmes on a periodic basis.

5. The Fund Secretariat has already prepared an estimate of budgetary requirements for the next budget period entitled, "The Magnitude of the Fund Required for the Next Three-Year Period" (UNEP/OzL.Pro/ExCom/7/27/Rev.1). The document was based on a sectoral analysis which applied a cost factor per quantity of ODS expected to be eliminated during the time period.

6. Other estimates using different methodologies have also been prepared by UNEP and USEPA. All three estimates are of a similar order of magnitude as the one in this budget.

7. This report is intended to complement the previous studies by identifying projects as part of an overall strategy for the most expeditious and efficient approach to ODS phase-out in Article 5 countries. Budget figures derived herein represent the needs of the plan, but not necessarily the precise project mix that will be presented to the Executive Committee during the course of the three-year budget period.

8. By propagating this plan, the Committee is giving direction, but it must be emphasized that it is not, in any way, limiting the range of projects that it will consider during the years 1994 through 1996.

BUDGET SUMMARY (1994-1996)

9. The plan, as articulated in this document, would lead to the eventual elimination of approximately 46,600 tonnes of ODS consumption and 17,000 tonnes of ODS in production per year. To accomplish this goal, a budget of US \$510 million is estimated for the three-year period. This includes the following amounts for investment projects by sector and other budget items that may not directly relate to the phase-out of ODS:

<u>Item</u>	<u>Cost</u> <u>(US \$)</u>	<u>Annual</u> <u>Consumption</u> <u>Reduction</u> <u>(ODS tonnes)</u>	<u>Annual</u> <u>Production</u> <u>Reduction</u> <u>(ODS tonnes)</u>
<u>Projects</u>			
Aerosols	20,000,000	12,000	
Rigid polyurethane foam	68,250,000	12,000	
Flexible polyurethane foam	26,000,000	3,700	
Extruded polystyrene and polyolefin foam	20,000,000	2,500	
Domestic refrigeration manufacturing	87,000,000	2,500	
Commercial and industrial refrigeration	26,000,000	4,000	
Mobile air conditioning	20,000,000	1,700	
Chillers	17,000,000	900	
Solvents	60,000,000	5,000	
Halons	10,000,000	2,300	
Production of chemical substitutes	100,000,000		17,000
Sub-total	454,250,000	46,600	17,000
<u>Others</u>			
Implementing agency work programme activities	21,400,000		
Clearing-house functions	12,000,000		
Institutional strengthening	16,000,000		
Executive Committee and Fund Secretariat	5,900,000		
Sub-Total	55,300,000		
TOTAL	509,550,000	46,600	17,000

ALLOCATION OF FUNDS

10. Paragraph 10(b) of the Terms of Reference of the Executive Committee calls on that body "to develop the three-year plan and budget for the Multilateral Fund including allocation of Multilateral Fund resources among the agencies identified in paragraph 6 of Decision II/8." The following allocation, which is being submitted in accordance with that requirement, should be considered highly indicative. Based on sector information provided by the implementing agencies, the following table presents an indicative level of expected activity by implementing agency and ODS sector. UNEP is not included because its programme does not include investment or demonstration projects. UNEP is primarily involved in global and regional clearing-house activities. The estimated budget for these kinds of activities is identified as a separate budget item in the budget summary.

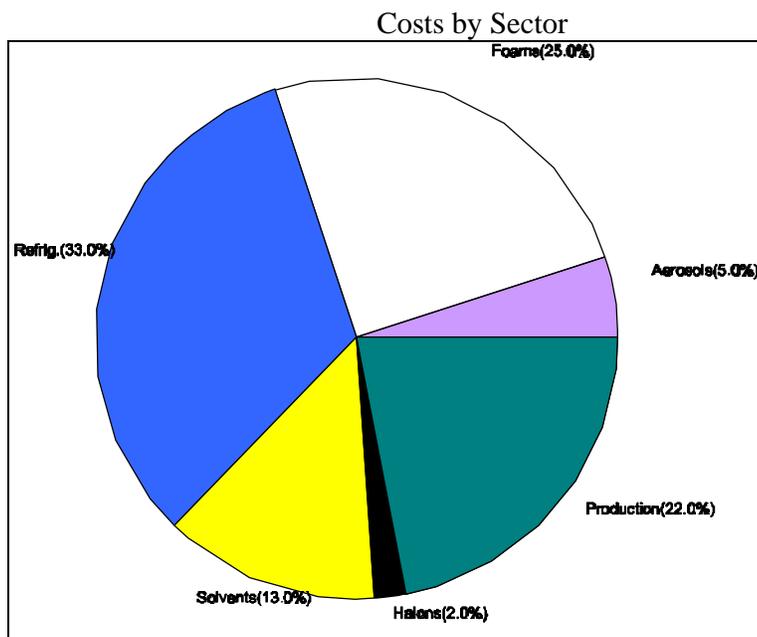
Investment and Demonstration Project Allocations
by Implementing Agency and Sector
(in thousand US\$)

Sector	World Bank	UNDP	UNIDO	Total
Aerosol	15,300	4,300	400	20,000
Foam	81,700	19,600	12,950	114,250
Refrigeration	120,200	11,900	17,900	150,000
Solvents	50,000	3,400	6,600	60,000
Halon	1,900	7,500	600	10,000
Production	98,200	0	1,800	100,000
	367,300	46,700	40,250	454,250

At this stage, given the unavailability of approved country programmes that provide countries' action plans and list projects and timeframes for implementation, it is difficult to allocate funds by sector and year; however, it is estimated that the annual allocations of the total budget of US \$510 million (including items in the "Other" budget category as described in paragraphs 131-135) are as follows:

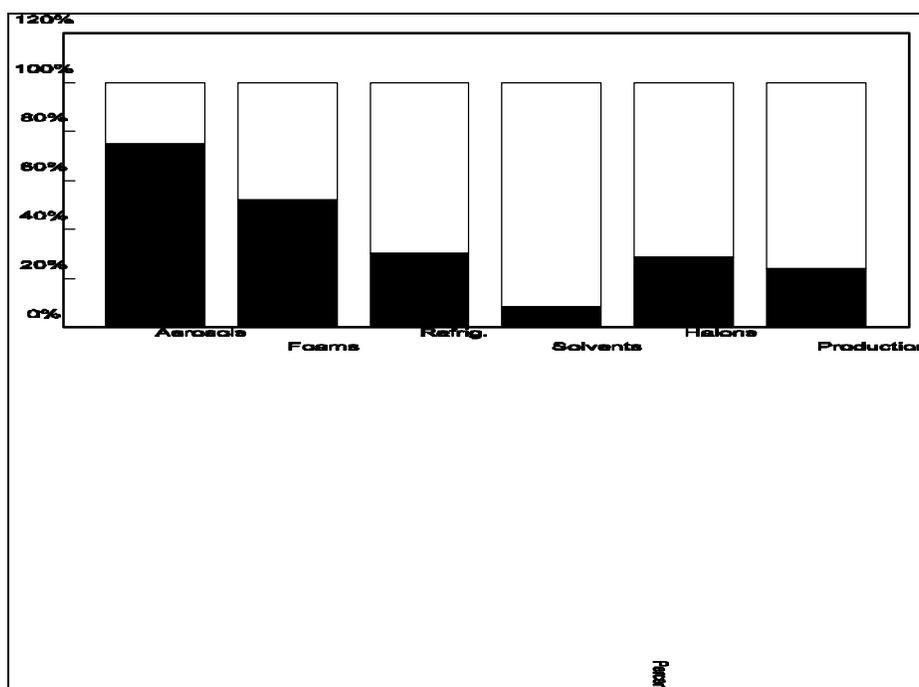
Year	Amount
1994	US \$153 million
1995	US \$178 million
1996	US \$179 million

11. The following pie chart presents a sector by sector distribution of the targeted budget for ODS phaseout expected during the budget period. Most of the costs will be incurred in the refrigeration and foam sectors, and in conversion of ODS production sectors.



12. The following bar graph shows the targeted phase-out tonnage for the budget period. Over 70 per cent of aerosol tonnage is targeted during the budget period. The next largest target phaseout amount is in the foam sector where almost 50 per cent of ODS will be eliminated.

Percent of ODS to be Phased-Out by Sector



13. It is estimated that approximately 30 per cent of all ODS in Article 5 countries will have been eliminated as a result of the implementation of projects and other activities envisioned in this plan. During the period 1991 through 1993, several readily available, cost-effective projects were approved by the Committee. During the new budget period, more costly projects per ODS eliminated are expected. Approximately 80 percent of the 1994 through 1996 budget is attributable to activities in three sectors: refrigeration (US \$150 million), foam (US \$114 million), and production (US \$100 million).

METHODOLOGY

14. Several sources of information were used as the basis for developing the three-year plan and budget. The main sources are the country programmes and country studies of Article 5

countries. These documents were supplemented by the previous work of the Fund Secretariat, UNEP's technical assessment panels, the Ozone Secretariat, and the implementing agencies.

15. The analysis was limited in certain cases by a lack of information about the stated phase-out plans of some Article 5 countries and the availability of alternative technologies for immediate transfer to Article 5 countries.

16. The following sections address the three criteria which the Parties required the Executive Committee to use for the development of the three-year plan and budget, namely, Article 5 country needs; projects and strategies; and implementing agencies' performance and capacities. As requested by the Parties, the three-year plan and budget presented in the document is based on these three criteria. A description of each criterion follows.

Needs of Parties operating under paragraph 1 of Article 5

17. Article 5 countries do not constitute a homogeneous group having unified needs. However, these countries can be classified into three main categories where needs are similar within each category:

- large consumers of ozone depleting substances, where consumption is partially or totally satisfied from local production of ODSs;
- medium consumers, where ODSs are used as intermediate chemicals in the production of finished products; and
- small consumers, where ODSs are used to service existing appliances.

18. The ten country programmes that have been approved thus far by the Executive Committee are considered to be representative of the three categories, and are used to assess the respective needs of each category for the budget period. Pending country programmes are expected to demonstrate the consistency of needs within each category.

19. The needs of the Parties during the funding period under consideration can be summarized as follows:

- First category: technology transfer for the production of substitute chemicals (patents, licensing, etc.), technology transfer for elimination of ODSs in all user sectors and sub-sectors, demonstration and technical assistance for phase-out of most of the halon uses.
- Second category: technology transfer for elimination of ODSs in user sectors and sub-sectors, technical assistance and training in conservation of ODSs.
- Third category: small demonstration projects, training and technical assistance on regional and sub-regional basis.

20. Institutional strengthening and information are common needs in all three categories. The function of institutional units will, however, vary according to the number of projects to be

implemented, the level of co-ordination required and the experience of the local executing agency (financial institution).

Strategies and projects to be implemented by Parties operating under paragraph 1 of Article 5 of the Protocol

21. The country needs identified above, as well as the project profiles included in this plan, were developed largely from consideration of country programmes. The main feature of the strategies articulated in the approved country programmes is the identification of the most likely scenario for phase-out of ODSs in the country. Country programmes also include action plans to implement the strategies described. Each action plan identifies a set of measures to be taken by the government and industry in the country concerned. It also lists projects to be implemented in the country within a finite time frame which will lead to the elimination of a specified quantity of ODSs.

22. The first category of countries (large consumers) is characterized by a large number of investment projects, which usually consist of several sub-projects within almost all user sectors. The second category will include a few large investment projects belonging mainly to the refrigeration sector, and a moderate number of small to medium projects in the foam sector. The third category will have limited number of small investment projects, and most of the activities will be in recycling and improved servicing of existing appliances.

23. The strategies and projects for implementation which are included in this plan were derived from: stated phase-out plans, projects included in country programmes, follow-up on projects already approved by the Executive Committee, and projects recommended by the technical options panels and implementing agencies' expert groups. In selecting projects for inclusion in this plan; priority was given to projects that can be implemented as replications of existing proven technologies, and strategies of Article 5 countries for phase out in the different user sectors where available. Additionally, it was assumed that a period of up to 24 months precedes actual implementation and most of projects and related activities identified within the time frame under review will be implemented up to the year 2000.

Capacity and performance of the Implementing Agencies

24. In further considering the capacity of the implementing agencies as requested by the Parties, the Executive Committee asked the Agencies themselves to perform an assessment, on a sector by sector basis, of their capacity to deliver projects over the budget period taking into account:

- their performance and capacity to absorb an increasing amount of projects over the budget period;
- the anticipated projects possible during the period given technological considerations;
- the existing policies of the Executive Committee; and
- the increasing capacities of the pertinent local institutions in Article 5 countries based on experience and as indicated by country programmes and national or strategic studies available.

25. After consideration of the Executive Committee's request and criteria, all four agencies firmly believe that they, together with the pertinent local institutions, are poised to take advantage of the significant learning and investment in institutional strengthening that has occurred over the last two years, and absorb an increasing amount of projects over the 1994 to 1996 time frame. Specifically, they believe that the proposed plan, which is described on a sector by sector basis below, offers a conservative estimate of what they and the relevant local institutions can accomplish over the 1994 to 1996 time frame.

26. The Multilateral Fund is based on an intergovernmental agreement, thus, the implementation of the Fund has to be channelled through governments of Article 5 countries. In discussing this issue, one has to differentiate between the capacities of local institutions responsible for the Montreal Protocol and those of the Fund's implementing agencies. It is also necessary to distinguish between those local institutions and enterprises who are the ultimate beneficiaries.

27. Enterprises in Article 5 countries which are medium to large ODS consumers are seen to have the capacity to absorb projects for ODS elimination rapidly. Local institutions are responsible for the co-ordination of all efforts needed to facilitate the expeditious implementation of projects for speedy and effective phaseout. Additional resources may be required to facilitate these efforts. The Fund has provided resources to 17 countries to supplement such institutional strengthening requirements and funds are requested for this activity during the next budget period. The capacities of Article 5 countries to participate in Fund activities increases as countries gain experience through country programme and project preparation. Funds have already been allocated for the preparation of country programmes for 44 countries, 15 of which are beneficiaries of investment projects. The experience gained thus far will expedite implementation of future investment activities in these and other countries. Activities such as UNEP's clearing-house function, training projects, and other information dissemination activities should further contribute to Article 5 capacity to participate in Fund activities. In addition, the clearing-house activities of UNEP and other agencies which have initiated training projects and information dissemination activities should further contribute to Article 5 capacity to participate in Fund Activities.

28. In considering the capacities of implementing agencies, one must first recognize that all implementing agencies are well established international institutions with considerable capacity

to undertake the implementation of projects within their mandate. Therefore, the assessment of capacity is more pertinent at the level of day to day operations.

29. While the implementing agencies did not, over the two year operation of the Interim Fund, perform up to their own expectations or those of the Executive Committee, those expectations did not have the benefit of experience, or anticipate the time it would take to fully establish and operationalize essential processes. The implementing agencies are now positioned to build on two years of experience with the ozone issue, the Fund, its clients and its clearly established procedures.

30. To accommodate the increased level of activities necessary for the next budget period, the implementing agencies have designated its own team of professionals to deal with the Multilateral Fund according to specific agreements with the Executive Committee, and the Agencies are continuing to take steps to streamline their internal procedures of doing their usual business in order to cope with the implementation issues encountered over the last two years.

31. The sector-based approach for ODS elimination affords significant opportunities for replicating project designs and methods of implementation. This also enables implementing agencies to absorb an increased level of activities since the types of technically-viable, alternative projects is well known. The implementing agencies are identifying global projects which contain numerous sub-projects at different individual sites employing essentially the same technology for ODS elimination; therefore, one global project proposal for Executive Committee consideration may eliminate ODS in several countries.

32. Two of the implementing agencies with local field offices have indicated a greater utilization of those facilities for simultaneous implementation of projects in several countries. Where agencies do not have local field offices, financial intermediaries or local institutions may be required for project preparation and project execution.

Descriptions of Budget Components

33. Each user sector is introduced in this document with a description of total known consumption. The amount of consumption is adjusted according to growth and elimination indices as provided. Whenever possible, the number of projects that can be identified within the period under review is given per sector and in some cases per sub-sector. These projects may include training, demonstration and other aspects of technical assistance.

34. Project costs are developed according to available costs of technology taking into account a wide range of country specific institutional circumstances, involving prices of substitutes, economies of scale, etc. The total costs per sector are aggregated as the sector budget required for meeting the needs of Article 5 parties.

35. It should, however, be stressed that actual projects brought forward for the consideration of the Executive Committee may vary both in costs and individual components. For this reason, the projects and their costs mentioned in this document should be considered indicative.

THE AEROSOL SECTOR

Consumption

36. In 1994, annual consumption of chlorofluorocarbons (CFCs) in the aerosol sector in Article 5 countries is estimated to be about 16,000 tonnes.

Investment Projects

37. The majority of aerosol producers in Article 5 countries are likely to choose deodorized hydrocarbons (propane, butane, iso-pentane). Since hydrocarbons are highly flammable, specific safety precautions are required, especially at the filling plant.

38. The USA-based cost of hydrocarbon is about US \$0.6/Kg. which is substantially lower than that of the CFCs, US \$3.3/Kg. Savings arising from the change in propellants are considered while estimating the incremental cost of a project.

39. The cost effectiveness of the projects, determined as the ratio of incremental cost to the estimated annual savings of CFCs, varies from US \$0.37/Kg. for a large plant to US \$3.0/Kg. for small plants.

Sector Costs and ODS Reduction

40. For the budget period 1994 to 1996, roughly 400 medium-sized and small-sized aerosol plants in Article 5 countries could be converted from CFCs to hydrocarbons, at an estimated incremental cost of US \$20 million resulting in the elimination of about 12,000 tonnes of CFCs per year.

THE RIGID POLYURETHANE FOAM SUB-SECTOR

Consumption

41. CFC-11 is used as a blowing agent in the manufacture of polyurethane insulating foam in the refrigerator and freezer industry. The total amount of CFC-11 used for this purpose will be about 16,000 tonnes in 1994.

42. Rigid polyurethane foam is also used in insulation applications in the construction and building industries for insulated boards and panels, and in spray foam and pipe insulation. The total consumption of CFC-11 used for these purposes is estimated to be about 10,000 tonnes in 1994.

Investment Projects

43. A three phase approach is being adopted by some countries for the complete elimination of CFC-11 in foam blowing operations.

44. Phase I achieves a 50 per cent CFC reduction by using new polyol/water formulations; this technology is now mature. Phase I may also require replacement of low pressure foam injection equipment by the high pressure variety resulting in improved foam quality and hence improved insulation values. The Executive Committee has already approved foam conversion projects to reduce CFC-11 usage in the refrigeration sector.

45. Phase II will replace 100 per cent of CFCs with a HCFC-based blowing agent or blend, as is being implemented in developed countries. It involves the use of either HCFC-141b or a binary blend of HCFC-142b and HCFC-22 as foam blowing agents.

46. Phase III is based on the introduction of non-ODS as blowing agents; however, this technology has still not been adequately tested.

47. The estimated average cost for a typical Phase I conversion project in a developing country is about US \$300,000. Approximately 80 production lines are expected to implement Phase I conversion in refrigeration foam. About 60 projects are foreseen in construction foam and in pipeline insulation foam. The total cost of Phase I conversion projects is expected to be US \$52 million.

48. Phase II conversion will cost an additional US \$200,000 per project. Approximately 70 Phase I projects are expected to subsequently undergo complete conversion toward the end of the budget period by implementing Phase II at a total additional cost of US \$14 million.

49. Approximately 15 projects will be based on HCFC-141b substitute technology. The major cost of conversion will be operational costs and technical assistance. Conversion costs are estimated at US \$150,000 per project at a total cost of about US \$2.25 million. The ozone depletion potential of HCFC-141b is twice as high than HCFC-142b/HCFC-22 blend, hence the limited number of projects based on HCFC-141b technology.

Sub-sector Costs and ODS Reduction

50. The total requirements for rigid polyurethane foam conversion during the budget period is about US \$68.25 million resulting in the elimination of 12,000 tonnes of ODS.

THE FLEXIBLE POLYURETHANE FOAM SUB-SECTOR

Consumption

51. In 1994, the annual consumption of CFC-11 in the flexible polyurethane foam sub-sector in Article 5 countries is estimated to be 4,000 tonnes.

Investment Projects

52. Methylene chloride will be the prime alternative to CFC-11 in the manufacture of slabstock flexible polyurethane foam for conventional applications. Investment will mainly be the provision or improvement of containment systems for worker health protection and some equipment retrofits.

53. Conversion from CFC-11 to methylene chloride in the production of polyurethane slabstock foam is now being implemented in many countries. From 1994 to 1996, over 50 plants in several Article 5 countries could replace CFC-11 with methylene chloride. The incremental costs of the conversion are estimated at US \$10 million leading to a phase-out of 2,500 tonnes of CFC-11.

54. HCFC technology could be used to substitute for up to 10 per cent of CFC-11 for blowing modified, super-soft foams for special applications. Although HCFC technology may not involve substantial equipment modification, there might be significant incremental operational cost because of the higher cost of HCFCs. 15 projects for the substitution of CFC-11 with HCFCs could be implemented. The estimated cost is US \$2 million for an annual phase-out of 200 tonnes of CFC-11.

55. An estimated 20 per cent of the CFC-11 consumption in flexible foam production will be for the production of moulded flexible polyurethane foam for the automobile manufacturing or assembly industries. CFC-11 will be substituted with carbon dioxide.

56. Average unit incremental cost of phase-out in the moulded foams is assumed to be US \$10/Kg. based on projects approved. About 20 projects could be implemented. The estimated cost is approximately US \$10 million. These projects would lead to annual elimination of 1,000 tonnes of CFC-11.

57. Demonstration and technical assistance programmes in the flexible foam sector could be provided in Article 5 countries at an estimated cost of US \$4 million. This could lead to direct elimination of CFC-11 in a number of plants particularly in small-consuming countries.

Sub-sector Costs and ODS Reduction

58. The total budgetary requirement in the flexible foam sub-sector is approximately US \$26 million which includes US \$22 million for investment projects and US \$4 million for technical assistance and demonstration projects. About 3,700 tonnes of ODS would be eliminated during the budget period.

THE EXTRUDED POLYSTYRENE AND POLYOLEFIN FOAM SUB-SECTOR

Consumption

59. 1994 estimated consumption of CFC-12 in extruded polystyrene and polyolefin foams will be approximately 5,000 tonnes.

60. There are two distinct polystyrene foams, foam sheet which is used in disposable food service packaging, and foam boardstock which is used as a building insulation.

61. Polyolefin foams are manufactured into extruded sheets which are commonly used as protective packaging for furniture, electronic devices, or moulded products such as expandable beads.

Investment Projects

62. Many manufacturers of food service and packaging products are converting to hydrocarbons such as butane and pentane. Converting to hydrocarbons requires investment to bring plants in line with environmental and fire safety regulations. Operating costs using hydrocarbons are, however, lower than those for CFCs.

63. The main alternative blowing agents for polystyrene board in the short term are HCFC-22 and HCFC-142b and many polyolefin foam products are now manufactured with HCFC-22, HCFC-142b and hydrocarbons. However, there has been limited conversion to processes using these alternatives in developing countries.

64. Hydrocarbon conversion projects are therefore the recommended project type for conversion in the production of extruded polystyrene sheet, and in some cases, polyolefin foam.

65. Based on the available data, the cost of a hydrocarbon conversion project (including fire safety measures) is US \$1 million for projects eliminating more than 100 tonnes of CFCs per year and US \$500,000 for projects eliminating less than 100 tonnes of CFCs per year.

Sub-sector Costs and ODS Reduction

66. For the budget period 1994 to 1996, approximately ten projects costing US \$1 million each and 20 projects costing US \$500,000 each are foreseen. These projects will result in the elimination of 2,500 tonnes of CFC-12. Total incremental costs for this sub-sector are estimated at US \$20 million.

THE DOMESTIC REFRIGERATION MANUFACTURING SUB-SECTOR

Consumption

67. The domestic refrigeration industry is a rapid growth industry, particularly in developing countries. In 1994, it is estimated that about 4,000 tonnes of CFC-12 will be consumed in the production of refrigeration appliances.

Investment Projects

68. HFC-134a appears to be one of the best long term substitute refrigerants in the domestic refrigeration sector.

69. However, the manufacturing of compressors and appliances based on HFC-134a technology implies much higher stringency in the requirements for the quality of the production environment. It is recommended that conversion from CFC-12 to HFC-134a technology should be accomplished in two phases. The first phase should involve testing of the HFC-134a technology in the manufacturing process through a pilot project, and the second phase is a full-scale conversion.

70. HFC-134a technology transfer should be conducted within the framework of working relationships and agreements with technology suppliers established for this purpose.

71. The Executive Committee has already approved four projects for conversion to the HFC-134 based technology in this sub-sector. Two projects relate to the conversion of compressor manufacturing, the others relate to the conversion of domestic refrigeration appliances to incorporate the new technology.

72. The cost of conversion from CFC-12 to HFC-134a technology for compressor manufacturers is estimated to be US \$1.5 million per plant. The total costs of about 10 projects are expected to be approximately US \$15 million.

73. The cost of conversion from CFC-12 to HFC-134a technology for refrigerator manufacturers is estimated to be around US \$1 million per plant. This cost includes capital cost of equipment for assembly line related to the new lubricant and refrigerant and technical assistance. On the assumption that about 40 projects would be submitted from Article 5 countries, the total costs of these projects are estimated at approximately US \$40 million.

74. Coupled with these projects, recovery and recycling programmes within the refrigerator manufacturing plants will be implemented at a total estimated cost of US \$2 million.

75. Refrigerator manufacturers in Article 5 countries which do not produce HFC-134a compressors will incur an incremental cost of about US \$10 per imported new compressor. It is expected that about 3 million refrigerators will be fitted with such compressors at a total cost of US \$30 million.

Sub-sector Costs and ODS Reduction

76. In summary, the domestic refrigeration sub-sector will require about US \$87 million during the next budget period leading to the elimination of about 2,500 tonnes of ODS.

THE COMMERCIAL AND INDUSTRIAL REFRIGERATION SUB-SECTOR

Consumption

77. Commercial refrigeration systems are used by retailers to display and store fresh and frozen food and to cool food and drinks in vending machines. Commercial food processing and storage includes a variety of applications, with storage temperatures above freezing (0°C to 10°C) or below (-18°C to -50°C). Industrial refrigeration covers a wide range of uses within the chemical and pharmaceutical industries, the oil and gas industry, the metallurgical industry, civil engineering, etc. About 18,000 tonnes of CFC-12 are used in commercial and industrial refrigeration in Article 5 countries. The commercial refrigeration sub-sector represents about 17,000 tonnes and the rest is used in industrial refrigeration.

Investment Projects

78. Large industrial refrigeration equipment can be replaced with new equipment using ammonia or HCFCs. Some industrial equipment based on CFC-12 refrigerant can be retrofitted with HCFC-22 using relatively inexpensive technical modifications. New HCFC-22 and ammonia compressors and related equipment can replace CFC-12 equipment.

79. Commercial systems are prone to leakage because the equipment design usually incorporates a large amount of jointed piping and all systems contain a large amount of refrigerant. Therefore, the emphasis of phase out activity in the commercial refrigeration sector during the budget period should be on better maintenance and recycling.

80. The Executive Committee has already approved several improved servicing and maintenance training projects relating to commercial refrigeration for Article 5 countries.

81. A maintenance and recycling project would include a training programme for servicing technicians in the commercial refrigeration sector and the purchase of recovery and recycling machines. It is estimated that about ten projects from small- to medium-consuming countries and ten from large-consuming countries are foreseen during the budget period.

82. The total cost of maintenance and recycling programmes in commercial refrigeration that are considered necessary and feasible during the budget period will be US \$5 million which would lead to the elimination of approximately 1,000 tonnes of CFCs.

83. HCFC-22 or ammonia are the most important substitute refrigerants in commercial refrigeration. Projects for the conversion of CFC-12 compressor manufacturing facilities to HCFC-22 technology are expected during the budget period.

84. It is estimated that the conversion of ten CFC-12 compressor assembly lines to produce

HCFC-22 or ammonia compressors will occur during the budget period. The conversions are foreseen in five countries at a total cost of US \$10 million.

85. The availability of HCFC-22 and ammonia compressors will lead to speedy conversion of commercial refrigerator manufacturing plants to the new technology. The estimated cost of such a conversion would be about US \$500,000 per plant. Twenty plants are expected to be converted in ten Article 5 countries at a total cost of US \$10 million. This would lead to elimination of approximately 3,000 tonnes of CFCs annually.

86. Some large CFC-12 based systems for cold storage, food processing and industrial applications may have remaining service lives of 20 to 30 years. System retrofitting or replacing to use alternative refrigerants like HCFC-22, ammonia or hydrocarbons may be attractive from an economic point of view.

87. The incremental cost would be US \$100,000 per system. It is estimated that ten projects converting from CFC refrigerant to HCFC-22 or ammonia may be submitted during the budget period at a cost of US \$1 million. A possible CFC elimination would be about 50 tonnes.

Sub-sector Costs and ODS Reduction

88. In summary, approximately US \$26 million is foreseen for this sub-sector which includes: US \$5 million for recovery, recycling, and maintenance; US \$10 million for semi-hermetic compressor conversion to HCFC-22; US \$10 million for commercial refrigerator conversion to HCFC-22; and, US \$1 million for cold storage conversion to HCFC-22 or ammonia. These projects will lead to the phase-out of 4,000 tonnes of CFCs.

THE MOBILE AIR CONDITIONING SUB-SECTOR

Consumption

89. It is estimated that approximately 20,000 tonnes of CFC-12 will be used in the manufacture and servicing of mobile air conditioners (MACs) in developing countries in 1994. About 4,000 tonnes are used for the filling of new MACs. The remaining 16,000 tonnes is used during refilling and servicing.

Investment Projects

90. Refrigeration experts generally agree that the best short term measure for saving CFC-12 refrigerant used in MACs can be achieved through better handling and recycling during servicing. With fully implemented recycling, improved handling, and better refrigerant containment, it is estimated that the usage rate will drop from 0.4 Kg. to 0.24/Kg. per vehicle per year. Another source estimates savings of 0.61/Kg. per vehicle serviced.

91. Recovery and recycling projects have been included in the country programmes of several countries. The Executive Committee has already approved two investment projects in MAC recycling which are projected to result in the elimination of about 300 annual tonnes of CFC-12 at a cost of approximately US \$900,000 each. Demonstration projects and training projects have also been approved. The Committee also approved a global MAC project which aims to develop projects in 13 Article 5 countries and includes management and implementation arrangements, training programmes, project appraisal, and implementation of pilot recycling projects.

92. A typical recycling project might contain about 50 MAC service shops per country in 15 countries. It would also include training and workshops on equipment utilization and improved servicing techniques.

93. A service shop would contain three MAC recovery and recycling machines and perform around 3,700 MAC servicings per year. Capital costs are estimated at US \$13,000 and about US \$2,000 is required in annual operational costs.

Sub-sector Costs and ODS Reduction

94. Based on these assumptions, it is estimated that the incremental cost of each project would be about US \$1 million. The larger, more dispersed countries would have more facilities. Including this adjustment, it is estimated that projects in 15 countries would require approximately US \$20 million over the budget period which would lead to the elimination of approximately 1,700 tonnes of CFCs.

THE CHILLER SUB-SECTOR

Consumption

95. In 1991, approximately 4,000 tonnes of CFC-11 and CFC-12 were used as coolant for chillers. At that time, an estimated 28,700 chillers were in operation in developing countries. An estimate of the amount of chillers in 1994 is not available.

Investment Projects

96. Only a few Article 5 countries have taken measures to eliminate the use of CFCs in chillers, by retrofitting CFC-12 units with HFC-134a. While retrofitting the existing number of chillers in Article 5 countries would cost over one billion dollars, retrofitting will not be warranted for every chiller. During the budget period, requests from approximately 20 Article 5 countries to retrofit existing chillers are foreseen.

97. Conservation, recovery and recycling projects, and improved service and maintenance programmes in the refrigeration sector have been implemented in several Article 5 countries.

98. The servicing of chillers should also be undertaken where good practices could lead to savings in the use of refrigerant. CFC recovery machines available in the market will minimize the amount vented to the atmosphere. Nearly two tonnes of CFC can be recovered from each machine per year. The cost of a recovery and recycling machine with training is estimated at US \$7,000 to \$10,000.

99. The cost effectiveness of the projects, determined as the ratio of incremental cost to the estimated annual savings of CFCs, is US \$5.0/Kg. for the recovery of CFCs used in chillers.

Sub-sector Costs and ODS Reduction

100. For the budget period, recovery projects for CFCs in chillers could be implemented in 16 Article 5 countries. Each programme would include 15 recovery machines and training. The incremental cost is estimated at about US \$2 million. Almost 500 tonnes of CFCs per year could be recovered from these projects. Retrofitting projects in 20 Article 5 countries could be implemented at an estimated cost of US \$15 million resulting in the phase-out of about 400 tonnes of CFCs.

101. In summary, the total cost of projects in this sub-sector will cost about \$17 million leading to the elimination of 900 tonnes of CFCs.

THE SOLVENT SECTOR

Consumption

102. The projected 1994 consumption of Article 5 countries in the solvent sector is estimated at 58,500 tonnes of ODS. This consists of 9,900 tonnes of CFC-113, 47,700 tonnes of methylchloroform, and 900 tonnes of carbon-tetrachloride.

103. Three countries consume over 10,000 tonnes each, and four countries consume over 1,000 tonnes each. These top seven consuming countries account for more than 90 per cent of solvent consumption in Article 5 countries. The rest of Article 5 countries are low consumers of solvents; their consumption ranges from virtually zero to 500 tonnes.

104. In some of the high consumption Article 5 countries, subsidiaries of transnational corporations are the largest consumers.

105. The electronics cleaning, precision cleaning and metal cleaning are the three major end-users. The dry cleaning and adhesives, coatings and aerosols are minor users. Generally speaking, the electronics industry is the highest consumer of solvents. However, consumption

per end-user is generally low; the range being less than 5 to 20 tonnes per year.

Investment Projects

106. Given the fact that many of the end-users are small consumers, the best short term options for reduction in ODS use are improved conservation and handling practices, improved cleaning equipment, and recovery and recycling. When implemented effectively, these measures could collectively lead to a reduction of as much as 75 per cent of solvent consumption per user. Thus, such activities should be implemented immediately in Article 5 countries, coupled with demonstration and training.

107. The cost of a conservation project including training could range from US \$60,000 for a low ODS-consuming company (5 ODS tonnes per year) to about US \$400,000 for a medium-sized company (50 ODS tonnes per year).

108. During 1994-1996, it is expected that 10 medium-sized and 100 small-sized solvent conservation projects will be implemented, leading to the elimination of 800 tonnes.

109. Although the volume of direct elimination of ODS by project is small, the ripple effect of these demonstration projects might result in a few thousand tonnes of ODS reduction.

110. There are also several non-ODS technologies in the solvent sector including the use of: halogenated solvents, alcohols, aqueous (water), semi-aqueous solvents, no-clean fluxes, and controlled atmosphere soldering. The cost of a project using non-ODS technologies, including supplemental costs such as environment protection, ranges from US \$500,000 to \$800,000, which will result in the annual elimination of 10 to 100 tonnes per project.

111. Although non-ODS technology projects may not be as cost effective as conservation projects, these projects must also be implemented in Article 5 countries, if they are to meet their obligations to eliminate ODS totally. It is estimated that 70 non-ODS technology projects will be implemented, leading to the elimination of 4,200 tonnes of ODS.

112. The Executive Committee has approved a global solvent project. The strategy of implementation of conservation projects and non-ODS technology projects should be established in the global solvent project formulation.

Sector Costs and ODS Reduction

113. In summary, approximately 180 projects (this number represents all small- and medium-sized projects contained within large projects) are foreseen during the budget period, costing about US \$60 million. These projects will lead to the direct elimination of 5,000 tonnes of ODS per year.

114. In addition, almost 10,000 tonnes of ODS would be phased out by subsidiaries of transnational corporations located in Article 5 countries during the period 1994 to 1996 at no cost or at a much reduced cost to the Fund.

THE HALON SECTOR

Consumption

115. Unabated consumption of halons could reach an annual level of approximately 8,000 tonnes in the year 1994. Some Article 5 countries have, however, stated their intention to eliminate about half of this amount in 1996. Thus far, the Executive Committee has approved projects that will lead to the elimination of 1,700 tonnes in 1996, leaving an estimated target elimination of around 2,300 tonnes for the next budget period.

Investment Projects

116. According to halon sector experts, the preferred strategy is to convert to alternative fire extinguishing technologies such as water technologies as soon as practicable while concurrently providing training in good conservation and testing practices.

117. Halon recycling and conservation will entail training, the purchase of halon recycling machines and the establishment of reclamation centres. The Executive Committee has already approved a halon project for one Article 5 country. The Committee also approved a global halon project which will develop specific projects in seven countries and is expected to include the establishment of halon control systems (management of testing, servicing and recycling), the development of regulations and insurance requirements for non-halon use, the establishment of a halon bank management system, and workshops in non-halon technologies.

118. For most consuming countries, a national project for halons might include a number of halon 1211 recycling machines and one 1301 machine, with a training programme, and a reclamation centre at a cost of US \$400,000 per project. For large consuming countries, the cost would be higher.

119. Projects in at least 12 countries might be anticipated during the next budget period at a cost of US \$6.8 million. Assuming that each project will eliminate on average 100 tonnes per year, approximately 1,700 tonnes of halons would be preserved from recycling and recovery at cost effectiveness measurement of less than US \$4.0/Kg. ODS.

120. Implementation of projects for production plant shutdown and transformation, and water-based extinguishing systems with training costing almost US \$3.2 million for the elimination of 600 tonnes are expected.

Sector Costs and ODS Reduction

121. In summary, the targeted elimination figure for the halon sector is 2,300 tonnes with the largest activity in recovery, recycling, and reclamation. The estimated cost for this sub-sector is US \$10 million.

PRODUCTION OF CHEMICAL SUBSTITUTES SECTOR

Production Facilities

122. There are six Article 5 countries producing controlled substances. The total production in 1991 was 91,000 tonnes. The total production capacity installed in Article 5 countries was about 156,000 tonnes. The total production of CFC-11/CFC-12 in 1991 is 71,000 tonnes.

123. In some countries, CFC-11/CFC-12 plants cannot be easily converted to produce HCFC-22, therefore CFC-11/CFC-12 plants will have to be replaced with new capacity. In others, CFC-11/CFC-12 plants (swing type design production plants) can be switched to produce HCFC-22 with low incremental cost, which is mainly operational cost.

Investment Projects

124. HCFC-22 is an important short and medium term alternative substitute. The demand for HCFC-22 will increase in the 1994-1996 period due the substitution of CFC-11/CFC-12 with HCFC-22 in foam and refrigeration sectors. One project is expected during the budget period with capacity of 5,000 tonnes at a cost of US \$10 million.

125. It will also be necessary to carry out activities to adapt new substitute production technologies to local circumstances for HFC-152a, HCFC-123/124/HFC-125, HFC-23 and HCFC-141b/142b production processes. It is assumed that about US \$500,000 will be required per one process. The total cost is estimated to be US \$2 million.

126. It is estimated that CFC producing plants will be converted to the production of HFC-134a at a capacity of 4,000 tonnes/year each in three Article 5 countries during the budget period. The cost of anticipated projects cover capital investment and operational costs. The estimated need for investments for these plants will be about US \$88 million during this budget period taking into consideration mixed transnational/national corporation ownership.

Sector Costs and ODS Reduction

127. The total cost of projects involving production of chemical substitutes will be US \$100 million resulting in an elimination of 17,000 tonnes of CFCs per year.

OTHER BUDGET ITEMS

128. Other budget items (US \$55.3 million) include estimates for the implementing agencies' work programmes, types of clearing-house activities, institutional strengthening for Article 5 countries, and the cost of Executive Committee meetings and the Fund Secretariat. It is to be noted that the "other budget" items will not result in direct elimination of ODS but will however help achieve this goal.

Implementing Agencies

129. Implementing agency work programme activities include technical assistance, preparation and updating of country programmes, and in some cases, training projects and administrative overhead. Budgets for the performance of these agency activities are estimated at US \$21.4 million for 1994 to 1996.

Clearing-house Functions

130. The budget for the performance of clearing-house types of activities is estimated at US \$12 million for 1994 to 1996.

Institutional Strengthening

131. Funds for institutional strengthening are provided to strengthen the capacities of existing institutions in Article 5 countries to allow them to better manage their participation in the preparation, monitoring and promotion of the activities of the Multilateral Fund. A budget of US \$16 million is foreseen to cover the participation of Article 5 countries over the budget period.

Executive Committee and Fund Secretariat

132. The three-year budget includes the costs for Executive Committee meetings, travel of Article 5 country members, document distribution, and the Fund Secretariat. The level of funding required for the first three years of operation will be maintained for the next budget period. It is expected that the cost to the Fund will total US \$5.9 million. Over one-third of this amount entails the cost of Committee meetings, travel for Article 5 country members, and document distribution. The Fund Secretariat's operational costs accounts for the balance not including Canada's annual counterpart contribution.

ANNEX III**Sample Format of an Extract from the Treasurer's Annual Report
on Financial Reports of the Implementing Agencies**

[Dates of Accounting]

US \$

Income

Funds transferred from the Executive Committee

Projects

Administration

Interest

Total income

Expenditure

Projects

Administration

Staff

Consultants

Travel

Contractual services

Meetings and conferences

Rentals

Operating expenses

Acquisitions

Reporting costs

Sundry

Hospitality

Programme support costs

Total expenditure

Excess of income over expenditure

ANNEX IV

Sample Page from the Consolidated Progress Report

IMPLEMENTING AGENCY:

Country Sector	Project Title Project Description	ODS to be phased out	Date of approval	Approved funding	Funds disbursed	Time Frame	Status
Several	Country programme preparation	-	Feb. 1992	\$	\$	1992- 1993	Expected submission to Govt. in 1993
Several	Demonstration	-	Feb. 1992	\$	\$	1992- 1994	To be completed in March 1994
Several	Institutional strengthening	-	Feb. 1992	\$	\$	1993- 1995	Funds disbursed
Several	Investment	-	Feb. 1992	\$	\$	1994- 1995	Appraisal mission in April 1994
Several	Project preparation	-	Feb. 1992	\$	\$	1992- 1993	Mission sent last October
Several	Technical assistance	-	Feb. 1992	\$	\$	1994	To be conducted in Nov. 1994
Several	Training preparation	-	Feb. 1992	\$	\$	1994	Workshop postponed until March 1994

N/A Not available

CPG Country Programme preparation

INS Institutional Strengthening

PRP Project Preparation

TRA Training

- Not applicable

ANNEX V

Temporary Difficulties Encountered by Hungary, Bulgaria, and Poland (Decision IV/21 of the Fourth Meeting of the Parties)

The Fourth Meeting of the Parties to the Montreal Protocol requested the Executive Committee and the Fund Secretariat to provide assistance to Hungary, Bulgaria and Poland in exploring and identifying possible ways and means of making in-kind contributions (Decision IV/21: Temporary difficulties encountered by Hungary, Bulgaria, and Poland).

The Secretariat contacted Bulgaria, Hungary, and Poland and drew their attention to Decision IV/21 and provided them with all the information available in the Secretariat regarding in-kind contributions. The Secretariat requested these Parties to provide information on actions and/or decisions regarding in-kind contributions to the Multilateral Fund in order to prepare a report for consideration by the Tenth Meeting of the Executive Committee.

The Secretariat received responses from Hungary and Poland.

Poland confirmed its willingness to pay outstanding contributions to the Multilateral Fund.

Hungary proposed to discuss the practical mechanism of delivering in-kind contributions to Article 5, paragraph 1, countries by supplying HFC-134a compressors, and by providing training and servicing in the refrigeration sector. Other possibilities of in-kind contribution are also being explored.

The Executive Committee welcomed the statement made by Poland regarding payment of outstanding contributions. It requested the Treasurer to send official notification to the financial authorities in Poland regarding the amount of outstanding contributions.

The Executive Committee requested the Fund Secretariat and the implementing agencies to take appropriate actions to explore the possibility of making use of the in-kind contribution proposed by Hungary in implementation of projects in the refrigeration sector in Article 5, paragraph 1, countries as a test case for consideration by the Executive Committee of possible policy issues arising from in-kind contributions.

The Executive Committee also requested 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.

The Executive Committee urged the above-mentioned countries to co-operate with UNEP IE/PAC, to provide information on available technologies and expertise in these countries for dissemination to Article 5, paragraph 1, countries.

It also encouraged these countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

ANNEX VI

Temporary Difficulties Encountered in Meeting Contributions by Parties Not Operating under Paragraph 1 of Article 5

The Sub-Committee on Contributions in Arrears has proposed a number of recommendations. In so doing, it identified five Parties namely, Belarus, Hungary, the Russian Federation, Ukraine, and Czechoslovakia (now known as the Czech Republic and the Slovak Republic) for which in-kind contributions might be used to meet outstanding contributions. In addition, Bulgaria was also identified as a country for which in-kind contributions might be used to meet outstanding contributions.

The Fund Secretariat contacted these countries to draw their attention to Decision IV/21 of the Fourth Meeting of the Parties, and provided them with all the information available in the Secretariat in the respect of in-kind contribution. The Secretariat requested these Parties to provide information on actions and/or decisions regarding in-kind contributions to the Multilateral Fund in order to prepare a report for consideration by the Executive Committee.

The Fund Secretariat received responses from the Czech Republic, the Russian Federation and Ukraine. The Russian Federation also discussed this issue with the Sub-Committee on Financial Matters.

The Czech Republic stated that a contribution in the amount of US \$100,000 would be paid in 1993 and that the rest of the Czech Republic's share of contributions of the former Czechoslovakia can be provided as in-kind contribution (experts; technology transfer; technical documentation, and training).

Ukraine mentioned the possibility of making in-kind contributions "in the form of certain participation" without any elaboration.

The Russian Federation indicated that it had contacted potential suppliers of in-kind activities and is attempting to find a mechanism for providing partial payment of contributions.

The aforementioned information indicates that some Parties encountering temporary difficulties are determined to cooperate with the Multilateral Fund in order to meet outstanding contributions.

The Executive Committee decided that the statement made by the Czech Republic regarding payment of a contribution should be followed up by the Treasurer.

The Executive Committee requested the Fund Secretariat to follow up its approaches to Belarus and the Slovak Republic and to explore further the potential of in-kind contributions by the five Parties identified by the Sub-Committee on Contributions in Arrears. The results of these interactions should be reported to the next Executive Committee.

The Executive Committee urged these countries to cooperate with UNEP IE/PAC, to provide information on available technologies and expertise in these countries for dissemination to Article 5, paragraph 1, countries.

It also encouraged these countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

ANNEX VII**SUMMARY OF DECISIONS TAKEN AT THE TENTH MEETING OF THE
EXECUTIVE COMMITTEE**

The Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol decided:

Financial matters

1. 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.
2. To approve the request by the United States of America to credit against its 1993 contribution the amount of US \$396,110 provided for Stage 1a (Model Prototype Development and Testing) of the Staged Project to produce CFC-free refrigerators in China.

Implementing Agencies

3. To approve the amount of US \$3,296,652 for amendments to the UNDP work programme.
4. To endorse the transfer from UNDP to UNEP, as implementing agency, of the 1991 refrigeration sector training and demonstration activities in Ghana and Kenya, as well as implementation of the remaining five 1992 regional refrigeration training and demonstration workshops, with a concurrent transfer of funds of US \$470,081, including programme support costs, from UNDP to UNEP.
5. To approve the amount of US \$873,071 for amendments to the UNIDO work programme.
6. To approve the amount of US \$1,220,000 for amendments to the World Bank work programme.
7. To request the implementing agencies, in future annual reports, to provide information in the uniform format to be approved by the Executive Committee and to provide information on "Funds Disbursed" at the same level of detail as given in the approval of the Executive Committee and as recorded in the Consolidated Progress Report.
8. To request UNDP to clarify the apparent low amount of interest included in the 1992 financial report. It requested the Treasurer and the implementing agencies to show in their future financial reports their average investment earnings calculated on the basis of the interest earned/cash available ratio.

Country Programmes

9. To approve the country programmes of Cameroon, Cuba, Fiji, Guatemala, Iran, Jordan, Maldives, Mauritius, Panama, Philippines, and Uruguay. However, this approval did not denote prior approval of funding levels contained in the country programmes.

10. To approve the institutional strengthening requests of Cuba (US \$172,000), Uruguay (US \$173,800), Guatemala (US \$172,000), Mauritius (US \$50,000), and Panama (US \$172,500). It also approved US \$20,200 for the training of custom officers as requested by Cameroon.

11. To request Parties operating under Article 5, paragraph 1, and the implementing agencies collaborating with them:

- to give priority to early completion of country programmes;
- 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;
- in preparing projects on institutional strengthening, to make provision to address the needs of the country with respect to the data submission requirements of Article 7 of the Montreal Protocol.

Investment Projects

12. To approve the following amounts:

US \$4,575,000 for two projects in China
US \$2,278,000 for three projects in Egypt
US \$1,252,000 for two projects in India
US \$10,673,000 for twelve projects in Thailand.

13. To give permission to proceed with phase II activities in Thailand refrigerator projects, as well as with the following two projects:

Elimination of ozone-depleting substances used in the production of household refrigerators (A.P. National)

Conversion of electronic cleaning from CFC-113 to high purity water cleaning (Team Tronics).

14. To deny permission to proceed on the Admiral refrigerator project and defer a decision on the MAC and chiller retrofit projects in Thailand.

15. To request Parties operating under Article 5, paragraph 1:
- when submitting project proposals to the Executive Committee 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.
 - to present annually information to the Executive Committee on progress being made in the implementation of their country programmes.

Issues related to the Open-ended Working Group of the Parties

16. To approve the report on the operation of the Financial Mechanism since 1 January 1991 with the Treasurer's report annexed thereto for submission to the forthcoming meeting of the Open-ended Working Group (Geneva, August 1993).

17. To approve the proposed three-year plan and budget of the Multilateral Fund (1994-1996) for submission to the forthcoming meeting of the Open-ended Working Group (Geneva, August 1993).

18. To submit the paper on temporary difficulties encountered by Hungary, Bulgaria and Poland to the forthcoming meeting of the Open-ended Working Group of the Parties (Geneva, August 1993).

Contribution in arrears

19. To request 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, paragraph 1, countries as a test case for consideration by the Executive Committee of possible policy issues arising from in-kind contributions.

20. To request 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.

21. To urge countries experiencing temporary difficulties and not operating under Article 5, paragraph 1, to cooperate with UNEP IE/PAC to provide information on available technologies and expertise in those countries for dissemination to Article 5, paragraph 1, countries. It also encouraged those countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

22. That the statement made by the Czech Republic regarding payment of a contribution should be followed up by the Treasurer.

23. To request the Fund Secretariat to follow up its approaches to Belarus and the Slovak Republic and to explore further the potential of in-kind contributions by the five Parties identified by the sub-committee on contributions in arrears. The results of those interactions should be reported to the next Meeting of the Executive Committee.

24. To urge countries referred to in paragraph 21 above to cooperate with UNEP IE/PAC to provide information on available technologies and expertise in those countries for dissemination to Article 5, paragraph 1, countries. It also encouraged those countries to contact Article 5, paragraph 1, countries to identify opportunities for cooperation through in-kind contributions.

Incremental cost policies and operational interpretation

25. To note that with respect to the document UNEP/OzL.Pro/ExCom/10/39, the following recommended guidelines were developed based on circumstances encountered and decisions taken to date and could be subject to further interpretation and/or amendment at the project preparation and approval and strategic levels. Policy decisions on all guidelines would be taken by the Executive Committee. The Committee decided the following:

- A. 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;
- B. 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;
- C. 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 that 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;
- D. incremental costs would not be financed by the Fund where there was evidence of double-counting.

Policy Papers

26. To authorize the Secretariat to meet with the implementing agencies to prepare, on the basis of the document submitted by the representative of Norway on Future Work Procedures of the Executive Committee and taking into account the views expressed during the discussion, a paper for the Committee's consideration at its next meeting that 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. In addition, several policy papers should be prepared so that the Committee could see not only the choice of options available to it but also concrete examples of how the Committee could proceed to take policy decisions. There should also be a paper on process alternatives.

Adoption of the Report

27. To adopt the present report, on the basis of the draft report contained in document UNEP/OzL.Pro/ExCom/10/L1, at its closing session on 1 July 1993.

Date of the Eleventh Meeting of the Executive Committee

28. To hold its Eleventh Meeting in Bangkok from 10 to 12 November 1993. It was understood that this did not constitute a precedent, and that subsequent meetings of the Executive Committee would normally be held in Montreal.