



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/61/57
21 June 2010

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-first Meeting
Montreal, 5 – 9 July 2010

**DRAFT REPORT OF THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND TO
THE TWENTY-SECOND MEETING OF THE PARTIES**

Pursuant to the Terms of Reference of the Executive Committee of the Multilateral Fund, the Secretariat has prepared the draft report to the Twenty-second Meeting of the Parties for your consideration. The report contains the relevant decisions taken by the Committee at its 59th and 60th Meetings and, after the conclusion of the 61st Meeting, it will be updated to incorporate any comments from the Meeting and the relevant decisions taken at the Meeting.

Introduction

1. The terms of reference of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol (UNEP/OzL.Pro.9/12, Annex V) require the Executive Committee to report annually to the Meeting of the Parties. The present report, which covers the activities undertaken by the Executive Committee since the Twenty-first Meeting of the Parties, is submitted in fulfilment of that requirement. The report includes five annexes: Annex I containing tables with data on project approvals; Annex II containing an assessment report on implementation of the recommendations contained in the 2004 evaluation and review of the financial mechanism; Annex III showing the amounts of HCFC consumption phased in; Annex IV containing the criteria for funding HCFC phase-out in the consumption sector in Article 5 countries; Annex V containing modifications of the production sector agreements for China and India; and Annex VI containing the terms of reference (TOR) for the technical audit of HCFC production in Article 5 countries.

2. During the reporting period, the 59th Meeting of the Executive Committee was held in Port Ghalib (Egypt) from 10 to 14 November 2009, the 60th in Montreal from 12 to 15 April 2010, [and the 61st in Montreal from 5 to 9 July 2010]. The reports of those meetings of the Executive Committee are contained in documents UNEP/OzL.Pro/ExCom/59/59, UNEP/OzL.Pro/ExCom/60/54 [and UNEP/OzL.Pro/ExCom/61/58], respectively, and are available on the Multilateral Fund's web site (www.multilateralfund.org).

3. In accordance with decision XX/22 of the Twentieth Meeting of the Parties, the 59th Meeting of the Executive Committee was attended by Australia, Belgium, Germany, Japan, Romania, Sweden (Chair) and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by the Plurinational State of Bolivia, China, the Dominican Republic (Vice-Chair), Gabon, Georgia, Namibia and Yemen, representing Parties operating under paragraph 1 of Article 5, and was chaired by Mr. Husamuddin Ahmadzai (Sweden), with Mr. Juan Tomas Filpo (Dominican Republic) acting as Vice-Chair.

4. In accordance with decision XXI/27 of the Twenty-first Meeting of the Parties, the 60th Meeting was attended by Belgium, Canada (Vice-Chair), France, Japan, Switzerland and the United States of America, representing Parties not operating under paragraph 1 of Article 5 of the Montreal Protocol, and by Colombia (Chair), Grenada, India, Morocco, Namibia, Saudi Arabia and Senegal, representing Parties operating under paragraph 1 of Article 5, and was chaired by Mr. Javier Ernesto Camargo Cubillos (Colombia), with Mr. Philippe Chemouny (Canada) acting as Vice-Chair. Ms. Maria Nolan, Chief Officer acted as Secretary for all the Meetings.

5. All the Meetings within the reporting period were also attended by representatives of the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) both as implementing agency and as Treasurer of the Fund, the United Nations Industrial Development Organization (UNIDO), the World Bank, the Ozone Secretariat and other observers.

A. ACTIONS TAKEN TO IMPLEMENT DECISIONS OF MEETINGS OF THE PARTIES

Decision XIX/6 and decision XXI/9

6. Decision XIX/6 requested the Executive Committee to assist Parties in preparing their phase-out management plans for accelerated HCFC phase-out, paying particular attention to Article 5 Parties with low volume and very low volume consumption of HCFCs, and giving priority when developing and applying funding criteria to cost-effective projects and programmes, with a focus on phasing out first those HCFCs with higher ODP, and small and medium-sized enterprises. The Executive Committee was

also directed, as a matter of priority, to assist Article 5 Parties in conducting surveys to improve reliability in establishing their baseline data on HCFCs and to make the necessary changes to the eligibility criteria related to the post-1995 facilities and second conversions. Decision XXI/9 called on the Executive Committee, as a matter of urgency, to expedite the finalization of its guidelines on HCFCs and to include a number of considerations when developing and applying funding criteria for projects and programmes regarding in particular the phase-out of HCFCs. Several outstanding issues regarding HCFC phase-out were discussed at the Meetings during the period under review and are described below.

HCFC demonstration projects that had been removed from business plans

7. The 59th Meeting discussed the issue of HCFC demonstration projects that had been removed from business plans in line with decision 57/6 and decided to allow additional HCFC projects that demonstrated alternative or new technology and that could provide the information required by decision 55/43 to be included in the 2010 business plans of the bilateral and implementing agencies. This also covered demonstration projects to determine the effectiveness of low-global warming potential (GWP) alternatives to HCFCs in the air conditioning and refrigeration sector in high ambient temperature areas in Article 5 countries, as requested in decision XXI/9 of the Twenty-First Meeting of the Parties (decision 59/9).

Confidentiality of HCFC data reported under Article 7

8. The 59th Meeting was informed that, following consultations with the Executive Secretary of the Ozone Secretariat, it had been decided that the Ozone Secretariat would share with the Fund Secretariat the disaggregated HCFC data submitted to the Ozone Secretariat by Parties without confidentiality requirements for its unrestricted use as needed.

Prioritization in the phase-out of HCFCs

9. The 59th Meeting held a lengthy discussion on funding priorities for HCFC phase-out projects and decided to request bilateral and implementing agencies to submit, as a priority, HCFC-141b phase-out projects to enable compliance with the reductions in consumption for the years 2013 and 2015, in accordance with paragraph 11(a) of decision XIX/6, and to consider HCFC consumption phase-out projects for HCFCs with ODP lower than HCFC-141b, where national circumstances and priorities required their submission, in order to comply with the 2013 and 2015 control measures (decision 59/11).

Basis for calculation of export to non-Article 5 countries

10. At its 59th Meeting, the Executive Committee's attention was drawn to the problem of determining whether the number of units exported, their commercial value or the HCFC content should be used to determine the share of export. The contact group set up to discuss the issue of Prioritization in the phase-out of HCFCs presented the report on this issue. The 59th Meeting decided to determine the share of the production exported to non-Article 5 countries either by applying the related decision in document UNEP/OzL.Pro/ExCom/15/45, paragraphs 146 and 147, on an enterprise basis, by (i) using the amount of ODS contained in units that had already been charged when shipped, and (ii) using the design ODS charge for units designed to be filled with an ODS but shipped empty; or by determining the share of exports on a sectoral basis, if the sector size was sufficient to warrant such a sectoral approach.

HCFC phase-out projects in domestic and commercial refrigeration enterprises

11. The 60th Meeting considered the issue of whether the conversion of refrigeration plants using HCFC as a foam blowing agent should be considered under the foam sector rather than under the

refrigeration sector. It decided that projects for the phase-out of HCFCs used by domestic refrigeration enterprises should be considered under the foam sector as rigid insulation refrigeration foam and that the cost-effectiveness threshold for the rigid insulation refrigeration foam sub-sector should be established at a future Meeting once sufficient information had been gathered from the review of HCFC phase-out projects as stand-alone projects and/or as components of HCFC phase-out management plans (HPMP) (decision 60/13).

Accelerated phase-out of HCFCs

12. The 60th Meeting considered the issue of projects which proposed levels of HCFC phase-out greater than the 10 per cent required to be phased out by 2015 and decided that projects which accelerated the phase-out of consumption of HCFCs could be considered on a case-by-case basis for low-volume-consuming countries that had a strong national level of commitment in place to support accelerated phase-out (decision 60/15).

Consumption arising from HCFC-141b contained in pre-blended foam chemicals (polyols)

13. The problem of determining whether Parties included pre-mixed polyols in their reported Article 7 data was discussed at the 59th Meeting and the Executive Committee decided to request the Fund Secretariat, in consultation with the Ozone Secretariat, to prepare for the 61st Meeting a brief discussion paper outlining the implications for Article 5 Parties and the Multilateral Fund associated with the import and export of HCFC-based pre-blended polyols, taking into account all relevant decisions by Meetings of the Parties and the Executive Committee, and outlining the policy issues and their related technical and economic implications requiring consideration by the Committee. It also requested bilateral and implementing agencies to provide the Secretariat with any information collected during the preparation of HPMPs or otherwise related to the production, export, import, and/or use of pre-blended polyols containing HCFCs and not to submit additional projects for the phase-out of HCFCs contained in imported pre-blended polyols beyond those submitted to the 59th Meeting until the eligibility of such projects had been decided by the Executive Committee (decision 59/12).

14. The 60th Meeting also addressed the issue, but decided to defer further consideration to the 61st Meeting (decision 60/50).

Prioritization of HCFC phase-out technologies to minimize other impacts on the environment

15. The 59th Meeting was informed of the current status of the Multilateral Fund climate impact indicator (MCII), which would be applied only to the conversion of manufacturing capacity, to replacements or to closures relating to ODS consumption. The Executive Committee decided to discuss the type of incentives to be associated with the Multilateral Fund MCII, and other relevant questions relating to it, at its 60th Meeting. The MCII would be applied to a subset of project submissions, from the 60th Meeting onwards to inform agencies and countries about the climate impact of technology choices. The Secretariat was requested to collect further data on the use of the MCII for the Executive Committee's consideration and to finalize its development as a basis for the output to be provided. In addition, it was requested to make the underlying data, the methodology used, and preliminary working models of the software available on the intranet to bilateral and implementing agencies and to Members of the Executive Committee and to report on the experience gained in utilizing the indicator not later than the 62nd Meeting of the Executive Committee. The Executive Committee decided to approve the related work, including programming of software, at a budget of US \$50,000 (decision 59/45).

Eligibility of measures to improve the climate impact of the conversion from HCFCs

16. As decision XXI/9 requested the Executive Committee “to consider providing additional funding and/or incentives for additional climate benefits where appropriate ... [and] to take into account, when considering the cost-effectiveness of projects and programmes, the need for climate benefit”, the 59th Meeting held a discussion on the eligibility of measures to improve the climate impact of the conversion from HCFCs and decided to return to the issue at its 60th Meeting. The Committee also requested the Secretariat to prepare a document for the 60th Meeting on the relevant aspects of component upgrade in HCFC conversion projects (decision 59/13).

17. After discussions at the 60th Meeting, the Executive Committee decided to defer consideration of the issue of component upgrade in HCFC conversion projects until its 61st Meeting and requested the Secretariat to supplement the document on relevant aspects of component upgrade in HCFC conversion projects (document UNEP/OzL.Pro/ExCom/60/45) with examples of the possible consequences of each option, drawing on the experiences of the implementing agencies (decision 60/43).

Outstanding HCFC issues: cut-off date, level of incremental operating costs, funding provided to the servicing sector, and incremental capital costs

18. The contact group on HCFC guidelines met in the margins of the 59th and 60th Meetings to resolve outstanding issues. The facilitator of the contact group submitted agreed criteria on HCFCs to the 60th Meeting, which were adopted by the Executive Committee (decision 60/44) and are attached as Annex IV.

Cost for conversion of component manufacturing vs. incremental operating cost

19. The appropriateness and feasibility of cost for conversion of component manufacturing vs. incremental operating costs was raised at the 59th Meeting, when it was decided to defer consideration until the 60th Meeting (decision 59/14). The 60th Meeting subsequently decided to defer the issue to its 61st Meeting (decision 60/45).

Preliminary template for draft agreements for HPMPs

20. At its 59th Meeting the Executive Committee considered the preliminary template for draft agreements for HPMPs, which was intended to be a starting point for the future development of a template. The Executive Committee decided to request bilateral and implementing agencies preparing HPMPs to use the preliminary template contained in Annex IV to the report of the 59th Meeting (UNEP/OzL.Pro/ExCom/59/59) as a guideline when advising countries on preparing a draft HPMP agreement for consideration by the Executive Committee, and to request Executive Committee Members and bilateral and implementing agencies to submit comments on the preliminary template to the Secretariat to enable it to prepare a revised version for consideration by the Committee at its 60th Meeting (decision 59/16).

21. The 60th Meeting, after considering the revised template submitted, deferred a decision to its 61st Meeting in order to give implementing agencies and Members a final opportunity to submit comments (decision 60/46).

Funding of institutional strengthening (IS) projects as part of an HPMP

22. The 59th Meeting was asked to consider whether funding for IS projects should be included within an HPMP and decided that Article 5 Parties had the flexibility to submit requests for IS funding either as part of their HPMPs or separately, as they so chose (decision 59/17).

Decision XXI/2

23. The Twenty-First Meeting of the Meeting of the Parties agreed that the Executive Committee of the Multilateral Fund should develop and implement, as expeditiously as possible, a methodology to verify the climate benefits and costs associated with Multilateral Fund projects to destroy banks of ozone-depleting substances, and should make such information publicly available on a project-level basis. The Executive Committee was requested to continue its consideration of further pilot projects in Article 5 Parties pursuant to decision XX/7, and in that context, to consider the costs of a one-time window within its current destruction activities to address the export and environmentally sound disposal of assembled banks of ozone-depleting substances in low-volume-consuming countries that are not usable in the Party of origin, and to continue its deliberations on a special facility and to report on these deliberations, including possible options for such a facility as appropriate, to the 30th meeting of the Open-ended Working Group.

24. The 59th Meeting considered a document addressing the issues raised at the 58th Meeting with regard to a special funding facility and heard a presentation from a representative of the World Bank's Treasury on the alternative mechanisms that had been explored for the use of financial instruments for a greater global environmental impact. The Committee also heard presentations from Sweden, UNDP and UNIDO on the special fund facility. The Executive Committee requested the Secretariat to consolidate the material presented during the Meeting on a special funding facility, with any additional contributions submitted by Members by the end of 2009, into a single agenda item addressing both the Facility as well as any issues related to decision XIX/6 paragraph 11(b) of the Nineteenth Meeting of the Parties for consideration at its 60th Meeting (decision 59/48).

25. A contact group was convened and discussed the special funding facility at its 60th Meeting, and requested the Secretariat to present the report on the special funding facility to the 30th Meeting of the of the Open-ended Working Group of Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer (OEWG) (decision 60/48). The report has been submitted to the 30th Meeting of the OEWG as UNEP/OzL.Pro.WG.30.1/3.

Decision XXI/4

26. The Twenty-first Meeting of the Parties requested the Executive Committee to consider reviewing both of the CFC production phase-out agreements with China and India with a view to allowing production of pharmaceutical-grade CFCs to meet the authorized levels of production and consumption specified and any authorized amounts in future years. Accordingly, the Sub-group on the Production Sector met in the margins of the 59th and 60th Meetings and took the decision on the production sector agreements contained in Annex V (decision 60/47, sub-paragraphs (a) to (d)).

B. PROCEDURAL MATTERS

(i) Establishment of contact groups

27. The Executive Committee decided to reconvene the contact group established at the 58th Meeting on HCFC issues and, accordingly, it met in the margins of the 59th and 60th Meetings. The 60th Meeting also established a contact group.

(ii) Sub-group on the production sector

28. The 59th Meeting reconvened the Production Sector Sub-group, composed of the representatives of Australia (facilitator), the Plurinational State of Bolivia, China, the Dominican Republic, Georgia, Germany, Japan, Namibia, Sweden and the United States of America. At its 59th Meeting, the Executive Committee agreed to recommendations of the Sub-group inter alia with respect to requesting eligible countries ready to phase out the production of HCFCs to submit a draft sector phase-out strategy (that should include an industrial rationalization strategy, as appropriate) and preliminary data on its HCFC plants, using the forms adopted at the 19th Meeting of the Executive Committee (decision 19/36). It also requested eligible countries ready to proceed with the phase-out of HCFC production to submit a request for auditing of their HCFC plants; (decision 59/44(c)(i) and (c)(ii)).

29. At the 60th Meeting, nominations were submitted for the Sub-group, which met with Colombia, Grenada and India, representing Article 5 countries, and Canada, Switzerland and the United States of America, representing non-Article 5 countries (see paragraphs below). The 60th Meeting also adopted recommendations of the Sub-group for the terms of reference for HCFC production sector audits contained in Annex VI to the present report (decision 60/47(e)).

C. FINANCIAL AND ADMINISTRATIVE MATTERS

(i) Status of contributions and disbursements

30. As at....., the total income to the Multilateral Fund, including cash payments, promissory notes held, bilateral contributions, interest earned and miscellaneous income, amounted to US \$....., and total allocations, including provisions, amounted to US \$..... The balance available at therefore amounted to US \$..... The yearly distribution of contributions against pledges is as follows:

YEARLY DISTRIBUTION OF CONTRIBUTIONS AGAINST PLEDGES

Year	Pledged contributions US \$	Total payments US \$	Arrears/outstanding pledges US \$
1991-1993	234,929,241	210,656,464	24,272,777
1994-1996	424,841,347	393,465,069	31,376,278
1997-1999	472,567,009	434,130,491	38,436,518
2000-2002	440,000,001	429,183,071	10,816,930
2003-2005	474,000,000	465,569,532	8,430,468
2006-2008	368,028,480	353,273,300	14,755,180
2009			
2010			
Total:			

Note: Not including any disputed contributions.

(ii) Interest collected during the 2006-2008 and 2009-2011 trienniums

31. As at....., the total level of interest recorded in the Treasurer's accounts amounted to US \$.....for the 2006-2008 triennium and US \$ for the 2009-2011 triennium.

(iii) Gain from the fixed-exchange-rate mechanism

32. The Treasurer informed the 59th and 60th Meetings of the total amounts gained from exchange differences since the inception of the fixed-exchange-rate mechanism, which stood at US \$.....

(iv) Bilateral cooperation

33. During the period under review, the Executive Committee approved requests by Canada, the Czech Republic, France, Germany, Italy, Japan and Spain to credit bilateral assistance amounting to a total of US \$3,321,981 (decisions 59/19 and 60/19). This brings the total for bilateral cooperation since the inception of the Multilateral Fund to US \$131,544,772 (excluding cancelled and transferred projects), representing approximately 5.3 per cent of funds approved. The range of bilateral projects approved includes, *inter alia*, terminal phase-out management plans (TPMPs) for ODS, HPMPs, preparation of HPMPs, CFC consumption phase-out plans, national methyl bromide (MB) phase-out plans, a demonstration project in the foam sector, a training workshop on alternative technology to HCFCs, and regional cooperation to enforce ODS trade controls.

(v) Issues pertaining to contributions

34. During the period under review, the Committee urged all Parties to pay their contributions to the Multilateral Fund in full and as early as possible and concern was expressed regarding arrears in contributions and the length of time that these had existed (decisions 59/1 and 60/1).

35. The 59th Meeting heard a report from the Chief Officer on the outstanding contributions of the Russian Federation and agreed to discuss it at the 60th Meeting (decision 59/54). Accordingly, the 60th Meeting, after hearing an update on the situation by the Chief Officer, requested her to convey the Executive Committee's views on the long outstanding contributions from the Russian Federation, as expressed at the 60th Meeting, and to invite representatives of the Ministry of Natural Resources and the Environment and the Ministry of Finance of the Russian Federation, the Chair and Vice-Chair of the Executive Committee, the Treasurer and the Ozone Secretariat to participate in an informal meeting to be held the day before the commencement of the 30th meeting of the Open-ended Working Group of the Parties (decision 60/2).

(vi) Reconciliation of the accounts of the Multilateral Fund

36. Outstanding reconciling items from the 2006 and 2007 accounts were brought to the attention of the 59th Meeting. After the Committee had received explanations concerning the outstanding items, it noted the reconciliation of accounts and requested the Treasurer to carry 2008 adjustments forward to 2009 (decision 59/50).

(vii) Final 2008 accounts of the Multilateral Fund

37. The 59th Meeting considered the final 2008 accounts that formed part of the financial statement audited by the United Nations Board of Auditors. The Executive Committee noted that the final audit report on the 2008 financial statement would be submitted to the Committee as soon as it became available and requested the Treasurer to record in the 2009 accounts the differences between the agencies' provisional statements and their final 2008 accounts as reflected in tables 1 and 2 of document UNEP/OzL.Pro/ExCom/59/55 (decision 59/49).

(viii) Revised 2010, 2011 and proposed 2012 budgets of the Fund Secretariat

38. The 59th Meeting considered the budgets for 2010, 2011 and 2012 and expressed concern at the 5 per cent increase in comparison with the 2009 budget. Following some discussion, the Executive Committee decided to approve the additional amount of US \$3,144,869 in the revised 2010 budget of the Fund Secretariat to cover the operational costs of the Secretariat and the Treasury fees and the proposed 2012 staff salary component costs of the budget totalling US \$3,888,905, calculated on a basis of a 3 per cent inflation rate against the 2011 staff cost levels. The Secretariat was requested to provide supporting documents from UNEP to justify a 5 per cent annual increase and to report the findings to the 60th Meeting of the Executive Committee, taking into account the practice of United Nations agencies based in Montreal. At its 60th Meeting, the Executive Committee noted that the approved 2010 budget was based on the typical costs of holding its Meetings in Montreal and that the Secretariat had had to move anticipated savings in 2009 under some budget components in order to cover the overrun on conference service costs with respect to holding the 59th Meeting of the Executive Committee in Port Ghalib, Egypt (decision 59/52).

39. The Executive Committee was informed at its 60th Meeting that, although there was no written rule providing for a 5 per cent increase UNEP had confirmed that, as staff costs could not be predicted with accuracy, such increases were justified and were determined by taking an average of all United Nations staff entitlements. The Executive Committee decided to maintain the annual increase in salary for staff for 2011 and 2012 approved at the 59th Meeting, as presented in Annex IX to document UNEP/OzL.Pro/ExCom/59/59, which had been approved for 2011 on the basis of a 5 per cent increase against the 2010 staffing costs, and for 2012 on the basis of a 3 per cent increase against the 2011 staffing costs, and requested the Secretariat to continue monitoring staff costs to assess the appropriate rate of increase for future years and to report back to the Executive Committee when presenting the 2010 accounts of the Fund at the 65th Meeting in 2011 (decision 60/49).

(ix) Compliance Assistance Programme (CAP) budget for 2010

40. The Compliance Assistance Programme (CAP) budget for 2010 was submitted to the 59th Meeting, which noted that it exceeded the approved budget for 2009 by 4.9 per cent as a result of the inclusion of the operational costs for the Southeast Asia (SEA) network, which the Government of Sweden would no longer fund. In view of the importance of the regional network's activities, the Executive Committee decided to approve the 2010 CAP budget contained in Annex VII to the report of the 59th Meeting (UNEP/OzL.Pro/ExCom/59/59) at a level of US \$8,745,000, plus support costs of US \$699,600 and to request UNEP, in future submissions of the CAP budget, to continue to provide detailed information on the activities for which the global funds would be used and to expand the prioritization of funding between CAP budget lines so as to accommodate changing priorities. UNEP was also requested to provide details on the reallocations made for its budget following decisions 47/24 and 50/26 and to continue to report on the current staff post levels, informing the Executive Committee of any changes therein, particularly in respect of any increased budgetary allocations (decision 59/27).

(x) Core unit costs for UNDP, UNIDO and the World Bank

41. The 59th Meeting considered the requests from UNDP, UNIDO and the World Bank for increases in core unit costs. After the Executive Committee had received clarifications from the agencies concerned, it decided to approve the requests for increased core unit funding from UNDP, UNIDO and the World Bank and to discuss at the 60th Meeting, a methodology to assist UNIDO in identifying project-related costs, if any, in its annual report on administrative costs (decision 59/28).

42. A document prepared by the Secretariat containing a methodology for identifying project-related costs in UNIDO's annual report on administrative costs was accordingly submitted to the 60th Meeting, which noted it.

(xi) Historical analysis of the cost of Executive Committee Meetings

43. A document containing a historical analysis of the cost of the Executive Committee Meetings was submitted to the 60th Meeting, which noted it.

(xii) Agreement between UNEP as Treasurer of the Multilateral Fund and the Executive Committee

44. A proposal by the Treasurer on its agreement with the Executive Committee was submitted to the 59th Meeting, giving a budget breakdown that reflected an increase of US \$50,100 to cover inflation owing to increases in personnel costs. It was noted that UNEP had informed the Secretariat that it was not possible to account for how the funds were spent as all fees received for trust fund services were pooled. After the need for transparency had been underlined, the Executive Committee decided to maintain the fee level at US \$500,000 per annum until the Executive Committee had had an opportunity to consider the results of the audit of the Secretariat on administrative and Fund management matters. The Treasurer's services would be reviewed at the 62nd Meeting, taking into account any relevant audit observation. It was also noted that provision of data on expenditures was a matter of transparency and was inherent to the mandate of UNEP, therefore, UNEP was requested to provide indicative data on expenditures between 2004 and 2009, to the extent feasible, and to bring to the 62nd Meeting a plan for providing expenditure data as part of its future treasury services (decision 59/51).

D. BUSINESS PLANNING AND RESOURCE MANAGEMENT

(i) Updated model rolling three-year phase-out plan: 2010-2012

45. The 59th Meeting adopted the 2010-2012 model rolling three-year phase-out plan as a flexible guide for resource planning for the corresponding period, noting the significant uncertainty with regard to the amount of HCFC consumption to be addressed during this period and urged Article 5 countries with approved but not implemented projects, and the relevant bilateral and implementing agencies, to accelerate the pace of the implementation during the 2010-2012 triennium. Bilateral and implementing agencies were also urged to work with those countries that had been identified as in need of immediate assistance to meet the 2010 phase-out targets in the Protocol, and to include activities in their 2010 business plans as appropriate (decision 59/5).

(ii) Consolidated business plan of the Multilateral Fund for 2009-2011

46. The 60th Meeting considered the 2010-2012 consolidated business plan of the Multilateral Fund, noting that it exceeded the budgets for 2010 and 2011, largely owing to uncertainties associated with the cost of HCFC activities. A number of proposals were put forward to remove activities from the business plans, together with amendments, as set out in decision 60/5. The bilateral and implementing agencies were requested to submit their revised business plans to the 61st Meeting.

(iii) 2010-2012 plans of the implementing agencies

47. The 60th Meeting considered UNEP's business plan, removing some projects and posing conditions on others, as shown in decision 60/6, and also noted the business plans of bilateral agencies, UNDP, UNEP, UNIDO and the World Bank.

(iv) Compliance with the next control measures of the Montreal Protocol

48. The 59th and 60th Meetings considered updated reports on the status of compliance and information on projects with implementation delays. The 59th Meeting was informed that four of the 35 projects previously listed as having implementation delays had been completed and at the 60th Meeting four of the 23 projects had been completed. It was decided to request additional status reports on some projects and the Secretariat was requested to take the established actions regarding projects with implementation delays (decisions 59/4 and 60/4).

E. FUND ACHIEVEMENTS SINCE INCEPTION**(i) Total ODS phased out**

49. Since 1991, 6,180 projects and activities (excluding cancelled and transferred projects) had been approved, with the following geographical distribution: 2,579 projects and activities for countries in Asia and the Pacific; 1,557 for countries in Latin America and the Caribbean; 1,395 for countries in Africa, 369 for countries in Europe; and 280 with global coverage. Of the 456,575 tonnes of ODS to be eliminated once all these projects have been implemented, a total of 446,233 tonnes of ODS had already been phased out by the end of December 2009. A breakdown by production and consumption and by sector is given in table 1 of Annex I. The sectoral distribution of the actual ODS phased out is indicated in the table below:

Sectors	ODP tonnes phased out*
Aerosol	26,188
Destruction	0
Foam	65,627
Fumigant (methyl bromide)	6,192
Halon (production and consumption)	88,187
Projects in multiple sectors	455
Process agent (production and consumption)	55,554
National phase out plan (production and consumption)	51,116
Production	94,388
Refrigeration	49,034
Several	686
Solvent	7,171
Sterilant	60
Tobacco expansion	1,574
Total	446,233

*Excluding cancelled and transferred projects

(ii) Funding and disbursement

50. The total funds approved by the Executive Committee since 1991 in order to achieve this phase-out of ODS and to implement both ongoing investment projects and all non-investment projects and activities amounted to US \$2,485,751,567, including US \$249,846,998 for agency support costs (excluding cancelled and transferred projects). Of the total project funds approved, the amounts allocated to, and disbursed by, each of the implementing agencies and bilateral agencies, are indicated in the table below:

Agency	US \$ approved (1)	US \$ disbursed (2)
UNDP	587,609,543	518,170,848
UNEP	178,972,631	148,174,810
UNIDO	565,334,405	483,285,150
World Bank	1,022,290,215	961,669,117
Bilateral	131,544,772	104,745,830
Total	2,485,751,567	2,216,045,755

(1) As at 10 June 2010 (excluding cancelled and transferred projects)

(2) As at 31 December 2009 (excluding cancelled and transferred projects)

F. FUNDING APPROVALS DURING THE REPORTING PERIOD**(i) Projects and activities approved during the reporting period (59th, 60th [and 61st] Meetings of the Executive Committee)**

51. During the reporting period, the Executive Committee approved a total of 178 additional projects and activities, with a planned phase-out of 4,811 ODP tonnes in the production and consumption of controlled substances. The total funds approved for project/activity implementation, amounting to US \$74,132,898 including US \$10,298,814 for agency support costs, are as follows by agency:

Agency	US \$	US \$ support	US \$ total
UNDP	18,961,350	3,340,563	22,301,913
UNEP	13,686,197	1,002,115	14,688,312
UNIDO	16,159,284	3,131,221	19,290,505
World Bank	12,071,903	2,458,284	14,530,187
Bilateral	2,955,350	366,631	3,321,981
Total	63,834,084	10,298,814	74,132,898

(ii) 2009 work programmes

52. The 59th Meeting considered and approved amendments to the 2009 work programmes of UNDP, UNEP and UNIDO (decision 59/18), subject to certain conditions (decisions 59/20(a) and (b), 59/23, and 59/24, respectively), and deferred some projects (decisions 59/20(c), 59/21, 59/22, 59/25 and 59/26).

(iii) 2010 work programmes

53. The 60th Meeting approved the 2010 work programmes of the implementing agencies (decision 60/14), deferring some projects, removing others and posing conditions: UNDP (decisions 60/20, 60/21 and 60/22); UNEP (decisions 60/23 and 60/24); UNIDO (decisions 60/25, 60/26 and 60/27); and the World Bank (decision 60/28).

(iv) Investment projects

54. Of the total funds approved in the period under review, the Executive Committee allocated US \$39,839,630 including US \$2,731,442 for agency support costs, for the implementation of investment projects to eliminate an estimated quantity of 4,772 ODP tonnes in consumption and production of ODS. A breakdown by sector is given in table 2 of Annex I to the present report.

55. The Executive Committee also approved one new agreement at its 59th Meeting (decision 59/37) and three new agreements at its 60th Meeting (decisions 60/34, 60/37 and 60/38), with commitments in principle totalling US \$6,682,277. Details of the amounts per country and sector can be found in table 3 of Annex I to the present report. US \$24,445,369 including US \$1,722,337 in agency support costs have been approved during the report period for the tranches of these agreements. US \$848,337 including US \$77,397 in agency support costs have been approved for the first two HPMP projects for Maldives and FYR Macedonia.

56. The Executive Committee, at its 60th Meeting, decided to impose the penalty clause provided under the relevant agreements with the Executive Committee in one case for reasons of non-compliance (decisions 60/35).

57. The 60th Meeting was reminded that the Executive Committee had decided that projects over US \$5 million should be submitted 12 weeks prior to the Meeting at which they were to be considered. The Secretariat had nevertheless received such projects after the deadline and sought guidance from the Executive Committee on the procedure to be followed. The Executive Committee requested bilateral and implementing agencies submitting HCFC projects in the consumption sector with a level of funding of more than US \$5 million to submit only one project proposal covering all the enterprises in the relevant sector or sub-sector 12 weeks in advance of the Meeting at which it was to be considered (decision 60/12).

Demonstration projects

58. During the period under review, 6 HCFC demonstration projects were approved including 2 foam and 4 refrigeration projects amounting to a total of US \$8,413,345 including US \$611,847 in agency support costs,

(v) Non-investment activities*Technical assistance and training*

59. During the period under review, 4 technical assistance projects amounting to US \$343,276, including US \$38,076 for agency support costs, were approved, bringing the cost of technical assistance projects and training activities approved since the inception of the Multilateral Fund to a total of US \$114,043,838 (excluding cancelled and transferred projects). This amount does not include the non-investment components of MYAs, core unit costs and CAP budgets.

Institutional strengthening

60. Since the Twentieth Meeting of the Parties, US \$4,851,179 including agency support costs of US \$156,071 were approved for IS projects. This brings the total approvals by the Executive Committee to US \$82,560,571 for IS projects in 144 Article 5 countries. When approving funding for IS projects, the Executive Committee expressed certain views that were annexed to the reports of the respective Meetings.

61. The 59th Meeting discussed the options for funding IS after 2010, taking into account the need for IS for HCFC phase-out. After differing views had been expressed, it was decided to extend financial support for IS funding for Article 5 Parties beyond 2010 up to December 2011 and to allow them to submit their projects as stand-alone projects or within their HPMPs (decision 59/47). The 60th Meeting subsequently requested the Secretariat to prepare a document on objectives, indicators and formats pertaining to requests for the renewal of IS projects for consideration at the 61st Meeting, when it would consider further the options for funding IS projects (decision 60/10).

Country programmes

62. During the period under review, the Executive Committee approved a country programme for Somalia (decision 59/43). The total number of country programmes approved since the Committee's inception is 143, covering the estimated baseline production of 140,088.1 ODP tonnes of CFCs and halons and baseline consumption of 201,061.3 ODP tonnes of controlled substances (as stated in the country programme document).

G. MONITORING AND EVALUATION

(i) Project completion report (PCR)

63. The 2009 consolidated PCR was considered by the 59th Meeting, which requested the bilateral and implementing agencies concerned to provide the information missing in a number of PCRs by the end of January 2010, to establish full consistency of data reported, and to clear the backlog of PCRs (decision 59/6).

(ii) Annual tranche submission delays

64. At the 59th and 60th Meetings, it was noted that 44 of the 70 and 25 of the 55 annual tranches of MYAs due for submission, respectively, had been submitted on time. It was decided to send letters to the countries and agencies concerning the annual tranches that were due for submission but had not been submitted to the 59th or 60th Meetings (decisions 59/3 and 60/7).

(iii) Progress reports on approved projects with specific reporting requirements

65. The 59th and 60th Meetings noted the progress reports submitted pursuant to specific reporting requirements on approved projects and took the required action (decisions 59/8 and 60/8).

(iv) Progress on the development of multi-year agreement tables

66. The 59th Meeting noted the report on progress on the development of multi-year agreement (MYA) tables and requested the Secretariat to pursue the work so that online submissions of MYA tables for new HPMPs could be received as of April 2010 and subsequent tranche submissions for HPMPs from September 2010. A budget for US \$60,000 was approved for the purchase of the hardware and software needed, the programming of the database and related work (decision 59/7).

(v) Identification of gaps in regional methyl bromide projects in Africa

67. The 59th Meeting heard a report from UNEP on the identification of gaps in regional methyl bromide projects in Africa and requested UNEP to incorporate projects that responded to the identified gaps in its business plan to be submitted to the 60th Meeting (decision 59/55).

H. POLICY MATTERS (not already covered)**(i) Automatic adjustments of business plans and requirement for consideration of first time requests first in the business plan**

68. The 60th Meeting emphasized the need for the Secretariat to ensure that business plans submitted to the Executive Committee were consistent with previous decisions and approvals of the Executive Committee. It also addressed the need to consider new activities not required for compliance and not previously considered by the Executive Committee only after their consideration in business plans. The Committee then requested the Fund Secretariat to automatically adjust the business plans of the bilateral and implementing agencies to reflect the values in previously approved MYAs and in other previous decisions of the Executive Committee, and to defer consideration of approval of new activities not required for compliance and not previously considered by the Executive Committee until after their consideration in the context of business plans at the first Meeting of the year (decision 60/9).

(ii) Final tranches of ODS phase-out plans not submitted to the 60th Meeting

69. The 60th Meeting was informed of some of the reasons for delays in submission of tranches for multi-year projects and decided to allow the submission of outstanding funding tranches of NPPs or TPMPs in Article 5 countries to the 61st Meeting of the Executive Committee on the understanding that the governments concerned, with assistance from relevant bilateral and implementing agencies, would consider implementing activities to sustain zero consumption of CFCs and other activities to facilitate the phase-out of HCFCs and that funding tranches of NPPs or TPMPs not submitted to the 61st Meeting should be integrated into the relevant HCFC phase-out management plans of the countries concerned (decision 60/11).

H. FUND SECRETARIAT ACTIVITIES

70. During the period under review, the Fund Secretariat had taken action pursuant to the decisions taken by the Executive Committee at its 59th, 60th and 61st Meetings. It had also prepared documentation and provided conference services for the 59th, 60th and 61st Meetings. Proposals for projects and activities from implementing agencies and bilateral partners had been submitted amounting to US \$169,783,681. In addition to the documents customarily prepared for Executive Committee Meetings, the Secretariat had also prepared documents, inter alia, on the policy matters referred to above.

71. The Secretariat had analysed and reviewed 354 funding requests and provided comments and recommendations for the Executive Committee's consideration. The requested level of funding, following project review, for approval at the 59th, 60th and 61st Meetings amounted to US \$132,405,054.

72. An audit of the Fund Secretariat by the Board of External Auditors of the United Nations on administrative and Fund management matters took place during the reporting period

Transition of the Chairmanship of the Executive Committee

73. The 59th Meeting considered a proposal by the Chair aimed at ensuring a smooth transition of the chairmanship of the Executive Committee. The Secretariat was requested to identify the activities of the incoming Chair and Vice-Chair, along with information on possible relevant missions, and to provide that information to the Chair and Vice-Chair to facilitate the smooth transition of the incoming leadership. It was also noted with appreciation that the approved budget had been effectively reduced over the period 2006-2009 and the proposed budget of US \$15,000 for travel associated with Executive Committee-

related activities in 2010, as proposed by the Multilateral Fund Secretariat would be sufficient (decision 59/53).

I. MATTERS RELATING TO THE MEETING OF THE PARTIES

74. The 61st Meeting reviewed the draft report of the Executive Committee to the Twenty-second Meeting of the Parties, which covered the 59th and 60th Meetings. The Secretariat was authorized to finalize it in the light of the discussions held and decisions taken at the 61st Meeting (decision 61/....).

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

76. Annex III contains a table showing the amount of HCFC-141b consumption phased in through projects using HCFCs as a replacement. This is in response to Executive Committee decision 36/56(e), which states, inter alia “That the annual Executive Committee report to the Meeting of the Parties should state by country the amount of HCFC-141b consumption phased in through projects using HCFC as replacement, a consumption which would – in application of decision 27/13 – be excluded from funding at future stages”.

J. REPORTS OF THE EXECUTIVE COMMITTEE

77. The reports of the 59th, 60th [and 61st] Meetings (UNEP/OzL.Pro/ExCom/59/59, UNEP/OzL.Pro/ExCom/60/54 [and UNEP/OzL.Pro/ExCom/61...], respectively and meeting summaries have been distributed to all Parties to the Montreal Protocol. The reports of these Meetings and previous Executive Committee Meetings are available from the Fund Secretariat on request or can be accessed at the web site of the Fund Secretariat (www.multilateralfund.org).

Annex I

TABLES WITH DATA ON PROJECT APPROVALS

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

Sector	ODP approved	ODP phased out
Consumption		
Aerosol	27,796	26,188
Destruction	0	0
Foam	68,434	65,627
Fumigant	7,566	6,192
Halon	40,095	46,229
Multi-sector	670	455
Other	1,530	1,574
Process agent	19,693	6,210
Phase-out plan	43,856	40,128
Refrigeration	53,482	49,034
Several	753	686
Solvent	7,309	7,171
Sterilant	55	60
Total Consumption	271,239	249,554
Production		
CFC	87,251	89,979
Halon	31,581	43,158
CTC	65,841	63,032
TCA	213	134
MBR	450	376
Total Production	185,336	196,679

* Excluding cancelled and transferred projects

Table 2: Sectoral distribution of approved investment projects since inception

Sector	ODP tonnes	US \$ approved
Aerosol	27,639	89,578,480
Destruction	0	0
Foam	68,323	400,275,877
Fumigant	7,253	103,150,782
Halon	64,118	78,093,664
Multi-sector	670	2,568,987
Other	1,530	17,023,270
Process agent	71,628	131,026,912
Phase-out plan	54,406	250,809,220
Production	91,814	344,845,305
Refrigeration	45,242	475,447,100
Solvent	7,276	102,881,452
Sterilant	55	1,198,819
Total	439,954	1,996,899,868

* Excluding cancelled and transferred projects

Table 3: Agreements approved during the reporting period

Country	Project	To be implemented by	Total phase-out ODP tonnes	Funding approved in principle (US \$)		
				Project funds	Support costs	Total
Chile	Phase-out of methyl bromide	UNIDO	164.4	1,657,917	124,344	1,782,261
		UNEP		73,000	9,490	82,490
The Former Yugoslav Republic of Macedonia	Reduction in consumption of HCFCs	UNIDO	N/A	1,030,000	77,250	1,107,250
Guatemala	Phase-out of methyl bromide	UNIDO	265.7	2,243,047	168,229	2,411,276
		UNEP		70,000	9,100	79,100
Maldives	Phase-out of HCFCs	UNEP	3.7	680,000	88,400	768,400
		UNDP		420,000	31,500	451,500

Annex II

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

A. Introduction

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

- (a) “To request the Executive Committee of the Multilateral Fund, within its mandate, to consider the report on the 2004 evaluation and review of the financial mechanism of the Montreal Protocol, with a view to adopting its recommendations, whenever possible, in the process of continuous improvement of the management of the Multilateral Fund, and having in mind the need to contribute to the assessment of the Technology and Economic Assessment Panel of the 2006-2008 replenishment of the Multilateral Fund;
- (b) To request the Executive Committee regularly to report back to and seek guidance from the Parties on the subject. To this effect, the Executive Committee shall submit a preliminary assessment to the Open-ended Working Group at its twenty-fifth meeting and include a component in its annual report to the Meeting of the Parties, on progress made and issues encountered in its consideration of the recommended actions contained in the executive summary of the evaluation report.”

(Decision XVI/36)

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

3. The assessment report (document UNEP/OzL.Pro.WG.1/25/INF/3), based on the deliberations at the 45th Meeting, grouped the 28 recommendations contained in the 2004 evaluation and review of the financial mechanism of the Montreal Protocol into three categories, as follows.

Category I:

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

Category II:

“Ten general recommendations are related to ongoing activities of the Executive Committee, the Secretariat, the Implementing Agencies and the Treasurer but may require new actions in the

short term. The Executive Committee will report back to the Meeting of the Parties on these recommendations, as appropriate, in the context of its Annual Report". These include recommendations: 1, 3, 4, 9, 11, 12, 17, 20, 23 and 26.

Category III:

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

4. The following report therefore covers the recommendations falling under the first two categories where further work needed to be done and new information was available. As reported to the Eighteenth and Twentieth Meeting of the Parties, efforts with respect to recommendations 3, 4, 6, 7, 9, 11, 12, 16, 17, 18, 21, 22, 23, 25, and 28 have taken place on a regular basis as already reported in the past and no further action in addition to the existing practice of the Executive Committee is required. Under this reporting period, the recommendation 1 does not require further action by the Committee.

B. Recommendations under the first two categories

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

5. [to be completed after 61st Meeting of the Executive Committee]

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

6. During this reporting period, the Executive Committee requested UNEP to hold a session on the revised format for country programme data reporting at its network meeting. It was also requested, together with the Secretariat, to identify problems associated with the low level of use of on-line data reporting to determine how best to encourage the timely reporting of Article 5 country programme data using such system. The Secretariat was also requested to modify the country programme data reporting format to include information relevant to the HCFC phase-out, including whether HCFC control measures were included in licensing systems.

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

7. During the period under review, the Committee urged all Parties to pay their contributions to the Multilateral Fund in full and as early as possible and concern was expressed regarding arrears in contributions and the length of time that these had existed.

8. At the 59th Meeting the Committee heard a report on the feedback from the Russian Federation on its outstanding contributions and at the 60th Meeting agreed to convey to the country the Executive Committee's views on the long outstanding contributions from the Russian Federation and to request the Chief Officer to invite representatives of the Ministry of Natural Resources and the Environment and the Ministry of Finance of the Russian Federation, the Chair and Vice-Chair of the Executive Committee, the Treasurer and the Ozone Secretariat to participate in an informal meeting to be held before the commencement of the 30th Meeting of the Open-ended Working Group of the Parties.

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

9. The Executive Committee, at its 60th Meeting, requested UNEP to report on the application of the financial rules regarding obligated cash advances by the 61st Meeting when reporting on balances on completed projects. [to be completed after the 61st Meeting of the Executive Committee]

Annex III

AMOUNTS OF HCFC¹ CONSUMPTION PHASED-IN (ODP TONNES)

Country	CFC phased out in projects using HCFC technologies	HCFC phased in
Algeria	54.8	6.0
Argentina	749.9	82.5
Bahrain	15.5	1.7
Bolivia	11.1	1.2
Bosnia and Herzegovina	29.4	3.2
Brazil	4,904.7	536.4
Chile	238.8	22.5
China	10,162.6	855.7
Colombia	652.8	71.8
Costa Rica	33.5	3.7
Cuba	0.8	0.1
Dominican Republic	137.0	15.1
Egypt	488.3	41.3
El Salvador	18.5	2.0
Guatemala	46.0	5.1
India	4,553.3	486.1
Indonesia	2,722.7	292.3
Iran	1,058.3	116.4
Jordan	334.3	36.8
Kenya	23.0	2.5
Lebanon	82.0	9.0
Libya	62.2	6.8
Macedonia, FYR	76.0	8.4
Malaysia	1,240.9	132.9
Mauritius	4.3	0.5
Mexico	2,129.2	216.4
Morocco	119.5	13.1
Nicaragua	8.1	0.9
Nigeria	387.9	42.7
Pakistan	790.7	87.0
Panama	14.6	1.6
Paraguay	67.3	7.4
Peru	148.7	16.4
Philippines	525.3	57.8
Romania	194.4	21.4
Serbia	44.7	4.9
Sri Lanka	7.3	0.8
Sudan	4.4	0.5
Syria	636.1	70.0
Thailand	2,047.2	224.0
Tunisia	237.2	22.6
Turkey	376.8	41.4
Uruguay	99.3	10.9
Venezuela	707.6	77.8
Vietnam	44.9	4.9
Yemen	9.8	1.1
Zimbabwe	11.5	1.3
Total	36,313.3	3,664.8

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

Annex IV

AGREED CRITERIA ON HCFCs ADOPTED AT THE 60TH MEETING OF THE EXECUTIVE COMMITTEE

The Executive Committee decided, when determining criteria for funding HCFC phase-out in the consumption sector in Article 5 countries:

Cut-off date

- (a) Not to consider any projects to convert HCFC-based manufacturing capacity installed after 21 September 2007;

Second-stage conversion

- (b) To apply the following principles in regard to second-stage conversion projects for the first stage of HCFC phase-out management plan (HPMP) implementation to achieve the 2013 and 2015 HCFC phase-out compliance targets, to be reviewed by the Executive Committee no earlier than the last Meeting in 2013:
 - (i) Full funding of eligible incremental costs of second-stage conversion projects will be considered in those cases where an Article 5 Party clearly demonstrates in its HPMP that such projects are necessary to comply with the Montreal Protocol HCFC targets up to and including the 35 per cent reduction step by 1 January 2020 and/or are the most cost-effective projects measured in ODP tonnes that the Party concerned can undertake in the manufacturing sector in order to comply with these targets;
 - (ii) Funding for all other second-stage conversion projects not covered under paragraph (b)(i) above will be limited to funding for installation, trials, and training associated with those projects;

Starting points for aggregate reductions in HCFC consumption

- (c) To establish the starting points for aggregate reductions in HCFC consumption, for those Article 5 countries that submit projects in advance of their assessed baseline, at the time of submission of either the HCFC investment project or the HPMP, whichever is first submitted for the consideration of the Executive Committee;
- (d) To allow Article 5 countries to choose between the most recent reported HCFC consumption under Article 7 of the Montreal Protocol at the time of the submission of the HPMP and/or the investment project, and the average of consumption forecast for 2009 and 2010, in calculating starting points for aggregate reductions in HCFC consumption;
- (e) To adjust the agreed starting points for aggregate reductions in HCFC consumption in cases where calculated HCFC baselines based on reported Article 7 data are different from the calculated starting point based on the average consumption forecast for 2009-2010;

Eligible incremental costs of HCFC phase-out projects

- (f) To apply the following principles in regard to eligible incremental costs of HCFC phase-out projects for the first stage of HPMP implementation to achieve the 2013 and 2015 HCFC phase-out compliance targets, subject to a review in 2013:
 - (i) When preparing HCFC phase-out projects in the foam, refrigeration and air-conditioning sectors, bilateral and implementing agencies shall use the technical information contained in document UNEP/OzL.Pro/ExCom/55/47 as a guide;
 - (ii) The current cost-effectiveness threshold values used for CFC phase-out projects in paragraph 32 of the final report of the 16th Meeting of the Executive Committee (document UNEP/OzL.Pro/ExCom/16/20), to be measured in metric kilogrammes, shall be used as guidelines during the development and implementation of the first stage of HPMPs;
 - (iii) That countries will have the flexibility to allocate the approved funding from incremental operating costs to incremental capital costs and to allocate up to 20 per cent of the approved funding for incremental capital costs to incremental operating costs, as long as the use of the flexibility does not change the intent of the project. Any reallocation should be reported to the Executive Committee;
 - (iv) Funding of up to a maximum of 25 per cent above the cost effectiveness threshold will be provided for projects when needed for the introduction of low global warming potential (GWP) alternatives;

HCFC phase-out in the foam sector

- (v) Incremental operating costs for projects in the foam sector will be considered at US \$1.60/metric kg for HCFC-141b and US \$1.40/metric kg for HCFC-142b consumption to be phased out at the manufacturing enterprise;
- (vi) For group projects linked to systems houses, incremental operating costs will be calculated on the basis of the total HCFC consumption to be phased out for all downstream foam enterprises;
- (vii) The Executive Committee will consider, on a case-by-case basis, funding higher levels of incremental operating costs than indicated in paragraph (f)(v) above when required for the introduction of low-GWP water-blown technology;

HCFC phase-out in the refrigeration and air-conditioning manufacturing sector

- (viii) Incremental operating costs for projects in the air conditioning sub-sector will be considered at US \$6.30/metric kg of HCFC consumption to be phased out at the manufacturing enterprise;
- (ix) Incremental operating costs for projects in the commercial refrigeration sub-sector will be considered at US \$3.80/metric kg of HCFC consumption to be phased out at the manufacturing enterprise;

- (x) Consistent with decision 31/45 of the Executive Committee, incremental operating costs will not be considered for enterprises categorized under the refrigeration equipment assembly, installation and charging sub-sector;

HCFC phase-out in the refrigeration servicing sector

- (xi) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes must include in their HPMP, as a minimum:
- a. A commitment to meeting, without further requests for funding, at least the freeze in 2013 and the 10 per cent reduction step in 2015, and if the country so decides, the 35 per cent reduction step in 2020. This shall include a commitment by the country to restrict imports of HCFC-based equipment if necessary to achieve compliance with the reduction steps and to support relevant phase-out activities;
 - b. Mandatory reporting, by the time funding tranches for the HPMP are requested, on the implementation of activities undertaken in the refrigeration servicing sector and in the manufacturing sector when applicable, in the previous year, as well as a thorough and comprehensive annual work plan for the implementation of the following activities associated with the next tranche;
 - c. A description of the roles and responsibilities of major stakeholders, as well as the lead implementing agency and the cooperating agencies, where applicable;
- (xii) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes will be provided funding consistent with the level of consumption in the refrigeration servicing sector as shown in the table below, on the understanding that project proposals will still need to demonstrate that the funding level is necessary to achieve the 2013 and 2015 phase-out targets, and if the country so decides, the 2020 phase-out targets:

Consumption (metric tonnes)*	Funding up to 2015 (US\$)	Funding up to 2020 (US\$)
>0 <15	51,700	164,500
15 <40	66,000	210,000
40 <80	88,000	280,000
80 <120	99,000	315,000
120 <160	104,500	332,500
160 <200	110,000	350,000
200 <320	176,000	560,000
320 <360	198,000	630,000

(*) Level of baseline HCFC consumption in the refrigeration servicing sector

- (xiii) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes and that receive funding consistent with the above table, will have flexibility in utilizing the resources available to address specific needs that might arise during project implementation to facilitate the smoothest possible phase-out of HCFCs;

- (xiv) Article 5 countries that have total HCFC consumption of up to 360 metric tonnes, used in both the manufacturing and refrigeration servicing sectors, could submit HCFC phase-out investment projects in accordance with prevailing policies and decisions of the Multilateral Fund, in addition to funding for addressing HCFC consumption in the servicing sector;
- (xv) Article 5 countries that have total HCFC consumption above 360 metric tonnes should first address consumption in the manufacturing sector to meet the reduction steps in 2013 and 2015. However, if such countries clearly demonstrate that they require assistance in the refrigeration servicing sector to comply with these targets, funding for these activities, such as training, will be calculated at US\$4.50/metric kg, which will be deducted from their starting point for aggregate reductions in HCFC consumption.

HCFC phase-out in the aerosol, fire extinguisher and solvent sectors

- (xvi) The eligibility of incremental capital and operating costs for HCFC phase-out projects in the aerosol, fire extinguisher and solvent sectors will be considered on a case-by-case basis.

Annex V

MODIFICATIONS OF THE PRODUCTION SECTOR AGREEMENTS FOR CHINA AND INDIA

- (a) To note the paper on terms and conditions under which the existing CFC production Agreements with China and India and associated accelerated phase-out Agreements might be modified and the report on possible modifications to the terms of reference for the technical audit adopted at the 32nd Meeting, as appropriate, to meet the audit needs of the production of HCFCs, both contained in document UNEP/OzL.Pro/ExCom/60/49;
- (b) To modify the production sector Agreements for China and India to allow the production for export of pharmaceutical-grade CFCs for 2010, with an annual review, for purposes of meeting essential use requirements of other countries provided that exporting countries had reporting and verification systems in place and that the reporting and verification systems collected and reported on the following information:
 - (i) Documents from metered-dose inhaler (MDI) manufacturers ordering pharmaceutical-grade CFCs;
 - (ii) Approvals from importing country governments for purchasing essential use pharmaceutical-grade CFCs;
 - (iii) Approvals received from governments of producing countries that order and the essential production authorized;
 - (iv) Raw materials consumed for production run;
 - (v) Amount of pharmaceutical-grade CFC produced;
 - (vi) Amount of non-pharmaceutical-grade CFC produced;
 - (vii) Documentation (transport, storage, disposal) verifying that the amount of non-pharmaceutical CFCs had been destroyed;
 - (viii) Export documentation from producers;
 - (ix) Invoices from MDI manufacturers; and
 - (x) Audit reports verifying all the above;
- (c) To request the World Bank, as the implementing agency for the CFC production phase-out plans for China and India, to provide its services in carrying out the verification/audit and to submit reports to the Executive Committee on behalf of China and India on the understanding that:
 - (i) The World Bank verified that the producer had access to destroy the excess CFC produced using a destruction technique approved by the Parties;
 - (ii) The cost of verification would be approved in advance of the audit by the Executive Committee;

- (d) That:
 - (i) The Fund Secretariat, on behalf of the Executive Committee, would seek confirmation from the importing country of the actual quantities imported by that country;
 - (ii) The producing country agreed to limit the production of non-pharmaceutical specification grade CFCs to the extent possible and pay for their destruction;
 - (iii) The Executive Committee would consider application of the penalty clause to any CFC production determined as being excessive by the verification reports (decision 60/47(a) to (d)) (UNEP/OzL.Pro/ExCom/60/54).

Annex VI

TERMS OF REFERENCE (TOR) FOR THE TECHNICAL AUDIT OF HCFC PRODUCTION IN ARTICLE 5 COUNTRIES

Background

1. The Montreal Protocol on Substances that Deplete the Ozone Layer and its Montreal Amendment advanced the phase-out schedule of HCFCs in 2007 by its signatory countries, although a distinction has been made in the schedule between developed and developing countries. The developing countries (the Article 5 countries in the language of the Protocol) are required to freeze the production and consumption of such chemicals in 2013 at the average level, between 2009 and 2010. They are subsequently required to reduce the levels of production and consumption in a number of phases until complete phase-out has been achieved in 2040. The Multilateral Fund for the Implementation of the Montreal Protocol was established in 1991 as part of the London Amendment to assist Article 5 countries in complying with the control schedule of the Montreal Protocol. Up until 2009, the Fund has successfully assisted over 140 countries in phasing out the production and consumption of CFCs, halons, the controlled use and production of CTC and methyl bromide and other ozone depleting substances in accordance with the control schedule of the Montreal Protocol. The assistance of the Fund is primarily to cover the incremental costs associated with the transition from employing ozone-depleting to ozone-friendly technologies.

2. Funding of the phase-out of the production of ODS has been done through first, independently auditing the ODS production sector of the concerned country. These audits examine the relevant national and sectoral policies; collect data on ODS-producing plants with respect to their technological sophistication, status quo, designed and actual used capacity, production history, cost of production, and other relevant data. The purpose of the audit is to establish a factual basis for the Executive Committee (the management body of the Multilateral Fund) to consider the funding requests proposed by the respective Article 5 countries. For ensuring consistency of conducting such audits across countries, the Executive Committee adopted the terms of reference for technical audits in 1995 as a general guide to auditing ODS production. These terms of reference were subsequently amended and further developed as necessary to accommodate the specific needs associated with auditing the production of different ODS.

3. The terms of reference contained in this document are designed for auditing of the production of HCFCs, which include HCFC-141b, HCFC-142b, HCFC-123, and HCFC-22 or any applicable HCFC. While the TOR requires the auditing to follow the procedure and cover the ground that are standard to the auditing of the production of other ODS, there are several issues that are specific to the HCFC production. Among these are the impact of the clean development mechanism (CDM) on the HCFC-22 production and the impact of the phase-out of HCFC-22 production on the down-stream industries (such as the production of TFE/PTFE). TFE, the direct reaction product of HCFC-22, is not just used to make PTFE polymer, but also has been used to make HFC-125 which is one component for making R410a, a blend for making an air conditioning agent.

4. With regard to the CDM impact, one key question is whether the CDM credits awarded for reducing HFC-23 emission (a gas controlled by the Kyoto Protocol) provide a perverse incentive to produce HCFC-22, since HFC-23 is a by-product of HCFC-22 production. If it could be established that the high HCFC-22 production was not driven either by the demand for feedstock for TFE/PTFE or refrigeration purposes, it might be due to the financial reward of the CDM credits. A technical audit might provide some insight into this issue. It is expected that to clearly understand the workings of the CDM the audit would collect national and individual plant data from the field, place them in the global context for a supply and demand analysis, and assess the impact of the CDM on an individual company, as well as on

national and global situations.

5. With respect to the impact of phasing out HCFC production on downstream industries, the key is the extent to which HCFC-22 production could be absorbed as feedstock for PTFE production, regardless of its final use. Converting HCFC-22 from its use as a refrigerant (a controlled use under the Montreal Protocol) to being used as feedstock (a non-controlled application) would result in a win-win situation. Plants could continue to produce, but with no adverse impact on the environment, since HCFC-22 is completely transformed in the process of being used as feedstock. It is also possible that some plants could be converted from HCFC-22 production (using chloroform) to HFC-32 production (using methylene chloride). Since there is no plant closure, there might only be a need for compensation for the cost of conversion and no need for compensation for plant closure by the Multilateral Fund (MLF).

6. However, there are difficulties associated with achieving this win-win situation. These difficulties relate to segments of the TFE markets, demand from the various global market segments, and availability of technology for PTFE production. These challenges should be examined carefully to determine to what extent they are real, and whether they prevent switching HCFC-22 production completely to feedstock production. It is also important to know whether these difficulties can be overcome and, if so, at what cost.

7. While these are policy-related and macro-level issues, questions and leads are included in the TOR to guide the consultants implementing the audit to collect the relevant data and provide the analysis. It is hoped that they will provide useful input to the Executive Committee to encourage a thorough discussion of these issues.

Objective of the technical audit

8. The objective of the technical audit is to provide a factual basis for:

- (a) Preparing and finalizing the sector plan by a producing country for phasing out the production of HCFCs in the country; and
- (b) Enabling the Executive Committee's review and funding decisions with respect to the sector plan.

Scope of the audit

Overall Consideration

9. The results of the technical audit should provide a wide enough scope for considering various options for the elimination of HCFC production in a producing country, including the closure of production facilities, the production of ODS substitutes, conversion to feedstock production, and other possibilities.

Data Collection and Assessment

10. Where applicable, data should be collected over the past three to five years, except for HCFC plants with approved CDM projects, for which data for three years before and three years after the approval of the CDM projects should be collected. Specifically, the audit should cover:

Capacity

- (a) Assess the ability to produce HCFCs under sustainable conditions for a full year and the potential capacity of individual plants, and total country production capacity. Where levels of actual production are significantly lower than capacity, explanations are needed (for example, lack of demand, power or feedstock shortages, maintenance, technical failure to operate at full capacity);
- (b) Assess the potential for conversion of individual sites to non-ODS production. For CFC/HCFC-22 swing plants, actual production levels should be stated, along with the capacity of each plant, if operated: a) for CFC-11 and CFC-12 only, and b) for HCFC-22 only (subject to further analysis and verification, including detailed process calculations if necessary. Data should be collected for such analysis and rule out sites for expansion, conversion and/or revamp based on factors such as space limitation or limited access to raw materials);
- (c) Assess the impact of the credits from the CDM on HCFC-22 production by establishing data on:
 - Time (month/year) of approval of the CDM project;
 - Level of HFC-23 produced per year for the past 3 years, where applicable;
 - Individual plant and national HCFC-22 production history, based on site production and storage records and from plant and national sales records, including imports/exports;
 - Sales data, including volume, and unit prices of products, taxes and subsidies, and profit margin of sales; and
- (d) Assess site and national availability and cost of raw materials (such as size and location of plants).

Production history and profitability

- (a) Assess individual plant and national production history based on site production and storage records and from plant and national sales records, including imports/exports;
- (b) Establish site-specific economics of production data, including volume and unit costs of raw materials, energy and utilities, by-product credits, maintenance costs, transportation costs, distribution costs, operating labour (number of workers and applicable labour law), plant overhead, taxes and insurance, depreciation, and general and administrative costs; and
- (c) Establish sales data, including volume and unit prices of products, taxes and subsidies, profit margin of sales.

Assessing HCFC production for controlled and feedstock applications

- (a) Collect data over the past five years on the distribution of HCFC sales for controlled use and feedstock use;
- (b) Collect data over the past five years on the imports and exports of HCFC for controlled use and feedstock use;
- (c) Assess the potential of each plant producing HCFC entirely for feedstock application;

- (d) Identify the hurdles that prevent a plant from producing entirely for feedstock; and
- (e) Assess options for overcoming such hurdles and the cost scenarios for the different options.

Assessing HCFC-141b and HCFC-142b

11. Whilst HCFC-141b is used entirely as an emissive foam blowing agent and to a more limited extent, as a solvent, HCFC-141b is also used, besides its vital XPS foam use, to make the important fluoropolymers, polyvinylidene fluoride PVDF, and fluoroelastomer. HCFC-142b can be made deliberately from HFC152a. Key questions to assess HCFC-141b and HCFC-142b include:

- (a) Do you make HCFC-141b, HCFC-142b, HFC-143a? In what capacity, since when, by what technology (feedstock)?
- (b) What level of product is exported, and what level is used domestically from 2005 to the present year?
- (c) What are the applications by volume by year?
- (d) Can you convert your plant to HCFC-142b, and/or do you already make HCFC-142b as a co-product?
- (e) In this case can you completely eliminate HCFC-141b production but still make HCFC-142b?
- (f) Do you sell HCFC-142b to the PVDF sector? What amount? Can you manage your plant to the explicit volume demands on the PVDF sector?
- (g) If you make HCFC-142b deliberately from HFC152a, how much do you produce? What are the uses? How much is controlled (foam) versus non-controlled (feedstock)?
- (h) If you make HCFC-142b by this route, what is the impact on HFC152a production if you must abandon the controlled (XPS) uses of HCFC-142b?
- (i) Do you export HCFC-142b for intermediate/feedstock applications?

Technology employed

- (a) Establish the age and source of technology employed at individual plants (locally developed or imported), material of construction of main process vessels (such as the main hydrofluorination reactor);
- (b) Assess maintenance expenditures of individual plants;
- (c) Assess de-bottlenecking (most recent); and
- (d) Assess the residual life and residue value of each plant.

Other relevant data

- (a) Collect and assess data on cost of capital, inflation rate and other relevant national economic data;
- (b) Collect data on supply and demand for HCFCs and their substitutes;
- (c) Collect data on national production of HF and other raw materials necessary for the production of HCFC substitutes; and
- (d) Assess the status and availability of national technology for HCFC substitutes, together with their estimated production costs and possible scale of production over the next five years.

Data analysis

12. Data collected from the desk review and the field visits will be sorted, interpreted and analyzed for likely sector strategies of phasing out the HCFC production in the country, including plant closures, ODS substitutes production, and other possibilities. Under plant closures, the data should be organized in order to facilitate the identification of parameters such as, the baseline production level and the actual capacity of the plant, maximum and residual life of the plant, unit prices of HCFCs, profit margin of sales, and relevant national economic parameters. Under ODS substitute production, data should be presented to clearly indicate the supply and demand for the substitutes, technological readiness and estimate of conversion costs for applicable sites, and the economic feasibility and achievable capacities.

13. Data should be made available in a spreadsheet format suitable to allow manipulations to test the sensitivities of certain parameters.

Responsibilities of the audit team

14. The audit team should be responsible to the Chief Officer of the Multilateral Fund Secretariat and accomplish the following tasks:

- (a) Prepare a detailed work plan covering the entire audit exercise, including the methodology for assessing the impact of the CDM on HCFC production;
- (b) Screen the preliminary data from the production sector and other relevant data submitted by the country concerned, identify the gaps in those data, and design a questionnaire for collecting supplementary data, to be dispatched to plants in the country concerned before a field visit;
- (c) Based on the preliminary data from the country and the location of the plants, propose a field visit schedule, which should include a representative sampling of the plants in the country in terms of size, technology sophistication, capacity covered, and sound economics;
- (d) Implement the field visit schedule with local support from the national focal point designated by the host country;
- (e) Prepare the draft audit report, with analysis and interpretation of the data collected from the field visit; and

- (f) Based on comments on the draft report, prepare the final draft report to the Executive Committee.

Qualifications

15. Qualifications include:

- (a) Prior relevant experience working in developing countries (preferably in the country concerned);
- (b) Expertise in fluorocarbon technology, process and plant operations and financial accounting; and
- (c) A sound knowledge of the CDM programme and its global activities.

Local Expertise

16. There should be participation of local expertise in the audit. However, the exact field of expertise (whether technical or financial) should be determined by the contracting firm on the basis of needs of the audit.

Deliverables

17. The deliverables include:

- (a) A detailed work plan, covering:
- Methodology for assessing impact of the CDM on HCFC production;
 - Assessment of adequacy of existing data and identification of missing “links”;
 - A questionnaire designed for collecting additional data;
 - A schedule of field visit to a representative sample of the HCFC producing industries in the country concerned in terms of size, location, technology level and other relevant factors;
- (b) Mid-term progress report on field visit;
- (c) Report of field visit;
- (d) Draft technical audit report; and
- (e) Final draft technical audit report.
