



**United Nations
Environment
Programme**



Distr.
Limited

UNEP/OzL.Pro/ExCom/29/8
23 October 1999

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-ninth Meeting
Beijing, 24-26 November 1999

CONSEQUENCES OF PROJECT CANCELLATION

1. At its 26th Meeting, the Executive Committee adopted procedures and criteria for project cancellation (Decision 26/2), and requested at its 27th Meeting (Decision 27/9), the Sub-Committee on Monitoring, Evaluation and Finance to discuss how to deal with all the consequences of project cancellation.
2. In response to Decision 27/9, the Sub-Committee on Monitoring, Evaluation and Finance presented several recommendations to the 28th Meeting of the Executive Committee.
3. The Executive Committee discussed the recommendations of the Sub-Committee, in particular the recommendation that, “reapplication for assistance from the Multilateral Fund at a level of funding to be reconsidered on a case-by-case basis should be allowed for projects which had been cancelled because the funding level originally approved had been determined to be insufficient due to technical reasons” (UNEP/OzL.Pro/ExCom/28/4, para. b). The Executive Committee raised concerns regarding the definition of the technical reasons, the possibility that such a decision would increase the workload of the Sub-Committee on Project Review, and that it might entail significant financial implications, and decided:
 - (a) To clarify the technical reasons involved when referring to projects that had been cancelled because the funding level originally approved had been determined to be insufficient due to technical reasons;
 - (b) To determine the potential frequency of such projects, given the assumption that they would be rare;
 - (c) To establish the financial implications of allowing such projects to be resubmitted
 - (d) To request the Secretariat, in consultation with the implementing agencies, to prepare a document on these issues; and
 - (e) To request the Sub-Committee on Monitoring, Evaluation and Finance to consider the recommendation further at its Ninth Meeting, taking into account the above points, and to report back to the Executive Committee at its Twenty-ninth Meeting.

(Decision 28/19)

4. The present document was prepared by the Secretariat in response to Decision 28/19, para. d.

Implementing agency input

5. The Fund Secretariat requested implementing agencies to provide information on the first three elements of the request.
6. UNDP indicated that it had no case where enterprises requested project cancellation due to inadequate funding based on technical requirements because enterprises felt that if they had done so, they might not receive funding in the future. On potential financial implications, UNDP indicated that the costs would be minimal. This is because updated data on ODS consumption could come from the enterprise, the agency would have to review the project documents to

ensure that no financial or technical matter had to be modified, and the Secretariat would review the project.

7. None of UNIDO's cancelled projects were classified by UNIDO as having been cancelled due to insufficient funds for technical reasons. However, UNIDO noted that when its projects were cancelled it was of the understanding that these projects could be resubmitted in the future. It further stated that it felt that cancelled projects should be allowed to be resubmitted, like new projects, unless they were cancelled due to lack of response by the company or because of financial problems experienced by the enterprise concerned. However, UNIDO did not opine as to the financial consequences of such re-submissions.

8. The World Bank has never cancelled a project due to technical reasons. The Bank indicated that the main reasons its projects were cancelled were due to: bankruptcy, change of ownership, lack of counterpart funding, and general economic difficulties in a country.

9. The Bank noted that it felt that the potential frequency of the cancellation of projects is small because its intention is always to implement the project as designed and approved. On the financial implications, the Bank indicated that it felt that sufficient policies were in place to avoid any major costs to the Fund for cancelled projects due to insufficient funding for technical reasons, including the Indicative list of categories of incremental costs, cost-effectiveness thresholds and guidelines for changes of technologies. The Bank believes that if projects were returned for a second time to the Executive Committee for approval, no additional project preparation funds would be needed.

Analysis

10. The analysis first addresses the Committee's request for a clarification of the technical reasons involved when referring to projects that had been cancelled because the funding level originally approved had been determined to be insufficient due to technical reasons. It then considers the recommendation of the Sub-Committee referred to in paragraph 3 above.

Cancellations due to insufficient funding due to technical reasons

11. Implementing agencies have indicated that no project has been cancelled for insufficient funding due to technical reasons. For example the World Bank pointed out that the Executive Committee's Guidelines for change of technology (Decision 22/69) may preclude the need to cancel projects for technical reasons. This is because the Guidelines for a change of technology indicate under which circumstance projects may be resubmitted to change the technology approved for the project. Therefore, the technical reasons for project cancellations may be a misnomer.

12. However, all of the agencies have indicated some difficulty in obtaining counterpart funding. At the 28th Meeting of the Executive Committee, several projects were cancelled due to insufficient funding. In these cases, the main reason seems to have been the beneficiary's inability to fulfil its commitment to counterpart funding. Counterpart funding is a commitment

taken by an enterprise to finance part or all of a capital equipment item which is ineligible for Multilateral Fund funding but may be desirable for the enterprise to include in converting its facility.

13. The issue of counterpart funding has been addressed by the Executive Committee in the context of implementation delays because the time required to obtain counterpart funding by some beneficiaries was delaying project implementation. The Committee decided that a commitment to provide the required counterpart funding should be obtained before the project could proceed (Decision 22/63).

Frequency of resubmission of projects under the proposed recommendation

14. Table 1 shows that 39 investment projects valued at US \$12.5 million (excluding agency fees) that would have led to the phase out of 931 ODP tonnes have been cancelled to-date. This is compared to the 1350 investment projects valued at US \$696 million (excluding agency fees) approved to-date that are to result in the phase out of 159,719 ODP tonnes for both consumption and production sector projects. Therefore, the frequency of project cancellation is, so far, one out of every 35 approved investment projects. This frequency might increase judging from the large number of projects that are experiencing long implementation delays.

Table 1

APPROVED FUNDING, ODP PHASE-OUT, AND NUMBER OF INVESTMENT PROJECT CANCELLATIONS THROUGH DECEMBER 1998

Agency	Sum of Approved Funding (US \$)*	Sum of ODP to be Phased Out per Proposal	Number of projects
France	226,600	N/a	1
World Bank	8,855,549	405	25
UNDP	2,581,665	43	10
UNIDO	890,658	482	3
TOTAL	12,554,472	931	39

* Excluding agency fees.

15. Currently there are 399 projects classified as projects with implementation delays. Agencies have indicated that 33 of these projects have not experienced any progress since the last progress report. Based on the criterion and procedures for project cancellation, these 33 projects may be considered for cancellation at the 30th Meeting.

Financial implications of resubmission

16. The financial implications of resubmitting cancelled projects for funding involve the costs of project preparation, the level of resources available for business planning, potential additional operating costs, and additional costs due to possible implementation delays.

- Project preparation funds would increase.

17. The recommendation of the Sub-Committee to the 28th Meeting was to allow up to 30 per cent of the original project preparation funding for implementing agencies to reformulate some cancelled projects. Implementing agencies' project preparation in the early days of the Fund involved sending international consultants to develop projects from beginning to end. Today, project preparation is often carried out by national consultants. Therefore the cost of project preparation today is often less than in the past. Moreover, UNDP and the World Bank have requested project preparation on a country or sector basis. The implementing agencies' project preparation funds are sometimes used to prepare multiple projects. Therefore, the original project preparation funding may not be the same as that actually disbursed for the preparation of the cancelled project. Consequently, the recommendation to allow up to 30 per cent of the original project preparation funding to reformulate cancelled projects would be difficult to assess.

- Resource allocation for business planning would be affected.

18. Annual business plans are intended to contain all of the projects that are to be submitted during the business planning year. Cancelled projects that are resubmitted would have to be part of the business plan. Otherwise, if additional funding would be required, it will have to come from other sources other than the year's allocation. This may negatively impact business planning.

- Reformulated projects may result in additional operating costs.

19. Companies that decide to cancel their projects may, in the interim, have increased their level of ODS consumption. Such an increase in consumption might result in additional operating costs which would provide an enterprise that cancelled its project, a means for increasing the support from the Fund.

- Reformulated projects may result in implementation delays.

20. In those cases where there may be increased operating savings over the original project, the grant level may be lower than the original amount. Guidelines adopted after a cancelled project was approved may also have the impact of reducing the level of the grant. As a result of one of these cases, an enterprise may decide not to accept the new reduced funding. These situations often result in implementation delays that engender additional costs to all concerned.

Discussion

21. The Sub-Committee's draft recommendation indicated that projects cancelled due to the transfer of ownership and bankruptcy should not be allowed to be resubmitted. Since agencies have now indicated that no project has been cancelled due to technical reasons, the issue raised at the last meeting does not appear to be valid.

22. The Executive Committee's procedures and criteria for project cancellation afford a mechanism for determining, at the time of cancellation either by the Executive Committee or through mutual agreement, whether or not a project should be allowed to be resubmitted. The Committee may wish to take a decision to allow the resubmission of a cancelled project on a case-by-case basis along with a determination if any additional project preparation funds should be allowed.

RECOMMENDATIONS

The Executive Committee may wish to consider the following recommendation:

1. No reapplication for assistance from the Multilateral Fund should be allowed for projects that had been cancelled for the following reasons:
 - Transfer of ownership to a non-Article 5 country, and
 - Bankruptcy.
2. A determination of whether or not a project may be resubmitted, and whether or not project preparation should be authorised, should be made on a case-by-case basis and at the time of recording the cancellation in the report of the Executive Committee.