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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirtieth Meeting
Montreal, 29-31 March 2000

PROJECT IMPLEMENTATION DELAYS

1. This document is prepared in accordance with Decisions 22/61 and 26/2 on the process of reviewing projects with implementation delays and the procedures for project cancellation. Additionally, the document presents requests for project transfers and reports on the waiver of customs warehouse rent in Kenya. It consists of the following four sections:

- Reports on projects for which notices of possible cancellation were sent in accordance with Decision 29/7;
- Project cancellations through mutual agreement;
- Project transfer requests;
- A report on the waiver of customs warehouse rent in Kenya.

Reports on Projects for which Notices of Possible Cancellation were sent in accordance with Decision 29/7

2. In Decision 29/7 (a and b), the Executive Committee decided:

- (a) To request the Secretariat, on behalf of the Executive Committee, to send notices of possible cancellation for the following projects identified by the implementing agencies in accordance with decision 26/2:

Agency	Project number	Short project title
UNDP	ARG/FOA/20/INV/48	Suavestar: flexible foam slabstock
UNDP	PER/REF/15/INV/04	Andina: domestic ref. inv.
UNDP	PRC/REF/20/TAS/04	Recovery and recycling of refrigerant
UNDP	VEN/REF/17/INV/40	Nutal: commercial ref. inv.
UNEP	MOZ/SEV/15/INS/03	Institutional Strengthening for the phase-out of ODS
UNIDO	SUD/REF/19/INV/06	Coldair, Modern Refrigerator & Metal furniture Co., Sheet Metal Industries
World Bank	ARG/REF/18/INV/35	Elimination of CFCs in domestic refrigerator production plants in Aurora
World Bank	ARG/REF/18/INV/36	Piragua S.A., and Piragua San Luis
World Bank	ARG/REF/19/INV/43	Adzen S.A. C.I.F.
World Bank	IDS/FOA/15/INV/30	Musimassejahtera Abadi
World Bank	IND/HAL/18/INV/60	Real Value Appliances Ltd.

- (b) To request the Secretariat, on behalf of the Executive Committee, to send notices of possible cancellation for the following projects identified by the implementing agencies in accordance with decision 26/2, with a copy to the supplier of equipment:

Agency	Project number	Short project title
World Bank	IDS/FOA/11/INV/12	P.T. Foamindo Industri Uretan
World Bank	IDS/FOA/13/INV/16	P.T. Erlangga Trimanunggal Kusumah
World Bank	IDS/FOA/15/INV/19	Positive Foam Industry

3. In accordance with this decision, the Secretariat sent notices of possible cancellation to the countries and implementing agencies concerned as well as the supplier of equipment for the Bank's three Indonesia projects listed in Decision 29/7(b). Reports from UNDP, UNEP, and the

World Bank were submitted, while UNIDO has not provided a report as of this writing. These reports are reproduced below with comments from the Fund Secretariat.

Report from UNDP on projects with implementation delays

4. UNDP provided a report on the four UNDP projects listed in Decision 29/7a.

ARG/FOA/20/INV/048- SUAVESTAR

5. UNDP indicated that as previously informed, the enterprise Suavestar is now under PIERO's management who also own other enterprises with Multilateral Fund projects in Argentina (Piero and Nuvel) and were to finally decide on the location for installation of the LCD equipment at Suavestar.

6. UNDP states that the reason for the delay was the uncertainty caused by problems at the Piero plant. Trials conducted at Piero were not, as of this date, to the satisfaction of the owner since the foam quality is poorer, which was at first thought to be due to Cannon equipment. UNDP has investigated deeper into the matter and recent results point to problems with the formulation. The owner prefers to postpone the installation of the new equipment at Suavestar until a solution is found in the Piero plant. Once the formulation problem is resolved at Piero, the owner is quite ready to proceed as quickly as possible with implementation at Suavestar.

7. UNDP suggests that this project should be removed from the list of cancellations. The case could be re-visited at the 31st Meeting of the Executive Committee.

Secretariat's comments

8. The Fund Secretariat notes that the Piero and Nuvel projects were first approved for the use of the alternative acetone which included a very high cost forced cooling system. A few meetings later, UNDP sought a change in technology for these projects. UNDP's request led to the Committee adopting guidelines relating to change in technology after a project's approval. Now, Piero owns Suavestar but wants to delay installation of the new equipment at Suavestar until a solution is found in the Piero plant. After hearing a final status report from UNDP on the latest status of this project, the Sub-Committee on Monitoring, Evaluation and Finance may wish to consider the cancellation of this project per Criterion 2 of the guidelines for project cancellation because no progress was reported on this project to two consecutive meetings of the Executive Committee.

PER/REF/15/INV/004-ANDINA INDUSTRIAL

9. UNDP reported that after difficulties imposed by the enterprises to provide access and reliable information, another mission took place in November 1999 at which time the expert and the Ozone Unit were finally able to ascertain the situation. ANDINA no longer had a production facility but the enterprise was being restructured financially and the enterprise was "transferring" its industrial plant to a new location and intended to commence production as soon as possible in the new factory.

10. The expert visited the new facility and found the area for a production of chest freezers quite small. However, construction work was in progress to provide a second floor to the building and the foam and refrigeration equipment supplied by the Multilateral Fund was present, together with metalworking equipment and other items. Since the legislation passed in Peru (*decreto supremo*) prohibits the consumption of CFCs in the manufacture of new refrigeration equipment with effect from 1 January 2000, the Ozone Unit would be conducting both unofficial and official checks on activity at the new ANDINA factory in December 1999. When UNDP requested an update on the status, the Ozone Unit said it would provide a final answer on this project by the end of February 2000.

11. UNDP states that it will report at the 30th Meeting what the Government's decision was, and from this it can be decided whether the project should be cancelled or not.

PRC/REF/20/TAS/04 - Recovery and recycling of refrigerant

12. A lot of progress was made since the last report. Training workshops took place in the beginning of February 2000 in Brazzaville and Pointe Noire. In spite of the fact that this is a war-ravaged country barely getting back on its feet, the international consultant who conducted the workshops informed UNDP that the ozone focal point has worked hard to make the workshops a success, and will now ensure that the recovery/recycling machines are distributed to the biggest users of refrigerants in the country. The monitoring phase of the project (i.e., reporting on the monthly quantities of recovered CFCs) can then begin. In view of this, UNDP believes that the project should not be cancelled.

VEN/REF/17/INV/40 – Industria Nutal

13. In the previous progress report UNDP stated that production activities were restarted in May 1999 following the landslide. In addition, it also reported that Nutal was for sale and that negotiations were ongoing. The Government in July 1999 confirmed that Nutal had restarted production and had almost completed conversion. During a UNDP mission in December 1999, the company was still reported for sale and demand for products was low. As a consequence the CFC-12 compressor inventory was still to be exhausted. The situation in Venezuela after the national catastrophe beginning 2000 has further impacted the market but project completion is possible once the CFC-12 compressor's inventory is finished.

14. UNDP's suggest that while being kept on the list of possible cancellations, the case could be re-visited at the 31st Meeting of the Executive Committee. The Fund Secretariat notes that this project was approved in July 1995. All equipment was installed in September 1997 according to UNDP's progress reports. Also, the company is heavily involved in servicing operations of existing equipment. Servicing requires new compressors, therefore the stock of CFC-12 compressors can be used for servicing and will be depleted within a short time if the same level of servicing is maintained as existed when the project was submitted. Servicing is usually realised outside of the factory and can continue without regard to the types of manufacturing occurring within the factory. There may be other reasons for the ongoing delay of this project, which the Committee may wish to consider if the project is not implemented by the time of the meeting.

15. After hearing a final status report from UNDP on the latest status of this project, the Sub-Committee on Monitoring, Evaluation and Finance may wish to consider the cancellation of this project per Criterion 2 of the guidelines for project cancellation because no progress was reported on this project to two consecutive meetings of the Executive Committee.

Report from UNEP on projects with implementation delays

MOZ/SEV/15/INS/03 – Institutional Strengthening in Mozambique

16. The Ministry for the Coordination of Environmental Affairs wrote to UNEP DTIE the following on its institutional strengthening project:

“We regret to note that no progress was made during this year of 1999 due to the disappearance of our ozone officer. Nevertheless several activities were concluded from July 1999 including workshops with different target groups and the celebration of Ozone Day. We are now compiling the existing information including data on CFC consumption for 1999 to be sent to you early January 2000. Taking this into consideration, we are kindly requesting you to accept our apologies for the failure in reporting with the understanding that all the reports will be sent, including the audit report. The institutional strengthening project was very instrumental in raising public awareness and stimulating legislation concerning ozone protection, thus cancellation of this project would have very negative effects.” (Letter dated 14 December 1999).

17. UNEP indicated that it intends to send its regional network coordinator or an ODS officer from a country in the region on a special mission to revitalise the project as soon as possible. UNEP’s 2000 year business plan foresees the submission of an institutional strengthening renewal for Mozambique this year in the amount of US \$62,000. UNEP recommends that the project should not be cancelled but should be maintained under close review on the list of projects with implementation delays.

18. The Monitoring, Evaluation and Finance Sub-Committee may wish to consider a report from UNEP on the mission undertaken to Mozambique at its meeting. It may also wish to consider the circumstances under which institutional strengthening renewal should be considered in the light of the ongoing difficulties in implementing the existing institutional strengthening project.

Report from UNIDO on projects with implementation delays

SUD/REF/19/INV/06 -- Coldair, Modern Refrigerator & Metal Furniture Co., Sheet Metal Industries Co.

19. A report has not been received from UNIDO on this project as of this date.

Report from the World Bank on projects with implementation delays

20. The World Bank provided reports on its eight projects with implementation delays per Decision 27/9 (a and b).

ARG/REF/19/INV/43 – Adzen

21. The World Bank indicated that the Adzen company has continued production throughout its financial difficulties and is now producing about 3000/units per month and foresees a successful sales year in 2000. The company has now successfully established a payment plan (*concurso*) with all debtors which is administered through the judicial system. As well as ensuring smooth resolution of financial difficulties, the *concurso* also safeguards the project funds for use in the implementation of the project and not for debt repayment. Given the successful establishment of the *concurso*, the continued production and the fact that Adzen has undertaken and completed various components of the conversion process on its own, the Bank believes it will now be possible to sign the subgrant agreement with Adzen within the first half of this year. Given this progress, the Bank would request that the project not be cancelled although close monitoring will be continued.

ARG/REF/18/INV/35 – Aurora S.A.

22. Although the company has legally entered into a bankrupt status, production has not stopped, as the plant is operated by the workers' co-operative (CIAM). Legally speaking, the co-operative has managed to lease the plant to continue production. This co-operative has had long-time support from the Provincial Government in the past (Banco de la Provincia) and with the new government it is expected that its position will be strengthened. In practical terms, this means that there could be an eventual purchase of Aurora by the co-operative (CIAM). The Bank believes that this change in ownership coupled with improved economic conditions bodes well for the future of the project.

23. While cancellation of the project would not preclude the new owners resubmitting the project, Decision 29/8 would result in a delay in implementation of at least a further two years. Given the possibility of an employee buy-out in the near future, the Bank would like to request an extension of the decision on cancellation of 2-3 months in order to provide the co-operative with time to carry out the purchase.

Secretariat's comments

24. The Secretariat notes that a similar explanation about the delay in this project was given during a mission of the Chief Officer and the Chairman of the Executive Committee to the plant in April 1999. The company that received the project is already in bankruptcy. The Executive Committee has taken a decision on bankruptcy that states the following:

“The Twenty-fifth Meeting of the Executive Committee decided:

- (a) to request the Implementing Agencies:
 - (i) to carry out some preliminary screening of the financial viability of

companies when preparing project proposals;

- (ii) to take appropriate action, in consultation with the ozone unit in the country concerned, if there was any indication of a possibility of bankruptcy;
 - (iii) to report to the Sub-Committee on Monitoring, Evaluation and Finance any slowdown expected as a result of bankruptcy and to present the most cost-effective options to protect the Fund's assets, in collaboration with the ozone unit;
 - (iv) to sell or re-deploy equipment within an appropriate time-frame in accordance with the recommendations made by the Implementing Agencies and the ozone unit and approved by the Sub-Committee on Monitoring, Evaluation and Finance and the Executive Committee;
 - (v) to reflect instances of bankruptcy and their impact on ODS phase-out in project completion reports;
- (b) to consider seeking advice from external auditors or lawyers, as appropriate, on bankruptcy issues with a view to protecting the Fund's assets (Decision 25/3)."

25. After hearing a final status report from the World Bank on the latest status of this project, the Sub-Committee on Monitoring, Evaluation, and Finance may wish to consider the cancellation of this project per Criterion 2 of the guidelines for project cancellation because no progress was reported on this project to two consecutive meetings of the Executive Committee and in the light of the Executive Committee's guidelines on bankruptcy.

ARG/REF/18/INV/36 – Piragua S.A. and Piragua San Luis

26. The Piragua case has two possible outcomes. In this case the company has not yet entered into legal bankruptcy. Most of its debt is with DGI (Taxes General Directorate). The company has essentially stopped all production. However, with the newly elected government, there has been an announcement that some of its debts with DGI could be re-negotiated and some of them forgiven. This would be an entirely new situation and the company could eventually recover. If, however, DGI does not reach an agreement with the company, Piragua would be interested in considering the option of selling the equipment to the Montreal Protocol (equipment buy-out). The results of these negotiations will be determined in the next few months and the World Bank could provide further information to the Executive Committee at the 30th Meeting.

Secretariat's comments

27. The Fund Secretariat notes that this enterprise does not use CFC any longer since it stopped its operation. Moreover, the Executive Committee has never purchased CFC equipment to prevent the option of re-selling the equipment. If the equipment is resold, it cannot receive support from the Multilateral Fund for its conversion to non-CFCs. Moreover, often both the old and the new equipment can use both CFCs and non-CFCs. It is the enterprise's commitment to

stop using CFCs that is key to the phaseout. This project has nevertheless had no progress for two consecutive meetings.

28. After hearing a final status report from the World Bank on the latest status of this project, the Sub-Committee on Monitoring, Evaluation and Finance may wish to consider the cancellation of this project per Criterion 2 of the guidelines for project cancellation because no progress was reported on this project to two consecutive meetings of the Executive Committee.

IDS/FOA/15/INV/30 - Musimassejahtara Abadi

29. The World Bank is currently seeking the approval of the Indonesian government for the cancellation of this project by mutual agreement. The Bank does not feel that adequate progress has been made on this project to pursue implementation.

IDS/FOA/11/INV/12 - P.T. Foamindo Industri Uretan

IDS/FOA/13/INV/16 - P.T. Erlangga Trimanunggal Kusumah

IDS/FOA/15/INV/19 - Positive Foam Industry

30. These three companies had similar difficulties with their supplier, Beamech. The devaluation of the rupiah and civil unrest in Indonesia had created contract disputes with their supplier as well as a reluctance on the part of the supplier to complete the necessary commissioning at the companies. Beamech conducted site visits in mid-January. The companies are now working with the supplier and substantial progress has been made towards completion. Given this progress the Bank would request that these projects not be cancelled although close monitoring will be continued.

IND/HAL/18/INV/60 - Real Value Appliances Ltd

31. The Bank and the Government of India would request that this project not be cancelled, but that it is transferred to UNDP to facilitate disbursement of funds.

Secretariat's comments

32. This project was approved at the 18th Meeting in the amount of US \$251,736. It was a case study provided by the World Bank in the Secretariat's June 1998 paper on bankruptcy (UNEP/OzL.Pro/ExCom/25/7) submitted to the 25th Meeting. The situation is similar to the status in June 1998 which was as follows:

“Real Value, an Indian enterprise engaged in the production of fire extinguishers, and its project approved in 1995 which contained a retroactive funding component. The Bank was informed in October 1996 that liquidation proceedings were initiated against Real Value Group by its creditors. The World Bank is withholding disbursement and wants to cancel the project in accordance with its regular practices. However, the Government of India requested the Bank to put the project on hold rather than cancel the project since 80 per cent of the conversion is already completed.” (UNEP/OzL.Pro/ExCom/25/7, para 4).

33. The guidelines for bankruptcy (referred to in paragraph 24 above) may also apply to this case as the parent company is in bankruptcy. However, the transfer to UNDP is being requested

because the fire extinguisher subsidiary is in production and not in financial difficulties. Moreover, the World Bank has indicated that its financial intermediary is a creditor in the bankruptcy proceedings against Real Value. Therefore, the World Bank could not be involved in the final payment for this project. The Sub-Committee on Monitoring, Evaluation and Finance may wish to consider this request for transfer in the light of the Committee's guidelines on project cancellation (there has been no progress on this project for more than 2 consecutive meetings of the Executive Committee) and in the light of the Committee's guidelines on bankruptcy (that require the selling or redeployment of equipment from bankrupt companies).

Project cancellations through mutual agreement

34. The Twenty-sixth Meeting of the Executive Committee decided to endorse two procedures for project cancellation. One of the procedures allows for projects to "be cancelled through mutual agreement among the implementing agencies, the Government concerned and the beneficiary enterprise where applicable. Agencies should indicate their proposed cancellations to the Executive Committee through their annual progress reports and/or reports on projects with implementation delays, bearing in mind the definition of project implementation delays adopted at the Twenty-second Meeting." (Decision 22/61, para (i)).

BRA/SOL/20/INV/58 -- Phase out of 1,1,1 TCA at Teperman in Brazil

35. UNIDO is proposing to cancel this project because the implementation of this project was hampered by the non-receipt of the documentation required to initiate the envisaged retroactive payment for this project. The project was approved in the amount of US \$152,176. UNIDO indicated that severe economic difficulties faced by the company during 1997 resulted in its closure.

36. The Sub-Committee may wish to consider a report from UNIDO on whether a mutual agreement to cancel this project has been reached with the Government of Brazil, or whether the project should be cancelled by the Committee.

KEN/FUM/21/DEM/12 -- Replacement of methyl bromide with non-ozone depleting substances in grain storage in Kenya

37. This project was approved at the 21st Meeting in the amount of US \$232,834 credited against Australia's 1997 contributions to the Multilateral Fund. Most of the project has been implemented and there is a balance of approximately US \$100,000. The Government of Australia is seeking confirmation of the cancellation of this project through mutual consent. In the event that the project is cancelled by mutual agreement or by a decision of the 30th Meeting of the Executive Committee, the Government of Australia has requested that the remaining balance should be used by Australia against future bilateral activities.

38. The Sub-Committee on Monitoring, Evaluation and Finance may wish to consider a report from Australia on whether a mutual agreement to cancel this project has been reached with the Government of Kenya, or if it should be cancelled by the Committee due to ongoing implementation delays.

Project transfer requests

ETH/REF/23/TRA/04 -- Training programme for recovery and recycling of refrigerants for Ethiopia

39. The Secretariat has received a request from the Government of Finland to transfer this project to UNEP. The project was approved at a level of US \$93,490 at the 23rd Meeting of the Executive Committee. The Committee credited this amount against Finland's 1997 contributions to the Multilateral Fund. Finland has already indicated to UNEP DTIE that it would proceed with transferring the allocated funds to the Multilateral Fund.

40. The Sub-Committee on Monitoring, Evaluation, and Finance may wish to note the transfer of the project from Finland to UNEP in the amount of US \$82,735 with administrative costs of US \$10,755.

A report on the waiver of customs warehouse rent in Kenya

41. Implementation delays resulting from customs authorities retaining equipment purchased with Multilateral Fund resources pending the waiver of customs duties was first raised by UNIDO in connection with its progress reports to the 25th Meeting. It reported to the 26th Meeting that the equipment continued to be held by Kenyan customs. When the project was submitted for possible cancellation to the 27th Meeting, UNIDO reported that the Government of Kenya had issued the documents necessary to remove the equipment purchased for the Kenya Cold Storage project (KEN/REF/11/INV/06). Therefore, as the project implementation impediment had been removed, the project was removed from further monitoring. The Secretariat received a copy of a letter sent by UNIDO to the Government of Kenya indicating that the Ministry of Environment had written to the Kenyan shipping agency and freight company requesting a waiver of shipping and port storage charges, but that UNIDO had not been informed if the waivers had been granted. Instead, UNIDO received a bill for demurrage charges. UNIDO requested the Ministry to assist in the waiver of the demurrage charges.

42. The Sub-Committee on Monitoring, Evaluation and Finance may wish to consider if further activities should be considered for Kenya pending the outcome of the demurrage charge issue in Kenya.

SUMMARY AND RECOMMENDATIONS

The following table summarizes the Fund Secretariat's recommendations:

Agency	Project number	Short project title	Recommendation
UNDP	ARG/FOA/20/INV/48	Suavestar: flexible foam slabstock	Consider a final status report before cancellation
UNDP	PER/REF/15/INV/04	Andina: domestic ref. inv.	Pending a status report on mutual agreement to cancel the project
UNDP	PRC/REF/20/TAS/04	Recovery and recycling of refrigerant	No cancellation.
UNDP	VEN/REF/17/INV/40	Nutal: commercial ref. inv.	Consider a final status report before cancellation

Agency	Project number	Short project title	Recommendation
UNEP	MOZ/SEV/15/INS/03	Institutional Strengthening for the phase-out of ODS	Consider a report from UNEP and a recommendation on the circumstances for institutional strengthening renewal for this project under consideration for cancellation
UNIDO	SUD/REF/19/INV/06	Coldair, Modern Refrigerator & Metal furniture Co., Sheet Metal Industries	Seek a report from UNIDO at the 30 th Meeting
World Bank	ARG/REF/19/INV/43	Adzen S.A. C.I.F.	No cancellation.
World Bank	ARG/REF/18/INV/35	Elimination of CFCs in domestic refrigerator production plants in Aurora	Consider final status report and bankruptcy guidelines before cancellation
World Bank	ARG/REF/18/INV/36	Piragua S.A., and Piragua San Luis	Consider final status report before cancellation
World Bank	IDS/FOA/15/INV/30	Musimassejahtera Abadi	Consider final status report before cancellation
World Bank	IDS/FOA/11/INV/12	P.T. Foamindo Industri Uretan	No cancellation.
World Bank	IDS/FOA/13/INV/16	P.T. Erlangga Trimanunggal Kusumah	No cancellation.
World Bank	IDS/FOA/15/INV/19	Positive Foam Industry	No cancellation.
World Bank	IND/HAL/18/INV/60	Real Value Appliances Ltd.	Consider final status report and bankruptcy guidelines before consideration of cancellation or transfer
UNIDO	BRA/SOL/20/INV/58	Phase out of 1,1,1 TCA at Teperman in Brazil	Consider report from UNIDO and cancel the project due to lack of response from the beneficiary with the return of funds to be recorded at the 31 st Meeting
Australia	KEN/FUM/21/DEM/12	Replacement of methyl bromide with non-ozone depleting substances in grain storage in Kenya	Consider report from Australia and cancel the project due to lack of response from the beneficiary and credit any balance against future approvals
Finland	ETH/REF/23/TRA/04	Training programme for recovery and recycling of refrigerants for Ethiopia	Transfer project to UNEP US \$82,735 with administrative costs of US \$10,755.
UNIDO	KEN/REF/11/INV/06	Kenya Cold Storage project	Consider a report from UNIDO and decide if additional projects may be approved for Kenya pending the outcome of the waiver of demurrage