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

**OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW**

## Projects and activities presented to the 30<sup>th</sup> Meeting

### Submissions by Agencies and Bilateral Partners

1. The total value of requests associated with projects and activities received by the Fund Secretariat from implementing and bilateral agencies for submission to the 30<sup>th</sup> Meeting, is US \$43,544,204 (including agency support costs where applicable). The total is comprised of:

(a) Bilateral co-operation:

- 14 project proposals were received from Canada, France, Germany, and Switzerland with a total value of US \$3,529,389 as submitted;

(b) 2000 Work Programme Amendments:

- 2000 Work Programme Amendments have been submitted by UNEP with a total value of US \$2,493,684. The proposals include US \$150,064 for 4 institutional strengthening projects and US \$2,343,620 for other activities.

(c) 2000 Work Programmes:

- 2000 Work Programmes have been submitted by UNDP, UNIDO and the World Bank. The proposals include US \$559,802 for 3 institutional strengthening projects and US \$5,309,870 for other activities

(d) Investment projects:

- 14 proposals for investment projects were submitted to the 30<sup>th</sup> Meeting by UNDP, UNIDO and the World Bank with a total value, as submitted, of US \$31,651,459. The proposals include 6 projects drawn from the US \$13 million list remaining from the 29<sup>th</sup> Meeting, US \$696,317 for 2 RMP projects, and US \$20,110,000 for the annual work programmes for production sector phase-out in China and India.

### Secretariat's review of proposed projects and activities

2. The review of project proposals by the Fund Secretariat has resulted in the following:

(a) Bilateral projects:

- 1 bilateral project with a total value of US \$823,782 has been recommended for blanket approval;
- 8 bilateral projects with a value of US \$572,941 are pending.
- 5 bilateral projects with a value of US \$2,059,090 have been withdrawn;

(b) 2000 UNEP Work Programme Amendments:

- 11 activities with a total value of US \$544,434 have been recommended for blanket approval;
- 23 activities with a total value of US \$1,757,150 are pending;
- 2 activities with a total value of US \$169,500 are not recommended for funding

(c) 2000 Work Programmes:

- 57 activities with a total value of US \$1,810,203 have been recommended for blanket approval;
- 66 activities with a total value of US\$3,422,770 are pending;
- 8 activities with a total value of US \$570,650 have been withdrawn.

(d) Investment Projects:

- 4 project proposals with a total value of US \$422,733 have been recommended for blanket approval;
- 5 project proposals with a total value of US \$24,196,878 have been listed for individual consideration by the Sub-Committee on Project Review (see Annex I);
- 5 project proposals with a total value of US \$7,016,819 have been withdrawn or deferred.

### **Status of the Fund**

3. At the time of preparation of this paper, Multilateral Fund resources available for committal amount to some US \$11 million. If the recommendations of the Secretariat for blanket approval are taken up and projects and activities for individual consideration were to be approved with their values as submitted, there would be a shortfall of some US \$18 million.

### **Issues arising from review of work programmes and amendments**

4. A total of 167 separate activities, including project preparation, are proposed for funding under agencies' 2000 work programmes and (for UNEP) work programme amendments. Of these, 91 activities have been referred for individual consideration by the Executive Committee, either because they raise policy issues that require guidance from the Committee or because there is a question about their eligibility or the priority which should be accorded to them. Each issue is outlined in the Secretariat's review of agencies' work programmes and amendments (documents UNEP/OzL.Pro/ExCom/30/23-26). The annotated agenda for the Sub-committee on Project Review contains a proposed order of business for consideration of the various issues. Outlined below are seven broader issues which arise in the work programmes of more than one implementing agency involved in the preparation and implementation of investment projects.

Project preparation in countries which are preparing sector plans for terminal phase-out

5. Funding for preparation of sector strategies or phase-out plans either has been approved previously or is requested at this meeting for various sectors in China, Egypt, Malaysia, the Philippines and Thailand. As countries progress with their phase-out programmes, more sector strategies or terminal phase-out plans are likely. All three agencies which prepare investment projects have requested approval of funds for preparation of individual projects in one or more of the above countries for a sector in which a sector strategy or plan is either being prepared or is envisaged. Each individual case is described in the Secretariat's comments on agencies' 2000 work programmes. However, the Executive Committee might consider in general whether it wishes to approve funding for the preparation of additional individual activities when project preparation is either underway or requested to address the totality of consumption for the relevant sector in the country concerned.

Activities affected by policies and guidelines for refrigerant management plans

6. Under item 11 of the agenda for its 30th Meeting, the Executive Committee will consider a report on Refrigerant Management Plans and associated recommendations on related policies and guidelines. A number of work programme activities have been submitted to this meeting which will potentially be affected by the Executive Committee's position on this issue. For example, activities proposed on behalf of countries which are not Low-Volume-Consuming countries (LVCs) are not currently eligible for funding. Other activities for which funding is being sought such as country programme updates might need to be modified to comply with requirements proposed by the working group. All the activities affected by policies and guidelines on RMPs are identified in the Secretariat's review of each agencies' 2000 work programme. The Committee might consider whether recommendations on these work programme activities should be made on the basis of current policies, or whether consideration of the activities should be deferred until the Committee has concluded its deliberations on RMPs.

New project preparation where funded phase-out exceeds 80 percent of current consumption

7. At its 23<sup>rd</sup> Meeting, the Executive Committee decided that requests for project preparation should be considered on a case-by-case basis if the request is for project preparation in a country for which approved projects would phase out over 80 per cent of their ODS consumption as reported in the latest available data reported to the Ozone Secretariat (Decision 23/51d(i)). Additionally, in Decision 27/47 (b) the Executive Committee decided that: "following the intent of Decision 23/51, when a project preparation request was submitted for a country and that country had already approved projects to phase out more than 80 percent of the country's baseline, the implementing agency should provide a clear delineation of remaining consumption in all sectors".

8. All three agencies which implement investment projects have requested project preparation activities in one or more of the following countries whose approved projects (those completed plus those under implementation) will phase-out over 80 per cent of their latest reported ODS consumption: Argentina (140%), Egypt (86%), Indonesia (148%), Jordan (90%),

Lebanon (152%), Malaysia (181%), Thailand (89%) and Viet Nam (733%). None of the requests contain the information required by the Committee in Decision 27/47.

9. Additional analysis indicates that of in two of the above countries, Argentina and Lebanon, setting aside phase-out from completed projects, expected phase-out from projects still under implementation is almost equal to their current total reported consumption. For Indonesia, projects under implementation will phase out 106 percent of its total reported consumption.

10. Additional detail is provided in the Secretariat's review of agencies' 2000 work programmes.

#### Ratification of the London Amendment

11. Decision 29/12(c) foreshadows a discussion at the 30<sup>th</sup> Meeting of the Executive Committee about those countries that have not ratified the London Amendment. The MEF Sub-Committee will address this issue in the context of whether or not activities for such countries should be maintained in the year 2000 business plans. The issue before for Project Review Sub-Committee is whether additional project preparation should be approved for these countries and if so, should there be a condition for approval of such requests.

12. It might be recalled that at its 29<sup>th</sup> Meeting, the Executive Committee decided to approve funding for projects and activities for countries that had not ratified the London Amendment on the understanding that a letter would be sent to those countries urging them to take the necessary action to ratify the London Amendment as rapidly as possible (Decision 29/21). Letters were sent to Chad, Dominican Republic, Madagascar, Nigeria and Syria. Syria ratified the London, Copenhagen and Montreal Amendments on 30 November 1999. Nigeria indicated to UNDP that the ratification of the London Amendment was eminent.

13. UNDP and UNIDO are requesting project preparation funds for Nigeria. UNIDO is also requesting project preparation for Bosnia & Herzegovina and Libya.

#### Project preparation for contingency list projects

14. The Executive Committee affords implementing agencies several opportunities to achieve their investment project shares. It allows agencies to submit 15 per cent above their allocation through over-programming. If agencies do not fully utilise their allocation through the 3<sup>rd</sup> Meeting of the year, the Committee has been permitting them to submit additional projects to the first meeting of the following year. The Committee also allows agencies to have contingency lists in their business plans up to the value of projects which they have identified as potentially raising policy issues. These projects are expected to be ready to be submitted if the Committee does not address the policy issue. Agencies often have pipelines of projects that have already been prepared, generally due to the use of project preparation funds approved for other activities. Contingency projects should be those that have already been prepared from other sources and which do not require additional project preparation funds.

15. The following project preparation requests are for projects on contingency lists: preparation of 12 projects in foam sector in China (UNDP), rigid foam project preparation in Brazil, India, and Nigeria (UNDP), project preparation in foam (general and rigid) in Turkey (World Bank), project preparation for MACs and compressors in Malaysia (World Bank), project preparation for domestic refrigeration in China (World Bank), project preparation in solvent sector (TCA) in Thailand (World Bank), and project preparation in the domestic refrigeration sector in Uruguay (World Bank).

#### Project preparation for projects to be submitted after year 2000

16. The Executive Committee may wish to recall that implementing agencies have from time to time indicated that they have substantial backlogs of projects ready for submission. For example the World Bank indicated that it had over US \$60 million in projects waiting because they could not be accommodated within its resource allocation. However, the Bank and other agencies are including several project preparation requests for projects that are not expected to be submitted until the year 2001 at the earliest.

17. Some large scale projects such as umbrella projects may take more than a year to prepare. However, project preparation funding has been requested for traditional projects that benefit only one or a few enterprises and which would normally be prepared within a one year time frame, for example a methyl bromide investment project in Argentina (World Bank), foam projects in Argentina (World Bank), solvent sector projects in Argentina (World Bank), commercial refrigeration projects in China (World Bank), and domestic refrigeration projects in China (UNIDO).

#### The production sector: project preparation in advance of technical audits

18. In Decision 19/36, the Executive Committee, decided that in the production sector certain activities need to be undertaken before projects are considered. For example, a technical audit needs to be conducted before a project can be submitted to the Committee. UNIDO and the World Bank are requesting project preparation funds for Argentina's production sector (World Bank), China's CTC and TCA production sectors (World Bank), Korea DPR's production sector (UNIDO), and Romania's production sector (UNIDO). Technical audits have not been conducted in any of these countries. Apart from providing the Executive Committee with an overview of the production sector in the country concerned, a technical audit will determine if there is a need for project preparation in the first place and will provide some guidance to the Committee and to implementing agencies in terms of the level of funding that might be needed to prepare the projects. The Executive Committee might consider whether it wished to see technical audits before it approves project preparation funding in the production sector.

#### **Investment projects**

19. As decided by the Executive Committee at its 29<sup>th</sup> Meeting and in keeping with established practice, investment projects submitted to the 30<sup>th</sup> Meeting are drawn from the

US \$ 13 million list. Added to these are two recovery and recycling projects associated with Refrigerant Management Plans, and the annual programmes for production sector phase-out for China and India. One recovery and recycling project (Grenada) has been recommended for blanket approval, the other (Senegal) is for individual consideration as part of a proposed Senegal RMP. The annual production sector programmes for China and India are referred for individual consideration (Annex I).

The US \$13 million list

20. The status of the seven projects on the list is as follows:

Argentina: Manufacture of polyurethane boxfoam at Fasax

Argentina: Methyl bromide in protected vegetables and flower crops

Argentina: Methyl bromide in strawberry production

21. The foam project for Fasax has been recommended for blanket approval. The two methyl bromide projects have been combined in a single submission to this meeting entitled "Phase-out of methyl bromide in strawberry, protected vegetables and cut flower production". There is no outstanding issue with the project, but in keeping with customary practice, it has been submitted for individual consideration (Annex I).

Mexico: Manufacture of rigid polyurethane spray foam and integral skin foam at Comsisa

Mexico: Manufacture of commercial refrigerators at Metalplus

Mexico: Manufacture of commercial refrigerators at Refrigeracion Duran

22. At the 29<sup>th</sup> Meeting the above three projects were deferred pending clarification from Mexico on whether CFCs at prices lower than those currently prevailing in the country were available to enterprises which had not received Multilateral Fund Assistance (Decision 29/51). The Fund Secretariat initiated discussions with the Government of Mexico regarding the decision. A background note and the status of the 3 projects are included in a report on the Secretariat's mission to Mexico, attached as Annex II.

India: Conversion of domestic refrigeration manufacture at GGEAL

23. At the 29<sup>th</sup> Meeting, the Executive Committee requested the Secretariat to continue consultations with the implementing agency and report back to the 30<sup>th</sup> Meeting (Decision 29/61). Following additional discussions, a number of outstanding issues regarding eligible capital costs have been successfully resolved. However at the time of preparation of this paper, additional information is essential to establish the level of funding eligible for the remaining capital cost item. Additionally, the Secretariat has indicated to the World Bank its assessment of eligible funding for incremental operating costs on the basis of relevant Executive Committee decisions, established practices and project information provided by the Bank. At the time of preparation of this paper the World Bank is preparing a mission to India, inter-alia to obtain additional information on this project.

24. The project has not changed since the 29th Meeting. Since there are no policy issues for which guidance from the Executive Committee would be required, and since certain of the outstanding cost issues which caused deferral of the project at the 29<sup>th</sup> Meeting have not yet been resolved, the project has not been included in documentation for the 30<sup>th</sup> Meeting at this stage. If the remaining issues are finalised within the ten-working-day deadline set by the Executive Committee, the project will be submitted to the Executive Committee by means of an addendum to document UNEP/OzL.Pro/ExCom/30/30 together with a recommendation on the level of funding.

### **Resource allocation**

25. The value of projects and activities likely to be recommended for the approval of the Executive Committee at the conclusion of the meeting of the Sub-committee on Project Review may exceed the funding available for commitment at the 30<sup>th</sup> Meeting. Consistent with established practice, the Executive Committee might wish to consider allocating the available funding to Work Programme Amendments for UNEP and the 2000 Work Programmes of the other agencies. The Executive Committee might further request the Secretariat to authorise the intersessional transfer of funds by the Treasurer to the relevant implementing agencies for approved investments projects once enough contributions have been received.

**ANNEX I****LIST OF PROJECTS FOR INDIVIDUAL CONSIDERATION**

<u>Country</u>	<u>Project</u>	<u>Sector</u>	<u>Agency</u>	<u>Doc. No.</u>	<u>Issue</u>
Argentina	Phaseout of methyl bromide in strawberry, protected vegetables and cut flower production	FUM	UNIDO	30/27	No issues for individual consideration as per established practice for methyl bromide projects.
Senegal	Recovery and recycling (Refrigerant Management Plan)	REF	UNIDO	30/31	Justification for extension of previously implemented recovery and recycling project.
China	Year 2000 Annual Plan for the CFC Production sector in China	PRO	World Bank	30/28	Quality of information on implementation of the 1999 annual plan.
India	CFC Production sector gradual phaseout project – 2000 annual programme	PRO	World Bank	30/30	Meeting at which funding for the 2000 annual programme should be approved.

## ANNEX II

### **REPORT TO THE EXECUTIVE COMMITTEE ON THE FUND SECRETARIAT'S DISCUSSIONS WITH THE GOVERNMENT OF MEXICO**

#### **Background**

1. At the 29<sup>th</sup> Meeting three projects for Mexico were deferred pending clarification from Mexico on whether CFCs at prices lower than those currently prevailing in the country were available to enterprises which had not received Multilateral Fund Assistance (Decision 29/51).
2. UNDP wrote\* to the Secretary for the Environment, Natural Resources and Fisheries of the Government of Mexico on 27 January 2000, quoting the request of the Executive Committee as per Decision 29/51. Additionally, UNDP suggested that it was previously “allowed to apply regional border prices to calculate the grant amount for each project” but that “at the 29<sup>th</sup> Meeting of the Executive Committee we were informed that since national prices of ODS have been rising significantly in Mexico, we should apply these prices rather than the regional border price.” and that “thus Mexico would be penalised for having put in place a successful legislation regime”.
3. UNIDO also wrote\* to the Government of Mexico on 1 February 2000. UNIDO warned that “Mexico may find itself seriously penalised by the Multilateral Fund” and that “if action is not taken promptly, Mexico may even unfairly lose the right to continue receiving support from the Multilateral Fund”. UNIDO suggested that the Government of Mexico should be “taking into account the impact a compliant response to Decision 29/51 may have on Mexico”.
4. Having received the briefs from the implementing agencies, the Minister of the Environment in Mexico subsequently wrote\* to the Executive Director of UNEP on 4 February 2000 with copies for information to all members of the Executive Committee and others, expressing concern at the information communicated to her. Later, the Regional Director of UNEP for Latin America and the Caribbean wrote\* to the Fund Secretariat enclosing Decision 8 taken by the Environment Ministers of Latin America and the Caribbean at their XII<sup>th</sup> Forum from 5 to 7 March 2000, noting “their concern at the possible suspension of finance by the Multilateral Fund for specific projects including those with operating savings due to the price increase of CFCs” and calling for the continuation of Multilateral Fund support for Latin America and Caribbean countries.
5. In response to this situation, the Chief Officer wrote\* to the Government of Mexico on 17 February 2000 pointing out that the communications so far received at the Secretariat did not address the substance of the information sought by the Executive Committee in Decision 29/51. The Chief Officer suggested discussions with representatives of the Government and industry regarding potential modalities of support from the Multilateral Fund which would ensure both

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\* Copies of the correspondence are available on request from the Secretariat

the timely completion of Mexico's phase out programme and the integrity of the Multilateral Fund rules.

### **Secretariat Mission**

6. As foreshadowed in the Overview paper, the Secretariat undertook a mission to Mexico between 13 and 17 March 2000. Secretariat staff met with officials of the Government of Mexico, with the relevant industry association and with representatives of the sole CFC producer. In the course of discussions the Secretariat was advised by the Government of Mexico that:

- (a) Through voluntary agreements between government and industry and with the support of US \$22.8 million from the Multilateral Fund for investment projects, the overall consumption of CFCs in Mexico has been reduced from 12,037 ODP tonnes in 1989 to 3483 ODP tonnes in 1998.
- (b) in relation to the specific question raised in Decision 29/51, the market price for CFC-11 in Mexico is approximately US \$14 per kg. CFC-12 costs about US \$13 per kg. These prices apply to all users. There are currently no arrangements to make CFCs available at lower prices to enterprises in Mexico which have not received assistance from the Multilateral Fund;
- (c) these costs arise as a result of a voluntary limit on the supply of CFCs for the domestic market imposed by the sole producer of CFCs in Mexico in support of the Government's ODS phase-out policies.
- (d) the Government of Mexico proposes to reinforce the voluntary agreement by issuing a regulation which *inter-alia* will establish legally enforceable domestic production quotas. The regulation is now in draft form;
- (e) the Government of Mexico was most concerned that the advice it had earlier received about the failure of the three projects to be approved at the 29<sup>th</sup> Meeting could destabilise the voluntary agreement and lead to pressure to increase the quantity of CFCs available to the domestic market. This could result in the inclusion in domestic production quotas of a quantity of CFCs to meet "basic domestic needs", that is, to provide CFCs at lower prices to those enterprises which have not yet converted. The Government of Mexico was not keen to take this course as it would prejudice Mexico's plans to complete the phase out of CFCs within about two years.

7. The Secretariat advised the Government of Mexico that:

- (a) on the basis of the rules and policies of the Multilateral Fund, the calculation of grants for conversion projects must take account of incremental operating costs or savings. These need to be based on the economic costs of operation, including chemicals costs, relevant to the actual circumstances of the country concerned.

On this basis individual projects in the foam sector in particular may realise incremental operating savings equal to or greater than the capital cost of the projects in which case no funding would be eligible. Individual projects in the commercial refrigeration sector may also realise incremental operating savings;

- (b) it appeared from data reported by the Government of Mexico that most of the consumption of CFCs in the foam and commercial refrigeration manufacturing sectors had been eliminated. This being the case, Mexico could consider a sectoral approach in which terminal umbrella projects could be prepared for the remaining enterprises in these sectors, in accordance with Decision 25/50. Such an arrangement would enable Mexico to continue to receive assistance under the existing rules and policies of the Multilateral Fund as it proceeded to complete its phase-out programme.

### **Projects submitted to the 29<sup>th</sup> Meeting**

8. In regard to the three projects for Mexico deferred from the 29<sup>th</sup> Meeting, two were submitted by UNIDO in the commercial refrigeration sector. The Government of Mexico and UNIDO have requested that the two projects, for Metalplus and Refrigeracion Duran, be resubmitted to the Executive Committee on the basis of the costs agreed between UNIDO and the Secretariat prior to the 29<sup>th</sup> Meeting, using actual CFC prices in Mexico. These projects could be recommended for approval at the level of funding indicated below:

<u>Metalplus</u>	US \$ 303,094 plus support costs of US \$39,402
<u>Refrigeracion Duran</u>	US \$ 112,985 plus support costs of US \$14,688.

9. The third, submitted by UNDP, is a group project in the foam sector for a producer of foam formulations and 21 small foam enterprises which use these formulations. The project has substantial incremental operating savings. The Fund Secretariat informed UNDP and the Government of Mexico of an approach it could recommend to the Executive Committee based on the actual price of CFCs in Mexico which would still enable the small foam enterprises to receive the agreed incremental capital costs of conversion. However, this initiative has been declined and the Secretariat was asked by the Government of Mexico to set aside the incremental operating savings. This is not possible for an individual project under the rules and policies of the Multilateral Fund.