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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
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**REQUEST FOR INTERSESSIONAL APPROVAL FOR A PROJECT PROPOSAL IN
ARGENTINA**

This document consists of the comments and recommendations of the Fund Secretariat on the following project proposal:

Production

- Strategy for gradual phase-out of CFC-11 and CFC-12 production: 2006 annual programme, a resubmission World Bank

PROJECT DESCRIPTION

Background

1. The Executive Committee at its 38th Meeting in 2002 approved, in principle, a total of US \$8.3 million for the implementation of the Agreement for the Production Sector in Argentina, and disbursed the first tranche of US \$0.5 million to the project. Subsequently the Executive Committee disbursed the 2003, 2004 and 2005 tranches at the 44th and 45th Meetings after being satisfied with the verification, which indicated that the chlorofluorocarbon (CFC) producing plant Fábrica de Implementos Agrícolas (FIASA) had achieved the CFC production targets for 2002, 2003 and 2004 as stipulated in the agreement. The annual CFC production limits and the funding tranches of the agreement are summarized in the following table.

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Max, allowable production (metric tonnes)	3,020	3,020	3,020	1,647	1,647	686	686	686	0*	
MLF funding \$ million	0.5	3.5	0	0.3	2	0	1	1		8.3
Agency fees \$ million	0.02	0.11	0.09	0.12	0.10	0.12	0.12	0.047		0.727

(*) save for any CFC production that may be agreed by the Parties to meet essential uses for Argentina

2. The World Bank submitted to the 48th Meeting of the Executive Committee the verification of the 2005 CFC production at FIASA and requested the release of the 2006 funding tranche of US \$2 million and the associated support cost of US \$0.10 million. However the World Bank subsequently decided to withdraw the request, with the intention to address further some of the inadequacies in the verification of the 2005 CFC production at the plant.

3. When the World Bank resubmitted the funding request in June 2006, it was beyond the deadline for project submission for the 49th Meeting. In view of potential compliance issues that may result from late approval of the 2006 tranche the Executive Committee agreed to process the submission intersessionally (decision 49/37).

4. The resubmission of the World Bank includes the revised verification of the 2005 CFC production at FIASA and the updated 2006 work programme.

Revised verification report of the 2005 CFC production at FIASA

5. The original verification was carried out in January 2006 by Mr. Vogelsberg, representing the World Bank. The consultant reported not having the necessary documents from the plant that would enable him to carry out the verification to the standard required. Due to a fire that took place in the plant in 2005, neither data from the plant control room by shift operators nor the container filling records on finished product were available to the consultant. The consultant recommended that, starting from 2006, the plant should maintain, for the purpose of verification: daily control room log sheets and indicate when the plant was down and the reasons; create and maintain finished product container logs; sequence the daily

computer printouts of production for 365 days, the normal number of days of the year; and provide the HF consumption data when the plant is switched to HCFC-22 production.

6. In an effort to address some of these concerns, the World Bank implemented an additional financial audit of the 2005 CFC production at FIASA in May 2006 by contracting Maria del Carmen Isaurralde, a financial consultant. The results from the new financial audit and an update on the follow-up by FIASA on the new data collection system were incorporated in the revised verification report, which contains five sections under the following headings:

- Introduction;
- Annual Plan for the remainder of 2006;
- Verification report prepared in January 2006;
- Results from the new financial audit in May 2006; and
- Additional comments from the World Bank and the Government of Argentina.

7. Since only the last two sections contain new information and the other 3 sections repeat the same information contained in UNEP/OzL.Pro/ExCom/48/26, the presentation in the following paragraphs will focus on the two new sections and a short update on the 2006 annual work programme.

8. Prior to undertaking on-site auditing, the financial consultant requested and received from the company a list of information needed for the audit, which included:

- Monthly production summaries of CFC-11 and CFC-12 from January to December 2005;
- CTC stock movement card;
- CTC despatch note;
- Sales invoice of ODS products;
- Sales invoices of raw materials;
- Customs clearance and suppliers invoices for purchase of ODS products;
- Custom clearance and suppliers invoice for purchase of raw materials; and
- The books on VAT sales, VAT purchases and inventory and balance, which were stamped on 27 December 2002 by Public Registry of Commerce, Province of San Luis, of 200 pages. The pages of the VAT books were pre-numbered.

9. The financial consultant also had available the certified physical inventory of the company, which had been carried out on 26 April 2006 by the public accountant, Marcos Leopoldo Vera. It is mandatory under the tax law of the country to certify the company's balance with the National Fiscal Authority and is implemented once a year by an independent licensed accountant.

10. The consultant used the data on daily production of CFCs and the raw material consumption from the monthly production summaries to validate the data provided by the company in the daily production reports. For the sales and purchases of CFCs and raw materials, the consultant first reviewed the volume of sales against the sales invoices, and purchases against custom clearance and suppliers' invoices. Secondly the dates and numbers of

sales invoices were further checked against the VAT sales book while the name of the suppliers, dates and numbers of the purchases were checked against the VAT purchase book.

11. For the verification of the opening and closing stock levels of CFCs and feedstocks such as HF and CTC at the end of 2004 and the beginning of 2005, the consultant relied on the outcome of the certification of the physical inventory by the public accountant carried out on 26 April 2006, and the stamped inventory and balance book as at 30 November 2004 and 2005. At the conclusion of the audit, the consultant reconfirmed the findings from the verification which had been carried out by Mr. Vogelsberg in January 2006 and included information separately for CFC-11 and CFC-12 on the opening and closing stock levels, production, loss, and sales. For clarity, this information is reproduced in Annex I.

12. In terms of measuring the 2005 CFC production against the limit set in the Agreement, the verification concluded that FIASA produced 1,645 mt of CFCs in 2005 which was 2 mt below the target of 1,647 mt set in the Agreement. The production was broken down into 67 mt for CFC-11 and 1,578 mt for CFC-12. Apart from presenting the data using the format in the guidelines for verifying ODS production phase-out which includes month-by-month production of CFC-11 and CFC-12, the number of days of production, and the consumption ratios of feedstock to CFC and HCFC-22 production, the revised verification report also provides the custom clearance numbers for purchase of CFCs, CTC and HF, and related page numbers of the VAT books where the sales and purchases were recorded.

13. Section 5 of the revised report contains a summary of the comments from the World Bank and the Project Implementation Unit (UEPRO). The National Ozone Unit which manages an import/export registering system, implemented a review of the raw material imports by FIASA for CFC production, and confirmed the CFC production levels as verified by the consultant in January 2006. On the other hand, UEPRO has been monitoring the progress on the implementation of the recommendations from Mr. Vogelsberg with regard to the data collection system that had to be put in place by FIASA. Specifically, instructions have been provided to FIASA to set up numbered folders on movement of raw materials, CFC production, packaging of final products, laboratory and control of stocks. In addition, background information is also required to facilitate the future verification work.

Updated 2006 annual work programme

14. The updated 2006 annual work programme reported the conclusion of the negotiations between the Government and FIASA regarding the reinvestment of the funds received from the Multilateral Fund and the monitoring to be done by the Government of this new investment. The Government anticipated disbursing a total of US \$3.65 million in 2006 from the US \$4.78 million which would have built up from the unspent balances from previous years and the US \$2.0 million to be received from the 2006 funding tranche.

15. The proposed 2006 work programme has the same CFC production limit as for 2005 set at 1,647 mt.

SECRETARIAT'S COMMENTS AND RECOMMENDATIONS

COMMENTS

16. The additional audit intends to provide greater assurance on the achievement by FIASA of the CFC production limit in 2005 by reviewing the financial records one more time. The review was performed by a financial consultant and in accordance with the auditing standards. The results reconfirm the findings of the original audit carried out in January 2006 and indicate that FIASA had not exceeded the production limit for 2005 set in the Agreement.

17. Information in the revised verification report indicates that FIASA has installed the necessary production recording equipment and a data collection system in the plant as recommended by the consultant who carried out the technical verification in January 2006. This should also facilitate the verification exercise next time.

18. The update on the 2006 annual work programme provides information on the progress made in the internal arrangement between the Government and FIASA and the commitment to accelerating the disbursement of funds.

19. The Secretariat is not attaching the revised verification report however is ready to make it available to any member of the Executive Committee upon request.

RECOMMENDATIONS

20. The Secretariat recommends that the Executive Committee:

- (a) Takes note of the revised verification report of the 2005 CFC production at FIASA, Argentina;
- (b) Approves the 2006 annual work programme of the Argentina CFC production closure project at the level of US \$2 million and the associated support cost of US \$0.10 million for the World Bank, since the verification confirms that FIASA has achieved the CFC production target set in the Agreement for 2005.

Annex I

RESULTS OF THE VERIFICATION OF THE 2005 CFC PRODUCTION AT FIASA

Annual CFC-11/12 quotas, production and stocks since the baseline year

CFC Products MT CFC-11	Baseline*	Year 1	Year 2	Year 3
	Year 2002	2003	2004	2005
Quota (CFC-11& & CFC-12)	3020	3020	3020	1647
Year Beginning stock	272	264	655	222
Procured	0	510	0	143
Production	128	133	112	67
Loss	18	0	-208	1
Sales	118	252	237	201
Year End Stock	264	655	222	232

* The year from which the data is used to approve the ODS production phase-out project

CFC Products MT CFC-12	Baseline*	Year 1	Year 2	Year 3
	Year 2002	2003	2004	2005
Quota (CFC-11& & CFC-12)	3020	3020	3020	1647
Year Beginning stock	1095	1776	1395	1415
Procured	0	33	0	17
Production	2887	2885	2904	1578
Loss	7	0	-5	-2
Sales	2199	3299	2879	1592
Year End Stock	1776	1395	1415	1416

* The year from which the data is used to approve the ODS production phase-out project
