



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/40/22
9 June 2003



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fortieth Meeting
Montreal, 16 -18 July 2003

**PHASE-OUT FROM CANCELLED PROJECTS
(DECISION 39/13)**

Background

1. In the context of the consideration of projects with implementation delays at its 37th Meeting, the Executive Committee also had a discussion on project cancellation where funds were disbursed and phase-out was achieved (UNEP/OzL.Pro/ExCom/37/10). At its 37th and 39th Meetings, the Executive Committee addressed how phase-out from cancelled projects should be recorded (Decisions 37/8 and 39/13(b)) and also decided at its 39th Meeting to request the Secretariat to prepare, by the 40th Meeting of the Executive Committee, advice on how to deal with the issue of funding levels when reapplying for assistance for projects that had previously been cancelled (Decision 39/13(c)).

2. Members raised concerns about allowing the provision of Decision 29/8 for some enterprises whose projects were cancelled to be able to seek reapplication for assistance at a level of funding no greater than that previously approved two years after they were cancelled. Some members felt that the maximum level of funds that could be approved should represent the balance from what was previously approved, given the fact that projects were being cancelled where substantial levels of funds had been disbursed. Other members noted that Decision 29/8 allows for a reapplication on a case-by-case basis and therefore when the reapplication would come forward, the Executive Committee would be informed of the level of funds already disbursed and the Committee could take appropriate action on a case-by-case basis. To-date, no project has been resubmitted to the Executive Committee for funding after it was cancelled. It should be noted that Decision 29/8 applies only to investment projects.

3. Decision 29/8 (para. a) precludes from reapplication for assistance those enterprises whose projects were cancelled due to a transfer of ownership to a non-Article 5 country or due to bankruptcy. All other cancelled projects may be considered for funding on a case-by-case basis.

Overview of cancelled projects

4. 95 investment projects of the 1,865 investment projects approved by the Executive Committee have been cancelled. Over half of the cancelled projects were World Bank projects (54 projects), followed by UNDP with 28 cancelled projects, UNIDO with 12 and France with 1. Ten per cent of the total projects approved (539 projects) for the World Bank has been cancelled, and 3 per cent each of UNDP and UNIDO's projects. On a sector basis, 13 per cent of approved solvent sector projects were cancelled; 6 per cent of refrigeration sector projects, 4 per cent of foam projects, and 3 per cent of aerosol projects.

5. On a country basis, project cancellations represented as low as 5 per cent of the projects approved for the country (e.g. China) to as high as 100 per cent (e.g. Central African Republic and Mozambique).

Potential financial impact of the reapplication of cancelled projects

6. Table 1 provides the total amount of funds approved for cancelled investment projects, as well as the adjustments to this amount to reflect the amount associated with projects cancelled

due to bankruptcy or transfer to non-Article 5 ownership since such projects are not eligible for reapplication.

Table 1

CANCELLED PROJECTS ELIGIBLE FOR RE-APPLICATION PER DECISION 29/8

Project Type	Original Amount of Funds Approved	Funds Disbursed	Balance	Number of Projects
Total investment projects cancelled	37,222,613	5,348,632	31,873,981	95
Projects cancelled due to:				
• Bankruptcy	(10,657,465)	(2,998,439)	(7,659,026)	(16)
• Transfer to non-Article 5 country ownership	(1,666,222)	(31,413)	(1,634,809)	(4)
• Sub-total	(12,323,687)	(3,029,852)	(9,293,835)	(20)
Projects that could be re-submitted	24,898,926	2,318,780	22,580,146	75

7. As shown in Table 1, 75 investment projects could be resubmitted at a value of up to US \$24.9 million despite the fact that US \$2.3 million has already been disbursed for these projects.

8. Decision 29/8 also allows on a case-by-case basis, up to 30 per cent of the initial project preparation funds for cancelled projects eligible for reapplication; however, since implementing agencies often receive project preparation by sector or country, the amount of project preparation used initially for the preparation of these cancelled projects may be difficult to determine.

Reasons for project cancellation

9. Although most project cancellations were agreed to by the Governments and the implementing agencies concerned, the reports of the Executive Committee do not generally include reasons for the cancellation. However, some information on cancellation is often provided in progress reports. The main reason for project cancellations other than bankruptcy and change of ownership relate to financial difficulties and the inability of the beneficiary enterprise to provide its counterpart components of the project that did not constitute agreed incremental costs. On the other hand, several projects were cancelled due to the actions of the enterprises in choosing a complex technology (e.g., LCD foam projects) that did not produce the product demanded by the market.

Comments

10. At its 39th Meeting, the Committee decided to record the full amount of ODS envisioned for phase-out if an enterprise was provided with equipment needed for conversion to non-ODS technology and to record phase-out on the basis of cost-effectiveness of the original project if

some equipment was provided (Decision 39/13(b)). Similarly, the Committee might also consider taking into account any funds that were disbursed before a project was cancelled in considering any reapplication for funding to reinstate or replace cancelled projects. If this concept were applied, it would limit the liability of the Fund to US \$22.6 million for 75 of the 95 projects cancelled to-date. However, it should be recalled that:

- (a) The US \$22.6-\$24.9 million maximum level of cancelled projects was not taken into account in the financial planning for the triennium.
- (b) The possibility of reapplication for cancelled projects was not taken into account in the three-year phase-out plan and was not included in the 2003-2005 business plans.

11. The implementation of Decision 29/8 could impact the status of compliance of borderline countries where the consumption of the cancelled project represents most of the consumption in a sector or substance. The final completion of a reactivated cancelled project might accelerate compliance in these cases if the implementation timeframe is also accelerated.

Recommendation

The Monitoring, Evaluation and Finance Sub-Committee may wish to recommend to the Executive Committee:

1. That reasons for project cancellation should be specified and agreed by Executive Committee in its decisions on project cancellation.
2. That projects that are cancelled due to the non-provision by the beneficiary of its non-incremental counterpart contributions may not be allowed to be resubmitted.
3. To consider, on a case-by-case basis, the reapplication of cancelled projects in those cases where the completion of such projects enables compliance with control measures, where the enterprise is determined to be financially viable, and where the implementation timeframe is accelerated.
4. That enterprises with cancelled projects that are eligible for reapplication pursuant to Decision 29/8 may be allowed to submit a request to reinstate the cancelled projects with the incremental costs adjusted by the amount of funds disbursed on the cancelled projects, and the level of phase-out based on the original approval as modified by Decision 39/13(b).
