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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-fifth Meeting
Montreal, 29-31 July 1998

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Corrigendum

Replace pages 1 to 8 and Annex I by the attached.

Projects and activities presented to the 25th MeetingSubmissions by Agencies and Bilateral Partners

1. The total value of the projects and activities received by the Fund Secretariat from implementing and bilateral agencies for consideration at the 25th Meeting, is US \$82,179,061, including US \$3,557,771 for the remainder of the 1997 share of the World Bank. The total is comprised of:

(a) Bilateral cooperation:

- 3 project proposals were received from Canada and Finland, with a total value of US \$395,382 as submitted;

(b) Amendments to 1998 Work Programmes:

- requests for amendments to 1998 Work Programmes have been submitted by UNDP, UNEP, UNIDO and the World Bank. The proposals include US \$2,069,703 for institutional strengthening projects, US \$172,155 for a methyl bromide information programme in North Korea and US \$693,821 for project preparation and other activities;

(c) Investment projects:

- 126 proposals for investment projects (including demonstration projects for methyl bromide) were submitted to the 25th Meeting by UNDP, UNIDO and the World Bank with a total value, as submitted, of US \$78,848,000.

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:

- 2 bilateral projects with a total value of US \$248,030 have been recommended for blanket approval;
- 1 bilateral project with a value of US \$100,000 has been withdrawn;

(b) Activities included in amendments to 1998 Work Programmes:

- 13 institutional strengthening projects with a total value of US \$1,957,481 have been recommended for blanket approval;
- 3 non-investment activities and project preparation activities with a total value of US \$101,700 have been recommended for blanket approval;
- 7 activities with a total value of US \$595,906 are recommended for consideration by the Executive Committee, including a methyl bromide information project for North Korea;
- 3 activities with a total value of US \$151,420 have been withdrawn.

(c) Investment Projects:

- 66 project proposals with a total value of US \$18,217,845 have been recommended for blanket approval;
- 27 project proposals with a total value of US \$29,733,698 are listed for individual consideration by the Sub-Committee on Project Review: this includes 9 methyl bromide demonstration projects (see Annex I);
- 7 project proposals with a total value of US \$869,597 did not have the approval of the Government concerned at the time of submission by the implementing agency. They are included for the information of the Executive Committee in document UNEP/OzL.Pro/ExCom/25/Inf.3.
- 26 project proposals with a total value of US \$26,393,391 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 US \$50.2 million which is approximately the value of projects recommended for blanket approval plus projects for individual consideration at the funding level sought by the implementing agencies.

Issues arising from Project Review

Bilateral Cooperation

4. The Government of Germany has advised that it wishes to have the flexibility to seek approval of bilateral projects up to the full amount of its 20 percent share of contributions, at any stage up to the end of the current triennial replenishment period.

5. The current modality, on the basis of which the Secretariat provides advice to Parties, is that all bilateral cooperation requests are assigned to the year in which the request was first made, to the year of approval, or to the previous year's contributions to offset previously approved bilateral project under-runs. Parties that wished to credit bilateral activities against future year's contributions or against previous year's contributions where cash payments had already been made, have been advised that this degree of flexibility is outside the current modality.

6. The proposed request from the Government of Germany would have implications for the business planning process of the Multilateral Fund, in particular for the level and degree of certainty of funding available to implementing agencies for future years. Additionally, the Executive Committee might note that if all donors reserved the full extent of their 20 percent bilateral contributions, in circumstances where bilateral projects were delayed beyond the end of the replenishment period there could be a substantial carry-over of contributions from the current to the next replenishment.

7. The Terms of Reference of the Executive Committee require it to assess annually whether the contributions through bilateral cooperation comply with the criteria set out by the Parties as part of the contributions to the Multilateral Fund and to report annually to the Meeting of the Parties. In this regard, the Executive Committee might consider if it is within its terms of reference to take a decision on the request of the Government of Germany, as this issue may require consideration at a Meeting of the Parties.

Amendments to 1998 Work Programmes

8. Amendments to the 1998 work programmes approved at the 24th Meeting in March have been submitted by all the implementing agencies. A number of the proposed amendments have not been recommended for blanket approval. The Fund Secretariat's comments on each Agency's proposals can be found in documents UNEP/OzL.Pro/ExCom/25/20 to UNEP/OzL.Pro/ExCom/25/23 inclusive (including relevant corrigenda).

9. Because the methyl bromide programme is new and guidelines were only adopted at the 24th Meeting, project preparation proposals for methyl bromide activities are to be expected at this meeting. However, more generally, the Executive Committee might agree that following the adoption of the annual business planning cycle, it would not normally expect to see amendments to work programmes, other than for institutional strengthening activities.

10. One proposed amendment submitted by UNDP concerns renewal of the institutional strengthening project for Kenya for a two-year period at a cost of US \$116,617 (UNEP/OzL.Pro/ExCom/25/20 paragraphs 5, 6 and 21). The request is consistent with relevant Executive Committee decisions (Decisions 19/29 and 24/23). Separately, the Secretariat had been informed by UNIDO of a significant delay in the implementation of investment projects associated with the clearance of equipment through customs in Kenya. The Secretariat wrote to the Ministry of Environment and Conservation of Kenya on this issue, and was subsequently informed that the

equipment had been granted an exemption from duty and cleared through customs. The Committee might wish to consider whether, in the future, issues that delay project implementation such as customs clearance for equipment funded by the Multilateral Fund, should be taken into consideration prior to institutional strengthening projects being renewed.

Investment projects

11. 27 project proposals are still unresolved at the time of preparation of this paper. They are listed in Annex I, together with a reference to the relevant evaluation sheet, in which the issues are explained. Those issues which are more general in nature and which will have implication for future projects are discussed below.

Quality of project proposals

12. The task of reviewing projects has again been made more complex by the variability of the data in project documents. In virtually all sectors, initial project analysis by the Secretariat has revealed internal inconsistencies in the data presented. Typical examples are:

- (a) overall consumption not matching the consumption calculated as being used in the relevant industrial process or not matching the claimed levels of production, or not matching the consumption of individual enterprises in umbrella projects;
- (b) lack of clarity on baseline equipment installed, dates of installation and the relationship between installed capacity and levels of production;
- (c) lack of clarity on quantities of chemicals and certain other factors used in calculation of incremental operating costs and savings;
- (d) illustrations of *pro-forma* project preparation where cost or other project information has been copied electronically into several projects and does not accurately reflect the circumstances of the particular enterprise, or the level of costs which may be eligible;
- (e) projects not reflecting current practices and understandings between the implementing agencies and the Secretariat on technical issues;
- (f) specific Executive Committee requirements, such as equipment disposal procedures, counterpart funding guarantees, not being included in project documents.

13. The reasons for this may include:

- (a) projects are becoming smaller and less time may be available for on-site investigation and data verification during project preparation. For instance in umbrella projects, consultants may not be visiting/validating every enterprise;
- (b) local consultants, increasingly being used, may not be familiar with the Executive Committee's rules and policies relevant to the preparation of projects, and thus may not appreciate fully the importance of accurate and consistent information;
- (c) projects prepared one year or more before submission may not reflect current technical agreements and agencies may be reluctant to revise them, or to advise enterprises that eligible costs are lower than expected.

14. The Secretariat could cease working with agencies to correct inconsistencies and inaccuracies in project proposals as part of its review and instead, return the projects, but this would not facilitate the project approval process. However, if the current trend were to continue, given the time limitation between the submission of projects and the dispatch to members, it may not be possible for the Secretariat to continue to provide both a quality control and a review function.

Methyl Bromide demonstration projects

15. Nine demonstration projects for alternatives to methyl bromide submitted to the 25th Meeting are listed for individual consideration (Annex I). The Executive Committee might note that, notwithstanding the requirements of the guidelines for methyl bromide projects, the projects still retain the same basic structure, in which salary or consultants' costs make up a large percentage of the total project costs.

16. The project documents indicate that during project preparation emphasis was placed on working with national institutions, organizations, local experts and agro-industries. However there are no indications that the participation was sought of experts from Article 2 countries at a reduced cost to the Multilateral Fund - as decided by the Committee. Capital costs in the proposals for various items such as seeds and laboratory analysis seem very high. In one case, it can be deduced that the cost of plastic pipe is over US \$100 per metre.

Operating costs in previously approved refrigeration projects

17. Three requests have been submitted seeking incremental operating costs (IOC) for domestic refrigeration projects in Turkey which have now been implemented. The proposals have been submitted on the basis of a decision of the Executive Committee taken at its 13th Meeting which provides that incremental costs could be approved for "one year's duration calculated on the basis of the costs prevailing following the start of operations" (UNEP/OzL.Pro/ExCom 13/47, page 43, paragraph 159). Decision 21/6 established that the level of production for calculating

incremental operating costs is the level prior to preparation of the project as specified in the approved project proposal.

18. For the first project (Profilo) a policy issue concerning the year for calculation of the level of production has been resolved and costs have been agreed with the implementing agency. However, as this is the first proposal of its type to be submitted for approval, it is being referred for individual consideration.

19. The second project (Klimasan) was approved at the 15th Meeting with a cost effectiveness of 25.4 US \$/kg, for capital costs only, which is already 60 percent greater than the threshold of 15.21 US \$/kg subsequently established for the sub-sector at the 16th Meeting. Guidance is sought on whether the threshold should be applied, in which case no incremental operating costs would be eligible.

20. The third project, Arcelik, was approved in 1992, before modalities for calculation of incremental capital or operating costs were considered. IOC were, therefore, not originally requested. Costs for the project were very high and included a number of significant items which, on the basis of current knowledge and practice would be considered ineligible. Additional details are provided in the Secretariat's evaluation sheet (UNEP/OzL.Pro/ExCom/25/51). The Executive Committee's guidance is sought on how to proceed in this case.

Polyethylene Foam Projects in China

21. UNIDO has submitted an umbrella project to phase out the use of CFC-12 at 25 enterprises in China which produce polyethylene foam for net bags. The cost of the project as submitted was US \$7.1 million, but the request has been amended to US \$4.5 million by UNIDO following detailed discussions with the Secretariat on the eligibility of the incremental capital and operating costs sought. It is indicated in the project document that there are about 70 such enterprises with a total of 150 production lines in China. In addition, there are other polystyrene foam production activities such as foam for packaging material and foam sheets which constitute a larger portion of the extruded polyethylene/polystyrene foam sector. When the entire sector is considered, the total request for funding could be up to US \$65 million.

22. A particular feature of the industry in China appears to be that it is very young. Many of the enterprises are stated to have commenced production in 1994, and 1995 is the first full year for which production figures are available. There is a need for accurate and detailed documentation, inter alia, to establish eligibility requirements in relation to Decisions 17/7 and 20/20 on recently erected plants.

23. In view of the total number of enterprises in the subsector in China, there is a need for consideration to be given to a strategy for the subsector, which could address, inter alia, innovative ways to provide the necessary substitute chemical and capital equipment, including local design or manufacture and bulk purchasing.

Assembly, installation and service of transportation refrigeration and air conditioning

24. A project has been submitted by the World Bank for an enterprise in Turkey which assembles, installs and services both transportation refrigeration equipment (in trucks) and mobile air-conditioning equipment (in vans and buses). The project has been submitted as a commercial refrigeration project. Both incremental capital costs and incremental operating costs have been requested.

25. The Executive Committee has not so far approved incremental operating costs for any projects for the installation and servicing of MAC or transportation refrigeration systems. Typically, any additional costs for installation of non-CFC transportation refrigeration systems or MAC systems are passed on to the customer as part of the overall installation cost. In this circumstance, the enterprise does not bear any additional cost. IOC were removed from a project in this sector approved for Iran at the 23rd Meeting.

26. Similarly, it may not be appropriate to consider the funding of capital costs for servicing CFC-based MAC units as part of this project as MAC servicing may need to be considered in relation to the service sector in general, as part of a future Refrigerant Management Plan. Proposals for servicing have been deleted from previous refrigeration projects approved for Turkey and for other countries for this reason.

27. Accordingly, the guidance of the Executive Committee is requested as to whether the Committee might wish to consider the assembly and installation of transportation refrigeration and MAC systems as a new sub-sector and investigate what, if any, costs might be eligible for compensation. Alternatively, on the basis of the position taken in other relevant projects, outlined above, the two principal cost elements of the proposal (incremental operating costs, and capital costs for servicing) could be deleted from it, in which case the project may lapse.

28. Further details of the project are provided in the Secretariat's evaluation sheet (UNEP/OzL.Pro/ExCom/25/51).

Other technical issues

29. Several technical issues affecting eligible costs in individual projects remain under discussion at the time of preparation of this paper. The Sub-Committee on Project Review will be advised of the outcome. It is relevant to invite the attention of the Executive Committee to the impact of technological developments on project preparation and eligible costs.

30. There are a number of areas, particularly in the foam sector (affecting also the foam part of refrigeration projects) where technological developments are reducing production costs. One example is the improvement in the chemical formulation of CFC-free foams, which may enable foam of the appropriate quality to be produced without the increase in foam density of 10 percent or more which was initially required. Another example is the availability of pre-blended foam

chemical formulations which can eliminate the need for pre-blending equipment. This and other examples of technological development are being rapidly adopted in industries in developed and developing countries as they reduce capital or production costs.

31. The Secretariat notes that these developments are not always reflected in projects, where they can also reduce the incremental costs, including incremental operating costs. The Secretariat endeavours to monitor such developments and, subject to any guidance from the Executive Committee, will continue to press for projects to reflect the most cost-effective, mature technological options available to enterprises, for the necessary supporting technical information to be provided in project documents and for incremental costs to be calculated accordingly.

Aerosol projects

32. At the 20th Meeting an aerosol project was approved for JIPCO in Jordan at a nett funding level of US \$102,855. When the project was prepared, incremental operating savings were calculated in accordance with the relevant decision (Decision 17/5) on the basis that the enterprise was filling its own aerosol cans. The enterprise subsequently advised the World Bank that it was also working as a 'contract filler' for other enterprises, in which case there would not be incremental operating savings for that proportion of the enterprise's activities. The enterprise declined to proceed with the project as approved. After negotiations, the World Bank advised that Jordan wished to either bring forward a proposal for additional funding of some US \$73,000, or cancel the project, return the funds, but request preparation of a new project. The new project would be for the same enterprise, but operating costs/savings would be calculated on the basis of the activities in which the enterprise says it is actually engaged, i.e. the operating savings would be reduced and the level of grant correspondingly increased. The Executive Committee might consider whether it wishes to provide any guidance on this matter.

33. There are indications that, in the future, the Executive Committee could expect to see a greater number of aerosol projects emanating from 'contract fillers,' i.e., without the same level of incremental operating savings. There will be a need for the status of the enterprises as contract fillers to be fully corroborated in project documentation to ensure that incremental operating costs or savings are calculated on the correct basis.

34. Additionally if assistance from the Multilateral Fund is to be provided in a cost-effective way to smaller aerosol enterprises, there will be a need for emphasis to be placed on development of terminal umbrella projects as have already been approved for Malaysia and China.

Proposals for change in Technology

35. Two proposals have been received from implementing agencies to change technology in approved projects: from UNIDO, a commercial refrigeration project in Brazil at Electrofrío S.A, approved at the 20th Meeting; from the World Bank, a flexible foam project in China at Chengdu Plastic No. 7 also approved at the 20th Meeting. Each of the projects was approved before Decision 22/69 on technology transfer was taken by the Executive Committee. No additional

costs are being sought for either project. The two proposals do not raise any policy issues. Therefore, in accordance with Decision 22/69 the Secretariat and the implementing agencies have concluded that in each case the change of technology can proceed. In order to notify the Committee, as required by the decision, the letters of request from the two agencies together with the cover sheet for each proposal are reproduced in Annex II.

The MAC sector in China

36. The World Bank has developed a proposal to complete the phase out of the MAC sector in China. In its current form the proposal is in the form of a terminal umbrella project covering separate projects for 12 individual enterprises involved in manufacturing or assembling MAC components. The projects were originally submitted to the 25th Meeting for funding, but are being deferred. However, a detailed brief is included as Annex III to this paper so that the Executive Committee can be advised of the relevant issues. On the basis of the brief, the Executive Committee might wish to provide guidance on future development of the proposal.

ANNEX I**PROJECTS FOR INDIVIDUAL CONSIDERATION**

Evaluation sheets containing the comments of the Fund Secretariat on the issues involved are included in the country project document.

METHYL BROMIDE DEMONSTRATION PROJECTS

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
Botswana	UNEP/OzL.Pro/ExCom/25/26	Demonstration project - three alternatives to the use of methyl bromide: non-soil cultivation techniques, bio-fumigation with solarization, and application of various mixtures of other chemicals in low doses in tomatoes and cucurbits	UNIDO
Cameroon	UNEP/OzL.Pro/ExCom/25/28	Demonstration project - two alternatives to the use of methyl bromide: non-soil cultivation techniques and application of various mixtures of other chemicals in low doses in tobacco	UNIDO
Chile	UNEP/OzL.Pro/ExCom/25/29	Demonstration project for testing methyl bromide alternatives in soil treatment applications for tomatoes and peppers	IBRD
Croatia	UNEP/OzL.Pro/ExCom/25/32	Demonstration project: 3 alternatives to the use of methyl bromide in tobacco production, namely: solarization plus bio-fumigation, the use of low-dose chemicals, and non-soil cultivation, all in combination with an integrated pest management programme	UNIDO
Jordan	UNEP/OzL.Pro/ExCom/25/37	Demonstration project: four alternatives to the use of methyl bromide: solarization plus bio-fumigation, steam pasteurization, non-soil combination with an integrated pest management (IPM) in cucumbers and tomatoes	UNIDO
Mexico	UNEP/OzL.Pro/ExCom/25/39	Demonstration project: alternatives to the use of methyl bromide in the cultivation of tomatoes, strawberries, tobacco, melons, and cut flowers	UNIDO
Thailand	UNEP/OzL.Pro/ExCom/25/47	Demonstration project: alternatives to the use of methyl bromide in grain storage (rice, maize, tapioca, feed grains and pulses)	UNIDO
Turkey	UNEP/OzL.Pro/ExCom/25/51	Demonstration project: alternatives to the use of methyl bromide as soil fumigant in protected horticulture (tomatoes and cucumbers) and ornamental (carnations) crops.	UNIDO
Uruguay	UNEP/OzL.Pro/ExCom/25/52	Demonstration project: alternatives to the use of methyl bromide as a soil fumigant in protected horticultural crops (cucumbers and peppers), seedbeds, and nurseries (vegetables, tobacco and forestry)	UNIDO

THE FOAM SECTOR

Polyethylene foam:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
China	UNEP/OzL.Pro/ExCom/25/30 and Add.1	Elimination of CFC-12 in manufacturing of EPE foam packaging nets at 25 enterprises (umbrella project)	UNIDO

Urethane grade methylene chloride:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
China	UNEP/OzL.Pro/ExCom/25/30 and Add.1	Conversion of PU slabstock manufacture to forced cooling and methylene chloride at Wuxi New Type Raw Material Plant	IBRD
China	UNEP/OzL.Pro/ExCom/25/30 and Add.1	Conversion from CFC-11 to methylene chloride and forced cooling system in the manufacture of flexible polyurethane foam (slabstock) at Cangzhou New-Type Foam Decoration Material Plant	UNDP

Incremental operational costs and the applicability of 10% additional foam to improve stability and insulation:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
China	UNEP/OzL.Pro/ExCom/25/30 and Add.1	Conversion to HCFC-141b in the manufacture of rigid and spray polyurethane foams at Daqing Petroleum Organization Bureau	UNDP
China	UNEP/OzL.Pro/ExCom/25/30 and Add.1	Conversion of rigid and spray polyurethane foam manufacture from CFC-11 to HCFC-141b foam blowing agent at Victory Petroleum Organization Bureau	UNDP

Installation of an in-line premixer:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
Malaysia	UNEP/OzL.Pro/ExCom/25/38 and Add.1	Conversion to water based and HCFC-141b technology in the manufacture of polyurethane foam at Grorich	UNDP
Malaysia	UNEP/OzL.Pro/ExCom/25/38 and Add.1	Conversion to water based and HCFC-141b technology in the manufacture of polyurethane foam at Minply	UNDP

Projects with specific issues:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
Thailand	UNEP/OzL.Pro/ExCom/25/47 and Add.1	Conversion to water based and HCFC-141b technology in the manufacture of polyurethane foam at World Plaster/Euro Plan Furniture Co.	UNDP

THE REFRIGERATION SECTOR

Technology transfer, trials and training issues:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
India	UNEP/OzL.Pro/ExCom/25/35	Elimination of CFC-11 and CFC-12 converting to HCFC-141b and HFC-134a in the manufacture of commercial refrigeration equipment at Prashant Refrigeration Appliances	IBRD
India	UNEP/OzL.Pro/ExCom/25/35	Elimination of CFCs in the manufacture of commercial refrigeration equipment at Sandeep Refrigeration	IBRD

Incremental costs in projects already implemented:

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
Turkey	UNEP/OzL.Pro/ExCom/25/51	Conversion from CFC-11 and CFC-12 into cyclopentane and HFC-134a for domestic refrigerators -incremental operating costs at Peg Profilo Elektrikli Gereçler Sanayii A.S.	IBRD
Turkey	UNEP/OzL.Pro/ExCom/25/51	Conversion from CFC-11 and CFC-12 into cyclopentane and HFC-134a for commercial refrigerators -incremental operating costs at Klimasan Klima Sanayii ve Ticaret A.S.	IBRD
Turkey	UNEP/OzL.Pro/ExCom/25/51	Conversion from CFC-11 and CFC-12 into cyclopentane and HFC-134a for domestic refrigerators -incremental operating costs at Arcelik	IBRD

Projects with specific issues

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
China	UNEP/OzL.Pro/ExCom/25/30	Conversion of refrigerator manufacture in Changhe Group to HFC-134a as refrigerant and cyclopentane as foam blowing agent.	IBRD
China	UNEP/OzL.Pro/ExCom/25/30	Conversion to cyclopentane and isobutane in the manufacture of domestic refrigerators at Hangzhou Household Electrical Appliance Industrial Corporation (HHEAIC)	UNDP
Thailand	UNEP/OzL.Pro/ExCom/25/47	Umbrella project to convert CFC-12 commercial refrigeration to HFC-134a, and CFC-11 to HCFC-141b as the blowing agent for foam insulation at 224 small and medium sized enterprises.	IBRD
Turkey	UNEP/OzL.Pro/ExCom/25/51	Conversion project from CFC-12 into HFC-134a and HFC-404a for commercial refrigeration at Saffar	IBRD

THE SOLVENT SECTOR

COUNTRY	DOCUMENT NUMBER	PROJECT TITLE	AGENCY
Sri Lanka	UNEP/OzL.Pro/ExCom/25/45	National programme for the replacement of carbon tetrachloride with n-butane in the activated carbon industries (6 companies)	UNDP