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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-ninth Meeting
Bangkok, 3-7 July 2017

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

1. This document consists of the following sections:

   (a) An analysis of the number of projects and activities submitted by bilateral and implementing agencies to the 79th meeting;

   (b) Issues identified during the project review process:

      (i) Submission of investment projects for the phase-down of HFCs pursuant to decision 78/3(g);

      (ii) Retrofit of equipment designed for non-flammable refrigerants with flammable alternatives;

      (iii) Regulatory measures to ensure sustainability of complete phase-out of HCFCs in manufacturing sectors assisted by the Multilateral Fund;

   (c) Blanket approval:

      (i) Verification reports of low-volume-consuming (LVC) countries' compliance with their HPMP agreement;

      (ii) Projects and activities submitted for blanket approval; and

   (d) Investment projects for individual consideration.

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issuance of the document.

Projects and activities submitted by bilateral and implementing agencies

2. Bilateral and implementing agencies submitted to the 79th meeting 90 funding requests for tranches of approved multi-year agreements, projects and activities amounting to US $72,147,747 (US $354,848,615 including amount requested in principle) including agency support costs where applicable. The funding requests covered:

(a) Stage II of the HCFC phase-out management plan (HPMP) for three non-LVC countries and one for LVC country;

(b) Stage II of the HCFC phase-out management plan (HPPMP) for China (to be considered by the Sub-group on the Production Sector);

(c) Tranches of approved HPMPs for 15 countries;

(d) Renewals of institutional strengthening (IS) projects in 20 countries;

(e) Project preparation for stage II of the HPMP/HCFC phase-out investment activities for two countries;

(f) Project preparation for HFCs activities for 10 countries;

(g) Two investment projects for the phase-out of HFC-134a in two enterprises of the domestic refrigeration sector in Bangladesh and Colombia in line with decision 78/3(g);

(h) One investment project to phase-out HCFCs in two enterprises in the extruded polystyrene (XPS) foam sector in Mexico pursuant decision 77/25; and

(i) Draft Agreement for the implementation of stage II of the HPMP between the Executive Committee and the Government of China as per decision 77/49.

3. Following the project review process, 35 projects and activities totalling US $4,345,906 including agency support costs, are recommended for blanket approval, and 30 projects and activities totalling US $68,801,299, of which US $54,341,760 is for China's HPPMP and US $5,198,070 for HFC-related projects (US $313,266,391 including amount requested in principle, of which US $283,272,000 is for China's HPPMP) are being forwarded for individual consideration. Together, the projects for blanket approval and those for individual consideration amount to US $73,147,205.

IS renewal requests

4. The Secretariat reviewed the terminal reports and requests for extension of IS funding for 20 countries against relevant decisions including decision 74/51(c) on the funding level for IS projects and renewals, and decision 74/51(e) on the need to include performance indicators for planned activities. All requests were cross-checked against: previous IS reports; progress reports on the implementation of country programmes; data reported under Article 7 of the Montreal Protocol; the latest reports on implementation of HPMPs; bilateral and implementing agencies' progress reports submitted to the 79th meeting; and relevant decisions on compliance adopted by the Parties to the Montreal Protocol.

5. During the project review process, issues associated with the renewal of institutional strengthening projects for seven countries (Comoros phase X, Djibouti phase VII, Guinea phase X, Kenya phase XI, Mauritania phase VI, Palau phase VII, and Uganda phase III), could not be resolved on time, and therefore, these projects were withdrawn by UN Environment. The reasons for the withdrawal

included currently having two ongoing projects and/or no reported expenditures of advanced funds for the current phase[1].

HPMPs submitted and subsequently withdrawn

6. During the project review process, issues associated with stage II of the HPMP for the Philippines at a cost of US $3,703,544 (including agency support costs) and the tranche requests of stage I of the HPMPs for Barbados (second tranche), Burkina Faso (third tranche), the Democratic Republic of the Congo (third tranche) and Qatar (third tranche) at a cost of US $1,363,154 (including agency support costs) could not be addressed on time, and therefore, were withdrawn by the relevant lead implementing agencies. The reasons for the withdrawal of these tranches are described in the document on tranche submission delays[2], and summarized below:

(a) Stage II of the HPMP for the Philippines was deferred due to a number of reasons including the need to change their baseline data as agreed at the 68th meeting, the lack of verification of the 2015 HCFC consumption, and outstanding issues related to delayed implementation of stage I being implemented by UN Environment. During the project review process issues related to discrepancies in consumption data as it related to funding the conversion project in the AC sector were identified and are still under discussion;

(b) The request of Barbados was withdrawn due to the lack of progress and non-availability of a verification report;

(c) The request for Burkina Faso was withdrawn since HCFC consumption verification reports for 2016 was not submitted; outstanding issues in connection with adjustments to the starting point for sustained aggregate reduction in HCFC consumption, which will result in the revision of the funding levels, the HPMP strategies and associated activities and the corresponding agreement for stage I;

(d) The request for the Democratic Republic of the Congo was withdrawn since HCFC consumption verification reports for 2013, 2014, 2015 and 2016 were not submitted. The Secretariat had raised issues in connection with adjustments to the starting point for sustained aggregate reduction in HCFC consumption based on the verified consumption. In that case, revision of the funding levels, the HPMP strategies and associated activities and the corresponding agreement for stage I would be required; and

(e) The request for Qatar was withdrawn due to issues related to the conditional approval for their request to combine the 2nd and 3rd tranches of stage I of their HPMP and the pending signature of the Agreement between the Government and United Nations Environment Programme (UN Environment).

Funding withheld pending submission of verification reports or meeting specific conditions

7. At the 77th meeting, the Executive Committee urged UN Environment, UNIDO and the Governments of Haiti, Sao Tome and Principe, and South Africa to submit their HCFC consumption verification reports as soon as possible, and UN Environment and the Governments of Chile and Honduras to sign agreements for the implementation of their HPMP plans as soon as possible, so that activities could be implemented without further delay[3]. As of May 2017, all the outstanding conditions in these countries have been fulfilled resulting in the disbursement of funds by the Treasurer to the relevant

[1] Two ongoing projects and no expenditures reported for funds advanced: Comoros, Djibouti and Kenya; no expenditures reported for funds advanced: Guinea, Mauritania, Palau and Uganda

[2] UNEP/OzL.Pro/ExCom/79/18.

[3] Decision 77/34.

implementing agencies. The only outstanding case was South Africa, for which an independent verification of HCFC consumption in 2013, 2014 and 2015 was submitted on 23 May 2017 and found satisfactory. Accordingly, the Secretariat has requested the Treasurer the transfer of funds to the relevant agency.

8. At the same meeting, the Executive Committee also requested the Treasurer to withhold funding for the fourth tranche of stage I of the HPMP for Saudi Arabia[4] pending the receipt of a comprehensive report demonstrating that the conditions specified in Appendix 8-A of the Agreement had been met. As of the time of issuance of the present document, the Secretariat had not received confirmation that these conditions have been met.

Issues identified during project review

Submission of investment projects for the phase-down of HFCs pursuant to decision 78/3(g)

Background

9. At the 78th meeting, the Executive Committee considered a document which presented information relevant to the development of criteria for funding the phase-down of HFCs[5] which was prepared in line with decision 77/59. During the discussion, it was pointed out that additional information from various sources was required to be able to reach a decision on eligible incremental costs.[6] In order to obtain such information, the Executive Committee through decision 78/3(g), agreed "to consider approving a limited number of HFC-related projects in the manufacturing sector only, without prejudice to different kinds of technology, no later than at the first meeting of 2019, to allow the Committee to gain experience in the ICCs and IOCs that might be associated with phasing-down HFCs in Article 5 countries, on the understanding that: any Article 5 country that submitted a project should have ratified the Kigali Amendment or submitted a formal letter indicating the government's intention to ratify the Amendment; no further funding would be available until the instrument of ratification had been received by the depositary at the Headquarters of the United Nations in New York; and any amount of HFC reduced as a result of the project would be deducted from the starting point".

Submissions to the 79th meeting

10. In response to decision 78/3(g), the following projects were submitted to the 79th meeting:

(a) Funding requests for the preparation of eight investment/demonstration projects on the conversion of enterprises using HFC in five countries, described in the respective work programmes of UNDP[7] and UNIDO;[8]

(b) Two requests for the funding of fully developed HFC-related investment projects (in Bangladesh[9] and Colombia[10]) to replace the use of HFC-134a used in domestic refrigeration manufacturing with R-600a, including a compressor component for Bangladesh.

11. These requests are summarized in Table 1 below:

[4] Decision 77/54(f).
[5] UNEP/OzL.Pro/ExCom/78/5 and Corr.1
[6] The full text of the discussion on this particular item is contained in paragraphs 51 to 55 of document UNEP/OzL.Pro/ExCom/78/11.
[7] UNEP/OzL.Pro/ExCom/79/21.
[8] UNEP/OzL.Pro/ExCom/79/23.
[9] UNEP/OzL.Pro/ExCom/79/28.
[10] UNEP/OzL.Pro/ExCom/79/31.

Table 1. Overview of submissions of HFC-related projects in the manufacturing sector

Country	Project title	Agency	Funding requested (US $)
Project preparation			
Ecuador	Project preparation for HFC-related projects in the manufacturing sector at Ecasa and Indurama enterprises to gain experience in incremental capital costs (ICCs) and incremental operating costs (IOCs) associated with the replacement of HFC-134a with R-600a in self-contained commercial refrigeration equipment	UNIDO	60,000
Lebanon	Project preparation for HFC-related project in the manufacturing sector at Lematic Industries to gain experience in ICCs and IOCs associated with the replacement of HFC-134a with R-600a in domestic refrigeration manufacturing	UNIDO	30,000
Mexico	Project preparation for HFC-related projects in the manufacturing sector at Fersa and Imbera enterprises to gain experience in ICCs and IOCs associated with the replacement of HFC-134a with R-290 and R-744 in self-contained commercial refrigeration equipment	UNIDO	60,000
Viet Nam	Project preparation for HFC-related projects in the manufacturing sector at Nagakawa Vietnam Company to gain experience in ICCs and IOCs associated with replacement of HFC-134a with R-290 in self-contained commercial refrigeration equipment	UNIDO	30,000
China	Project preparation for air-conditioning and production line optimization from HFC-134a to HFO-1234yf as refrigerant in a mobile air-conditioning (MAC) manufacturer	UNDP	30,000
China	Project preparation for conversion from HFC-245fa to HFO as a foam agent in a refrigerator manufacturer	UNDP	30,000
China	Project preparation for conversion from HFC-134a to HC-290 in a freezer manufacturer	UNDP	30,000
Mexico	Project preparation for a demonstration project for HFC-134a phase-out in the production of refrigerators at Mabe Mexico	UNDP	30,000
	Sub-total		**300,000**
Investment projects			
Bangladesh	Conversion of production of domestic refrigerators using HFC-134a as a refrigerant with R-600a, and conversion of compressor manufacturing facility to produce refrigerator compressors for using R-600a at Walton Hitech Industries Limited	UNDP	4,936,508
Colombia	Conversion of production of domestic refrigerators using HFC-134a as a refrigerant with R-600a at Mabe	UNDP	3,829,157
	Sub-total		8,765,665
	TOTAL		9,065,665

Review of the submissions by the Secretariat

12. The Secretariat reviewed the project preparation requests and the two investment projects taking into consideration existing policies and guidelines of the Executive Committee and the criteria set out in decision 78/3, namely the submission of a letter from the Governments concerned indicating the government's intention to ratify the Kigali Amendment; that no further funding would be available until the instrument of ratification had been received by the depositary at the Headquarters of the United Nations; and that any amount of HFC reduced as a result of the project would be deducted from the starting point.

13. Letters of commitment from all countries concerned were received fulfilling the criteria of decision 78/3(g). The level of funding requested for project preparation was consistent with existing guidelines (i.e. US $30,000 for one enterprise and US $60,000 for two enterprises to be converted in the manufacturing sector) and that the submissions contained sufficient detail to allow consideration of these requests.

14. The Secretariat undertook a detailed review of the investment projects. Comments were sent to the implementing agencies followed by discussions to further clarify technical issues, with a view to providing the Executive Committee with an overall understanding of the potential incremental costs associated with the submitted projects. This information is contained in the individual project documents presented at this meeting.

15. The Executive Committee may also wish to note that the requests for these projects were not included in the 2017-2019 business plan of the Multilateral Fund, and are not required by these Article 5 countries to meet compliance with any Montreal Protocol measure. The Secretariat also noted that no funding was allocated in 2017 for activities related to HFCs in the current triennium.

Secretariat's recommendation

16. The Executive Committee may wish to consider the investment projects to replace the use of HFC-134a used in domestic refrigeration manufacturing with R-600a in Bangladesh and Colombia and the funding requests for the preparation of investment/demonstration projects to phase-down HFC in China, Ecuador, Lebanon, Mexico, Vietnam in light of decision 78/3(g), noting that no funding was allocated in the current triennium for those activities.

Retrofit of equipment designed for non-flammable refrigerants with flammable alternatives

17. In reviewing the funding tranche requests for HPMPs submitted to 79th meeting, the Secretariat requested information on whether retrofit of equipment designed for non-flammable refrigerants with flammable alternatives was carried out or planned to be carried in the servicing sector. When no such retrofit activities are confirmed to occur, the projects have been recommended for blanket approval. Only in two cases (Belize[11] and Namibia[12]) information was obtained about this practice taking place in the past before decision 72/17. In both cases it was reported that upon this decision was adopted, no retrofit of equipment designed for non-flammable refrigerants with flammable alternatives was carried out or planned to be carried out as part of the HPMPs.

Regulatory measures to ensure sustainability of the complete phase out of HCFCs in manufacturing sectors assisted by the Multilateral Fund

Background

18. The complete phase-out of HCFCs in a manufacturing sector has generally been supported by regulatory measures that ensure the sustainability of the phase-out, namely a ban on both the imports and use of the substance phased out in the specific manufacturing sector[13]. These measures serve to ensure that as soon as the investment projects are completed, no manufacturing capacity based on the phased-out substance would be allowed for that sector at any time, to support those enterprises that have converted to alternatives with financial assistance from the Multilateral Fund. Without such measures, new or

[11] UNEP/OzL.Pro/ExCom/79/29.
[12] UNEP/OzL.Pro/ExCom/79/37.
[13] As an example, decision 61/47 related to the assistance to address HCFC-141b contained in imported pre-blended polyols includes a condition to include in the sector plan a commitment from the country to put in place, by the time the last foam manufacturing plant had been converted to a non-HCFC technology, regulations or policies banning the import and or the use of HCFC-141b pre-blended polyol systems.

non-eligible enterprises could continue using HCFCs potentially undermining the sustainability of the conversions.

19. The already approved sector plans associated with HPMPs (e.g., Brazil, Chile, China, Colombia, India, Islamic Republic of Iran, Malaysia, Saudi Arabia and South Africa) and several of the submissions to the present meeting (e.g., Argentina and Egypt) have included a ban on both the import and the use of such substances for the sectors where funding has been or will be provided.

20. In reviewing the project proposals submitted to the 79th meeting, it was noted that in the case of the proposal to completely phase out the use of HCFC-142b in the manufacture of XPS foam in Mexico, the Government will not issue import quotas for HCFC-142b from 1 January 2020, but did not propose a ban the use of HCFCs in the XPS manufacturing sector when these projects are completed. Although HCFC-142b will be banned from 1 January 2020, XPS foam can be manufactured with other blowing agents, e.g., HCFC-22 alone or blended with other non-HCFC-142b blowing agents. This issue was discussed with UNDP, which explained that a current energy efficiency standard in Mexico would prevent the use of HCFC-22 as a blowing agent in the XPS sector given its poor insulation performance as compared to HCFC-142b. Notwithstanding this explanation, the Secretariat emphasized the importance to clearly put in place a ban on the use of HCFCs and their blends for manufacturing XPS foam to sustain the conversion of the project. The Secretariat was informed that this approach was not possible because of the existing legal framework established in Mexico. While the Secretariat is cognizant that the legal systems operate differently in each country, it is important to reiterate the need to consider the appropriate measures to ensure the sustainability of the phase-out of HCFCs in any manufacturing sector funded by the Multilateral Fund.

Secretariat's recommendation

21. The Executive Committee may wish to consider requesting bilateral and implementing agencies together with Article 5 countries when preparing a request of funding for complete HCFC phase-out plans in manufacturing sectors to include the necessary regulatory measures to ensure the sustainability of the complete HCFC phase out in the sector, including policies banning the import and/or the use of HCFC for the specific sector.

Projects and activities submitted for blanket approval

22. This section presents verification reports of LVC countries' compliance with their HPMP agreement and the projects and activities submitted for blanket approval

Verification reports of LVC countries' compliance with their HPMP agreement

23. In line with decision 61/46(c)[14], the Secretariat selected a sample of 15 countries for the purpose of verifying compliance with the HPMP agreement, as shown in Table 2. While these countries have in the past been selected using the criteria of geographic distribution, level of consumption and distribution among bilateral and implementing agencies, and the proximity of the next tranche; given that so far 68 countries have already been selected for verification, there is only a limited number of countries to select. The main criteria used to select the countries at this meeting were the proximity of the next tranche (between 2018 and 2020) and that the country had not been selected before for verification. The countries selected are classified as follows:

(a) Geographical distribution of the countries (nine in Africa, five in Asia, one in Latin

[14] The Secretariat was requested to provide, at the first meeting of each year, a list representing 20 per cent of countries with an HCFC consumption baseline of up to 360 metric tonnes (mt), and with an approved HPMP, to approve funding for them for the purposes of verification of that country's compliance with the HPMP agreement for that year.

America and the Caribbean);

(b) Level of HCFC consumption among countries (i.e., 10 countries with an HCFC consumption baseline below 100 mt; and five countries with a consumption baseline above 100 mt);

Table 2. Sample of Article 5 countries for verification of compliance with their HPMP agreement

No.	Country	HCFC baseline (mt)	Lead/cooperating agency	Next tranche request
1	Belize	49.86	UN Environment	2020
2	Botswana	200.10	UN Environment/UNIDO	2018
3	Comoros	2.48	UN Environment	2018
4	Djibouti	11.73	UN Environment	2018
5	Eritrea	19.71	UN Environment/UNIDO	2020
6	Gabon	*548.95	UN Environment	2018
7	Guinea-Bissau	26.00	UN Environment/UNIDO	2020
8	Oman	*559.77	UNIDO/UN Environment	2018
9	Palau	2.97	UN Environment	2020
10	Samoa	4.60	UN Environment	2020
11	Solomon Islands	35.05	UN Environment	2020
12	Sudan	*588.00	UNIDO	2018
13	Tanzania	30.86	UN Environment/UNIDO	2020
14	Togo	*362.59	UN Environment/UNIDO	2018
15	Tonga	2.55	UN Environment	2020

* Baseline consumption is above 360 mt but for the purpose of funding the country continued to be treated as an LVC country.

Secretariat's recommendation

24. The Executive Committee may wish to request relevant bilateral and implementing agencies to include in their respective amendments to the work programmes for submission to the 80th meeting, funding for verification reports for stage I of the HPMPs in the amount of US $30,000, plus agency support costs, for each of the Article 5 countries listed in Table 1.

Projects and activities submitted for blanket approval

25. Annex I to the present document lists 35 projects and activities totalling US $4,345,906 including agency support costs that are recommended for blanket approval. The approval of these projects would include the relevant conditions or provisions in the corresponding project evaluation sheets as well as the approval of implementation programmes associated with the relevant tranches of multi-year projects.

Investment projects for individual consideration

26. Thirty projects/activities totalling US $68,801,299 including agency support costs, of which US $54,341,760 is for China's HPPMP and US $5,198,070 for HFC-related projects (US $313,266,391 including amount requested in principle, of which US $283,272,000 is for China's HPPMP), after the review by the Secretariat, are proposed for individual consideration. To facilitate the Executive Committee's consideration of the investment projects for individual consideration, the Secretariat has classified the projects by sector, and has grouped them according to the issues, as shown in Table 3. Table 3 also includes a section on individual investment projects to phase out HFCs as per decision 78/3(g).

Table 3. Projects submitted for individual consideration

Country	Project	Agency	ExCom	Issue
Stage II of HPMPs				
Angola	HCFC phase-out management plan stage II - first tranche	UNDP	79/26	All technical and cost issues resolved; stage II of an HPMP
Argentina	HCFC phase-out management plan stage II - first tranche	UNIDO (Lead)/ World Bank/Italy	79/27*	All technical and cost issues resolved; stage II of an HPMP
Egypt	HCFC phase-out management plan stage II - first tranche	UNIDO (Lead)/ UNDP/ UN Environment /Germany	79/32	All technical and cost issues resolved; stage II of an HPMP
Stage II of the HPMP for China				
China	HCFC phase-out management plan stage II – Draft agreement between the Executive Committee and the Government of China	UNDP (Lead)/ UN Environment/ UNIDO/World Bank/ Germany/Italy/Japan	79/30	Penalty clause and deadline for submission of tranches with a value below US $5 million
Individual investment project to phase out HCFCs				
Mexico	HCFC phase out in extruded polystyrene (XPS) foam plank applications	UNDP	79/36	Use of flexibility clause of stage I of the HPMP to reallocate savings in the PU foam to convert two XPS foam enterprises to HFO-1234ze. Ban on use of HCFCs in XPS foam manufacturing
Individual investment project to phase out HFCs				
Bangladesh	Conversion of reciprocating compressor of HFC-134a to inverter based on high energy efficient compressor in two enterprises	UNDP	79/28	HFC phase-down project pursuant decision 78/3(g)
Colombia	Conversion from HFC-134a to isobutane in the manufacture of domestic refrigerators at Mabe	UNDP	79/31	HFC phase-down project pursuant decision 78/3(g)

*Document also includes a tranche request for stage I of the HPMP, which is for blanket approval.