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OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

The attached paper outlines issues identified during project review and also certain other issues for consideration at this meeting.

Possible Shortfall in Funding

1. At the time of preparation of this revised overview, the funds available to the Multilateral Fund stood at US $82.25 million. 147 activities and projects are being presented to the Executive Committee with a total value of US $93.76 million. The Secretariat is recommending approval of some US $77 million.

2. Depending upon recommendations of the Sub-Committee on Project Review, a balance of about US $5 million or a shortfall amounting to about US $11 million would be realized.

3. If all available funds are authorized by the Executive Committee for transfer to approved projects and activities at the Fifteenth Meeting, there may be little or no funding available at the Sixteenth Meeting to meet the needs of implementing agencies' 1995 work programmes and for investment projects. The Executive Committee may need to consider whether some funding ought to be withheld to ensure availability of funding for implementing agencies' 1995 work programmes, since historically, the rate of receipt of contributions to the Fund in the first quarter of the calendar year is slow.

4. If funding is withheld for this purpose, without prejudice to any future arrangements the Executive Committee might make concerning the level of funding in relation to the value of possible future project proposals, the Executive Committee may need to consider what arrangements should pertain at the Fifteenth Meeting for the allocation of available funds.

Sequential Funding

5. The Secretariat has discussed with the implementing agencies options for the sequential funding of projects. Under a system of sequential funding, the full project cost would not be transferred to the agency concerned upon approval of the project. This would reduce the call on funds and, over time, the balance of unused funds held by the agencies.

6. The implementing agencies have acknowledged that, in principle, an arrangement of this nature would be feasible although an amendment to the agreement between the agency and the Executive Committee would be needed. A level of initial funding of 20 per cent was taken as a starting point. UNIDO has indicated in each of the projects it submitted its acceptance of the 20 per cent funding, and a disbursement schedule for receipt of the remainder. UNDP and the World Bank were requested to do the same.

7. Under such an arrangement, budgeting for the Fund would be more complex, requiring consideration in future years of provision for continuing funding of approved projects and the division of resources between approved and new projects.

8. Any such arrangements would need detailed investigation, including meeting the requirements of Terms of Reference of the Multilateral Fund itself.

Project Proposals

9. In total, 101 investment projects have been presented for consideration at the Fifteenth Meeting. For the great majority, any outstanding issues have been resolved and approval is recommended by the Fund Secretariat at the level of funding proposed. The Sub-Committee on Project Review may wish to direct its attention to those projects for which outstanding issues remain and recommend blanket approval for other projects, in line with the decision of the Eleventh Meeting that "Projects for which all issues had been resolved in advance of Committee Meetings might be submitted for blanket approval."

Technology Upgrades

10. A number of projects submitted for consideration by the Executive Committee at the Fifteenth Meeting have components which the Secretariat, and in some cases, the implementing agencies, consider an upgrade of existing technology, not essential for conversion. These components are not eligible as incremental costs. Judgements will be needed on the proportion of project costs which are technology upgrades.

11. It can be expected that the issue of technology upgrade will continue to arise as more projects are developed, particularly in the refrigeration and air-conditioning, foam and mobile air-conditioning sectors. The Secretariat will work closely with the implementing agencies with the aim of identifying such issues as they emerge in the development of projects. This will avoid the situation of project proposals being substantively finalized, and in some cases, endorsed by Governments, before elements of non-compliance with established incremental cost guidelines are identified.

12. The Executive Committee may wish to request the Secretariat to consult with sector experts and implementing agencies on how to deal with this issue before the Sixteenth Meeting.

Technology Transfer Fees

13. Fees for the transfer of new technologies are sometimes a normal component of investment projects and are eligible as incremental costs. Six commercial refrigeration compressor projects in China have technology transfer fees associated with them (UNEP/OzL.Pro/ExCom/15/24). The sum of the fees proposed amounts to US $1.58 million. The fees provide for the transfer of technology for compressor designs covering a variety of size ranges, and the production of these designs at the enterprise for which each agreement has been negotiated. The projects are proposed to be replicated at a further 18 factories with additional technology transfer agreements.

14. The Executive Committee may wish to consider whether technology transfer fees should only be eligible as incremental costs for the first conversion project through which the technology is initially transferred, or should be negotiated to cover the entire sub-sector in which conversion is to take place.

15. In addition to technology transfer fees, royalties per unit of production have been proposed for the semi-hermetic and ammonia technologies. The Executive Committee may wish to consider the issue of paying royalties, and the implications for the Fund.

High Costs of Testing and Test Equipment

16. Several projects in the domestic refrigeration sub-sector have testing and test equipment components substantially higher than normally found in such projects. In each case the enterprise is part-owned by a multinational corporation. For each project the Secretariat has recommended that an increased proportion of the costs be borne by the enterprise. The Executive Committee may wish to request the Secretariat to work with sector experts and implementing agencies to establish a methodology for treatment of test equipment requirements in the domestic refrigeration sub-sector.

Incremental Savings in Halon Projects

17. Two projects for conversion of halon 1211 portable fire extinguisher manufacturing facilities have been submitted (China, UNEP/OzL.Pro/ExCom/15/24; Indonesia, UNEP/OzL.Pro/ExCom/15/28). In each case, where conversion is to ABC powder, incremental operating savings might exceed the capital costs. The Executive Committee is requested to give guidance to the implementing agencies on how to deal with projects for conversion of halon 1211 portable fire extinguishers.

50 per cent CFC-Reduced Foams

18. One project has been submitted for conversion of a domestic refrigeration plant in Brazil to use 50 per cent CFC-reduced foam (UNEP/OzL.Pro/ExCom/15/23). Approval has been recommended in the absence of any guidelines to the contrary, and because it is stated in the project proposal that no additional funding will be sought to make the later transition to non-CFC foam. Given the maturity of non-CFC foam technology, the Executive Committee might consider whether it is prepared to consider any further proposals for 50 per cent CFC-reduced foam.

2-Stage Phaseout in Domestic Refrigerator Foam

19. Several projects have been submitted to the Fifteenth Meeting for conversion of domestic refrigerator insulation foam. The two commonly available technologies, HCFC-141b and cyclopentane, are each represented. Conversion costs are frequently higher for cyclopentane, because of safety requirements arising from the use of a flammable agent. However, for cyclopentane technology, this is a once-only cost. Additional conversion costs might be required in due course to convert HCFC-141b plants to ODS-free technology.

20. Such costs could be modest, if the second transition is to another liquid-phase technology, for example using the so-called third generation HFCs now being evaluated. However, a second transition from HCFC-141b to cyclopentane could again mean substantial conversion costs. To

avoid undergoing two costly conversion processes, strategic judgements need to be taken when domestic refrigeration insulation foam projects are at the concept stage, as to whether the ultimate solution is intended to be cyclopentane or third generation HFCs.

21. As HCFCs are not controlled substances for Article 5 countries, incremental costs for conversion of HCFC-141b plants are not eligible for funding.

22. The Executive Committee may wish to request implementing agencies to take this issue into consideration when preparing projects for domestic refrigerator insulation foam conversion.

Intersessional Approvals

23. Previous meetings of the Executive Committee have emphasized the need to refine processes for the consideration of projects, to reduce as far as possible the time taken to gain approval from the Committee.

24. To this end, the Fifth and Fourteenth Meetings of the Executive Committee agreed to modalities for the intersessional approval of bilateral projects. The Eleventh Meeting agreed that projects from the implementing agencies could also be submitted for intersessional approval "on a non-objectional basis," but modalities were not established. One project from the World Bank and five bilateral projects were circulated to the members of the Executive Committee for intersessional approval between the Fourteenth and Fifteenth Meetings according to established guidelines. Some members suggested that the projects should be re-submitted to the Fifteenth Meeting for consideration. This has been done.

25. The Committee may wish to place emphasis, once again, on the usefulness of the intersessional approval process. The Committee may wish to establish modalities for intersessional approval of investment projects from the implementing agencies. The existing modalities for bilateral projects could be a useful starting point. The Committee may also see a need to consider ways to maintain a balance in the disbursement of funds if prioritization of projects and/or partial funding occurs at meetings of the Committee. One option would be to indicate an overall funding limit for projects submitted for intersessional approval, on a meeting-by-meeting basis.

Indicative Work Programmes for the Implementing Agencies in 1995

26. At a Coordination Meeting for Implementing Agencies held in Nairobi on 5 October 1994, the implementing agencies informed the Fund Secretariat that, given the short time available before the Fifteenth Meeting, they will only be able to submit indicative work programmes for 1995 to the Fifteenth Meeting of the Executive Committee.

27. All the implementing agencies have submitted an indicative work programme for 1995, for information purposes. These documents are attached to each Implementing Agency Work Programme document (e.g., UNEP/OzL.Pro/ExCom/15/12 for UNDP, 15/13 for UNEP, 15/14 for UNIDO and 15/15 for the World Bank).

28. The indicative 1995 work programmes represent a summary of the major programme elements for 1995 and a preliminary estimate of financing required. It should be noted, however, that the implementing agencies have indicated that these figures are the best estimate at this point in time and that the agencies do not wish to be bound by their preliminary estimates. Nonetheless, the Executive Committee may wish to request the implementing agencies to adhere to their projections under the 3-Year Plan and Budget.

29. During the coordination meeting, it was also suggested to move to an April-to-April planning cycle from the current January-December cycle. The major advantage of moving to the proposed cycle is that the agencies would have a twelve-month cycle for implementing their proposed activities, instead of the current nine to ten-month cycle. In addition, the agencies would have more time for better planning and coordinating their future activities. The proposed cycle, however, will differ from the financial cycle of the Multilateral Fund (e.g., January-December). The Executive Committee might consider whether a change in planning cycle should be examined in more detail.

Interest on Funds

30. UNDP has indicated in its progress report (UNEP/OzL.Pro/ExCom/15/8) that interest of US $559,861 has been accumulated from funds held by the Agency (US $202,851 for 1992 and US $357,010 for 1993). This amount is available for use against approved funding requirements. The Executive Committee might request UNDP to offset the amount against its proposed amendments to its 1994 work programme.

Review under Paragraph 8 of Article 5

31. The Draft Report on the Review under Paragraph 8 of Article 5 of the Montreal Protocol is being presented for consideration at the Fifteenth Meeting (UNEP/OzL.Pro/ExCom/15/40). The Draft Report must be provided to the Ozone Secretariat by 31 December 1994. The Executive Committee will need to give clear guidance on any issues which arise out of its consideration of the Draft Report so that any necessary amendments can be incorporated by the consultants, under the guidance of the Sub-Committee, without further reference to the Executive Committee.

Export of Products to non-Article 5 countries

32. A paper is being presented which addresses the issues associated with the eligibility for funding of that proportion of project cost which supports the export to non-Article 5 countries of products from the enterprise in question (UNEP/OzL.Pro/ExCom/15/41). The Executive Committee will need to consider a position on this issue to reach final decisions in relation to a number of projects submitted to the Fifteenth Meeting which have an export component. The Executive Committee decided at the Thirteenth Meeting that "no new projects could be presented to the Executive Committee until the policy issues [relating to exports] had been studied and decided upon..."

Expert Group on the Production of ODS Substitutes

33. Draft terms of reference for an expert group on the production of substitutes for ozone depleting substances have been prepared by the Secretariat on the basis of discussions between the Secretariat and a Panel of Experts on Friday, 28 October 1994. (UNEP/OzL.Pro/ExCom/15/42).

34. If endorsed by the Executive Committee, the draft terms of reference will provide for an expert group to advise the Executive Committee on operational policies and guidelines on various technical and economic issues associated with the production of substitutes for ozone depleting substances.

35. The expert group proposed is to have balanced representation from Article 5 and non-Article 5 countries. Article 5 and non-Article 5 members of the Executive Committee should consider the nomination of two experts from each group with special expertise in the areas listed in the draft terms of reference, who might be available to serve on the expert group.

Article 5 Countries' Needs for Controlled Substances

36. A Draft Report on meeting the needs of Article 5 Parties for controlled substances during the grace and phaseout period has been prepared for the Fifteenth Meeting (UNEP/OzL.Pro/ExCom/15/43 and Corr.1). The draft report presents the most current information on ODS consumption and production, assesses potential shortfalls and identifies means of meeting them. The report indicates that current levels of production in Article 5 countries are not sufficient to meet likely demand throughout all of the grace and phase-out period, but that allowable production levels in non-Article 5 countries are more than adequate to meet any shortfall.

37. To meet the requirements of Decision IV/29, a report on this issue is to be submitted to the Seventh Meeting of the Parties. The draft report is to be submitted to the Ozone Secretariat for distribution to the Parties on 31 December 1994.

Incremental Operational Cost Durations in the Domestic Refrigeration Sector

38. UNDP, UNIDO and the World Bank have submitted a draft paper on this issue as requested by the Executive Committee at the Thirteenth Meeting. (UNEP/OzL.Pro/ExCom/15/44).

39. The Executive Committee might wish to provide guidance on the options presented, to provide for equity in the treatment of projects in the domestic refrigeration sector.