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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-third Meeting
Montreal, 12-14 November 1997

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and Activities Presented to the 23rd Meeting

Submissions 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 23rd Meeting, is US $169,299,814, including US $14.69 millions for the 1998 Annual Programme - Sector plan for halon phaseout in China. The total is comprised of:

(a) Investment projects:

- 217 proposals for investment projects submitted to the 23rd Meeting with a total value, as submitted, of US $142,112,156.

(b) Bilateral cooperation:

- 22 project proposals were received from Canada, Finland, France, Germany, Switzerland, and United States of America, with a total value of US $6,522,026 as submitted.

(c) Work Programme Amendments (including advances on 1998 Work Programmes):

- Work Programme Amendment requests totaling US $5,975,632 of which US $1,303,082 has been proposed for country programme preparation and institutional strengthening projects and US $4,672,550 for project preparation and other activities.

(d) The 1998 Annual Programme - Sector plan for halon phaseout in China (US $14,690,000) has been submitted for the consideration of the Project Review Sub-Committee and the Executive Committee in conjunction with China's halon phaseout strategy.

Secretariat's Review of Proposed Projects and Activities

2. The review of project proposals by the Fund Secretariat has resulted in the following:

(a) Investment Projects:

- 172 project proposals with a total value of US $78,326,654 have been recommended for blanket approval.

- 15 project proposals with a total value of US $19,223,469 have been recommended for individual consideration by the Sub-Committee on Project Review (see Annex I)
- 11 project proposals with a total value of US $16,573,698 have been withdrawn or deferred.
- 19 project proposals with a total value of US $12,089,724 are still under discussion with the relevant implementing agencies, with the results of the discussion to be communicated to the Sub-Committee on Projects Review.

(b) Bilateral Projects:

- 17 bilateral projects with a total value of US $3,045,560 have been recommended for blanket approval.
- 1 bilateral projects with a value of US $193,526 has been recommended for individual consideration
- 4 bilateral projects with a value of US $706,998 have been withdrawn.

(c) Activities included in Work Programmes and Work Programme Amendments:

- 8 institutional strengthening projects and renewals with a total value of US $898,395 have been recommended for blanket approval
- 33 non-investment activities with a total value of US $3,034,050 have been recommended for blanket approval
- 17 activities with a total value of US $1,579,175 are still under discussion with the relevant implementing agency.

Status of the Fund

3. At the time of preparation of this paper, the balance of Multilateral Fund contributions available for commitment at the 23rd Meeting was US $59.1 millions.

Issues arising from Project Review

<u>Installation of additional ODS-capacity in enterprises which have received MLF funding</u>

4. After receiving assistance from the Multilateral Fund to phase out their existing ODS-based production capacity, it is assumed that enterprises will not add additional ODS capacity. However the Fund Secretariat is now seeing proposals from enterprises which have had

phase-out projects approved, seeking funding to phase out the additional CFC-based capacity which was added after the approval, but installed before 25 July 1995. If ODS capacity is being converted, there is no technological reason why new capacity should not also be ODS-free (or use transitional technology). Therefore, the Executive Committee might consider whether it wishes to give any priority for funding to projects for the conversion of additional ODS capacity in enterprises which have already received assistance from the Multilateral Fund.

Review of the boundary between domestic and commercial refrigeration sub-sectors

5. In reviewing many projects in the domestic and commercial refrigeration sub-sectors, the Fund Secretariat has observed that the present boundary between the sub-sectors is established by the use to which the refrigerators or freezers are put. Thus a small chest freezer or drink cabinet designed and manufactured in an identical way to a domestic refrigerator or freezer can be classified as commercial refrigeration in regard to cost-effectiveness thresholds and other Executive Committee policies and guidelines, if it is intended by the manufacturer to be sold for commercial purposes (for example to small food stores). Refrigeration equipment made using domestic refrigerator or freezer manufacturing technology is quite different in design, manufacturing method and cost to the individually constructed display cases and freezers made by small manufacturers, which were the items for which the commercial refrigeration sub-sector was established.

6. Additionally, in Decision 22/26 on guidelines for incremental operating costs for compressors, the Executive Committee decided that "the guidelines would apply independently to domestic and commercial projects" and that "further work may need to be done to accurately define domestic and commercial refrigeration". In this regard, it is necessary to differentiate between "domestic" and "commercial" refrigeration compressors, as well as between the two sub-sectors.

7. This issue has had an impact on two projects submitted to the 23rd meeting. In one refrigeration project in Argentina concerning manufacture of chest freezers and large refrigerators, the World Bank agreed to change the sector from commercial to domestic, inter-alia gaining access to the cost-effectiveness threshold discount for hydrocarbon technology. In a refrigeration project in Thailand, the incremental operating costs for the compressors (not sought at this meeting) may be affected by the classification of the project since domestic refrigeration compressor conversion has been fully funded in Thailand, but commercial refrigeration compressor conversion has not.

8. The technical issues involved have been discussed with the Co-chairs of the Refrigeration Technical Options Committee who have confirmed that a compressor capacity threshold may be used as the criterion to differentiate between domestic and commercial refrigeration compressors. They further asserted that the differences in technology and cost structure of the two sub-sectors are not consistent with the current boundary between them.

9. The Executive Committee might wish to request the Fund Secretariat to include an examination of the boundary between the domestic and commercial refrigeration sub-sectors in its work with the relevant implementing agencies on operationalising Decision 22/26. The Committee might also wish to agree that the examination should be based on the principle that the boundary should be established on the basis of the differences between the technology and cost structures of the two sub-sectors and not on the use to which the products are put by the buyer.

Compressor Prices

10. As evidenced by the need for Decision 22/26 on guidelines for incremental operating costs (IOCs) for compressors, the funding of such costs has significant implications for enterprises and for the Multilateral Fund. The incremental cost of the compressor itself is the other significant factor in IOC calculations. In the same way as a methodology has been developed to establish chemicals prices, a means is needed to establish compressor costs to obviate the need for validation of claimed costs by the Fund Secretariat on a case-by-case basis during projects review. The Executive Committee might wish to request the Fund Secretariat and the implementing agencies to develop an appropriate methodology.

Ownership by enterprises in countries reclassified as Article-5

11. At its seventh meeting the Executive Committee decided, *inter-alia*, that the Fund should not finance phase-out activities relating to enterprises that were wholly or partially owned subsidiaries of transnational corporations or enterprises permitted to operate in "free zones" and whose output was for export only. In Decision 20/5 the Executive Committee decided that projects involving transnationals owned by enterprises in countries that had been reclassified as Article-5 countries should be considered on a case-by-case basis taking into account paragraph (e) of decision VI/5 of the Parties.

12. Two projects submitted to the 23rd Meeting are partially owned by enterprises based in Singapore. The relevant implementing agencies have advised that the enterprises are not "transnationals". The Executive Committee might consider whether project costs should be discounted for ownership by enterprises and/or interests which are not recognized transnationals but which are also based in countries reclassified as Article-5.

MAC projects where CFC filling is the only activity

13. A project proposal was submitted for companies that receive fully assembled MAC systems and charge them with CFCs. The project includes capital costs for charging equipment and operating costs including training. This project is primarily for the servicing of MACs for which operating costs have not been provided in the past. Additionally, in Decision 17/60 the Executive Committee decided *inter alia* that project proposals in the MAC sector should emanate from the manufacturers of MAC units themselves, not the manufacturers of component parts. This is the first project submitted for this purpose and may constitute a precedent for future

projects. The Executive Committee might wish to consider whether the project is eligible for funding.

Methyl bromide demonstration projects

14. The 20th Meeting of the Executive Committee adopted interim guidelines on methyl bromide projects and allocated US $100,000 for preparation of project proposals on alternatives to methyl bromide. At its 22nd Meeting the Executive Committee approved four demonstration projects on alternatives to methyl bromide submitted by UNIDO. Two additional demonstration projects were submitted to the 23rd Meeting. The projects aim at demonstrating alternative technologies to methyl bromide, relying mainly on international experts.

15. It is evident from these projects that salaries for international and national consultants (excluding study tours) constitute a major portion of the total project costs. Salary costs can range from 51 to 75 per cent. The use of international resource persons as opposed to appropriately experienced local or regional resource persons is also a significant factor. In the light of the allocation for methyl bromide projects made by the Parties at their Ninth Meeting, the Fund Secretariat is seeking guidance from the Executive Committee as to whether the implementing agencies concerned should continue with the preparation of similar demonstration projects with the same cost structure.

Carry-over of Implementing Agencies' 1997 shares

16. From the outset of preparations for the 23rd Meeting, it had become evident from consultations between the implementing agencies and the Fund Secretariat that a significant proportion of the programmes of investment projects from some implementing agencies may contain policy or other issues which could result in the projects not being approved at the 23rd Meeting. Funding of the first part of the halon plan for China, submitted with the portfolio of the World Bank, is one example. At a coordination meeting on 20-21 August, the Fund Secretariat and the implementing agencies considered the proposition that agencies could submit to the 24th Meeting project proposals emanating from their 1997 business plans with funding requests amounting to the unused balance of their 1997 shares. The Fund Secretariat recommends that the Executive Committee give consideration to this course of action, in the light of the recommendations of the Sub-Committee on Project Review in regards to project approvals.

Projects with issues

17. The Fund Secretariat observes that more projects than usual appeared to test the limits of the policies and guidelines of the Executive Committee regarding eligibility and the calculation of incremental costs. For this reason, and due to the volume of projects, second only to the numbers submitted to the 17th Meeting, which were not all fully reviewed, the review process was time consuming and complex. The increasing level of technical knowledge and experience in project formulation of countries, implementing agencies and the Fund Secretariat may all be a

contributing factor since they can lead to more sophisticated funding requests and more knowledgeable scrutiny. Time and cost pressures in project preparation, and a possible thinning out of 'standard' projects, coupled with an increase in incidences where enterprises have little or no baseline equipment. Additionally, new, sophisticated technologies such as liquid carbon dioxide for foam blowing need careful examination and the development of relevant guidelines.

18. 16 projects with issues are listed for individual consideration in Annex 1. The projects have been fully reviewed by the Fund Secretariat and the relevant issues are explained in the Secretariat's evaluation sheets, reference to which is also provided in Annex 1.

19. Consideration of a number of these projects will be aided by prior recommendations on some of the issues raised earlier in this paper, or other policy issues on the agenda of the meeting . For instance, some projects, mainly in the refrigeration sector, are affected by cost issues relating to the level of baseline equipment in the enterprise; other projects will be considered on the basis of the draft guidelines for liquid carbon dioxide technology for flexible foam manufacture.

Issues identified in Work Programme Amendments

20. The Executive Committee's may wish to examine whether UNEP's interpretation of the division between "core" and "non-recurring" information exchange activities are consistent with the basis established by the Committee at its 21st Meeting.

Resource allocation

21. The value of projects and activities likely to be recommended for the approval of the Executive Committee at the conclusion of the meeting of the Sub-Committee on Project Review is expected to exceed by a substantial margin the funding available for commitment at the 23rd Meeting. This situation was foreshadowed during consideration of the three year business plan and has arisen from the decision of the Executive Committee to commit the entire unallocated portion of the 1994-1996 replenishment (US $74 million) for allocation in 1997. The Executive Committee might wish to consider whether projects with the best cost effectiveness in each relevant sub-sector should receive funding at the 23rd meeting (using the established 'percentile' methodology) with other projects to be cleared for approval, and request the Secretariat to authorize the intersessional transfer of funds by the Treasurer to the relevant implementing agencies once enough contributions have been received.

ANNEX I

PROJECTS FOR INDIVIDUAL CONSIDERATION BY THE SUB-COMMITTEE ON PROJECT REVIEW

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

Country & document No	Sector	Project title	IA
Bilateral requests: UNEP/OzL.Pro/ExCom/23/18	Refrigeration	Reconversion du materiel des industries frigorifiques au Liban - Elimination totale dans le secteur (Lebanon)	France
Cameroon: UNEP/OzL.Pro/ExCom/23/26	Foam	Phasing out CFC-11 at Sonopol	UNIDO
Cameroon: UNEP/OzL.Pro/ExCom/23/26	Foam	Phasing out CFC-11 at Scimpos	UNIDO
China: UNEP/OzL.Pro/ExCom/23/27	Solvent	Elimination of ODS (CFC-113) used in the production line at Fujian Putian Vikay Electronics Co. Ltd.	UNDP
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Revision of technical standards for non ODS products at Hefei General Machinery Research Institute (GMRI)	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Licensing and Quality Control at Hefei General Machinery Research Institute	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Conversion of test equipment at GMRI Hefei	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Technology transfer and support to projects on phaseout of CFCs in Chinese industrial & commercial refrigeration industry at Hefei General Machinery Research Institute (HGMRI)	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Conversion of CFC-12 MACs condenser to HFC-134a at Hubei Jingsha Electric Group	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Conversion of CFC-12 compressor assembly and machining line to HFC-134a at Mudanjiang Automotive Air Conditioning Factory (MDAFC)	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Conversion of CFC-12 compressor assembly line to HFC-134a Huada Zexel Automotive Air Conditioning Ltd.	IBRD
China: UNEP/OzL.Pro/ExCom/23/27	Refrigeration	Conversion of refrigerator manufacture to HFC-134a refrigerant and cyclopentane foam blowing agent at Henan Xinfei Electric Co. Ltd.	IBRD
Guyana UNEP/OzL.Pro/ExCom/23/31	Refrigeration	Phasing out ODS at Guyana Refrigerator Ltd., Guyana (GRL)	UNIDO
Iran UNEP/OzL.Pro/ExCom/23/34	Refrigeration	Phasing out ODS at Iran Compressor Manufacturing Company (ICMC)	UNIDO

Country & document No	Sector	Project title	IA
Thailand UNEP/OzL.Pro/ExCom/23/46	Refrigeration	Building chiller replacement program to reduce the usage of CFC-11 and CFC-12 in chiller servicing at Electricity Generating Authority of Thailand (EGAT)	IBRD
Turkey UNEP/OzL.Pro/ExCom/23/49	Foam	Conversion to non-CFC foam blowing agents in the production of polyurethane (PU) insulation panels, spray/in situ foam and one component foams at Izopoli Yapi Elemantari Taahhuet Sanayii ve Ticaret Ltd. Sti.	IBRD