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Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol

Nineteenth Meeting
Montreal, 8-10 May 1996

OVERVIEW OF POLICY ISSUES INCLUDING ISSUES IDENTIFIED DURING PROJECT REVIEW

Please note:
Amendments and additions are shown in bold text.

Projects and Activities Presented to the 19th Meeting

1. The total value of the projects and activities either already cleared, or **submitted for consideration** at the 19th Meeting, is US $71,177,659. The total is comprised of:

- 48 investment projects with a total value of US $24,474,830, cleared for approval at the 18th Meeting of the Executive Committee but not funded.

- A further 67 proposals for investment projects submitted to the 19th Meeting with a total value, as submitted, of US $40,623,259.

    - In keeping with the adoption of business planning for 1996, the Fund Secretariat requested the implementing agencies to take a pro-rata approach whereby the total value of investment projects submitted to the 19th Meeting would be one-third of the annual total for each agency as specified in the agencies' business plan for 1996, including 35 per cent over-programming; the balance for the year, to be presented at the remaining meetings held in 1996.

- Work Programme and Work Programme Amendments totaling US $6,079,570, as submitted.

2. Of the total reviewed by the Fund Secretariat, 56 investment projects with a value of US $18,319,166 and 36 activities included in Work Programmes and Work Programme Amendments with a value of US $3,575,433 are being recommended for approval.

3. In accordance with Decision 18/11 project proposals not funded at the 18th Meeting should be funded ahead of new projects submitted to the 19th Meeting. Although there is no "Consolidated List" as defined at the 18th Meeting, there will be a "Funding List" comprised of those projects approved at the 18th Meeting as eligible for funding but not funded at that meeting, and those projects which will be recommended for approval by the Sub-Committee on Project Review at the 19th Meeting.

4. Table 1 shows the funding in each investment project category planned for 1996, the funding planned for the 19th Meeting and the value of investment projects submitted by the Implementing Agencies.

Table 1

US $	Total investment projects	Recycling and halon banking	Low-consuming countries	Macs and compressors	Other investment projects
1996 Business Plan Allocations based on 16th Meeting Methodology	97,000,000	3,269,633	6,539,326	7,629,213	79,561,798
Projects approved but not funded at the 18th Meeting	24,474,830	nil	nil	2,675,695	21,799,135
Allocation remaining for 1996	72,525,170	3,269,633	6,539,326	4,953,518	57,762,663
35% Over-programming	25,383,810	1,144,372	2,288,764	1,733,673	20,216,932
Max new submissions planned in 1996	97,908,990	4,414,006	8,828,090	6,687,024	77,979,595
Proposed max submission to 19th Meeting (33% of 1996 total)	**32,636,327**	**1,471,335**	**2,942,697**	**2,229,008**	**25,993,198**
Total of initial submissions to 19th Meeting by implementing agencies	**40,623,259**	**721,556**	**899,272**	**1,987,670**	**37,014,761**

Note to Table 1:

- Planned funding levels are based on business plan projections of total contributions likely to be received by the end of 1996 and division of total contributions between investment projects and estimated allocations for work programmes and other activities, including bilateral assistance.

Possible Shortfall

5. At the time of preparation of this paper, the total of Multilateral Fund contributions available for allocation to projects and activities at the 19th Meeting is US $20.36 million. **Implementing agencies have indicated they intend to make a total of US $10.736 million available for programming at the 19th Meeting due to interest earned or projects closed, transferred, or completed under budget.**

6. The total figure for contributions is some US $14.2 million less than the sum of projects and activities cleared for approval at the 18th Meeting and those which may be recommended for approval at the 19th Meeting. However, the situation with regard to the receipt of contributions is fluid. The level of contributions available at the 19th Meeting may differ significantly from the current figure.

7. **It should be noted that all the implementing agencies' work programmes were approved at the 18th Meeting except UNEP's work programme which has been submitted to this meeting. The Committee may wish to consider giving priority to funding all or part of UNEP's work programme so as to prevent any disruption in UNEP's programme.**

Presentation of Projects

8. Project evaluation sheets have been prepared for each submitting country by sector. The project evaluation sheets contain a brief description of each project or group of projects, together with the Fund Secretariat's comments and recommendations. The front page displays both the funding sought in the original proposal and the approval level recommended by the Fund Secretariat.

9. For 56 investment projects, the recommended level of funding has been agreed between the relevant implementing agency and the Fund Secretariat. The total value of agreed projects is US $18,319,166. These projects are recommended for blanket approval.

10. One project is still under discussion. It is listed in Annex I to this paper. The outcome of the discussion with the implementing agency will be reported to the Sub-Committee on Project Review.

11. Five other investment projects have policy issues associated with them. These projects are listed in Annex II.

12. Five projects have been withdrawn by the implementing agencies.

Issues Arising from Project Review

Projects for Partial Conversion in Domestic Refrigeration

13. The World Bank has submitted a project for conversion of the foam insulating component only of a large domestic refrigeration enterprise in India. Conversion of the refrigeration component is proposed to be submitted at a later stage. Proposals for partial conversion of domestic refrigeration manufacturing plants have not been received since the 13th and 15th Meetings in 1994, and in those proposals it was the foam insulation component which was delayed. These proposals were reviewed on their own merits, outside the system of cost-effectiveness thresholds adopted by the Executive Committee at its 16th Meeting. The Executive Committee might consider whether it wishes to accept projects which only propose partial ODS phase-out in domestic refrigeration. In this regard, the Executive Committee might bear in mind that:

- methodologies for applying cost-effectiveness criteria in the assessment of projects and allocation of resources cannot be used for partial conversion since separate thresholds do not exist for the foam insulation and refrigeration components

- alternative technologies are now well established, the enterprise has already decided on the refrigeration technology and there is thus no technological reason to implement only a partial conversion

- the preparation, processing and review of projects is resource intensive and is virtually duplicated if two separate projects are prepared for the same enterprise.

Low consuming Enterprises

14. A paper on "Approaches to ODS Phase-out in Small and Medium-Sized Enterprises" has been presented by UNDP and UNEP. The paper provides a comprehensive treatment of many of the issues associated with these enterprises. In considering the paper, the Executive Committee may wish to consider:

- the timing of any new approaches to phase-out in low consuming enterprises, having regard to;
  - overall phase-out objectives for the Multilateral Fund as a whole
  - progress with overall phase-out in the country concerned (i.e., is phase-out nearing completion in larger industries?)
  - progress with phase-out in the sector concerned (i.e., is the proposal for the completion of phase-out in that sector?)
  - **the development of new technologies which might produce more cost-effective solutions**
- **that for very small enterprises with rudimentary equipment, any new equipment represents a major technological upgrade**

- the definition of, and upper limit of size for low consuming enterprises, bearing in mind that a number of projects have already been approved for enterprises which fall below the upper limits proposed for some sectors
  - a change in title to "low consuming enterprises" may be appropriate.

15. Low consuming enterprises in low volume consuming countries will continue to benefit from the special allocation approved by the Committee for those countries in present circumstances, where an adequate number of projects are coming forward within the current cost-effectiveness thresholds, whether an increase in thresholds for any project is appropriate.

Umbrella Projects

16. The Fund Secretariat has prepared a paper in conjunction with the implementing agencies on the role of cost-effectiveness thresholds in sectoral phase-out proposals and guidelines for umbrella projects. The proposals in the paper have been developed specifically for application to

enterprises other than low consuming enterprises. The Executive Committee may wish to consider this paper in conjunction with the SME paper particularly in regard to a definition of the size of low consuming enterprises, to facilitate the adoption of different approaches for low consuming and other enterprises.

17. Three projects have been submitted to the 19th Meeting as examples of umbrella projects comprising enterprises which are likely to be defined as low consuming. The Executive Committee could consider these projects individually, once it has concluded its deliberations on low consuming enterprises and umbrella projects. The projects are identified in Annex II.

18. UNDP has submitted for information only an umbrella project for low consuming enterprises in India. UNDP has requested that this project be discussed as an example of an approach that might be used. The cover sheet of the project proposal is included as Annex III.

Halon Production Closure Projects

19. At its 13th Meeting, the Executive Committee approved a halon production closure project for Tongxiang. The approval was contingent on a permanent decrease in the total annual actual national halon production at a level of at least 400 tonnes below the level as indicated in the project (4000 tonnes). However, the level of production indicated in two similar projects submitted to, but not approved by the 18th Meeting, was 6900 MT. In discussing these two projects, the Committee decided that such projects should be re-submitted "accompanied by a satisfactory explanation of how they met the confines of the agreement reached by China at the Executive Committee at the 13th Meeting." (Decision 18/5). The World Bank reported that the closure of Tongxiang was achieved in December 1994, before the usual agreement with the Bank was signed. Subsequently, the Bank has informed the Secretariat that it will not disburse any funds until the conditions of the Committee are met. The calculation of incremental costs was based on lost profit and labour remuneration. Since the closure has now taken place, the Committee may wish to consider approving the release of the workers compensation component of the project. The Committee may also wish to consider endorsing the withholding by the World Bank of the lost profit component, until such time as the Committee is able to assess explanations of how the conditions of approval of the project were met, if no explanations are provided to this meeting.

Re-examination of Halon Fire Extinguisher Conversion Project Guidelines

20. In Decision 18/4, the Executive Committee decided to defer consideration of projects submitted by China in this sub-sector pending the re-examination of the guidelines. In document UNEP/OzL.Pro/ExCom/19/56, it is recommended that the Chinese projects should be considered in the context of China's strategy for the sector currently under development and the current guidelines should remain in effect. Additional guidance with regard to capital and operating costs is recommended on the basis of a paper to be developed by the implementing agencies and the Secretariat.

Business Plans

Country Programme Preparation

21. Requests for preparation of country programmes arise throughout the year, and early commencement is encouraged. Country programme preparation is funded through Work Programmes. The Executive Committee might agree that amendments to Work Programmes, now expected to occur only in exceptional circumstances following the adoption of business planning in the Multilateral Fund, should continue to be accepted for country programme preparation.

Project Preparation Funding

22. The Executive Committee will also need to consider how new requests for project preparation for investment projects, not identified individually when work programmes were submitted, will be accommodated. This could be achieved by requesting implementing agencies to make provision in annual business plans for as yet unspecified project preparation, at a level of 10 to 15 per cent of total project preparation funding. This amount could then be approved in the annual work programme. The Committee might consider emphasizing that requests for project preparation funding should not exceed the expenditure foreshadowed in annual business plans, for 1996 or later years, as appropriate.

35% Over-Programming

23. In conjunction with the adoption at the 17th Meeting of fixed shares of funding for investment projects, the Executive Committee agreed that agencies would be able to submit project proposals to a total value of 135 per cent of planned funding levels for any year. This was adopted so that the total value of projects presented to the Executive Committee after completion of the Fund Secretariat's review process would correspond closely with the planned funding level for the year. With the increasing level of standardization in projects, and the commencement of the use of templates for project preparation, it is evident that reduction in the value of projects to be submitted to the Executive Committee may be significantly less than 35 per cent. **Implementing agencies have agreed that a reduction to the level of over-programming should be recommended to the Committee for 1997 business plans.** The Committee may wish to consider whether the allowance for over-programming should be reduced.

Sectoral Distribution

24. Currently, the sectoral distribution of projects being approved by the Executive Committee is entirely demand driven, because the preparation of projects is initiated solely as a result of implementing agencies' inquiries and negotiations with enterprises or governments. With the advent of business planning, the Executive Committee has the opportunity to place emphasis

on particular sectors in the development of business plans, in order to meet either explicit or indicative ODS phase-out targets. Such targets could arise, *inter alia*, out of considerations relating to establishment of the level of replenishment of the Multilateral Fund or from the Three-Year Rolling Plan for the Fund to be presented to the 8th Meeting of the Parties.

25. The Executive Committee could consider whether it wishes to provide direction to the implementing agencies on the sectoral distribution of either project preparation funding or project funding, to be incorporated in 1997 Business Plans.

Progress and Financial Reporting

26. An overview of implementing agencies' progress reports is provided in the Consolidated Progress Report prepared by the Fund Secretariat (UNEP/OzL.Pro/ExCom/19/39). The Executive Committee might note that the format for data tables and reporting still presents some problems for some implementing agencies. However, the ability to identify relevant issues has already been improved and the revised format found in document UNEP/OzL.Pro/ExCom/19/4 is expected to further improve the process.

27. A review of the progress report databases indicates that one of the reasons for delays in the implementation of approved projects appears to be related to the conclusion of legal agreements with, and transfers to, governments and beneficiary enterprises. The Executive Committee may wish to consider seeking additional information in this regard.

28. A review of progress reporting since the 12th Meeting suggests that agencies may need to exercise limited flexibility in re-allocating approved funding. The Committee may wish to consider guidance on this matter, mindful of the agencies' possible needs to adjust budget items after project approval to facilitate the most timely and efficient preparation or implementation of projects.

Reporting on Duration of Incremental Operating Costs in Project Completion Reports

29. The Fund Secretariat has prepared a paper on the duration of transition periods for incremental operating costs for consideration by the Executive Committee. The paper suggests, inter-alia, that the implementing agencies should provide project completion reports to address the information needed to further assess the duration of transition periods. The Committee might consider requesting the implementing agencies to expedite their completion reports on projects for which phase-out has been achieved, including aspects relating to incremental operating costs.

Other Policy Issues

Methyl Bromide

30. One implementing agency has received draft proposals for non-investment projects concerning trials, testing and demonstration of alternatives to the use of methyl bromide. In view of the inclusion of methyl bromide as a controlled substance at the 7th Meeting of the Parties, the Executive Committee may wish to provide broad direction on the preparation of guidelines as to the nature, form and timing, of proposals for projects in the methyl bromide sector. **In this regard, UNIDO has agreed to take the lead in preparing a brief paper on the work currently in progress on alternatives to methyl bromide, funded through financial programmes other than the Multilateral Fund.**

Low Pressure versus High Pressure Foaming Machines

31. In Decision 18/10, the Executive Committee approved a recommendation that the implementing agencies study the feasibility of using low pressure foaming machines with HCFC-141b formulations in the manufacture of rigid foams. The use of low pressure machines would result in substantial savings to the Multilateral Fund. The Executive Committee might note that two projects submitted to the 19th Meeting propose the use of low pressure machines in this application. The Committee might request implementing agencies to take this and related technological developments into account, and to prepare a report for submission to the 20th Meeting, in consultation with the Fund Secretariat.

Renewal of Institutional Strengthening

32. Requests have been received from four countries for renewal of their institutional strengthening projects.

33. The Executive Committee may wish to consider these requests in the light of its conclusions on the policy paper "Guidelines for Renewal of Institutional Strengthening Projects" (UNEP/OzL.Pro/ExCom/19/52 and Corr.1).

Low Consuming Countries

34. UNEP has presented a paper on innovative approaches to phase-out in low consuming countries. In examining this paper, the Executive Committee may wish to consider the extent to which it fulfills the requirements of Decision VII/25 of the Parties (copy attached as Annex IV) in conjunction with other measures already taken by the Committee. The Executive Committee may also wish to consider what additional activities, if any, need to be requested to give effect to Decision VII/25.

ANNEX I

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

	Project		Implementing Agency	Status
PHILIPPINES UNEP/OzL.Pro/ExCom/19/28	Solvent blending	Several enterprises	UNDP	Under discussion

Note:

An evaluation sheet, including the comments of the Fund Secretariat, has been prepared and is included in the country project document.

ANNEX II

PROJECTS WITH POLICY ISSUES

	Project		Implementing Agency
Low Consuming Enterprises and Umbrella Projects			
MALAYSIA: UNEP/OzL.Pro/ExCom/ /19/24	Aerosol	Umbrella project to phase out SMEs in the aerosols sector	UNDP
PHILIPPINES UNEP/OzL.Pro/ExCom/19/28	Commercial refrigeration	Umbrella project for 5 enterprises	UNDP
SUDAN UNEP/OzL.Pro/ExCom/19/30	Domestic refrigeration	Umbrella project for 3 enterprises	UNIDO
Other Policy Issues			
CHILE UNEP/OzL.Pro/ExCom/19/15	All sectors	Protocol implementation programme (Phase II)	World Bank
INDIA UNEP/OzL.Pro/ExCom/19/19	Domestic refrigeration	GGEAL	World Bank

Note:

Evaluation sheets containing the comments of the Fund Secretariat on the policy issues involved have been prepared and are included in the country project document.

PROJECT COVER SHEET

COUNTRY	:	India
PROJECT TITLE	:	Elimination of CFCs in the manufacture of rigid polyurethane foam, in small and medium sized enterprises (SMEs)
SECTOR COVERED	:	Foamed Plastics
ODS USED IN SECTOR	:	1577 t CFCs (=ODP) in 1991
PROJECT IMPACT	:	290 t of CFC-11 (1994-95 consumption)
PROJECT DURATION	:	3 years
PROJECT ECONOMIC LIFE	:	10 years
TOTAL PROJECT COST	:	US$ 2,061,000
PROPOSED MLF GRANT	:	US$ 2,061,000
COST EFFECTIVENESS	:	US$ 7.11/kg/y
DISBURSEMENT SCHEDULE	:	1st year - US$ 565,000 2nd year - US$ 710,600 3rd year - US$ 785,400
NATIONAL COORDINATING BODY	:	Ministry of Environment & Forests (MOEF)
IMPLEMENTING AGENCY	:	UNDP
APPRAISAL DATE	:	December 1995 to February 1996

PROJECT SUMMARY

In this project, small and medium sized enterprises (SMEs), producing rigid polyurethane foam, for thermoware and general insulation, estimated to represent about 70% of the enterprises in the sub-sector in India, will eliminate CFCs from their production. This is proposed to be achieved through the co-operation of a local PU systems/equipment supplier and about eighty small and medium rigid PU foam producers, resulting in elimination of CFCs in SMEs in the entire rigid foam sub-sector, as far as presently identified.

The project envisages the establishment of facilities for customizing, trials, testing and validation of CFC-free formulations, which will ensure indigenous and economic availability of such formulations to these small users. An additional significant feature of this project, is the introduction of indigenous low capacity high pressure foaming equipment, that would be required for the conversion. Together, these factors will also lead to a substantial reduction in the incremental costs of phase-out of CFCs in these small users.

Technical Assessment : This project is reviewed and supported by the UNDP foam sector reviewer, Dr. Hubert Creyf. His comments are attached.

PREPARED BY: C. S. Chirmulay, Bert Veenendaal
REVIEWED BY: Dr. Hubert Creyf

ANNEX IV

Decision VII/25: Provision by the Executive Committee of the Multilateral Fund of specific financial support for projects in low-volume-ODS-consuming countries (LVCs)

To request the Executive Committee of the Multilateral Fund to provide specific support to low-volume-ODS-consuming countries (LVCs) by:

(a) Allocating sufficient funds for projects in low-volume-ODS-consuming countries to further strengthen and expand awareness and training programmes, especially in the area of refrigerant management;

(b) Supporting specialized assistance such as a workshop to establish regulatory and legislative measures required to facilitate the phase-out of ozone-depleting substances;

(c) Allowing financing of eligible retrofitting projects, in sectors vital to LVC economies on a case-by-case basis where this can be shown to be the best approach;

(d) Requesting the United Nations Environment Programme, due to its extensive experience with low-volume-ODS-consuming countries (LVCs), to take the lead in preparing an overall approach in addressing these needs;

(e) Providing funds to low-volume-ODS-consuming countries, on a regional basis, to organize training workshops for their customs and other officers on the harmonized system and other systems to control and monitor consumption of ozone-depleting substances;

Approval of projects in low-volume-ODS-consuming countries and very low-volume-ODS-consuming countries should be based upon a more appropriate project-appraisal approach reflecting the particular circumstances encountered by the countries referred to above.