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

Twenty-second Meeting
Nairobi, 28-30 May 1997

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and Activities Presented to the 22nd 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 22nd Meeting, is US $85,811,579. The total is comprised of:

(a) Investment projects:

- 124 proposals for investment projects submitted to the 22nd Meeting with a total value, as submitted, of US $79,633,444.

(b) Bilateral cooperation:

- 4 project proposals were received from Canada, France and the U.S.A., with a total value of US $932,785 as submitted.

(c) 1997 Work Programme Amendments:

- Work Programme Amendment requests totaling US $1,876,350 of which US $1,107,000 has been proposed for country programme preparation and institutional strengthening projects and US $995,000 for project preparation and other activities.

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:

- 99 project proposals with a total value of US $37,738,212 have been recommended for blanket approval.
- 23 project proposals with a total value of US $29,889,045 have been recommended for individual consideration by the Sub-Committee on Project Review (see Annex I)
- 2 project proposals with a total value of US $907,977 have been withdrawn.

(b) Bilateral Projects:

- 2 bilateral projects with a total value of US $337,423 have been recommended for blanket approval

- 1 bilateral project with a value of US $495,285 has been recommended for individual consideration

- 1 bilateral project with a value of US $117,000 was withdrawn.

(c) Activities Included in Work Programme Amendments:

- 8 institutional strengthening projects with a total value of US $580,533 have been recommended for blanket approval

- 21 non-investment activities with a total value of US $897,000 have been recommended for blanket approval

- 7 activities with a total value of US $1,169,350 have been recommended for individual consideration.

Status of the Fund

3. At the time of preparation of this paper, the balance of Multilateral Fund contributions available for commitment at the 22nd Meeting was US $45,452,174.

Meeting the 1999 Freeze

4. Decision 19/4 which was reaffirmed in Decision 20/3 (and Decision 20/9 in relation to business planning) requested the implementing agencies to include with each project a brief description of how the project would contribute to helping the country to achieve the 1999 freeze.

5. Most investment projects submitted by the implementing agencies contain information in relation to Decision 19/4. In the majority of projects, no figures regarding reduction targets are given, but a 'blanket' statement is provided to the effect that implementation of the project will contribute to helping the country to achieve the 1999 freeze. In projects from some countries, information is provided on the consumption planned for phase-out between 1997 and 1999, together with a statement that elimination of the consumption at the enterprise in question will assist in meeting these reduction targets. Two countries (Turkey and Pakistan) stated in their proposals that the projects were not needed to meet the freeze but were part of the overall strategy of accelerated phase-out. Projects from a further 6 countries, namely Gambia, Jamaica,

Macedonia, Mexico, Morocco and the Philippines, contain no information which directly addresses the requirement of Decision 19/4.

6. The Executive Committee might wish to consider the extent to which the information provided meets the requirements of Decision 19/4, and the action it wishes to take in relation to projects in which no information has been provided.

Policy Issues arising from Projects

Baseline equipment

7. It has been observed from project proposals in several sectors in large Article-5 countries, for instance the refrigeration, foam and solvents sectors, that the baseline equipment installed in some enterprises is of local manufacture. Some locally manufactured equipment may be a copy of an international brand, or may be re-assembled from parts recovered from equipment discarded by other enterprises which phased out with assistance from the Multilateral Fund. Some of the local equipment (including equipment in projects submitted to the 22nd Meeting) is reported as having been acquired as recently as 1995. The following issues are therefore presented for consideration:

8. Firstly, where it has been agreed that replacement equipment is eligible for funding, there is an issue as to the basis for costing the replacement equipment. In some cases relevant non-CFC equipment is available from local sources at lower cost. It is usual, however, for the project proposal to suggest that internationally sourced equipment is required, for a variety of reasons including superior technical quality. Even when local equipment is not available, the provision of internationally sourced equipment may constitute technological upgrade and the full cost may not be eligible.

9. Secondly, some locally made equipment is found to be similar in design to overseas equipment and, in principle, is capable of being retrofitted. It is usual in these cases also, for implementing agencies to request funding for internationally-sourced replacement equipment, not retrofitting, *inter-alia*, on the basis that there can be practical difficulties in contracting with overseas suppliers to retrofit baseline equipment which was not sourced from them but is similar to their product, or on the basis that the quality of the locally made copy renders it unsuitable for retrofitting.

10. If an enterprise's baseline equipment is locally sourced and overseas equipment is, indeed, technically superior, it could be said that the technical superiority is not related to phase-out and is therefore not incremental. The Executive Committee might wish to consider whether eligible incremental costs should be based on equivalent technical quality. The consequences of such a judgment could be that compensation would generally be based on local equipment cost or, in some circumstances, the difference between the international price of equivalent CFC and non-CFC equipment. If an enterprise wishes for its own reasons to install overseas equipment, this

could be identified in the project proposal and achieved through the provision of separate funding by the enterprise.

Recycling projects in CFC-producing countries

11. A proposal has been submitted for the implementation of a refrigerant recovery and reclamation facility for Venezuela. The proposal has two parts, a central reclamation facility, to be funded by the Government of Canada under bilateral cooperation, and a network of refrigerant recovery and concentration centres proposed as a separate, but complementary project by UNDP. The technical aspects of the project do not present any difficulties. However, no provision is made in project costs for the net savings generated through re-use of refrigerant after reclamation. Additionally, the country continues to produce CFC refrigerants, the supply of most new refrigerants is plentiful and cheap, and there are no legislative requirements mandating recovery of refrigerants from existing equipment. Experience in developed countries indicates that the viability of reclamation is dependent on support from market forces or regulatory measures. There could be doubt as to whether the project will succeed in achieving significant levels of recycling until local conditions change.. The Executive Committee may wish to consider the priority to be accorded to the funding of refrigerant recovery and reclamation facilities in these circumstances, including the project proposal for Venezuela.

Price of chemicals

12. The calculation of incremental operating costs or savings in projects presented to the Executive Committee is highly sensitive to the costs of the ODS and other chemicals used before and after conversion, which are often the main determinant of the incremental operating costs or savings. Additionally in some sub-sectors and processes, for example, conversion to HCFC-141b foam technology, incremental operating costs themselves can constitute the major proportion of project costs. In others, for instance solvent conversions to aqueous cleaning, project savings can reduce project costs by up to 50 percent.

13. There continue to be very significant variations in chemical prices between regions and within countries. At its 12th Meeting, the Executive Committee limited the variation in chemical prices in a country to 20 per cent of the regional border price for the purpose of calculating incremental operating costs. However, variations exceeding this range continue to occur within the same country and regional prices can also vary substantially. The Executive Committee might wish to explore the possibility that, for a trial period of 18 months, incremental operating costs might be calculated in some or all sectors on the basis of a percentage of the capital costs of the project, to eliminate the dependency on variations in chemical prices.

Methyl Bromide Demonstration Projects

14. 4 methyl bromide demonstration projects were received by the Fund Secretariat from UNIDO on April 18, 1997. The projects involve demonstration of soil fumigation applications in

Brazil, China, Guatemala and Morocco. In view of the number of investment projects and the activities submitted to the 22nd Meeting (194) and the lateness of submission of methyl bromide projects, it was not possible to include them in documentation for the 22nd Meeting.

15. Noting that the timing of implementation of soil fumigation projects needs to coincide with regional crop cycles, the Executive Committee may wish to consider whether these and other methyl bromide demonstration projects should be reviewed and circulated intersessionally for approval to avoid possible delays of up to one year in implementation through missing the relevant crop cycles.

Projects with issues

16. 23 investment projects are being presented for consideration of specific issues by the Sub-Committee on Project Review. They are listed in Annex I to this paper. The relevant issues pertaining to each project have been summarised in the Secretariat's comments provided in the evaluation sheets for each project.

17. For 10 projects from China, India and Turkey, capital costs have been agreed between the implementing agencies and the Secretariat. However, operating costs for each project are dependent on the policy adopted in regard to projects in countries where both compressor conversion and refrigerator manufacture are eligible for funding. These costs will be calculated by the Fund Secretariat in accordance with the recommendation of the Sub-committee on Project Review following its consideration of the policy paper on this issue. Operating costs for one additional domestic refrigeration project in China and two additional compressor conversion projects in Thailand are also dependent on the outcome of the policy paper on compressors. Capital costs for the three projects were approved at the 20th Meeting.

18. Seven projects are submitted for conversion of compressors for the commercial refrigeration sub-sector in China. These are follow-on projects to the six projects approved for demonstration purposes at the 15th Meeting and the four projects approved at the 20th Meeting. Decision 20/21 determined that a 26 percent discounting factor should be applied to the four projects, and that future projects should include full baseline information as well as detailed costs so that an accurate determination could be made on the discounting factor for upgrading and on eligible incremental costs.

19. Careful analysis of the baseline information provided in the seven project proposals has led to concerns that elements of the capital equipment costs for each project submitted to this meeting (and by inference, to projects previously approved) may not be eligible as incremental costs. The principle concerns relate to whether one, or two computer controlled machining centres are eligible for funding at each of the seven enterprises and the degree of accuracy, and thus the cost, of the machines. Each machining centre will cost between US $380,000 and US $650,000. Discussions on this issue and on the discounting factor for upgrading are continuing between the Fund Secretariat and the World Bank and the outcome will be reported to the Sub-Committee on Project Review.

Issues identified in Work Programme Amendments

UNDP

20. The Executive Committee has approved investment projects in Mexico that will lead to the phase out of 2,133 tonnes of ODS consumption. The Committee has also approved and renewed the institutional strengthening project in Mexico which should equip Mexico with the necessary experience to update its country programme at a cost much less than the amount requested. According to UNDP, the update of the country programme/SME survey is to result in the identification of all of the remaining ODS consumers in Mexico. The Secretariat is recommending the approval of US $60,000 of the US $100,000 requested with the condition that all remaining ODS users will be identified as part of the project.

21. The Executive Committee approved US $200,000 for the preparation of a sectoral financing plan for the solvents sector in China at its 21st Meeting. US $40,000 of the project preparation request for China is for the preparation of projects in the solvents sector and is not recommended for approval until the sector strategy is completed.

UNEP IE

22. In association with its country programme, the Government of Cyprus is requesting a total of US $119,350 for the implementation of institutional strengthening. The project provides for the establishment of a National Ozone Office within the Ministry of Agriculture, Natural Resources and the Environment.

23. The Government of Cyprus ratified the Vienna Convention and the Montreal Protocol on 28 May 1992. Effective January 1994, Cyprus was re-classified as a Party operating under Article 5 of the Montreal Protocol. Decision VI/5 (d) and (e) of the Sixth Meeting of the Parties to the Montreal Protocol urged countries initially classified as non-Article 5 but reclassified subsequently as operating under Article 5 not to request financial assistance from the Multilateral Fund and indicated that they may seek other assistance under Article 10 of the Montreal Protocol. The Government of Cyprus indicated in its proposal that it had given this decision careful consideration, but that it is, nevertheless, requesting financial assistance from the Multilateral Fund to achieve its proposed phaseout process.

24. The Executive Committee may wish to consider the request of the Government of Cyprus in the light of Decision VI/5 (d) and (e) of the Sixth Meeting of the Parties to the Montreal Protocol.

UNIDO

25. The request from UNIDO is for the development of a strategy paper in the refrigeration sector of China. The Executive Committee has approved projects in the China's refrigeration

sector that will lead to the phase out more tonnage than reported in China's country programme was 2,869 tonnes. A country programme update is currently underway. The Executive Committee might consider whether a sectoral strategy is a cost-effective approach at this stage in the phase out of the refrigeration sector in China.

World Bank

Activities for which policies and guidelines have not been concluded.

26. Over 25 per cent of the World Bank's activities planned for 1997 will not proceed until decisions on final policies or guidelines have been taken by the Executive Committee. The proposed activities include commencement of a sectoral phase-out in the halon sector in China and approval of commercial refrigeration retrofitting projects in Mexico. The Executive Committee might consider if it envisages funding for the halon sector in China being approved in 1997, and whether it expects to adopt guidelines for funding commercial refrigeration retrofitting projects in 1997. If policy decisions which might support these activities were not to be taken in 1997, these projects could not proceed.

27. The Executive Committee might wish to request the implementing agencies, when developing Work Programmes, to discuss with the Secretariat the new activities that are being contemplated by them for the first time and for which there are no guidelines, before they request funding for preparation of such activities. In particular the Committee might consider whether it wishes to see retrofit projects in commercial refrigeration included in 1997 Work Programmes.

28. The World Bank is requesting three technical assistance projects for China that would not be completed until after the year 2000. The projects are described as " essential to the facilitation of an accelerated ODS phase-out" and are intended to help commercial refrigerator manufacturers implement their conversions as expeditiously as possible. The Executive Committee has approved projects in China's refrigeration sector that will lead to more phase out than indicated in China's country programme as well as three projects concerning quality control testing and two projects concerning the development of standards in China's refrigeration sector. The Committee has also approved several other technical assistance projects for China that may address the same issues as the proposed projects. The Secretariat cannot recommend the approval of these technical assistance projects based on the information provided.

29. The Executive Committee has already approved projects that will lead to the phase out of 67 per cent of the consumption identified in Uruguay's country programme. The cost of the preparation of Uruguay's country programme was US $23,894. The Bank has indicated that the request consists of two components: US $23,000 for conducting a market survey and development of a mechanism to phase out remaining ODS uses and the balance for project preparation and contingencies. The project preparation component of the request is not expected to result in a project submission until 1998. Project preparation funds might be requested following the completion of the market survey.

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 N°	Sector	Enterprise	Implementing Agency	Status
China: UNEP/OzL.Pro/ExCom/22/28	Compressor	Subei	World Bank	Capital costs
	Compressor	Zhenjiang (ZREF)	World Bank	Capital costs
	Compressor	Zhejian Chunhui (ZCC)	World Bank	Capital costs
	Compressor	Ningbo	World Bank	Capital costs
	Compressor	Wuhan New World	World Bank	Capital costs
	Compressor	Chongqing Bingyang	World Bank	Capital costs
	Compressor	Guangzhou	World Bank	Capital costs
	Refrigeration	Gansu Changfeng Baoan	World Bank	IOC for compressors
	Refrigeration	Hongxiang (Laizhou)	UNDP	IOC for compressors Cost issues under discussion
	Refrigeration	Jilin Jinuoer	UNDP	IOC for compressors Cost issues under discussion
India: UNEP/OzL.Pro/ExCom/22/35	Refrigeration	Videocon	World Bank	IOC for compressors
	Refrigeration	Maharajah	World Bank	IOC for compressors
	Refrigeration	Polar	World Bank	IOC for compressors
	Refrigeration	Sheetal	World Bank	IOC for compressors
	Refrigeration	Hindustan Ref.	World Bank	IOC for compressors
	Refrigeration	Ref. Components	World Bank	IOC for compressors
	Refrigeration	Standard Ref.	World Bank	IOC for compressors
	Refrigeration	Refrigerators & Home	World Bank	IOC for compressors
Thailand: UNEP/OzL.Pro/ExCom/22/53	Compressor	Kulthorn Kirby	World Bank	IOC for compressors
	Compressor	Sanyo Universal	World Bank	IOC for compressor conversions
Turkey: UNEP/OzL.Pro/ExCom/22/55	Refrigeration	Kulahcioglu	World Bank	IOC for compressor conversions
	Refrigeration	Gumaksan	World Bank	IOC for compressors
Venezuela: UNEP/OzL.Pro/ExCom/22/56	Recovery & recycling	Centralized reclamation plant	Canada/UNDP	For individual consideration