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Executive Committee of
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# OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and Activities for Consideration at the 18th Meeting

1. The total value of the projects and activities either already cleared, or to be considered for funding at the 18th Meeting, is US $113.8 million. The total is comprised of:

- 42 investment projects with a total value of US $32.4 million, cleared for approval at the 17th Meeting of the Executive Committee but not funded.

- A further 68 projects, not fully reviewed for the 17th Meeting and carried forward. Some of these projects were revised by the implementing agencies between the 17th and 18th Meetings. The total value of these projects as presented for the 18th Meeting was US $19.3 million.

- 88 new proposals for investment projects submitted to the 18th Meeting. The total value of the new proposals, as submitted, was US $57.2 million.

  - implementing agencies were reminded, prior to the 8-week deadline, that in accordance with the Guidelines for Business Planning, any new projects not funded at the 18th Meeting would form part of the 1996 program. They were further advised that on the basis of the funds estimated to be available, most new projects would be carried forward into 1996.

- Work Programme and Work Programme Amendments for an additional 73 non-investment projects and activities with a total value of US $4.97 million, were received subsequent to the 8-week deadline for investment projects.

2. Of the total reviewed by the Fund Secretariat, 207 projects and activities with a value of US $63.6 million are being recommended for approval.

3. In accordance with Decision 17/20, projects cleared for funding at the 17th Meeting, and those first submitted to the 17th Meeting and subsequently recommended for approval by the Sub-Committee on Project Review at the 18th Meeting, will form a Consolidated List, to be given priority for funding. The value of the Fund Secretariat's recommendations for the Consolidated List is US $52.2 million.

4. At the time of preparation of Revision 1 of this paper, 10 November 1995, the total contributions available to the Multilateral Fund are US $60.5 million. After allowance for fixed costs, the total available for allocation to projects and activities at the 18th Meeting is US $58 million.

Presentation of Projects

5. In accordance with Decision 17/18, project documentation has not been circulated. However, all project documents will be available in full, on request, at the Meetings of both the Sub-Committee on Project Review and the Executive Committee.

6. Project evaluation sheets have been prepared by country and sector, and amalgamated where possible for ease of reference. The project evaluation sheets contain a brief description of

each project, together with the Fund Secretariat's usual comments and recommendations. The front page displays both the approval level recommended by the Fund Secretariat and the funding sought in the original proposal. The front page also displays a "revised" funding level. When this differs from the original funding level, it indicates that the implementing agency has revised the project document, following analysis and discussion between the agency and the Fund Secretariat.

7. The Fund Secretariat's analysis and discussions are based on the application of policies and guidelines of the Executive Committee related to the eligibility of incremental costs. They also include consideration of cost elements, including the cost of chemicals, on the basis of sectoral information available from the substantial, and growing, number of projects approved by the Executive Committee.

8. From all of the investment projects submitted and reviewed, 22 projects have been withdrawn by the implementing agencies. For an additional 11 projects, the implementing agencies have found themselves unable to agree to the Fund Secretariat's recommendations. These 11 projects are listed in Annex I to this paper. The Fund Secretariat proposes that they be considered individually by the Sub-Committee on Project Review. In each case, the Fund Secretariat reviewed the projects and calculated the eligible level of incremental cost in accordance with established guidelines. The reasons for the level of grant proposed have been provided by the Fund Secretariat in its comments on the project.

Issues Arising from Project Review

9. Two projects for which complete data was not provided by the applicable deadline are still under discussion with a view to moving them forward if possible. The conclusion of these discussions will be submitted to the Sub-Committee on Project Review, if available.

Closure of Halon Production Facilities

10. Two projects for closure of halon production facilities in China have policy issues associated with them. The issues are conformity of these projects with previous decisions of the Committee and whether individual projects like these should be considered in advance of the completion of guidelines for closure of production facilities. In line with decision 17/18, the project cover sheets and a summary of the policy issues are presented at Annex II to this paper.

Incremental Operational Cost of Rigid Polyurethane Foam Projects

11. The Committee might note that in one project recommended for 'blanket approval', the conversion of rigid foam manufacture at Recrusul, Brazil, the Secretariat has based its recommendation on a two-year period for calculation of incremental operating costs.

12. The Secretariat recommends that a transition period of up to two years be adopted for calculating the incremental operational costs of all rigid polyurethane foam projects other than those relating to the domestic refrigeration sector.

13. This recommendation is being made in view of the uncertainty associated with projecting future cash flows, and the liability that long-term horizons are likely to introduce to the Fund. In

the rigid polyurethane foam sub-sector, such liability is highly probable as prices of substitute chemicals such as HCFC-141b and new polyol formulations continue to fall rapidly with time.

14. The recommendation is also based on current practice, as a period of two years or less has been adopted by the implementing agencies to calculate the incremental operational cost of the majority of approved rigid polyurethane foam projects. For the rigid foam component of domestic refrigeration projects, the Committee has approved a transition period of six months if the incremental operational cost is paid up-front, or one year if paid at the time of implementation of the project.

15. It is further recommended that the transition periods for calculating the incremental operational costs of all projects be reviewed periodically by the Fund Secretariat and the implementing agencies and recommendations made to the Executive Committee as necessary.

## All Other Projects

16. Apart from individual consideration of the above projects, the Sub-Committee on Project Review and the Executive Committee might wish to accept the Fund Secretariat's recommendations, which incorporate the agreement of the implementing agencies, on the basis of blanket approval.

## Business Plans

17. Business Plans have been submitted by each implementing agency in accordance with Guidelines prepared by the Sub-Committee on Project Review and a subsequent format prepared by the Fund Secretariat. The Fund Secretariat has consolidated the agencies' business plans.

18. The business plans give a clear indication of the project preparation funding being sought for 1996 and the number and distribution of projects likely to be submitted for funding during the year.

19. The Executive Committee might note that UNEP has not been in a position to submit a Work Programme for 1996 to this Meeting, as its planning processes, now under way, are geared to development of a Work Programme for the first Meeting of the following year. UNEP has advised that, together with the minor amendments proposed at this Meeting, its funding is sufficient for it to continue with its programmes until the first Meeting of 1996.

## Resource Allocation

20. At its 16th Meeting, the Executive Committee decided on the level of allocation for sectors and categories which would apply for 1995. At its 17th Meeting, the Executive Committee funded a proportion of the total annual allocations based on the estimated percentage of total annual funding available.

21. The Fund Secretariat has accordingly calculated the funding available for sectors and categories, on the basis of the decisions taken at the 16th Meeting, as a proportion of the overall funding available for disbursement as at 10 November 1995. Table 1 below shows the funds available, the recommended value of projects eligible for the Consolidated List (including those

approved at the 17th Meeting but not funded) and the recommended value of projects first submitted to the 18th Meeting.

**Table 1**.

| **Funding Categories** | **Funds Available at the 18th Meeting[1, 2]** **US $** | **Recommended Value of Projects in the Draft Consolidated List[3]** **US $** | **Recommended Value of New Projects at the 18th Meeting** **US$** | **Total Recommended Value of all Projects[4]** **US$** |
|---|---|---|---|---|
| CFC recovery and halon banking | 2,372,601 | 1,247,249 | 1,852,664 | 3,099,913 |
| Low consuming countries | 4,904,334 | 70,484 | 44,034 | 114,518 |
| MACs and compressors | 7,009,757 | 13,433,067 | 2,675,645 | 16,108,712 |
| Work programmes | 0 | NA | 2,650,149 | 2,650,149 |
| Discretionary fund | 7,503,776 | NA | NA | NA |
| TOTAL for Special Categories | 21,790,468 | 14,750,800 | 7,222,492 | 21,973,292 |
| OTHER INVEST. PROJECTS | 36,209,532 | 37,473,510 | 36,509,726 | 73,983,236 |
| **OVERALL TOTALS** | **58,000,000** | **52,224,310** | **43,732,218** | **95,956,528** |

22. Following consideration of all funding proposals by the Sub-Committee on Project Review, the Fund Secretariat will prepare the Consolidated List, and the possible allocations of resources by sub-sector according to the relevant decisions of the 16th and 17th Meetings, for the further consideration of the Sub-Committee.

23. The Executive Committee might note that the Low Consuming Countries Category contains only those projects from Low Consuming Countries which do not meet cost-effectiveness threshold values. Additional projects to a total value of some US $3.1 million from Low Consuming Countries which are below cost-effectiveness thresholds are included in the normal way in the category "other investment projects." Non-investment activities in Low Consuming Countries are also included in Work Programme Amendments.

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[1] Calculated according to the methodology established at the 16th Meeting.
[2] Based on contributions received up to 10 November 1995.
[3] Includes projects approved but not funded at the 17th Meeting.
[4] Excluding bilateral projects totalling US $879,100.

# ANNEX I

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

| Project | | Implementing Agency | Status |
|---|---|---|---|
| CHINA: (UNEP/OzL.Pro/ExCom/18/21, pp.7-9) | | | |
| Halon fire extinguisher conversion: | Dalian Jinzhou | UNIDO) | |
| Halon fire extinguisher conversion: | Jiangxi First Fire | UNIDO) | 18th Meeting |
| Halon fire extinguisher conversion: | Xiangshan No.I | UNIDO) | |
| Halon fire extinguisher conversion: | Xiangshan Fire | UNIDO) | |
| Halon fire extinguisher conversion: | Zhuzhou Fire | World Bank | Consolidated List |
| Halon fire extinguisher conversion: | Benxi Iron & Steel | World Bank | 18th Meeting |
| Halon fire extinguisher conversion: | Hangzhou Fire | World Bank | 18th Meeting |
| EGYPT: (UNEP/OzL.Pro/ExCom/18/24, pp.9-12) | | | |
| TCA to aqueous cleaning conversion: | Siltal | UNIDO | 18th Meeting |
| INDIA: (UNEP/OzL.Pro/ExCom/18/26, pp.9-11) | | | |
| Halon fire extinguisher conversion: | Real Value | World Bank | Consolidated List |
| INDONESIA: (UNEP/OzL.Pro/ExCom/18/27, pp.6-9) | | | |
| TCA to aqueous cleaning conversion: | Garuda | World Bank | Consolidated List |
| SEYCHELLES: ( UNEP/OzL.Pro/ExCom/18/39, p.3) | | | |
| CFC and halon recovery and reclamation | | UNIDO | Consolidated List |

# ANNEX II

Closure of Production Facilities (China)

- Dalian Jinzhou Fire Equipment Factory closure of halon 1211 production
- Dongguan Fire Equipment Company closure of halon 1211 production

Policy issues

1. A halon production closure project was approved at the 13th Meeting for the "Tongxiang Chemical Fertilizer Factory." In its approval of the Tongxiang project, the Executive Committee decided that approval was contingent on a permanent decrease in the total annual actual national halon production at a level of at least 400 tonnes below current levels as indicated in the project (4,000 tonnes of halon 1211 in 1992) and the approval did not set a precedent with respect to policy issues raised by the project with respect to ODS production facility closure or treatment of foregone profits (UNEP/OzL.Pro/ExCom/13/47, para.112.)

2. It is stated in the new project documents that annual halon production in China is 6,900 metric tonnes, thus the condition established at the 13th Meeting of a permanent 400 tonnes per annum decrease below the 4000 tonnes per annum 1992 production level is not being met.

3. The new projects have been developed using the same methodology as the project approved at the 13th Meeting, contrary to the decision that a precedent would not be set.

4. Guidelines are not yet available for halon production closure projects. There is a likelihood that methodologies developed for the production sector could provide different outcomes for these projects in terms of the eligible level of grant. Examples are, the length of time for any compensation for foregone profit and the length of time for compensation for redeployment of personnel.

5. The cover sheets for these two projects are attached as Pages 2 and 3 of this Annex.