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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-fourth Meeting
Montreal, 18-20 July 2001

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and activities presented to the 34th Meeting

Submissions by Agencies and Bilateral Partners

1. The total value of projects and activities received including sectoral strategies and plans by the Fund Secretariat from implementing and bilateral agencies for submission to the 34th Meeting is US \$217,054,189 (including agency support costs where applicable). The requested funding amounts to US \$100,908,162 including tranches for sector plans and MB projects.

Secretariat's review of proposed projects and activities

2. The review by the Fund Secretariat of proposals for the funding of projects and activities has resulted in a recommendation for blanket approvals of 101 investment projects as well as other activities in the amount of US \$29,305,580. Sixteen investment projects and other activities with a total value of US \$25,296,159 have been withdrawn or deferred, including projects which did not provide adequate information or the eligibility of which was in doubt. Fifty-five investment projects are submitted for individual consideration with a total value as submitted of US \$48,907,412.

Status of the Fund

3. At the time of preparation of this paper, Multilateral Fund resources available for committal amount to some US \$79.44 million.

Issues arising from project review

Implementation of Decision 33/2

Undertakings from countries (Decision 33/2(c), (e), (f))

4. Decision 33/2, on the final report of the evaluation of foam projects, requested implementing agencies to obtain undertakings from governments in relation to inter-alia permanent reductions in sectoral consumption, and obligations to cease using CFCs (paragraphs (c), (e), (f) of Decision 33/2). The Secretariat, in consultation with relevant agencies prepared a pro-forma to enable governments to record their agreements and undertakings. UNIDO provided agreements and undertakings from all governments on behalf of which it has submitted foam projects to the 34th Meeting. UNDP provided agreements and undertakings from all except one project in Iran, but advised that other governments (including Argentina, Brazil, India, Libya, Nigeria) had insufficient time to institute the processes necessary to provide all the undertakings. The Secretariat has not held up these projects, which are included in the blanket approval list as relevant, although the non-receipt of the necessary undertakings is noted in the evaluation sheets. The Executive Committee might wish to request the implementing agencies to

comply fully with Decision 33/2(c), (e), and (f) and include the requested information in their projects to the 35th and later meetings.

Project durations (Decision 33/2(b))

5. Following discussions with the Secretariat, UNIDO reduced the duration of all HCFC-141(b) foam projects by 12 months to 24 months and reduced the duration of most of its domestic and commercial refrigeration projects by two months to 28 months. UNDP provided an analysis of both foam and refrigeration projects by sub-sector and by country and offered to reduce certain sub-sectors (usually rigid and flexible moulded foam) by either three or six months from 36 to 33 or 30 months respectively. UNDP also set the duration of a terminal umbrella commercial refrigeration project in Paraguay at 42 months citing difficult conditions. All these project are recommended for blanket approval as appropriate, but the Secretariat will continue discussing with UNDP the implementation process for simple HCFC 141(b) conversions, the technical elements of which could, in isolation, be implemented in much less than 30 months .

Funding for technology transfer and trials (Decision 33/2(j) and (k))

6. UNDP provided the Secretariat with a preliminary analysis of costs in foam projects for technology transfer (previously US \$10,000 per project for all but very small projects) and indicated that there could be some economies of scale for a few countries having a large number of projects, in which the technology transfer costs could be reduced by a maximum of US \$2,000 from US \$10,000 to US \$8,000. These costs are still mainly for international consultants. Also in this case, the Secretariat has recommended the projects for blanket approval as appropriate, including the proposed reductions in UNDP's technology transfer costs. However the Secretariat will continue to discuss the issue with UNDP and other relevant agencies. At this stage it seems that more work is required to implement Decision 33/2(j) that ".....technology transfer funds should generally be paid only to supplier companies in cases of patented or otherwise restricted and recent technology and not to consultants" and Decision 33/2 (k) that, inter-alia, the cost of international consultants should be declared as such".

Extension to other sectors

7. Noting that in the compliance period the objective of projects in all sectors is to enable countries to meet their compliance commitments under the Montreal Protocol, the Secretariat invited implementing agencies to provide the various undertakings included in Decision 33/2 for other sectors by submitting duly signed pro-formas for those sectors. Noting also that many of the circumstances which gave rise to the adoption of Decision 33/2 apply to projects in other sectors, particularly the refrigeration sector, the Secretariat also invited implementing agencies to implement the various actions regarding project durations (Decision 33/2 (b)), technology change (Decision 33/2 (d)), contingency funds (Decision 33/2 (h)), technology transfer funds (Decision 33/2 (j)) and use of international consultants (Decision 33/2 (k)) for other relevant sectors, particularly the refrigeration sector. Implementing agencies declined to take this action on the grounds that Decision 33/2 arose from consideration of the foam sector. The Executive Committee might wish to request implementing agencies to provide the undertakings from

governments, and to implement the actions listed above, as referred to in Decision 33/2, for all phase-out projects in all sectors.

Enterprise consumption and country data

8. At the 32nd Meeting the Executive Committee deferred refrigeration projects in Iran because of substantial problems with apparent inconsistencies between consumption data provided in projects and country data provided to the Fund and Ozone Secretariats. In relation to Iran these problems have now been resolved and the projects are being recommended for blanket approval at this meeting.

9. However substantial data inconsistencies have arisen again in projects for the current meeting, particularly in Jordan Brazil, Peru and Vietnam. In Jordan, the phase-out in the submitted project exceeds the latest reported consumption in the country not addressed by approved projects. Because of this, the project is recommended for individual consideration. Peru has reported nil consumption in the foam sector since 1995, while Vietnam has reported consumption of 2 tonnes of CFC-11 in 1999 only. These two projects have not been submitted, so that it can be verified whether or not the enterprises in question are eligible or have already phased out the use of CFC-11.

10. In Brazil, the consumption attributed to the projects exceeds the latest reported national consumption in the foam sector by almost 1000 tonnes. These projects have been referred for individual consideration because of this issue. Again, the Secretariat is concerned to establish (a) whether or not the enterprises have already commenced using HCFC-141(b), in which case the conversion has already occurred and there may be no project, or (b) whether the production capacity in the enterprise was established prior to, or after 25 July 1995. The Secretariat has questioned the latter issue because in many cases in the Brazil projects it is stated that the business name of the enterprise was registered later than 1995, but that the enterprises were previously owned by other companies that were themselves established prior to the cutoff date. It is now six years after the cutoff date and the number of enterprises established after that date must be increasing, especially in countries with expanding economies.

11. The Executive Committee has previously urged implementing agencies to corroborate consumption data (Decision 30/23). In Decision 30/23 the Committee requested the Secretariat to submit for individual consideration any project preparation requests for countries where 80 per cent or more of the consumption in a sector would have been addressed when implementation of already approved projects was completed. The Executive Committee might now consider requesting the Secretariat to ensure that all inconsistencies between the latest reported sectoral consumption data and project consumption data are resolved before submitting projects for consideration by the Committee.

Projects not in business plans

12. A number of projects submitted to the 34th Meeting were not included in the 2001 business plans or contingency lists of the relevant agencies as submitted and approved at the

33rd Meeting. Moreover, some projects were submitted at values much higher than those in the business plans or for levels of phase-out below that in the business plans. The Executive Committee has given agencies 15% flexibility in business plan programming (Decision 24/4). Separately, it allows over-programming of up to 15%, i.e., projects valued 15 per cent higher than the business plan allocation to be submitted. These measures, and contingency lists, have as their main purpose, ensuring that the agencies obtain their full share of resources. During the compliance period, activities are included in business plans at the request of Article 5 countries with the expectation that those projects will contribute to their compliance efforts. The sub-committee may wish to consider if the flexibility allows agencies to submit projects outside of their business plans that might jeopardise those country's projects included in the business plan.

Consumption arising from CFC-11 contained in pre-mixed foam chemicals

13. In 2000, the 25th meeting of the Implementation Committee considered a request from one Article 5 country, India, to revise its baseline data and its 1999 consumption of Annex A Group I substances to include some 4000 ODS tonnes of CFC-11 contained in imported, pre-blended chemicals (polyols) used for the manufacture of foam. The Implementation Committee drew India's attention to Decision I/12 A, and especially sub-paragraph (e) (iii), which made it clear that polyols were to be regarded as a product under the terms of the Montreal Protocol so that CFCs in polyols should not be counted as consumption by the importing country.

14. The CFC-11 is accounted for in bulk, before it is added, in the country where the pre-blended polyol is manufactured. If the CFC-11 in the polyol is not counted as a controlled substance, the pre-blended polyol is not subject to the Montreal Protocol control schedules. The phase-out of the use of the CFC-11 in pre-blended polyols may not be eligible for assistance from the Multilateral Fund.

15. Is it likely that this situation also exists in a number of other Article-5 countries and the Executive Committee's guidance is required. For any individual project, since it cannot be stated with certainty whether the pre-blended polyol is imported or is blended in the country with CFC-11 which has already been included in the country's consumption, the enterprise should be given the benefit of the doubt and should continue to be considered as having eligible consumption. However at the country level, when it is established that a proportion of the use of CFC-11 in the foam sector arises from the importation of pre-blended polyols containing CFC-11, the Executive Committee might wish to clarify whether funding should be provided from the Multilateral Fund to cover projects which address only the total remaining consumption as defined under the Protocol, that is, excluding the quantities arising from importation of pre-blended polyol.
