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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
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**PROJECT CANCELLATIONS IN LIGHT OF COUNTRY COMPLIANCE  
(DECISION 37/8 (h))**

1. This document addresses Decision 37/8(h) that requested the Secretariat to prepare a working paper on how to deal with project cancellations in an overall, strategic manner in light of country compliance rather than on a case-by-case basis.

## Background

2. The procedures for project cancellation require the Secretariat to inform the country and implementing agency concerned that a project may be cancelled if no progress is reported to two consecutive meetings of the Executive Committee after either a project was expected to be completed 12 months late, the first disbursement took longer than 18 months, or the project was approved three years earlier and previously classified as having been delayed. Decision 36/14 removed institutional strengthening, halon banking, customs training, recovery and recycling, and demonstration projects from the list of projects with implementation delays, and therefore, these types of projects are not subject to the procedures for project cancellation.

3. At its 35<sup>th</sup> through 37<sup>th</sup> Meetings, the Executive Committee requested that the Secretariat and implementing agencies to take necessary actions according to the Secretariat's assessment of status and to report and notify governments as required. It also initiated a process for the automatic cancellation of projects. After 2 consecutive reports of no progress, implementing agencies were asked to set a milestone and a deadline for achieving that milestone in full consultation with the country concerned (Decision 35/13(d)).

4. Annex I of this document presents the existing operational guidelines for projects with implementation delays that may lead to project cancellation.

5. As provided in the Guidelines, projects are either cancelled by mutual agreement between the implementing agency and country concerned or as a result of the procedures for project cancellation.

## Potential of project cancellations during the compliance period

6. 83 projects were cancelled between 1995 and 2001 of which 75 are investment projects. All but a few projects were cancelled through mutual agreement between the country and the agency concerned. The number of investment project cancellations has started to decrease since 1999.

Project Type	1995	1996	1997	1998	1999	2000	2001	Total
Investment project	7	8	11	5	20	14	10	75
Technical Assistance	0	1	1	0	0	1	2	5
Country Programme Preparation	1	2	0	0	0	0	0	3
<b>Total</b>	8	11	12	5	20	15	12	83

7. Since there are some 700 projects under implementation, some of them could become subject to procedures for project cancellation. However, project cancellations are expected to further decrease in number as more countries enter into performance-based agreements with the Executive Committee where annual funding is released on the basis of achieving reductions in overall consumption and production of ODS.

### **Impacts of the procedures for project cancellation, automatic cancellation and the country's role in cancellations**

8. The procedures for project cancellation afford enterprises several opportunities to report that the project had resumed full implementation activities. Before deciding to cancel such projects, the Monitoring, Evaluation and Finance Sub-Committee (MEF) has heard reports from the agencies concerned before taking a decision and the agencies have had several discussions with the enterprises and countries concerned.

9. Several projects were presented to the 35<sup>th</sup>, 36<sup>th</sup> and 37<sup>th</sup> Meetings for possible cancellation as a result of no progress reported to two consecutive meetings. The Executive Committee requested the agencies and countries concerned to agree a milestone to be met recognising that if the milestone were not met, the project would automatically be cancelled. This effectively gave enterprises another opportunity after no progress to two consecutive meetings had been reported, and involved the Government in setting a deadline. One project was cancelled since automatic cancellation was initiated but the enterprise also decided to withdraw from the project.

### **Impact on country compliance with the Montreal Protocol**

10. During the compliance period, a cancelled project could have an impact on a country's ability to comply with the control measures of the Montreal Protocol. For example, if there is one aerosol sector project in a country that represents 50 per cent of the country's CFC consumption, the Article 5 country might not achieve its 2005 CFC control measures unless either the company stops its use of CFC on its own, other consumption is reduced by 50 per cent, the Government takes other measures, or the company reapplies for funding pursuant to Decision 29/8.

11. Decision 29/8 allows a cancelled project to be resubmitted, no earlier than 24 months after project cancellation, to the Executive Committee for consideration on a case-by-case basis at a level of funding no greater than that previously approved. This option is available to all cancelled projects except those where there was a transfer of ownership to a non-Article 5 country ownership or the enterprise concerned was bankrupt (Decision 29/8). It nevertheless would require a two-year wait until the project could be resubmitted that might impact the country's immediate compliance needs.

## **Observations**

12. The application of existing rules and procedures for project cancellation has been left to the Secretariat and the implementing agencies for the last year. In this regard, they have implemented the automatic cancellation of projects where applicable, without first submitting the case to the Executive Committee, also for a year.

13. At its 17<sup>th</sup> Meeting, the MEF Sub-Committee suggested the consideration of an approach in which the Secretariat and the implementing agencies would proceed with project cancellations by applying existing rules. The Secretariat would only submit projects for cancellation to the Sub-Committee if the cancellation could not be agreed between the Secretariat and the implementing agency or in those cases where the project was critical to a country's compliance with the Montreal Protocol. Otherwise, the established procedure for automatic cancellation permits the Secretariat with the relevant implementing agency to automatically cancel a project. Countries are involved in this process either by agreeing to a cancellation through mutual agreement or in establishing a deadline before automatic cancellation.

14. A decision to cancel projects that might directly impact the achievement of compliance should also involve countries. A definition of what is critical is also needed. For example, a project that is critical to a country's compliance could be considered one for which the phase-out would bring the country into compliance based on its latest consumption. A final decision on cancellation for such projects might continue to be reviewed on a case-by-case basis by the MEF Sub-Committee with input from the country concerned, the implementing agency and the Secretariat. The country might be asked to indicate what actions it would take to reactivate the project in cases where the country did not recommend the cancellation of a project relevant to compliance.

## **Recommendation**

The Monitoring, Evaluation and Finance Sub-Committee may wish to consider recommending to the Executive Committee to:

1. Authorise the Secretariat, in co-ordination with the implementing agencies, to implement the procedures for project cancellation leading to the possible automatic cancellation of projects except in those cases where the Secretariat and the implementing agency concerned do not agree to cancel the project and in those cases where the project may have an impact on compliance with existing or future control measures of the Montreal Protocol and,
2. Request countries with projects subject to cancellation, where the cancellation might have an impact on the country's compliance with the next relevant control measure of the Montreal Protocol, to present its views on the cancellation along with any actions that the Government would take to reactivate the project.

## Annex I

### OPERATIONAL GUIDELINES FOR IMPLEMENTATION DELAYS

#### Background

1. Decision 23/4 requested the Sub-Committee on Monitoring, Evaluation and Finance “to maintain a watching brief on project implementation delays”. This document summarizes the Executive Committee’s previous decisions and provides guidelines for reporting on project implementation delays.
2. At its 22<sup>nd</sup> Meeting, the Executive Committee defined slow disbursement and delays in project implementation as projects where no disbursement had occurred 18 months after the date of approval of a project or projects that had not been completed 12 months after the proposed completion date in the progress report of the agencies (Decision 22/61).
3. Decision 22/61 requested that a full explanation of the reason for the delay should be submitted to the meeting of the Executive Committee.
4. Decision 26/2 endorsed the following procedures for project cancellation:
  - (a) First, that projects can be cancelled through mutual agreement among the Implementing Agencies, the Government concerned and the beneficiary enterprise where applicable. Agencies should indicate their proposed cancellations to the Executive Committee through their annual progress reports and/or reports on projects with implementation delays, bearing in mind the definition of project implementation delays adopted at the Twenty-second Meeting (Decision 22/61);
  - (b) Second, that projects with implementation delays identified by the Executive Committee at its second meeting in each year could be considered for cancellation if the following two criteria were met:
    - (i) Criterion 1: If no progress is reported after a project has been classified in the latest progress report as having an implementation delay, the Secretariat on behalf of the Committee may, at the meeting following classification, issue a notice of possible cancellation of the project to the Implementing Agency concerned and the recipient country Government.
    - (ii) Criterion 2: If no progress is reported to two consecutive meetings of the Executive Committee for a project classified as having an implementation delay, the Committee may, taking into account the response to the notice of possible cancellation, decide on cancellation of the project on a case-by-case basis.

5. Decision 32/4 (i) indicated that projects which should be considered for cancellation in accordance with the Executive Committee's project cancellation guidelines (Decision 26/2) should include:

- (i) projects which have made no progress;
- (ii) projects approved more than three years previously which have not moved from one milestone to another, the delay in which has not been clearly removed, or which have additional implementation delays, and which, despite additional actions taken by the agency, government or beneficiary, still experience implementation delays.

6. At its 35<sup>th</sup> Meeting, the Executive Committee considered projects that had no progress to two consecutive meetings. It decided to request implementing agencies to establish a new deadline for the next project milestone to be achieved in moving these projects forward, in full consultation with the governments concerned. If that deadline expired and no progress had been achieved, the government and company concerned understood that the project would automatically be cancelled and the ODS phase-out from the cancelled project would be credited to the remaining ODS consumption accordingly (Decision 35/13(d)).

7. Implementing agencies are requested to provide a project milestone to be achieved before the next Executive Committee Meeting for projects classified with no progress to two consecutive meetings.

**Format for Reporting Implementation Delays**

Code	Agency	Projects Title	New Progress to be Reported since Last ExCom Meeting	Assessment: "Progress" "Some Progress" "No Progress"	Category of Delay (A, B, C, D, E, F)

**Definitions of Terms for Reporting Implementation Delays**

**Agency:** Name of implementing agency, e.g. UNDP - United Nations Development Programme; UNEP - United Nations Environment Programme; UNIDO - United Nations Industrial Development Organization; IBRD - World Bank; and name of country for bilateral agencies.

**Assessment:** Implementing agencies were asked to assess whether or not projects that have had implementation delays had experienced any progress since their last report on implementation delays. Assessment is classified into three categories and they are as follows:

Assessment	Definitions
Progress	There was clear evidence that there had been progress from one milestone to another or that the implementation delay had been removed.
Some Progress	Decision 32/4 redefined some progress follows: (a) Institutional strengthening projects, which had not moved from one milestone to another, the delay in which had not been clearly removed or the project had additional delays. (b) Projects that were approved within the last three years for which there was no clear movement from one milestone to another; the implementation delay had not been clearly removed; and/or there had been additional delays in implementation despite additional actions taken by the agency, the government or the beneficiary. (c) Projects which has approved more than 3 years previously and had been classified as experiencing implementation delays should remain on the list of projects for continued monitoring.
No Progress	Projects that are experiencing implementation delays that have not moved from one milestone to another. Please note that institutional strengthening projects can not be classified as no progress.

**Category of Delays:** Implementing and bilateral agencies should categorise the causes for implementation delays according to seven categories (A through G). If more than one reason was provided, the cause of the delay was assigned to category A, to indicate, where possible, firstly, if the delays were caused by the agency, then the enterprise, etc.

Category	Definitions
A	<u>Due Implementing Agency delays:</u> Delays are generally related to scheduling difficulties, availability of consultants, internal processes leading to the signature of grant/sub-grant agreements, and difficulties with financial intermediary or executing institution, etc.
B	<u>Due to enterprise delays:</u> Reasons for delays include the time taken by the enterprise to endorse equipment specifications, to conduct additional product quality trials, to complete local works, change in technology, safety and for different management to review the project, etc.
C	<u>Due to technical reasons:</u> Delays for technical reasons include equipment order backlogs, time needed to repair equipment not functioning properly, and unavailability of the alternative substance, etc.
D	<u>Due to Government delays:</u> Reasons for delays include staggered implementation schedules imposed by Governments to prevent market distortions, the lack of the required pre-conditions for project implementation and slow implementation by the NOU, etc.
E	<u>Due to external factors:</u> Reasons for delays generally relate to market and/or economic conditions in the country.
F	<u>Due to ExCom approval conditions:</u> The establishment of pre-conditions for implementation by the Government (Category D) is related to delays caused by Executive Committee decisions (Category F). The Committee's decision on disallowing the disbursement of Fund resources for financial transfer to Governments in the form of customs duties has caused some countries to require additional measures to enable duty-free imports.
G	<u>Not Applicable:</u> This category usually applies to projects that are completed or agreed to be cancelled and therefore there is no further reason for delay

**Code:** The project number that is assigned to the project in the Multilateral Fund (MLF) Secretariat's Inventory of Approved Projects. Code should include the following information: Country Code, Sector Code, Meeting Number, Type, and Inventory Number. An example of a project number is as follows: ARG/REF/18/INV/118. This sample project number is for a

project approved for Argentina in the domestic refrigeration sector at the 18<sup>th</sup> Meeting of the Executive Committee. It is an investment project, and the 118<sup>th</sup> project/activity approved by the Executive Committee for Argentina. Inventory number used internally by the individual implementing agencies should not be used.

**New Progress to be Reported since Last ExCom Meeting:** Implementing agencies should specify progress achieved towards the goals of projects/activities. Reasons for any additional delays should be presented in this section.

**Project Title:** The title listed in the approval recorded in the report of the Meeting of the Executive Committee at which the project was approved. Project title should include name of enterprises and/or sub-sector. If several enterprises are represented by one approval, individual enterprises may constitute one project or could be grouped by sub-sector and all information required for a data base entry should be provided.

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