



**United Nations
Environment
Programme**

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/40/27
19 June 2003

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fortieth Meeting
Montreal, 16 -18 July 2003

ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and activities presented to the 40th Meeting

Submissions by Implementing and Bilateral Agencies

1. The total value of projects and activities received by the Fund Secretariat from implementing and bilateral agencies for submission to the 40th Meeting is US \$236,895,145 (including agency support costs where applicable). The requested funding amounts to US \$84,104,519 including tranches for sector plans and methyl bromide 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 approval of 21 investment projects as well as other activities in the amount of US \$5,452,163. Fourteen investment projects and other activities with a total value of US \$17,587,602 have been withdrawn or deferred, including projects which did not provide adequate information or the eligibility of which was in doubt. The incremental costs of investment projects, sector plans and national phase-out plans, with a total value of requested funds amounting to US \$5,755,000 have been agreed with the relevant implementing agencies, and are submitted for individual consideration in keeping with past practice.

Status of the Fund

3. At the time of preparation of this paper, Multilateral Fund resources available for commitment amount to some US \$68 million.

Issues arising from project review

Contribution of non-investment projects to ensuring compliance

4. Since the inception of the Fund, the Executive Committee has approved funding for the implementation of 87 refrigerant management plans (RMPs), of which 43 are under Decision 31/48 on RMPs and 12 total CFC phase-out management plans (TPMPs), of which 5 were for low-volume consuming countries (LVCCs). At the same time data reported under Article 7 of the Protocol indicates that 11 Article 5 countries have not reported baseline consumption for CFCs, the latest reported consumption of another 13 Article 5 countries exceeds their freeze level and the latest reported consumption of 69 Article 5 countries is still above the 50 percent reduction level they will have to meet by the end of 2004.

5. For the majority of Article 5 countries, and particularly all LVC countries, the extent of their success in reducing CFC consumption in the refrigeration servicing sector will determine their ability to achieve compliance. The RMP is, in effect, a strategic phase-out plan through which an Article 5 country will achieve specific phase-out targets in 2005 and 2007. The level of funding for the RMP is based on a set of specific activities and governed by Decision 31/48. However, unlike investment projects, the activities in the RMP are ongoing. While a particular component of an RMP such as a training programme or the installation of recovery and recycling

machines may be implemented within a short time, the objective of the RMP to reduce consumption will be achieved over a longer period. The RMP does not cease when the equipment or activity in the sub-project has been delivered.

6. In this regard, determining the effectiveness of ongoing implementation presents a challenge. For countries with an RMP approved, the only indicator for determining actual reductions in CFC consumption is the data that the countries concerned report under Article 7. This indicator has a major limitation, since the data reported is typically between six and 18 months out of date.

7. The desk studies on recovery and recycling projects (31st Meeting) and refrigerant management plans (39th Meeting) generally contribute to the view that RMPs as currently implemented are not demonstrating their effectiveness in contributing to the reductions in consumption that are needed to enable compliance. The condition in Decision 31/48 that the country will meet its 2005 and 2007 obligations without further assistance from the Fund does not, of itself, contribute to the achievement of the phase-out objective, even though it obviates the Fund's obligation to provide additional funding.

8. The above observations indicate the need for urgent re-consideration of the approach currently being taken to the implementation of RMPs and other non-investment activities. Project completion reports, progress reports, discussions at network meetings and bilateral discussions with countries and implementing agencies all indicate unambiguously that RMPs are prepared and implemented on a sub-project by sub-project basis, the objective being to deliver the relevant product specified in the sub-project, whether recovery and recycling machines, training programmes or assistance with development of legislation. This approach needs to be re-oriented to encompass the primary goal of assisting countries to achieve compliance.

9. It appears that if such a re-orientation takes place, the role of the implementing agency or agencies in providing assistance to Article 5 countries will not cease at the time the recovery machines are delivered, or the first training course has been completed. Rather, the agency or agencies may need to continue their involvement, as technical assistance bodies, over the whole RMP implementation period to assist in delivery of the overall objective, namely the reductions in consumption to which the country is committed.

10. Decision 39/16 (b) requires nomination of all the agencies that will be involved in the RMP and the lead agency that would be responsible for overall RMP implementation, including its phase-out objectives and for reporting on overall progress with achievement. While this decision captures the main policy requirement, the challenge remains to achieve a re-orientation of the approach.

11. To this end the Executive Committee might consider whether the lead in instituting this change in approach needs to be taken up by the implementing agencies, who represent the Fund at the country level and who exercise financial management of the projects. The primary focus will shift away from achievement of the narrower goals of the individual sub-projects and towards achievement of compliance. The Executive Committee may wish to urge implementing agencies to view all non-investment projects from the perspective of their contribution to compliance, both qualitatively and quantitatively, and to request them to include in all future

project submissions and progress reports clear indications of the roles of relevant national authorities and the implementing agencies concerned in achieving the required reduction targets, the timeline and the reduction steps to be achieved and the measures to be taken to monitor on-going achievement.

Conversion of RMP updates into terminal phase-out management plans

12. At the 38th Meeting the Executive Committee decided that proposals for TPMPs prepared from funding provided for updates of RMPs would be considered on a case by case basis (Decision 38/64). Since that decision was taken in November 2002, four proposals for TPMPs have been submitted. According to implementing agencies' business plans, about seven additional proposals might be expected in 2003 and 2004. The Secretariat is concerned at the implications of the conversion of RMP updates to TPMPs for the following reasons:

- (a) TPMPs typically contain the same sub-project elements as RMPs, that is: additional recovery and recycling equipment; incentive programmes for end user conversions; training for technicians and customs officers, and; a management component;
- (b) approval of TPMPs at this time may not provide the type of assistance needed, while at the same time cutting off any access by the countries concerned to any further support apart from institutional strengthening.

13. One alternative would be to proceed with RMP updates to address only the 2007 control measure at the present time, leaving the way open in the future to request additional assistance, in circumstances where the actual needs of countries are better understood in the light of the changes that will occur in relevant economic conditions when the supply of CFCs decreases in future years.

14. There may be special circumstance for some countries whereby they are already in a position to proceed with confidence to a complete phase-out. Currently, few countries appear to be in this position, and fewer still are able to predict the timing of relevant economic change or to identify now the type of assistance they may eventually need to sustain compliance between 2007 and 2010.

15. The Executive Committee may wish to a) urge low volume consuming countries to carefully consider whether it is in their interests at this stage to attempt to identify the assistance required to achieve total phase-out, b) request implementing agencies to give priority to assisting countries with implementation of the approved RMP to meet their 2005 and 2007 control targets and c) consider approving TPMPs only in circumstances where it can be fully demonstrated that the relevant economic conditions in the country are conducive to a cessation of the use of CFCs and that the country has clearly identified the nature of the assistance it needs to sustain complete phase-out.

Monitoring/Sustainability of implementation

16. In some cases in recent TPMPs, RMPs and methyl bromide projects the mandated reductions have been achieved mainly because of changed economic circumstances in the country rather than as a result of reductions in consumption arising from implementation of the project. In these circumstances reductions may not be sustainable when the economy recovers. There is a need when reporting progress to differentiate between reductions achieved through project implementation and windfall reductions arising from factors external to the project. The Executive Committee might request implementing and bilateral agencies to indicate in a quantitative way in progress and all other relevant reports, the extent to which phase-out has been influenced by broader economic change in the country concerned.

Projects not submitted to the 40th Meeting

17. The Secretariat received for the 40th Meeting three projects requesting funding substantially in addition to the financial provisions dictated by the approved 2003-2005 Phase-out Plan of the Multilateral Fund. The projects are a sector plan to address the remaining consumption of CFC-12 in the servicing sector in India submitted by the Government of Germany, a National Compliance Action Plan for Sri Lanka, submitted by the Government of Japan and a request for approval of phase two of a project for replacement of CFC-based chillers in Mexico submitted by the Government of the United Kingdom. The projects have not been submitted to the 40th Meeting because they are not consistent with relevant Executive Committee decisions and policies as indicated below. This matter is presented for the information of the Executive Committee and in the interests of transparency.

18. The refrigeration servicing sector plan for India has been prepared by Germany on a bilateral basis using project preparation funds of US 240,000 approved at the 32nd Meeting of the Executive Committee with additional, funded, contributions from the Government of Switzerland, UNDP and UNEP. The same governments and agencies will undertake its implementation. The requested funding level is about US \$12.6 million, to phase out the total remaining eligible consumption of some 876 ODP tonnes. The three year phase-out plan indicates that India will meet its 2005 and 2007 CFC phase out targets through the implementation of approved activities. Thus the proposal constitutes a request for accelerated phase-out. India's refrigeration servicing sector plan was first communicated to the Secretariat prior to the 39th Meeting. Since then, the Secretariat has been discussing with the government of Germany the issues raised in the Secretariat's ongoing review in order to prepare the proposal for submission to a future meeting.

19. The National Compliance Action Plan (NCAP) for Sri Lanka requests funding of US \$2.9 million plus agency support costs to phase out the total consumption of ODS remaining to be addressed in Sri Lanka, indicated in the proposal as 152.7 ODP tonnes of CFCs and 30 ODP tonnes of CTC. It has been prepared as bilateral cooperation by the Government of Japan. The Executive Committee did not receive a request or approve funding for the preparation of an NCAP for Sri Lanka. In regard to CFC consumption, while the three year phase-out plan indicates that Sri-Lanka may need assistance to phase-out an additional

70 ODP tonnes of CFCs to meet the 2007 reduction limit, this assessment has not taken into account Sri-Lanka's approved refrigerant management plan, in which Sri-Lanka committed to achieve, without further requests for funding, at least the 50 percent reduction step in 2005 and the 85 percent reduction step in 2007. It would appear therefore that the NCAP will need to address only the remaining 15 percent of CFC consumption and any remaining eligible CTC consumption. These activities are not included in the three year phase-out plan and therefore the project also constitutes a request for accelerated phase-out.

20. In accordance with Decision 39/49, the above two proposals have not been submitted to the 40th Meeting, pending clarification of the availability of funding for accelerated phase-out and the adoption of criteria for approval. The issue is to be discussed under Item 6 of the agenda of the Sub-Committee on Monitoring, Evaluation and Finance.

21. The cover sheets for the above two proposals appear in Annexes I and II to this document.

22. Additionally the Secretariat received a request from the Government of United Kingdom for approval of an additional US \$500,000 to finance the second phase of the chiller replacement project for Mexico which was approved at the 28th Meeting in 1999 at an initial funding level of US \$500,000. The approval of the first phase was made with the expectation that "money paid in the first phase would be made available for redeployment by the Executive Committee either for a second phase of chiller purchases in Mexico or for other specific projects to phase out ozone-depleting substances in Mexico" (Decision 28/32).

23. Both the Meeting of the Parties and the Executive Committee have noted the specific circumstances of the CFC phase-out of the chiller subsector and requested reviews of the subsector. The Fourteenth Meeting of the Parties requested a review by the Technology and Economics Assessment Panel and expected a report at the 2003 Open-ended Working Group Meeting and the Executive Committee asked the Secretariat to re-examine the issue for a possible policy update.

24. In view of the ongoing investigations, neither the chiller subsector nor the specific project in Mexico have been included in the 3-year phase-out plan of the Multilateral Fund approved by the Executive Committee. Additionally, at its 37th Meeting, the Executive Committee approved a project for CFC phase-out in the chiller sub-sector for Cote d'Ivoire, on the understanding that the project would complete the cycle of demonstration projects in the chiller sub-sector for each region, and that no further chiller demonstration projects would be forthcoming. Accordingly, the request has not been submitted to the 40th Meeting.

Annex I

40TH MEETING OF THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

PROJECT COVER SHEET

COUNTRY: India
IMPLEMENTING AGENCY: Germany (Lead)
Switzerland
UNDP
UNEP

PROJECT TITLE: Sector Plan for the Phase-Out of CFC-12 Consumption in the Indian Refrigeration and Air Conditioning Service Sector

PROJECT IN CURRENT BUSINESS PLAN(s): Yes

SECTOR/SUB-SECTOR Refrigeration / Service
ODS USE IN SECTOR [year]: 1502 ODP tons [2001]
PROJECT IMPACT Total Phaseout of CFC-12 consumption in the refrigeration service sector: 1502 ODP tonnes of consumption; of that eligible: 876.2 ODP tons

REMAINING ODS USE IN SECTOR [2010]: 0
PROJECT DURATION: 84 Months

PROJECT COSTS (MLF related part of project):
Incremental Capital Cost as per proposal US\$ 21,696,324
Incremental Operating Cost US\$ 0
Contingency (10%) Included above
Share of remaining tons eligible for funding of consumption in sub-sector 58.34 %
Remaining eligible project cost US\$12,656,670

LOCAL OWNERSHIP: 100 %
EXPORT COMPONENT: 0%
REQUESTED MLF GRANT: US\$ 12,656,670 (to be released in tranches for the entire sector plan.)

IMPLEMENTING AGENCY SUPPORT COST: US\$ 1,216,993 (for entire sector plan)
TOTAL COST OF PROJECT TO MLF: US\$ 13,873,663 (for the entire sector plan)
OVERALL COST-EFFECTIVENESS (MLF PART) US\$ 8.42/ kg ODP
US\$ 14.44/kg eligible ODP

ADDITIONAL FUNDING: Government of Switzerland (task specific):
Equivalent services value: US\$ 1'250'869

PROJECT MON. MILESTONES INCLUDED: Yes
NATIONAL COORDINATING AGENCY: Project Coordinator / Ozone Cell, MoEF

PROJECT SUMMARY

This sector plan, being the terminal MLF funded undertaking in the service sector, will support the Government of India in eliminating CFC-12 consumption in this sector through a number of training and equipment support measures enabling good practice and retrofit. Expected natural retirement of equipment will further support reduction in CFC-12 consumption. retrofit. Starting with a significant outreach effort, the project implementation will last until end of 2009.

IMPACT OF PROJECT ON COUNTRY'S MONTREAL PROTOCOL OBLIGATIONS

The project covers the total CFC-12 phase-out within the service sector, which is in turn the last sub-sector of the refrigeration sector. This project phases out all of the remaining CFC-12 consumption in India except for the consumption of CFC-12 in MDI uses. This project is essential for India in order to achieve compliance with the 2007 (1002 ODP tons remaining CFC consumption) and 2010 (0 ODP tons remaining CFC consumption) reduction steps.

Prepared by: S. Sicars, GTZ-consultant (lead), in cooperation with MoEF, Switzerland,
UNDP, UNEP, local experts and stakeholders Date: Aug. 18, 02/April 15, 03
Reviewed by: Martien Janssen, Re/Gent Consultancy, The Netherlands Date: Aug. 23, 02

Annex II

PROJECT COVER SHEET

Country	:	The Democratic Socialist Republic of Sri Lanka
Name of Project	:	National Compliance Action Plan
Project in Current Business Plan	:	Yes
Sectors Covered	:	Refrigeration and Halon
Sub Sector	:	Servicing
ODS Use in Sub-Sector (2001 Reported data)	:	Refrigeration 190.1 ODP Tonnes Halon 0 ODP Tonnes (funding is requested based upon ExCom Decision 18/22) Solvent 30 ODP Tonnes Methyl bromide 4 ODP Tonnes
Eligible Project Impact (ODS to be eliminated)	:	Refrigeration 152.7 ODP Tonnes (<i>Difference will be phased out through ongoing projects and legislation</i>) Halon 0 ODP Tonnes (funding is requested based upon ExCom Decision 18/22) Solvent 0 ODP Tonnes Methyl bromide 0 ODP Tonnes
Project Duration	:	Till Dec. 2009
Project Costs		
Incremental Capital Cost	:	\$2,881,000
Contingency	:	Included in Incremental Capital Cost
Incremental Operating Cost	:	\$0
Total Project Cost	:	\$2,881,000
Requested Grant	:	\$2,881,000
Implementing Agency Support Cost	:	UNDP \$145,725 (as 7.5 % of project costs) UNEP \$121,940 (as 13 % of project costs)
Total Cost of Project to Multilateral Fund	:	\$3,148,665
Local Ownership	:	100%
Export Component	:	Refrigeration 0 % Halon 0 % Solvent 70 % Methyl bromide 0 %
Cost Effectiveness	:	\$20.62/kg
Status of Counterpart Funding	:	In kind
Project Monitoring Milestones Included	:	Yes
National Coordinating Agency	:	Montreal Protocol Unit, Ministry of Environment And Natural Resources
Lead Implementing Agency	:	UNDP
Cooperating Implementing Agency	:	UNDP, UNEP, Japan

The National Compliance Action Plan (NCAP) will phase-out the remaining consumption of 190.1 ODP tons of Annex A, Group I CFCs, etc. over the period of 2003–2010. A series of investment, non-investment, technical assistance, and capacity building activities are proposed to achieve this target. The NCAP will enable the Government of Sri Lanka, which is facing unexpected challenges due to opening of the Northeast, nevertheless to phase-out CFC consumption by 2005 and maintain the momentum after its initiative early phase-out through enforcement of illegal trade prevention measures, etc. Considering this multi-faceted approach it is crucial that flexibility be given to the Government of Sri Lanka to adapt or modify its strategies during implementation of this plan as the need arises.

The Government of Sri Lanka requests US\$3,148,665 as the total funding from the Multilateral Fund for the total elimination of all Annex A Group 1 substances (CFCs) and halon management in all sectors using these substances. The approval of this project will result in the elimination of CFCs consumption in Sri Lanka and will allow the country to meet its Montreal Protocol obligations.