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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
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Bali, Indonesia, 13-17 November 2011

Addendum

**REPORT ON IMPLEMENTATION OF APPROVED PROJECTS WITH SPECIFIC
REPORTING REQUIREMENTS**

This document is issued to:

- **Add** the following paragraphs:

China: Sector plan for phase-out of ODS process agent applications (phase II) and corresponding CTC production (2010 verification report and 2009-2010) (World Bank)

China: Phase-out of the production and consumption of CTC for process agent and other non-identified uses (phase I) (2010 verification report) (World Bank)

1. The World Bank is submitting to the 65th meeting, on behalf of the Government of China, four documents related to production and consumption of ODS in process agent uses:

- (a) The verification report of the 2010 CTC consumption for the Process Agent Sector Plan – Phase I (PA I);
- (b) The verification report for the 2010 CTC consumption for the Process Agent Sector Plan - Phase II (PA II);
- (c) The verification report for the 2010 CTC production for PA I; and
- (d) The implementation progress report for the 2009-2010 annual programme of the PA II Sector Plan.

2. All the funding tranches under the PA II have been disbursed and the programme implemented. The remaining monitoring and support activities are conducted with funds from PA I.

3. The World Bank had changed the format of the verification report regarding the process agent production and consumption of CTC in China as compared to earlier reports. The World Bank had previously contracted external consultants with an independent mandate to carry out the verification, specified the date at which companies were visited, and assured that the verification is comprehensive and complete. The revised template used for the report provides a detailed account of the current situation in many of the enterprises, although the report is not always explicit on which information relates to observations and which had been provided by one of several stakeholders. A fair part of the information in the report has been observed or compiled by what is referred to as a World Bank team, and other parts from MEP-FECO. The information content is high and detailed. However, the Secretariat found that a number of enterprises where changes took place in 2010, such as closure of facilities or conversion, had not been visited. In a reply to a related question by the Secretariat, the World Bank advised that, while in some of the cases queried by the Secretariat, visits had taken place in others such visits were planned for the near future.

4. The World Bank further informed that the different approach to a verification taken was based on the development of CTC conversion technology, the tightening of the legal system for users of CTC limiting CTC use to feedstock and those uses allowed by FECO, and the fact that chloroform is now in high demand, therefore, conversion of CTC to chloroform is financially an attractive option for chloromethane producers as compared to selling CTC for controlled uses. The Bank advised that, given the fact that the 2010 verification was the last one under the Agreement, it would be in the best interest of FECO to have an up-to-date system to allow FECO to carry out their monitoring responsibility in the future. The Bank further informed that all CTC producers in China, as well as the three PA I companies, and over 25 per cent of the PA II companies were subject to on-site audits.

5. All reports submitted as verification reports by the World Bank, i.e. the report about the stage I of process agent phase-out (PA I), the report of stage II (PA II) and the report regarding the production contained in a large number of enterprise specific observations. For all enterprises included in the reports, the verification follows the flows of material, checks material balances, comments on the operation of the facility producing or consuming CTC, refers to stockpiles in the beginning and the end of the year as well as the respective CTC production and/or consumption during the year. The methodology for the verification of each of the plants is broadly in line with methodologies observed in previous years, although details vary. From the information provided, the Secretariat understands that both China as well as the World Bank have undertaken a serious process to monitor the current status of CTC production and consumption in China. It becomes sufficiently clear from the monitoring that limitations for production and consumption of CTC have been observed; the results are provided in Table 1 below.

Table 1: Results of the verification reports provided

Year	Metric tonnes		ODP tonnes					
	Production		Consumption		Production		Consumption	
	Total	For controlled uses	PA I	PA II	Total	For controlled uses	PA I	PA II
Montreal Protocol requirements	n/a	4,065*	200	904	n/a	4,471*	220	994
Agreement limits	n/a**	4,065*	200	904	n/a**	4,471*	220	994
Verified levels***	66,955****	0	179*****	0	73,651****	0	197	0

* For basic domestic needs of other Article 5 Parties

** No limits for feedstock use to produce non-ODS; limit of 12,217 ODP tonnes (11,106 mt) for feedstock use to produce ODS

*** “Verified levels” follows the submission in the use of the term “verification” and is not synonymous to “independent verification”

**** For non-ODS feedstock production

*****The World Bank informed that the 179.3 mt of CTC had been delivered by a licensed dealer, and the purchases by this dealer would not be recorded as sales for consumptive uses at the producer level. However, the licensing system covering dealers as well did produce matching records at dealer and consumer level

6. Despite the mainly satisfactory information provided, the Secretariat has to point out that the report provided does not fulfil the requirements associated with verification reports. The main concern of the Secretariat is that the verifications have not been independent; the importance of having an independent verifier conducting the process in addition to monitoring by different stakeholders has been proven repeatedly, not the least in China. The Secretariat noted also that not all relevant companies have been visited, and instead some of the information relies on indirect observations such as licensing and reporting by the enterprises. The information on which enterprises have been visited and, when, how these enterprises have selected, and any reasons why the verification might be considered independent is absent from the verification report. Instead, it becomes clear that the verification undertaken is seen as a serious and honest effort of the World Bank and FECO to obtain an accurate picture of the situation in the CTC production and consumption sectors.

7. The Secretariat noted that the World Bank had provided excellent verification reports regarding PA I, PAII and CTC production for all the years up to and including 2009, ensuring that the agreed reductions in consumption and production took place and the relevant manufacturing capacities had been converted or dismantled. The Agreement foresees independent verification, however, the final year of the Agreement was 2010 and thus it is inconclusive whether a full-fledged verification report would be required in the year following the last project year. While the verification cannot be classified as independent and has some shortcomings, the Secretariat has nevertheless an understanding that is sufficiently elaborate to provide confidence that the production and consumption in China remained in the limits foreseen for the year 2010.

Recommendation

8. The Executive Committee may wish to consider noting submission by the World Bank, on behalf of the Government of China, and whether to:

- (a) Accept the report provided by the World Bank as sufficient for 2010;

Or

- (b) Request the World Bank to provide an independent verification on the consumption and production in the year 2010 which should, at a minimum, verify the set-up of the monitoring system and the quality of the information provided by it and carry out site visits of the relevant enterprises not yet visited and a sample of those visited in order to gather the necessary data for the verification report, and to submit the related report not later than eight weeks prior to the 67th meeting of the Executive Committee.

Progress report on the global chiller replacement project (China, India, Indonesia, Jordan, Malaysia, Philippines, and Tunisia) (World Bank)

9. The World Bank has submitted to the 65th meeting a report on the World Bank's "Global chiller replacement project", approved at the 47th meeting. The project had suggested co-financing from a variety of sources, such as the Global Environment Facility (GEF), carbon financing and others. The Secretariat has previously informed the Executive Committee at the 56th, 59th and 62nd meetings about the progress made with the global chiller project as well as a number of other chiller replacement projects approved at the same time for UNDP and UNIDO. The Secretariat had provided questionnaires leading to the progress reporting on chillers at the 56th meeting, and had updated these questionnaires when necessary. The World Bank had submitted the progress report in one of those questionnaires. UNDP gave some information on progress related to their projects in Brazil, Colombia, Cuba and the Latin American and Caribbean region as part of their general progress reporting. Some information was also

found in UNIDO's progress reporting; UNIDO is responsible for projects in the Syrian Arab Republic, Eastern Europe and, together with bilateral donors, in Africa. Table 1 provides an overview of the status of the global chiller replacement project.

Table 1: Overview of the status of the global chiller replacement project

Country	India	Philippines	Indonesia	Jordan
MLF funding (US \$)	1,000,000	1,000,000	100,000	1,000,000
Co-funding (US \$)	12,150,000	8,600,000	23,300,000	-
Sources	GEF, CDM	GEF, CDM/KfW	GEF, concessional lending	
Chiller identified	440	250	160	17 (+3)
Chiller replaced	0	0	0	4 (+3)
Comments	Estimated CDM income fluctuating; 25 CFC chiller in the pipeline, more identified. HCFC chillers identified and to be replaced under non-MLF funding components	Concessional lending agreed by World Bank in June 2010; two contracts signed		Request for retroactive funding / funding in case of replacement due to moving to new building

10. Despite significant efforts to provide co-funding, it is obvious that the effect in terms of pre-conversions or replacement in the countries is so far very limited. A number of chillers have been replaced but not in direct relation to the project efforts. While due to the long working life of chillers of above 30 years, it is certain that a number of CFC chillers will continue to be around for replacement, the preparatory efforts and the complex design of the co-funding seem to have delayed the projects very considerably.

11. The World Bank informed the Secretariat in their submission letter about the need for advice on how to proceed with the implementation of two projects:

- (a) In Jordan, one building owner, "Housing bank", replaced three chillers in May 2005, half a year before the project was approved. The Government of Jordan is asking whether this owner could receive compensation through the project, given that the institution replaced its chillers in advance through good will. The Executive Committee will have to consider whether retroactive funding would be applicable for chiller replacement activities;
- (b) In Jordan, the construction of a new international airport in Amman coincided with a chiller replacement project. Although the owner was able to benefit from Multilateral Fund support to replace four of the chillers in the existing terminal with more energy efficient, non-CFC models, there are still four CFC chillers that service the existing terminal, which have not yet been replaced. New chillers will replace the function of the existing ones, but will be installed in the new terminal. The Government of Jordan proposes therefore to provide partial funding to the owner for purchasing new chillers to replace the existing chillers, once these are decommissioned due to closing of the airport; and
- (c) The World Bank received a letter on 14 September 2011 from the project counterpart in Argentina, the Ministry of Industry, expressing its desire to have the Bank's support in converting the entire chiller sector from CFC-based chillers to CFC-free chillers under

the global chiller replacement project of the World Bank. This would build upon the on-going chiller component of the national ODS phase-out plan which is scheduled to finish by December this year. Originally, seven countries were considered to participate in the global chiller projects, of which three, China, Malaysia and Tunisia have opted out. The intention would be to substitute as one of the beneficiaries and provide it with US \$1 million allocation in line with the other four countries. All conditions applicable to the global chiller replacement project as per decisions 46/33 and 47/26 would be applied to a new component for Argentina.

12. The intention of the chiller projects had been to facilitate the identification for co-funding to enable the conversion or replacement of CFC-containing chillers, which were not eligible for support under the Multilateral Fund. The retroactive funding for one chiller in Jordan and the replacement of four chillers following construction of a terminal building is more indicative of a free-rider effect and does not seem to match the intentions of the chiller projects. Consequently, the Secretariat is not supportive of funding either replacement. The Secretariat is fully supportive of Argentina's request to participate in the global chiller demonstration project.

Secretariat's recommendation

13. The Executive Committee might wish to consider:

- (a) Noting the submission of a progress report on the "Global chiller replacement project" of the World Bank;
- (b) Whether to:
 - (i) Allow retroactive funding of "housing bank" chiller activity in Jordan;
 - (ii) Allow support through the global chiller project for the replacement of one CFC-chiller in the airport in Amman after its decommissioning;
 - (iii) Include Argentina as one of the beneficiary countries under the global chiller project, with conditions identical to those specified in decisions 46/33 and 47/26;
- (c) Requesting UNDP and UNIDO to submit progress report regarding the implementation projects not yet completed to the 66th meeting, including information of co-funding raised, chillers remaining and chillers already converted for each of their activities.
