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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-fourth meeting
Montreal, 25-29 July 2011

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

* Re-issued for technical reasons.

Introduction

1. This document consists of the following sections:

   (a) An analysis of the number of projects and activities submitted by bilateral and implementing agencies to the 64th meeting;

   (b) Issues identified during the project review process;

   (c) Projects and activities submitted for blanket approval; and

   (d) Investment projects for individual consideration.

Projects and activities submitted by bilateral and implementing agencies

2. Bilateral and implementing agencies submitted 111 funding requests for new multi-year agreements, tranches of approved multi-year agreements and projects and activities, amounting to US $711,488,646, including agency support costs where applicable. The funding requests covered:

   (a) Fifteen new HPMPs and a tranche of an approved HPMP for low-volume-consuming (LVC) countries;

   (b) Ten HPMPs for non-LVC countries, including the HPMP from Indonesia[1] which was formerly submitted to the 62nd and 63rd meeting;

   (c) Sectoral HCFC phase-out plans outside a complete HPMP, including demonstration projects in the foam, solvents and refrigeration servicing sectors from China, as formerly submitted to the 63rd meeting[2];

   (d) Two tranches for the phase-out of methyl bromide (MB) in China one related to consumption and another to production; and

   (e) Twenty-three renewal requests for institutional strengthening projects and 14 non-investment projects from relevant bilateral and implementing agencies.

3. Following the project review process, 29 projects and activities totalling US $5,256,668 including support costs are recommended for blanket approval; 72 projects and activities totalling US $684,479,256 including support costs (of which US $179,693,231 is requested at the 64th meeting) are being forwarded for individual consideration by the Executive Committee. Together, the projects for blanket approval and those for individual consideration represent a total of US $184,949,899 being requested at this meeting. Two HPMPs (Oman and Senegal) at a total cost of US $2,340,804 as originally submitted were withdrawn by the relevant agencies due to issues raised during the project review process, in particular discrepancies in the HCFC consumption data; and six other activities amounting to US $733,451 were also withdrawn.

4. As advised in the "Report on balances and availability of resources" (UNEP/OzL.Pro/ExCom/64/4), the total level of resources available for approvals by the Executive

[1] The Executive Committee decided to request the Government of Indonesia to take into account the modifications proposed by the contact group and to forward its HPMP to the 64th meeting (decision 63/55).

[2] The Executive Committee decided to consider the HCFC phase-out activities for China further at its 64th meeting (decision 63/59). As indicated in document UNEP/OzL.Pro/ExCom/64/29, on 10 June 2011, upon a request by the Government of China, UNDP submitted the following documents to the 64th meeting: the HPMP; sector plan for the phase-out of HCFCs in the solvent sector; national enabling programme; HCFC phase out management plan in refrigeration servicing sector; and national coordination.

Committee at the 64th meeting is US $149,575,370, as of 3 June 2011. This amount is lower than the US $184,949,899 being requested for projects and activities at the same meeting.

5. At the time of preparing this document, the HPMPs for Brazil, Jordan and Mexico were still under discussion with the relevant implementing agencies. The outcomes of the discussions will be communicated to the Executive Committee prior to the 64th meeting.

Issues identified during project review

6. During the project review process, the Secretariat identified the following issues:

(a) HPMPs that propose to address more than 10 per cent of the baseline by 2015;

(b) Funding for countries with HCFC consumption between 361 and 400 metric tonnes in the servicing sector;

(c) Countries that have total HCFC consumption above 360 metric tonnes and should address consumption in the manufacturing sector first to meet the 2013 and 2015 control measures;

(d) Flexibility provision under HCFC phase-out management plans;

HPMPs that propose to address more than 10 per cent of the baseline by 2015

7. As of the 63rd Meeting, the Executive Committee has approved HPMPs for 9 non-low-volume-consuming (LVC) countries and HCFC phase-out activities outside an HPMP in an additional 12 non-LVC countries. In relation to the estimated baseline for compliance, the total amount of HCFCs to be phased out varies from less than 6 per cent of the baseline for Mexico (stand-alone project) to 46.3 per cent for Turkey (foam sector phase-out plan) as shown in Table 1.

Table 1. HPMP and HCFC phase-out projects approved for non-LVC countries

Country	HCFC (ODP tonnes)		% of estimated baseline
	Estimated baseline	Amount approved for phase-out	
HPMP			
Democratic Republic of Congo	58.0	5.8	10.0%
Chile	100.3	22.0	21.9%
Colombia	218.1	78.9	36.2%
Ghana	80.4	17.3	21.5%
Islamic Republic of Iran	355.7	101.3	28.5%
Nigeria	384.8	134.9	35.1%
Pakistan	249.4	79.1	31.7%
Bolivarian Republic of Venezuela	220.7	23.2	10.5%
Viet Nam*	221.2	140.1	63.3%
Stand alone projects			
Algeria	31.4	2.4	7.6%
Argentina	339.2	53.5	15.8%
Bangladesh	70.4	20.2	28.7%
Egypt	412.5	63.9	15.5%
Jordan	82.9	8.1	9.8%
Mexico	1,170.9	66.9	5.7%
Morocco	70.7	11.0	15.6%
Philippines	202.5	40.0	19.8%
Saudi Arabia	1,416.5	179.2	12.7%

Country	HCFC (ODP tonnes)		% of estimated baseline
	Estimated baseline	Amount approved for phase-out	
Sudan	52.6	11.9	22.6%
Syrian Arab Republic	157.3	12.9	8.2%
Turkey	634.3	293.7	46.3%

(*) Including 89.4 ODP tonnes of HCFC-141b contained in imported pre-blended polyols and not reported as consumption under Article 7 of the Montreal Protocol.

8. The Executive Committee has considered on a case-by-case basis the level of HCFC consumption to be reduced in the activities submitted by Article 5 countries, taking into account, among other things, additional amounts of HCFCs that will be reduced on a voluntarily basis or that are not eligible for funding (i.e., consumption associated with foreign-owned enterprises or enterprises established after the 21 September 2007 cut-off date). In some other cases, the complete phase-out of HCFCs used in a specific sector (i.e., the complete conversion of the foam sector in the Philippines and Turkey).

9. During the discussion of this issue at its 63rd meeting, the Executive Committee noted that, in some of the HPMPs, Article 5 countries were proposing to address more than 10 per cent of the baseline by 2015. One member suggested that in such cases an extended commitment beyond 2015 should be solicited from the government concerned, even when the reason for the larger amount was a forecast increase in consumption in 2011 and 2012 above the estimated baseline. The Executive Committee agreed to note, in the respective decision for each such HPMP, that the amount of HCFC consumption to be reduced in stage I should assist the country in making progress towards meeting the control measures beyond 2015, on the understanding that Article 5 countries would still be able to submit stage II proposals when the Committee approved the last tranche of stage I and that the approach was without prejudice to the tonnage of HCFCs that could be put forward for phase-out in stage II proposals. Based on the outcomes of these discussions, in approving the HPMPs for Chile, the Islamic Republic of Iran, the Bolivarian Republic of Venezuela and Viet Nam the Executive Committee noted that “the amount of HCFC consumption to be phased out in the Agreement should assist the country in making progress toward meeting control measures beyond 2015 accordingly”.

10. At its 63rd meeting, the Executive Committee further agreed to continue discussions at the 64th meeting on how HCFC reductions, in addition to the 10 per cent required for 2015, could be addressed. In relation to this issue the Executive Committee might wish to note that the amount of HCFC consumption to be reduced in the HPMPs submitted by eight non-LVC countries (i.e., Brazil, Cameroon, Indonesia, Jordan, Lebanon, Mexico, Trinidad and Tobago and Uruguay) represents between 14.6 per cent (Brazil) and 39.6 per cent (Trinidad and Tobago) of their corresponding estimated baselines. Given that the Executive Committee has not yet decided on a general policy on this issue, the Secretariat’s recommendations on these HPMPs had not included text related to the notion that the HCFC consumption to be phased out under the Agreement should assist the country in making progress toward meeting control measures beyond 2015.

Funding for countries with HCFC consumption between 361 and 400 metric tonnes in the servicing sector

11. The HPMP for Uruguay (UNEP/OzL.Pro/ExCom/64/47) has been submitted for consideration by the Executive Committee at its 64th Meeting. During stage I of the HPMP, the Government is proposing to meet the 2013 and 2015 control measures of the Montreal Protocol solely through activities in the refrigeration servicing sector, with one conversion project in the refrigeration assembly sub-sector. It will submit requests for the foam manufacturing sector to a future meeting in line with decisions 61/47 and 63/15. In its HPMP, the Government chose its most recent reported consumption (2010) as its starting point, amounting to 432 mt (24.71 ODP tonnes). Out of this figure, the Secretariat calculated the starting point for the refrigeration servicing sector at 385.7 mt. This resulted in a funding level of US$173,565

plus support costs calculated at US$4.5/kg to phase out 38.5 mt of HCFCs in the servicing sector to enable the country to meet the 2013 and 2015 control measures.

12. In discussing the above-recommended funding, in particular for the servicing sector, it was noted that the funding eligibility at US $4.5/kg for this sector for Uruguay, where the baseline was 385.7 mt to meet the 2015 control measures (i.e. US $173,565 plus support costs), was lower than the maximum allowed funding for LVC countries whose consumption was between 300-360 mt for the same period (i.e. US $198,000) based on decision 60/44. In further discussions, it was noted that, as countries with consumption between 361-400 mt fall under the non-LVC category and will be eligible for funding at US $4.5/kg for phase-out in the servicing sector, they would in general receive less funding than LVC countries for similar activities, and might be considered special cases. Based on the forecast of HCFC consumption in the servicing sector, according to the data for 2009 and 2010 used in the business plan for 2011-2015, there are 5 countries that would fall in the category above, including Uruguay.

13. In view of the above and in order to maintain equity between countries for activities in the servicing sector, the Executive Committee may wish to consider providing funding for non-LVC countries with HCFC consumption in the servicing sector between 361-400 mt at a level equal to but not less than the maximum allowable funding for LVC countries whose consumption is between 300 and 360 mt (i.e. US $198,000 to meet the 2015 control measures and US $630,000 to meet the 2020 control measures).

Countries that have total HCFC consumption above 360 metric tonnes and should address consumption in the manufacturing sector first to meet the 2013 and 2015 control measures

14. In the context of the criteria for funding HCFC phase-out in the consumption sector in Article 5 countries, the Executive Committee decided, *inter alia*, that Article 5 countries with total HCFC consumption above 360 mt should first address consumption in the manufacturing sector to meet the reduction steps in 2013 and 2015. However, if such countries clearly demonstrate that they require assistance in the refrigeration servicing sector to comply with these targets, funding for these activities, such as training, will be calculated at US$4.50/kg, which will be deducted from their starting point for aggregate reduction in HCFC consumption (decision 60/44(f)(xv)).

15. At its 62nd meeting, the Executive Committee considered several HPMPs for non-LVC countries (Colombia, Islamic Republic of Iran, Nigeria and Pakistan) that included activities to address HCFC consumption in the servicing sector. It was explained that the constant growth of this sector could offset the HCFC reductions achieved through investment projects, and that regulations alone would not be sufficient to stop that growth. There was also the need to keep operational the infrastructure established during the phase-out of CFCs. Further to a discussion, the Executive Committee decided, *inter alia*, to request bilateral and implementing agencies, when submitting activities to phase out HCFC-22 used in the refrigeration servicing sector, to clearly demonstrate how the proposed activities would reduce the growth rate in the servicing sector and contribute to meeting the reduction steps in 2013 and 2015 (decision 62/12(b)).

16. At the 63rd meeting, two Article 5 countries with total HCFC consumption above 360 mt (Chile[3] and the Bolivarian Republic of Venezuela[4]) submitted project proposals that included funding requests for activities in the servicing sector rather than the manufacturing sector. In these two cases, given the particular circumstances of the HCFC-based manufacturing sectors, the governments considered it necessary to address HCFC consumption only in the refrigeration and air-conditioning servicing sector to enable compliance with the 2013 and 2015 control measures. In the interests of flexibility, it was suggested that such Article 5 countries should be allowed to address consumption in the servicing sector

[3] UNEP/OzL.Pro/ExCom/63/25.
[4] UNEP/OzL.Pro/ExCom/63/54.

instead of the manufacturing sector to meet the required reduction steps in 2013 and 2015, if the conversion in the manufacturing sector would result in a significant phase-in of high-global warming potential (GWP) substances, or if the conversion in a manufacturing sector would result in costs higher than US $82 per ODP kg. As the Executive Committee was unable to conclude the discussions, it agreed to continue to consider the matter at its 64th meeting. It is to be noted that Stage I of the HPMP for Brazil submitted to the 64th meeting[5] proposes to phase out 209.9 ODP tonnes of HCFCs to meet the 2013 and 2015 phase-out targets, 50.0 ODP tonnes of which are related to activities in the servicing sector.

17. In addressing the issue of allowing Article 5 countries that have total HCFC consumption above 360 metric tonnes to address consumption in the servicing sector instead of the manufacturing sector to meet the required reduction steps in 2013 and 2015, the Executive Committee might wish to consider the suggested proposals that were presented at the 63rd meeting and summarized in the above paragraph and/or any other proposals arising during the discussions.

Flexibility provision under HCFC phase-out management plans

18. Discussions took place at the 63rd meeting regarding the applicability of the flexibility provision under HPMPs in the context of sector plans where different technologies had been identified and where there had been no pre-defined selection of enterprises to be converted. Pursuant to those discussions, the Executive Committee requested the Secretariat to include, under the item dealing with the Overview of issues identified during project review in the agenda of the 64th meeting of the Executive Committee, the matter of the flexibility provision under HPMPs in relation to technology changes and funding reallocation among sectors, and to provide relevant background information for the consideration of that matter as needed (decision 63/16).

<u>Introduction</u>

19. In performance-based sector and national ODS phase out plans, the funding is determined and agreed in principle before the implementation commences, based on information provided by bilateral and/or implementing agencies regarding eligible incremental cost. The first set of guidelines for the preparation, implementation and management of performance-based sector and national ODS phase-out plans[6], approved at the 38th meeting (decision 38/65), already contained a clause stipulating that, while the funding requested was determined on the basis of estimates to meet annual ODS consumption limits set in the agreement, the "Executive Committee agrees that the Country may have the flexibility to reallocate the approved funds, or part of the funds according to the evolving circumstances to achieve the goals prescribed under this Agreement. Reallocations which are considered as major changes should be accounted for in the verification report and reviewed by the Executive Committee." The provision related to major changes has subsequently evolved into requiring reallocations categorized as major changes to be documented in advance in a tranche implementation plan and approved by the Executive Committee. Decisions on performance-based substance-wide and national ODS phase-out agreements/plans that have been adopted by the Executive Committee are summarized in Annex I to this document.

20. However, both in the case of the decision at the 38th meeting and the latest version of the flexibility provision, the Executive Committee clearly differentiates between the right of the recipient country to reallocate funds, and the procedure to be followed, that is whether reallocation is possible without providing prior notification to the Executive Committee. The Secretariat focuses on how to determine whether a change constitutes a major change, and what information to provide to the Executive Committee if such a change is required.

[5] UNEP/OzL.Pro/ExCom/64/25.
[6] The revised guidelines are contained in document UNEP/OzL.Pro/ExCom/38/57/Rev.1

Potential changes in approved technologies for phasing out HCFCs

21. During the preparation of ODS phase-out projects, due consideration is given to all the alternative technologies that are available at that time. The final determination of the technology is by the beneficiary enterprises and is based on several factors, including the baseline equipment at the enterprise level, the level of installed capacity and production output, local conditions at the enterprise level, performance, local market conditions, and national regulations, as well as the costs associated with the technology, and the eligibility of these. As a result of this process, projects are submitted with the expectation that they will be implemented as approved and will achieve, as a minimum, the reductions proposed in the project document.

22. In the case of HCFC phase-out, however, the selection of a final technology is further complicated because of the following two issues. One is the limited time available from the adoption of the accelerated HCFC phase-out schedule (2007) to meet the first two compliance target in 2013 and 2015. This situation could exclude the use of some potentially viable new alternative technologies to meet the 2015 reduction target, as the transition time needed for these technologies to be introduced into local markets[7] remains unknown, which in some cases excludes them from the list of possible alternatives. The second is related to the consideration of the impacts on the environment including on the climate, where in many cases HCFC alternative technologies with lower impact on the climate have higher incremental costs (requiring counterpart funding from beneficiary enterprises), or cannot be introduced because of local/national regulations[8].

23. Since the Parties to the Montreal Protocol decided to accelerate the phase-out of HCFCs in Article 5 countries in 2007, emerging technologies to replace HCFCs[9] are becoming available as safety, performance and cost-related issues are being addressed. As many of these technologies are in the process of being developed, in some sectors the level of uncertainty surrounding decisions about technology is higher than when CFCs were being phased out. Given that these emerging technologies (and possibly others) might become commercially available during the implementation of stage I of the HPMPs, at costs similar to or lower than the alternative technologies that have already been approved in phase-out plans, a change of technology in approved HPMPs could be expected.

24. The evolving nature of technology development for ODS phase-out and its importance for project implementation has been recognized by the Executive Committee. At its 20th meeting the Executive Committee decided *inter alia*: that the implementing agencies should exceptionally be allowed to propose changes in the technology approved for particular projects; and that adequate and detailed justification should be provided for any changes proposed (decision 20/8). Guidelines for change of technology[10] were subsequently adopted at the 22nd meeting (decision 22/69). As per the guidelines, "a change of technology will be considered in exceptional circumstances; it will be a condition that the project as approved cannot be implemented, that the only other option would be cancellation with no further support from the Fund and that the revised proposal will be implemented within the level of funding already approved; and will need to be submitted to the Executive Committee for individual consideration, together with the Secretariat's review and recommendations".

25. The above establishes that the Executive Committee had reserved the right to be consulted in cases of technology change in the past. As mentioned above, such technology changes can have major

[7] This argument is frequently used when disregarding the use of methyl formate, and instead selecting pentane technology as an alternative.
[8] In case of HPMPs for two non-LVC countries approved at the 62nd meeting, due to this situation the 2013 and 2015 control targets were to be met by phasing out HCFC-22 in the refrigeration servicing sector rather than HCFC-141b in the foam sector.
[9] Examples of emerging technologies include: unsaturated HFC (or HFO), methylal, methyl formate, HBA-2 or FEA-1110, hydrocarbon pre-blended polyol systems or HFC-32 refrigerant.
[10] The guidelines for change of technology are contained in Annex I to the present report.

implications, such as a significant reduction in cost because of the use of a different technology, or a change in environmental impact, in particular on the climate should more funding be made available to address this particular characteristic. Although a change in technology in an approved project was not specifically included in the definition of "major changes" in performance-based agreements, it could be categorized as a major change given those implications.

Other circumstances for reallocation of approved funding

26. Given that the phase-out of HCFCs in Article 5 countries would be realized through performance-based phase-out plans rather than stand-alone phase-out projects, the information on the enterprises to be converted (i.e., baseline equipment; installed capacity and production output; date of establishment; foreign ownership) would not be as detailed as it was in stand-alone projects. In many cases, the information to determine the eligibility of an enterprise would become available only during the implementation of the phase-out plan[11]. Under these circumstances, it can be expected that some of these enterprises would not be eligible for funding due to, for example, foreign ownership or date of establishment, or because they would not be economically viable. In these cases, the relevant bilateral and/or implementing agencies would be required to include in the tranche implementation reports (contained in the agreements) a list of the enterprises that were included in the approved phase-out plan but were found to be ineligible, with the level of funding associated with them. The list must be accompanied by a proposal for the use of those funds in other eligible phase-out activities or, otherwise, the return of the funding approved for those enterprises to the Multilateral Fund.

Recommendation

27. Based on the above discussion, the Executive Committee may wish to consider:

(a) Reiterating its expectation that, within the framework of performance-based agreements, each annual implementation plan will be implemented as approved, and that the aggregated annual implementation plans will achieve, as a minimum, the phase-out specified in the agreement;

(b) Stipulating that requests for change of technology in approved phase-out plans:

(i) Should constitute a "major change" that should be documented in advance in annual implementation plans, together with documentation on any resultant change in incremental costs;

(ii) Should achieve a reduction in the impact on the climate equal to or higher than that of the technology that was originally approved; and

(iii) Should be submitted to the Executive Committee as part of the annual implementation plan on a case-by-case basis for individual consideration, together with the Secretariat's review and recommendations;

(c) Stipulating that the agreement between Government of the Article 5 country concerned and the Executive Committee will be amended based on any savings associated with the proposed change of technology at the time the change in technology is approved by the Executive Committee.

[11] For example, the HPMPs for Brazil and Mexico submitted to the 64th meeting, proposed the phase-out of more than 275 SMEs each. Although the relevant governments assisted by the implementing agencies attempted to gather all the necessary information, this was not possible for some of them.

Projects and activities submitted for blanket approval

28. Annex II to this document, lists 29 projects and activities totalling US $5,256,668 including support costs which are recommended for blanket approval. The approval of these projects by the Executive Committee included the relevant conditions or provisions in the corresponding project evaluation sheets, as well as the approval of implementation programmes associated with the relevant tranches of multi-year projects.

Investment projects for individual consideration

29. A total of 72 projects and activities totalling US $684,479,256 including support costs (of which US $179,693,231 is requested at the 64th meeting) after the review by the Secretariat, are proposed for individual consideration. The issues associated with non-investment projects are presented in the relevant work programme of UNDP (UNEP/OzL.Pro/ExCom/64/19) and UNEP (UNEP/OzL.Pro/ExCom/64/20).

30. To facilitate the Executive Committee's consideration of the projects submitted for individual consideration, the Secretariat has classified the projects by sector, and has grouped projects according to the issues, as shown in Tables 2 to 4 below.

Table 2. HPMPs for LVC countries submitted for individual consideration

Country	Project	Agency	ExCom	Issue
HPMPs with no outstanding issues				
Albania	HCFC phase-out management plan (stage I, first tranche)	UNIDO/UNEP	64/23	All issues have been satisfactorily addressed
Plurinational State of Bolivia	HCFC phase-out management plan (stage I, first tranche)	Germany/UNDP	64/24	All issues have been satisfactorily addressed
Cape Verde	HCFC phase-out management plan (stage I, first tranche)	UNEP	64/27	All issues have been satisfactorily addressed
Central African Republic	HCFC phase-out management plan (stage I, first tranche)	UNEP/UNIDO	64/28	All issues have been satisfactorily addressed
Comoros	HCFC phase-out management plan (stage I, first tranche)	UNEP	64/30	All issues have been satisfactorily addressed
Costa Rica	HCFC phase-out management plan (stage I, first tranche)	UNDP	64/31	All issues have been satisfactorily addressed
El Salvador	HCFC phase-out management plan (stage I, first tranche)	UNDP/UNEP	64/32	All issues have been satisfactorily addressed
Guatemala	HCFC phase-out management plan (stage I, first tranche)	UNIDO/UNEP	64/33	All issues have been satisfactorily addressed
Jamaica	HCFC phase-out management plan (stage I, first tranche)	UNDP/UNEP	64/35	All issues have been satisfactorily addressed
Lesotho	HCFC phase-out management plan (stage I, first tranche)	Germany	64/38	All issues have been satisfactorily addressed
Rwanda	HCFC phase-out management plan	UNEP/UNIDO	64/41	All issues have been satisfactorily addressed
Saint Kitts and Nevis	HCFC phase-out management plan	UNEP/UNDP	64/42	All issues have been satisfactorily addressed
Saint Lucia	HCFC phase-out management plan (first tranche)	UNEP/UNIDO	64/43	All issues have been satisfactorily addressed
Saint Vincent and the Grenadines	HCFC phase-out management plan (first tranche)	UNEP/UNIDO	64/44	All issues have been satisfactorily addressed
Zambia	HCFC phase-out management plan (stage I, first tranche)	UNIDO/UNEP	64/48	All issues have been satisfactorily addressed

Table 3. HPMPs for non-LVC countries submitted for individual consideration

Country	Project	Agency	ExCom	Issue
Brazil	HCFC phase-out management plan (stage I, first tranche)	Germany/UNDP	64/25	Technical and cost issues under discussion
Cameroon	HCFC phase-out management plan (stage I, first tranche)	UNIDO	64/26	All issues have been satisfactorily addressed
Indonesia	HCFC phase-out management plan (stage I, first tranche)	Australia/UNDP/ UNIDO/World Bank	64/34	All issues have been satisfactorily addressed
Jordan	HCFC phase-out management plan (stage I, first tranche)	UNIDO	64/36	Technical and cost issues under discussion
Lebanon	HCFC phase-out management plan (stage I, first tranche)	UNDP	64/37	All issues have been satisfactorily addressed
Mexico	HCFC phase-out management plan (stage I, first tranche)	UNIDO	64/39	Technical and cost issues under discussion
Trinidad and Tobago	HCFC phase-out management plan (first tranche)	UNDP	64/46	All issues have been satisfactorily addressed
Uruguay	HCFC phase-out management plan (first tranche)	UNDP/UNIDO	64/47	All issues have been satisfactorily addressed

Table 4. HCFC phase-out activities in China (UNEP/OzL.Pro/ExCom/64/29)

Phase-out activity	Agency
HCFC phase-out management plan (HPMP) for China: Overarching strategy summary	UNDP
Sector plan for phase-out of HCFC-141b in the foam sector (phase I)	World Bank
Sector plan for phase-out of HCFCs in the extruded polystyrene (XPS) foam sector (phase I)	Germany/UNIDO
Demonstration project for conversion from HCFC-22/HCFC-142b technology to CO_2 with methyl formate co-blowing technology in the manufacture of XPS foam at Feininger (Nanjing) Energy Saving Technology Co. Ltd.	UNDP
Demonstration project for conversion from HCFC-22 to butane blowing technology in the manufacture of XPS foam at Shanghai Xinzhao Plastic Enterprises Co. Ltd.	UNIDO/Japan
Sector plan for HCFC phase-out in the industrial and commercial refrigeration and air conditioning sectors (stage I)	UNDP
HCFC-22 phase-out management plan for the room air-conditioner manufacturing sector	UNIDO
Demonstration project on HCFC management and phase-out in the refrigeration servicing sector	UNEP/Japan
Demonstration project for conversion from HCFC-141b-based technology to iso-paraffin and siloxane (KC-6) technology for cleaning in the manufacture of medical devices at Zhejiang Kindly Medical Devices Co. Ltd.	UNDP/Japan

Annex I

Summary of decisions by the Executive Committee on the preparation, implementation and management of performance-based substance-wide and national ODS phase-out agreements/plans

1. From the inception of the Multilateral Fund and for several years thereafter, ODSs were mostly phased out through stand-alone project proposals or umbrella projects covering a relatively small number of enterprises with similar characteristics. The adoption of performance-based funding agreements for ODS phase-out commenced only in 1997; since then, they have been increasingly adopted by all Article 5 countries as a modality for managing their sector and/or national ODS phase-out programmes.

2. At its 36th meeting, the Executive Committee considered a document containing the first set of guidelines for the preparation, implementation and management of performance-based substance-wide and national ODS phase-out agreements/plans[12]. The guidelines set out in the document were of a general nature only, and did not attempt to cover the specific situation of each individual Article 5 country. Following the discussion, the Executive Committee decided, *inter alia*, to convene an informal meeting of a working group to consider revised draft guidelines for the preparation, implementation and management of performance-based substance-wide and national phase-out agreements/plans, on a paragraph-by-paragraph basis, in an endeavour to resolve outstanding issues prior to their submission to the Executive Committee. The Secretariat was requested, *inter alia*, to prepare a new version of the guidelines on the basis of the feedback received, for submission to the informal meeting of the working group (decision 37/67)

3. The revised guidelines for the preparation, implementation and management of performance-based sector and national ODS phase-out plans[13] were approved at the 38th meeting (decision 38/65). The guidelines were approved on the understanding that, *inter alia*: because of the different situations and needs of countries, and the impracticability of attempting to encompass every situation, the purpose of the guidelines is to provide general principles and procedures that should be followed in developing and implementing performance-based ODS phase-out plans.

4. The revised guidelines described flexibility provisions in sector or national phase-out plans as follows: “while the Funding was determined on the basis of estimates of the needs of the Country to carry out its obligations under this Agreement, the Executive Committee agrees that the Country may have the flexibility to reallocate the approved funds, or part of the funds, according to the evolving circumstances to achieve the goals prescribed under this Agreement. Reallocations which are considered as major changes should be accounted for in the verification report and reviewed by the Executive Committee.”

5. The document on the overview[14] of issues identified during project review submitted to the 45th meeting drew the attention of the Executive Committee to the fact that the wording used in the majority of multi-year agreements approved so far differed from the wording in the guidelines in that it required prior consideration of changes in the use of approved funds. Following a discussion on the issue of flexibility conditions for the use of approved funds, in particular whether changes were major or minor, the Committee requested the Secretariat, in consultation with the implementing agencies, to prepare a paper for defining the meaning of major changes in the use of funding and the need to document such changes in advance in the country’s annual implementation programme (decision 45/15).

6. Subsequently, the Secretariat submitted to the 46th meeting a document[15] defining the meaning of major changes in the use of funding and the need to document such changes in advance in the country’s

[12] UNEP/OzL.Pro/ExCom/37/65.
[13] The revised guidelines are contained in document UNEP/OzL.Pro/ExCom/38/57/Rev.1
[14] UNEP/OzL.Pro/ExCom/45/15.
[15] UNEP/OzL.Pro/ExCom/46/43.

annual implementation programme. Based on the document, the Executive Committee decided (decision 46/37):

(a) That consistent with the flexibility provisions in the relevant agreement, any annual implementation plan prepared and submitted to the Executive Committee for approval could include changes to the scope and nature of the activities foreshadowed in the project document, on which approval in principle of the overall phase-out plan was based;

(b) To reiterate its expectation that each annual implementation plan would be implemented as approved and would achieve, as a minimum, the phase-out proposed in the project document and the agreement, where relevant;

(c) That minor changes to a project or an annual implementation plan could be incorporated, as implementation proceeded during the year, and reported on in the annual report on implementation of the annual implementation plan;

(d) That examples of minor changes included:

(i) Adjustments to the number of equipment items to be purchased (for example, plus or minus 20 per cent of the number of recovery and recycling machines in an annual investment plan);

(ii) Changes to the size or content of training programmes included in the current approved annual investment plan;

(iii) Financial adjustments between the levels of funding of activities in the current approved annual implementation plan (excluding transfers between agencies), provided that they did not affect the overall funding level of the approved annual investment plan;

(e) That proposed major changes to the scope and nature of activities foreshadowed in the project document should be referred to the Executive Committee for approval as part of the annual implementation plan for the subsequent year;

(f) That major changes could be defined as those presenting:

(i) Issues potentially concerning the rules and policies of the Multilateral Fund;

(ii) Reductions from the planned amount of phase-out to be achieved in the year;

(iii) Changes in the annual levels of funding allocated to individual bilateral or implementing agencies;

(iv) Provision of funding for programmes or activities not included in the current endorsed annual investment plan, or removal of an activity in the annual investment plan, with a cost greater than 30 per cent of the total cost of the tranche;

(g) That it is the responsibility of the bilateral or implementing agency in the first instance to identify whether a proposed change to implementation of the current approved annual implementation plan would be considered major or minor according to the criteria above;

(h) That, if the proposal could constitute a major change, the agency should defer the proposed change pending submission to and endorsement by the Executive Committee as part of the subsequent annual investment plan;

(i) That where there is doubt as to the nature of a proposed change, the agency should seek the views of the Secretariat as to whether the issues raised by the proposal were such that prior consideration by the Executive Committee should be required. If the Secretariat indicated that the proposed change did not raise issues that required reference to the Committee, consistent with the above criteria, the proposal would be deemed to be a minor change and could be incorporated in the annual implementation plan under implementation at the time, and reported to the Executive Committee in the annual report on implementation of the annual investment plan; and

(j) That the guidelines for preparation, implementation and management of performance-based phase-out plans adopted by the Executive Committee at its 38th meeting (decision 38/65) were amended by replacing paragraph 7 of the draft agreement by the following revised wording and that this would be applicable to future agreements: "While the funding was determined on the basis of estimates of the needs of the country to carry out its obligations under this agreement, the Executive Committee agrees that the country may have the flexibility to reallocate the approved funds, or part of the funds, according to the evolving circumstances to achieve the goals prescribed under this agreement. Reallocations categorized as major changes must be documented in advance in the next annual implementation programme and endorsed by the Executive Committee as described in sub paragraph … Reallocations not categorized as major changes may be incorporated in the approved annual implementation programme, under implementation at the time, and reported to the Executive Committee in the report on implementation of the annual programme."

7. At the 47th meeting, the Executive Committee considered a document on new options for monitoring and assessing the progress of agencies with regard to multi-year agreements[16] which discussed, among other things, how the flexibility clause has been implemented. With regard to options for improving the accuracy of progress reporting on multi-year agreements, the Executive Committee, *inter alia*, requested the Secretariat and the implementing agencies to continue reviewing the national implementation carried out in the previous year and to provide additional information in annual implementation plan submissions on disbursements and completed activities, including information on when delayed activities funded by an annual tranche were to be completed. It was also necessary to continue comparing what had been planned in the previous annual tranche and what had been achieved. The disbursement information should be provided cumulatively and data concerning actual or planned commitments could also be provided, as appropriate. The information should also specify how the relevant flexibility clause in the agreement was implemented and/or how to allocate unused funds from previous tranches (decision 47/50 (b)).

8. The document on the overview[17] of issues identified during project review submitted to the 59th meeting indicated that the approved guidelines for HPMPs specified that, like TPMPs and NPPs, HPMPs should be performance-based, i.e. there should be an agreement between the Government concerned and the Executive Committee and it should contain performance targets. At that meeting, the Secretariat had prepared a preliminary template for a draft agreement for HPMPs, on the basis of the templates for agreements on national phase-out plans (NPPs) and terminal phase-out plans (TPMPs). The Executive Committee requested bilateral and implementing agencies preparing HPMPs to use the preliminary

[16] UNEP/OzL.Pro/ExCom/47/54.
[17] UNEP/OzL.Pro/ExCom/59/11.

template[18] as a guideline when advising countries on preparing a draft agreement for HPMPs (decision 59/16).

9. The revised guidelines described flexibility provisions in sector or national phase-out plans as follows: “While the Funding was determined on the basis of estimates of the needs of the Country to carry out its obligations under this Agreement, the Executive Committee agrees that the Country may have the flexibility to reallocate the approved funds, or part of the funds, according to the evolving circumstances to achieve the goals prescribed under this Agreement. Reallocations categorized as major changes must be documented in advance in the next tranche implementation plan and endorsed by the Executive Committee as described in sub paragraph 5(d)[19]. Reallocations not categorized as major changes may be incorporated in the approved tranche implementation plan, under implementation at the time, and reported to the Executive Committee in the tranche implementation report. Any remaining funds will be returned to the Multilateral Fund upon closure of the last tranche of the plan”.

Guidelines for change of technology

10. Since the early years of the Multilateral Fund, ODS phase-out technologies have continuously been evolving. For example, the technology that was selected in a few countries for the replacement of CFC-11 used as a foam blowing agent was “50 per cent reduced CFC” (i.e., only 50 per cent of the total amount of CFC-11 used was phased out). Since then, a variety of technologies (such as HCFC-141b, hydrocarbon-based blowing agents, liquid carbon dioxide, to mention a few in the foam sector) were introduced in the global market and adapted, in many cases, to local conditions prevailing in Article 5 countries.

11. The evolving nature of technology development for ODS phase-out has been recognized by the Executive Committee. At the 20th meeting in October 1996, noting the statement by the Sub-committee on Project Review that “there was a presumption that projects would be implemented as approved, but that technology was evolving rapidly and some degree of flexibility might be required in exceptional cases”, the Executive Committee decided *inter alia*: that the implementing agencies should exceptionally be allowed to propose changes in the technology approved for particular projects; and that adequate and detailed justification should be provided for any changes proposed (decision 20/8).

95. Based on a document on draft guidelines for change of technology after project approval[20], at its 22nd meeting the Executive Committee adopted the following guidelines for change of technology (decision 22/69):

(a) There is a presumption that the technology selected in all projects will be mature and that the projects will be implemented as approved;

(b) For projects approved after the adoption of these guidelines:

(i) Projects are to be implemented as approved;

(ii) Exemptions will be considered in the following circumstances:

a. The only other option would be cancellation of the project; or

[18] Annex IV of document UNEP/OzL.Pro/ExCom/59/59.
[19] Subparagraph 5 (d): “That the Country has submitted and received endorsement from the Executive Committee for a tranche implementation plan in the form of Appendix 4 A (the “Format of Tranche Implementation Report and Plan”) for each calendar year until and including the year for which the funding schedule foresees the submission of the next tranche or, in case of the final tranche, until completion of all activities foreseen”.
[20] UNEP/OzL.Pro/ExCom/22/72.

b. The project approved is for conversion to a transitional technology, and the revised proposal is for conversion in a single step to non-transitional technology;

(iii) Such proposals will be submitted to the Executive Committee for individual consideration, together with the Secretariat's review and recommendations;

(iv) The revised proposals will be implemented within the level of funding already approved;

(c) For projects first approved before the adoption of these guidelines:

(i) Recognizing that there have been delays in project implementation, with possible implications for technology choice, proposals for change in technology of projects approved before adoption of these guidelines may be submitted; the revised project must be implemented within the level of funding already approved. The new proposal must demonstrate that the impediments to implementation of the project have been overcome and that implementation will commence immediately upon clearance of the proposal;

(ii) Where the change in technology has no other significant policy implications, the proposal may proceed on the basis of agreement between the Secretariat and the implementing agency, including agreement on the extent of savings to be realized, if any. The Executive Committee is to be informed at its next meeting;

(iii) Where the condition in guideline (c) (ii) above is not met, the project will be submitted to the Executive Committee for consideration of the relevant issues.

Some examples of the Executive Committee's experience in the application of the flexibility clause

12. The Executive Committee has considered several requests on the use of the flexibility clause in performance-based agreements. For example,

(a) At its 46th meeting, it considered a request for the change of technology approved for the phase-out of MB in Lebanon from steam technology to the use of low-dose chemicals and substrates, resulting in US $90,000 less than the cost of the original project. The Committee approved the revisions to the agreement, which would reduce the overall cost of the project for the phase-out of MB from US $2,600,000 to US $2,510,000 (decision 47/31);

(b) At its 52nd meeting, it considered a request for an amendment to the 2007 work programme of the CFC production sector plan in China, for reallocating US $2 million from the sector plan towards a chiller demonstration project approved pursuant to decision 46/33. The Committee decided not to approve the request because of inconsistency with the criteria for use of external funding sources specified in decision 46/33 (decision 52/18);

(c) At its 52^{nd} meeting, it considered a request for the procurement of two vehicles to be used in the implementation of the country's national ODS phase-out plan for CFCs in Cuba. The Committee decided to approve the request on the understanding that future progress reports and the project completion report would advise on the final disposal of the vehicles (decision 52/20)

(d) At its 52^{nd} meeting, it considered a request for an amendment to an approved annual work plan, to allow use of funds from the national phase-out plan of Indonesia to assist enterprises established after 1995. As 2007 was the year in which Indonesia was to achieve complete phase-out of consumption of CFCs, CTC and TCA, it was important that the country and the agencies be authorized to address the remaining consumption in enterprises in all subsectors whether they had been established before or after July 1995. The Committee decided to authorize using the flexibility provided for under the Agreement, to enable funds to be used to cover all relevant national consumption, on the understanding that this would not change existing guidelines for determining eligible incremental costs for consumption and production (decision 52/21).

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List of projects and activities recommended for blanket approval

Project Title	Agency	ODP (tonnes)	Funds recommended (US$) Project	Support	Total	C.E. (US$/kg)
AFGHANISTAN						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase V)	UNEP		$150,000	$0	$150,000	
Total for Afghanistan			**$150,000**		**$150,000**	
ARGENTINA						
FOAM						
Preparation of project proposal						
Preparation for HCFC phase-out investment activities (foam sector)	IBRD		$30,000	$2,250	$32,250	
Total for Argentina			**$30,000**	**$2,250**	**$32,250**	
BHUTAN						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Bhutan			**$60,000**		**$60,000**	
CAMBODIA						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase VI)	UNEP		$112,667	$0	$112,667	
Total for Cambodia			**$112,667**		**$112,667**	
CHINA						
FUMIGANT						
Methyl bromide						
National phase-out of methyl bromide (phase II, sixth tranche)	UNIDO		$500,000	$37,500	$537,500	
PRODUCTION						
MB closure						
Sector plan for methyl bromide production sector (third tranche)	UNIDO	126.0	$2,000,000	$150,000	$2,150,000	
Total for China		**126.0**	**$2,500,000**	**$187,500**	**$2,687,500**	
COLOMBIA						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase VIII)	UNDP		$275,600	$20,670	$296,270	
Total for Colombia			**$275,600**	**$20,670**	**$296,270**	

Project Title	Agency	ODP (tonnes)	Funds recommended (US$) Project	Support	Total	C.E. (US$/kg)
COMOROS						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase VII)	UNEP		$60,000	$0	$60,000	
Total for Comoros			**$60,000**		**$60,000**	
CONGO						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase VII)	UNEP		$60,000	$0	$60,000	
Total for Congo			**$60,000**		**$60,000**	
DJIBOUTI						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Djibouti			**$60,000**		**$60,000**	
KIRIBATI						
SEVERAL						
Ozone unit support						
Renewal of institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Kiribati			**$60,000**		**$60,000**	
KOREA, DPR						
FOAM						
Preparation of project proposal						
Preparation for HCFC phase-out investment activities (polyurethane foam sector)	UNIDO		$50,000	$3,750	$53,750	
REFRIGERATION						
Preparation of project proposal						
Preparation for HCFC phase-out investment activities (commercial refrigeration sector)	UNIDO		$30,000	$2,250	$32,250	
PHASE-OUT PLAN						
HCFC phase out plan						
Preparation of a HCFC phase-out management plan	UNEP		$35,000	$4,550	$39,550	
Preparation of a HCFC phase-out management plan (additional funding)	UNIDO		$65,000	$4,875	$69,875	
Total for Korea, DPR			**$180,000**	**$15,425**	**$195,425**	

Project Title	Agency	ODP (tonnes)	Funds recommended (US$) Project	Support	Total	C.E. (US$/kg)
MACEDONIA, FYR						
PHASE-OUT PLAN						
HCFC phase out plan						
HCFC phase-out management plan (phase I, remainder of second tranche)	UNIDO		$81,000	$6,075	$87,075	
Total for Macedonia, FYR			**$81,000**	**$6,075**	**$87,075**	
MALAYSIA						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase IX)	UNDP		$279,500	$20,963	$300,463	
Total for Malaysia			**$279,500**	**$20,963**	**$300,463**	
MARSHALL ISLANDS						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase V)	UNEP		$60,000	$0	$60,000	
Total for Marshall Islands			**$60,000**		**$60,000**	
MONGOLIA						
SEVERAL						
Ozone unit support						
Renewal of the institutional strengthening project (phase VII)	UNEP		$60,000	$0	$60,000	
Total for Mongolia			**$60,000**		**$60,000**	
MOZAMBIQUE						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase V)	UNEP		$80,800	$0	$80,800	
Total for Mozambique			**$80,800**		**$80,800**	
MYANMAR						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase III)	UNEP		$60,000	$0	$60,000	
Total for Myanmar			**$60,000**		**$60,000**	

List of projects and activities recommended for blanket approval

Project Title	Agency	ODP (tonnes)	Funds recommended (US$) Project	Support	Total	C.E. (US$/kg)
NIUE						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Niue			**$60,000**		**$60,000**	
PALAU						
SEVERAL						
Ozone unit support						
Renewal of institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Palau			**$60,000**		**$60,000**	
PHILIPPINES						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase VIII)	IBRD		$181,133	$13,585	$194,718	
Total for Philippines			**$181,133**	**$13,585**	**$194,718**	
RWANDA						
SEVERAL						
Ozone unit support						
Extension of the institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Rwanda			**$60,000**		**$60,000**	
SAMOA						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase VI)	UNEP		$60,000	$0	$60,000	
Total for Samoa			**$60,000**		**$60,000**	
SOLOMON ISLANDS						
SEVERAL						
Ozone unit support						
Renewal of institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Solomon Islands			**$60,000**		**$60,000**	

Project Title	Agency	ODP (tonnes)	Funds recommended (US$) Project	Support	Total	C.E. (US$/kg)
TONGA						
SEVERAL						
Ozone unit support						
Renewal of institutional strengthening project (phase IV)	UNEP		$60,000	$0	$60,000	
Total for Tonga			**$60,000**		**$60,000**	
TURKEY						
SEVERAL						
Ozone unit support						
Extension of institutional strengthening project (phase V)	UNIDO		$260,000	$19,500	$279,500	
Total for Turkey			**$260,000**	**$19,500**	**$279,500**	
GRAND TOTAL		**126.0**	**$4,970,700**	**$285,968**	**$5,256,668**	