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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-fifth Meeting
Montreal, 5-7 December 2001

PROGRESS REPORTS: FOLLOW-UP TO DECISIONS 34/7 AND 34/9

1. At its 34th Meeting and in the context of its review of the progress reports of the implementing agencies, the Executive Committee requested UNEP and the World Bank to provide additional information (Decision 34/7 (e) and (i) and Decision 34/9 (c), (h), and (j)). This document summarises the information received by the Fund Secretariat pursuant to those decisions.

UNEP

2. Decision 34/7 requested UNEP to provide a copy of a brochure to the 35th Meeting and a status report on the Pacific Island Strategy.

Brochure on Technical Option Committee Data

3. The Secretariat noted ongoing delays in the completion of reports, documents and translations approved for UNEP implementation in the context of its review of UNEP's progress report. UNEP indicated that these documents would be provided to the 34th Meeting. It provided all of the documents except the brochure for the "Update existing technical brochure series to include 1994/95 TOC data" project (GLO/SEV/21/TAS/127) that would include information on 1998/1999 TOC data. The Committee requested UNEP to provide this document to the 35th Meeting. The Secretariat has not received a copy of the brochure.

Update on Pacific Island Country (PIC) Strategy

4. In its consideration of UNEP's progress report, the Executive Committee noted that UNEP would report to the 35th Meeting on the status of the PIC strategy and if no progress was reported, the Committee would consider alternative means of implementing those activities.

5. UNEP provided an update on the status of the development of the Pacific Island Country Strategy in its report on projects with implementation delays. It stated that a regional workshop to agree a schedule to complete this project was held in Apia, Samoa in April 2001. Draft National Compliance Action Plans have been prepared by 8 of the 10 countries, with assistance from the South Pacific Regional Environment Program (SPREP), UNEP and the regional consultant. Four countries have held national consultative workshops to discuss the draft plans and two countries have so far endorsed their plans. The Regional Strategy would be developed and submitted to the 36th meeting in light of the agreed national plans.

World Bank

6. Decision 34/9 requested the World Bank to resolve issues related to data discrepancies, to provide an updated status report on the Thai chiller project including new milestones and to provide lessons learned on national CFC projects in Malaysia and Thailand.

Data discrepancies

7. The Secretariat noted in its comments to the 34th Meeting several data discrepancies in the World Bank's progress report including: indirect phase out counted as phase out, proposed completion dates different from that in the Inventory of Approved Projects, levels of approved funds different from the Inventory, missing planned completion dates, and planned commitments were larger than remaining balances of certain projects (UNEP/OzL.Pro/ExCom/34/14, para. 2). The Bank indicated that its primary solution to these data discrepancies was to develop a new, web-based database. The Bank has begun the process of the development of the database.

8. One of the problems with the existing database at the Bank was that corrected information was sometimes inadvertently replaced automatically by original data. Another problem encountered by the Bank was that much of its input for items that cannot change, such as the original amount approved, were being changed by their financial intermediaries, whose input was then compiled into the Bank's progress report. The new database will enable the Bank's co-ordinating unit to make corrections while automatically screening the data for logical errors such as missing information, differences with the Inventory, and planned commitments exceeding remaining balances. The Secretariat has provided the Bank and other agencies a standard set of common data inconsistencies that the Bank's new system can be designed to automatically eliminate.

9. The Bank also indicated that once the database is completed it would verify the data against that of the Secretariat and resolve any remaining issues. As part of the verification of the data, the Bank will eliminate all indirect phase-out except that which was associated with the original project approval. The Bank will add new pro-rated support cost figures for projects approved up to the 17th Meeting pursuant to Decision 34/4 (f). The new system will also be able to track cancelled projects and balances returned from them as well as balances returned from completed projects and project preparation thereby reducing potential discrepancies in their reports on these subjects.

Thai chiller project

10. The Secretariat noted several issues regarding the Thai chiller report in its comments on the World Bank's progress report to the 34th Meeting. The project was approved in November 1998, but the accompanying matching funds from the Global Environmental Facility were not cleared for release until 2001. The Bank's progress report indicated that there were no disbursements through 2000 and did not forecast any expenditures in 2001. The Bank indicated that the initial delays in the project occurred because the Bank had to establish a new loan modality for the project and the executing agency was changed from the beneficiary to the Industrial Finance Corporation of Thailand and the Department of Industrial Works.

11. The condition of approval required that funds would be returned at the end of the project or at the end of the fifth year of the programme. The Secretariat noted in its comments that since disbursements would not begin as scheduled, the delay in the implementation of the project may make it difficult for the project to generate enough savings to cover the US \$2.5 million approved for the project by the fifth year of the programme. The conditions of approval of the

project also requested the Bank to ensure the expeditious implementation of the project and defined what should be refunded if the project were not successful. Moreover, since new milestones were provided to the 31st Meeting and there had been additional delays, new milestones would be needed.

12. The World Bank's update report on the Thai chiller project is provided as Annex I to this document. The Bank indicated that the legal documents had not been signed but expected them to be signed by the end of October 2001. After which, a legal opinion from the Thai Council of State would be needed before the legal agreements would become effective. Many sub-agreements are ready for implementation once legal agreements become effective and three enterprises with chillers have been qualified thus far. Technical reviews and financial reviews would have to be conducted for an additional 43 chiller owners that have expressed an interest in the programme and technical reviews are underway for an additional 8 chiller owners. The Government of Thailand is considering to establish a US \$30 million revolving fund to finance the replacement of an additional 400 chillers.

13. The Bank provided a new set of project milestones: the milestone first disbursement to occur in December 2002, and the milestone final disbursement to occur in June 2003. The maturity date for the loan is when the loan is due to be repaid. This is scheduled for January 2007. The Bank stipulated that the loan repayment would occur in 2007 in the event the Government decides not to proceed with the larger scale chiller replacement programme, but did not indicate when the repayment would occur if the Government decided to proceed with the larger scale programme. At the same time, the Bank indicated that the maturity date for the loan would not be affected once the loan agreement became effective.

14. In its lesson learned section, the Bank indicates that there were problems in securing a loan guarantee since Thailand decided in 1999 not to provide new loan guarantees to state-owned enterprises. The Bank suggested that the Executive Committee might wish to consider specific safeguard measures in lieu of those required for normal commercial loans for future loan projects—the Bank used commercial loan safeguards for the Thai project. The Bank also indicated that there might be a need for building the technical capacity of the executing agency since such training was needed for the current executing agencies. It noted that the training workshops have already had results since some owners have converted on their own and others have improved the efficiency of their existing chillers.

National CFC Phase out Projects in Malaysia and Thailand

15. In noting that the Bank would submit the National CFC phase-out projects in Malaysia and Thailand to the 35th Meeting, the Committee noted, in view of the generic interest, the Bank's offer to report at that meeting on the experience gained. The National CFC phase-out projects were submitted to the 35th Meeting. The Bank plans to give a presentation at the meeting in this regard.

Annex I**Update Report****Thailand Chiller Replacement Project****Introduction**

1. This update report was prepared in response to Decision 34/9 (h) of the Executive Committee (ExCom). The objective of the report is to update the ExCom on the lessons learned and new project milestones, including the maturity date (the refund date), for the chiller replacement project for Thailand (THA/REF/26/INV/104).

Background

2. The main objective of the Thai Chiller Replacement Project is to assist the Government of Thailand to reduce CFC consumption in the chiller sector. The Government's strategy is two fold: one is to replace one-third of the existing CFC centrifugal chillers with more energy efficient non-CFC chillers; another is to promote better refrigerant containment through technical capacity building in proper refrigerant management. Prior to launching a large-scale chiller replacement program, the Department of Industrial Works (DIW), which is the executing agency for the implementation of the Montreal Protocol, realizes that a smaller-scale pilot project should be undertaken in order to remove main barriers to adoption of new, efficient non-CFC chillers.

3. Since replacement of existing CFC chillers with more energy efficient non-CFC chillers also renders benefits to the global efforts in reducing carbon emissions to the atmosphere, the Thai Chiller Replacement Project is jointly financed by the Multilateral Fund and Global Environment Facility.

4. The Thai Chiller Replacement Project was approved as part of the World Bank GEF Work Program in October 1998 with a funding allocation of US \$2.5 million. An additional funding of US \$2.475 million from the Multilateral Fund was approved in November 1998.

5. Immediately after the approvals of the GEF Council and the ExCom, the Department of Industrial Works of the Ministry of Industry, the Ministry of Science, Technology and Environment, the local executing agency for the chiller replacement project, and the World Bank, began exploring measures to safeguard the resources of the MLF and ensure expeditious implementation of this project as decided by the ExCom (Dec. 26/34). Because of the nature of the financial assistance for this project, which is different from the previous MLF projects, a new legal agreement, a loan agreement, with appropriate terms and conditions for the return of the funds to the MLF, had to be developed. This also applies to the funding provided by GEF.

6. Due to both internal and external factors, the process of preparing the terms and conditions for the loan agreements for this project took longer to complete than expected. The objective of this report is to inform the ExCom of these challenges which were experienced during the start-up of this project, and to provide the ExCom with an update on what this project has already achieved despite the fact that no funds have yet been disbursed.

Project Status

7. The Government of Thailand and the World Bank have completed the detailed appraisal of this project. The appraisal process includes assessment of beneficiary's ability to repay the loans, development of detailed procedures for selecting chillers that qualify for assistance from this project, and terms and conditions for loan repayment. The project appraisal document describes in detail the implementation procedures and criteria to safeguard the funds from the Multilateral Fund and GEF. The project appraisal document was approved by Bank management and endorsed by the GEF Chief Executive Officer.

8. The World Bank has already completed the loan agreement negotiation process with the Ministry of Finance of Thailand. Loan agreements for both GEF and MLF funding, including guarantee agreements (as a measure to safeguard resources of the Multilateral Fund, Dec. 26/34) were already approved by the Thai Cabinet. These legal documents are ready for formal signing by the designated representatives of the Thai Government and the World Bank. Both parties expect to sign the legal documents for the GEF and MLF loans and guarantees by the end of October 2001.

9. Before loan agreements become effective, a legal opinion from the Thai Council of State must be provided to the Bank. It is expected that the legal opinion will be available within two months after the Thai Government and the World Bank sign the legal documents. Once the loan agreements become effective, sub-loan agreements between the executing agency and chiller owners will be signed.

10. As of September 26, 2001, sub-loan agreements to replace five CFC chillers are ready for signing. A technical review (on-site measurement of energy consumption) to ensure that these CFC chillers meet all the technical criteria of the project and a financial review to assess chiller owners' capacity to service MLF and GEF loans, are completed. The local executing agency and industry have mutually agreed to the detailed procedures for measurement of energy consumption. These procedures are included as part of the operation manual for this project which has already been completed. These sub-loan agreements will be signed once the loan agreements become effective.

11. These are additional CFC chillers whose technical reviews have also been completed. Based on these technical reviews, three CFC chillers have qualified for replacement under this project. At present, financial appraisals are being done to ensure that owners of these units have the capacity to service their loans. There are an additional

eight CFC chillers in the process of technical reviews, and an additional 43 CFC chillers whose owners have already expressed interest in the project.

12. In response to Decision 26/34 (b) of the ExCom regarding exclusion of losses related to technology risk, the Department of Industrial Works, the Bank and key stakeholders (i.e., chiller owners and suppliers), have mutually agreed on terms and conditions for technical shortfalls. A verification system is included in the operation manual for this project.

13. The Ministry of Industry made a recommendation to the National Committee on Energy Policy chaired by the Prime Minister, that chiller replacement should be included as one of the main activities to be financed by the Thailand Energy Conservation and Promotion Fund and US \$30 million would be required for setting up a revolving fund to finance replacement of an additional 400 chillers. The National Committee on Energy Policy approved these recommendations in principle and advised that initial funds to carry out monitoring and an independent evaluation of the Thai Chiller Replacement Project financed by the MLF/GEF, be provided by the Energy Conservation and Promotion Fund. Initial funds of approximately US \$225,000 were approved and a memorandum of agreement between the National Energy Policy Office under the Prime Minister's Office, and the Department of Industrial Works of the Ministry of Industry was signed on September 28, 2001.

Revised Project Milestones

14. The revised schedule for key project milestones is as follows:

(a) Milestone	(b) Month
Loan agreement signing	October 2001
All sub-loan agreement signed	March 2002
Bids prepared and requested	March 2002
Contract awarded	May 2002
Equipment delivered	December 2002
Installation started	December 2002
Commissioning and trial runs	December 2002
Full operation	January 2002
First disbursement	December 2002
Final disbursement	June 2003
Submission of project completion report	December 2003
Loan repayment*	January 2007

* In the event the Government decides not to proceed with a larger scale chiller replacement program.

Lessons Learned

15. This project is the first project under the MLF that employs joint financing between the two funding mechanisms (MLF and GEF). The two funding mechanisms have different operational procedures. Therefore, the time it took to meet the different requirements of the two funding mechanisms was longer.

16. Our short experience with concessional loans, which require a new delivery instrument, shows that setting up such an instrument is quite resource consuming from both the standpoint of Bank operational procedures and country institutional capacity. The existing arrangements between the Bank and the MLF, and between the Bank and its financial intermediary, are based on a grant trust fund where there is no reflow of funds. With the concessional loan approach, however, a system must be set up to monitor the reflow.

17. As the MLF resources for this project are provided on a loan basis, a loan guarantee from the Government is required to safeguard funds for the MLF. Because of this loan guarantee requirement, only a few institutions in the country can undertake this project. While the project was originally designed to have the Electricity Generating Authority of Thailand (EGAT), a state-owned enterprise, act as a beneficiary, the Government of Thailand decided in 1999, as one of the economic measures taken in response to the 1997 financial crisis, not to provide new loan guarantees to any state-owned enterprises. To secure a loan guarantee from the Thai Government, the Industrial Finance Corporation of Thailand (IFCT), which is a public company, with the Ministry of Finance as a major shareholder, was selected as an executing agency for this project. For future projects, the ExCom may wish to consider whether it should prescribe specific safeguard measures that are less stringent than those for a normal commercial loan.

18. Since the project was originally designed to have EGAT act as an executing agency, the project design relied heavily on EGAT's existing technical capacity which it accumulated from its GEF-funded, demand-side management project. Thus, no financial provision in a form of grant for strengthening technical capacity of the executing agency was included in the original project design. With IFCT as an executing agency for this project, IFCT and DIW acknowledged the need to use local resources to support the strengthening of IFCT's technical capacity. For future projects, a grant component for building the technical capacity of the executing agency should be built into the project.

19. The participatory approach employed by this project has proven to be critically important for securing buy-in from all stakeholders. Performance criteria and provisions for reduction of the loan repayment in case new non-CFC chillers do not meet the agreed performance criteria were agreed upon with full participation of chiller owners, chiller suppliers, IFCT, and relevant government agencies. As a result of this process, the Government agreed that chiller replacement should be one of the major components of its national energy conservation policy. This is evident by the additional funding it will provide to carry out an independent evaluation and monitoring of this project.

20. The potential win-win outcome demonstrated by this project has led the management of IFCT to establish a new Vice President office dedicated to promotion and management of environmental-related projects.

21. Through a series of workshops organize by DIW and IFCT, chiller owners have been informed about potential savings through replacement of old CFC chillers with new energy efficient non-CFC chillers, and through proper maintenance of their chiller systems. Some chiller owners have decided to replace chillers on their own. Some have required their own in-house service teams to undertake proper maintenance of their chillers and chilled water systems, including minimizing leaks. Because of this action, performance of existing CFC chillers has improved significantly. Some of these chillers no longer qualify for replacement under this project as they are already efficient.

22. Due to the nature of the pilot project, it is anticipated that during implementation, additional technical challenges may be uncovered. Experiences and lessons that may be learned from these additional challenges will then be used to improve the agreed performance criteria already established by this project and could be applied to future projects. In any event, the maturity date for this loan will not be affected once the loan agreement becomes effective.
