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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-sixth Meeting
Montreal, 20-22 March 2002

OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW

Projects and activities presented to the 36th Meeting

Submissions by Agencies and Bilateral Partners

1. The total value of projects and activities received by the Fund Secretariat from implementing and bilateral agencies for submission to the 36th Meeting is US $75,832,299 (including agency support costs where applicable). The requested funding amounts to US $65,326,676 including tranches for sector plans and methyl bromide projects.

Secretariat's review of proposed projects and activities

2. The review by the Fund Secretariat of proposals for the funding of projects and activities has resulted in a recommendation for blanket approvals of 102 investment projects as well as other activities in the amount of US $11,272,788. One hundred and ten investment projects and other activities with a total value of US $10,582,236 have been withdrawn or deferred, including projects which did not provide adequate information or the eligibility of which was in doubt. Twenty-four investment projects and sector plans are submitted for individual consideration with a total value as requested of US $37,435,897.

Status of the Fund

3. At the time of preparation of this paper, Multilateral Fund resources available for commitment amount to some US $81 million.

Issues arising from project review

Overlaps between project-by-project, sectoral and national phase-out approaches

4. In the work programmes for 2002 of UNDP, UNIDO and the World Bank, a number of proposals were submitted for preparation of a combination of individual projects, terminal programmes in the same sector, and national CFC or ODS phase-out plans (NPPs) for the same country. The Secretariat raised this issue with all implementing agencies and requested them to attempt to rationalise their programmes so that such overlaps were eliminated. After consulting relevant governments, agencies modified their requests for a number of the countries concerned and indicated that in other countries, activities would be coordinated to ensure that there were no overlaps.

5. Nonetheless, as finally submitted, the work programmes still contain requests for preparation of individual projects in a country by one agency simultaneously with requests from another agency for preparation of a terminal programme for that sector or for an NPP. For example, in Syria, funds for preparation of a terminal programme for refrigeration manufacturing have been requested by UNDP, while UNIDO has requested funds for preparation of an individual project in the refrigeration sector and funds for preparation of an NPP for Syria.

6. The effectiveness of implementation of national phase-out plans could potentially be adversely affected if another agency is simultaneously implementing a separate terminal plan for consumption that is, by definition, a component of national aggregate consumption.

7. It may be expected that in the transition period when agencies are beginning discussions with governments about sectoral or national phase-out plans, circumstances may arise when governments had already reached agreements with one agency in regard to investment projects in a particular sector, but also wish to engage another agency to prepare a sector or national plan. In these circumstances, it may be appropriate to provide funding as requested for the individual projects, on the basis that these will be the final projects to be prepared separately to the sector or national plan and that the resulting consumption will be considered in the context of the aggregate national consumption eligible for funding under Decision 35/57. This has been recommended by the Secretariat in a number of instances in relation to agencies' 2002 work programmes. In other circumstances such as the case of countries which are recovering from severe economic difficulties with prospective rapid increases in ODS consumption, there are good reasons for taking urgent action to convert individual enterprises, while at the same time undertaking preparatory work at the sectoral or national level.

8. The Executive Committee might consider requesting governments and implementing agencies to take into account the Executive Committee's expectation that where sectoral plans are to be prepared, these would in time replace the preparation of individual projects and where a national CFC or ODS phase-out plan is to be prepared, this would in time replace preparation of both individual projects and terminal sector programmes. Project preparation proposals that do not meet these criteria might be submitted for individual consideration and should be accompanied by comprehensive justification.

<u>Change in the level of Article-5 ownership of an enterprise</u>

9. The World Bank has submitted a request for additional funding for a project in the domestic refrigeration sub-sector in India currently under implementation. The additional funding is requested on the grounds of a change in the proportion of Article-5 ownership of the enterprise. In December 2001 local ownership increased from 60 percent, the figure when the project was approved, to 100 percent. The project was approved by the Executive Committee in two phases. The first phase, for conversion of foam operations was approved at the 20th Meeting in October 1996. This phase is complete and no change in funding is requested for it. The second phase, for conversion of refrigerant operations was approved at the 30th Meeting in March 2000. Details of the project and the request are provided in the India country project document (UNEP/OzL.Pro/ExCom/36/27 and Add.2).

10. The request for additional funding associated with the second phase of the project is based on Decision 19/38 (Annex I to this paper) which provides guidelines for the reassessment of incremental costs if the proportion of local ownership of an enterprises changes after project approval. However the guidelines only address the situation where the proportion of local ownership decreases, in which case incremental costs may decrease, with funding to be returned to the Multilateral Fund. The Executive Committee may wish to provide clarification as to whether the guidelines should apply also in the case where the share of the Article 5 entity increases while the project is under implementation. In this case the incremental costs eligible for funding might increase, if the circumstances of the project conformed to the other relevant aspects of the guidelines.

11. In regard to the project itself, the Secretariat requested clarification from the World Bank about a number of key facts relating to the status of implementation of the project. The World Bank has advised the Secretariat, inter-alia, that the enterprise is not willing to sign a sub-grant agreement for this project, approved in March 2000, until a decision has been taken by the Executive Committee on the change of ownership issue. Change of ownership could increase the project funding by up to US $1.4 million.

Annex I

Change of Ownership of Approved Projects (Decision 19/38)

1. The Executive Committee decided:

(a) Where, following project approval by the Executive Committee, an implementing agency is notified ex post facto that an ownership shift occurred in the period after project submission to the Fund Secretariat but before formal approval by the Executive Committee, the implementing agency shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;

(b) Where an ownership shift occurs after Executive Committee approval but before signature of the project document or grant/sub-grant agreement, the implementing agency shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;

(c) Where an ownership shift occurs after the implementing agency and the government/company have already signed the project document or grant/sub-grant agreement but before the equipment procurement process has started, implementing agencies shall, where such company is fully sold to a non-eligible entity, cancel the project and return the grant funds to the Multilateral Fund, or, shall reduce the grant component to correspond to the share of national ownership, in which case the implementing agency will need to obtain from the enterprise concerned an official commitment/guarantee to full project implementation and provision of counterpart funds, since only partial funding will be provided through the Multilateral Fund;

(d) Where an ownership shift occurs after the implementing agency and the government/company have signed the project document or grant/sub-grant agreement and the equipment procurement process is under way and financial obligations raised and/or servicing contracts have been entered into, implementing agencies shall continue project implementation as usual, consistent with their legal obligations;

(e) Implementing agencies should ensure that all project documents and grant/sub-grant agreements include a condition that, should a partial or complete shift in ownership of an Article 5 enterprise to a non-Article 5 entity occur following project approval by the Executive Committee, the grant component shall be reduced or cancelled in accordance with the above-specified circumstances, and unutilized funds returned by the implementing agency to the Multilateral Fund.

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