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COMITE EXECUTIF
DU FONDS MULTILATERAL AUX FINS
D'APPLICATION DU PROTOCOLE DE MONTREAL
Soixante-troisième réunion
Montréal, 4 – 8 avril 2011

**PROGRAMME DE TRAVAIL DE LA BANQUE MONDIALE
POUR L'ANNÉE 2011**

Les documents de présession du Comité exécutif du Fonds multilatéral aux fins d'application du Protocole de Montréal sont présentés sous réserve des décisions pouvant être prises par le Comité exécutif après leur publication.

OBSERVATIONS ET RECOMMANDATIONS DU SECRÉTARIAT DU FONDS

1. La Banque mondiale demande au Comité exécutif d'approuver la somme de 280 000 \$US, plus les coûts d'appui à l'agence de 21 000 \$US, pour son programme de travail pour l'année 2011 joint au présent document.
2. Les activités proposées dans le programme de travail de la Banque mondiale sont réunies dans le tableau 1, ci-dessous.

Tableau 1 : Programme de travail de la Banque mondiale

Pays	Activité/projet	Somme demandée (\$US)	Somme recommandée (\$US)
SECTION A : ACTIVITÉS RECOMMANDÉES POUR APPROBATION GÉNÉRALE			
A1. Préparation de projet			
Jordanie	Préparation de projet pour le secteur de la réfrigération et de la climatisation	30 000	30,000
Total partiel de la section A1 :		30 000	30,000
SECTION B : ACTIVITÉS RECOMMANDÉES POUR EXAMEN INDIVIDUEL			
B1. Assistance technique			
Mondial	Mobilisation de ressources pour l'étude des avantages climatiques connexes dans l'élimination des HCFC	250 000	*
Total partiel de la section B1 :		250 000	
Total partiel des sections A et B		280,000	30 000
Coûts d'appui à l'agence (7,5 pour cent pour la préparation de projets et le renforcement des institutions, ainsi que pour les autres activités d'une valeur supérieure à 250 000 \$US, et 9 pour cent pour les autres activités d'une valeur inférieure à 250 000 \$US)		21 000	2 250
Total :		301 000	32 250

* Projet pour examen individuel ou en instance

SECTION A : ACTIVITÉS RECOMMANDÉES POUR APPROBATION GÉNÉRALE

A.1 Préparation de projet

Jordanie : Préparation de projet pour le secteur de la fabrication de réfrigérateurs et de climatiseurs : 30 000 \$US

Description du projet

3. La Banque mondiale demande la somme de 30 000 \$US pour la préparation d'activités d'investissement faisant partie du plan de gestion de l'élimination des HCFC pour le secteur de la climatisation en Jordanie. La Banque mondiale a précisé que cet exercice de préparation de projet viserait plusieurs entreprises de ce secteur.

Observations du Secrétariat

4. Le Secrétariat a examiné en détail la proposition de la Banque mondiale et a demandé des précisions lorsque nécessaire. Le Secrétariat estime que le soutien financier demandé est conforme à la décision 56/16.

Recommandation du Secrétariat

5. Le Secrétariat recommande l'approbation générale de la demande de préparation d'activités d'investissement pour le secteur de la fabrication de climatiseurs dans le cadre du plan de gestion de l'élimination des HCFC de la Jordanie, aux niveaux de financement indiqués dans le tableau 1 du document UNEP/OzL.Pro/ExCom/63/21.

SECTION B : ACTIVITÉS RECOMMANDÉES POUR EXAMEN INDIVIDUEL

B.1 Assistance technique

Mondial : Mobilisation de ressources pour les avantages connexes des HCFC (augmentation à l'échelle du financement afin de respecter les obligations du Protocole de Montréal et au-delà) (250 000 \$US)

Description du projet

6. La 62^e réunion du Comité exécutif a décidé, dans sa décision 62/23, de demander à la Banque mondiale de reporter la présentation d'une proposition de projet d'assistance technique pour la mobilisation de ressources visant à maximiser les avantages pour le climat de l'élimination des HCFC à la 63^e réunion et d'y joindre toutes les nouvelles informations que pourrait fournir l'agence d'exécution. La Banque mondiale a présenté de nouveau la proposition, qui n'a subi que des changements mineurs, aux fins d'examen à la 63^e réunion du Comité exécutif.

7. Cette demande concerne les trois questions suivantes : a) la monétisation des futurs engagements (contributions) des pays donateurs en utilisant les obligations de la Banque mondiale pour augmenter à l'échelle le financement du Fonds multilatéral, b) la monétisation des futurs crédits d'émission de carbone pour couvrir les coûts des avantages liés au climat et à la couche d'ozone, et c) des scénarios de financement (pilotes) spécialement conçus pour cinq pays donateurs. Cette approche se composerait de temps d'experts pour développer des produits financiers et des scénarios de flux de trésorerie, et des consultations avec les pays donateurs. La description détaillée du projet est jointe à l'annexe I au programme de travail.

8. La ventilation des 250 000 \$US demandés par la Banque mondiale est présentée dans le tableau ci-dessous.

Élément	Coût (\$US)
Développement de produits financiers verts et de scénarios de flux de trésorerie	130 000
Voyages aux réunions de consultation avec les pays donateurs	50 000
Développement de propositions d'augmentation à l'échelle du financement adaptées aux pays	70 000
Total	250 000
Total comprenant les coûts d'appui	268 750

9. Le projet présenté à la 62^e réunion proposait le même niveau de financement.

Observations du Secrétariat

10. La Réunion des Parties est responsable de l'établissement des contributions au Fonds multilatéral. Il convient de rappeler que la question d'un fonds d'affectation spéciale a été portée à l'attention des Parties pour plusieurs raisons, notamment s'il peut être créé sans un mandat des Parties. De même, il se peut que la demande de la Banque mondiale d'augmenter les contributions doive être étudiée au niveau des Parties, en coopération avec le Secrétariat de l'Ozone et le trésorier, plutôt que par le Comité exécutif, étant donné que ce dernier n'est pas responsable des contributions supplémentaires. La Banque mondiale a indiqué que le concept proposé ne concerne pas les contributions supplémentaires mais les engagements de contributions futures contractés. Les contributions réelles pourraient être supérieures ou inférieures, selon la négociation de la reconstitution au niveau des Parties. En outre, l'objectif final de la proposition étant de contribuer au mécanisme de financement du Protocole de Montréal, le dialogue proposé pour étayer cette analyse n'affecterait pas le rôle du trésorier, mais compléterait ses travaux. Les niveaux exacts des contributions pour chaque période triennale ne seraient déterminés qu'au niveau de la Réunion des Parties.

11. L'avenir des crédits de carbone et le risque associé à l'entrée sur les marchés de droits d'émission de carbone font partie de l'analyse qu'entreprendrait la Banque pour cet aspect de la demande. La Banque mondiale a l'intention d'étudier les mécanismes de financement, y compris le mécanisme pour un développement propre (MDP) et les autres méthodes de financement, et la possibilité de les utiliser pour garantir des ressources supplémentaires afin d'optimiser les avantages climatiques connexes. L'avenir du MDP sera abordé par le Protocole de Kyoto avant la fin de l'année. Le Secrétariat s'est donc interrogé sur l'opportunité de la demande de la Banque mondiale, vu l'incertitude actuelle de l'avenir du MDP. La Banque a indiqué que, comme un grand nombre d'autres parties prenantes, elle demeurerait certaine que le commerce des droits d'émission de carbone se poursuivrait, avec ou sans le MDP. Elle a indiqué en outre que le recensement d'options de financement novatrices était essentiel pour répondre aux besoins financiers des pays visés à l'article 5.

12. Le troisième élément de l'étude conduira à l'élaboration de scénarios de financement pour cinq pays donateurs. Chaque scénario sera élaboré de façon à reproduire les cycles budgétaires et les contraintes des pays donateurs, tout en fournissant une comparaison sur le plan des avantages pour l'environnement mondial et celui des risques financiers. Le Secrétariat a suggéré à la Banque que l'élaboration d'options de financement conçues spécialement pour les pays donateurs n'est peut-être pas une utilisation appropriée des ressources du Fonds multilatéral, qui sont destinées aux pays visés à l'article 5. La Banque a indiqué que ces derniers seraient les bénéficiaires directs des fonds mobilisés sur la base des résultats de l'analyse proposée. Quoique la proposition d'augmentation à l'échelle du financement ne bénéficie pas en soi aux pays donateurs, il est très probable que le financement du Fonds multilatéral doive être augmenté. La Banque mondiale est d'avis que l'élaboration de scénarios de financement novateurs propres à éclairer sur le plan stratégique les projections des besoins et de la demande de financement serait utile aux pays donateurs.

Recommandation du Secrétariat

13. Le Comité exécutif pourrait souhaiter examiner si l'augmentation des futures contributions, la monétisation des futurs crédits de carbone et l'élaboration de scénarios de financement pour cinq pays contributeurs, devraient être financées dans le cadre de la mobilisation de ressources.

2011 WORK PROGRAM

PRESENTED TO THE 63rd MEETING
of the EXECUTIVE COMMITTEE

WORLD BANK IMPLEMENTED
MONTREAL PROTOCOL OPERATIONS

7 February, 2011

WORK PROGRAM FOR WORLD BANK-IMPLEMENTED MONTREAL PROTOCOL OPERATIONS

1. This proposed work program for Bank-Implemented Montreal Protocol Operations is prepared on the basis of the 2011 World Bank Business Plan, also being submitted for the consideration of the Executive Committee at its 63rd meeting.
2. The proposed 2011-2014 World Bank Business Plan consists of investment and non-investment activities to assist Article 5 partner countries to meet their first two HCFC reduction targets, the 2013 freeze and the 2015 10% reduction. The Business Plan includes, in addition to deliverables associated with previously approved and new investment activities, requests to extend support for implementation of existing institutional strengthening projects in 4 countries, and a global study on resource mobilization for HCFC co-benefits.
3. The value of deliverables contained in the proposed 2011 World Bank Business Plan, including investment and non investment activities, totals US \$54,345 million, including agency support costs. Funds will be used to support both new and previously approved activities.
4. The proposed 2011 Business Plan includes deliverables of 9 investment activities in 6 countries, totaling US \$51,659 million. These include submission of annual work programs for 2 previously approved multi-year projects and 7 new HCFC sector phase-out plans.
5. The proposed 2011 Business Plan allocates US \$50,235 million (97% of total investment deliverables for the year) to support national and sectoral HCFC phase-out work in China, Indonesia, Jordan, Thailand and Vietnam. The Business Plan also allocates US \$1,424 million (2% of the total investment deliverables for the year) to support previously approved MYA activities in India and Vietnam.
6. The proposed 2011 Business Plan also includes requests to extend support for implementation of two existing institutional strengthening projects in the Philippines and Thailand, totaling US \$0,568 million.
7. With regard to the proposed global study on resource mobilization to maximize HCFC co-benefits, with Decision 62/23, the Executive Committee decided to defer consideration of the request to its 63rd Meeting. As a result, the World Bank is resubmitting this request as part of its 2011 Work Program Amendment for the consideration of the 63rd Meeting of the Executive Committee. An updated concept note for this proposed activity, along with an associated breakdown of projected costs, is included in Annex I.

8. The proposed 2011 Work Program, which is being submitted for consideration at the 63rd Meeting of the Executive Committee, includes 2 funding requests, outlined below and in Table 1:

- i. one (1) funding request for project preparation in the refrigeration A/C sector in Jordan; and,
- ii. one (1) for a global resource mobilization initiative, which proposes initiation of a comprehensive analytical and feasibility work on scaling up financing for meeting Montreal Protocol obligations and beyond.

Table 1: Funding Requests Submitted for Consideration of the 63rd Meeting of the Executive Committee

Country	Request (US\$)*	Duration	Description
Jordan	30,000	January 2011 – December 2011	Project preparation in the refrigeration A/C sector
Global	250,000	January 2011 – December 2011	Resource Mobilization for HCFC Phase-out Co-benefits Study, a concept note for which is included in the Work Program under Annex I.
Support Costs	21,000		
Total	301,000		

Annex I**CONCEPT NOTE****SCALING UP FINANCING FOR MEETING
MONTREAL PROTOCOL OBLIGATIONS AND BEYOND****Background**

The decision of the Parties to the Montreal Protocol to accelerate HCFC phase-out in 2007 held much promise for the environment; not only in terms of moving an impressive record of ozone protection measures to an earlier completion but by recognizing the relationship of these measures to the climate. Part of Decision XIX/6 also assured countries operating under Article 5 that full incremental costs for accelerated HCFC phase-out would be covered. It is only now, three years later, as Article 5 countries complete their HCFC Phase-out Management Plans under the Multilateral Fund (MLF) and the Executive Committee's HCFC policies evolve, that the actual funding requirements are better understood.

One of the most prominent aspects of Article 5 country consumption of HCFC is the rate of growth in a relatively short period. This rate of growth is directly related to economic development in emerging economies which are rapidly building a consumer-base, particularly in the refrigeration sector where the rate of growth has reached 20% in some cases. Consequently, HCFC-22 represents more than 80% of total HCFC consumption in developing countries. Moreover, the rapid growth has resulted in an actual volume of consumption of HCFCs that is double that of the volume of CFCs at their peak of use: the consumption baseline of HCFCs in metric tonnes risks to be 3-4 times that of the CFC baseline for Article 5 countries.

Decision XIX/6 also brought needed attention to the linkages between the phase-out of ozone depleting substances (ODS) with other environmental benefits, notably climate benefits. This relates to not only seeking alternatives with low global-warming potential but also taking advantage of low carbon emissions from increased energy efficient equipment and minimizing HCFC emissions during the long phase-out period. Developing countries therefore have the political and environmental impetus to go beyond a simple replacement of ODS to ensure that the alternatives also do not have climate repercussions.

As a result of concern regarding these two issues, discussion in the MP community on project funding has been increasingly linked to the possibilities and options for leveraging additional support to the MLF – if it becomes necessary for ensuring that countries can not only first and foremost meet their MP obligations, but also to assist countries that wish to include climate co-benefit considerations into their HCFC phase-out programs, in accordance with Decision XIX/6 of the Parties.

**Scaling-up MLF Funds to Address Possible Funding Gaps and Phase-out with
Climate Benefits**

The need for additional funding to complement the amount traditionally provided under the MLF can be considered as a matter directly related to compliance. In order to meet the basic, incremental costs related to the HCFC freeze and 10% reductions in developing countries, preliminary World Bank analysis shows that MLF financing would most likely have to be increased. To further incorporate climate benefits for countries wishing to do so which in some cases would involve conversions and technologies not considered eligible or considered a technology upgrade, even more financing would be needed.

Given the institutional and policy framework created through the MLF which has proven extremely effective in supporting Article 5 countries in phasing out Annex A and B substances, the most ideal starting point for increased financing is the MLF itself. While there is value in seeking other sources of financing, such as under GEF or carbon finance, augmenting available funds for programming now under the MLF would remove some uncertainty, particularly with the first HCFC phase-out obligations right around the corner. Thus one proposal to augment financing would be to take advantage of the predictability of regular contributions to the MLF and utilize market mechanisms to raise funding as required for project implementation under the MLF.

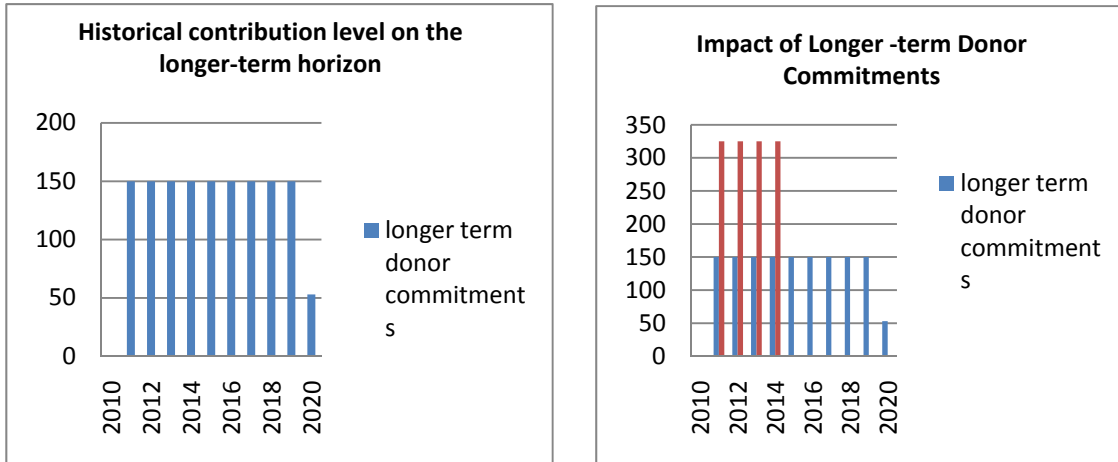
Market Mechanism Options for Raising Required Funds

Scaling-up the current available levels of MLF funding can be approached in two complementary ways.

1. Monetization of donor commitments to scale-up MLF funding. In order to address a possible funding deficit by 2015 and any additional gaps in future years, one possible approach would be to take advantage of the donors' ongoing support to the MP and its programs and monetize *future* donor commitments, which have historically been stable and consistent in value in the twenty year history of the MLF. This approach would imply using market instruments that would allow the MLF to borrow against future commitments in order that funds are available as needed for MLF project financing requirements. Following a long-term trajectory, repayment of the borrowing made by the MLF would stem from future donor commitments. This approach would build on the successful pilot of the International Finance Facility for Immunization (IFFIm) that used capital markets to monetize long-term legally-binding donor commitments for promoting accelerated immunization of children worldwide.

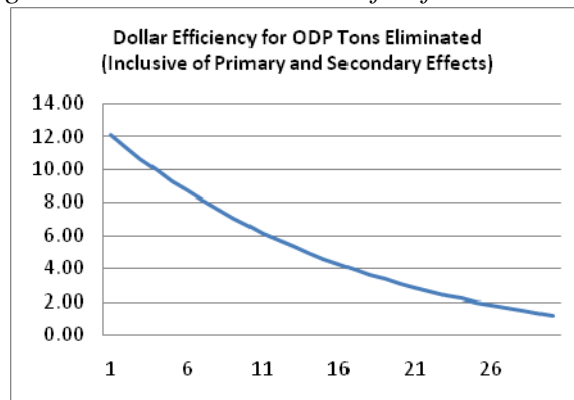
The frontloading mechanism that would be designed to meet the objectives of the MP would take into account the specific nature of the MP and MLF. The design of the potential financial structure would depend on the nature of the MP donors' future commitments, their willingness to extend their commitment periods, ability to scale up immediate contributions, the need to provide credit enhancement to the future flows, and other policy and institutional considerations.

Figures 3 and 4. Long-term MLF contribution levels based on historical data versus the impact of donor commitments



Using market mechanisms to frontload the MLF’s future cash flow contributions stream would involve paying financial returns to the market participants (capital markets, financial organizations, etc), resulting in an additional cost to the MLF. While increasing the overall costs to the MLF to implement its agreed target reduction, the borrowing costs would be more than offset by the environmental “return” of such frontloading. MLF projects clearly demonstrate significant environmental benefits when making funds available earlier. More immediate financing would also support CO₂ reductions from more energy efficient technologies, avoidance of HCFC leakage over time and reduction of HCFC banks and servicing needs. The diagram below quantifies the environmental benefit of borrowing against future commitments: US\$1 spent in year 1 buys 12 times the environmental benefit than US\$1 spent in year 30¹.

Figure 5. Environmental Benefit of Frontloading

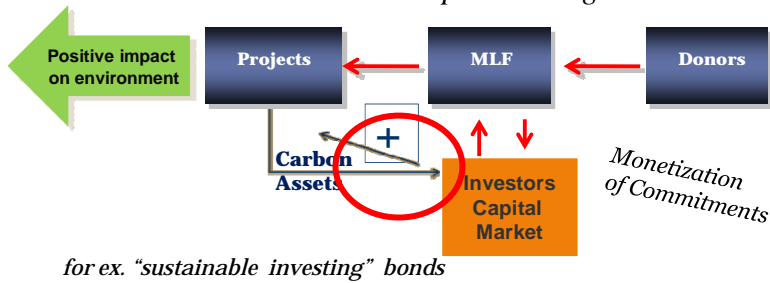


2. Monetizing future carbon credits to finance the costs of climate-ozon benefits. Carbon assets, once verified, become entitlements to the project entity, and are redeemable in the future. Various mechanisms exist to monetize these assets such as primary market carbon funds and secondary market exchanges, although these do not

¹This analysis is based on the conservative assumption of zero inflation throughout the considered period.

directly address the need to increase the amount of project finance at an early stage of the project. Carbon credits redeemable in the future could be used by the project entity to increase the financing available at an early stage of the project. It may be possible to advance financing (e.g. commercial loans, bonds) against these future carbon assets to fund projects before the assets are generated, using the future stream of carbon revenues to repay the financing, over time. As with the previous approach, the result would be an acceleration of funds available for ozone-related project finance.

Figure 6. MLF Process with Scaled-up Financing and Carbon Assets

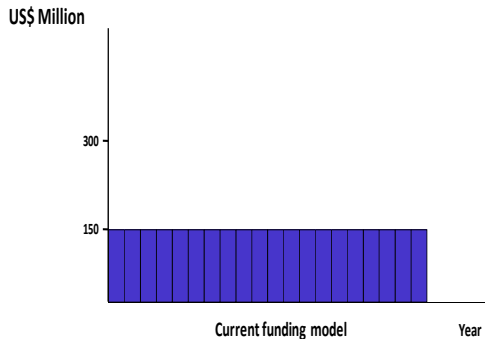


In addition, it may be possible to use carbon assets to enhance the creditworthiness of projects, which would enable financial entities (banks, investors or multilaterals) to improve the terms of financing (such as increased financing amounts, decreased cost of financing, increased loan maturity, etc.). As a credit enhancing instrument, asset titles would be transferred or posted as collateral to the benefit of financiers, to reduce the potential loss to the financier in case of a default by the borrowing entity. This approach entails the most uncertainty and would have to be more carefully evaluated to determine if it can be a viable mechanism.

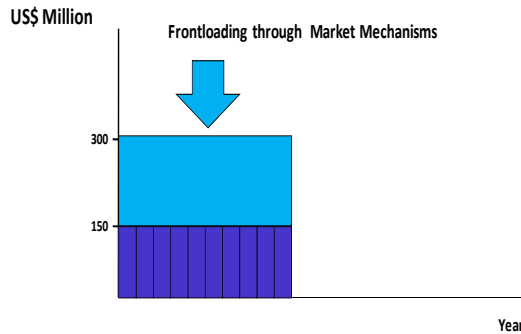
The sequence of these possible approaches for providing financing under the MLF of the Montreal Protocol, in terms of funds available for immediate disbursement, is depicted in the figures below following the baseline scenario.

Figure 7. Current MLF Funding Approach plus the three Proposed Mechanisms to Scale-up Funding

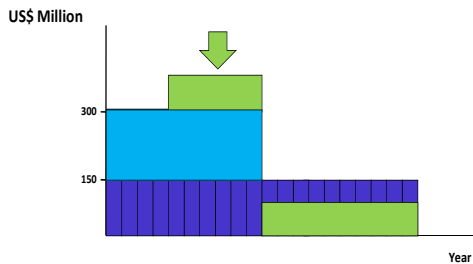
Business as Usual Market



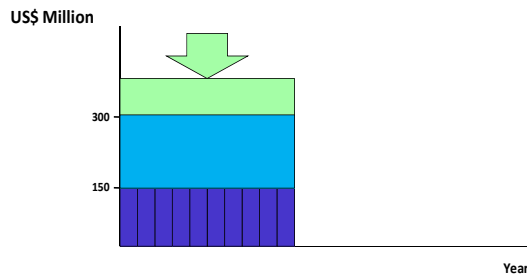
Advancing Funding through the Market



Potential Revenue from Carbon Markets



Additional Project Financing Using Future Carbon Revenue



These complementary approaches would maximize the level of upfront financing. In fact, because of the inherent link between new alternative technologies and climate and energy efficiency at the project level, it is easily foreseeable that MP projects lead to climate benefits, which in turn can generate carbon assets that would help finance MP project activities.

Other sources of funding, such as GEF or carbon funds, should also be sought to complement MLF funding particularly where MP projects intersect with the climate agenda, in order to maximize ozone and climate benefits, thereby accelerating the benefits resulting from the reasons mentioned above (HCFC bank avoidance and leakage, energy efficiency, etc.).

The market mechanisms presented above entail some inherent financial and market risks. Such risks were addressed in the structure of the IFFIm vaccination program in the World Bank, upon which this concept is based. In brief, these risks could be managed through adequate financial policies, with innovative approaches to sharing or distributing the risk (depending on the structure chosen in the end).

Objective

The objective of this proposed resource mobilization activity is to further develop the concept outlined above of scaling-up funding within the existing replenishment and financing framework of the MLF.

Scope of the Work

Using the example of the IFFIm program which has successfully employed the use of commitments by a group of donors to raise upfront money for scaling up vaccination for children, the work would entail developing various donor scenarios to contribute to a program to scale up MLF financing for both the first approach, monetization of commitments and the second approach, monetization of future carbon credits. The key aspects to investigate will be donor support, scenarios of increased funding to the MLF, the costs of frontloading, the risks, and the financial mechanisms (such as bonds, IBRD balance sheet, etc) to employ.

The scenarios would give the Parties, particularly donors, concrete examples of how they might contribute to these approaches within the parameters of their governments and political systems. These examples would look at various timeframes, amounts (partial commitments, full commitment) and forms of contributions and commitments vis-à-vis front loading needs and cash flow requirements of the Fund in the short and longer term. Analysis would focus on funding required as compared to the global demand for and capacity to absorb specific project activities (financing funding gaps, accelerating HCFC phase-out and financing climate benefits). The work would identify in concrete terms the possible risks and corresponding structures and approaches to mitigate the risks, as well as the costs of the proposed scheme, and lay-out the roles of the different MLF actors in its implementation. It would consider the legal and governance implications of the financial mechanisms chosen to scale up the funds. Finally, the proposed resource mobilization study would delve into the environmental and economic benefits of frontloading for stepped up replacement of HCFCs.

Approach

The work will require analyses and a feasibility study on the level of demand as well as on the level of the markets. Thus funding scenarios will be elaborated in consultation with various types of donors (based on their political/governance systems) and 1-2 country case studies will be developed to capture demand and capacity to absorb scaled-up financing.

Timetable

Upon approval by the MLF Executive Committee of the resource mobilization study to explore approaches to scale-up funds under the MLF through monetization of donor commitments and of carbon credits, the work would unfold immediately on two tracks, consultations with donors and analysis and feasibility work. A work plan will be prepared to capture required consultations and associated locations. Every effort would be made to combine these consultations with various international or regional meetings of

concerned ministries. Consultations would be scheduled between the 63rd and 64th Executive Committee meetings.

The analytical and feasibility work would require 8-10 months from approval.

Preparation Cost Breakdown

Element	Description	US\$
Development of green financial products and cash-flow scenarios	Expert time (internal Bank and external financial engineering specialists, carbon market specialists, etc..) to develop a range of green financial products and overall cash-flow scenarios	130,000
Travel for donor consultation meetings	Travel to relevant Parties to discuss means of financing, involving review of various existing funding mechanisms, identification of potential sources of financing, and development of approaches and project models for securing such resources	50,000
Development of country-specific scaled-up financing proposals	Design and development of various tailor-made financing scenarios and proposals for scale-up, informed by in-depth consultation with interested donors	70,000
Total		250,000