



**United Nations
Environment
Programme**



Distr.
LIMITED

UNEP/OzL.Pro/ExCom/7/30
27 June 1992

ORIGINAL: ENGLISH

Executive Committee of the
Interim Multilateral Fund for the
Implementation of the Montreal Protocol

Seventh Meeting
Montreal, 23-26 June 1992

**REPORT OF THE SEVENTH MEETING OF THE EXECUTIVE COMMITTEE OF THE
INTERIM MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE
MONTREAL PROTOCOL**

I. INTRODUCTION

1. The Seventh Meeting of the Executive Committee of the Interim Multilateral Fund for the Implementation of the Montreal Protocol was held at Montreal from 23 to 26 June 1992. The Meeting was convened in pursuance of decisions II/8 and II/8A adopted at the Second Meeting of the Parties to the Montreal Protocol, held in London from 27 to 29 June 1990 (UNEP/OzL.Pro/2/3).

II. ORGANIZATIONAL MATTERS

A. Opening of the Meeting

2. The Meeting was opened by Mr. J. Mateos (Mexico), Chairman of the Executive Committee, who urged participants to focus their attention on outstanding problems and ways of solving them so as to further implementation of the Montreal Protocol.

B. Attendance

3. The Meeting was attended by representatives of the following countries, members of the Executive Committee in accordance with decision II/8 adopted by the Parties at their Second Meeting:

- (a) Parties not operating under paragraph 1 of Article 5 of the Protocol: Canada, Finland, Germany, Japan, Netherlands, Russian Federation and United States of America;
- (b) Parties operating under paragraph 1 of Article 5 of the Protocol: Egypt, Ghana, Jordan, Malaysia, Mexico, Sri Lanka and Venezuela.

4. In accordance with the decision taken by the Executive Committee at its Second Meeting, representatives of the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank attended as observers.

5. Pursuant to the decision taken by the Executive Committee at its Second Meeting, representatives of the United Nations Industrial Development Organization (UNIDO) and the President of the Bureau of the Meeting of the Parties to the Montreal Protocol also attended as observers.

6. Representatives of Friends of the Earth were also present.

C. Adoption of the Agenda

7. The Meeting adopted the following agenda:

1. Opening of the Meeting.
2. Organizational matters:
 - (a) Adoption of the agenda;
 - (b) Adoption of the draft report of the Sixth Meeting of the Executive Committee;
 - (c) Organization of work.
3. Report by the Fund Secretariat:
 - (a) Secretariat activities;
 - (b) Contributions and Fund disbursements.
4. Financial matters:
 - (a) Report from the Treasurer (UNEP);
 - (b) Requests for bilateral contributions.
5. Implementing agencies:

Progress reports on the status of implementation of work programmes of:

 - UNDP
 - UNEP
 - World Bank
6. Country programmes:
 - (a) Chile
 - (b) Jordan
7. Draft guidelines for presentation of projects and criteria for project approval.
8. Project proposals:
 - Brazil
 - China

- Jordan

 - Thailand
 - Tunisia
 - Turkey
 - Venezuela
9. Institutional strengthening.
10. Issues related to the Meeting of the Open-Ended Working Group of the Parties:
- (a) Further definition of incremental costs;
 - (b) Guidelines for cost assessment of bilateral and regional activities;
 - (c) Whether support from the Fund could be given retroactively;
 - (d) Whether the Fund should finance activities related to enterprises that are wholly or partly owned by transnational corporations;
 - (e) Whether the Fund should finance activities related to enterprises that are wholly or partly owned by countries that are not Parties to the Montreal Protocol;
 - (f) Concessional loans versus grants;
 - (g) The magnitude of the Fund required for the next three-year period.
 - (h) Establishment of a financial mechanism under Article 10 of the amended Montreal Protocol.
11. Adoption of the report.
12. Date and venue of the Eighth Meeting of the Executive Committee.
13. Other matters.
14. Closure of the Meeting.

D. Adoption of the report of the Sixth Meeting of the Executive Committee

8. The draft report of the Sixth Meeting of the Executive Committee was adopted with two minor amendments (UNEP/OzL.Pro/ExCom/6/12).

III. SUBSTANTIVE MATTERS

9. The Chief Officer introduced the report by the Fund Secretariat (UNEP/OZL.Pro/ExCom/7/2). After the report had been published, he had undertaken a mission to China which had given him first-hand knowledge of the considerable efforts made by China in preparing its country programme and project proposals and also of the effective cooperation among the implementing agencies in China. Regarding the status of contributions to the Fund, he drew attention to the possibility of a shortfall if all requests for funding presented by the implementing agencies at the present Meeting were approved. The status of contributions in 1991 and 1992 is shown in Annex I to this report.

10. The representative of UNEP reported that, at 19 June 1992, US \$18.1 million had been contributed to the Fund during 1992, of which US \$13 million remained available. The United States of America and Canada had indicated that contributions of US \$2 million and US \$900,000 respectively would be paid shortly.

11. The representative of Germany said that her Government would pay US \$3.8 million of its contribution within a few days.

12. The representative of the Netherlands stated that his Government's contribution had been based on the assessed scale of contributions decided upon by the Second Meeting of the Parties and an additional contribution would be made shortly. He suggested that Article 5 countries which had not ratified the London Amendment should do so in order to benefit from the Fund.

13. The representative of the Russian Federation said that his country remained determined to cooperate in protecting the ozone layer. In its present difficult situation, however, it would temporarily be unable to fulfil all of its previous obligations to the Fund. The Russian Federation was currently negotiating with the other countries of the Commonwealth of Independent States on matters pertaining to participation in the Montreal Protocol. The scale of contributions should be adjusted to reflect those circumstances. The Ukraine and Belarus, being Parties to the Montreal Protocol and sovereign States, were themselves responsible for considering their contributions to the Fund.

14. In reply to a question raised regarding Egypt's proposal on the conversion of refrigeration compressors plant made at the Sixth Meeting (UNEP/OzL.Pro/ExCom/6/12, paragraphs 48-49), the Chief Officer replied that it was his understanding that the matter had been clarified by the World Bank and the Government of Egypt. In response to a question on country programmes, he stated that the delay in submitting the country programmes referred to in paragraph 7 of his report was due to the fact that they were still under consideration by the governments concerned. He emphasized that it was the responsibility of governments, not implementing agencies, to submit country programmes to the Executive Committee. Finally, in reply to a request for further details on disbursements to the implementing agencies, he said that

these would be provided in future reports of the Fund Secretariat.

15. The Executive Committee took note with appreciation of the report on Secretariat activities and urged those countries that had not yet fulfilled their pledges to do so without delay.

The Committee also expressed the hope that the maximum number of country programmes would be submitted as soon as possible.

Agenda item 4: Financial matters

(a) Report from the Treasurer (UNEP);

16. The representative of UNEP introduced the accounts for the year ended 31 December 1991 in document UNEP/OzL.Pro/ExCom/7/3 which is Annex II to this report. He explained that the heading "Miscellaneous income" represented Canada's contribution to cover the difference in cost of locating the Secretariat in Montreal rather than Nairobi.

17. The Executive Committee took note with appreciation of the report by the Treasurer.

(b) Requests for bilateral contributions

18. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/7/4 and stated that, to date, eight requests for assessment of bilateral contributions had been received. The Secretariat recommended that the requests by the United States of America (US \$480,000) and Australia (AUS \$52,000), which complied with the guidelines adopted and did not exceed the 20 per cent ceiling, should be approved. He emphasized that requests for bilateral assistance to non-Parties were not eligible for deduction from contributions.

19. One representative requested that, in future, countries should provide details of the costs covered by bilateral assistance. Another representative asked the Secretariat to set out the criteria used in assessing bilateral contributions in a separate document to serve as a model for future assessment. A representative expressed the view that the Secretariat should be informed in advance that such requests would be made and approval should not be given retroactively. The Chief Officer said that, at its Fifth Meeting, the Committee had adopted the guidelines for bilateral and regional cooperation and that the guidelines for cost assessment of bilateral and regional activities would be discussed under agenda item 10(b).

20. The representative of Germany distributed a request that the costs for the participation of experts from developing countries in the CFC conference held in Germany in January 1992 amounting to US \$18,378.48, should be set off against its contribution and asked the Executive Committee to take a decision.

21. The Executive Committee approved the requests made by Australia, Germany and the United States of America to credit bilateral assistance against their contributions to the Fund.

Agenda item 5: Implementing Agencies: Progress reports on the status of implementation of work programmes of:

UNEP

22. The representative of UNEP/IEO introduced UNEP's progress report (UNEP/OzL.Pro/ExCom/7/6), drawing attention to the three main features of UNEP's work: information exchange; training and networking activities; and country programmes for low-volume CFC-consuming countries. She expressed gratitude to all those who had already provided information and appealed to all countries to provide information on a consistent basis. She also suggested that UNEP should present a document on training strategy to the Eighth Meeting of the Executive Committee.

23. The Executive Committee viewed a slide presentation of the functioning of the OzonAction International Clearing-House (OAIC).

24. Several representatives expressed appreciation of the work accomplished by UNEP. However, they emphasized the need for a detailed manual and training workshops on access to the OAIC system. Support was also expressed for UNEP's proposal to submit a document on training strategy. One representative requested much more detailed information on budgetary expenditure. Another representative asked why finalization of country programmes took so long and when it was intended to hold a workshop for Africa.

25. In reply to the comments made and questions raised, the representative of UNEP/IEO said that it was hoped to prepare a users' manual for the OAIC system in time for the Fourth Meeting of the Parties. She also said that a demonstration of the system could be given during the meeting of the Open-Ended Working Group of the Parties to be held in Geneva in July 1992. In addition, future training activities would include a programme on use of the computerized system. With regard to details on budgetary expenditure, she assured the representative that such details would be given in future. Concerning the delay in submitting country programmes, she pointed out that the strategy was to involve countries themselves in preparation of their programmes; countries were allocated a certain sum to prepare the programme and it sometimes took a long time for governments to finalize the programmes themselves. Regarding the means of assessing the success of programmes related to information exchange, training and networking activities, it had to be acknowledged that, while some programmes might not contribute directly to the phasing-out of CFCs, they could still stimulate people to take action. Finally, she informed the Meeting that the workshop for Africa would take place in Nairobi from 7 to 11 December 1992 and would include training in access to OAIC.

26. The Executive Committee decided to take note of the UNEP report with appreciation and appealed to countries to provide the necessary information to the Paris Office. It also

requested UNEP to prepare a manual explaining how the OAIC system operated and how to access it, and to provide more detail in future budgets.

UNDP

27. The representative of UNDP introduced the UNDP progress report (UNEP/OzL.Pro/ExCom/7/5) and provided updated information on specific country programmes and their costs as well as on sectoral activities. In reply to questions, he said that the solvents demonstration projects in China were very complicated and various alternative solutions needed to be considered. The bulk of the expense would be for purchasing and installing new cleaning equipment. In Mexico, at Government request, the 1991 training component was reallocated to the more urgent need for elaboration of the terms of reference for 11 projects in Mexico's country programme. As to Malaysia, the US \$50,000 for training, approved in UNDP's 1991 work programme, was in addition to the US \$1,630,000 already approved for investment projects. Five country programmes should be ready for the Eighth Meeting of the Executive Committee and two for the Ninth Meeting.

28. The representative of Malaysia said that his country reserved the right to make its own choice of implementing agency.

29. The Executive Committee took note of the UNDP progress report with appreciation and recommended that future reports place more emphasis on what had actually been done than on what was planned. In addition, it requested the Secretariat to prepare an overview document for future meetings which would make it easier to see the work being done by all the implementing agencies on a country-by-country basis. The Executive Committee also agreed to two additional investment project proposals for Egypt.

30. The Executive Committee agreed to UNDP's request for an additional US \$1,290,000 in funding, comprising US \$50,000 for additional country programme costs in China, US \$990,000 for 2 solvents demonstration projects in China, and US \$250,000 for purchase of halons recycling equipment.

World Bank

31. The Executive Committee took note of the progress report of the World Bank (UNEP/OzL.Pro/ExCom/7/7, Add. 1 and 2, Corrs. 1 and 2).

32. One representative expressed concern that the Executive Committee had not been given an opportunity to discuss the progress report of the World Bank in an open session.

Implementation arrangements

33. The Executive Committee discussed the need to expedite the process of disbursement of funds by the implementing agencies to Article 5 paragraph 1 Parties following its approval of

investment projects over US \$500,000. In briefly reviewing the status of implementation of investment projects approved to date, the Executive Committee noted that an accelerated process

for disbursement of project funds was essential to achieve the goals of the Interim Multilateral Fund. In this regard, it was noted that immediate efforts could focus on administrative arrangements within the implementing agencies, within the recipient governments, and between the implementing agencies and the recipient governments, and should recommend streamlining where appropriate.

34. To facilitate faster implementation of investment projects, the Executive Committee established a subcommittee to evaluate in greater detail the status of a representative sample of approved projects and to report back to the next meeting of the Executive Committee with a view to identifying barriers to speedy project preparation and implementation and specific proposals for addressing those problems. The subcommittee would be chaired by the Fund's Vice-chair and would include representatives of Venezuela, Ghana, Germany, and the Secretariat. To aid in the discussion, the subcommittee would ask representatives of Mexico and Malaysia to make presentations on actions taken on previously approved projects. In order to gain a fuller understanding of preparation and implementation processes and opportunities to advance cooperation, the World Bank, UNEP, and UNDP would be invited to make a presentation on their project development and financial disbursement processes.

35. A full report on the proceedings and outcome of the work of the subcommittee would be made available for consideration by the Executive Committee at its Eighth Meeting.

UNIDO

36. The Deputy Director-General of UNIDO said that his Organization was participating in an Executive Committee meeting for the first time. Over the previous few years, UNIDO had developed a sizeable environment programme which included ODS reduction. It was arranging for a formal agreement on cooperation with the Fund to be ready for the next meeting of the Parties and looked forward to fruitful cooperation with the Secretariat.

37. The Executive Committee welcomed the presence of UNIDO and its willingness to cooperate with the Executive Committee.

Agenda item 6: Country Programmes

(a) Chile

38. The Chief Officer drew the Meeting's attention to documents UNEP/OzL.Pro/ExCom/7/8, Add.1 and Corr.1, and to the Secretariat's recommendation that the country programme should be approved with the level of funding proposed, with the exception

of support for institutional strengthening, which would have to be decided in the light of the debate on agenda item 9.

39. A representative of the Government of Chile was invited by the Chairman to present his country's work programme.

40. The representative of Chile reaffirmed his Government's commitment to fulfilling its obligations under the Vienna Convention and the Montreal Protocol. It intended to announce that the target date for a total phase-out of ODSs would be brought forward from 2010 to 2006. Chile was one of the countries closest to the Antarctic continent and there was already a high degree of public awareness of the dangers of ozone depletion. The objective of the programme submitted to the Executive Committee was to provide the most effective and least costly method of phasing-out ODSs.

41. One representative asked whether the amounts requested for TECFIN would be used only for subsidies or also to finance the conversion process and questioned whether a public awareness programme was needed since there already appeared to be a high degree of public awareness in Chile. She also asked how long it was anticipated that subsidies for non-use of ODSs would be paid and whether they would be paid in the aerosol sector, where there were very few incremental costs. She expressed the view that the conversion to methylene chloride was not the best solution for flexible foams because methylene chloride might cause cancer, therefore, another kind of conversion should be used, for example, CO₂.

42. The representative of Chile replied that the funds would be used for the subsidies; enterprises would be expected to meet the cost of conversion and they would no doubt require additional financing from the banking sector. Subsidies would only be paid after an enterprise had provided proof that a given quantity of ODSs had neither been acquired nor utilized. It was expected that the subsidies would be paid during the four-year period of the country programme. Although Chile already had a high level of public awareness, in relative terms, it was not sufficient and needed to be strengthened. Public demand played an important role in promoting conversion in the private sector.

43. A representative asked the Secretariat whether the public awareness component of the programme could be considered an incremental cost and what part of the programme the Secretariat deemed constituted institutional strengthening. In reply, the Chief Officer stated that the Secretariat had considered the country programme to be a well-defined and innovative one. Its public awareness component was aimed at promoting incentives to persuade industry to phase-out ODSs and was, therefore, an incremental cost in the broad sense.

44. In response to a question raised by one representative, the representative of UNEP confirmed that Chile had deposited its instrument of ratification of the London Amendment to the Montreal Protocol in April 1992.

45. The representative of Chile said that his Government was officially requesting the World

Bank to be the implementing agency for the first phase of the country programme for Chile.

46. The Executive Committee approved the Chilean country programme.

(b) Jordan

47. The representative of Jordan summarized Jordan's country programme. The Jordanian Government had estimated that phasing-out of ODSs would cost approximately US \$10 million and the programme to achieve that objective would be submitted to the Executive Committee.

Agenda item 7: Draft guidelines for presentation of projects and criteria for project approval

48. The Chief Officer introduced the draft guidelines and the criteria (UNEP/OzL.Pro/ExCom/7/12). He recalled that, at its Fifth Meeting, the Executive Committee had requested the Secretariat to prepare draft guidelines. The Sixth Meeting had considered the draft document prepared by the Secretariat and had requested the Secretariat to prepare a revised version in the light of the comments made.

49. Following discussions on evaluation of projects, the Chief Officer confirmed that the Secretariat had the staff and resources necessary to carry out technical evaluations. However, if the Secretariat was given all the necessary technological information to ensure that the technology proposed was environmentally sound and proven, it would not necessarily have to carry out the full technical evaluation itself.

50. Some representatives considered that the guidelines should emphasize the fact that the agreement of the government concerned was a prerequisite for submission of any project proposal.

51. The Executive Committee adopted the draft guidelines and criteria in amended form (UNEP/OzL.Pro/ExCom/7/12/Rev.1) and they are included as Annex III to this report.

Agenda item 8: Project proposals

52. The Chief Officer introduced document UNEP/OzL.Pro/ExCom/7/29 and Corr.1.

53. The Vice-Chairman then outlined a proposed method for consideration of project proposals, which involved placing projects in one of the following five specific categories:

1. Work programme amendments: projects involving costs below US \$500,000 which would be approved and funded as amendments to implementing agency work programmes;

2. Non-approval of work programmes: projects involving costs below US \$500,000 which would not be approved on policy grounds;
3. Final approval: projects over US \$500,000 which would be fully and finally approved and funded without the need for further documentation;
4. Non-approval of projects: projects over US \$500,000 which would not be approved on policy grounds;
5. Approval in principle: projects over US \$500,000 which would be approved in principle and might be given some level of funding with the understanding that final approval and funding would be provided following submission of further information. It was understood that the levels of funding for these projects might need to be adjusted when more adequate information was provided.

54. Using this methodology, the Executive Committee then took action on the projects proposed as reflected in paragraphs 55-65.

Brazil

55. A representative of UNEP stated that the project for recycling CFCs from domestic refrigerators might not be viable, as evidenced by the experience of some developed countries. One representative confirmed that that was indeed the case. The representative of the World Bank confirmed that the project would be tried on a pilot basis and the project would only be taken up if the pilot project was successful.

56. The Committee decided not to approve and not to fund the following two projects:

- (i) installation of low-latitude atmospheric ozone monitoring station;
- (ii) research and development on the viability of HFC-134a as a refrigerant for compressors.

57. It approved the following projects in principle on the understanding that they would be resubmitted to the Committee for final approval:

- (i) CFC-12 collection, recycling, and conservation programme for household refrigerator maintenance and repair shops (US \$2,000,000);
- (ii) Assembly line refitting for HFC-134a refrigerator compressor production (US \$530,000).

Chile

58. The Executive Committee approved US \$1,206,000 for activities to reduce ODS consumption in Chile by 63 per cent on the understanding that they would be part of the World Bank's amended 1992 work programme and that activities costing over US \$500,000 would be submitted to the Committee for approval.

China

59. One member of the Committee requested that, in the case of projects which were expected to be profitable, the World Bank should recommend funding in the form of loans rather than grants. She also requested the Bank to recalculate the cost of the rigid foam project, which seemed to be excessive.

60. The Committee gave final approval to the following projects for which it approved US \$3 million, in addition to the advance of US \$6 million approved at the Sixth Meeting:

- (i) Tianjin CFC conversion to LPG (aerosols)
- (ii) Shanghai CFC conversion to LPG (aerosols)
- (iii) Beijing ABC powder production (halon)
- (iv) Zhejiang halon extinguisher conversion (halon)
- (v) Fifty per cent reduced CFC foam (rigid foam)
- (vi) Zhejiang conversion to butane (polystyrene and polyethylene extruded foam)

Jordan

61. The Committee gave final approval to funding of US \$700,000 for the following project in Jordan: deodorization of liquified petroleum gas (LPG).

Thailand

62. The Committee gave final approval to funding of US \$900,000 for the following project in Thailand: automobile air conditioning (MAC) CFC recycling.

63. The Committee decided that projects costing less than US \$500,000 each submitted by the World Bank should be included in the World Bank's work programme. It therefore approved the following figures which, in the case of each country, represented one or more projects costing less than US \$500,000 each:

Brazil	US \$400,000
Jordan	US \$800,000
Thailand	US \$100,000

Tunisia	US \$800,000
Turkey	US \$965,000

Venezuela

64. The Committee gave final approval for US \$1.3 million in funding for the following project in Venezuela: conversion of an expanded polystyrene sheet facility to use hydrocarbons as blowing agent.

65. The representative of Venezuela, however, pointed out that the total incremental costs of the project amounted to US \$1.6 million and he understood that if, in the course of the project's implementation, it became necessary to cover all or part of the difference of US \$300,000, Venezuela could submit a new request.

66. Consequently, the Executive Committee approved new projects amounting to a total of US \$12.701 million to be implemented by the World Bank.

67. Some members of the Committee said that, in future, projects should not be approved unless they complied with the guidelines for project presentation and approval, and were accompanied by adequate documentation. The representative of the World Bank felt, however, that approval of such projects in principle would further the speedy implementation of the Montreal Protocol.

68. The Committee decided that the subcommittee which was to be convened should consider the whole question in depth, propose a deadline for the submission of necessary project documentation and study other matters relating to the preparation of project proposals.

Agenda Item 9: Institutional strengthening

69. The Chief Officer introduced the Secretariat document on the subject (UNEP/OzL.Pro/ExCom/7/20) and emphasized that the figures mentioned for institutional support were indicative. He stressed that the document should serve as guidelines for the implementing agencies, Article 5 and donor countries.

70. The representative of the World Bank introduced the Bank's paper on the subject (UNEP/OzL.Pro/ExCom/Inf.3) and stressed that capacity building was the key to adequate implementation of the phase-out programme.

71. Some members felt that a case-by-case analysis of the institutional strengthening needs in each country was required. Although maximum amounts could be set, each country should be able to decide on the way the funds would be allocated in the light of the specific circumstances prevailing in the country. They also felt that in some, but by no means all,

countries the amounts might need to be higher than those proposed by the Secretariat.

72. Another member agreed that the least developed countries needed assistance, but felt that the newly-industrialized countries should assume some of the costs themselves.

73. The representative of UNEP said that since the number of Parties would increase rapidly with very small countries joining, the best approach might be to provide assistance for staff only for bigger countries and consultancy services to groups of 5-10 very small countries.

74. The Executive Committee adopted the following recommendations as presented in document UNEP/OzL.Pro/ExCom/7/20:

1. Article 5 countries who request it be considered for support for institutional strengthening and that such considerations be made on their individual merits (case-by-case basis). In considering the requests on a case-by-case basis, the peculiar circumstances influencing ODS phase-out in the country should be considered together with the recommended funding level;
2. The main objective of such support should be to provide necessary resources to an eligible country to enable it strengthen a mechanism within the country to facilitate expeditious implementation of projects for speedy and effective phase-out of the controlled substances in the country, as well as ensuring effective liaison between the country on the one hand, and the Executive Committee, the Fund Secretariat, and the implementing agencies on the other;
3. Requests for institutional strengthening be considered as special projects subject to approval by the Executive Committee on the basis of a written request submitted by the interested Party. However, in order to avoid any possible delays in providing support to requesting countries, the implementing agencies may review and implement such requests within their work programmes, except where the funding requested exceeds US \$500,000, and report to the Executive Committee through the Fund Secretariat as and when such requests are approved for implementation;
4. Requests for institutional strengthening be included in the country programme of the Party requesting such assistance. However, the requests for institutional support may be submitted separately as a free-standing project ahead of the country programme where circumstances demand.

75. The Committee took note of the remainder of that document and of the paper presented by the World Bank. It recommended that institutional strengthening be dealt with on a case-by-case basis and with the necessary flexibility and that the comments made by the members be taken into account when decisions were made. It also recommended that a list be prepared of items which could not be considered under institutional strengthening.

Agenda item 10: Issues related to the Meeting of the Open-Ended Working Group of the Parties

(a) Further definition of incremental costs

76. The Chief Officer introduced the Secretariat document on the subject (UNEP/OzL.Pro/ExCom/21 and Corr.1).

77. The representative of the World Bank introduced the Bank's paper on the subject (UNEP/OzL.Pro/ExCom/7/Inf.4).

78. The representative of UNEP pointed out that the concept of transitional period, as contained on page 7 of the Secretariat document, was not valid for compensating idle capacity or closure of industries and that the point regarding export industries made on page iii of the World Bank document was not in accordance with the classification in the decision of the First Meeting of the Parties to the Protocol regarding basic domestic consumption.

79. After discussing various aspects of the matter, the Executive Committee decided to take note of the two documents and consider the subject further at a later stage. For the time being, it would follow the indicative list in the London documents, but it could consult the two documents in cases where the London documents proved not to provide sufficient guidance.

(b) Guidelines for cost assessment of bilateral and regional activities

80. The Chief Officer introduced the proposed guidelines (UNEP/OzL.Pro/ExCom/7/22).

81. One member proposed that the words "be encouraged to" should be deleted from criterion 1.

82. The Executive Committee adopted the guidelines as amended, (UNEP/OzL.Pro/ExCom/7/22/Rev.1), which are included as Annex IV to this report.

(c) Whether support from the Fund could be given retroactively

83. The Chief Officer introduced the document on the subject (UNEP/OzL.Pro/ExCom/7/23).

84. One representative proposed that the conclusion contained in the document under consideration should be replaced by the following text:

"The resources of the Fund may be extended to cover the agreed incremental costs of projects that had not received prior approval by the Executive Committee provided that: (a) they were incurred by an Article 5 paragraph 1

country subsequent to the date on which it became a Party to the Montreal Protocol; (b) they meet the eligibility criteria."

85. The Executive Committee took note of the document and adopted the recommendation and conclusion therein, as amended (Annex V).

(d) Whether the Fund should finance activities related to enterprises that are wholly or partly owned by transnational corporations.

86. The Chief Officer introduced the relevant document (UNEP/OzL.Pro/ExCom/7/24), drawing attention to the two options proposed: no funding for enterprises that were wholly owned subsidiaries of transnational corporations, partial funding for enterprises partly owned by transnational corporations.

87. Some representatives pointed out that the options were not mutually exclusive and the objective to be borne in mind was the phasing-out of ODSs. One representative emphasized that priority should be given to companies wholly owned by Article 5 paragraph 1 countries.

88. The Executive Committee decided to endorse the recommendation that the Fund should not finance phase-out activities relating to enterprises that were wholly owned subsidiaries of transnational corporations or enterprises permitted to operate in "free zones" and whose output was for export only. It also decided that partial funding should be considered on a case-by-case basis to finance the local share ownership of any given enterprise partly owned by a transnational corporation. In such a case, funding could be provided as a percentage of project incremental costs proportionate to the local share ownership of the enterprise with the transnational corporation responsible for the rest. Subject to the approval of the Executive Committee, the same criteria should apply to bilateral assistance for activities involving subsidiaries of transnational corporations (UNEP/OzL.Pro/ExCom/7/24/Corr.1) (Annex VI).

(e) Whether the Fund should finance activities related to enterprises that are wholly or partly owned by countries that are not Parties to the Montreal Protocol.

89. The Chief Officer introduced the relevant document (UNEP/OzL.Pro/ExCom/7/25).

90. Several representatives emphasized the need to encourage non-Parties to phase out ODSs and to become Parties to the Protocol. One representative considered that full details regarding the ownership of enterprises should be made available to the Executive Committee.

91. The Executive Committee agreed that funding should not be made available to finance activities related to enterprises that were wholly owned by countries that were not Parties to the Montreal Protocol. With regard to enterprises that were partly owned by non-Parties, partial funding could be considered on a case-by-case basis to finance the local share ownership of any

given enterprise owned by a non-Party. In such a case, funding could be provided as a percentage of project incremental costs proportionate to the local share ownership of the enterprise with the non-Party responsible for the rest. Subject to the approval of the Executive Committee, the same criteria should apply to bilateral assistance for activities involving non-Parties (UNEP/OzL.Pro/ExCom/7/25/Corr.1) (Annex VII).

(f) Concessional loans versus grants

92. The Chief Officer introduced the relevant document (UNEP/OzL.Pro/ExCom/7/26).

93. One representative opined that decisions to convert concessional loans into grants should only be taken on a case-by-case basis after it had been ascertained that there was no possibility of recovering the amount of the loan. Another representative stated that where there was a very short payback period financing might take the form of highly concessional loans and any decision should be on a case-by-case basis. A representative said that any decisions on concessional loans versus grants should depend on whether or not the project was financially profitable.

94. The Executive Committee took note of the document presented by the Secretariat.

(g) The magnitude of the Fund required for the next three-year period

95. The Chief Officer introduced the document prepared by the Secretariat (UNEP/OzL.Pro/ExCom/7/27).

96. Several representatives expressed their appreciation to the Secretariat for having prepared such a comprehensive and well-formulated document. One representative noted that a similar study which it had commissioned using an alternate methodology had, nonetheless, arrived at a very similar estimate of the magnitude of the funds required. Another representative stated that the Secretariat possessed information on the production sector which was not reflected in the calculation and it should be incorporated. A representative expressed the view that it was easier to calculate elimination of production rather than elimination of consumption. He also considered that the sum of US \$9 million per plant for conversion to HCFCs, mentioned in paragraph 7, was excessive. The representative of UNEP/IEO considered that the sum of US \$4.5 million for the information exchange system and training and workshops was too low in view of the importance of those components. One representative said that lack of information meant that it was premature to decide upon the magnitude of the Fund at the present stage and the Chairman pointed out that any decision on the matter was the responsibility of the

Conference of the Parties. The representative of UNDP drew attention to the increasing interest in phasing-out halons, which had a high rate of ozone depletion, and the possible need to increase funds to cover that sector. An observer stressed that voluntary pledges under the Fund had not all been paid and suggested that consideration should be given to making pledges mandatory and implementing non-compliance provisions.

97. The Executive Committee took note of the document presented by the Secretariat and agreed to transmit it to the forthcoming meeting of the Open-Ended Working Group of the Parties after amendments had been included in the light of the comments made (Annex VIII).

(h) Establishment of a financial mechanism under Article 10 of the amended Montreal Protocol

98. The representative of UNEP introduced document UNEP/OzL.Pro/ExCom/7/28. He said that when establishing the Financial Mechanism the Parties would find it helpful if the Executive Committee could suggest any changes to the terms of reference in the light of the experience gained in the course of operating the Interim Multilateral Fund.

99. The Executive Committee agreed to recommend that, since the terms of reference for the Executive Committee and the Interim Multilateral Fund had been the result of extremely difficult and delicate negotiations, no substantive changes should be made to them and they should apply mutatis mutandis to the Financial Mechanism.

Agenda item 11: Adoption of the report

100. The Executive Committee adopted the present report, on the basis of the draft report contained in document UNEP/OzL.Pro/ExCom/7/L.1, at its closing session on 26 June 1992.

Agenda Item 12: Date and venue of the Eighth Meeting of the Executive Committee.

101. The Committee decided to hold its Eighth Meeting at Montreal from 19 to 21 October 1992.

IV. CLOSURE OF THE MEETING

102. Following the customary exchange of courtesies, the Chairman declared the Seventh Meeting of the Executive Committee closed.

ANNEX I
STATUS OF CONTRIBUTIONS TO THE INTERIM MULTILATERAL FUND
reported by UNEP as at 31 May 1992
(in US dollars)

	1991		1992	
	Pledge Outstanding	Outstanding	Pledge	
Australia	985,407		1,326,980	256,871
Austria	464,459		625,456	625,456
Bahrain	12,553	12,553	16,904	16,904
Belgium	734,348		988,896	988,896
Belarus	207,124	207,124	278,919	278,919
Bulgaria			126,782	126,782
Canada	1,939,432		2,611,699	2,611,699
Czechoslovakia			557,839	557,839
Denmark	433,077		583,195	583,195
Finland	320,100		431,057	0
France	3,922,799	3,922,799	5,282,564	5,282,564
Germany	5,874,784		7,911,167	7,911,167
Greece	251,059	248,941	338,084	338,084
Hungary	131,806	131,806	177,494	177,494
Iceland	18,829		25,356	25,356
Ireland	112,977		152,138	0
Italy	2,504,315		3,372,389	1,082,074
Japan	7,142,633		9,618,492	9,618,492
Liechtenstein	6,276		8,452	8,452
Luxembourg	37,659		50,713	50,713
Malta	6,276	12	8,452	8,452
Netherlands	1,035,619		1,394,597	1,394,597
New Zealand	150,635		202,850	202,850
Norway	345,206		464,866	0
Poland			473,318	473,318
Portugal	112,977	112,977	152,138	152,138
Russian Federation	6,270,202	6,270,202	8,443,650	8,443,650
Singapore	69,041	69,041	92,973	92,973
South Africa	282,442		380,345	380,345
Spain	1,223,913		1,648,160	1,648,160
Sweden	759,454		1,022,704	1,022,704
Switzerland	677,860		912,827	912,827
Ukraine	784,560	784,560	1,056,513	1,056,513
United Arab Emirates	119,253	119,253	160,590	160,590
United Kingdom	3,050,369	2,087,410	4,107,721	4,107,721
United States of America	13,333,333	689,171	18,333,333	18,333,333
TOTAL	53,320,777	14,655,849	73,339,613	68,931,128

ANNEX II

REPORT FROM THE TREASURER (UNEP)

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

Accounts for the year ended 31 December 1991

27 May 1992

I certify that the appended financial statements I and II of the Interim Multilateral Fund for the Montreal Protocol and the related schedules 1.1 to 1.5 are correct.

(signed)

Jean-Pierre Halbwachs
Chief
Administrative Service
United Nations Environment Programme

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

I. Statement of income and expenditure
for the period ended 31 December 1991
(United States dollars)

<u>Income</u>	
Pledged contributions	53,320,777
Interest income *	564,786
Miscellaneous income	703,334
Total income	<u>54,588,897</u>
<u>Expenditure</u>	
Staff and other personnel costs	1,230,347
Consultants	964,599
Travel	383,554
Contractual services	456,853
Meetings and conferences	439,676
Rental and maintenance of equipment	306,196
	29,507
Operating expenses	383,975
Acquisitions of furniture and equipment	32,560
	34,415
Reporting costs	2,956
Sundry	3,219
Hospitality	<u>182,407</u>
Loss on exchange	
Programme support	<u>4,450,264</u>
Total expenditure	<u>50,138,633 **</u>
Excess of income over expenditure	

* Paid: \$26,967,889

Outstanding: \$26,352,888

** Includes outstanding pledges amounting to \$26,352,888

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

II. Statement of assets and liabilities
as at 31 December 1991
(United States dollars)

Assets

Cash	19,161,887
Contributions unpaid	26,352,888
Accounts receivable	42,473
Outstanding advances to implementing agencies	927,782
UNEP	872,957
UNDP	3,609,414
World Bank	<u>50,967,401</u>

Total assets

155,454

Liabilities

147,860

Accounts payable

525,454

Unliquidated obligations

Due to the Environment Fund

828,768

Total liabilities

0

50,138,633

Fund balance

Balance as at 1 January 1991:

50,138,633

Excess of income over expenditure

50,967,401

Balance as at 31 December 1991

Total liabilities and fund balance

Schedule 1.1

Status of contributions as at 31 December 1991
(United States Dollars)

MEMBER STATE	PLEGDED CONTRIBUTIONS	COLLECTIONS	CONTRIBUTIONS OUTSTANDING
AUSTRALIA	985,407	1,385,257	(399,850)
AUSTRIA	464,459	464,459	0
BAHRAIN	12,553	0	12,553
BELARUS	207,124	0	207,124
BELGIUM	734,348	0	734,348
CANADA	1,939,432	1,939,432	0
DENMARK	433,077	433,077	0
FINLAND	320,100	320,100	0
FRANCE	3,922,799	0	3,922,799
GERMANY	5,874,784	5,874,784	0
GREECE	251,059	2,118	248,941
HUNGARY	131,806	0	131,806
ICELAND	18,829	18,829	0
IRELAND	112,977	0	112,977
ITALY	2,504,315	0	2,504,315
JAPAN	7,142,633	0	7,142,633
LIECHTENSTEIN	6,276	6,276	0
LUXEMBOURG	37,659	37,659	0
MALTA	6,276	6,264	12
NETHERLANDS	1,035,619	1,035,619	0
NEW ZEALAND	150,635	150,635	0
NORWAY	345,206	810,072	(464,866)
PORTUGAL	112,977	0	112,977
SINGAPORE	69,041	0	69,041
SOUTH AFRICA	282,442	0	282,442
SPAIN	1,223,913	1,223,913	0
SWEDEN	759,454	759,454	0
SWITZERLAND	677,860	677,860	0
UKRAINE	784,560	0	784,560
UNITED ARAB EMIRATES	119,253	0	119,253
UNITED KINGDOM	3,050,369	0	3,050,369
UNITED STATES	13,333,333	11,822,081	1,511,252
USSR	6,270,202	0	6,270,202
===== =====			
TOTAL	53,320,777	26,967,889	26,352,888
===== =====			

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

Schedule 1.2
Secretariat of the Interim Fund

Statement of income and expenditure
for the period ended 31 December 1991
(United States dollars)

Income	

Approved 1991 Budget	1,872,210
Total income	----- 1,872,210 -----
Expenditure	

Staff and other personnel costs	700,832
Consultants	30,496
Travel	44,948
Meetings and conferences	218,343
Rental and maintenance of equipment	306,196
Operating expenses	26,601
Acquisitions of furniture and equipment	348,119
Reporting costs	24,080
Sundry	20,086
Hospitality	2,956
Loss on exchange	3,219
Programme support	54,908

Total expenditure	1,780,784 -----
Excess of income over expenditure	91,426 =====

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

Schedule 1.3
UNEP as implementing agency

Statement of income and expenditure
for the period ended 31 December 1991
(United States dollars)

Income	

Allocation	1,676,920
Interest income	24,172

Total income	1,701,092

Expenditure	

Staff and other personnel costs	5,196
Consultants	58,648
Travel	28,085
Contractual services	366,853
Meetings and conferences	176,876
Operating expenses	2,906
Acquisitions of furniture and equipment	32,299
Reporting costs	8,480
Sundry	5,002
Programme support	88,965

Total expenditure	773,310

Excess of income over expenditure	927,782
	=====

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

Schedule 1.4
UNDP as implementing agency

Statement of income and expenditure
for the period ended 31 December 1991
(United States dollars)

Income	

Allocation	1,261,800
Total income	----- 1,261,800 -----
Expenditure	

Staff and other personnel costs	73,466
Consultants	205,906
Travel	13,596
Meetings and conferences	44,457
Acquisitions	3,557
Sundry	9,327
Programme support	38,534

Total expenditure	388,843 -----
Excess of income over expenditure	872,957 =====

INTERIM MULTILATERAL FUND FOR THE MONTREAL PROTOCOL

Schedule 1.5

World Bank as implementing agency

Statement of income and expenditure
for the period ended 31 December 1991
(United States dollars)

Income	

Allocation	5,000,000
Interest income	116,741

Total income	5,116,741

Expenditure	

Staff	450,853
Consultants	669,549
Travel	296,925
Contractual services	90,000

Total expenditure	1,507,327

Excess of income over expenditure	3,609,414
	=====

INTERIM MULTILATERAL FUND
(Status of the Fund as at 30 April 1992)

United States Dollars

Fund balance as at 31 December 1991	50 138 633
<u>less</u> outstanding contributions	(26 352 888)
<u>less</u> outstanding advances to implementing agencies	(5 410 153)
Balance available as at 1 January 1992	18 375 792
Income January-March 1992	
Contributions received	15 088 734
Interest earned	166 895
Total	15 255 629
1992 Commitments	
Fund Secretariat	2 752 390
UNDP work programme	3 254 395
UNEP work programme	1 921 000
World Bank Work Programme	2 275 000
Country projects:	
China	6 000 000
Ecuador	400 000
Egypt	1 500 000
Malaysia	1 630 000
Mexico	4 000 000
Total 1992 commitments	23 732 785
Balance available 1 May 1992	9 898 636

ANNEX III

GUIDELINES FOR PRESENTATION OF PROJECTS AND CRITERIA FOR PROJECT APPROVAL

INTRODUCTION

Pursuant to decision II/8 of the Second Meeting of the Parties to the Montreal Protocol and, as further elaborated in Section I of the interim Implementation Guidelines approved by the Executive Committee (UNEP/OzL.Pro/ExCom/3/18/Rev.1), all project proposals, where the agreed incremental costs exceed \$500,000, must be submitted to the Executive Committee for consideration and approval.

The aim of these guidelines is to provide information on the appropriate content and level of detail required for the submission of projects to the Executive Committee.

THE PROJECT DOCUMENT

The project document should contain the following information, preferably in the sequence shown below when being submitted directly by a Party. If the submission is being made by one of the Fund's implementing agencies, then such an agency can utilize formats that are consistent with their own internal procedures and operations provided they include the information requested here. It is anticipated that the complete project document would not exceed ten typed single-spaced pages in length:

Cover sheet

The project document should contain a cover sheet providing the information as shown in Appendix I.

Project title

The concise title of the project.

Sector data

Brief background information on the amount of controlled substances used in the sector

or sectors affected by the project and the percentage corresponding to the total consumption of controlled substances in the country. If the project is intended to phase out the production of a controlled substance or substances, then the relevant production data on the affected substance or substances and the percentage corresponding to the total production and consumption of controlled substances must also be provided.

Project description

The project description usually begins with the identification of the problem and is followed by the formulation of the project's objectives and their relationship to and priority within the country programme or to the national strategy for the implementation of the Montreal Protocol. This section should also address the technical aspects of the project, for example, the availability and intended use of alternative technologies. In addition, the activities needed to accomplish the project must also be clearly indicated. A good project description should explain inter alia:

- (a) why the project is needed (rationale, justification, and explanation of the problem the project is to address);
- (b) what private sector firms, if any, are involved in or affected by the project;
- (c) what are the project's long-term objectives;
- (d) what are the project's short-term objectives, if successfully completed;
- (e) what actions/activities are needed to accomplish the overall objectives;
- (f) what non-monetary inputs are needed to realize the objectives;
- (g) how the project meets the incremental costs criteria as defined in the current Indicative List of Categories of Incremental Costs or as otherwise articulated by the Parties;
- (h) what is the best estimate of the cost effectiveness of the project (phase-out costs per kg.).

Project timeframe

Information on the anticipated start-up date and the termination date for the implementation of the project, including a projected schedule for implementation of the various activities designed to accomplish the objectives of the project.

Outputs

This section will address the expected outcome of the project in order to achieve the objectives addressed in the project description. Included here would be information on the projected phase out/reduction in consumption of controlled substances (in tonnes x ODP) and other direct or indirect outputs, for example, human resource development and/or enhancement of institutional

capability.

Budget

An indicative budget figure showing all projected expenditures and the anticipated timing of disbursements. There should also be a description of each budget item, an explanation of how each budget item is functionally related to activities, a rationale for the budget estimates, and explanations of any in-kind contributions and/or bilateral assistance approved by the Executive Committee.

Implementation arrangements

Information on which implementing agency or agencies (UNDP, UNEP, World Bank, Other) would be undertaking the project, the national agency responsible for coordinating the project, and the financial intermediary contracted for the receipt and disbursement of funds and the financial reporting on the project. A copy of any agreement between the submitting Party and the participating agencies should also be provided, as well as a brief resumé on the capability of the implementing agency to implement the project successfully if it is an agency other than one of the Fund's implementing agencies.

Institutional framework

This section should define the role and responsibilities of the cooperating agency or supporting organization. It should also clarify who is the ultimate authority in managing the project, what is the machinery for consultation among the various agencies and organizations involved in the project, and to which parties and for what purpose are the project results reported.

Technical appraisal

A copy of any technical review reports of the project, if available.

CRITERIA FOR PROJECT APPROVAL

INTRODUCTION

1. Projects can originate from three sources, namely, (1) the implementing agencies, (2) the Article 5 countries, and (3) a donor country within the framework of its bilateral contribution¹. The Executive Committee has already provided guidance in terms of the modalities of activities supported by The Fund, project eligibility criteria, and guidelines for setting priorities². In addition, there are procedures for project proposals to the Executive Committee³, and the preceding guidelines for the presentation of projects. The Executive Committee has also approved operational aspects of bilateral and regional contributions. Nevertheless, the purpose of this document is to provide criteria for project approval and to formulate the process of such approval in order to facilitate project implementation.

PROJECT APPROVAL CRITERIA

2. All projects submitted for the Executive Committee's approval should meet the following criteria:

- (a) be consistent with the implementation guidelines;
- (b) be consistent in content and format with the project presentation guidelines;
- (c) contain both accurate and current data, as well as other relevant information;
- (d) be consistent with the action plan as described in the country programme, if available;
- (e) be consistent with the approved operational aspects of bilateral and regional cooperation, if applicable.

¹ Bilateral and Regional Co-operation (UNEP/OzL.Pro/ExCom/5/16, Annex IV).

² Report of the Third Meeting of the Executive Committee of the Interim Multilateral Fund for the Implementation of the Montreal Protocol (UNEP/OzL.Pro/ExCom/3/18/Rev.1), Annex III, Implementation Guidelines and Criteria for Project Selection.

³ Procedures for (Presentation) of Country Programmes and Project Proposals to the Executive Committee (UNEP/OzL.Pro/ExCom/5/5/Rev.2).

THE PROJECT APPROVAL PROCESS

General

3. All projects must be submitted to the Secretariat at least six weeks prior to the date of the Executive Committee meeting at which they are to be considered. This is in order to comply with the requirement that documentation should be sent to members of the Executive Committee one month in advance of their meeting.

4. The Fund Secretariat is responsible for ensuring that complete documentation pertaining to projects submitted for approval is provided to the Executive Committee. The Fund Secretariat would engage itself in close consultations with the implementing agency, donor country, or Article 5 country submitting the project so as to ensure, to the extent possible, that the appropriate documentation and level of detail are provided, that technical reviews have been completed, where required, that incremental costs have been calculated and explained, and that cost-effectiveness has been determined.

Projects submitted by an implementing agency

5. Project proposals with a budget exceeding US \$500,000 must be presented for consideration and approval by the Executive Committee. The Secretariat will ensure that project proposals are in accordance with the above-mentioned criteria.

6. The Secretariat will also consult with the implementing agency (or implementing agencies if more than one is involved) and the country(ies) concerned to obtain all the necessary information and can advise the implementing agencies to share responsibilities in implementation of the project, where appropriate.

7. Finally, the Secretariat will prepare the evaluation sheet (see Appendix II) and submit it together with the project proposal to the next session of the Executive Committee.

Project proposal submitted by an Article 5 country

8. Upon receipt of the project proposal, the Secretariat will send it to the implementing agency(ies) if so designated by the Article 5 country. For those projects submitted with no implementing agency identified, the Fund Secretariat would identify and negotiate for the participation of the appropriate implementing agency or agencies as the case may be.

9. The implementing agency(ies) will then establish the necessary contacts with the Article 5 country concerned and elaborate the project documentation to meet all the necessary requirements.

10. The Secretariat will then evaluate the project documentation, in accordance with the procedures established in the preceding paragraphs, for submission to the Executive Committee.

Project proposal originating from a non-Article 5 country (donor country)

11. Parties not operating under Article 5 paragraph 1 and intending to withhold up to 20 per cent of their contribution for the purpose of bilateral or regional assistance can submit project proposals for implementation in Article 5 countries conforming to the approved bilateral guidelines (UNEP/OzL.Pro/ExCom/5/16, Annex IV).

12. The Secretariat will then evaluate the project documentation for submission to the Executive Committee.

APPENDIX I

SAMPLE PROJECT COVER SHEET

COUNTRY OR REGION:

SECTOR(S) COVERED:

ODS CONSUMPTION IN AFFECTED SECTOR(S):

PROJECT TITLE:

PROJECT DURATION: _____ Yrs. _____ Mths.

PROJECT IMPACT: ODSs PHASE-OUT _____ OTHERS _____

PROPOSED BUDGET:

IMPLEMENTING AGENCY: UNDP ____ UNEP ____ World Bank ____
Other _____

NATIONAL COORDINATING AGENCY:

PROJECT SUMMARY

(Address technical, institutional, and policy issues)

Empty box for project summary.

APPENDIX II

PROJECT EVALUATION SHEET

COUNTRY OR REGION:

BUDGET: US\$

INCREMENTAL COSTS: US\$

*COST EFFECTIVENESS: \$_____ per Kg. ODP Saved Annually

PROJECT TIMEFRAME: START _____ END _____

TECHNICAL REVIEW COMPLETED: YES ___ NO ___

SECRETARIAT'S COMMENTS

SECRETARIAT'S RECOMMENDATIONS

Determined as the ratio of incremental costs to the estimated annual saving of ODP (\$/ODP_{Kg.}).

ANNEX IV

GUIDELINES FOR COST ASSESSMENT OF BILATERAL AND REGIONAL ACTIVITIES

This paper addresses the issues involved in assessing the incremental costs associated with bilateral and regional contributions to the Fund. Article 10 paragraph 6 of the Montreal Protocol as amended provides the basis for the consideration of bilateral and regional assistance:

"Bilateral and, in particular cases agreed by a decision of the Parties, regional co-operation may, up to a percentage and consistent with any criteria to be specified by decision of the Parties, be considered as a contribution to the Multilateral Fund, provided that such co-operation, as a minimum:

- (a) Strictly relates to compliance with the provisions of this Protocol;
- (b) Provides additional resources; and
- (c) Meets incremental costs".⁴

The Parties have given the Executive Committee the responsibility of assessing bilateral and some regional activities. The Executive Committee is charged with assessing:

"annually whether the contributions through bilateral co-operation, including particular regional cases, comply with the criteria set out by the Parties for consideration as part of the contributions to the Multilateral Fund".⁵

To provide a basis for consideration of bilateral and regional contributions, the Executive Committee adopted criteria and procedures at its Fifth Meeting⁶. These guidelines primarily address procedures for the submission of requests to have bilateral and regional assistance count as partial contribution to the Fund but not the costing of such assistance. This paper assumes the guidelines and procedures adopted at the Fifth Meeting as a point of departure, and proposes guidelines for assessment of costs for bilateral and regional assistance.

⁴ From Decision II/8 adopted at the Second Meeting of the Parties, London, 27-29 June 1990, pages 12-14, [UNEP/OzL.Pro.2/3].

⁵ Ibid.

⁶ Report of the Fifth Meeting of the Executive Committee, Montreal, 18-22 November 1991, UNEP/OzL.Pro/ExCom/5/16, 22 November 1991, Annex IV, pp. 52-54.

Background

The Fund Secretariat requested Parties not operating under paragraph 1 of Article 5 to provide information on the nature and extent of bilateral assistance to Parties not so operating. The Fund Secretariat has communicated the Executive Committee decision regarding "Bilateral and Regional Co-operation" as included in Annex IV of the report of the Fifth Meeting of the Executive Committee to all Parties of the Montreal Protocol. The Fund Secretariat has received some requests for allowing bilateral assistance to serve as partial contributions to the Fund. However, there has been some confusion. Most of the requests received were to provide assistance to countries that have not signed the Protocol and therefore do not qualify. The Executive Committee has not so far addressed the issue of how to assess a claim by a Party that the bilateral or regional assistance conforms to incremental costs.

Considerations for the Development of Guidelines

Compliance with incremental cost guidelines requires several considerations that have already been determined by the Parties. An assessment according to these guidelines can be an intricate procedure. For costs to be considered as incremental costs, they must, for example:

- . Be "the most cost-effective and efficient option",
- . Consider "alternative uses",
- . Consider "how to avoid deindustrialization and loss of export revenues",
- . Take into account "savings and benefits that will be gained", and
- . Provide incentives for "early adoption of ozone protecting technologies".⁷

The description of incremental costs suggests that a detailed assessment of incremental costs is necessary as one could conclude from the following statement: "Consideration of project proposals for funding should involve the careful scrutiny of cost items listed in an effort to ensure that there is no double-counting."⁸ Such a detailed cost assessment could account for all of the qualifications for incremental costs.

⁷ "Indicative List of Categories of Incremental Costs," Appendix I to Decision II/8 ("Financial Mechanism") adopted by the Second Meeting of the Parties, number 1 a-d.

⁸ Ibid.

In practice, however, detailed costs may not be submitted. Without such a cost assessment, it is possible that projects conducted by donor countries may inadvertently not conform to the above criteria. There could be a less than cost-effective use of Fund resources. A situation could arise where the cost of a bilateral activity significantly exceeds the maximum cost ever approved by the Executive Committee for similar activity implemented otherwise.

The development of maximum allowable costs by project type by the Executive Committee could solve this issue. With maximum costs, a situation would not occur where the bilateral contribution could exceed the maximum approved by the Executive Committee. Such a procedure is currently under consideration for use in providing assistance for institutional strengthening. Likewise, the experience with costs of preparing country programmes could also yield maximum allowable costs as related to the calculated level of consumption of ODSs in an Article 5 country.

However, there is no comprehensive list of maximum costs for all conceivable projects. Although certain parameters should be developed to provide guidance for future Executive Committee decisions, it is not clear that all possible scenarios can be foreseen. Furthermore, there are other vehicles for determining the type and cost of projects that should be considered eligible for bilateral and regional assistance, namely, the approved country programmes and the approved projects.

Regional Activities

The Parties also indicated that "in particular cases agreed by a decision of the Parties, regional co-operation may ... be considered a contribution to the Multilateral Fund."⁹ Therefore, regional assistance measures must be decided by the Parties. However, what constitutes regional cooperation is not clear. Several questions arise, for example does regional assistance mean:

1. assistance provided by a donor country to a regional organization? Also, what part of assistance to a regional organization comprising of both Article 5 and non-signatory developing countries is considered eligible regional assistance?
2. assistance from a donor country to a set of Article 5 countries that happen to be in the same region constitute regional assistance?

It is clear that regional assistance is a complex issue. It would appear that any request for

⁹ Ibid.

regional assistance would have to address questions such as the ones raised above at a minimum. It is likely that more questions would arise when a specific regional assistance request is considered.

However, under certain circumstances, a form of regional assistance could be considered as bilateral assistance to several Article 5 countries. An example of this type of "regional" assistance is when a donor country hosts a training workshop for citizens of more than one Article 5 country that happen to be in the same region. In this case the contribution made for participation of Article 5 citizens and a pro rata share of workshop costs could be considered bilateral assistance to each country. Under such circumstances, the same criteria, procedures, and guidelines would apply to this type of "regional" assistance as bilateral assistance.

Criteria

The following criteria should be used in assessing the costs claimed as bilateral or regional contributions to the Fund:

1. Donor countries should submit a detailed account of how the assistance conforms to incremental costs.
2. Lists of maximum costs by level of ODS consumption by project type, e.g., those used for institutional strengthening, should be developed and claims for bilateral or regional contributions should not exceed the maximum levels.
3. Activities that involve more than one Article 5 country may be considered bilateral activities providing that the above criteria are met and a pro rata share is determined which accounts for participation of any non-Article 5 country.

ANNEX V

WHETHER SUPPORT FROM THE FUND COULD BE GIVEN RETROACTIVELY

This paper discusses two main issues:

- (1) Whether the resources of the Fund could cover expenses incurred for CFC phasing-out activities prior to the country becoming a Party to the Montreal Protocol;
- (2) Whether resources of the Fund should be available to support actions taken within an Article 5, paragraph 1 Party prior either to the approval of a specific project by the Executive Committee and implementing agency or to the project's inclusion in an implementing agency's work programme.

The first issue:

In accordance with principles of general international law as reflected in Article 36, paragraph 1, of the 1969 Vienna Convention on the Law of Treaties "A right arises for a third state from a provision of a treaty if the Parties to the treaty intend the provision to accord that right either to the third state, or to a group of states to which it belongs, or to all states, and the third state assents thereto".

The text of Article 10 of the amendment to the Montreal Protocol makes it clear, that in taking a decision on the establishment of the financial mechanism and the Multilateral Fund, the intent of the Parties to the Montreal Protocol was to provide benefits and give certain rights only to the countries that are Parties to the Protocol.

According to Article 10 of the amendment to the Montreal Protocol, the resources of the Multilateral Fund shall be used for a particular purpose, which is to enable the Parties operating under paragraph 1 of Article 5 of the Protocol to comply with the control measures specified in the Protocol. In other words, the resources of the Multilateral Fund should be utilized in order to assist specific countries, which are Parties to the Protocol, to meet their obligations under its provisions. Paragraph 1 of Article 10 of the amendment to the Protocol is quite explicit in this regard. It states that "The Parties shall establish a mechanism for the purposes of providing financial and technical co-operation, including the transfer of technologies, to Parties operating under paragraph 1 of Article 5 of this Protocol to enable their compliance with the control measures set out in Articles 2A to 2E of the Protocol". Neither the original text of the Montreal Protocol nor its London amendment contain any references to similar benefits being extended to third Parties.

Recommendation:

The resources of the Fund can cover expenses incurred for CFC phasing-out activities undertaken only after a country has ratified the Montreal Protocol and qualified as an Article 5 Paragraph 1 country.

The second issue:

The issue of retroactive payments from the Interim Multilateral Fund was raised at the Fifth Meeting of the Executive Committee when the first country programmes were under consideration. The Executive Committee made the following comments on this issue:

- "The issue of whether the resources of the Fund should be available to support actions taken within an Article 5, paragraph 1 Party prior either to the approval of a specific project by the Executive Committee and implementing agency or to the project's inclusion in an implementing agency's work programme raised important policy issues that should be addressed by the next Executive Committee meeting. The Secretariat should prepare a discussion paper on the subject to facilitate review by the Committee, including recognition and consideration for developing countries which have accelerated implementation of their projects to phase out the consumption and emission of ODSs."

(Report of the Fifth Meeting of the Executive Committee UNEP/OzL.Pro/ExCom/5/16, paragraph 28(e).

In accordance with paragraph 10 (g) of its terms of reference, the Executive Committee shall: "consider and, where appropriate, approve country programmes for compliance with the Protocol and, in the context of those country programmes, assess and, where applicable, approve all project proposals or groups of project proposals where the agreed incremental costs exceed US \$500,000".

Also, according to the terms of reference of the Executive Committee as adopted by the Second Meeting of the Parties in Decision II/8, the Committee is at liberty to determine its own procedure. Paragraphs 1 and 10 of the terms of reference allow the Executive Committee inter alia to develop and monitor the implementation of specific operational policies, guidelines and administrative arrangements, including the disbursement of resources.

According to the Implementation Guidelines and Criteria for Project Selection, approved by the Third Meeting of the Executive Committee "individual projects prepared prior to the completion of a country programme shall also qualify for funding if consistent with project eligibility criteria approved by the Executive Committee". (Report of the Third Meeting of the Executive Committee, UNEP/OzL.Pro/ExCom/3/18/Rev.1, Annex III, page 30).

Project proposals not developed in cooperation with the implementing agencies and where the agreed incremental costs are less than US \$500,000 shall be submitted to the Secretariat for review and subsequent submission to and approval by the Executive Committee. After approval, the project proposals shall be transmitted to the appropriate implementing agencies for inclusion in their next work programme¹⁰.

Conclusion:

The resources of the Fund may be extended to cover the agreed incremental costs of projects that had not received prior approval by the Executive Committee provided that: (a) they were incurred by an Article 5, paragraph 1 country subsequent to the date on which it became a Party to the Montreal Protocol, (b) they meet the eligibility criteria.

¹⁰ The Executive Committee agreed at its third meeting "that the regional and national agencies were in principle not excluded from being considered as implementing agencies provided that they were invited to co-operate with the Committee and were considered by it to have appropriate expertise" (UNEP/OzL.Pro/ExCom/3/18/Rev.1).

ANNEX VI

SHOULD THE FUND FINANCE ACTIVITIES RELATING TO ENTERPRISES THAT ARE WHOLLY OR PARTLY OWNED BY TRANSNATIONAL CORPORATIONS

INTRODUCTION

1. The issue of whether or not to fund projects involving enterprises that are wholly or partly owned by transnational corporations (TNCs) is a complex one involving a mix of social, economic, and political considerations, as well as conflicting perspectives. For this reason, this paper addresses the arguments on both sides of the issue and recommends options for consideration.

ARGUMENTS FOR FUNDING

Calculated consumption

2. The total calculated level of consumption of each group of controlled substances, in any given country, is based on statistical data which include estimates from all sources, including TNCs doing business in that country. To that end, national ozone policies for the phase out of ODSs do not discriminate with respect to the source of the calculated level of consumption. Some of that calculated level of consumption is attributable to transnational corporations. For some Article 5 countries, most of the calculated level of consumption to be phased out is attributable to transnational corporations. These countries would therefore be also responsible for the phase out of the ODSs attributable to local enterprises of TNCs. Consequently, projects relating to enterprises of TNCs are also included in the country programmes of the Article 5 countries.

Incremental costs

3. The incremental costs that are determined for Montreal Protocol projects are distinguished as economic costs as opposed to financial costs. The economic incremental costs are costs to a country as a whole and not costs to other economic agents such as transnational corporations. One rationale for the imperative to determine country economic costs is the need to conduct the analysis from the standpoint of society's welfare as opposed to the standpoint of an individual or private firm. As such, the derived incremental costs are the costs to the country of implementing the Montreal Protocol and not costs to other economic agents such as TNCs. Therefore, TNCs per se are not an issue in the determination of incremental costs which is the basis for the determination of the magnitude of project

Economic development

4. TNCs, like other legitimate economic activities, do have some measurable positive impact on the development process in Article 5 countries. There are multiple economic effects in terms of production, employment, access to finance and markets, national income, balance of payments, and general welfare. TNCs help to modernize factories, create jobs, bring new technology and management techniques, and, in some cases, earn desperately needed foreign exchange for the Article 5 countries. Consequently, most Article 5 countries are, these days, encouraging TNCs and promoting their functioning as part of their national economic development programmes. Some Article 5 countries have even created special "free zones" for export-oriented subsidiaries of TNCs. Given this increasingly accepted importance of TNCs in the development process in Article 5 countries, some of those countries may find it counterproductive to exclude them completely from participation in Montreal Protocol projects financed by the Fund.

ARGUMENTS AGAINST FUNDING

Branch firms

5. A branch firm is defined here as an entity that is affiliated to a parent firm which has primary responsibility for its operation, and whose majority ownership based in an industrialized country. These branch firms should therefore follow the phase-out schedule of their home country rather than their host country and be subject to the same standards required for implementing the Montreal Protocol in industrialized countries.

Protocol objectives

6. The Interim Multilateral Fund was established, as part of the financial mechanism of the Montreal Protocol, "... for the purposes of providing financial and technical co-operation, including the transfer of technologies, to Parties operating under paragraph 1 of Article 5 of this Protocol to enable their compliance with the control measures set out in Articles 2A to 2E of the Protocol. The mechanism, contributions to which shall be additional to other financial transfers to Parties operating under that paragraph, shall meet all agreed incremental costs of such Parties in order to enable their compliance with the control measures of the Protocol".¹¹ Consequently, the Fund was established specifically to assist Article 5 countries, and only Article 5 countries, in meeting the incremental costs of the implementation of the Montreal

¹¹ Montreal Protocol On Substances That Deplete The Ozone Layer as adjusted and amended by the Second Meeting of the Parties, London, 27-29 June 1990, Article 10.

Protocol. Allowing the funding of projects involving the branch firms of TNCs would not only be contrary to the spirit of the Fund but, in effect, would also be allowing the use of Fund resources to support the enterprises of industrialized countries.

Limited resources of the Fund

7. Given the uncertainties of estimating future incremental costs for Article 5 countries to comply with the control measures of the Montreal Protocol, the limited resources available from the Fund should be directed specifically toward those priority projects which would impose a financial hardship on the Article 5 countries if they were to pursue such projects themselves. Many Article 5 countries are classified by the United Nations as least developed countries and are therefore at a disadvantage in the implementation of the Montreal Protocol without the requisite financial assistance. Transnational corporations, and their branch operations, would have global access to financial resources for implementation of The Protocol without assistance from the Fund.

8. Many of the projects for conversion to ozone-friendly technologies offer potential profits. Since TNCs operate in two or more countries, it is reasonable to expect them to have established lines of credit for financing capital improvements for business development. TNCs might be called upon by the global community to use these established financing means for the elimination of ODSs since the conversion will result in improved conditions both for the environment and for the TNC itself through more efficient and profitable technical processes.

Corporate Citizenship

9. Furthermore, as part of their corporate social responsibility, the enterprises of TNCs should be amenable to requests from host governments to cooperate with international organizations in their efforts to develop and promote national and international standards for protection of the ozone layer through their own efforts and resources. To act as good corporate citizens of their host countries, the enterprises of the TNCs should, however, undertake their activities in conformity with the national ozone policy of their host countries. As a matter of fact, some Article 5 enterprises in the aerosol sector, for example, have already eliminated the use of ODSs without assistance from the Fund and, in some cases, prior to its establishment.

10. The foregoing discussion leads to the following two recommendations for consideration by the Executive Committee:

A. No funding

11. No funding should be provided for wholly-owned subsidiaries of transnationals and those enterprises permitted to operate in "free zones" and whose output is for export only.

B. Partial funding

12. Partial funding can be considered on a case-by-case basis to finance the local share ownership of any given enterprise partly owned by a TNC. In such a case, funding can be provided as a percentage of project incremental costs proportionate to the local share ownership of the enterprise with the TNC responsible for the rest. Subject to the approval of the Executive Committee, the same criteria should apply to bilateral assistance for activities involving subsidiaries of TNCs.

ANNEX VII

WHETHER THE FUND SHOULD FINANCE ACTIVITIES RELATED TO ENTERPRISES THAT ARE WHOLLY OR PARTLY OWNED BY COUNTRIES THAT ARE NOT PARTIES TO THE MONTREAL PROTOCOL

1. This discussion paper addresses the probable situation of a project being submitted to the Executive Committee for funding that involves an enterprise, operating in an Article 5 country, that is wholly or partly owned by a country that is not a Party to the Montreal Protocol.
2. Most countries that are not currently Parties to the Montreal Protocol are expected to ratify it in the future. Some of the countries that have yet to sign the Protocol have already declared that they will ratify it, in the near term. Others have signed the Protocol but have not yet ratified it while several countries have only recently been recognized as sovereign nations by the United Nations.
3. Almost all of the countries that have not signed the Protocol are classified by the Parties as developing countries. That classification would qualify them for consideration as Article 5 countries. With the notable exception of one country, all of the industrialized countries have signed the Protocol. However, some States, for political reasons, are not now signatories to the Protocol and probably cannot become so in the future.
4. As mentioned above, most, if not all, of those countries that have not signed the Protocol will become Parties eventually since financial assistance through the Fund is available to Parties only. Developing countries which are potential Article 5 countries also have the added incentive to sign because by so doing they become eligible for a grace period which enables them to delay their compliance with the control measures set out in Articles 2A to 2E of the Protocol¹². That grace period will become effective from 1999 onward. However, if for no other reason, countries will sign The Protocol because of the mandatory trade ban, on controlled substances, between Parties and non-Parties.
5. The Interim Multilateral Fund provides financial assistance for the benefit of those Parties the qualify under paragraph 1 of Article 5¹³ not to individuals, interests, nor enterprises from any given country. It may be difficult or impossible to obtain information about the details associated with enterprise ownership in an Article 5 country since such ownership may come under different companies and/or citizens from several different countries, both industrialized and developing. Therefore, an analysis of the precise ownership structure of an enterprise, by nationals and non-nationals, may not be possible.

¹² Montreal Protocol on Substances that Deplete the Ozone Layer as adjusted and amended by the Second Meeting of the Parties, London, 27-29 June 1990, Article 5, paragraph 1.

¹³ Ibid.

6. If it were to be recommended that there should be no funding for projects on the basis of enterprise participation that had (a) transnational ownership or (b) ownership by non-Parties, then there might not be any projects left in some of the Article 5 countries for the Fund to support, irrespective of the fact that these countries will remain classified as Article 5 countries.

7. The Multilateral Fund should not finance phase-out activities relating to enterprises that are wholly owned by non-Parties.

8. Partial funding can be considered on a case-by-case basis to finance the local share ownership of any given enterprise owned by a non-Party. In such a case, funding can be provided as a percentage of project incremental costs, proportionate to the local share ownership of the enterprise with the non-Party responsible for the rest. Subject to the approval of the Executive Committee, the same criteria should apply to bilateral assistance for activities involving non-Parties.

ANNEX VIII

THE MAGNITUDE OF THE FUND REQUIRED FOR THE NEXT THREE-YEAR PERIOD (1994-1996)

INTRODUCTION

1. In accordance with the decision of the Parties to the Montreal Protocol at their London meeting in 1990, the magnitude of the Interim Multilateral Fund was established at the level of US \$160 million for the three-year period 1991-1993, to be increased to US \$240 million if China and India signed the Protocol. The Secretariat was entrusted by the Executive Committee at its Sixth Meeting to prepare an estimate of the magnitude of the Fund for the period 1994-1996. The present paper estimates that the requirements for the Fund for the next three-year period 1994-1996 will amount to approximately US \$480-620 million.

2. The estimates include:

(i) costs of non-investment project activities: Fund Secretariat budget; information exchange system maintenance; workshops and training activities; preparation and updating of country programmes; costs of work programmes; institutional strengthening costs; and

(ii) costs of investment projects.

ASSUMPTIONS

3. The costs of non-investment project activities were calculated on the basis of the 1992 work programmes of the implementing agencies, an indicative budget of the Fund Secretariat, and costs incurred for institutional support. The latter is discussed elsewhere.

4. The costs of implementation of investment projects were calculated using the sector and subsector approach. The methodology for the calculation is given in the Appendix to this paper. For each sector/subsector, the costs were obtained by multiplying the estimated unit cost (\$/kg ODSs phased out) by the volume of ODSs expected to be eliminated by the end of 1996. Every unit cost was calculated as an average value for alternative technologies currently available for each ODS, or alternative technologies that would be available in the short-term to medium-term for different subsectors. For this purpose, all available country studies/programmes and project proposals were analyzed.

5. An average value based on available consumption data for the period 1989-1991 was arbitrarily chosen as the base figure which represents the current ODS consumption. This figure includes India's consumption. To arrive at a plausible figure for consumption at the beginning of the new funding period (1994-1996), two scenarios were followed as depicted in Case I and Case II in the Appendix. Case I assumes that no net reduction in consumption would be attained until the end of the present funding period, i.e. the base figure remains unchanged. Alternatively, Case II assumes that net reduction in consumption would be achieved at the end of the present funding period.

6. The most likely reduction in ODS consumption at the end of 1996 was calculated on the basis of availability and viability of substitutes and technologies to effect this reduction. However, the reduction was adjusted according to the pertinent annual rate of growth.

7. In calculating the CFC phase-out costs in the production sector, it was estimated that two or three plants (each with an average capacity of 5,000 tonnes/year) could be converted to HCFCs at an approximate cost of US \$9 million each, and preliminary works for one new HFC-134a facility at an approximate cost of US \$10 million. As additional plants are identified, this portion of the fund will require more resources.

8. The rather wide range of estimates of the magnitude of the Fund is inevitable given the shortage and, in some cases the inadequacy, of information. It is also due to some uncertainties and limitations, e.g. consumption growth rate for the period 1994 to 1996; availability and prices of alternatives to ODSs; divergence in costs of phasing out per unit; the absorptive capacity of implementing agencies and pace of implementation; alternative technology options [should developing countries first switch over to transitional substitutes (HCFC) and later on go through another switch over to HFC?]; and lack of explicit quantification of "transitional period".

9. In order to narrow this range of estimates, it is further assumed that net reductions in ODSs would be achieved at the end of the present funding period (1991-1993), and that the probable annual growth rate would be 5-10 per cent.

CONCLUSION

10. On the basis of the foregoing assumptions, it is estimated that the amount of the Fund for the period 1994-1996 would be between US \$480 to 620 million. A breakdown of this amount is provided in Table 1.

Table 1: Summary of Estimates of Future Amount of the Fund for 1994-1996

	(US\$ Millions)
Fund's Secretariat	7.6
Implementing agencies work programmes	
Information exchange system	5.0
Training and workshops	4.0
Country programmes (preparation and updating)	2.5
Sub-Total	11.5
Institutional strengthening	8.8
Investment Projects (technical assistance and pre-investment projects)	454 588
TOTAL	482 616

11. The above estimates were based on data obtained from various sources including: country studies/programmes, UNEP reports, and the countries themselves. These data cover Article 5 countries and India, which is expected to join the Montreal Protocol in the near future.

However, more than 50 countries have not yet ratified the Montreal Protocol. If these countries join the Montreal Protocol within 2-3 years, it is estimated that the requirements of the Fund will be increased by 10-20 per cent.

APPENDIX

METHODOLOGY FOR THE CALCULATION OF THE COSTS OF PHASE OUT FOR THE PERIOD 1994-1996

I. Approach

The following formula is proposed:

$$(1) P = (X_1 \times Y_1),$$

where,

P represents total costs of phase out per sector/subsector.

X_1 represents volume of ODSs that can be eliminated by the end of 1996 by sector and subsector expressed in kg ODSs; and

Y_1 represents unit cost of phase out expressed in US\$/kg ODSs phased out.

X_1 is calculated by the following formula:

$$(2) X_1 = C_1 \times (1 + r)^x,$$

where,

C_1 represents consumption by sector/subsector at the beginning of the new funding period 1994-1996.

r represents consumption growth rate for the period 1994-1996 based on various annual growth rates: 0%; 2%; 5%; and 10%

x represents the projected percentage of the most likely reduction in consumption by the end of 1996.

II. Calculation of phase-out costs

Two scenarios are proposed to determine the value of C_1 as described by the following cases:

Case I:

C_1 equals the average consumption in the period 1989-1991 (it is assumed that the amount eliminated until 1993 equals the amount consumed to meet the growth demand for the same period of time).

Case II:

C₁ equals the average consumption in the period 1989-1991 minus the amount expected to be phased out by the end of 1993 assuming the following reductions:

aerosol sector	50%
solvent sector	50%
foam sector	10%
other sectors	0%

Tables 2 and 3, respectively, summarize the three-year (1994-1996) growth in consumption of ODSs at various rates of growth assuming two different starting (base) figures as described in Case I and Case II.

Tables 4 and 5 represent calculations of costs based on the most likely reduction adjusted to each growth rate for Case I and Case II, respectively.

The scenario represented by Case II is judged to be the most preponderant of the two scenarios due to the following reasons:

In the aerosol sector, conversion from CFCs to LPG is profitable and is easily achieved through conventional technology easily;

In the solvent sector, many transnational companies have already declared an early phase out of CFCs and methyl chloroform; and

In the foam sector, up to 50 per cent reduction in CFCs can be achieved easily without significant change in production processes.

Furthermore, the most plausible annual growth rate will range from 5-10% based on:

Country studies in high ODS consumption countries (such as China, Mexico, and India) project future growth rates in consumption of around 10 per cent and higher. Also these studies indicated that growth rates of ODS consumption were much higher than GNP growth rates, in general.

In newly-industrialized Article 5 countries where GNP is expected to continue to grow at high rates, one can expect consumption of ODSs to grow at even higher rates.

It is thus concluded that the estimated costs of phasing out for the period 1994-1996 are as illustrated in Table 6.

Table 2: (1994-1996) Growth in Consumption of ODSs (Case I)

(Unit: Tonnes)

	Beginning of 1994 (C ₁)	(1994-1996) Growth at:			
		r = 0%	r = 2%	r = 5%	r = 10%
Aerosols	22,000	22,000	23,500	25,500	30,000
Solvents					
Electronics cleaning	10,000	10,000	11,000	12,500	15,500
Metal cleaning	4,000	4,000	4,500	5,000	6,000
Precision cleaning	5,000	5,000	5,500	6,000	7,500
Other uses	2,000	2,000	2,000	2,500	3,000
Sub-Total	21,000	21,000	23,000	26,000	32,000
Foams					
Rigid polyurethane	22,000	22,000	23,000	25,500	29,000
Flexible polyurethane	12,000	12,000	12,500	13,000	14,500
Others	6,000	6,000	6,500	7,000	7,500
Sub-Total	40,000	40,000	42,000	45,500	51,000
Refrigeration					
MAC	19,000	19,000	20,000	22,000	25,500
Commercial	13,000	13,000	13,500	14,000	15,000
Industrial	1,000	1,000	1,000	1,000	1,000
Domestic refrigeration	3,000	3,000	3,500	4,000	4,500
Chiller (CFC-11)	1,000	1,000	1,000	1,000	1,000
Sub-Total	37,000	37,000	39,000	42,000	47,000
T o t a l	120,000	120,000	127,500	139,000	160,000
Halons	6,000	6,000	6,500	7,000	8,000

Table 3: (1994-1996) Growth in Consumption of ODSs (Case II)

(Unit: Tonnes)

	Beginning of 1994 (C ₁)	(1994-1996) Growth at:			
		r = 0%	r = 2%	r = 5%	r = 10%
Aerosols	12,000	12,000	12,500	13,500	16,000
Solvents					
Electronics cleaning	3,500	3,500	4,000	4,500	5,500
Metal cleaning	3,500	3,500	4,000	4,500	5,500
Precision cleaning	3,500	3,500	3,500	4,500	5,500
Other uses	1,500	1,500	1,500	2,000	2,500
Sub-Total	12,000	12,000	13,000	15,500	19,000
Foams					
Rigid polyurethane	20,000	20,000	21,000	22,500	26,000
Flexible polyurethane	10,000	10,000	10,500	11,000	12,000
Others	5,000	5,000	5,000	5,500	6,000
Sub-Total	35,000	35,000	36,500	39,000	44,000
Refrigeration					
MAC	19,000	19,000	20,000	22,000	25,500
Commercial	13,000	13,000	13,500	14,000	15,000
Industrial	1,000	1,000	1,000	1,000	1,000
Domestic refrigeration	3,000	3,000	3,500	4,000	4,500
Chiller (CFC-11)	1,000	1,000	1,000	1,000	1,000
Sub-Total	37,000	37,000	39,000	42,000	47,000
T o t a l	96,000	96,000	101,000	110,000	126,000
Halons	6,000	6,000	6,500	7,000	8,000

Table 4: Magnitude of the Fund for the period 1994 - 1996 in million US \$ (Case I)

	Consumption (Tonnes ODSs) at the beginning of 1994 (C ₁)	Most likely reduction % ()	US\$/kg ODSs phased out (unit cost) (Y ₁)	Costs of most likely reduction adjusted to growth rate			
				0% growth	2% growth	5% growth	10% growth
Aerosols	22,000	80 90	0.6	10.6 11.9	11.3 12.7	12.2 13.8	14.4 16.2
Solvents							
Electronic cleaning	10,000	70 80	30	210.0 240.0	231.0 264.0	262.5 300.0	325.5 372.0
Metal cleaning	4,000	30 40	10	12.0 16.0	13.5 18.0	15.0 20.0	18.0 24.0
Precision cleaning	5,000	40 50	40	80.0 100.0	88.0 110.0	96.0 120.0	120.0 150.0
Other uses	2,000	10 20	10	2.0 4.0	2.0 4.0	2.5 5.0	3.0 6.0
Recycling		5	6.3	6.6	7.2	8.2	10.1
Sub-Total	21,000			310.6 366.6	341.7 403.2	384.2 453.2	476.6 562.1
Foams							
Rigid polyurethane	22,000	50	7	77.0	80.5	89.2	101.5
Flex. Polyurethane	12,000	80	6	57.6	60.0	62.4	69.5
Others	6,000	80	5	24.0	25.9	20.0	20.0
Sub-Total	40,000			158.6	166.4	179.6	201.0
Refrigeration							
MAC	19,000	20 25	10	9.5	14.4	19.4	28.1
			7.0	18.8	19.5	21.1	23.8
Commercial	13,000	10	9	11.7	12.1	12.6	13.5
Industrial	1,000	30	9	2.7	2.7	2.7	2.7
Domestic	3,000	10 15	14	4.2	4.9	8.4	9.5
Chiller (CFC-11)	1,000	20	9	1.8	1.8	1.8	1.8
Sub-Total	37,000			48.7	55.4	65.9	79.4
TOTAL	120,000	50 55		528.5 585.8	574.8 637.7	641.9 712.5	771.4 858.7
Halons	6,000	30 40	6.4	11.4 15.4	12.6 16.6	13.5 18.0	15.3 20.4
Production							
Plant conversion				28.0 37.0	28.0 37.0	28.0 37.0	28.0 37.0
TOTAL				569 639	615 692	683 768	815 916

Table 5: Magnitude of the Fund for the Period 1994 - 1996 in million US \$ (Case II)

	Consumption (Tonnes ODSs) at the beginning of 1994 (C ₁)	Most likely reduction % ()	US\$/kg ODSs phased out (unit cost) (Y ₁)	Cost of most likely reduction adjusted to growth rate			
				0% growth	2% growth	5% growth	10% growth
Aerosols	12,000	80 90	0.6	5.8 6.5	6.0 6.8	6.5 7.3	7.7 8.6
Solvents							
Electronic cleaning	3,500	70 80	30	73.5 84.0	84.0 96.0	94.5 108.0	115.5 132.0
Metal cleaning	3,500	30 40	10	10.5 14.0	12.0 16.0	13.5 18.0	88 110.0
Precision cleaning	3,500	40 50	40	56.0 70.0	56.0 70.0	72 90	2.5 5.0
Other uses	1,500	10 20	10	1.5 3.0	1.5 3.0	2.0 4.0	6.0
Recycling		5	6.3	3.8	4.1	4.0	228.5 270
Sub-Total	12,000			145.3 174.8	157.6 189.1	186.9 224.9	
Foams							
Rigid polyurethane	20,000	50	7	70.0	73.5	78.8	91.0
Flex. Polyurethane	10,000	80	6	48.0	50.4	52.8	57.6
Others	5,000	80	5	20.0	20.0	22.0	24.0
Sub-Total	35,000			138.0	143.9	153.6	172.6
Refrigeration							
MAC	19,000	20 25	10	9.5	14.4	19.4	28.1
			7.0	18.8	19.5	21.0	23.8
Commercial	13,000	10	9	11.7	12.1	12.6	13.5
Industrial	1,000	30	9	2.7	2.7	2.7	2.7
Domestic	3,000	10 15	14	4.2	4.9	8.4	9.5
Chiller (CFC-11)	1,000	20	9	1.8	1.8	1.8	1.8
Sub-Total	37,000			48.7	55.4	65.9	79.4
TOTAL	95,000	45 50		337.8 368.0	362.9 395.2	412.9 451.7	488.2 530.6
Halons	6,000	30 40	6.4	11.4 15.4	12.6 16.6	13.5 18.0	15.3 20.4
Production							
Plant conversion				28.0 37.0	28.0 37.0	28.0 37.0	28.0 37.0
TOTAL				378 421	403 449	454 507	531 588

Table 6: Costs of phasing out for the period 1994-1996

Sectors	Project cost (US \$ million)	
Aerosols	7	9
Solvents	187	270
Foams	154	173
Refrigeration	66	79
Halons	14	20
Production plant conversion	28	37
TOTAL	454	588