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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fifth Meeting
Bangkok, 14-18 July 2008

WORLD BANK'S WORK PROGRAMME AMENDMENTS FOR 2008

COMMENTS AND RECOMMENDATION OF THE FUND SECRETARIAT

1. World Bank is requesting approval from the Executive Committee of US \$2,803,270 for its 2008 Work Programme Amendment, plus agency support costs of US \$210,245.
2. The activity proposed in World Bank's Work Programme Amendment is presented in Table 1 below:

Table 1: World Bank's Work Programme Amendment

Country	Activity/Project	Amount Requested (US \$)	Amount Recommended (US \$)
SECTION A: ACTIVITY RECOMMENDED FOR BLANKET APPROVAL			
A. Renewal of institutional strengthening project:			
Tunisia	Renewal of institutional strengthening project (phase V)	247,270	247,270
Subtotal for institutional strengthening project::		247,270	247,270
Subtotal for section A		247,270	247,270
SECTION B: ACTIVITIES RECOMMENDED FOR INDIVIDUAL CONSIDERATION			
B1. Project preparation for HCFC phase-out plans:			
China	Preparation of HCFC management plan - HCFC production sector	494,000	
China	Preparation of HCFC management plan - PU foam sector	722,000	
Ecuador	Preparation of HCFC management plan	80,000	
Indonesia	Preparation of HCFC management plan	150,000	
Philippines	Preparation of HCFC management plan	230,000	
Thailand	Preparation of HCFC management plan	250,000	
Turkey	Preparation of HCFC management plan	150,000	
Viet Nam	Preparation of HCFC management plan	230,000	
Subtotal for project preparation for HCFC phase-out plans:		2,306,000	*
B2. Other activities:			
Global	Development of strategy/methodology for ODS disposal	250,000	
Subtotal for ODS disposal project:		250,000	*
Subtotal for section B:		2,556,000	
Totals of sections A and B		2,803,270	247,270
Agency support costs (7.5 per cent for project preparation and institutional strengthening, and for other activities over US \$250,000, and 9 per cent for other activities under US \$250,000):		210,245	18,545
Total:		3,013,515	265,815

*For individual consideration or pending

SECTION A: ACTIVITY RECOMMENDED FOR BLANKET APPROVAL

A. Renewal of institutional strengthening project:

Tunisia (Phase V): US \$247,270

Project description

3. The World Bank submitted a request for the renewal of the institutional strengthening project of Tunisia. The description of the institutional strengthening project for the above country is presented in Annex I to this document.

Fund Secretariat's comments and recommendation

4. The Fund Secretariat recommends blanket approval of the institutional strengthening renewal request for Tunisia at the level of funding shown in Table 1. The Executive Committee may wish to express to the Government of Tunisia the comments which appear below:

The Executive Committee has reviewed the terminal report presented with the institutional strengthening project renewal request for Tunisia. The Committee notes with appreciation the efforts made by the Government of Tunisia to phase out ODS consumption through its National ODS Phase-out Plan (NOPP) which addresses all remaining consumption of CFCs and halon; as well as through its continued success in engaging stakeholders to comply with ODS phase-out policies; and, through its ongoing monitoring, enforcement and public awareness raising activities. The Executive Committee encourages Tunisia to continue making progress towards complete phase-out of Annex A and B substances in 2010 through the NOPP and other relevant measures.

SECTION B: ACTIVITIES RECOMMENDED FOR INDIVIDUAL CONSIDERATION

B1. Project preparation for HCFC phase-out plans

	Country	Project	Amount requested (US \$)
(a)	China	Preparation of HCFC management plan - HCFC production sector	494,000
(b)	China	Preparation of HCFC management plan - PU foam sector	722,000
(c)	Ecuador	Preparation of HCFC management plan	80,000
(d)	Indonesia	Preparation of HCFC management plan	150,000
(e)	Philippines	Preparation of HCFC management plan	230,000
(f)	Thailand	Preparation of HCFC management plan	250,000
(g)	Turkey	Preparation of HCFC management plan	150,000
(h)	Viet Nam	Preparation of HCFC management plan	230,000

Project descriptions

5. The World Bank submitted eight requests for the preparation of HCFC phase-out management plans (HPMP) for seven countries. Out of these, the World Bank is the only agency for implementation in four countries and is working with other agencies in China, Indonesia and Turkey. The Bank also submitted a request for project preparation for the production sector in China, as well as for the consumption sector, where similar requests are also included in the other implementing agencies' and bilateral agencies' work programme amendments.

6. The Bank's submission includes Turkey, which was removed from its business plan at the 54th Meeting through decision 54/10 at the Bank's request since it did not have a letter from the Government supporting this request. The Bank has now clarified that the country has sent it a letter, thereby justifying the inclusion of this project in its HPMP preparatory funding requests. However, Turkey is also included in the work programme amendment for UNIDO, and as of this writing there is no final decision on who will be the lead implementing agency for this country and who will eventually be responsible for the development of the HPMP.

7. The Secretariat also sought country letters from the agency to support the requests for HPMP project preparation. The World Bank submitted letters as requested, mostly in support of the inclusion of these activities in their business plans.

Fund Secretariat's comments

8. In the absence of agreed funding policies specifically related to HCFCs, the Secretariat drew on the Fund's experience to date of addressing ODS phase out. In reviewing these requests the Secretariat considered the following:

- (a) Latest HCFC consumption in the countries on the list based on Article 7;
- (b) Common elements of HPMP project preparation as seen from the submissions;
- (c) HPMP guidelines as approved in decision 54/39, and the elements of an HPMP as indicated therein;
- (d) Earlier costs of country programme preparation, RMP/TPMP/NPP preparation as well as costs for the preparation of sector plans for CFC phase out for all countries as well as costs for individual preparation for countries with HCFC manufacturing; and
- (e) Costs of earlier approved HCFC surveys for 13 countries.

9. In line with decision 54/39, the Secretariat also classified the countries into two main categories:

- (a) Countries with HCFC consumption in the servicing sector only (HCFC-22); and
- (b) Countries with HCFC consumption in both servicing and manufacturing (HCFC-22, HCFC-141b and other HCFCs).

10. To establish standard costs in line with previous decisions and guidelines of the Executive Committee, the Secretariat has concluded that HPMP preparation funding could be divided into the following components, in line with decision 54/39:

- (a) Assistance for policy and legislation;
- (b) Survey of HCFC use and analysis of data;
- (c) Development and finalization of the full HPMP including consultations; and
- (d) Individual investment project proposals.

11. The Secretariat also considered that the first three components indicated in paragraph 10 above would be common to all countries regardless of consumption. The last component would apply only to those countries that use HCFC in manufacturing. In considering the first three components the Secretariat also notes that, for some countries, these may already include some elements of small investment projects that may be up for simple conversions and where the alternative is already known.

12. In submitting these requests, the World Bank indicated to the Secretariat that it had included these countries with the knowledge that they are in a reasonable position to commence work on HCFCs. The World Bank is also implementing the national CFC phase out management plans for these countries.

13. In giving clarifications for the breakdown of the costs proposed, the World Bank provided the Secretariat with a table of tasks and the corresponding cost for each, as summarised in the table below:

Tasks	Cost (in US \$)
Review of Policies and activities financed by MLF (including field visits to those foam and solvent enterprises previously financed by the MLF)	30,000
Survey of HCFC consumption (including review of Article 7 data and actual survey of industries in the foam, solvent, refrigeration and air-conditioning, and fire extinguisher sectors)	50,000 (local consultants) 20,000 (international consultants) 10,000 for stakeholder workshops
Review of alternative technologies and potential climate benefits (energy savings) taking into account the import and export market condition	50,000 (international experts)
Development of strategy options and short- and medium-term action plans, and resource mobilization plans	70,000
	230,000

14. The Secretariat also sought clarification on the submission for Turkey. The Bank mentioned that there has not been any discussion with other agencies about Turkey, and that its submission is based on an official letter from the national authority responsible for ozone protection in the country. The Secretariat advised the World Bank to discuss this with the corresponding agency and to inform the Secretariat who will be the final as lead agency responsible for the HPMP preparation.

15. In the case of China, the total request for HPMP preparation funding submitted for China by all agencies is US \$4,532,995, of which the World Bank component cost is over US \$1.2 million. The request covers two proposals, one proposal for the consumption sector, while the other one is for the production sector. According to the World Bank, the funds requested for the consumption sector (US\$722,000) will be used for project preparation for the polyurethane sector, where China has designated them as the responsible agency. They also clarified that these costs were already agreed with the Government of China in a consultation meeting held with the other agencies. The remainder is for projects in the solvent, industrial and commercial refrigeration sectors, and the agency's share for the foam XPS sector of which Germany is identified as the lead. In view of the complexity and size, the Secretariat believes that China would need to be considered separately from the other HPMP preparation funding requests.

16. The Secretariat also noted that Indonesia, one of the countries in the World Bank's list, had already received funding for a survey of HCFC use at the 45th Meeting, an activity implemented by UNDP. To ensure equity among countries, these costs need to be discounted from the total amount of HPMP project preparation funds that this country may receive at this meeting.

17. In view of the wide range of costs submitted by the agencies for the HPMP preparation funding requests, the Secretariat, following a detailed analysis as mentioned above, and proposed the following costs summarized in the table below:

Summary table of recommended costs for HPMP preparation

Country classification	zero consumption	countries with servicing only (HCFC-22 only)	countries with servicing and manufacturing* (mid-consumption countries)	countries with servicing and manufacturing* (larger consumption countries)
ACTIVITY	BUDGETS (US\$)			
1. Policy assistance for HCFC licensing system				
Legal consultant(s)	4,000	10,000	15,000	15,000
Consultation meetings to finalise guidelines and rules	4,000	5,000	10,000	10,000
Information Dissemination for enforcement	2,000	5,000	5,000	5,000
Sub-total:	10,000	20,000	30,000	30,000
2. Survey, Data collection and Analysis**				
Consultant costs	5,000	10,000	20,000	40,000
Stakeholder consultation meeting and finalisation of report	5,000	5,000	10,000	10,000
Data collection costs (including travel, if required)	5,000	10,000	25,000	35,000
Sub-total:	15,000	25,000	55,000	85,000
3. Strategy development and finalisation				
3 national meetings (start of the process, initial consultation and final consultation)	10,000	15,000	20,000	30,000
Documentation and information materials (sub-contract)	5,000	5,000	5,000	5,000
local travel expenses for meeting participants	10,000	20,000	15,000	15,000
Consultants to review technology including climate benefits	Not applicable	Not applicable	25,000	30,000
Sub-total:	25,000	40,000	65,000	80,000
Total Cost	50,000	85,000	150,000	195,000

* these costs are standard costs for the preparation of the HPMP, individual project preparation for demonstration and other investment projects will be costed separately

** funding already received by countries for surveys will be adjusted lower than these proposed costs, accordingly.

18. The Secretariat discussed with the agency the level of funding submitted for project preparation of the HPMPs for the countries listed in its work programme amendment. Although there appeared to be agreement on the approach being proposed for by the time of writing this document, no agreement on cost has been reached.

Fund Secretariat's recommendation

19. Pending.

B2. Other activities

Global: Development of strategy/methodology for ODS disposal (US \$250,000)

Project description

20. The World Bank submitted a request for funding a study on how to develop a strategy for obtaining funding through voluntary carbon markets for the destruction of unwanted ODS for the consideration of the Executive Committee at a funding level of US \$250,000.

21. At the 54th Meeting, the Executive Committee endorsed the business plan of the World Bank in decision 54/10 which included a proposal for the above study. In the same decision, the Bank was requested to cooperate closely with members of the Committee as well as the implementing agencies in developing terms of reference for the study for presentation to the 55th Executive Committee Meeting. Along with the submission for the funding request, the World Bank has also submitted the draft terms of reference for the Committee's consideration that are attached to this document.

Fund Secretariat's comments

22. The Secretariat sought clarification from the World Bank on the cost breakdown of the requested funding. In providing clarification, the agency explained that it will cover the costs of consultants who will undertake the analysis, development of methodologies, as well as innovative funding arrangements and case studies to complete the strategy. The requested funds will also cover the cost of at least two consultation meetings to be held before the study is finalised. The cost breakdown is summarised in the table below:

Cost breakdown in US \$	
Comparative analysis on CDM and voluntary carbon markets	50,000
Development of detailed procedures and methodologies for ODS disposal based on results of the analysis to ensure universal applicability.	100,000
Development of an innovative financial arrangement to address the need for up-front cost and, if possible, a revolving fund to ensure sustainability of the mechanisms.	25,000
Two stakeholders consultation meetings in Washington D.C.	50,000
Development of at least one case study	25,000
Total	250,000

23. In submitting the draft terms of reference for the study in line with decision 54/10, the World Bank also provided the Secretariat with the comments received from the agencies as well as a revised draft where these comments were taken into consideration. As summarized by the World Bank, the comments received can be grouped under the following general observations:

- (a) The study should offer concrete, simple, and workable perspective around a specific predefined investment vehicles;

- (b) Scope of work should cover review and investigation of opportunities from various funding mechanisms, including voluntary carbon and institutional markets, CDM, loans from regional development banks, GEF grants and others;
- (c) Flexibility of the project design and methodologies;
- (d) Concerns of UNFCCC policy makers should be taken into account;
- (e) Predictability and availability of resources in voluntary carbon markets compared to other financing modalities should be assessed;
- (f) The study should cover overall running costs of recovery and destruction; and
- (g) Risk of perverse incentives.

24. The Bank indicated that some of the above suggestions go beyond the mandate given by the Executive Committee at the 54th Meeting, which is to develop a strategy to obtain funding through voluntary carbon markets for the destruction of unwanted ODS, and which would also include a methodology for the validation and verification of ODS disposal. These issues will have to be discussed when the TOR is presented to the 55th Meeting for consideration.

25. The Secretariat observed that the tasks covered in the study justifies the requested funding submitted for consideration by the Committee at this meeting, and that the level will enable the Bank to deliver the requested output to the 56th Meeting.

Fund Secretariat's recommendation

26. The Executive Committee may wish to consider:

- (a) Approving the draft terms of reference for the study on how to develop a strategy to obtain funding through voluntary carbon markets for the destruction of unwanted ODS; and
- (b) Approve the request for funding this study at the level indicated in Table 1.

Annex I

INSTITUTIONAL STRENGTHENING PROJECT PROPOSAL

Tunisia: Renewal of institutional strengthening

Summary of the project and country profile	
Implementing Agency:	World Bank
Amounts previously approved for institutional strengthening (US \$):	
Phase I: Oct-1992	285,312
Phase II: Jul-1998	186,700
Phase III: Apr-2003	242,667
Phase IV: Apr-2006	247,270
Total	961,949
Amount requested for renewal (Phase V) (US \$):	247,270
Amount recommended for approval for Phase V (US \$):	247,270
Agency support costs (US \$):	18,545
Total cost of institutional strengthening Phase V to the Multilateral Fund (US \$):	265,815
Equivalent amount of CFC phase-out due to institutional strengthening Phase V at US \$12.1/kg (ODP tonnes):	n/a
Date of approval of country programme:	May 1996
ODS consumption reported in country programme (1994) (ODP tonnes):	526.4
Baseline consumption of controlled substances (ODP tonnes):	
(a) Annex A Group I (CFCs) (Average 1995-1997)	870.1
(b) Annex A Group II (Halons) (Average 1995-1997)	104.3
(c) Annex B Group II (Carbon tetrachloride) (Average 1998-2000)	2.9
(d) Annex B Group III (Methyl chloroform) (Average 1998-2000)	0.7
(e) Annex E (Methyl bromide) (Average 1995-1998)	8.3
Latest reported ODS consumption (2007) (ODP tonnes) as per Article 7:	
(a) Annex A Group I (CFCs)	17.7
(b) Annex A Group II (Halons)	0
(c) Annex B Group II (Carbon tetrachloride)	0
(d) Annex B Group III (Methyl chloroform)	0
(e) Annex E (Methyl bromide)	6.6
(f) Annex C Group I (HCFCs)	31.3
Total	55.6
Year of reported country programme implementation data:	2007
Amount approved for projects (US \$):	8,131,173
Amount disbursed (as at May 2008) (US \$):	7,622,870
ODS to be phased out (ODP tonnes):	1,208.8
ODS phased out (as at May 2008) (ODP tonnes):	492.6

1. Summary of activities and funds approved by the Executive Committee:

Summary of activities		Funds approved (US \$)
(a)	Investment projects:	5,393,766
(b)	Institutional strengthening:	961,949
(c)	Project preparation, technical assistance, training and other non-investment projects:	1,775,458
	Total:	8,131,173

Progress report

2. Through implementation of monitoring, enforcement, reporting and public awareness activities under phase IV of Tunisia's institutional strengthening project, the Government has ensured its continued compliance with Montreal Protocol obligations over the last two years. Specific accomplishments under the IS were the continued strengthening of the regulatory framework to ensure better control and use of ODS imports; and the execution of training programmes with an emphasis on both servicing activities and promoting the dissemination of new alternative technologies in ODS sectors. The national ozone unit in ANPE also collected data and performed statistical analyses on the use and importation of ODS for its reporting obligations; monitored ODS-consuming enterprises as well as converted enterprises; and carried out awareness raising campaigns (which included press releases, interviews, and radio and television spots).

Plan of action

3. The main objective of phase V of the institutional strengthening project (July 2008 to June 2010) will be to assist Tunisia in its efforts to address the final reduction and elimination of Annex A substances by 2010 as described in the country programme and the provisions of the national ODS phase-out plan (NOPP) agreement between the Government of Tunisia and the Multilateral Fund's Executive Committee. This objective will be reached through stepped-up monitoring of the implementation and completion of investment and non-investment projects in the relevant ODS-consuming sectors and intensification of awareness raising and outreach to specific target groups within the administration, public and private sectors. In addition and in light of recent Montreal Protocol adjustments, the IS project will enable the Government to reach out to key stakeholders to secure renewed commitment to the Protocol's goals, while further developing requisite policies, legislation and regulation.

2008 WORK PROGRAM AMENDMENT

**Presented to the 55th Meeting of the
Executive Committee**

**WORLD BANK
MONTREAL PROTOCOL OPERATIONS**

May 20, 2008

55th Meeting of the Executive Committee for Implementation of the Montreal Protocol

The World Bank 2008 – 2010 Business Plan was submitted for the consideration of the Executive Committee (ExCom) of the Multilateral Fund for Implementation of the Montreal Protocol at its 54th Meeting. With the exception of activities related to HCFCs, all activities proposed for the period 2007 – 2010 were approved by the ExCom (Decision 54/10).

At the 54th Meeting of the ExCom, the Bank submitted its 2008 Work Program for the ExCom's consideration. The 2008 Work Program contained proposals for the renewal of the Philippines' and Tunisia's Institutional Strengthening Projects. As per Decision 54/5, the World Bank is submitting to the Excom an amendment of its 2008 Work Program, to include requests for preparation funds for HCFC Management Plans in the following countries: i) China; ii) Ecuador; iii) Indonesia; iv) Philippines; v) Thailand; vi) Turkey; and vii) Vietnam. The Bank is also including in this amended Work Program a request for funds for the development of a strategy for ODS disposal. The Excom requested the Bank to submit terms of reference for this work to its 55th Meeting.

Amendments to the World Bank's 2008 Work Program amounting to US\$3,013,515 (including support costs) are being requested from the Excom at its 55th Meeting, as summarized below:

Country	Request (US\$)	Duration	Description
China	494,000	July 2008 - December 2009	Preparation of HCFC Management Plan - HCFC Production sector
China	722,000	July 2008 - December 2009	Preparation of HCFC Management Plan - PU foam sector
Ecuador	80,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Indonesia	150,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Philippines	230,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Thailand	250,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Tunisia	247,270	June 2008-June 2010	Institutional Strengthening Renewal
Turkey	150,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Vietnam	230,000	July 2008 - December 2009	Preparation of HCFC Management Plan
Global	250,000	July 2008 - July 2009	Development of strategy/methodology for ODS disposal
Sub total	2,803,270		
Support costs	210,245		
Total	3,013,515		

*7.5% support cost were applied to all the project preparation requests.

Elements of a Terms of Reference for a Study on Financing the Destruction of Unwanted ODS

Purpose

Both developed and developing countries have or are in the process of eliminating the production and consumption of the most potent ozone depleting substances (ODS) that fall under the control of the 1987 Montreal Protocol. However, the definition of ODS consumption – import plus production minus export – means that the Protocol does not control ODS existing in stockpiles and banks in countries (whether it be in equipment or cylinders). This includes unwanted ODS that no longer can be recovered or used.

As the complete phase-out date for Annex A and B chemicals is approaching, an increasing number of CFC equipment and products are being decommissioned. ODS from these outdated products, if left unmanaged, could place an increasing threat to the ozone layer protection. Since these chemicals also have high Global Warming Potential (GWP) in comparison with carbon dioxide, it is concomitant threat to the climate. In responding to this threat, the Parties to the Montreal Protocol and the MLF have in the recent years increased their efforts to prevent releases of these unwanted ODS to the atmosphere. The MLF Secretariat convened an “Experts Meeting to Assess the Extent of Current and Future Requirements for the Collection and Disposition of Non-Reusable and Unwanted ODS in Article 5 countries” on 13 – 15 March 2006, and there have been a series of regional for a held on different aspects of the disposal and destruction issues, involving Article 5 countries, the Secretariat, bilateral and implementing agencies. A study for effective options to manage unwanted ODS has been commissioned by the MLF. The draft report of the study was presented at the 54th Meeting of the MLF Executive Committee. The MLF Executive Committee has consequently endorsed a proposal by the World Bank to conduct a study on how to develop a strategy to obtain funding through voluntary carbon markets for destruction of unwanted ODS, which would also include a methodology for the validation and verification of ODS disposal.

Background

Article 5 countries are currently in the compliance period of the Montreal Protocol and are expected to completely phase out the production and consumption of CFCs, halons and CTC by 2010. As these countries advance in implementation of MP obligations, they are increasingly faced with the reality long understood in non-Article 5 countries – that banks of ODS will have accumulated and continue to exist, posing an ongoing threat to the environment. This is particularly the case for ODS that cannot be recovered nor reclaimed either for technical reasons or in a cost-effective manner.

Unwanted ODS and the need for destruction capacity or choices has consequently become an increased subject of debate in meetings of the Parties and the MLF Executive Committee. Both bodies commissioned the development of terms of references for studies on environmentally sound destruction of ODS. In 2006, the Parties requested the Executive Committee to conduct one study on the collection and treatment of unwanted ODS in both Article 5 and non-Article 5 countries. This study is expected to be finalized for the July 2008 Open-ended Working Group Meeting.

The environmental risks of emissive uses of ODS extend beyond the ozone layer. At the 19th Meeting of the Parties, in September 2007, the Parties adopted a decision that acknowledges the direct link between ODS and adverse effects on the climate. In particular, the Parties asked that the MLF give priority to projects that focused on alternatives that minimized other impacts to the environment, including on the climate.

Thus alongside the increasing calls from Article 5 countries for assistance to manage their unwanted ODS accumulating in equipment, ports, reclamation centers, etc., the Implementing Agencies have been considering innovative approaches to financing ODS disposal/destruction under the climate change regime. Voluntary carbon markets provide an opportunity for generating financing for ODS destruction as they are not bound to compliance markets and because ODS, that can have extremely high GWPs would be an attractive source of emission reduction credits. To date, only one market exists that issues credits for ODS destruction, the Chicago Climate Exchange (CCX); however, other markets such as those adopted the Voluntary Carbon Standard 2007 (VCS) are not necessarily restricted to the six (6) Kyoto gases and therefore could potentially become markets for destruction of unwanted ODS if a methodology was proposed and approved.

Comparative analyses on the voluntary markets report that over the last few years, about a dozen of voluntary markets have been developed, each presenting different standards and focus areas. Some markets closely mirror the standards of the compliance markets, while other adopted less stringent rules and flexible approaches in order to reduce the administrative burdens, the transaction costs and enable to generate as many credits as possible on the market. These comparative studies have not so far looked specifically at how different markets actually, or potentially, address GHGs that are not directly controlled by Kyoto. In particular, there is a need to look at elements such as the project cycles, the rules for acceptability of new project types and new methodologies approval, the countries eligible for offset projects to determine how the special issues/requirements surrounding ODS and the Montreal Protocol can be incorporated on the one hand, and on the other, what considerations countries must take into account when exploring opportunities for financing through existing markets such as CCX.

Objectives

At its 54th Meeting, the Executive Committee endorsed a proposal in the World Bank's 2008-2010 Business Plan to conduct a study on ODS destruction. According to the proposal, the Bank plans to 1) describe opportunities for funding through voluntary carbon markets for destruction of unwanted ODS and which would 2) include a methodology for validation and verification of ODS disposal and 3) develop specific case studies.

As per Decision 54/10(d) these Terms of Reference are being developed in collaboration with Executive Committee members, the MLF Implementing Agencies and the World Bank.

Scope of Work

The study will approach voluntary carbon market opportunities from a concrete, simple, and workable perspective around a specific investment vehicle. The study should elaborate on the structure and operational procedures for proposed unwanted ODS disposal projects that maximize the amount of ODS destroyed.

The Consultant will be responsible for 1) researching and developing universal but flexible approaches, or strategies for Article 5 countries to access funding through voluntary carbon markets and for 2) proposing corresponding disposal methodologies, based on best practice from existing approaches and illustrated through case studies (where applicable).

In order to inform this work, the Study should include a short and concise analyses on voluntary carbon markets, rules of voluntary markets and other carbon markets, as well as dedicated work on ODS destruction (options, costs, assessment of the scale/existing banks). See Annex I for a list of minimum works to draw from. The Study will include elements that are expected to be validated including operational efficacy of ongoing case studies (under CCX). The Study will explore, in consultation with stakeholders, NOUs in key Article 5 countries, additional opportunities to launch pilot projects in other Article 5 countries.

Elements of the Study:

- Develop and/or adopt a select number of emission reduction methodologies to be used for the disposal of unwanted ODS;
- Utilize practical experiences from existing and/or planned ODS emission reduction projects in Article 5 and non-Article 5 countries in shaping the design of the strategy and methodologies;
- Generate robust, transparent and homogeneous emission reductions from disposal of unwanted ODS; and
- Explore how to capitalize on the credibility of the Montreal Protocol Institutions including the Multilateral Fund Secretariat, the Ozone Secretariat, and the UNEP TEAP.

Process/Project Approach

- Examine (comparative analysis) the Clean Development Mechanism (CDM), the rules sets in various voluntary markets, including any market to date that has ODS destruction projects in its portfolio of emission reduction projects, with a view to determining and comparing:
 - Market scope, volume, share, growth
 - Management structure and stakeholders
 - Transaction cost (\$ per t CO₂e), price of offsets
 - Transaction units
 - Type/ categories of projects eligible

- Restricted or not to the Kyoto gases
- Project cycle and actors involved at each steps
- Average time required before the generation of credits
- Quality controls systems, including verification/ validation mechanisms, frequency, third party review requirements
- Transparency of the system (e.g. on elements such as the decision making process, transactions, etc.)
- Process for the approval of project activity
- Countries eligible for offset projects
- Rules for new methodology approval
- Degree of flexibility in the voluntary markets for adapting methodologies/approaches and for introducing new project types
- Additionality requirements and/or criteria used to demonstrated that the project activity is not the baseline, including the use of investment analyses, barriers analyses, sectoral benchmarks
- Registry of emissions and/or control processes put in place to avoid double counting of emission reduction

For markets covering ODS projects, describe and compare in more details the rules, the methodologies for such projects including elements such as criteria for project eligibility, factors accounted in the calculations of emission reductions including emission reduction offset ration, technical requirements for the destruction facilities, and etc.

Based upon the investigation and interviews, the Study will:

- Determine and elaborate on possible concrete, simple and workable modalities/scenarios; options for standardized methodologies including validation and verification of ODS disposal given in light of variables
- Determine and recommend favorable elements / quality / minimum requirements for eligibility
- Determine the applicability of existing and potential Article 5 and non-Article 5 markets dealing with unwanted ODS in order to apply to Article 5 countries (market conditions, nature of the regulatory/policy framework, institutional capacity).
- Using the information of the comparative analyses and rules of each market, determine the feasibility for markets that are not dealing with unwanted ODS to include these project type and describe the process that is required;
- Assess predictability and availability of resources from voluntary carbon markets in comparison with other financing modalities, such as the MLF;

- Provide recommendations on key measures to safeguard any leakage of unwanted ODS at each transaction step towards final disposal based on best practice from existing approaches and illustrated through case studies; and
- Recommend practical in-country administrative systems including management of revenue allocations to ensure that financial benefits would be used for covering other costs associated with collection, transportation, extraction, and etc. in order to avoid any perverse incentives.

Financing/Cost Considerations

- Identify possible options, mechanisms and schemes for financing upfront costs (administrative costs, transportation) based on current practice in the voluntary market such as futures market, revolving funds, etc.
- Financing Streams (options/schedule of payments)
- Ranking of candidates for ODS destruction taking into account ODS substances, purity/quality, source, environmental risks (as pertains to cost)
- Identify any difference in rules and methodologies for project eligibility in voluntary carbon markets with those required by the MLF for funding ODS phaseout.

Disposal Methodology

- Utilize existing CCX case study (Argentina CTC) or any other studies to detail methodology
- Identify best practice throughout project cycle to ensure optimum results at destruction (from packaging to transport, validation of purity of substance, destruction removal efficiency (DRE), types of facilities/registration and certification, etc)

Tentative Work Plan and Schedule

Task	Tentative Date
Inception Report	October 2008
Draft Report	January 2009
Final Report	March 2009

Background Documents
(to be used as a basis for the study and further data collection)

1) “Final Draft Study on the Collection and Treatment of Unwanted Ozone-depleting Substances in Article 5 and Non-article 5 Countries,” ICF International, March 2008. UNEP/OzL.Pro/ExCom/54/Inf.3

2) “2002 Report of the Task Force on Destruction Technologies,” (Technology and Economic Assessment Panel (TEAP)) and other related TEAP reports.

3) Report of the Meeting of Experts to Assess the Extent of Current and Future Requirements for the Collection and Disposal of Non-reusable and Unwanted ODS in Article 5 Countries, MLF 2006.

4) Relevant reports of the MP Meetings of the Parties (where ODS destruction had been included in the meeting agenda).

5) Studies with Comparative Analyses of Carbon Markets:

“Making Sense of the Voluntary Carbon Market: A Comparison of Carbon Offset Standards” WWF Germany, March 2008.

“The World Bank State and Trends of the Carbon Market 2007” Capoor and Ambrosi, World Bank, 2008

“State of the Voluntary Carbon Markets 2008” Hamilton, Sjardin, Marcello, Xu, Ecosystem Marketplace & New Carbon Finance, 2008.

6) Standards and rules of the Kyoto and voluntary markets:

“Voluntary Carbon Standard - Specification for the project-level quantification, monitoring and reporting as well as validation and verification of greenhouse gas emission reductions or removals”, VCS 2007.

CCX rules and protocols for destruction of ODS, available at:
<http://www.chicagoclimatex.com/>

CDM rules and protocols, available at: www.unfccc.int