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INCENTIVES ASSOCIATED WITH MULTILATERAL FUND CLIMATE IMPACT INDICATOR AND A SPECIAL FUNDING FACILITY (DECISIONS 59/45(b)) AND 59/48)

This document was issued in response to decision 59/48 requesting the Secretariat to consolidate the material presented during the 59th Meeting on the Special Funding Facility, with any additional contributions submitted by members by the end of 2009, into a single agenda item addressing both the Facility as well as any issues related to decision XIX/6 paragraph 11 (b) of the Nineteenth Meeting of the Parties for consideration at its 60th Meeting.

The document therefore contains information on the incentives associated with Multilateral Fund climate impact indicator and on a Special Funding Facility. The related information can be found in parts I and II of this document, respectively.

PART I
INCENTIVES ASSOCIATED WITH MULTILATERAL FUND CLIMATE IMPACT INDICATOR

Introduction

1. The Executive Committee had decided to request in its decision 55/43(h) the development of indicators that would allow the prioritization of HCFC phase-out technologies to minimize other impacts on the environment, in particular the impacts on climate. As per decision XIX/6 of the Nineteenth Meeting of the Parties, the impact on climate is meant to take into account both the impact of emissions from HCFC uses and their alternatives, as well as the impact related to energy consumption caused by use or operation of products and equipment manufactured using HCFCs or alternative technologies. The Secretariat had developed a draft proposal for a Multilateral Fund Climate Impact Indicator (MCII) and presented it and the related concept to the 59th Meeting of the Executive Committee. The 59th Meeting discussed the status of the draft based on document UNEP/OzL.Pro/ExCom/59/51 and Add.1 and decided to consider the types of incentives to be associated with the MCII and other relevant questions related to it at the 60th Meeting. This document has been prepared in response to decisions 57/33 and 59/45 in order to facilitate the discussion of the Executive Committee in relation to incentives to be provided in light of decision XIX/6 paragraph 11 (b).

2. Decision XIX/6 of the Nineteenth Meeting of the Parties contained in its paragraph 11 (b) a request that the Executive Committee should give priority to cost-effective projects and programmes that focus on, *inter alia*, substitutes and alternatives that minimize other impacts on the environment, including on the climate, taken into account global warming potential, energy use and other relevant factors, to be applied to the development and application of funding criteria for cost-effective projects and programmes. This request for prioritization by the Meeting of the Parties is the main reason for the development of the MCII. The MCII enables a comparison between HCFC and alternative technologies and, consequently, facilitates a prioritization. The elements to be taken into account, i.e. not only the substances but also the energy consumption related to the technologies, rendered a generic comparison of different technologies to be of little value in respect to the conditions of decision XIX/6 paragraph 11.

3. Document UNEP/OzL.Pro/ExCom/59/51 contained information about the input data needed as well as the resulting output information. For the purpose of this document and the discussion on the use of the indicators, it is important to recall that the MCII is a forecast, based on minimum, standardized input data. It has been possible to develop a meaningful tool by restricting its validity to the conditions related to Multilateral Fund projects and similar activities. In this, it deviates significantly from a variety of other concepts to calculate the climate impact, which are broader in their approach and application. Most of those, such as Life Cycle Climate Performance (LCCP) or Total Equivalent Warming Impact (TEWI) are not standardized. In case of LCCP, a large amount of base data are used and applied to equipment that is predominantly well-known. Consequently, it is difficult to apply those approaches to systems which, at the time of assessment, have not even been designed. For Multilateral Fund projects, there is no possibility of assessing prototypes of equipment before funding prioritisation needs to be made. Rather, such a prioritisation has to be undertaken early when planning conversion activities, and this need is reflected in the characteristics of the MCII. Since the MCII will be applied through a centralized process facilitated by the Multilateral Fund Secretariat, a standardization of the data used and the calculation method is possible, leading to an equitable comparison of different technologies in their local context. The output – either in an enterprise–by enterprise assessment or on a more aggregated scale – provides the qualitative comparison of different alternatives, while also providing an indication about the quantitative differences between the different technologies.

4. A generic output format that was proposed to the 59th Meeting of the Executive Committee in document UNEP/OzL.Pro/ExCom/59/51 and Add.1 included a list of different alternative technologies sorted by their climate impact for the specific case. It also included a more detailed quantitative output

showing the differences in climate impact between the HCFC baseline-technology and the alternative technology for each replacement technology; this allows for the aggregation of several activities. The Secretariat is, as of writing this document, expanding the concept of the MCII to be able to address meaningfully umbrella projects and manufacturer specific sector plans.

5. The definition of the MCII is closely related to that of ODS phase-out, the main existing indicator in the Multilateral Fund for the assessment of the environmental impact of projects. In both cases, the quantitative impact information (in ODP tonnes or tonnes of CO_2 emissions) relates to the environmental impact of all products manufactured within one year at a given manufacturer facility, assuming constant volumes of production. Both take into account the environmental impact of the technology to be replaced as well as the impact of the alternative.

6. Since the MCII is related to decision XIX/6 paragraph 11 of the Meeting of the Parties, it does not include at this point in time the climate impact of destruction activities. However, a climate impact for destruction activities could be added if deemed necessary.

Technology choices and dis- incentives

7. Of all the technology alternatives for the replacement of HCFC, only those technologies which are currently technically available are relevant for the MCII. Those are, in a simplified manner, the following:[1]

(a) HFC and HFC mixtures, with a global warming potential (GWP) similar or higher than HCFCs;

(b) Reduced HFC content technology (particularly for foam);

(c) HFC-134a (particularly for refrigeration);

(d) HFC (flammable), including olefins under development (HFO);

(e) Hydrocarbons (flammable);

(f) Ammonia (flammable); and

(g) CO_2.

8. The above list is sorted by decreasing climate impact[2]. Those options with lower climate impact have a number of characteristics that do not allow the use of these technologies for all enterprises in a given sector or sub-sector at this point in time. This is linked to, in particular, the status of development of equipment using such alternatives and issues related to safety standards, as well as to manufacturing facilities, experience, and product manufactured. Consequently, given the priority assigned to achieving compliance with the HCFC phase-out targets, any approach needs to provide some flexibility while including strong incentives to minimise climate impact. The information provided by the MCII allows the Executive Committee to develop policies that meet these requirements, and Article 5 countries to plan and manage their HCFC phase-out in an environmentally conscious way within a transparent, flexible and dependable framework.

[1] For exact information please refer to UNEP/OzL.Pro/ExCom/55/47 or the relevant reports of TEAP and its Technical Options Committees.

[2] This does not take into account that some substances are also toxic, since this characteristic appears to play only a minor role when selecting between these specific technology choices

9. For the next years it can be expected that the change away from HCFC technology will meet some resistance in a large number of HCFC-using enterprises. This is mainly due to the phase-out schedule, where phase out needs only to be achieved in another thirty years. HCFC technology is cheap, reliable and widespread, and, other than for companies oriented towards exports to non-Article 5 countries, there is as yet no barrier to the use of HCFC technology. In addition, the existing alternative technologies (other than CO_2) with a low impact on climate have a higher risk potential than the HCFC technologies they are supposed to replace, since they are either flammable or toxic or both. The alternatives with high GWP typically have in this regard similar characteristics as HCFC. Companies lack an understanding and the necessary knowledge on how to change their product design in a way that the inherent risk, be it in foam or in refrigeration, remains on the same level as before. In particular in the sector of refrigeration and air conditioning, this will lead to product changes, requiring know how presently often not available on the company level. Further, the market acceptance of alternative technologies with a low impact on climate is unknown and in some countries, particularly in some non-Article 5 countries, it is difficult or impossible to market products using such technologies to mainstream markets. These factors represent important dis-incentives for companies, which are faced with a competitive environment that is predominantly using HFC technology as an alternative to HCFCs. For larger companies, another issue may be the eligibility for future conversion projects away from HFCs financed by carbon markets, which might suggest to enterprises that it is economically more attractive to use HFCs as an interim technology before, in a second step financed by carbon voluntary markets, they can be replaced by an alternative with low impact on the climate.

<u>Requirements regarding incentives</u>

10. Incentives for the minimization of climate impact through the choice of alternative technologies to HCFCs should avoid a conflict with the HCFC phase-out schedule; be cost effective; be flexible enough to allow HFC technologies where necessary; but, on the other hand, should provide a certain degree of strictness in order to facilitate the use of technologies with minimum climate impact where possible against the disincentives mentioned above. Any incentive provided should be convincing in itself and, therefore, self-policing, i.e. not relying strongly on close monitoring of beneficiaries.

11. The Secretariat considered whether it would be possible to establish an “undesired technology list” instead of using the MCII. It seems to the Secretariat that the necessity of a flexible approach and the strict use of such a list are mutually exclusive, since using such a list strictly might endanger compliance with the HCFC phase-out. However, if such a list would be used in a flexible way, it might either lead to a slippery slope of case-by-case decisions, associated with a high uncertainty for countries submitting HPMPs as to whether their approach is acceptable, or to the need of an indicator like the MCII. The use of the MCII allows different conversion projects to be balanced, using different alternative technologies, depending on their use of the substances and the climate impact of the alternatives. The Executive Committee has the possibility of providing further positive incentives if the benefits are greater, or to subsequently strengthen the objectives in terms of the climate impact expected from conversion projects.

12. The MCII incorporates both the GWP of substances in combination with the expected emissions and the CO_2 emissions related to the generation of electricity. For the refrigeration and air conditioning sectors with their significant share of the energy consumption in the overall climate impact, energy efficiency issues will change the climate impact of any alternative technology choice. These changes might, in some cases, also change the option associated with minimum impact on the climate. In addition, this incorporates the provisions of decision XIX/6 paragraph 11 and enables a broad stakeholder buy-in. For the sectors other than refrigeration and air-conditioning (as would be for destruction), the result of the MCII will always be directly associated with the GWP of the substance used.

Incentives for minimizing climate impact not related to the climate impact indicator

13. Before discussing incentives associated with the climate impact indicator, it should be pointed out that the Executive Committee could provide a number of incentives for using technologies with a low impact on the climate through policies not directly related to the MCII. Such incentives could include improving the knowledge level in companies during the time of technology selection as well as during a conversion process through, e.g. support and standardized training modules as well as manuals for handling substances and technologies with low impact on the climate.

14. An important issue where the Executive Committee may provide incentives is the question of the eligibility or non-eligibility of activities, whether the related costs are incremental, and the access to funding for non-eligible items. Typically the conversion from HCFC technology to an alternative is eligible, and a large share of the associated cost is incremental, if not restricted by the Executive Committee through limiting factors such as priorities and thresholds, etc. In particular the refrigeration and air conditioning sectors are directly responsible for a significant share of global electricity use, and the conversion projects will be based on a technology choice for the products and will include conversion activities that influence the energy efficiency of these products. It is likely that a significant improvement in the climate impact through conversion projects will be technically possible; a significant share of such an improvement might be related to activities beyond the change of the substance.

15. The Executive Committee has, at this meeting, the opportunity to discuss to what degree such activities might be eligible (see document UNEP/OzL.Pro/ExCom/60/45); such activities would be, for example, to provide for components with higher performance or to invest in other optimisation of the equipment. Even for those activities which would not be considered eligible, the Executive Committee has a number of options to facilitate them. These possibilities include, *inter alia*, providing up-front funding for additional activities for the increase of energy efficiency of equipment with the possibility of a later payback. Such an undertaking could be handled through the facility, being discussed later under this agenda item. It is, for example, conceivable that a share of future income for the beneficiaries of Multilateral Fund projects from carbon markets based on the energy efficiency improvements, funded by the Multilateral Fund beyond eligibility levels, would be transferred back to the Multilateral Fund. This share could be restricted, for example, by only the amount of funding given to the enterprise plus a risk and handling premium; such limitation might be meaningful to ensure that incentives are still existing for an enterprise to include energy efficiency improvements in their HCFC phase-out activities.

Consideration regarding the timing and target groups of incentives related to the climate impact indicator

16. The Multilateral Fund has established a number of different incentives to encourage or discourage certain types of projects or technologies. Such incentives were, for example:

(a) Funding windows, such as the funding window for replacements of CFC chillers (decision 46/33);

(b) Demonstration projects, such as the demonstration projects for ODS disposal (decision 58/19);

(c) Increase or decrease of funding in conjunction with certain funding thresholds, for example funding thresholds for TPMPs (decision 45/54);

(d) Prioritization of projects otherwise not having a high priority, for example projects for accelerated phase-out (decision 44/59); and

(e) Establishment of funding thresholds, either in absolute terms or by using thresholds to establish a priority list for funding, for example the thresholds established for manufacturing phase-out projects in several sub-sectors, establishing a priority for projects with lower cost effectiveness (e.g. decision 16/20).

17. In the most recent meetings of the Executive Committee, a number of projects using HFC technology have been discussed in detail between the Executive Committee, the implementing agencies and the beneficiaries. These discussions have led to changes in technology to alternatives with a lower impact on the climate, and were in their character somewhat similar to an "undesired technologies" list of alternative technologies. However, this approach lacks transparency for the beneficiary and the implementing agency, is time consuming and will possibly results at some point in time in a conflict with the objective of compliance-oriented HCFC phase out.

18. In order to strategically prioritize HCFC phase-out projects with alternative technologies with low impact on the climate on a national basis, a comprehensive picture of the HCFC consumption and consumption trends in the country is necessary, ideally including a list of potential activities. HPMPs are meant to provide such insight, and will be essential to allow an informed and environmentally beneficial technology selection. Despite funding being approved for one hundred countries at the 55th Meeting, and despite several large countries having had HCFC surveys conducted even years earlier, only HPMPs for two countries with relatively low consumption have been submitted as of yet. The Executive Committee might consider how to facilitate further the submission of HPMPs or, if the country has not yet completed the necessary steps to establish its related policy, at least the information regarding the HCFC consumption profile.

<u>Application of the climate impact indicator</u>

19. The MCII will be applied only to a sub-set of the projects under the Multilateral Fund. It is, by definition, not possible to apply this indicator to projects which are not related to a conversion of manufacturing capacity. The term "manufacturing capacity" might be further narrowed by including only those enterprises where a clear HCFC phase-out commitment is being obtained and can be monitored. An indicator for such enterprises might be, for example, the level of funding associated with an individual enterprise. The Secretariat proposes therefore that only enterprises with a funding level of more than US $30,000 will be covered by the MCII. From the above it is also clear that non-investment activities as well as activities related to the refrigeration and air conditioning service sub-sector or any other sectoral activities related to very small consumers are not included in the calculation of the MCII, since those enterprises cannot commit to HCFC phase-out, or their commitment cannot be monitored.

20. The MCII shows the climate impact relative to the currently used HCFC technology, i.e. whether the alternative technology has a higher or lower climate impact. Furthermore, some quantification allows to aggregate the climate impact of several conversions. In order to maximize the number of projects using technologies with lower impact on the environment, the Executive Committee may wish to set a target for the acceptable change in climate impact for manufacturing conversion projects compared to the presently used HCFCs. As a starting point for discussions within the Executive Committee, the Secretariat proposes to define the target as activities having to achieve at least climate impact neutrality as compared to HCFC. Since a number of activities to achieve HCFC phase-out might not secure climate neutrality, Article 5 countries should be given a number of options on how to plan their activities within an HPMP. The Secretariat recommends the following options as a starting point for discussions in the Executive Committee.

21. In case the MCII indicates a higher impact on the climate than the HCFC baseline, the Executive Committee could decide, for activities submitted as one project or plan from the 62^{nd} Meeting onward, that the submission is only to be considered if one of the following conditions is being fulfilled:

(a) That the alternative technology or technologies in the submission are changed to ones with a lower climate impact, leading to an overall equal or lower climate impact than the baseline; or

(b) To group an activity with a climate impact higher than the HCFC baseline technology with one or several activities with a lower climate impact to achieve an aggregated lower impact than the baseline within the same phase of the HPMP; or

(c) To take into account further energy savings achieved through additional (sub-) activities related to the conversion, independent of their eligibility, leading to a lower climate impact than the baseline; or

(d) To accept a lower priority for the activity, for example, to postpone it to the next phase of the HPMP; or

(e) To demonstrate clearly that it is not possible to comply with the 2013 and 2015 consumption reduction steps without this particular activity and technology choice, within a reasonable cost effectiveness level;

22. In order to provide incentives for activities that lead to a MCII value which is lower, i.e. better than the baseline, the Executive Committee could consider, for example:

(a) Determining the sector or sub-sector funding thresholds to be higher for projects with a significant positive impact on climate, e.g. due to the necessity of funding safety-related costs as well as covering the potentially increased expenditures for research and trials for less common alternatives;

(b) Prioritizing projects that have as of yet a low priority. This might, for example, relate to decision 59/11 of the Executive Committee that requests agencies to submit, as a priority, HCFC-141b phase-out projects to enable the reductions in consumption for the years 2013 and 2015 to be met, and to consider HCFC consumption phase-out projects for e.g. HCFC-22 where national circumstances and priorities required their submission, in order to comply with the 2013 and 2015 control measures. The Executive Committee could allow projects replacing HCFC-22 to come forward if they have a significant positive impact on climate; and

(c) Funding windows and demonstration projects that typically represent reactions of the Executive Committee to specific challenges or opportunities that differ from the mainstream of activities. At this point in time a number of demonstration projects are being prepared, and a mainstream for projects as well as their governing rules have not been established. Consequently the Secretariat is not able as yet to propose any demonstration projects or funding windows.

<u>Recommendation</u>

23. The Executive Committee might wish to

(a) Consider the types of incentives to be associated with the MCII and other relevant questions related to it, using, inter alia, this document, and

(b) Request the Secretariat to provide more information or draft guidelines for specific issues, as deemed necessary following the discussion, in time for the 62^{nd} Meeting.

PART II
SPECIAL FUNDING FACILITY

24. At its 59th Meeting, the Executive Committee decided to request the Multilateral Fund Secretariat to consolidate, for consideration at its 60th Meeting, the material presented during the Meeting on the Special Funding Facility (hereafter "the Facility"), with any additional contributions submitted by Members by the end of 2009, into a single agenda item addressing the Facility as well as any issues related to decision XIX/6 paragraph 11(b) of the Nineteenth Meeting of the Parties (decision 59/48). Additional contributions were received from the following members of the 2009 Executive Committee: Australia, Germany, and the United States of America. Those comments as well as the proposal from Sweden presented during the 59th Meeting are attached as Annexes I to IV.

25. At its 57th (UNEP/OzL.Pro/ExCom/57/64), 58th (UNEP/OzL.Pro/ExCom/58/49) and 59th (UNEP/OzL.Pro/ExCom/59/54) Meetings, the Executive Committee considered documents on how to use US $1.2 million in funds that were received from the repayment of the Thai chiller loan project at its 55th Meeting that had been set aside. All of these documents are available on the website of the Fund Secretariat.

26. This paper summarizes the work to-date in the light of decisions taken by the Executive Committee and the Meeting of the Parties. It addresses the additional contributions from Members, as appropriate, and provides suggestions to move the process forward, in particular, with respect to decision XXI/2, paragraphs 5 and 6.

Background

27. The document prepared for the 57th Meeting focused on the following four options for the Facility: (i) resource mobilization, (ii) receiving additional voluntary contributions, (iii) concluding agreements with other entities, such as the Global Environment Facility (GEF) to expedite ozone/climate cooperation, and (iv) exploring opportunities to store value accrued from investments made by the Facility through the encashment of carbon credits either from the Climate Development Mechanism (CDM) or voluntary markets. The document prepared for the 58th Meeting focused primarily on legal and structural matters associated with the Facility. This led to a series of questions from Members that the Fund Secretariat addressed in its paper to the 59th Meeting. The document prepared for the 59th Meeting also provided a detailed assessment of the ability of the Treasurer to adapt its operation to requests from the Executive Committee, as well as how it would deal initially with the receipt of carbon credits.

28. During the 59th Meeting, presentations were made by the World Bank financial department (on advancing funding to maximize benefits), by UNDP (on the possibility of using the Facility for ODS disposal), and by UNIDO (on its integrated approach to ODS disposal). The World Bank also presented its ODS Disposal Study. A detailed account of these presentations and the discussion was included in the Report of the 59th Meeting and is provided as Annex V.

Definition of the Facility

29. The primary goal of the Facility, and the activities funded by it, would be to maximize climate and other environmental benefits associated with Multilateral Fund activities that are, in effect, not required to achieve compliance with the control measures of the Montreal Protocol. The funds for the Facility would be additional to pledged contributions and would come from Parties and institutions not traditionally contributing to the financial mechanism. Parties and institutions may place restrictions on the use of the funds for various purposes. Otherwise, the procedures for receiving funding from the Facility would be the same as those required for ODS projects. The existing guidelines of the Executive Committee related to *inter alia* project review, administrative costs, monitoring, planning, and other

reporting requirements would apply to these projects in accordance with any criteria related to the additional funds.

30. The Facility was intended to cover costs associated with activities undertaken in addition to those necessary to comply with the Montreal Protocol. Typically, it was mentioned in the context of 'topping up' financing for HPMPs in order to address costs beyond the most cost-effective option in order to achieve the maximum environmental benefit. Another possible role for the Facility would be to cover costs associated with the disposal of unwanted/waste ODS, an activity that is not considered to be required for compliance with the control measures of the Protocol as emissions are not controlled, but where benefits to the environment and climate can be clearly determined. These activities, if properly structured, could also generate significant carbon credits that could, in part, potentially accrue to the Fund as well as the beneficiary. In the case of accruing benefits to the Fund, these activities could, at a minimum, offset the Fund's investment in them, with a possible premium.

31. The Facility was conceived based on the experience gained in some of the chiller projects. These projects were not required for compliance but they generated substantial additional benefits through the use of co-funding from either the GEF, the CDM and/or national utilities. The additional funding from the GEF resulted in a reduction in the refrigerant component and the CDM provided energy efficiency benefits. The Facility was, therefore, conceived on the understanding that if funds advanced from the Multilateral Fund generate additional income, then its investment, at a minimum, might be returned with the ability to use it for future activities.

32. The Executive Committee may wish to consider agreeing to the definition and criteria for the Facility specified in paragraph 6 above.

Additionality

33. The concept of additionality is relevant to the Facility because it involves seeking funding beyond the level required for compliance with the control measures of the Montreal Protocol as assessed in triennial replenishments of the Multilateral Fund. The concept of additionality is also important because it is associated with qualifying for carbon credits for an activity that is not required under either a national law or regulation, or under an international agreement such as the Montreal Protocol. Therefore, projects financed by Multilateral Fund resources to cover agreed incremental costs to enable meeting compliance with the control measure of the Montreal Protocol cannot receive carbon credits. However, projects that are not eligible for funding under the Fund would likely qualify for carbon credits of a potentially significant value, given the high global warming potential (GWP) of ODS and some of the ODS alternatives.

34. ODS disposal activities are not required for compliance with the Montreal Protocol control measures. Therefore, the Facility could be used to fund these activities, given that the destruction of waste ODS could generate carbon credits. The Executive Committee has, thus far, only approved demonstration projects for ODS disposal. The guidelines for those projects do not include funding for additional collection and transportation of the ODS for disposal. While the Indicative List of Categories of Incremental Costs includes cost-effective ODS disposal, the collection of ODS for disposal has not been considered to be cost-effective. The collection and transportation of waste ODS is an essential step in generating carbon credits.

35. Additionality with respect to activities associated with the HCFC phase-out through HPMPs is much more uncertain at this time. This uncertainty is due to the fact that HCFC cost guidelines have not been agreed by the Executive Committee and the Parties are also discussing a possible HFC phase-down amendment to the Montreal Protocol, which could affect a Party's ability to move to HFCs as alternatives. If HFCs or ODS destruction were to be controlled by the Protocol, carbon credits for phase-out or

destruction activities would not likely be available, with the possible exception of accelerated actions beyond the control measures or matters related to energy efficiency savings.

36. The Multilateral Fund climate impact indicator provides a tool for assessing the climate impact of several alternative technologies as compared to a baseline (such as a HCFC scenario). If combined with the information in project proposals related to the costs of different alternatives, the indicator can form a basis for calculating the difference between an eligible, cost-effective conversion funded by the Multilateral Fund and an alternative project approach. The indicator can be used to "minimiz[e] other impacts on the environment, including on the climate, taking into account global-warming potential, energy use and other relevant factors" as suggested in decision XIX/6, paragraph 11 (b). Although this refers only to HCFC phase-out, the same would also apply to projects related to ODS disposal because, in this case, the basis would only be the GWP of the ODS that would otherwise be emitted into the atmosphere.

Methodologies/protocols/standards for carbon credits

37. There are currently three approved methodologies/protocols/standards for generating carbon credits from ODS destruction in the voluntary/pre-compliance carbon markets at the Chicago Carbon Exchange, the Carbon Action Reserve, and the Voluntary Carbon Standard.

38. The Carbon Action Registry and the Voluntary Carbon Standard allow for international participation with respect to quantities of ODS destroyed in the United States. Carbon markets are being established globally with a view to the expected future compliance requirements. Project preparation funds for ODS disposal demonstration projects are being used to develop proposals that would allow for the sale of destruction credits in carbon markets.

39. Several methodologies and standards have also been developed that could be used as part of the overall HPMP co-funding activities[3]. However, although carbon credits exist for ODS disposal at present, the future of the CDM is uncertain but it is generally expected that it will be continued in some form.

40. Methodologies can be developed by consultants as well as implementing agencies, bilateral agencies, governments and secretariats. There are several methodologies that might contribute to ODS disposal and HCFC phase-out activities. Each methodology might also require modification to meet the needs of the markets through which the resulting credits are sold. Each methodology might also need to include an element that allows for up-front investment from the Multilateral Fund.

41. The types of methodologies/standards that may need to be developed include those that address the following issues:

(a) To enable carbon credits to be available for destruction facilities in Article 5 countries (this could result in several standards);

(b) To enable carbon credits to be available as a result of HCFC destruction;

(c) To accelerate the phase-out of HCFCs beyond what is required by the Montreal Protocol;

[3] Relevant CDM methodologies: Chiller (AM0060), Energy efficient domestic refrigerators (AM0070), Avoidance of HFC emissions in Standalone Commercial Refrigeration Cabinets (AMS.III.AB), Avoidance of HFC emissions in Poly Urethane Foam (PUF) manufacturing (AMS.III.N), and Energy Efficiency and HFC-134a Recovery in Residential Refrigerators (AMS.III.X).

(d) To facilitate energy efficiency and low-GWP activities in small- and medium-sized enterprises;

(e) To facilitate energy efficiency and low-GWP activities in the transportation sector; and

(f) To enable the conversion from HCFCs to low-GWP alternatives without the HFC stage, where some proportion of the related costs fall outside of the Multilateral Fund.

42. Each of the implementing agencies has included the development of methodologies as part of their resource mobilization requests (including some for methodologies identified above). Requests for resource mobilization have been submitted as work programme activities in the work programmes of UNDP (UNEP/OzL.Pro/ExCom/60/17), UNIDO (UNEP/OzL.Pro/ExCom/60/19), and the World Bank (UNEP/OzL.Pro/ExCom/60/20). A bilateral request has been submitted by Italy (UNEP/OzL.Pro/ExCom/60/16). All of these will be considered at this 60th Meeting.

43. If it so wishes, the Executive Committee could also request the Fund Secretariat to coordinate the development of methodologies such as those listed above that are linked to the operation of the Multilateral Fund. This would ensure Executive Committee oversight over the process with likely cost savings from support costs. The work could be undertaken through several consulting firms that are engaged in developing such methodologies that are available to the bilateral and implementing agencies as well as the Fund Secretariat.

44. The Executive Committee may wish to request the Fund Secretariat to review the possible methodologies and recommend new methodologies that might be associated with Fund activities for consideration at the 62nd Meeting.

Monitoring and value of carbon credits

45. The value of carbon credits to potential investors depends largely on the clarity of the climate benefit of the methodology/standard, the reputation of the body affiliated with the projects, and the associated means of monitoring and verifying the outcome. The proposals on resource mobilization currently presented for consideration at the 60th Meeting of the Executive Committee highlights that the reputation of the Montreal Protocol and the Multilateral Fund should add credibility to any carbon credits generated by the activities of the Fund. The well-established monitoring systems within the Executive Committee, and verification processes established by multi-year agreements, would also add credibility to credits regardless of the entity ultimately responsible for verification. There are also several consulting firms that provide verification of reductions in CO_2 emissions.

46. There has been much discussion about the fluctuating value of carbon credits. Any credits would likely be encashed as soon as possible to avoid significant volatility as no investment function would be appropriate or likely under the existing Treasury agreement. Efforts will be made to minimize the time gap between the decision of the Committee and encashment, thereby minimizing any loss due to the sale of carbon credits at values indicated to the Executive Committee at the time of approval.

47. Although, historically, there have been significant variations in the value of credits in the carbon markets – from between US $1 to US $25 per CO_2 equivalent unit – credits from Fund activities would generate income that is likely to be much greater than the initial capital investment from the Facility. The extremely high GWP of CFC-11, for example, at 10,720 CO_2 per one kilogram of CFC-11, means that the destruction of even only one metric tonne of CFC-11 would have a carbon value of between US $10,720 to US $268,000, depending on the current value of the credit. Given the obvious climate benefit (the immediate destruction of a significantly global-warming industrial gas) and the fact that this activity is backed by the Montreal Protocol and the Multilateral Fund, the value should be probably in the higher ranges and could provide benefits to governments, the Fund, and the beneficiaries.

Additional Voluntary Contributions

48. Co-funding and additional voluntary contributions have been a part of the Multilateral Fund since its inception. Therefore, there is no legal issue associated with the ability of the Fund, or its implementing agencies, to receive voluntary contributions. The Fund has received additional voluntary contributions from Canada for administrative purposes, but also from other governments through host country agreements, additional support provided for regional network meetings, special events, and technical support activities funded by agencies from general funds. Additional contributions represent a straightforward separate accounting entry for the Fund. The US $1.2 million returned from the Thai chiller loan project, considered by the Executive Committee as additional income, is held in a separate account awaiting the Committee's determination on its use. The larger and more complex the Facility, the greater will be the need for any additional measures with respect to accounting.

49. There have been counterpart contributions associated with compliance-related projects, usually provided by beneficiary enterprises themselves. In many cases, the counterpart contributions have been part of the funding that covered activities that were not classified as eligible under the guidelines of the Fund. These include, for example, capacity expansion and technological upgrades that were not required for compliance. This could be compared to environmental objectives for technological upgrades for energy efficiency and expansion into technologies using climate-friendly industrial gases. Unlike the GEF, which requires data on counterpart contributions as part of many of its activities, the Fund has not systematically tracked these data. However, identification of co-funding sources is expected to be part of the HPMPs as indicated in the guidelines for HPMP preparation.

50. At the Twenty-first Meeting of the Parties, the Executive Committee was requested to continue its deliberations on the Facility and to report on these deliberations, including possible options for the Facility, as appropriate, to the 30th Meeting of the Open-ended Working Group (decision XXI/2, paragraph 5). The Executive Committee may wish to forward this document, along with an additional annex (to be called Annex VI), containing the excerpt from the Report of the 60th Meeting on this agenda item in accordance with decision XXI/2, paragraph 5.

51. The Twenty-first Meeting of the Parties also called upon Parties and institutions not traditionally contributing to the financial mechanism, to consider making additional support available to the Multilateral Fund for destruction of ODS, if they were in a position to do so (decision XXI/2, paragraph 6).

52. It should be noted that in responses to decision 55/43 (i), the Chief Officer wrote to institutions not traditionally contributing to the Fund including the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Fonds Français pour l'Environnement Mondial (FFEM), the GEF, the Inter-American Development Bank (IADB), and the Nordic Environment Finance Corporation (NEFC). The Secretariat received positive feedback. Moreover, the Ozone Secretariat conveyed decision XXI/2 to the Parties to the Protocol.

53. The above decision could result in additional resources and therefore it appears to constitute a mandate from the Parties for the Fund to receive any additional contributions for the destruction of ODS. To fully implement this, the Fund Secretariat proposes this as an activity for the Special Funding Facility and seeks guidance from the Committee on how to take decision XXI/2 paragraph 6 forward.

54. These funds could be used to initiate activities for which carbon credits might be issued in respect of the CO_2 equivalents of destroyed ODS. They would serve to capitalize the Special Funding Facility with resources additional to the Multilateral Fund, which, in turn, could serve as a means for Article 5 countries to access or leverage capital in order to fund the activities required to attract carbon credits. To ensure sufficient capacity to deal with any additional funds and the related projects, the Fund Secretariat is seeking approval for additional support from donors to provide Junior Professional Officers (JPOs)

and/or staff from the non-reimbursable loan (NRL) programme through UNEP to the Multilateral Fund Secretariat.

55. The Executive Committee may wish to consider requesting the Fund Secretariat to continue its efforts to collect additional resources for ODS disposal for the Special Funding Facility in the light of decision XXI/2, paragraph 6.

GEF Memorandum of Understanding

56. Although the afore-mentioned chiller projects received additional funding from the GEF (and, eventually, from CDM credits), there were delays of up to three years associated with receiving the GEF funds. Some of the delay related to prioritizing the ozone-related chiller projects in the climate change programmes of Article 5 countries. Moreover, the GEF's resource allocation framework has increased the difficulty of including ozone-related components in climate programme allocations. This has led to a suggestion that a Memorandum of Understanding (MOU) be concluded between the Multilateral Fund and the GEF. The GEF has indicated to the Secretariat in informal discussions that there should be funds available from GEF-V for ozone-related climate activities.

57. The GEF-V replenishment negotiations will be completed during 2010. The Fund Secretariat has approached the GEF with respect to funding for additional climate activities associated with HCFC phase-out and the possibility of funding for ODS destruction. One proposal that has been discussed by Executive Committee members involves GEF funding for the Multilateral Fund to enable 'one-stop shopping' for financing for climate benefits associated with ozone projects. This would depend largely on the outcome of the GEF-V replenishment with respect to climate funding and ODS disposal funding. If the GEF Assembly requests special funding windows to support decision XXI/2 with respect to ODS destruction and climate-related aspects in HCFC phase-out projects, the Executive Committee might enter into an MOU with the GEF Council to facilitate the transfer of funds to the Facility for these purposes.

58. The Executive Committee may wish to request the Chief Officer to write to the CEO/GEF Council forwarding the decision of the Parties suggesting GEF support to capitalize the Multilateral Fund's Special Funding Facility both for ODS collection and HCFC phase-out as requested in decision XXI/2, paragraph 6.

Value of the Facility for ODS Disposal

59. The Task Force on the Replenishment (2009-2011) has considered numbers from implementing agencies and national ozone units, which indicate a total of between 9,000 and 12,000 metric tonnes of unwanted ODS in all Article 5 Parties. Another study published as Executive Committee document UNEP/OzL.Pro/ExCom/48/42 indicates that between 1,200 and 1,500 metric tonnes of unwanted and/or contaminated material could become available each year. Taking into account costs of collection, transport and storage (the up-front costs needed to enable carbon credits for ODS destruction) based on estimates of US $6 per kilogramme, TEAP estimated a cost of US $54 million for ODS disposal activities until 2015.

60. The Executive Committee may wish to set an initial target of US $54 million in voluntary contributions to address decision XXI/2, paragraph 6, to provide additional resources to the Multilateral Fund for ODS disposal, while agreeing to continue to study the level of funding needed.

Use of US $1.2 million allocated to the Facility to-date

61. One option discussed for the US $1.2 million returned from the Thai chiller loan project was to mobilize resources to develop methodologies, study options, build capacity and develop project proposals. The Committee has not yet approved any such requests, but the development of proposals

using methodologies for carbon credits associated with ODS disposal is part of the project preparation of several demonstration projects. Implementing agencies have also indicated the need to use resource mobilization for capacity building in the implementing agencies which might be more closely related to administrative costs and core unit costs. Capacity building to address activities beyond those required for compliance with the control measure of the Montreal Protocol will also be needed by the Fund Secretariat and the Treasurer.

62. The original intent of the Facility was to top-up funding and provide a one-stop shop for developing countries to obtain funds through one project approval covering simultaneous ozone and climate activities that could generate carbon credits at a value much greater than the initial investment. Instead of using the funds allocated to the Facility for resource mobilization, the Executive Committee may wish to use them for this intent thereby providing an indication of the type of activities that could be funded from the additional resources. Potential contributing Parties, and institutions not traditionally contributing to the Fund, would then have a clearly defined example of the type of funding for the Facility. At this time there are limited resources, but these are sufficient to address some existing requests.

63. The Committee may wish to focus initially on ODS disposal as implied by decision XXI/2. The UNIDO/France ODS disposal project in Mexico before the Executive Committee at its current meeting has activities in it beyond those considered eligible costs, in particular for collection, which could generate carbon credits with a significant value attached. Approving additional funding for ODS destruction from additional resources would also enable the Executive Committee to report to the Meeting of the Parties on its actions with respect to implementing decision XXI/2.

64. The Executive Committee may wish to use the existing funds in the Special Funding Facility for those ODS disposal activities that are not considered eligible under the Multilateral Fund in projects before the current meeting, in the light of decision XXI/2, paragraph 6.

<u>Secretariat's recommendation</u>

65. The Executive Committee may wish to consider:

(a) Noting the document entitled "A Special Funding Facility (decisions 59/45(b) and 59/48)" as contained in UNEP/OzL.Pro/ExCom/60/50;

(b) Agreeing to forward the present document to the 30th Open-ended Working Group Meeting along with an additional annex (to be called Annex VI), containing the excerpt from the Report of the 60th Meeting on this agenda item in accordance with decision XXI/2, paragraph 5;

(c) Providing guidance on how to take forward the call from the Meeting of the Parties in decision XXI/2 paragraph 6;

(d) Discussing the suggestions provided by the Fund Secretariat in the light of the contributions submitted by Australia, Germany, and the United States of America pursuant to decision 59/48, including:

(i) Agreeing to the definition and criteria for the Special Funding Facility specified in paragraph 6 above;

(ii) Requesting the Fund Secretariat to:

a. Continue its efforts to collect additional resources for ODS disposal in the light of decision XXI/2, paragraph 6;

b. Review the proposed methodologies for carbon credits and recommend new methodologies that might be developed for consideration at the 62nd Meeting;

(iii) Setting an initial target of US $54 million in voluntary contributions to the Multilateral Fund to address decision XXI/2, paragraph 6 to provide assistance for ODS disposal while agreeing to continue to study the level of funding needed; and,

(iv) Using the existing funds in the Special Funding Facility for an ODS disposal activity contained in projects at the current meeting that are not considered eligible under the Multilateral Fund in the light of decision XXI/2, paragraph 6.

Annex I

Submission by Australia pursuant to decision 59/48 of the Executive Committee of the Multilateral Fund

Views on a special funding facility for climate benefits and other issues related to decision XIX/6, paragraph 11(b) of the 19th Meeting of the Parties

Ever since the phase-out of HCFCs was accelerated through decision XIX/6 of the Parties, the Executive Committee has considered what appropriate course of action to undertake in response to paragraph 11(b) of this decision, which essentially states that:

> *the Executive Committee, when developing and applying funding criteria for projects and programmes,…give priority to cost-effective projects and programmes which focus on, inter alia substitutes and alternatives that minimize other impacts on the environment, including on the climate, taking into account global warming potential, energy use and other relevant factors*.

The focus of the ExCom's deliberations, with respect to this request from the Parties, has implicitly or explicitly been based on the premise that co-benefits to the climate system from the phase-out of HCFCs should be encouraged or, at the very least, that potential "dis-benefits" to the climate system from the phase-out should be avoided. Up to now, the ExCom has addressed this complex issue in a piece-meal manner through several decisions and initiatives, including the following:

- Encouraging countries and agencies, in the context of the Guidelines on the preparation of HCFC Phase-out Management Plans (HPMPs), to explore potential financial incentives and opportunities for additional resources to maximize the environmental benefits from HPMPs pursuant to paragraph 11(b) of decision XIX/6 of the 19th MOP *(Decision 54/39, paragraph (h))*;
- Considering establishing a special facility to be financed from loans and voluntary contributions, with a view to possibly generating co-financing from the carbon markets, in order to pay the additional costs associated with maximizing the climate benefits of the HCFC phase-out or to provide further support for the destruction of ODS (i.e. the special facility);
- Developing, through the Secretariat, a methodology to quantify the climate impacts of HCFC alternative technology options and assess the additional costs associated with technologies that generate greater benefits to the climate system, in comparison to the most cost-effective technology option (i.e. the Multilateral Fund Climate Change Indicator);
- Considering requests from UNDP, UNIDO and the World Bank for funds to prepare strategies for mobilizing co-financing for the HCFC phase-out, with a view to fulfilling the requirement of the Guidelines for the preparation of HPMPs;
- Within the context of negotiating cost guidelines for the phase-out of HCFCs, considering the option of the MLF paying a certain amount above cost-effectiveness thresholds for safety measures associated with the adoption of hydrocarbon technology – thus, paying for some climate co-benefits by providing a financial incentive to avoid of HFC technology.

It should be noted that it is now more than two years since Decision XIX/6 was taken and, since then, the Parties have taken additional decisions which reinforce the ExCom's responsibility with respect to considering the climate co-benefits of the MLF's activities. With a view to achieving climate co-benefits, decision XX/7, on the environmentally sound management of banks of ODS, requests the ExCom to consider pilot projects for the destruction of ODS, focussing on ODS with high-GWPs. Again, in the context of the HCFC phase-out, decision XXI/9 requests the ExCom to consider providing additional funding and/or incentives for additional climate benefits where appropriate.

ExCom discussions on climate-related issues have at times been very interesting, while at others, rather unproductive, in part because the ExCom does not have overall objectives or an approach which would guide the extent to which the Multilateral Fund should be responsible for promoting or financing the potential climate co-benefits of its activities. Indeed, some ExCom members have found it challenging to perceive the usefulness of the evolving Multilateral Fund Climate Change Indicator, because the ExCom has not taken any specific decision indicating that the MLF, or any possible special facility within the MLF, should pay for any costs over and above the most cost-effective HCFC alternative technology in order to achieve quantifiable benefits to the climate. With respect to the special facility, it is difficult for the ExCom to consider the objectives and scope of such a facility, when it has yet to consider to what extent measures to maximize the climate co-benefits from the HCFC phase-out could or should be funded directly by the MLF itself, and the terms and conditions of such funding.

In Australia's view, all of these issues are related and ultimately need to be integrated into a comprehensive approach or strategy to give effect to paragraph 11(b) of decision XIX/6, as well as other decisions taken by the Parties which relate to the climate issue. In fact, without such a comprehensive approach, there is a risk that decisions taken on individual issues will not be consistent or mutually supportive, rendering any actions intended to promote climate co-benefits from the phase-out of HCFCs or disposal of ODS possibly ineffectual.

Australia, therefore, welcomes the opportunity, provided by decision 59/48, for the ExCom to have an integrated discussion at its 60th Meeting on the special facility as well as any issues related to decision XIX/6 paragraph 11(b). In our view, the Committee should initially frame its deliberations in terms of developing a comprehensive approach to maximize the climate co-benefits of the MLF's activities (principally in relation to the HCFC phase-out) from which decisions on issues such as the special facility, resource mobilization and the use of climate impact indicators may or will follow.

Australia does not have a specific approach to propose at this point, as we believe that the way forward on such an important and challenging issue should emerge from an open and frank discussion among Committee members, implementing agencies and the Secretariat, which, as we have seen in previous discussions, all have some interesting elements to contribute to this issue. However, in order to assist the ExCom in moving this process forward, Australia suggests that the Committee considers organizing its discussions around the following key questions:

1. Does the MLF have a clear responsibility and mandate to maximize the climate co-benefits of its activities?

2. Should the answer to Question 1 be positive, what can the MLF do, within the limits of its mandate under Article 10 of the Montreal Protocol, to maximize the climate co-benefits of its activities?

3. To what extent should the ExCom undertake efforts to mobilize co-financing to maximize the climate co-benefits of MLF activities? What kind of co-financing should be sought and for what specific purpose?

4. What modalities could be used to manage any co-financing mobilized for MLF activities?

Australia has some preliminary thoughts with respect to each of the questions suggested above. These thoughts are briefly described below.

1. Does the MLF have a clear responsibility and mandate to maximize the climate co-benefits of its activities?

In Australia's view, the answer is a qualified yes. The primary mandate of the Fund, as derived from Article 10 of the Montreal Protocol, is to enable compliance of Article 5 Parties with the phase-out ODS; however, it is clear that decisions taken at the last three MOPs convey a strong intent by the Parties to ensure climate-co-benefits are considered and include specific requests to the ExCom in this regard. When one considers these decisions, keeping in mind that they do not carry quite the same level of obligation as the legal text of Article 10, one could frame a response to this question in this manner: *the Multilateral Fund has a responsibility and mandate to maximize the climate co-benefits of its activities, in particular in relation to the phase-out of HCFCs,* ***to the extent possible, within the limits of available resources, and as long as it does not distract the MLF from its over-riding mandate to ensure compliance with the Protocol's legally-binding obligations.***

2. Assuming that Question 1 has been adequately responded to, the next question is: what can the MLF do, within the limitations of its over-riding mandate and resources, to maximize the climate co-benefits of its activities?

With respect to the destruction of ODS, an initial response is relatively simple. At this stage, the Parties have requested the ExCom to commence pilot projects for the destruction of high-GWP ODS, and the Committee has already approved nearly a dozen requests to prepare such projects.

As far as the HCFC phase-out is concerned, however, the problem is significantly more complex. The extent to which available resources within this replenishment, or subsequent replenishments, will allow funding for HCFC alternative technologies that maximize climate benefits over and above what could be achieved with the most cost-effective technologies available is unknown. As the Multilateral Fund Climate Change Indicator is applied to HCFC project submissions, as prescribed by decision 59/45, the ExCom will over time have more information about the relative costs and climate impacts of HCFC alternative technologies. However, even then, it will be difficult to collect, aggregate and analyze sufficient information to guide ExCom planning with a view to ensuring available resources are effectively and equitably utilized to maximize climate co-benefits.

In the absence of such perfect information, the ExCom may still want to consider developing, on a provisional basis, a policy wherein the MLF would pay up to a certain amount above the relevant cost-effectiveness threshold for HCFC phase-out in each key sector, **when additional funds are required to avoid high-GWP HFCs,** and where the resulting climate co-benefits are not offset by increased energy consumption of the alternatives selected. Focussing on the avoidance of high-GWP HFCs, as a first step, rather than energy efficiency improvements, would ensure that such a policy is fairly simple to implement in the short-term. Additional funding to achieve climate co-benefits from energy efficiency improvements, however, could be considered within the scope of co-financing options (as further discussed below). The policy could be adjusted over time, based on the costs of alternative technologies and resources likely to be available. A similar approach was in fact taken previously by the ExCom when, in order to discourage the transition from CFCs to HCFCs in domestic refrigeration insulation foam, the Committee essentially agreed to pay up to 35% more for projects which converted to hydrocarbons (decision 20/45). Of course, this issue is ultimately linked to the outcome of negotiations on HCFC costs and the adoption of cost-effectiveness thresholds for HCFC-consuming sectors. However, the ExCom could, in principle, decide that this is an option worth developing and start considering some possibilities regarding what could be an appropriate percentage to pay above the thresholds to provide incentives to avoid high-GWP HFCs.

Other actions the ExCom could consider to maximize the climate co-benefits of the HCFC phase-out include: (1) applying systematically the climate change indicator approach to all project submissions covering the manufacturing sector, with a view to widely disseminating information about the costs and impacts of the range of HCFC alternative technologies; (2) requiring, as a matter of practice, strong justifications from the countries and enterprises concerned when high-GWP alternatives to HCFCs are selected in project proposals; (3) undertaking a few more demonstration projects to test emerging alternative technologies that have a lower climate impact than HCFC technologies.

In the final analysis though, it is almost certain that traditional levels of resources within the MLF will not be sufficient to ensure that the climate co-benefits from the phase-out of HCFCs will be achieved to the maximum extent possible. This is why the issue of the possibility of seeking co-financing needs to be seriously considered.

3. To what extent should the ExCom undertake efforts to mobilize co-financing to maximize the climate co-benefits of MLF activities? What kind of co-financing should be sought and for what specific purpose?

It should be noted that the question is not whether the ExCom should undertake efforts to mobilize co-financing for climate co-benefits, because the Committee has already decided to do so. Both the Guidelines on HPMP preparation and the Interim Guidelines for the funding of demonstration projects for the disposal of ODS (approved at the 58th Meeting) require the implementing agencies to seek co-financing linked to the potential climate co-benefits of projects.

In Australia's view, there is no downside to continue and strengthen initiatives to mobilize additional resources, so long as the ExCom agrees to two basic principles: (1) compliance with the phase-out of HCFCs will not be dependent on co-financing but will continue to be fully eligible for funding under the MLF in accordance with whatever cost guidelines are eventually agreed to by the ExCom, and (2) efforts and time to mobilize additional funds, and administer such funds, should not be so onerous as to distract the MLF community from its primary objective of ensuring compliance of Article 5 Parties with the Montreal Protocol.

With these principles in mind, Australia believes that there are potential gains and no serious risks involved for the ExCom and implementing agencies to at least **explore** all possible options for co-financing, whether they involve loans, voluntary contributions or the carbon markets. Any decision to actually move forward with one type of co-financing or another will ultimately need to be considered and approved by the ExCom, and perhaps by the MOP.

In terms of the specific purposes for which co-financing could be mobilized, these depend first on what policies, if any, the ExCom may decide to adopt to promote climate co-benefits using traditional MLF funds. This is why it will be very difficult for the ExCom to design the objectives and scope of any co-financing options and instrument (such as the special facility), until Question 2 above has been fully addressed. Nevertheless, as a preliminary thought, Australia believes that the costs of technology upgrades to realize energy efficiency improvements, in the context of HCFC conversions, are likely to be promising candidates for co-financing from various sources, including but not limited to the carbon markets. Data on costs and climate impacts generated by the MLF Climate Change Indicator could be used by the agencies and countries concerned to assess, on a project-by-project basis, the climate benefits of energy improvements under various technological options, and this information could be used to prepare proposals to seek related financing from other institutions.

With respect to ODS disposal, as suggested by the World Bank's *Study on Financing the Destruction of Unwanted ODS through the Voluntary Carbon Market*, the carbon markets could also play a role in order to generate funds beyond those which will be approved for the pilot projects. These additional funds could then be used to destroy more ODS, thus further maximizing climate and ozone benefits. Australia notes that some caution will be needed to ensure that the supply of used ODS for essential uses or to maintain working equipment is not compromised.

4. What modalities could be used to manage any co-financing mobilized for MLF activities?

Should the ExCom agree to undertake significant efforts to mobilize co-financing, then a question arises regarding which modalities would be best suited to administer and use any additional funds generated. Up to now, discussions have mainly revolved around the possibility of creating a special facility within the MLF. However, concerns have been raised about the legal status of such a facility and the additional administrative complexity that may be involved for the Fund to administer, account and report on additional resources not related to Parties' mandatory assessed contributions. In addition, concern has been expressed regarding the possible financial risks to the MLF of linking itself to potentially insecure and volatile sources of co-financing. Both of these concerns are especially directed at the "carbon market" co-financing option.

With respect to the financial risks to the MLF itself, the concern may be unfounded. Up to now at least, no-one has proposed that funds from carbon markets somehow substitute MLF funds collected from mandatory contributions or that the two sets of funds should be intermingled in any way. The intention, as discussed so far, is that traditional MLF funds would be managed separately and be sufficient to cover the costs of compliance as determined by ExCom rules and guidelines.

The concern about the complexity of administering funds from carbon credits, however, is probably a valid one. It is interesting to note that, in the Secretariat's paper on the special facility submitted to the 59th Meeting (document 59/4), the Treasurer indicates that UNEP does not currently have the capacity to manage carbon credits and would require substantial time and additional expertise in order to do so. The complex financial issues, as well as possibly legal issues, which could be involved in having the Fund holding, cashing and tracking the value of carbon credits could in fact take valuable time away from the ExCom, Secretariat and Treasurer. Therefore, while the idea of a special facility housed within the MLF, as described in previous Secretariat papers, has merits in terms of its potential to generate additional resources, the ExCom needs to seriously consider whether the MLF can deal with the administrative issues involved, the cost of the MLF doing so and the impact of diverting such resources away from its main compliance task.

Another possibility the ExCom may want to explore, if Committee members and Parties agree that co-financing from the carbon markets present a viable co-financing option, is to request each of the three MLF implementing agencies charged with implementing investment projects to set up a small program within its Montreal Protocol group dedicated to mobilizing co-financing, including from the carbon markets, to complement funds approved by MLF for projects. These programs would work with the agencies' financial departments to administer and use any additional funds mobilized for ODS-related activities which generate climate co-benefits. In fact, both the World Bank and UNDP have already developed some experience in administering carbon market-related facilities under other programs. Under this scenario, the ExCom would set the parameters of the MP's climate-related programs in the implementing agencies and monitor their operations, but would not be directly responsible for them. Of course, each Article 5 country concerned and ExCom would need to agree, on a project-by-project basis, the decision to seek specific co-financing. Depending on the procedures and rules of the agency concerned, funds earned through the sale of carbon credits may or may not be used for additional ODS phase-out activities. Whatever the case, some experience would first be gained within the interested implementing agencies on how to access and manage funds from carbon markets for MLF-related activities and, based on the results obtained, the ExCom could consider, at a later stage, actually housing a special facility within the MLF.

It may appear that setting up climate co-benefits programs within each interested implementing agency would be duplicative. However, in practice, since funds for projects are approved on an agency basis, each agency is best-placed to use such funds as leverage to obtain co-financing and administer related funds. On the other hand, it may prove very complicated for agencies to cooperate and pool resources collected through co-financing within one special facility operating under rules and procedures perhaps not consistent with each agency's preferred mode of operation.

Over the past four ExCom meetings, UNDP, UNIDO and the World Bank have each requested US $350,000 to develop strategies for mobilizing additional resources for climate co-benefits. Rather than developing strategies, the ExCom could request these agencies to submit requests indicating how they could each set up a program, describing its structure and costs, to initiate the development of concrete proposals to seek co-financing and manage any funds potentially received from the carbon markets or other sources. Based on the proposals received, the ExCom could consider allocating part of the US $1.2 million loan return from the Thai chiller project among interested agencies in order to kick-start such programs.

Annex II

Submission by Germany

We realize that carbon funding could be used to further maximize ozone and climate benefits. However, we object to the notion that this would be a necessary precondition to meet some of the objectives laid down in decision XIX/6, specifically regarding climate and other environmental benefits. The Parties at the 19th MoP were clearly not making their decision in view of any future external funding possibilities, but on the basis of the existing replenishment mechanism of the MLF. Therefore, every measure funded in view of ozone protection will have to maximize associated climate and energy benefits, etc. as called for under decision XIX/6.

We recognize the World Bank's proposal to scale up donors' future contributions as an opportunity to make funding ideally required now at the beginning of the HCFC phase out process available through market mechanisms. The advantages of emissions saved in terms of ODP and GWP are obvious. The sooner emissions are eliminated the better the ozone layer and climate are served. This proposal could mean combining financial and environmental benefits The technologies required to achieve precisely this, e.g. based on natural refrigerants and blowing agents, are available but have not had a chance to permeate the markets sufficiently even in A2 but especially in A5 countries. Partly because of low production numbers and market share the prices for these technologies are still somewhat higher than prices for "business as usual" HFC alternatives with a high GWP. In addition, further efficiency improvements can still be made to low GWP technologies to make them even better. The funding required to assist in the development of such markets is needed rather earlier than later. Nevertheless, the WB proposal depends entirely on decisions made outside the jurisdiction of ExCom, namely in the finance ministries of donor countries. Therefore, these developments should be closely watched and taken into future consideration.

Should the discussions evolve towards the development of a carbon facility within the MLF, we demand a particularly high standard perhaps comparable to or better than the Gold Standard within the CDM. The reason is to guarantee a very high integrity leaving no opportunities for "gaming", which is indeed another word for creating false or questionable carbon credits. With a GWP of 10'900 for CFC 12 there are huge incentives for this kind of fraud. Indeed, we have already information from the NOU of one A5 country that requests have been received to "legitimize" CFC from his country while refusing to disclose its true source. There must be checks and balances integrated into the methodology that ensure perfect transparency from where and how exactly the CFC was obtained.

Additional reasons for considering a carbon facility under the MLF:

- Implement exceptionally high standards regarding the transparency of the origin and treatment of the ODS and the resulting credits, and thereby indirectly influence the quality of commercial carbon markets.
- Establish one specialized team to process all incoming applicable ODS projects regarding the possibility of generating carbon credits from them.
- Thereby assist A5 countries to benefit from the availability of carbon markets without requiring them to themselves generate the necessary expertise to develop the required project proposals.

Other incomes besides carbon credits, in our view, could be handled with the same or similar mechanisms existing within the Multilateral Fund as pointed out by the treasurer. Most donors providing additional funds might anyway want to determine how exactly they would wish their funds to be used.

In general, however, we agree with others that a cautious approach is required. There should to be further analysis of whether such a funding facility was really needed, the level of expected benefits and possible risks, as well as the policy and legal issues. It will be beneficial to await at least the finalization of the CAR and VCS standards which are currently being established. Any new standard created for the purposes of the MLF may then benefit from the discussions and experiences made during the development of these and other standards. By coming a little later there is also the advantage to identify and exploit possible niches.

Annex III

USA Questions on a possible "Special Facility" under the Multilateral Fund

The MLF Secretariat has developed several concept papers since the 57th meeting that discuss possible options for developing and structuring a "special facility".

The most recent MLF Secretariat concept paper (59/54) states:

> "the definition of the Facility, and the activities that would be eligible for the Facility, would be firstly to maximize climate and other environmental benefits associated with Montreal Protocol activities but not required to achieve compliance with the control measures of the Protocol."

The document 59/54 also states:

> "criteria for receiving funding from the Facility would be the same as that required for ODS projects, namely, incremental costs and the existing guidelines of the Executive Committee as applied to projects to maximize the climate and other environmental benefits."

Option A – using the $1.2m in the returned funds from the Thai Chiller Project as a "Special Facility (SF)" providing support to the implementing agencies for developing models for leveraging additional climate funds ("resource mobilization");

- ♦ Would this be a one-off funding for the IAs to develop models for 'resource mobilization'?
- ♦ Would it be left to the IAs to define in what areas the additional climate resource mobilization (funding) would be applied when submitting future projects (i.e., ODS destruction, a more climate-friendly HCFC alternative that is not least-cost-effective alternative)
- ♦ Would the mobilized (climate) resources belong to and be managed by the IAs? If so, how would the ExCom consider the linkage with MLF projects? Would each IA have a distinct type of internal "fund" that would be outside the accounting of the MLF? Or would there be some level of accounting (accountability?) regarding the mobilized climate funds managed by each IA?
- ♦ Alternatively, would the IAs mobilize the resources but have additional climate funding be managed under the rubric of a "special facility" under the MLF and the ExCom?

Option B – raising additional voluntary contributions to an SF managed under the MLF;

- ♦ Additional, voluntary contributions to the MLF are already permitted and encouraged within the TOR for the MLF
- ♦ Would the Parties to the Montreal Protocol need to take a decision, (adjustment) for additional funds to be managed separately for non-compliance activities, and/or for funding projects that would move to the not least-cost-effective that would be climate beneficial?

Option C – creating an MOU with other climate institutions to consolidate the project approval process in both institutions under the MLF ExCom's stringent cost-effective review process, with the associated climate fund coming to the MLF for disbursement to speed administrative processes and use the stringent MLF evaluation and oversight;

- ♦ Could the initial steps for creating such an MOU be undertaken without clear guidance from the Parties to the Montreal Protocol?
- ♦ What steps would be needed within the management body of the other climate funding institution to permit the ExCom of the MLF to adopt and implement its stringent review and evaluation process that includes consideration of climate benefits and climate funding from as "special facility?

Option D – use the SF under the MLF to collect climate credits through the CDM and/or voluntary markets. The credits could then be used by the Fund to pay for future climate activities associated with projects.

- Would the TOR for the MLF and/or the ExCom need to be revised (through an adjustment) by the Parties to the Montreal Protocol for the "special facility" under the MLF to be able to collect/hold climate credits, whether from the voluntary of compliance climate market?
- How would the Parties to the Montreal Protocol want to minimize the risk to a "special facility" that holds climate credits, that might be used for additional non-compliance-related environmental benefits?
- What would be appropriate timing for studying the structure of climate credits within a "special facility" under the Montreal Protocol, and who would conduct the study?

Annex IV

Montreal Protocol Multilateral Fund
Special Funding Facility ("SFF")
(Submitted by Sweden)

Background

1. The issue of a Facility for additional income and loans was first addressed at the 55th Meeting in the context of a suggestion that a separate allocation should be established for the funds returned from the Thai chiller concessional loan project as additional income. This suggestion led to the decision that the potential uses of this facility should be considered at the 57th Meeting of the Executive Committee (ExCom) (decision 55/2). The Fund Secretariat prepared a concept paper that was considered at the 57th Meeting (UNEP/OzL.Pro/ExCom/57/64) and a request was made for further work on the issues raised based on the comments at the Meeting (decision 57/37).

2. A further concept paper (UNEP/OzL.Pro/ExCom/58/49) was considered at the 58th Meeting with a request to provide a detailed account of the discussion in the Committee's report to the Twenty-first Meeting of the Parties and a request to the Secretariat to prepare a further concept paper for the 59th Meeting, expanding on the papers presented to date with respect to the elements raised at the meeting, in particular on a definition and added value of a facility. The Secretariat was also requested to address, with the assistance of the Treasurer, how the Treasurer would manage credits for climate change to make that component of a facility operational. It also requested the Secretariat to seek advice on carbon markets and accepted the offer of the World Bank to give a presentation at the 59th Meeting on mechanisms for dealing with additional financing and blending Fund resources with carbon financing (decision 58/37).

Purpose and orientation of the SFF

3. The SFF is a time limited instrument [budget line] for the purpose of mobilizing and channelling financing for specific activities related to projects that include addressing the control measures of the Montreal Protocol but not funded by the Multilateral Fund.

4. Financing from the SFF can only be considered and provided for activities, which:

(a) Have been approved by the Executive Committee; and

(b) Are investment-oriented.

5. The SFF shall give priority to projects related to pollution prevention and abatement of threat to stratospheric ozone and mitigating climate threats.

6. The SFF may finance:

(a) Project preparation activities, such as project identification and concept development, pre-feasibility studies, feasibility studies, environmental impact assessments, business plans, financing plans, preliminary design, preparation of tender documents tendering and evaluation; and

(b) Specific measures in the implementation phase of pilot and demonstration projects, including supplies of equipment and services.

Administration of the SFF

7. The SFF is set up as a pool of voluntary, individual contributions, returning capital from loans, carbon credits, interest etc., and start-up capital administered by the Fund Manager, which agrees to hold the funds in trust and to be responsible for their management in accordance with these guidelines. The Funds Manager is in charge of daily operations of the SFF.

8. The SFF is open for contributions from Member States, observers and other interested parties including but not limited to public, private and non-governmental institutions. The Fund Manager will invite Contributors to pledge contributions, which will be formalized through individual funds administration contracts between the Fund Manager and the respective Contributors.

9. The funds administration contracts shall provide for the SFF to be governed by a SFF Committee composed of representatives of the Contributors. The SFF Committee shall provide guidance to the Fund Manager and have the authority to approve tasks or actions for SFF financing within approved projects.

Modalities of operation

10. The SFF will, as appropriate, provide financing in the form of:

(a) Grants;

(b) Contingent grants (which have to be repaid if the project achieves its goals);

(c) Other revolving instruments such as loans on concessional (soft) terms; and

(d) Equity.

11. Due consideration shall be given to local participation in the projects (e.g. through the provisioning of recipient counterpart funds), transparent procurement and implementation procedures as well as effective supervision and monitoring of project activities financed by the SFF.

12. Financing may be requested by implementation agencies, international finance institutions, project owners or other relevant stakeholders.

Reporting

13. The Funds Manager shall, in addition to the reporting required according to the funds administration contracts, semi-annually present a report to the Executive Committee about the activities of the SFF.

Other provisions

14. These Guidelines remain in force until they are amended by the Executive Committee or until the SFF is dissolved according to the conditions of the funds administration contracts.

Annex V

EXCERPT FROM REPORT OF THE 59TH MEETING OF THE EXECUTIVE COMMITTEE

AGENDA ITEM 12: FURTHER CONCEPT PAPER FOR A SPECIAL FUNDING FACILITY FOR ADDITIONAL INCOME FROM LOANS AND OTHER SOURCES (DECISION 58/37)

240. The representative of the Secretariat, introducing document UNEP/OzL.Pro/ExCom/59/54, said that it addressed questions raised at the 58th Meeting in decision 58/37 with respect to a special funding facility. It defined the facility as a potential source of funding to maximize environmental benefits and as a store for funds that might accrue to the Fund from credits for energy efficiency and climate benefits. It included a discussion on the added value of using the facility rather than the Fund to finance climate benefits. The Treasurer had made a detailed assessment of the extent to which the treasury function could accommodate carbon credits and had concluded that UNEP as Treasurer would probably have to encash any credits upon receipt. It was pointed out that UNEP had, however, been innovative in accommodating the requests of the Meeting of the Parties for special treatment of contributions through the fixed-exchange-rate mechanism and promissory notes. The document contained an annex prepared by UNDP on the role of carbon markets as a financing source for the facility. The Executive Committee was being asked to consider any further action with respect to the facility and the requests of the implementing agencies for resource mobilization. The Secretariat's presentation was followed by those of implementing agencies and by Sweden on a proposed informal text.

241. The objective of the concept presented by the representative of the World Bank's Treasury was to make more funds available earlier (scale up funding) to maximize ozone and climate benefits through donor and market mechanisms and carbon financing. He suggested that scaling up funding could serve to meet the objectives of decision XIX/6 of the Nineteenth Meeting of the Parties to achieve climate benefits. He said that scaled up funding could bring significant benefits for the global environment through reduction of CO_2, the use of more energy-efficient techniques, avoidance of the leakage of large volumes of ODS with high-GWP and reduction of ODS banks. He explained that such funds for projects could also be fully absorbed by those demands and, cited specifically their use with respect to HPMPs.

242. The representative of the Bank showed several graphs illustrating the benefits of financial engineering for a greater global impact on the environment. For example, acceleration of projects over five years would result in the elimination of around 30,000 ODP tonnes.

243. A number of alternative mechanisms had been explored for the use of financial instruments for a greater global environmental impact. The first alternative was to scale up donors' contributions in the short and medium terms. The second consisted of the use of bonds to accelerate donor funding, secured by legally binding commitments of donors over a longer period. The third alternative consisted of the second alternative with the addition of the use of financial engineering (loans through the World Bank) to translate carbon credits for immediate use since such carbon assets were normally only available as cash when the enabling projects were completed.

244. In the ensuing discussion, Members raised a number of specific questions on the mechanism that had been presented. In reply to a question concerning the rate of inflation that had been used to estimate the loss of dollar value between the present and 30 years hence, the representative of the World Bank Treasury said that the main additional benefits would derive not from dollar inflation but from eliminating the sources of leakage of emission of GWP gases sooner rather than later.

245. A comment was made that the Bank's model might have fewer global environmental benefits than predicted because some new equipment would have to be replaced. The representative of the World Bank replied that the model had assumed that the life expectancy of such equipment was 10 to 15 years.

As the model covered 10-20 years, the amount of new equipment to be replaced would be limited and the energy efficiency gain had been estimated to be 30 per cent.

246. The commitment by donors to make future contributions would be discounted to the present and a financial agent would issue bonds to private investors based on the legally binding commitments of donors. The interest paid to investors was already taken into account in the model and the transaction costs of the financial agent would have to be absorbed by future contributions.

247. In answer to a query regarding the procedure whereby the countries would access funds from the facility, the Bank advised that the documentation required for project proposals under the Multilateral Fund would not be affected. Moreover, the existing role of the Executive Committee would not be changed with respect to the approval of projects. In response to concerns about the risk of bonds associated with guaranteed commitments, the representative of the Bank indicated that there would be no risk for Multilateral Fund resources, because the risk would be absorbed through the proposed mechanism. The mechanism had already been used previously, and the bonds would be triple A rated. A similar facility, the International Finance Facility for Immunization, had been used successfully resulting in more people being vaccinated earlier than would have been the case without the Facility, thus saving lives. In such facilities, the money was invested very securely and was used as liquid assets.

248. The representative of the World Bank Treasury, replying to one Member's question, said that it had experience and expertise in market volatility and envisaged a structure to mitigate the associated risks.

249. The representative of UNDP gave a short presentation on a facility to develop and establish compliance carbon markets as a source for financing ODS climate benefits, which was based on Annex I to document UNEP/OzL.Pro/ExCom/59/54, which it had prepared. He suggested that voluntary carbon markets (VCM) provided an opportunity for "learning by doing" over the short term in advance of compliance markets, however, the voluntary market was unlikely to absorb the significant supply of ODS credits. A medium-term option was the development of an ODS climate facility consisting of a donor-led fund and an accompanying oversight framework. Under that facility, the Montreal Protocol bodies would have a key role in the oversight framework, with the Ozone Secretariat acting as the registry. Components of the ODS climate facility were set out in Annex 1 to document UNEP/OzL.Pro/ExCom/59/54. UNDP suggested initially that its proposed climate facility would cover costs of a defined number of high quality, diverse demonstration projects funded on the basis of incremental costs with an accounting for carbon credits. In the long term, if the ODS climate facility was successful, the aim was to link ODS direct emissions to the compliance carbon markets, and to arrive at a situation where compliance carbon markets financed ODS climate benefit costs. Responding to a question raised, he said that high-quality, robust credit alone would not be sufficient to gain access to compliance markets, which might not be limited to those under the United Nations Framework Convention on Climate change (UNFCCC), but also include domestic and regional markets.

250. The representative of UNIDO said that his Organization had a specific mandate to link industry with energy and the environment. It had a branch dealing with climate change matters and another with chemical destruction, and was currently chairing the United Nations Energy Group. It was seeking to develop concepts and methods to identify and quantify the additional environmental benefits of HCFC phase-out and ODS destruction activities, and to identify sources of financing for additional climate benefits, as well as the most effective combination of different sources of financing. UNIDO was considering a variety of financial options to maximize the benefits of the ODS bank destruction projects and co-financing from UNIDO. Private sector involvement was also being sought through the producer responsibility programme, and the response so far had been positive. With regard to HCFC phase-out projects, he said that a combination of financial sources would be required to maximize the benefits for HPMP implementation. Efforts were also being made to develop a sector or national approach to address the needs of small and medium-sized enterprises (SMEs). The concepts and methodologies being

developed by UNIDO in two pilot projects on HCFC phase-out and management and destruction of ODS banks would serve as a model for other projects. Lastly, he noted that UNIDO would be convening a conference on carbon financing in 2010 focusing on Montreal Protocol activities.

251. The representative of the World Bank introduced the main findings of the final draft of its study on financing the destruction of unwanted ODS through the voluntary carbon market (UNEP/OzL.Pro/ExCom/59/Inf.2). The study had been prepared under a contract with ICF International. The Bank had established a steering committee with representation from the Voluntary Carbon Standard (VCS), the Chicago Climate Exchange (CCX) and the Climate Action Reserve (CAR), permitting close interaction with those bodies and direct exposure to the rapid developments in the market for the inclusion of ODS as an offset project type.

252. The study had concluded that significant opportunity existed for ODS destruction projects under the VCM in a distinct time-frame but depended on a number of factors, including the attractiveness and value of an ODS offset, growth of the voluntary market, rates of ODS recovery and development of capacity in project monitoring and verification. The study had determined that ODS destruction credits were unlikely to flood the market or have a negative impact on compliance markets. It was expected that a global market platform would be created with the three standards that would enable carbon credits to be provided for ODS destruction by early 2010, including one standard allowing destruction to take place in Article 5 countries. Along with the methodologies currently available and protocols of CCX, which already offered ODS destruction as a project type, and CAR, there would be a number of options for financing ODS destruction offset projects.

253. The study found, however, that although the VCM could be one source of financing for ODS destruction and could complement global and local approaches to dealing with unwanted ODS, it was not a panacea. Some ODS would not be recovered by the VCM, and the cost compared to revenue might be prohibitive depending on the “effort” level to extract ODS, the project size and the price of credit per tonne of CO_2 equivalent. Given those and other challenges, the study suggested possible roles that actors in the existing Montreal Protocol community could play towards an enabling framework, from Article 5 countries to the Ozone and Multilateral Fund Secretariats, the TEAP and the implementing agencies. The study also contained rules and procedures for the three standards mentioned above, a guide to developing ODS destruction offset projects, and steps for Article 5 countries to address such standards.

254. Replying to a question from the Chair, the representative of the World Bank explained that the assumption of a recovery and destruction rate of 10 per cent had been founded largely on data based on experience in the United States of America and represented the midpoint in a range that had been under consideration. Written comments from Members would be welcome over the next month so that ICF International could finalize the report by the end of 2009.

255. The representative of Sweden introduced a discussion paper entitled “Montreal Protocol Multilateral Fund special funding facility (‘SFF’)”. He highlighted the fact that the facility was a time-limited instrument that was to give priority to projects related to pollution prevention and abatement of the threat to stratospheric ozone and mitigating climate threats. He described its administration, the modalities of its operation, its reporting requirements and other provisions. It was clarified that a more substantial discussion would be welcomed at the 60th Meeting of the Executive Committee.

256. One Member expressed broad support for the paper and said that it had well characterized the major features of a facility and an option to move forward, which would be of use to the Secretariat in its presentation of the issue to the Open-ended Working Group at its 30th meeting. The text should be made available to the Open-ended Working Group, together with an addendum containing the information outlined in the other presentations during the present Meeting. She said that the facility should have a clear scope; provide a means of accessing capital; could be initially capitalized by voluntary contributions from Parties and other sources; absorb risks in accessing climate markets; provide an opportunity to

address environmental benefits beyond those required by Article 10 of the Protocol; and serve as a means of receiving a return on investment with some premium.

257. Another Member observed that the decision of the Meeting the Parties to consider a special funding facility suggested that the Committee could not on its own take a decision to create such a facility but instead required the Committee to discuss some options for its consideration. He said that it was difficult to understand how the elements of a facility would fit together on the basis of the mandate. The facility and climate impact indicators, which would provide information concerning climate benefits and the energy efficiency of equipment, were all being considered in isolation but they would have to be brought together in order to implement the mandate of decision XIX/6 paragraph 11(b). Otherwise, it was difficult to see what the facility would be doing compared with what the Multilateral Fund should be doing under decision XIX/6. He said that there had to be discussion under a single agenda item covering all aspects of the issue.

258. A Member urged caution and expressed the view that using the carbon market would fundamentally change the Fund's work. The area of application of the facility should be very clearly distinct from that of the Fund. The Fund had a clear mandate to provide stable and sufficient funding in respect of HCFC phase-out. Participation in unclear carbon markets would undoubtedly be undertaken at great risk, might even lead to negative results and impact negatively on the achievements of the Fund over the past 20 years. There might be too high a level of uncertainty to allow the Fund to become involved in the carbon market. The Fund should not evolve from a funding mechanism into a banking institution geared to profit. If national ozone units were to take the lead, his own country lacked both the capability and the resources for it. There had to be further detailed study of whether such a funding facility was needed, the level of expected benefits and possible risks, as well as the policy and legal issues.

259. Several Members, agreed with the two previous speakers on the dangers and risks and the need to bring together issues currently being considered in isolation and said that it would be wise to follow the request from the Meeting of the Parties to observe developments. Another agreed that the Fund should not steer away from its very specific objectives and tasks, and expressed concern about the funding facility scenarios.

260. Expressing serious anxiety regarding the scaling up of available funding, one Member said that highly volatile carbon markets were a hazardous place for the Multilateral Fund's resources. To his knowledge, the CCX had fluctuated between seven dollars and 50 cents since he started reviewing information on it. Great care should be taken not to send false signals to the markets. Discussion of the issue should continue. One Member said that her delegation had always expressed reservations concerning financial mechanisms under the Kyoto Protocol, and it would have to review the situation with respect to the Montreal Protocol very carefully.

261. Another stated that it was important to respond to the request of the Meeting of the Parties. The Executive Committee should provide input to the Open-ended Working Group, and should decide at an early stage in its 60th Meeting whether to establish a contact group to consider the agenda item, contributions to which should be submitted by delegations within one month of the end of the current Meeting. Information on climate indicators presented at the current Meeting should also be included in the paper to be presented to the 60th Meeting.

262. One Member said that, if it was decided to continue discussion of the topic at the 60th Meeting, the decision on ODS destruction should be borne in mind, while another suggested that the special funding facility was to be regarded as a mechanism for ODS destruction and/or for other purposes. With regard to the requests for resource mobilization from UNDP, UNIDO and the World Bank, it was proposed that they be carried over to the 60th Meeting.

263. Following the discussion, the Executive Committee decided to request the Secretariat to consolidate the material presented during the Meeting on the Special Funding Facility, with any additional contributions submitted by Members by the end of 2009, into a single agenda item addressing both the Facility as well as any issues related to decision XIX/6 paragraph 11(b) of the Nineteenth Meeting of the Parties for consideration at its 60th Meeting.

(Decision 59/48)
