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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-second Meeting  
Montreal, 29 November - 3 December 2010

**REPORT ON THE MULTILATERAL FUND CLIMATE IMPACT INDICATOR  
(DECISION 59/45)**

## Introduction

1. At its 59<sup>th</sup> Meeting, the Executive Committee took decision 59/45, which requested in its sub-paragraph (g) a report from the Secretariat to be submitted to the 62<sup>nd</sup> Meeting on the experience gained in implementing two other sub-paragraphs (c) and (d), of the same decision. Sub-paragraph (c) asked the Secretariat “to demonstrate the application of the Multilateral Fund Climate Impact Indicator (MCII) to a subset of project submissions, from the 60<sup>th</sup> Meeting onwards, that will inform agencies and countries about the climate impact of technology choices”, and requested the Secretariat “to collect further data on the use of the MCII for the Executive Committee’s consideration.” Further on, sub-paragraph (d) of the same decision requested the Secretariat to finalize the development of the MCII. This document is in response to decision 59/45.

## Background

2. In document UNEP/OzL.Pro/ExCom/55/47, the Secretariat had presented a “Revised analysis of relevant cost considerations surrounding financing of HCFC phase-out”; this document also included a section on environmental issues and an annex which described a proposal for a Functional Unit Approach for the evaluation of climate relevant emissions during the life cycle of a product containing HCFCs. The Executive Committee, in its decision 55/43, requested the Secretariat to further analyse if an approach of the type outlined in the document would provide a satisfactory and transparent basis for the prioritization of HCFC phase-out technologies to minimize other impacts on the environment, including on the climate, as originally envisioned in decision XIX/6 of the 19<sup>th</sup> Meeting of the Parties.

3. In document UNEP/OzL.Pro/ExCom/57/59, the Secretariat presented a status report on the further analysis of the work on the indicators. These were identified as a satisfactory and transparent basis for the prioritization of HCFC phase-out technologies to minimize impacts on the climate. The Executive Committee noted the status report, and requested the Secretariat to prepare a document presenting examples of the application to facilitate further consideration of the methodology, and decided to discuss further issues related to the type of incentives to be associated with the indicators being developed and other relevant questions (decision 57/33).

4. Document UNEP/OzL.Pro/ExCom/59/51 informed the Committee on issues related to the “Prioritization of HCFC phase-out technologies to minimize other impacts on the environment”. In this document, the Secretariat provisionally defined the scope of the indicator to be applied to the conversion of manufacturing capacity, its replacement or closures of such capacity. The model underwent a number of simplifications, refinements and differentiations, and attempts were made to increase the transparency and usability of the results. As part of these efforts, the term “Multilateral Fund Climate Impact Indicator” (MCII) replaced that of “Functional Unit Approach”.

## Development of the MCII since the 59<sup>th</sup> Meeting

5. Since the 59<sup>th</sup> Meeting of the Executive Committee, the concept of the MCII has been further developed and broadened. The objective of the indicator is to provide one value for the impact of a project on the climate, much like the indicator “ODS phase out” established one number showing the impact of a project on the ozone layer, and to standardize the calculations of the climate impact in a way which provides fair and comparable results across sectors and countries. At the same time, the Secretariat is focussing the developmental work on using only data collected during the project preparation period.

6. As compared to the report provided to the 59<sup>th</sup> Meeting, the Secretariat has extended the scope by including the solvent and service sectors, while upholding the principle to only account for changes in climate impact directly related to activities funded by the Multilateral Fund. The related technical descriptions referring to the refrigeration, air conditioning, foam, solvent, process agent and refrigeration servicing sectors can be found in Annex I. The annex will be provided in an addendum to this document.

#### Demonstration of the application

7. In preparation for the 59<sup>th</sup> Meeting, a format for data input and data presentation had been designed and set out in document UNEP/OzL.Pro/ExCom/59/51/Add.1. However, at that time, and up until now, the related calculations were largely done manually with significant pressures on time and a high probability of calculation errors. It is only in the final preparations for the 62<sup>nd</sup> Meeting of the Executive Committee that a largely automated model for the calculation of the MCII for the refrigeration sector has become available, enabling related calculations to be done with the newly developed model, that will be presented in Annex II to be included in an addendum to this document.

8. For the foam sector, simplified calculations have been carried out manually since the 59<sup>th</sup> Meeting, using the assumption of the same tonnage of blown foam before and after the conversion. While this does not take into account energy efficiency issues, it is a reasonable approximation. The assumption of total emissions of the foam blowing agent over the lifetime of the product has also been used.

#### Current status

9. At this point in time, the climate impact indicator for the refrigeration sector has been programmed fully for use in Microsoft Excel (Excel) and is presently being checked for accuracy. The MCII in the foam sector is also being finalized for Excel, as well as for the solvent and process agent sectors. The MCII for the servicing sector has been conceptualized. The remaining work to be undertaken by the Secretariat concerns the definition and quality of the data input for the submission of large HCFC phase-out management plans (HPMPs).

10. The first version of the MCII for refrigeration and air-conditioning, programmed as an Excel tool, will be available on the Secretariat's web page shortly. Further versions will become available in line with the progress made in the conceptual work and the programming. Agencies and Executive Committee members will be able to download at any time the most recent version from the Secretariat's web page. The tool will support the Secretariat and the Executive Committee in understanding the climate impact of the activities proposed, based on a comparable and fair assessment, and in keeping track of the impact of HCFC-phase-out activities of the Multilateral Fund on the climate.

11. Upon finalisation of the Excel model, a broader review by experts of the MCII will be sought to enable use of this tool as a blueprint for incorporating the same calculations into the multi-year agreement (MYA) data base. The need for this has been fully taken into account when developing the concept of the MYA tables for HPMPs. This last step will reduce the need for data entry significantly and will allow closer monitoring and ongoing analysis of data. Given the unknown demands on the Secretariat's time in preparation for the upcoming meetings of the Executive Committee, and the large numbers of HPMPs yet to be reviewed, a firm indication of the timeframe for completion of the Excel model and MYA tables cannot be provided at this point in time.

12. The original intentions leading to the development of the MCII had been to provide a tool which would:

- (a) Support countries during the development of the HPMPs in their selection of technologies, when considering which HCFC alternative to use for different applications;
- (b) Allow the Executive Committee to consider whether to apply incentives for the use of climate-friendly alternatives to HCFCs, and to encourage new alternative funding sources to support climate relevant activities, such as energy efficiency activities;
- (c) Provide both the Secretariat and the Executive Committee with the possibility to measure objectively and compare the climate impact of the technological options presented in the submissions; and
- (d) Enable the Executive Committee to monitor and account for the climate impact of the Multilateral Fund supported projects.

13. Since the 55<sup>th</sup> Meeting of the Executive Committee, when this issue was first raised, the two years that have passed have resulted in a change to the framework conditions under which the MCII is being used since:

- (a) The Executive Committee agreed at the 60<sup>th</sup> Meeting, in decision 60/44, on a number of incentives for replacing HCFCs with more climate-friendly alternative substances, independent of the MCII. While sub-paragraphs (v), (viii) and (ix) of that decision reduced the indirect incentive to use high-global warming potential (GWP) substances through funding of incremental operating costs, paragraphs (iv) and (vii) include clear incentives for the use of low-GWP technology.
- (b) Discussions on the establishment of a facility which would allow provision of additional funding beyond eligibility through Multilateral Fund projects have not concluded, and it is uncertain at what time and how they will be completed.
- (c) The difficulties of mobilizing on a broad basis, and on a short time frame, funding for energy efficiency activities from sources such as GEF are known and limit the prospects of providing incentives for activities related to reducing climate relevant emissions. Those incentives would otherwise add to the eligible Multilateral Fund funded activities an additional climate change component.
- (d) The paradigm change in the Multilateral Fund from the previous phase-out projects, that had focused either on stand-alone activities or on residual consumption, after large and specific activities had already been undertaken, has developed its own dynamic and need for resources. Due to time constraints between the meetings of the Executive Committee, it was not possible to assign sufficient time to issues associated with the MCII early enough to allow progress at the speed originally desired.

14. In the last 18 months, it became increasingly clear that the assumption of a centrally guided technology selection process might not have been in line with the decision-making reality in Article 5 countries. From the project submissions received so far, it appears clear that some countries selected an available advanced climate friendly alternative even when not all issues (such as component availability) had been fully clarified, while other countries were reluctant to demand that their industry uses technologies which are not mainstream, leading in many cases to the choice of alternatives with a high impact on the climate. The MCII is unlikely to have had a major impact on these decisions, which

appear to be based on a much more fundamental consideration of whether or not to take into account climate change issues when selecting a new technology and how to assess the associated economic risks and opportunities. The degree of the impact on climate change, which can be determined by the MCII, seems to play only a secondary role. This situation is further amplified by the fact that, within the eligible support from the Multilateral Fund, some climate change issues have been directly or indirectly taken into account and clear messages regarding the preferences in projects have been given by the Executive Committee, while funding related to activities beyond those eligible for the Multilateral Fund support rarely materialized. In addition, future funding of mitigation activities in developing countries remains highly uncertain.

### Conclusion

15. The original intention was to develop the climate impact indicator to support the work of countries, agencies and the Secretariat in four different ways, namely:

- (a) In the decision-making for the selection of alternatives;
- (b) The possibility to provide incentives under the MLF while also allowing for alternative funding sources to be sought based on a quantifiable climate impact;
- (c) The understanding of the climate impact of project proposals in front of the Executive Committee; and
- (d) In the continuous monitoring of the impact of the Multilateral Fund's work on the climate.

16. Due to the reasons explained in paragraph 14 above, at this point in time the main purposes of the MCII is likely to be the latter two, i.e. to inform the Committee about the consequences of funding the various alternatives to HCFCs and the monitoring of the impact of the Multilateral Fund's work on the climate. For the preparation of the second phase, the MCII will enable all the support originally envisaged to be provided, in particular to help countries to assess the different technology options early in the decision-making process. The experience gained by countries and agencies during the first HPMP phase will make it easier for the MCII to be applied.

17. The data requirements will be consistent with those needed for the assessment of eligibility and incrementality, including the related formats for data collection. A concept for the calculation of climate impact for the fire fighting sector will be prepared and developed. Once the Excel model is fully developed and functional, a transfer of the MCII tool to the MYA tables will be carried out. Integrating it into the MYA tables will significantly simplify the application of this tool for the agencies and the Secretariat, since the data will have to be entered only once to calculate eligibility, ODP and MCII, and to provide aggregated information on the country. The Secretariat will inform the Executive Committee about the status and the effort involved in transferring the model at the latest by the 65<sup>th</sup> Meeting.

### Recommendation

18. The Executive Committee might wish to:

- (a) Take note of the report on the experience gained in implementing the Multilateral Fund Climate Impact Indicator (MCII);

- (b) Request the Secretariat to finalize the development of the MCII for the different sectors as outlined in document UNEP/OzL.Pro/ExCom/62/56;
- (c) Request the Secretariat to inform the Executive Committee about progress made and experience gained in applying the MCII to project submissions not later than the 64<sup>th</sup> Meeting;
- (d) Request the Secretariat to apply the climate indicator to the relevant projects and sub-projects submitted to allow the climate impact of the technological options presented in the submissions to be measured; and
- (e) Request the Secretariat to present a fully developed version of the MCII to the Executive Committee available not later than the 65<sup>th</sup> Meeting, in order to enable an assessment of whether this can be applied as a fully integrated tool for the preparation and assessment of project submissions in order to calculate the climate impact of the HCFC consumption projects of the Multilateral Fund.

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