EP

United Nations
Environment
Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/20/11
18 September 1996

ORIGINAL: ENGLISH

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

Twentieth Meeting
Montreal, 16-18 October 1996

WORLD BANK WORK PROGRAMME AMENDMENTS

COMMENTS AND RECOMMENDATIONS FROM THE FUND SECRETARIAT

COMMENTS

1. The World Bank is requesting approval from the Executive Committee for US $1,084,800 for work programme amendments as indicated in Table 1.

Table 1:

World Bank 1996 Work Programme Amendments and corresponding funding levels

Country	Activity/Project	Amount Requested	Amount Recommended (US $)
Chile	Extension of institutional strengthening	220,000	113,500
China	Additional preparation of halon sector approach	265,000	0
China	CFC production sector project preparation	350,000	0
Global	Proposal for feasibility study on methods and approaches to leveraging Multilateral Fund resources	125,000	0
Sub-Total		960,000	113,500
Agency support costs		124,800	14,755
Total		1,084,800	128,255

2. Chile submitted a comprehensive progress report of activities implemented during the period covered by the first approval and an articulated plan of future actions by the ozone unit as part of its request for the extension of institutional strengthening. Based on Decision 19/29, requests for the extension of institutional strengthening are for two years calculated at the same level of funding as the first approval. Chile's first approval amounted to US $215,000. Since US $30,000 was approved for institutional strengthening at the 19th Meeting, the maximum funding level for the renewal of institutional strengthening in Chile was calculated as US $143,500 minus US $30,000 to equal the amount recommended, US $113,500.

3. In Decision 19/10, the Executive Committee decided that project preparation activities additional to that in business plans should not be funded. Requests have been submitted for project preparation in the CFC production sector in China and a feasibility study on methods and approaches to leveraging Multilateral Fund resources for implementation by the International Finance Corporation of the World Bank. These activities were not included in the World Bank's 1996 business plan.

4. The preparation of sector strategies in China was mentioned in the Bank's business plan and funded at a level of US $350,000 at the 17th Meeting. These funds were used entirely for the halon sector approach. Additional funds for the preparation of the halon sector approach were not included in the World Bank's 1996 business plan.

RECOMMENDATION

1. The Secretariat recommends approval of the 1996 work programme amendment for the renewal of institutional strengthening in Chile for World Bank implementation at a level of US $113,500 and US $14,755 for support costs as listed in Table 1 above.

CHILE: INSTITUTIONAL-STRENGTHENING PROGRAM II

Country:	CHILE
Project Title:	INSTITUTIONAL-STRENGTHENING II
National ODS Consumption:	1357 MT (1994)
Target Institution(s)	CONAMA Ozone Team (OT)
Project Objective:	Strengthening of OT capacity to fulfill Phase II-specific work program requirements.
Project Duration:	Three and one-half (3.5) years (Nov. 1996 - May 2000) - funding for 2 years is being requested at this time
IS Costs:	US$220,000 for two years (US$250,000 less $30,000 received with the US$1.0 million first tranche funding approval of Chile ODS II given at the 19th Ex. Com. Meeting)
Budget:	Routine Grant Administration Funds $30,000 Technical Assistance and Regulatory Action, Training, etc. under the Chile Phase II ODS-Reduction Program $220,000
Implementing Agency:	WORLD BANK

PROPOSED INSTITUTIONAL-STRENGTHENING PROJECT DESCRIPTION

OBJECTIVES: The principal objective of the Phase II institutional-strengthening project is to consolidate the institutional capacity gained by CONAMA in the execution of Chile's Montreal Protocol program. The proposed IS program will strengthen the capacity of the Ozone Team (OT) to carry out its functions in support of the Country Program thus enabling Chile to meet its phaseout objectives and comply with its proposed program aims. The ODS Phase II program is distinct from the standard subproject proposals and unique in that it calls for the competitive allocation of grant funds requiring institutional capabilities that have not been developed in the context of Montreal Protocol investment operations to date. The ODS Phase II program is designed for implementation over a 3.5 year period and the requested IS resources are being sought to ensure the success of the program.

The proposed IS resources will directly contribute to the success of ODS II by enabling CONAMA and its OT to develop an internal capacity to carry out activities designed to involve the private sector in technology changes estimated to result in elimination of the consumption of approximately 400 annual tons of ODS by 1999. IS resources will also be utilized for development of an appropriate regulatory framework for an ODS phaseout by the year 2006.

MONTREAL PROTOCOL
SUBSTANCES THAT DEPLETE THE OZONE LAYER

PROJECT COVER SHEET

COUNTRY:	Peoples Republic of China	
PROJECT TITLE:	Additional preparation of halon sector approach	
SECTOR:	Halon	
PROJECT IMPACT	Sector approach expected to accelerate halon phaseout	
PROJECT DURATION:	6 months	
PROJECT ECONOMIC LIFE:	not applicable	
PROJECT COSTS:	Total Project Costs: of which Bank costs: Chinese costs:	US$ 265,000 $205,000 60,000
PROPOSED FINANCING:	Multilateral Fund:	US$265,000
IMPLEMENTING ENTERPRISE:	none	
IMPLEMENTING AGENCY:	World Bank	
COORDINATING MINISTRY :	NEPA	
COST EFFECTIVENESS:	not applicable	

PROJECT SUMMARY

Request for preparation funding for the halon sector. A halon sector proposal has been prepared for China and a progress report to EXCOM's 20th meeting has been submitted, including details on sector approach, halon sector strategy and actions required and preliminary estimates of costs involved, policy actions and institutional arrangements for successful implementation. To bring the project to its final preparation stage, including final assessment of costs, management and implementation arrangements, and appraisal by the Bank, additional funding would be needed as outlined below: Funding provided originally by EXCOM covered the period up to July 1996. While substantial progress as been made in terms of overall scope and costs of action plan and main policy actions required, the work is not sufficiently advanced to request funding for the first stage of implementation. Remaining work primarily focuses on local management and institutional arrangements and Bank decision process regarding this approach to managing Montreal Protocol projects.

It is expected that the final proposal will be submitted to the next EXCOM meeting and that, in parallel, the Bank and China will have completed their internal management reviews and documentation. With the proposed schedule, implementation can begin once EXCOM has approved the project scope, funding level, mechanism and approach and funding is available for the first stage so that the responsible Chinese entities can immediately begin work.

THE MONTREAL PROTOCOL ON
SUBSTANCES THAT DEPLETE THE OZONE LAYER

Work Program Amendment Request

COUNTRY:	The Peoples Republic of China
PROJECT TITLE:	CFC Production Sector Project Preparation
SECTOR COVERED:	CFC Production Sector
ODS USE IN SECTOR:	70,000 MT CFC (1994)
PROJECT IMPACT:	Develop a strategy, schedule and program for the shutdown and conversion of CFC production facilities
PROJECT DURATION:	One year
PROJECT PREPARATION COST:	US$350,000 (first instalment)
IMPLEMENTING ENTERPRISE:	not applicable
COORDINATING MINISTRY:	National Environmental Protection Agency (NEPA) Ministry of Chemical Industry
IMPLEMENTING AGENCY:	The World Bank

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1. **Background.** China has a large CFC producing industry that has grown rapidly over the past 10 years as part of a policy to become self-sufficient in the production of CFC chemicals. In 1994, total CFC production in China amounted to about 50,000 metric tons (mt), compared to 70,000 mt used in that year. A draft strategy paper outlining a proposed phase out program was prepared in June 1995 and will serve as an important input into this project preparation work.

2. **Broad framework.** The draft strategy paper addressed the following points:

   a) phased closure plan of most existing CFC producing units to match anticipated decreasing demand from the consuming industries (largely a result of ODS phaseout efforts through the Fund); in parallel with preventing new capacity to be developed;

   b) conversion program of some CFC units to the production of the non-ODS alternative chemicals with total ODS production phaseout goal in 2005;

   c) study of financial and technical support to affected industries to develop alternative products;

   d) development of adequate supply of alternate chemicals from local sources;

e) review of compensation package for displaced labor;

f) discussion of promotion and implementation of required policy changes; and

g) outline financial requirements.

3. However, the strategy paper did not elaborate on the policy instruments, financial mechanism and action plans that are needed to implement total phaseout in a timely and cost efficient manner and did not give specifics regarding enterprise level actions. The paper was also prepared in the absence of guidelines and policies from the Multilateral Fund which are specific to the production sector. These guidelines are now under preparation by the group of experts appointed by the Fund and are expected to be presented at the upcoming meeting of the Fund Executive Committee. The development of this project for the China CFC production sector would be on the basis on a sector approach and consistent with the guidelines for calculating the incremental costs.

4. **Steps to be taken** – While the overall approach for the CFC production sector will be similar to the emerging work in the halon sector approach, there are a number of factors that will still require substantial preparation work to address the issues that affect the CFC industry, including:

- the large number of production units (33 - in the country),
- demand pattern for substitute chemicals and high capital costs for replacement chemicals
- need for enterprise specific action plans regarding developing business plans, product mix ,
- development of different administrative structure to manage the industry and policy changes.

5. The structure of the production industry is characterized by rural enterprises with little/no capacity to develop alternate businesses; and its phaseout effects affect a larger segment of agencies and enterprises than for the halon sector

6. The Bank will prepare a detailed term of reference (TORs) to be agreed with NEPA and MCI. Preparatory work will include review of plans for closure/conversion of CFC producing units, new product development , cost analysis and development of least cost solution for the proposed phase out plan, policy analysis and recommendations, analysis of financial plan and financial mechanism to implement and monitor the plan in a timely and cost efficient manner.

7. **Budget.** The total budget for the proposed work cannot be determined with certainty given the ongoing discussions on the production-sector guidelines and the uncertainty associated with the details of the work program which will have to be developed. It is therefore proposed to allocate a first installment of $350,000 to get this activity underway.

8. **Timeframe.** Work on this sector strategy is unlikely to be completed before 2Q97, assuming that funding is approved in May 1996 and that TORs can be agreed by the end of June 1996. Additional funding will be requested as part of the Bank's 1997 Business Plan.

MONTREAL PROTOCOL
SUBSTANCES THAT DEPLETE THE OZONE LAYER
PROJECT COVER SHEET

PROJECT TITLE:	Proposal for Feasibility Study on Methods and Approaches to Leveraging Multilateral Fund Resources
SECTOR COVERED:	All
PROJECT DURATION:	6-8 months
TOTAL PROJECT COST:	US$125,000
PROPOSED OTF FINANCING:	US$125,000[1]
IMPLEMENTING AGENCY:	World Bank Groups, IFC

PROJECT SUMMARY

The International Finance Corporation (IFC) is a member of the World Bank Group and is the largest multilateral source of equity and loan financing for private sector projects in developing countries. IFC's comparative advantages can potentially be leveraged to promote ODS elimination in innovative and more efficient ways -- with minimal use of 'grant' financing. Prior to undertaking alternative financing for ODS projects, it is important to prepare a business plan that will be a decision document for the MP Executive Committee to consider. Such a paper is expected to identify: (a) potential demand for non-grant financing; (b) preferred modes of alternative financing (concessional loans; commercial investments with initial subsidies to overcome financial, market, institutional, and regulatory barriers that prevent cost-effective ODS elimination activities from being undertaken by enterprises, etc.); (c) optimal resource envelope required to undertake a meaningful pilot for alternative financing of ODS elimination activities; (d) time-frame of proposed pilot; (e) implications for ODS phase out, and their likely cost-effectiveness; (f) co-financing requirements and potential sources and availability; (g) conditions under which MP funds (either directly through MFMP or via bilateral agencies) would be utilized -- identifying potential policy issues for resolution; (h) proposed procedures for reviewing, approving, and undertaking such projects; and criteria to evaluate performance of pilot.

Initial review undertaken by IFC indicates that the proposed pilot is likely to result in facilitating ODS elimination at cost-effectiveness levels that are significantly lower than that of the current all-grant MFMP portfolio.

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1 Seeking partial support from Swiss Government. If attained, balance would be returned to Multilateral Fund.