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

Nineteenth Meeting
Montreal, 8-10 May 1996

WORLD BANK WORK PROGRAMME AMENDMENTS

COMMENTS AND RECOMMENDATIONS FROM THE FUND SECRETARIAT

COMMENTS

1. The World Bank is requesting approval of the Executive Committee for US $728,850 for work programme amendments as indicated in Table 1.

Table 1:
World Bank 1996 Work Programme Amendments and corresponding funding levels

Country	Activity/Project	Included in Business Plan	Amount Requested	Amount Recommended (US $)
China	CFC production sector project preparation	Yes - concept, No - budget	350,000	-
Morocco	Initial project identification and preparation	No	75,000	-
Philippines	Project preparation for CY96	No	35,000	-
Republic of Yemen	Country programme and initiation of project identification	No	60,000	0
Global	Preparation of a business plan for the development of ODS Phase-out Investment Fund	No	125,000	pending
Sub-Total			645,000	pending
Agency support costs			83,850	pending
Total			728,850	pending

Work Programme Amendments and 1996 Business Plan

2. The World Bank's business plan indicated US $985,000 for new project preparation activities in 1996 which the Committee approved. None of the funds requested for the proposed World Bank work programme amendments were included in the Bank's 1996 Business Plan, although the concept of production sector studies was mentioned.

CFC production sector project preparation in China

3. The World Bank's business plan did include, and the Committee approved, US $30,000 for project preparation in China's production sector, but it was intended to develop closure projects. This amendment, however, was not included in the business plan and US $350,000 is requested for the first tranche, only.

4. The Report of the Second Meeting of the Expert Group on the Production of ODS Substitutes is being submitted to the 19th Meeting of the Executive Committee. Project preparation in advance of guidance from the Committee in this sector may lead to project requests that are inconsistent with production sector guidelines.

Initial project identification and preparation in Morocco

5. Requests for project preparation in Morocco have also been submitted by the Government of France, UNDP, and UNIDO.

Project preparation for CY96 in the Philippines

6. This request was not included in the World Bank's 1996 Business Plan.

Country programme and initiation of project identification in the Republic of Yemen

7. The Republic of Yemen has requested UNEP's assistance in the preparation of its country programme. The request is included in UNEP's 1996 Work Programme to be considered by the Committee at this meeting.

Preparation of a business plan for the development of ODS Phase-out Investment Fund

8. The World Bank is requesting US $125,000 for the preparation by the International Finance Corporation (IFC) of a business plan for the development of an ODS Phase-out Investment Fund. The self-explanatory request is found on the last page of this document.

9. This request should be considered in the following context:

(a) Actions 10 and 14 of Decision VII/22 of the Seventh Meeting of the Parties:

<u>Action 10</u>
The study by the World Bank on the establishment of a concessional loan mechanism, requested by the Executive Committee at its Sixteenth Meeting, should be completed as soon as possible, and analyzed and discussed by the Executive Committee at its Nineteenth Meeting, and a decision on suitable future steps be taken by the Executive Committee by its Twentieth Meeting or by the Meeting of the Parties in 1996, as appropriate, with a view to starting the use of

concessional loans by the end of 1996, to the extent that the need and demand exist.

Action 14
The Executive Committee should consider the need for new Implementing Agencies for loan programmes in the light of emerging sectoral strategy policies and for methyl bromide after the Seventh Meeting of the Parties.

(b) Decision 18/26 of the 18th Meeting of the Executive Committee which requests "the Secretariat, together with the World Bank, and in consultation with other entities with expertise in the field, such as regional development banks, to prepare for the Twentieth Meeting of the Executive Committee a more detailed document on this issue, exploring the operational implications of applying the concepts set out in the report. This paper should include an examination of hypothetical projects, to be prepared by the World Bank, which would practically demonstrate the implications of the application of these concepts".

(c) The costs of the preparation of the agencies' work programmes, work programme amendments, and progress reports are covered by the agencies' 13 per cent administrative fee.

(d) The proposal was not included in the 1996 Business Plan of the World Bank.

RECOMMENDATIONS

1. The Secretariat recommends that the Project Review Sub-Committee consider the issue of funding activities that are not included in implementing agencies' business plans.

2. With regard to project preparation for the CFC production sector in China, the Secretariat recommends that this amendment be deferred pending a decision from the Executive Committee on the Report of the Second Meeting of the Expert Group.

3. The request to prepare a business plan for the development of an ODS Phase-out Investment Fund should be considered in the light of paragraph 9 above.

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 ON SUBSTANCES
THAT DEPLETE THE OZONE LAYER**

Work Program Amendment Request to 19th EC Meeting

COUNTRY	Kingdom of Morocco
SECTORS COVERED	All
ODS CONSUMPTION IN SECTOR	TBD
TITLE	Initial Project Identification and Preparation
DURATION	8 months
PROPOSED BUDGET	US$75,000
IMPLEMENTING AGENCY	World Bank
NATIONAL COORDINATING AGENCY	TBD

SUMMARY

The Kingdom of Morocco recently ratified the Montreal Protocol on Substances that Deplete the Ozone Layer. An initial Country Program has been prepared with the assistance of UNEP\IE. In its efforts to phaseout the use of substances regulated by the Montreal Protocol, the Government of Morocco has requested Bank support to initiate the preparation of ODS phaseout investment projects and to provide some basic guidance on the Multilateral Fund process and the Bank's Montreal Protocol project cycle. The Bank will organize a workshop with government officials to discuss the initiation of project preparation activities and related institutional building activities needed to support a nationally executed ODS phaseout program. Key industrialists will be invited to attend this kick-off session. A work program amendment of US$75,000 is being requested to fund the workshop and initial project preparation work.

MONTREAL PROTOCOL ON SUBSTANCES THAT DEPLETE THE OZONE LAYER

Work Program Amendment request to 19th EC Meeting

COUNTRY	Republic of the Philippines
SECTORS COVERED	All
PROJECT TITLE	Project Preparation for CY96
PROJECT DURATION	8 months
BUDGET **PROPOSED OTF GRANT**	US$35,000
IMPLEMENTING AGENCY	The World Bank

SUMMARY

The Bank is requesting US$35,000 to support the preparation of new subprojects under the existing Umbrella Grant Agreement with the Philippines. While this was noted in the 1996 Work Program document, it was inadvertently left out of the 1996 Business Plan request for project preparation funds. The Bank therefore requests an amendment to correct this oversight.

MONTREAL PROTOCOL ON SUBSTANCES THAT DEPLETE THE OZONE LAYER

Work Program Amendment request to 19th EC Meeting

COUNTRY	Republic of Yemen
SECTORS COVERED	All
ODS CONSUMPTION IN SECTOR	TBD
PROJECT TITLE	Country Programme and Initial of Project Identification
DURATION	8 months
PROJECT BUDGET	US$60,000
IMPLEMENTING AGENCY	World Bank
NATIONAL COORDINATING AGENCY	TBD

SUMMARY

The Republic of Yemen recently ratified the Montreal Protocol on Substances that Deplete the Ozone Layer. In its efforts to phaseout the use of substances regulated by the Montreal Protocol, the Government of Yemen has requested Bank support to initiate the preparation of ODS phaseout investment projects and to provide some basic guidance on the Multilateral Fund process and the Bank's Montreal Protocol project cycle. This is likely to include the preparation of a country program. The Bank will organize a workshop with government officials to discuss the initiation of project preparation activities and related institutional building activities needed to support a nationally executed ODS phaseout program. A work program amendment of US$60,000 is being requested to fund the project identification and country program work.

Work Program Amendment
Development of ODS Phaseout Investment Fund

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 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 will identify:

- potential demand for non-grant financing.
- 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.);
- optimal resource envelope required to undertake a meaningful pilot for alternative financing of ODS elimination activities;
- time-frame of proposed pilot;
- implications for ODS phaseout, and their likely cost-effectiveness;
- co-financing requirements and potential sources and availability;
- conditions under which MP funds (either directly through MFMP or via bilateral agencies) would be utilized--identifying potential policy issues for resolution;
- proposed procedures for reviewing, approving, and undertaking such projects; and
- criteria to evaluate performance of pilot.

Preparation of such business plan is expected to take about 6-8 months and cost about $125,000. 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.

This activity would be executed by the IFC with World Bank Support.

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