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RESIDUAL SECTORAL CONSUMPTION AND UMBRELLA PROJECTS

Introduction

1. UNEP/OzL.Pro/ExCom/19/55 and Corr. 1 was prepared in response to an earlier request from the Executive Committee regarding an umbrella project which combined very cost-effective sub-projects and sub-projects with very poor cost-effectiveness.

2. The Executive Committee considered at its 19th Meeting a paper prepared by the Fund Secretariat on the role of cost-effectiveness thresholds in sectoral phase-out proposals and guidelines for umbrella projects (UNEP/OzL.Pro/ExCom/19/55 and Corr.1), and decided inter-alia:

> "To request the Secretariat and the implementing agencies to discuss further the question of the percentage of a country's original level of consumption for the sector or subsector accounted for by the enterprises included in the umbrella project and, in the light of the comments made and the experience gained, to report to the Executive Committee at its Twentieth Meeting." (UNEP/OzL.Pro/ExCom/19/64, para. 57(b),Decision 19/32).

3. The Secretariat's paper defined an umbrella project as:

> "...an investment project producing ODS phase out in a single sector or sub-sector combining several enterprises using similar conversion technology." (UNEP/OzL.Pro/ExCom/19/55, para. 5)

4. The Project Review Sub-Committee recommended that umbrella projects should represent no more than 30 per cent of remaining consumption in a sector/sub-sector. However, in the discussion that ensued at the 19th Meeting, several members opined that, while 30 per cent may cover a number of remaining enterprises in many Article 5 countries with small and medium consumption on the one hand, it can translate in tens of enterprises in countries with large consumption on the other hand.

5. The Secretariat undertook a review of all the approved (and pipeline) country programmes (76 country programmes), and all projects approved for these countries. Additionally, all the available reports on progress of implementation of country programmes were reviewed.

Analysis

6. More than 40 Article 5 countries consume less than 360 tonnes ODP. These countries have been classified by the Executive Committee as low-consuming countries and thus their projects benefit from special allocations irrespective of their cost-effectiveness. They are excluded from this analysis.

7. Some 25 countries have consumption levels ranging from 500 MT/yr. to more than 100,000 tonnes. However, only 10 of them reported consumption higher than 2,000 tonnes in their country programmes.

Reliability of Data

8. The above-mentioned review demonstrated that consumption data in the majority of countries vary considerably from those reported in the country programmes which is assumed to be a country's original level of consumption for this analysis. This is especially the case for sectoral data. Often project proposals report data that exceeds significantly the consumption reported in country programmes. There are also several cases where the number of projects approved for a specific sector in an Article 5 country would result in the phase out of twice or more of the consumption reported in country programmes.

9. Since a percentage is a quotient of a variable and a constant, the constant being the original consumption in a sector/sub-sector, it is virtually impossible to estimate this percentage of the remaining consumption in a sector/sub-sector with any degree of accuracy.

10. Few of the 10 Article 5 countries referred to above have achieved considerable reductions in the two sectors that have received the major part of Multilateral Fund funding (foam and domestic refrigeration). The rest have outgrown their forecasted unconstrained growth in ODS consumption.

11. Decision 19/32 should be viewed as an incentive for those countries who wish to benefit from its special provisions regarding the cost-effectiveness thresholds. Several countries are qualified to do so once they commit to the provisions of this decision. Others should be encouraged to do so.

12. Given the inherent difficulty in estimating a percentage for the remaining consumption in a sector/sub-sector in several large-consuming countries, the Executive Committee may wish to consider an additional approach, i.e. additional to Decision 19/32.

A new approach for consideration by the Executive Committee

13. Countries whose remaining level of consumption is approaching that of a low consuming country should be encouraged to submit umbrella projects for the remaining enterprises in each sector. The cost-effectiveness threshold of each umbrella project should be at or below that established for the sector/sub-sector. However, individual sub-projects in the umbrella should be allowed to exceed the cost-effectiveness threshold, without an upper limit. Such countries should commit not to request Fund assistance to phase out up to 360 tonnes.

14. Countries whose remaining level of consumption exceeds 5,000 tonnes should be encouraged to list the remaining sectoral enterprises in groups, each group should include like enterprises, i.e., enterprises with similar consumption and technologies. To enable the Executive Committee to decide the remaining consumption per sector or sub-sector in order for such countries to benefit from Decision 19/32, the following information should be provided:

- Establish the remaining consumption per sector;
- Provide a list of the remaining enterprises in each sector or sub-sector;
- List enterprises according to their consumption in groups; and
- State the country's priority on which group of enterprises should have first call on the Fund.