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

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**Corrigendum**

**THE ROLE OF COST-EFFECTIVENESS THRESHOLDS  
IN SECTORAL PHASEOUT PROPOSALS  
AND GUIDELINES FOR UMBRELLA PROJECTS**

*Replace* pages 5 to 9 with the attached.

- (d) All enterprises in a sector or sub-sector will be treated equally, whether or not they are associated with an umbrella project. The allocation of resources will be fair and equity in the treatment of enterprise proposals which come forward singly, and those which come forward in a group or umbrella project, will be maintained.
- (e) The opportunity for enterprises with very good cost-effectiveness to receive allocations at a particular meeting of the Executive Committee will be enhanced, because if the cost-effectiveness value is reduced through combination with less cost-effective projects, the priority for funding will also be reduced.

17. An additional implication is that enterprise proposals which do not meet sub-sectoral cost-effectiveness thresholds, after individual review, would not go forward for approval. This is neither an advantage or a disadvantage, as it reflects the intention of the Executive Committee in establishing cost-effectiveness thresholds in the first place. However, the consequence of such projects not being eligible has disadvantages:

- firstly, for the enterprises, which have to wait until;
  - the emergence of new technology to provide a more cost-effective solution, or
  - funding of more cost-effective projects is completed, or
  - the proposal is redesigned (including through the option of partial funding) to reduce costs so that cost-effectiveness thresholds are met;
- secondly, for the country and the Multilateral Fund, since completion of phase-out in a sector or sub-sector may be delayed if the projects not eligible are the only projects remaining in that sector or sub-sector (resulting in possible expansion of the remaining ODS use in the sub-sector);
- thirdly, because postponement of completion of phase out in the sub-sector could give rise to temporary market distortion, possibly favouring larger or multinational enterprises.

#### **Overall Assessment of Umbrella Projects, without Consideration of Individual Enterprise Proposals**

18. Overall assessment of umbrella projects and overall calculation of cost-effectiveness, without consideration of individual enterprise proposals, would have the following implications, which could be seen as advantages.

- (a) A less cost-effective, but eligible project may receive higher priority for funding as part of an umbrella project than it would if submitted singly;
- (b) Enterprise proposals which were outside the cost-effectiveness threshold could become eligible for funding as part of an umbrella project. While this departs from the cost-effectiveness principles established by the Executive Committee, it could enable additional enterprises to qualify for immediate funding approval, thus facilitating completion of a sectoral or sub-sectoral phase-out and assisting to mitigate possible market distortion.

19. However, the following implications could be seen as disadvantages:

- (a) This modality would be a departure from cost-effectiveness principles established on an enterprise-by-enterprise basis at the 16th, 17th and 18th Meetings.
- (b) Eligibility of individual enterprise proposals could not be reviewed without individual assessment.
- (c) A more cost-effective enterprise coming forward in an umbrella project would receive lower priority for funding than one coming forward on its own, thus introducing the issue of equity.

## **Discussion**

20. Debate on umbrella projects is frequently centered on the issue of cost-effectiveness thresholds. The use of umbrella projects has a much wider application, especially in relation to project preparation and project implementation. There are advantages in the use of umbrella projects irrespective of how cost-effectiveness thresholds are calculated.

21. The assessment of enterprise proposals on an individual basis has significant advantages in relation to reviewing and confirming the eligibility of proposed incremental costs.

22. The application of cost-effectiveness thresholds on an individual basis can exclude some enterprises from inclusion in an umbrella project. Thus, the opportunity for individual enterprise proposals to obtain an exemption from cost-effectiveness thresholds through the use of umbrella projects becomes the main focus of discussion in relation to the use of umbrella projects.

23. It can be argued that, in view of the extensive consideration of cost-effectiveness thresholds by the Executive Committee at its 16th, 17th and 18th Meetings, exemptions from these decisions should only occur when there are significant reasons for doing so, and that these reasons should be identified and discussed by the Executive Committee. In this regard:

- the fact that it has not been possible in current circumstances to prepare a project which meets the relevant threshold is not of itself a sufficient reason to seek an exemption;
- projects in low volume consuming countries do not need exemptions because they are eligible to be funded from the LVC allocation provided by the Executive Committee specifically for this purpose;
- projects involving low consuming enterprises (LCEs) do not need exemptions as they will be able to make use of arrangements, which are to be developed specifically for those enterprises.

24. The remaining category of projects for which an exemption might be considered consists of those projects which represent the completion of phase-out in a sector, or a sub-sector recognized by the Executive Committee. In this situation, it can be argued that the benefits to a country and to the Multilateral Fund arising from completion of phase-out in a sector may be a sufficient reason for setting aside cost-effectiveness thresholds for individual enterprises, in favour of an umbrella approach. But in any circumstances, the overall umbrella project should meet established thresholds, and all components of it should be eligible for funding.

25. In examining the possible use of umbrella cost-effectiveness calculations to achieve a sectoral or sub-sectoral phase-out, it would be prudent to consider whether limits should apply for some parameters such as:

- the maximum consumption level of an enterprise which might be permitted to exceed a cost-effectiveness threshold;
- the extent by which thresholds might be exceeded by individual enterprises, for instance, up to 20% or 50% above the threshold;
- limits on project costs for individual enterprise proposals which might be permitted to exceed a cost-effectiveness threshold.

26. It should be noted that it would be possible to adopt the use of umbrella cost-effectiveness calculations, while still maintaining individual assessment of enterprise project proposals. This would maintain the Executive Committee's current level of scrutiny and review of eligibility and other criteria. It would also enable assessment of any boundary limits on individual enterprise proposals that the Committee might wish to observe, as outlined in the paragraph above.

### **Guidelines and Criteria for Umbrella Projects**

27. On the basis of the above discussion, guidelines and criteria have been developed which cover the options of both individual assessment and umbrella assessment of cost-effectiveness in umbrella projects. They are as follows:

(a) Guidelines

"Having determined that proposals to phase-out ODS in a sector or sub-sector could best be prepared and implemented by use of umbrella projects, implementing agencies are encouraged to formulate and submit such projects. Accordingly, when more than one enterprise is involved in a sector or sub-sector, projects for those enterprises should be grouped together to facilitate cost-effective preparation and implementation. The following criteria should be used in the preparation and review of umbrella projects:

Implementation of umbrella projects should result in achievement of some or all of the following objectives:

- avoiding unintentional market distortions by converting to non-ODS technologies a group of competing enterprises at the same time
- accelerating implementation
- achieving uniformity of calculating operational cost/savings
- recognizing and preserving the strategic link between the supplier and end-user within the same sector by coordinating the time of conversion; and
- facilitating the introduction of uniform safety codes in sectors where hydrocarbon technology is used
- facilitating the application of regulations to ban/limit the supply of ODS to the sector or sub-sector concerned.

(b) Criteria

Umbrella projects should demonstrate economic or efficiency benefits by:

- rationalizing project preparation activities
- realizing economies of scale in procurement of equipment and services
- grouping activities such as technical assistance, testing, commissioning and training
- rationalizing equipment needs (examples of areas where economies may be achieved are test equipment, recycling equipment.)

An umbrella project will target a group of large or medium sized enterprises in a sector or sub-sector using similar technology. Low consuming enterprises may wish to be considered under this approach, but will normally make use of arrangements which are to be specifically designed for LCEs.

In keeping with established practice, each enterprise proposal within the umbrella project will be reviewed individually in regard to eligibility and other criteria, established by the Executive Committee.

(c) Alternative 1 - Individual Cost-effectiveness

Following existing practice, each enterprise proposal within the umbrella project must meet the cost-effectiveness thresholds established for the relevant sector or sub-sector.

(d) Alternative 2 - Group Cost-effectiveness

The cost-effectiveness of an umbrella project will be calculated using the overall cost to the Multilateral Fund and the overall ODS to be phased out, each of which will be assessed according to established policies and criteria, provided that:

- the umbrella project includes all the remaining large or medium-sized enterprises in a sector or a sub-sector for which cost-effectiveness thresholds have been established by the Executive Committee, and there will be no further requests for funding from the Multilateral Fund for large or medium-sized enterprises in that sector or sub-sector
- no individual enterprise proposal has a cost-effectiveness more than 35 per cent above the established threshold."

### **The Case of the Umbrella Project for the Philippines**

28. A case study was prepared by the Secretariat to demonstrate the application of Guidelines and Criteria for consideration of umbrella project for the Philippines. The case study is contained in Annex 1.

### **Recommendation**

29. It is recommended that the Executive Committee adopt one of the above alternatives for Guidelines and Criteria for consideration of Umbrella Projects, for a trial period of 18 months.