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

Twenty-first Meeting
Montreal, 18-20 February 1997

1997 WORLD BANK WORK PROGRAMME

This document includes a written report by the World Bank explaining expenditures of the China sector approach project preparation funds and additional amounts related to the initial expenditures as per Decision 20/17.

Written Report by the World Bank Explaining Expenditure of the China Sector Approach Project Preparation Funds and Additional Amounts Related to the Initial Expenditures

(Decision 20/17)

At the 20th Meeting of the Executive Committee (EC) the World Bank, on behalf of the Government of China, requestedUS$265,000 project preparation funds to:

- finalize the halon sector approach program for submission to the EC for funding approval at its 22nd Meeting (including cost revision, design and finalization of bidding (for fund allocation), and halon production quota systems, fund flow mechanisms, model contracts, monitoring, reporting, and evaluation procedures, and first two years detailed action plans); and
- negotiate and signing of an umbrella agreement for sector approaches in China (which would cover the halon sector approach as well as other sector approach programs in the future).

No additional project preparation funds would be requested for the halon sector approach phaseout program in China. During the 20th Meeting, the EC approved half of theUS$265,000 request submitted by the World Bank for the additional preparation of the halon sector approach in China, and decided to consider the second half of theUS$265,000 request after delivery of a written report by the World Bank detailing how the initial US$350,000 had been expended and how the additional amounts related to the initial expenditures (Dec. 20/17). This note was prepared in response to Dec. 20/17 so the EC could consider and approve the balance at its 21st Meeting.

In accordance with the project preparation request approved by the Executive Committee (EC) of the Multilateral Fund (MLF) at its 17th Meeting (CRP.2 attached), the US$350,000 project preparation funds were used by the World Bank and the Government of China to develop the sector approach financing concept into a workable mechanism using China's halon sector as a pilot for sector phaseout financing. With the assistance of technical and policy experts identified by China's National Environmental Protection Agency (NEPA) and by the World Bank and activities conducted independently in China and in Washington and joint sessions in both Beijing and Washington (as detailed in attached Tables 1 and 2), project preparation funds lead to a Sector Approach "Project Concept" document which was endorsed by the World Bank's management in June 1996. The project concept established the framework for undertaking sector-based phaseout in China.

In addition, approved project preparation funds were used to prepare a detailed phaseout program for China's halon sector (to pilot sector-based financing) based on least cost phaseout scenario. The program, as submitted on an information basis to the EC's 20th Meeting, includes information on the structure of China's fire protection industry, including detailed information on halon producers and consumers, the strategy China plans to adopt to phaseout 9,950 tons of halon 1211 by 2005 and 750 tons of halon 1301 by 2010, the policy measures that have been and will be adopted to achieve those phaseout objectives, and program costs based on a cost model which indicates costs for various phaseout scenarios and distinguishes between total phaseout costs and eligible incremental costs.

The proposed "sector approach" to MLF financing introduces many new characteristics which require innovative approaches for fund allocation, disbursement, reporting, verification, and more. These in turn mean new types of legal agreements, contracts and guidelines both within China and between the Bank and the Government of China. Thus, development of the first sector approach program includes many "start-up" activities (including development of and approval within the Bank of a model umbrella grant agreement for sector approaches) which will not need to be repeated in the future. In other words, future sector approach programs (both in China and other countries) will benefit from this initial investment in sector approaches and their program preparation costs are expected to be much less (as a percentage of total sector approach costs).

TABLE 1 - DETAILED EXPENDITURE BREAKDOWN BY WORLD BANK -- US$250,000

Project Concept Development and Initial Design of the Halon sector as a pilot	Bank preparation in DC Sept/95-Feb/96 including mission to China Nov/95 (3 wks)	• discuss project concept • agree on pilot sector • initiate all necessary activities	• set up basic framework for the sector approach • agreed on halon as pilot • TORs for the halon program preparation	Bank core team: • project manager • economist • technical consultants • environmental specialist	• Travel cost --US$30,000 • Staff cost -- US$50,000
	Chinese mission to Washington Mar/96 (8 days)	• discuss halon phaseout program (strategy and policy) • finalize cost model (design • refine overall SA framework	• refined the halon prog. TORs • revised -cost model framework • revised SA framework	China core team: • NEPA-PMO head and staff • MPS Fire Bureau Div. chief • tech & econ. consultants	• Travel cost -- US$30,000
	Bank preparation in DC Mar-Jun/96 including mission to China Apr/96 (3 wks)	• complete cost model specs • layout institutional and financial mechanism of a sector approach	• agreement on sector approach framework • 1st run of cost model • discussion on annual program	Bank and China core teams	• Travel cost -- US$30,000 • Staff cost -- US$60,000
Detailed Preparation of Halon Sector Phaseout Program	Bank preparation in DC Jul-Aug/96 and mission to China Jul/96 (2 wks)	• revisit framework of a sector approach • revise halon proposal • additional phaseout profiles and cost runs	• revised sector approach framework • completed halon sector proposal for submission to MFEC • final cost runs model documentation	Bank and China core teams plus • Bank legal & disbursement experts	• travel cost -- US$20,000 • staff cost -- US$30,000

TABLE 2. DETAILED EXPENDITURE BREAKDOWN BY CHINA -- US$100,000 PPA TO NEPA

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Organization of the China ODS team, 1996		China ODS team set up to comprise of . • NEPA • MPS • Beijing University (BEIDA) and • China Economic Consulting Group (CIEC)	• environmental specialist. • policy makers • project management group • computer modeling specialists • economists • financial experts • sector specialists	
Contracts with Beijing University and China Economics Consulting Group in 1996	• BEIDA -- cost modeling • CIEC -- financing mechanism.	• Cost model basic framework established • draft halon proposal completed • Financing mechanism framework established	same as above	• BEIDA -- US$60,000 • CIEC -- US$4,000 • Project management -- US$36,000

Multilateral Fund For Implementation of the Montreal Protocol -- Project Proposal

COUNTRY:	People's Republic of China
PROJECT TITLE:	Proposal for a Development of a Cost Effective Sector-based ODS Phaseout Approach
SECTORS COVERED:	Halon, MAC, and Commercial Refrigeration
ODS USE IN SECTORS:	About 34,000 tons ODP
PROJECT IMPACT:	n/a
PROJECT DURATION:	1 year
GRANT REQUEST:	$350,000
COORDINATING MINISTRY/AGNECY:	National Environmental Protection Agency
IMPLEMENTING AGENCY:	The World Bank

Project Summary

This project aims to design a sector-based mechanism to ODS phaseout for one to two pilot sectors which would lower the unit cost of ODS phaseout and allow performance-based management of Multilateral Fund resources. Candidate sectors include the halon sector (production and consumption), the MAC sector, and the commercial refrigeration sector. Final candidates would be selected based on the adequacy and comprehensivness of the sector strategy, the reasonableness of policy implementation timeframe, enterprise interest, and ability of policy measures to affect smaller enterprises. Three activities would be undertaken in parallel to develop the sector-based approach: 1) Revision of cost analysis and policy sections of sector strategies, 2) Development of new financial mechanism for channeling resources on a competitive basis to enterprises, and 3) Development of recomendations for new MLF guidelines for financing sector-based phaseout approaches. The development of a sector-based approach will be jointly undertaken by Bank and NEPA staff with the assistance of specialized national and international consultants. A draft work program would be presented to the last EC meeting of 1995 and by July 1996, a pre-appraised project concept paper, agreed with China, would be presented to the Bank management for approval.