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Executive Committee of
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**PHASE-OUT OF OZONE-DEPLETING SUBSTANCES IN SMALL- AND
MEDIUM-SIZED ENTERPRISES**

(A paper from the Fund Secretariat)

Introduction

Mandate

1. At its Nineteenth Meeting, the Executive Committee considered a joint report by UNDP and UNEP on approaches to ODS phase-out in small- and medium- sized enterprises (SMEs), and decided, *inter alia*:

- To pursue consideration of approaches to phase out ODS in small- and medium-sized enterprises
- To request comments in writing from members of the Executive Committee on the approaches outlined in the document, with a view to the Secretariat preparing a new document in consultation with the implementing agencies, for consideration by the Twentieth Executive Committee Meeting (Decision 19/31).

In response to this request, the Secretariat has prepared this document as its contribution to the discussion on the ODS phase-out in SMEs.

Follow-up on Decision 19/31 by the Secretariat after the 19th Meeting

2. As a follow-up to the decision, the Secretariat undertook the following activities in the process of preparing this document:

- The Secretariat received written comments on the joint study by UNDP/UNEP from members of the Executive Committee, and undertook to sort and analyze the comments in an attempt to assist the review by the Executive Committee.
- The Secretariat reviewed all the decisions taken by the Executive Committee which are relevant to SMEs. It further examined UNDP/UNEP's paper against all the approved projects which would be characterized as SMEs according to the definition provided in the paper.
- The Secretariat, being cognizant of the desire of the Executive Committee to pursue consideration of approaches to phase out ODS in small- and medium-sized enterprises, attempted to explore few options for the considerations of the Committee in order to move the discussion further.

Structure of the Document

3. The document consists of the following parts:

Part I: Work already done which includes:

- A list of work done with status of completion
- Summary of the UNDP/UNEP paper submitted to the 19th Meeting of the Executive Committee
- A brief critique.

Part II: Written comments from the Executive Committee on UNDP/UNEP Study, which includes:

- A synopsis of the comments received
- A brief critique.

Part III: Way ahead: a few options

- Actions which could be taken now
- Further groundwork for future action.

Part IV: Conclusions and recommendations

Part I: Work already done

A list of work done with status of completion

4. The subject of assisting SMEs in Article 5 countries in their efforts to phase-out the consumption of ODS has been part of the agenda of the Executive Committee of the Multilateral Fund since its early days, because it has been the wisdom of the Executive Committee that the phase-out programme in this group of industries is part and parcel of the global phase-out goal. It has also been recognized that the distinctive features of this group warrant special attention from the Executive Committee. As a result, a number of projects were commissioned by the Executive Committee to examine the circumstances and needs specific to SMEs and to explore innovative ways and means to effect phase-out by this group of enterprises. Among these initiatives are the following:

Project	Brief description	Status of Completion
Reducing CFC Use in Refrigeration: Strategic Options for Countries with Low CFC Consumption (UNIDO/USEPA)	Based on available information from 25 approved country programmes from countries with ODS consumption of less than 360MT, this project produces a manual which will help ozone protection officials collect data and develop and implement appropriate, cost-effective strategies and programmes to phase out the use of ODS in their countries. The manual recommends options for the phase-out in the refrigeration sector: • improve maintenance/servicing practices • recovery/recycle CFCs • conversion of manufacturing facilities • enabling policies: ban on CFC imports and taxes on CFCs	Completed
Consumption of Ozone Depleting Substances in Small Scale and Informal Sector Enterprises in India (UNDP/India)	A survey was conducted of over 9,000 small scale and informal sector enterprises in all ODS-consuming sectors in India.	Completed, as reported by UNDP.

Summary of the UNDP/UNEP paper submitted to the 19th Meeting of the Executive Committee

5. After describing the characteristics of small- and medium-sized enterprises, the constraints they face in achieving phase-out and some opportunities open to them, the report outlined the benefits of using a 'group' or 'umbrella' approach. The paper proposed three possible models for group projects. These were:

- One project for all ODS users in a sector or sub-sector, developed by the implementing agency
- A sector-wide phase-out plan followed by a number of investment projects in tranches, each project covering a group of enterprises

- Sectoral funding based on a sector-wide phase-out plan, negotiated and administered at Government level.

6. The report outlined key issues to be taken into consideration in implementation of group projects and measures which could be taken at the Government or major industry level to facilitate phase-out in SMEs.

7. Finally, in regard to overall measures, the report suggested that flexibility was needed and recommended that demonstration projects involving groups of small- and medium-sized enterprises be designed and approved so that future options and adjustments could be based on the experience gained.

8. For all of the phase-out scenarios elaborated in the paper, the report concluded that the effectiveness of SME investment projects was contingent to a large degree on the government's action to design, implement and enforce effective legislation and policies.

9. The remainder of the report was devoted to separate analysis of the foam, refrigeration, aerosol and solvent sectors. In each case, the report provided an overview of key technical considerations for the sector, suggested a definition of small- and medium-sized enterprises based on the level of consumption of ODS of the enterprise and recommended increased cost-effectiveness thresholds for both medium-sized and small-sized enterprises. Technical considerations included identification of sub-sectors where there was unlikely to be a need for investment projects but in which support from non-investment projects may be required. A common feature was the difficulty in arriving at a universal definition of small- and medium-sized enterprises, in view of the variety of factors other than ODS consumption which were relevant to such a definition. Nonetheless, in the absence of any other measures, ODS consumption was used to set boundaries for the size of small- and medium-sized enterprises. Higher cost-effectiveness thresholds were recommended for all sectors and sub-sectors.

A brief critique

Technology Choice

10. The joint study by UNDP/UNEP provides a sound technical basis for examining the needs of SMEs. This is especially true in the identification of the most cost-effective technologies, to-date, for SMEs in various sectors and sub-sectors. This is presented in Table 2: Application Criteria of the joint study, which is reproduced in part, as follows:

Criteria	Most Cost-Effective Technology
Flexible Foam	Methylene chloride
Rigid Foam	Water blown & HCFC
XPE/XPS Foam	LPG
F/IS Foam	Water blown & HCFC
Solvents	No-clean; aqueous; semi-aqueous; non-chlorinated solvents; chlorinated solvents.
Aerosol	Hydrocarbons
Refrigeration	HCFC-141b and R134a

Definition of SMEs

11. The joint study provided a definition of SMEs for various sectors and sub-sectors based on ODS consumption. The Secretariat undertook a database review of all approved investment projects and found that, 207 projects which would be defined as SMEs using the consumption criteria in the UNDP paper, have met the cost-effectiveness policies adopted by the Executive Committee at its 16th Meeting. These projects were able to compete openly with other projects and be approved. Therefore, the definitions proposed in the UNDP's paper may need further refinement so that any future special policies of the Executive Committee targeting SMEs can be accurately focused on enterprises which have special needs.

Part II: Written comments from the Executive Committee on UNDP/UNEP Study

A synopsis of the comments received

12. Written comments were received from the following countries, either members of the Executive Committee or co-opted on to the delegation of members: Argentina, Australia, Austria, Brazil, Chile, Colombia, Denmark, India, Peru, Uruguay.

13. The comments contained a wide range of views. Some countries were concerned about the use of HCFCs in achieving phase-out in small- and medium-sized enterprises, particularly where HCFC technology might be used for an entire sector or a sub-sector. One country considered that finding the appropriate level and type of incentive for small- and medium-sized enterprises is likely to require the trialling and use of a range of innovative approaches and pointed to previous decisions of the Executive Committee as evidence of a gradual learning approach. This country suggested that it appeared premature to consider fundamental changes to established cost-effectiveness thresholds in the absence of an evaluation of the effectiveness of the decisions already taken.

14. Several other countries suggested the issue of SMEs should be left open and noted that they intended to provide further comments following the completion of on going studies in their countries.

15. Yet other countries supported the concept of increased cost-effectiveness thresholds as presented in the UNDP/UNEP paper, but had differing views on many of the detailed options based on the applicability of these options to circumstances in their respective countries. For instance, some countries considered that approach 3, sectoral funding for ODS phase-out, would best meet their circumstances, while others considered that approach 2, the multi-phase approach, involving a series of 'group' projects could be most relevant.

16. With regard to the definition and categorization of enterprises in the foam sector, some countries favoured option A, based on foam sub-sector and enterprise size, while others favoured option B, based on the type of industrial process used. In the refrigeration sector, some countries considered there was a need for investment projects to be extended into sub-sectors such as non-unitary commercial and industrial refrigeration and the servicing sector, whereas the report found that investment projects (other than for the foam component) may not be necessary. One country considered that provision needed to be made for small- and medium-sized enterprises in the halon sector, which was not covered in the report, and that a full range of refrigeration servicing equipment be provided to all existing service shops in the refrigeration and air conditioning sector.

A brief critique

17. The comments contained a wide range of views and do not give any clear signal of convergence. To a certain extent, this reflects the different stages countries have reached and different priorities countries have attached to SMEs in implementing their phase-out programmes.

Part III: Way ahead: a few options

18. Information is the basis for decision-making, because that makes possible intelligent decision-making, with a full awareness of implications. This is also true in the ODS phase-out in SMEs. The SME phase-out programme is not an isolated phenomena, but rather an integral component of the national and global phase-out programmes. From all the studies undertaken on the subject so far, it is believed that phase-out by the SMEs would be more costly unit-wise than phase-out in large scale enterprises. While it is agreed that SMEs have to phase out, it is also important to be aware of its impact on the national phase-out schedule; in other words, to be aware of the kind of indent the SMEs phase-out will make on the national programme. If, at the same time, an estimate on the likely cost impact on the Multilateral Fund is also available, the decision making by the Executive Committee and national governments could be a much more informed one, because this will enable both the Committee and the governments to set up the timetable to pursue the SME phase-out programme with the view to maximizing its benefits, both in terms of ODP tonnage and in terms of cost-effectiveness. This is also in line with decision 19/4 of the Executive Committee, which states:

"The Executive Committee, noting the recommendation of the Sub-Committee on the sectoral distribution of projects (UNEP/OzL.Pro/ExCom/19/5, para. 16), decided to request the implementing agencies and countries to include with each project proposal submitted for approval by the Executive Committee a brief description of how the project would contribute to helping the country to achieve the 1999 freeze."

On the basis of this rationale, several options are proposed below, some for immediate action and others to be worked on further for future action; the difference being the availability of information.

Actions which could be taken now

Category 1: LVCs less than 360 tonnes of ODS consumption annually

Number of Countries: 43

Justification: Approval of a financial allocation for low volume countries in addition to any funding for projects which qualified under cost-effectiveness thresholds

Thus, cost-effectiveness thresholds do not apply to projects involving small- and medium-sized enterprises in low volume countries

Industrial Structure: According to the study done by UNIDO/USEPA, 75 per cent of the ODS consumption in this category of countries is in the refrigeration servicing sector.

The industrial sector structure is usually composed of one or two medium-sized manufacturing facilities and a group of small operators.

Suggested Action: The medium-sized manufacturing facilities should be encouraged to compete with projects from other countries under the current cost-effective threshold.

The small operators in these countries should be grouped and financed under special allocation for the LVCs.

Well focused CFC recycling projects in these countries should be financed and good practices in ODS management should be encouraged. However, the funding of recycling programmes should be approved on the basis of assurance of the placement of right incentives within that country (e.g. a regulatory/policy framework or economic incentives).

- Category 2:* Countries close to completing their ODS phase-out
Number of countries: 3 or 4
- Justification:* Executive Committee Decision 19/32 regarding umbrella projects, and pending consideration of the study on the residual sector consumption in these countries.
(UNEP/OzL.Pro/ExCom/19/64, para. 57 (a) (i)-(iv))
- Industrial Structure:* The Multilateral Fund has approved projects to the extent that the country is close to the tail end of its phase-out programme. The balance of the programme could consist of projects of different sizes, most of which may be SMEs.
- Suggested Action:* Encourage these countries to group the remaining ODS consuming enterprises in projects under the umbrella concept, the condition being that the country must commit that this is the completion of the national phase-out programme.
- Category 3:* Countries with sector(s) close to completing ODS phase-out:
Number of countries: 20 (large- and medium-sized ODS consuming countries)
- Justification:* Executive Committee Decision 19/32 regarding umbrella projects, and pending consideration of the study on the residual sector consumption in these countries.
(UNEP/OzL.Pro/ExCom/19/64, para. 57 (a) (i)-(iv)).
- Industrial Structure:* Most of the countries in this category have had projects approved for their large consuming enterprises. However, because of the size of the economies in these countries, they have more complex sector compositions than the LVCs. There exists uneven progress between countries and sectors in terms of their ODS phase-out. Some have moved quite aggressively in some sectors and as a result they are fairly close to the completion of phase-out in those sectors. The balance of these sectors may consist of a combination of different sizes of enterprises, most of which may be SMEs.
- Suggested Action:* Encourage these countries to group the residual sector consumption in one project and approve them under the umbrella project concept with the commitment from the country that this is the completion of the sector phase-out.
- Encourage the adoption of a sector phase-out approach which represents a package deal consideration.

Justification for Further Groundwork:

20. There is also a need to assess the degree of penetration of ODS replacement technologies in the country, and the availability of a technical backup infrastructure for the introduction of these technologies by SMEs in these countries. Usually, any new technology has to make a perceptible market penetration in a country before it is adopted by SMEs. The fact that large enterprises successfully adopt new technologies provides needed confidence and the necessary technical backup for small enterprises to join in.

- Further refinement of definitions of SMEs
Good groundwork has been done on the definitions of SMEs in the joint study by UNDP/UNEP. However, there is a need to further refine these definitions to create equity between projects approved and future projects and to enable the identification of the real target group for special attention by the Multilateral Fund.
- Data Collection
Countries with SME presence should be requested to provide detailed data on the SMEs according to the following format:

[illegible]

- Impact analysis of SMEs on the national phase-out schedule
 - Status of phase-out implemented (indicator: approvals to-date by the Multilateral Fund)
 - Will the SMEs impact on the 1999 freeze? Will it be adequate to enable the country to meet the freeze?
 - Will it impact the next reduction target in 2005?
 - Time frame of implementation.

Part IV: Conclusions and recommendations

Conclusions

21. A disaggregated look at the SMEs in different categories of countries, either on the basis of ODS consumption (LVCs) or on the basis of phase-out progress (large- and medium-sized consuming countries) leads to the following conclusions:

- There is room to move ahead on the SMEs in most countries under the current policy framework of the Multilateral Fund.
- There is need for further work to be done in some countries, especially large- and medium-sized ODS consuming countries with a significant SME presence. This relates in particular to data collection on the SME's sector/sub-sector presence and size. That information is important to assess the impact of SMEs on the national phase-out schedule.

Recommendations

22. The recommendations are recaptured here for easy reading.

For Action Now:

Category 1:

LVCs

The medium-sized manufacturing facilities should be encouraged to compete with projects from other countries under the current cost-effective threshold.

The small operators in these countries should be grouped and financed under special allocation for the LVCs.

Finance CFC recycling projects in these countries and encourage good practices in ODS management. The funding of recycling

programmes should be approved on the basis of assurance of the placement of right incentives within that country (e.g. a regulatory/policy framework or economic incentives).

Category 2:

Countries close to completing their ODS phase-out

Encourage these countries to group the remaining ODS consuming enterprises in projects under the umbrella concept, the condition being that the country must commit that this is the completion of the national phase-out programme.

Category 3:

Countries with sector(s) close to completing ODS phase-out:

Encourage these countries to group the residual sector consumption in one project and approve them under the umbrella project concept with the commitment from the country that this is the completion of the sector phase-out.

Encourage the adoption of a sector phase-out approach which represents a package deal consideration.

Further Groundwork for Future Action

- Further refinement of definitions of SMEs proposed by UNDP/UNEP joint study.
- Data collection: Countries with SME presence should be requested to provide detailed data on the SMEs according to the format provided on page 12.
- Undertake impact analysis of SMEs on the national phase-out schedule of countries concerned.