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UPDATE TO THE GUIDELINES ON PROJECT PREPARATION FOR STAGE I OF KIGALI HFC IMPLEMENTATION PLANS FOR USE DURING PREPARATION OF STAGE II OF KIGALI HFC IMPLEMENTATION PLANS

(decision 97/24(d))

Introduction

1. At its 97th meeting, the Executive Committee requested the Secretariat to prepare a brief document for its consideration at the 99th meeting on updating the guidelines on project preparation for stage I of the Kigali HFC implementation plans (KIPs) for use during preparation of stage II of the KIPs (decision 97/24(d)). Taking into account previous decisions and guidance of the Executive Committee on the phase-down of HFCs and associated costs, in particular decision 87/50 and document UNEP/OzL.Pro/ExCom/86/88, the Secretariat assessed which elements of stage I guidelines could be adapted to stage II and which needed to be revised, considering the availability of the HFC baseline as a basis for funding decisions.

2. The present document does not take into account the ongoing discussions on strategic approaches to the implementation of the Kigali Amendment.[2] Should those discussions result in adjusted approaches to be taken into consideration for stage II of the KIPs, the Executive Committee may wish to consider adjusting the guidelines on the preparation of stage II of the KIPs resulting from this document accordingly.

3. Decision 87/50 established differentiated funding levels based on the countries' HCFC consumption and existence of manufacturing sectors, and required stage I proposals to be based on a national overarching strategy and to demonstrate an enforceable HFC licensing and quota system. Preparation funding for stage I of the KIPs was relatively higher than that for stage I of the HCFC phase-out management plans (HPMPs), reflecting the fact that HFC baselines had not yet been established and consumption reporting was not

[1] UNEP/OzL.Pro/ExCom/99/1

[2] At its 98th meeting, the Executive Committee considered strategic approaches to Kigali Amendment implementation in Article 5 countries based on document UNEP/OzL.Pro/ExCom/98/60 and requested the Secretariat to prepare more information, to be presented at the 100th and 102nd meetings, to guide the preparation of future KIPs (decision 98/61).

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issuance of the document.

mandatory prior to the country's ratification of the Kigali Amendment; reliable sectoral data were limited; and most licensing systems for ozone-depleting substances did not cover trade in HFCs. Consequently, the Article 7 consumption data often relied on uncertain estimates. In addition, HFC controls covered more substances, blends and applications than HCFC controls, including HFC-based alternatives to HCFCs and other HFCs; and HFC baseline calculations used CO_2-equivalent rather than ODP tonnes and included 65 per cent of the country's HCFC baseline. The concurrent implementation of the HPMPs and the KIPs up to 2030 has also required coordinated strategies, integrating the ongoing HCFC phase-out activities with new HCFC- and HFC-related projects in consultation with industry associations. The absence of guidelines for funding HFC phase-down further complicated the determination of funding levels for the KIP requests.

4. As of the 98th meeting, 112 group 1 countries and five group 2 countries had received funding for the KIP preparation, including both investment and non-investment components, in the amount of US $21,980,260 including support costs. Project preparation was completed for 91 group 1 countries.

5. Out of the 91 approved KIPs, 55 set out to meet at least the 2024 (freeze) and 2029 (10 per cent reduction) HFC consumption targets under the Montreal Protocol, and 35 countries committed to achieving reductions beyond the 10 per cent of their baselines. One additional country has received approval for the first tranche of stage I of the KIP without an approved agreement. Out of the five group 2 countries with approved funding for KIP project preparation to meet at least the 2028 (freeze) and 2032 (10 per cent reduction) HFC consumption targets under the Montreal Protocol, one has submitted their KIP (not approved yet), and four are still in the process of preparation.

6. The analysis of the KIPs and preparatory activities approved so far yielded the following conclusions:

(a) Preparation funding covered policy development; all Article 5 countries with an approved KIP had enforceable licensing and quota systems for HFC imports and, where applicable, production and exports, in line with decision 63/17;

(b) All KIPs included the updated national and sectoral HFC consumption data from comprehensive surveys conducted during the KIP preparation. The surveys identified, *inter alia*, inconsistencies requiring revisions to country programme (CP) implementation report and Article 7 data and national baselines, sectors requiring further analysis of HFC consumption, and unexplained baseline-year consumption fluctuations in several countries. Additional efforts are required to have a better understanding of HFC consumption patterns, trends and use by sector; and

(c) Based on survey results and following extensive consultations with relevant stakeholders conducted during the KIP preparation, overarching national strategies were developed to meet at least the Montreal Protocol HFC reduction targets, including activities to be prioritized under stage I and cost considerations. Activities included in stage I of the KIPs were formulated in light of the ongoing activities under the HPMPs.

Elements to be considered in preparation of stage II of the Kigali HFC implementation plans

7. Stage II of the KIPs will address HFC consumption beyond the reduction targets achieved during stage I. The preparation of stage II will involve the activities described below.

Survey review and additional information and analysis on the consumption of HFCs and alternatives

8. The comprehensive HFC consumption surveys conducted in the preparation of stage I of the KIPs provided a solid framework for collecting, analyzing and reporting on data related to HFC consumption in relevant sectors and subsectors. This allowed for more accurate estimates of national HFC baselines for compliance and better analysis of market trends. Nevertheless, the surveys identified inconsistencies

requiring revisions to CP implementation reports and Article 7 data, and some countries encountered difficulties in explaining their consumption patterns and fluctuations, which requires further analysis.

9. During or after the preparation of their KIPs, 20 Article 5 countries have requested a revision of their HFC consumption in baseline years, and 28 were requested by the Executive Committee to continue their analysis of HFC consumption trends and to report on it during the second tranche. Other countries included in their stage I activities additional studies to better understand HFC consumption in sectors for which information could not be collected during the preparation of the KIP.

10. A similar comprehensive data-collection exercise, including estimates of banks of installed equipment, their lifetime and leakage rates, is recommended as part of the preparation of stage II of the KIPs. A thorough review of data could well assist Article 5 countries in verifying their consumption patterns and sector breakdown. The main aspects needing additional work include:

(a) Collection of data on HFC consumption and engagement of stakeholders from sectors not covered by the survey carried out in preparation of stage I, including local installation and assembly subsector. A substantial share of HFC consumption occurs in large commercial refrigeration and air-conditioning (RAC) systems, many of which are supplied by enterprises in the local installation and assembly subsector, where limited information was collected during the preparation of stage I of the KIPs. The next review of this subsector will inform the discussion on strategic approaches to the Kigali Amendment implementation at the 100th meeting. Countries could then consider quantifying HFC consumption in this subsector when updating their HFC surveys for stage II;

(b) Updating HFC consumption patterns and forecasts, including both the emerging and growing HFC-using sectors and considering the impact of total HCFC phase-out, stage I activities and evolving market trends with regard to the substitution of substances with high global-warming potential (GWP) with lower- and low-GWP alternatives in the manufacturing and servicing sectors;

(c) Updating the assessments of technological trends across HFC-consuming sectors, including issues related to the supply chain and the availability and sustainability of alternatives, components and equipment;

(d) Assessment of the feasibility, existing infrastructure, risks and requirements associated with broader adoption of low-GWP alternatives;

(e) Assessment of lessons learned from activities undertaken and still ongoing under stage I to guide the design and implementation of stage II;

(f) Targeted industry consultations on policies and regulations to reduce dependence on high-GWP HFC-based technologies; and

(g) Assessment of the ongoing and potential energy-efficiency activities in the context of HFC phase-down that could further increase reductions in greenhouse gas emissions, consistent with the policies and guidelines of the Executive Committee.

Assessment and update of the overarching strategy

11. Although national overarching strategies were prepared as part of stage I of the KIPs, stage II preparation will require those strategies to be reviewed and updated based on the additional factors described above. The update will also entail additional institutional coordination, stakeholder consultations, and determination of the extent to which accelerated phase-out might be needed.

Remaining activities in the servicing and manufacturing sectors

12. Under stage I of the KIPs, activities in the refrigeration servicing sector were designed to complement the ongoing HPMP activities. By the time stage II of the KIPs is implemented, the HPMPs are expected to have been completed, and activities to be prepared for stage II of the KIPs are expected to be aligned with the categories of costs eligible for HFC phase-down funding under decision 95/86(o).

13. Under stage I of the KIPs, activities in the manufacturing sector largely focused on RAC applications where lower- or low-GWP technologies were available. Project preparation for stage II of the KIPs is expected to include the formulation of activities aligned with the categories of costs eligible for funding under decision 95/86(l) for additional applications in RAC manufacturing, or for other manufacturing sectors such as firefighting or metered-dose inhalers, if alternatives are available. Funding for phase-out activities in any new sector included in stage II would be provided in line with the existing preparatory funding guidelines (decision 87/50(f)).

Policy development

14. Preparatory funding for stage I of the KIPs supported the development of legislation and regulations needed for HFC import/export licensing and quota systems, and all Article 5 countries with an approved KIP now have an operational licensing and quota system for imports, and where relevant, exports of HFCs, in line with decision 63/17. Moreover, many approved KIPs included regulations to continue strengthening those systems and to develop additional regulatory measures, such as bans on the import and manufacturing of HFC-based equipment in specific applications where low-GWP alternatives were commercially available.

15. A similar level of assistance for policy development will not be required for stage II of the KIPs, as any additional support for policy gap analysis and further strengthening of the regulatory framework is included in stage I implementation and could also be part of stage II.

Eligibility criteria and funding structure for the preparation of stage II of the Kigali HFC implementation plans

16. Based on the duration of stage I of the KIPs, it could be expected that:

(a) Funding for the preparation of stage II of the KIPs should be requested not earlier than two years before the last year included in Appendix 2-A of the Agreement between the country and the Executive Committee for stage I of the KIP, unless an Executive Committee decision has determined that the country could submit stage II in advance. The timing of funding requests for the preparation of stage II of the KIP should be closely aligned with the completion of or at least advanced progress achieved in the implementation of stage I; and

(b) Any balances from project preparation funding provided for stage I of the KIP would be returned to the Multilateral Fund before a funding request for stage II project preparation might be considered.

17. In the same manner as for stage I, the funding structure for KIP preparation is based on two main components: development of an overarching strategy and preparation of investment projects required for the conversion of manufacturing sectors in stage II.

Funding levels proposed for the preparation of the overarching strategy

18. The funding for the preparation of stage I of the KIPs covered the requirement for an overarching strategy incorporating HFCs into the existing policies and legislation (e.g., import/export licenses and quotas

or bans on HFC-based equipment) and conducting national surveys of HFC consumption and sectoral distribution. In the absence of HFC baselines, maximum costs for those activities were determined according to national HCFC consumption baselines. The levels of funding agreed for project preparation activities for the overarching strategy are shown in decision 87/50.

19. For the preparation of stage II of the KIPs, the Secretariat has grouped countries based on their HFC consumption baseline, which is now available for most group 1 countries and will be available for group 2 countries by the time they prepare stage II of their KIPs. Grouping countries based on their HFC rather than HCFC baseline provides a better and more accurate representation of national needs for HFC phase-down.[3] The Secretariat compared the funding levels to be approved for 115 countries with available HFC baselines grouped by ranges of HFC baseline levels and preparatory funding approved for stage I and noted that, if funding was maintained at the same levels as for stage I, the overall amount to be approved for the 115 countries would result in almost the same level of funding that those countries would receive using the HCFC baseline as reference (see annex). This outcome suggests that, in the absence of an HFC baseline, the HCFC baseline could generally be a reasonable proxy. However, on an individual level, 36 countries would have received different levels of funding if it were accorded based on the HCFC rather than HFC baseline. On this basis, the Secretariat suggests using the HFC baseline as a reference for grouping countries.

20. The Secretariat notes that funding approved for the preparation of stage II of the HPMPs under decision 71/42 was generally lower than that approved for the preparation of stage I, except for countries with the lowest HCFC consumption, for which funding levels remained similar in both stages. This reduction reflects the fact that, following the preparation and implementation of stage I, Article 5 countries had already updated their HCFC-related policies and regulations, collected robust sectoral consumption data, improved their knowledge of commercially available alternative technologies and their costs, and had an overall strategy to guide the HCFC phase-out.

21. Based on the experience gained from the preparation of stage I of the KIPs, the Secretariat considers, however, that a similar assumption cannot be made for the preparation of stage II of the KIPs, for which a number of activities undertaken during stage I will need to be updated, expanded or revisited to support the development of stage II, as summarized in paragraphs 10 to 15 above.

22. Accordingly, consistent with the approach adopted at the 87th meeting, the level of funding for the preparation of stage II of the KIPs should be based on activities required to generate this additional information. While a survey similar to the one completed during stage I preparation may not be required, an update and additional data collection and analysis will still be needed to update HFC consumption patterns and revise the overarching strategies, as described in the previous section. At the same time, the Secretariat recognizes that certain activities carried out during stage I, particularly policy development including the HFC licensing and quota systems, would not need to be repeated during stage II preparation as they can be integrated into KIP implementation. On this basis, the Secretariat considers that a reduction of 15 per cent compared with stage I preparation funding is appropriate, reflecting the cost associated with policy development activities that would no longer be required during the preparation of stage II of the KIPs, while maintaining funding for data collection and analysis and for the preparation of updated overarching strategies.

23. Table 1 proposes the indicative costs for the preparation of a strategy for stage II of the KIPs, provided that each submission is supported by a strong justification for the need for additional information and the activities to be undertaken.

[3] Alternative approaches were examined, such as using average baseline HFC consumption in metric tonnes or combining that value with the remaining HCFC consumption in a specific year (e.g., 2024). Nevertheless, these proxies produced substantial discrepancies in the funding levels calculated for individual countries, were not based on publicly available metrics, and, where remaining HCFC consumption was included, relied on the selection of an arbitrary year, creating inconsistencies among countries submitting requests at different times.

Table 1. Level of costs for the preparation of stage II of the KIPs based on HFC baselines

HFC baseline (CO_2-eq tonnes)	Funding (US $)
Up to 55,000	85,000
Above 55,000 and up to 451,000	110,500
Above 451,000 and up to 900,000	136,000
Above 900,000 and up to 1,800,000	144,500
Above 1,800,000 and up to 7,000,000	161,500
Above 7,000,000 and up to 150,000,000	187,000
Above 150,000,000	Case-by-case

24. Noting the values in table 1, funding for the preparation of stage II of any regional KIPs and for those countries with an HFC baseline consumption above 150,000,000 CO_2-equivalent (CO_2-eq) tonnes will be considered on a case-by-case basis.

Funding levels proposed for the preparation of projects in the manufacturing sectors

25. Funding provided for the preparation of investment projects to phase out HFC consumption in the manufacturing sector under decision 87/50 is based on the number of manufacturing enterprises to be converted. The Secretariat proposes to provide funding for any Article 5 country with a manufacturing sector using HFCs according to the number of manufacturing enterprises to be converted in line with decision 87/50(f), as follows:

(a) US $30,000 for one enterprise;

(b) US $60,000 for two enterprises;

(c) US $80,000 for three to 14 enterprises; and

(d) US $150,000 for more than 14 enterprises.

26. The maximum funding level per country would be determined based on its HFC baseline rather than the HCFC consumption baseline used in decision 87/50.[4] The maximum funding levels are shown in table 2.

Table 2. Maximum funding levels for project preparation in the manufacturing sectors based on HFC baselines

HFC baseline (CO_2-eq tonnes)	Funding limit (US $)
Up to 7,000,000	100,000
Above 7,000,000 and up to 19,000,000	200,000
Above19,000,000 and up to 25,000,000	250,000
Above 25,000,000 and up to 60,000,000	300,000
Above 60,000,000	400,000

27. To avoid duplication, consideration of preparatory funding in the manufacturing sectors under stage II of the KIPs will take into account funds already approved for the preparation of manufacturing projects in similar sectors in stage I.

[4] The Secretariat compared maximum funding levels for manufacturing to be approved for 115 countries with HFC baseline available grouped by ranges of HFC baseline levels and stage I funding approved, and noted that, if the same funding levels were maintained as in stage I, the overall amount of funding to be approved for the 115 countries would result in the same level of funds that those countries would receive using the HCFC baseline as reference.

Strategic approaches to the implementation of the Kigali Amendment in Article 5 countries

28. At its 98th meeting, following a discussion on the strategic approaches to the implementation of the Kigali Amendment in Article 5 countries, the Executive Committee requested the Secretariat to prepare, for the 100th meeting, information on possible elements to consider for future stages of the KIPs that would be part of a cross-cutting or country programme approach taking into consideration strategies for technology transition, as well as national cooling action plans, where relevant (decision 98/61(b(iii)). As the discussions are ongoing, countries that need to prepare stage II of their KIPs should be able to proceed under the existing policy framework without prejudging their outcome. Should those discussions result in adjusted approaches to be taken into consideration for stage II of the KIPs, the Executive Committee may wish to consider accordingly adjusting the guidelines for the preparation of stage II of KIPs resulting from this document.

RECOMMENDATION

29. The Executive Committee may wish to consider:

(a) Noting document UNEP/OzL.Pro/ExCom/99/80, Update to the guidelines on project preparation for stage I of the Kigali HFC implementation plans (KIPs) for use during preparation of stage II of the KIPs (decision 97/24(d));

(b) Requesting Article 5 countries to include in the development and finalization of the strategic plans for stage II of the KIPs, as a minimum, the Montreal Protocol control target subsequent to that set out in stage I of their KIPs;

(c) Noting that:

(i) The timing of funding requests for stage II of the KIP project preparation should be closely aligned with the completion of, or advanced progress in, the implementation of stage I, and that funding requests for project preparation for stage II can be submitted not earlier than two years before the last year listed in Appendix 2-A of the Agreement between the country and the Executive Committee for stage I of the KIP, unless an Executive Committee decision has determined that the country could submit stage II in advance;

(ii) Any balances from project preparation funding provided for stage I of the KIP will be returned to the Multilateral Fund before a funding request for stage II project preparation may be considered;

(d) Including in the funding guidelines for the preparation of an overarching strategy for stage II of the KIPs, assistance for the elements described in paragraphs 10 to 15 of document UNEP/OzL.Pro/ExCom/99/80;

(e) Requesting the bilateral and implementing agencies submitting requests for project preparation for stage II of the KIPs to demonstrate that additional funding is required, and to provide:

(i) For the overall stage II strategy, an indication of activities to be undertaken for project preparation, with specific costs clearly identified (e.g., surveys or consultation meetings), as well as a description of the information that needs to be gathered and updated and why it was not included in stage I;

(ii) For investment projects, information on the number of enterprises to receive funding, including their date of establishment, and, if the request is for a sector for

which project preparation was approved in stage I but was not included in the submitted KIP, an explanation why additional funding is required and a list of activities with corresponding costs to support this request;

(f) Providing funding for the elements described in subparagraph (e) above, as specified in the table below, based on the country's HFC consumption baseline:

HFC baseline group (CO_2-equivalent tonnes)	Funding (US $)
Up to 55,000	85,000
Above 55,000 and up to 451,000	110,500
Above 451,000 and up to 900,000	136,000
Above 900,000 and up to 1,800,000	144,500
Above 1,800,000 and up to 7,000,000	161,500
Above 7,000,000 and up to 150,000,000	187,000
Above 150,000,000	Case-by-case

(g) Determining and providing funding on a case-by-case basis for the preparation of stage II for any regional KIPs and for countries with HFC baseline consumption above 150,000,000 CO_2-equivalent tonnes;

(h) Providing funding for any Article 5 country with a manufacturing sector using HFCs according to the number of manufacturing enterprises to be converted in line with decision 87/50(f), as follows:

(i) One enterprise: US $30,000;

(ii) Two enterprises: US $60,000;

(iii) Three to 14 enterprises: US $80,000;

(iv) Fifteen or more enterprises: US $150,000;

(i) Limiting the maximum funding provided for the preparation of the investment component for any country according to the table below:

HFC baseline (CO_2-equivalent tonnes)	Funding limit (US $)
Up to 7,000,000	100,000
Above 7,000,000 and up to 19,000,000	200,000
Above19,000,000 and up to 25,000,000	250,000
Above 25,000,000 and up to 60,000,000	300,000
Above 60,000,000	400,000

(j) Agreeing that the institutions and capacities of Article 5 countries developed through Multilateral Fund assistance for the phase-out of HCFCs should continue to be used to the extent practicable for the phase-down of HFCs, as appropriate;

(k) Requesting the Secretariat to prepare, with the assistance of bilateral and implementing agencies, a guide for the preparation of stage II of the KIPs that could be used by Article 5 countries; and

(l) If discussions on the strategic approaches to the implementation of the Kigali Amendment (decision 98/61) result in adjusted approaches to be taken into consideration in stage II of the KIPs, the Executive Committee may wish to consider accordingly adjusting the guidelines for the preparation of stage II of the KIPs resulting from document UNEP/OzL.Pro/ExCom/99/80, as needed.

Annex

COMPARISON OF THE LEVEL OF FUNDING AVAILABLE TO DIFFERENT COUNTRIES BASED ON THEIR HFC CONSUMPTION LEVELS USING THE HCFC AND HFC BASELINES AS REFERENCE

HFC consumption baseline level (CO_2-eq tonnes)	No. of countries	Funding available (US $)		Difference	
		Based on HCFC baseline	Based on HFC baseline	US $	%
Up to 55,000	18	1,830,000	1,800,000	-30,000	-2
Above 55,000 and up to 451,000	29	3,870,000	3,770,000	-100,000	-3
Above 451,000 and up to 900,000	15	2,310,000	2,400,000	90,000	4
Above 900,000 and up to 1,800,000	17	2,860,000	2,890,000	30,000	1
Above 1,800,000 and up to 7,000,000	21	3,960,000	3,990,000	30,000	1
Above 7,000,000	15	3,290,000	3,300,000	10,000	0
Total	**115**	**18,120,000**	**18,150,000**	**30,000**	**0.2**