

ANNEX VI**INITIAL GUIDANCE TO ALLOW FURTHER DEVELOPMENT BY CHINA AND
THE WORLD BANK OF THE HALON SECTOR APPROACH PILOT PROGRAMME
UNDER AN UMBRELLA AGREEMENT**

1. The "sector approach" to financing ODS phase-out would be based on a programme submitted by a Beneficiary Party (a Government eligible for Multilateral Fund support) to completely phase out all ODS consumption in a given sector (e.g., aerosol or halon). The programme would include an ODS phase-out schedule and the policy and other measures to achieve phase-out. The total funding level to be covered by the Multilateral Fund for the entire sector phase-out programme would be agreed up-front by the Executive Committee. These agreed costs should represent efficiency, as compared to the project-by-project approach, in the use of Multilateral Fund resources based on \$/kg of ODP which would be phased out. Funding tranches would be approved each year by the Executive Committee based on the agreed phase-out schedule, satisfactory progress reports, and actual ODS phase-out. National level phase-out would be independently verified. As long as the ODS phase-out schedule is met year-by-year, new funding tranches would continue to be approved in amounts which had been agreed up-front by the Executive Committee.
2. The sector approach programme for submission to the Executive Committee should contain the following:
 - (a) Baseline information on ODS production, consumption, imports and exports for the sector. This information should provide sufficient and representative data on enterprises (size, product mix, plant life, production capacity and actual production) for analysis of likely incremental costs of phase-out under a project-by-project funding approach. Any discrepancies between baseline information in the programme and information previously reported to either the Executive Committee or the Parties of the Protocol would be explained;
 - (b) The ODS production and/or consumption phase-out schedule with explicit annual phase-out targets;
 - (c) Specific policy and other measures for achieving the phase-out schedule;
 - (d) Total funding request from the Multilateral Fund based on calculation of incremental costs (including clear and transparent explanation of methodology and assumptions used in calculations so that the costs can be independently verified) and annual grant funding requests to meet phase-out targets. Where the programme includes elements of industrial consolidation, these should be reflected in the cost calculations;

- (e) Explanation of savings achieved through the sector approach as compared to the project-by-project approach. Any base-case analysis used to provide a cost comparison should take account of existing government policies, Montreal Protocol controls, and relevant Executive Committee policies and guidelines including Executive Committee decision 17/7, by which the Committee decided, in the light of technological advances, not to consider any projects to convert any ODS-based capacity installed after 25 July 1995. If possible, comparisons could also be made to incremental costs incurred by countries which have already completed phase-out.
 - (f) Work/action plan for first implementation phase (12-18 months to allow for start-up activities);
 - (g) Reporting provisions for monitoring and evaluation by different stakeholders of policy and other actions and ODS phase-out targets which at a minimum would include semi-annual progress reports on actions (e.g., plant closures, conversions, etc.) and phase-out achieved. Explanation of provisions to allow for external verification.
- 3. In making its recommendation on the sector approach programme, the Executive Committee may want to compare the cost-effectiveness of the sector approach programme to:
 - (a) Cost-effectiveness thresholds applicable to projects of the type included in the sector approach;
 - (b) Average cost-effectiveness for approved projects which are similar to the type included in the sector approach;
 - (c) Actual cost effectiveness of projects similar to the type included in the sector approach as reported in monitoring and evaluation reports.
- 4. Funds for implementation of sector approach programmes would be approved in two steps:
 - (a) Step 1. Approval of the sector approach programme would be an agreement by the Executive Committee to approve future funding requests for implementation of the programme at the funding levels noted in the programme. Approval of the programme would bind the Beneficiary Party to its phase-out schedule as a precondition for future requests for Multilateral Fund funds for activities in that sector. Approval of the programme would also limit the Multilateral Fund funds for which the Beneficiary Party could apply to the total funding level agreed in the programme. Approval of the programme would include approval of funds for implementation of the first implementation phase (12-18 month implementation plan to allow for start-up activities);

- (b) Step 2. Future annual funding requests would be made based on the amounts included in the approved programme and the annual action/work plan agreed with the Implementing Agency. The Executive Committee would approve such annual funding requests based on the programme's ODS phase-out schedule, satisfactory progress reports, and actual ODS phase-out. As such, funds for ODS phase-out in the second year would be based on satisfactory progress reports. Funding of the third year would be approved based on achievement of the first-year ODS phase-out target and satisfactory progress reports, and so on.
5. Funds approved under the sector approach programmes may be disbursed by the Implementing Agency and the Beneficiary Party based on performance targets in the programme, e.g., \$/kg of ODP phased out. Beneficiary Parties will have the flexibility to use grant funds in accordance with the umbrella agreement.
6. The Implementing Agency would be responsible for supervising implementation of annual action/work based on an agreed monitoring and evaluation framework. National level reductions in ODS production and consumption (as per programme targets) would be verified by a technical audit by ... (terms of reference would be developed by).