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

Twenty-second Meeting
Nairobi, 28-30 May 1997

REPORT ON OPTIONS TO ADVANCE PHASE-OUT IN THE SME SECTOR

Mandate

1. Mandate for this paper is contained in Executive Committee decision 20/41. For easy reference, the decision is reproduced in its entirety as follows.

2. The Executive Committee decided:

(a) To note the decisions already taken by the Executive Committee, which could assist small and medium-sized enterprises (SMEs) in low-volume-ODS-consuming countries and as part of terminal umbrella projects;

(b) To request the Secretariat, in cooperation with the implementing agencies and the countries concerned, to provide the Executive Committee with relevant information about SMEs, including the best available information on the SME sector and any available information that could be helpful in assessing the impact on the overall phase-out schedule;

(c) To request the Secretariat, on the basis of this information, and *inter alia* taking into account the UNDP/UNEP paper (UNEP/OzL.Pro/ExCom/19/54) and comments thereon:

(i) To refine the definition of small and medium-sized enterprises;

(ii) To make recommendations to the Twenty-second meeting of the Executive Committee for options to advance phase-out in the SME sector, including the possibility of a funding window with appropriate cost-effectiveness thresholds;

(d) To invite Executive Committee members to provide additional comments in writing to the Secretariat;

(e) To reaffirm existing Executive Committee guidance on the choice of HCFCs as a substitute technology and that this applied to all Multilateral Fund projects.

(Decision 20/41)

Scope of the paper

3. As stated in sub-paragraph (a) of the above decision, the Executive Committee has already taken decisions which could assist SMEs in LVCs and as part of terminal umbrella projects. Therefore SMEs in these two categories are not covered in this paper. This paper targets at that population of SMEs in countries which are classified as large and medium-sized ODS consuming countries (with an annual ODS consumption greater than 360 tonnes/ODP) and

whose remaining ODS consumption has not enabled them to benefit from the terminal umbrella projects.

The issue and the aims of the paper

<u>The issue</u>

4. The issue with funding ODS phase-out in SMEs is not one of eligibility, in other words what has been and is being debated is not whether or not this group of enterprises should be funded, but rather when and under what circumstances they should be funded. This is an important distinction to be borne in mind in the entire discussion.

<u>The aims</u>

5. To determine the time to proceed with the ODS phase-out in SMEs is really part and parcel of setting the priority of the Fund operations. It can be predicted with certainty that setting priority will gain increasing prominence within this triennium and beyond because the freeze of CFCs consumption will have to be implemented in 1999 and this will be followed by subsequent control targets beyond that. This sense of target-drivenness is already shown in decision 19/4 taken by the Executive Committee in late 1996 which requires each project proposal submitted for approval by the Executive Committee to include "a brief description of how the project would contribute to helping the country to achieve the 1999 freeze".

6. Since the phase-out schedule in the Montreal Protocol is the ultimate criteria in setting the priority of the Fund, determining the relative priority of the SMEs may also be made on the basis of its impact on the first obligatory target and subsequent control measures. That is also one of the expectations of the Executive Committee from this paper as contained in decision 20/41(b) "to provide the Executive Committee with relevant information about SMEs that could be helpful in assessing the impact on the overall phase-out schedule".

7. Therefore, the aims of this paper are to provide an information basis to assess the impact of ODS phase-out of SMEs on the overall phase-out schedule and then set up a framework for impact analysis of a financing window for SMEs by applying different cost-effectiveness values.

The methodology

8. The methodology used in this paper includes the following steps:

<u>Step One</u>: Estimate on a sector/sub-sector basis the size of the population of SMEs in the target countries both in terms of number of enterprises and their

share of ODS consumption in each country and globally. This is intended as the data base to mount any impact analysis for this group of enterprises.

Step Two: Establish the impact of approved projects on the sector/sub-sector ODS consumption disaggregated by size of industry (large, medium and small-sized industries).

Step Three: Estimate on a disaggregated basis the remaining ODS consumption to be eliminated in each sector/sub-sector by size of industry.

Step Four: Assemble the data from Steps 1-3 into a spreadsheet entitled Disaggregated Impact Analysis of Approved Portfolio on Global ODS Consumption by Size of Industry (Table 1). "Global" refers to the total ODS consumption of the target group countries.

Step Five: Set up the Framework for Impact Analysis of a Financing Window on SMEs (Table 2).

9. The purpose of the Framework is to assist in analyzing the impact of a financing window for SMEs if the Executive Committee decides to set up one. Building upon the data base established through the preceding steps, this framework will enable the Executive Committee to determine the amount of ODS consumption that can be reduced by setting up such a financing window.

10. Table 2 is constructed to operate as follows:

First, decide the funding level of the financing window which is expected from a decision of the Executive Committee. Then, calculate the sector allocation of this financing window This sector allocation should be based on the relative progress on funding the large enterprises in each sector/sub-sector, on the principle that the sector/sub-sector which received enough funds to achieve the highest ODS phase-out by large industries should get the highest share of the financing window. The rationale behind this is that with the large enterprises already funded, the remaining consumption is that of the SMEs. The next step is to calculate the impact of each sector fund allocation by applying the existing cost-effectiveness threshold of the sector/sub-sector. This would be a point of comparison for any policy the Executive Committee would like to adopt on special cost effectiveness thresholds for the SMEs. Finally, this phase-out impact by a special cost-effectiveness threshold for SMEs will be examined in terms of its impact on the remaining sector consumption of SMEs. The latter is available from Table 1.

TABLE 1

DISAGGREGATED IMPACT ANALYSIS OF APPROVED PORTFOLIO BY SIZE OF INDUSTRY

(in ton/ODP)

Sector	Global * ODS consumption	Consumption Profile				Phase-out Impact				Phase-out Impact			
		Large-size		Medium + Small-size		Large-size				Medium + Small-size			
		Ton.	% of Global	Ton	% of Global	No. of tonnes funded	% of consumption by large-size	Unfunded	% of consumption by large-size	No. of tonnes funded	% of consumption by M+S-size	Unfunded	% of consumption by M+S-size

* Total consumption of the target countries.

TABLE 2

A FRAMEWORK FOR IMPACT ANALYSIS OF A FINANCING WINDOW FOR SMEs

Size of financing window: $/million

Sector	% of ODS consumption by large industry funded	Sector allocation of financing window		Impact (status quo)		Impact (potential)		Remaining consumption by M+S	Impact (potential) on the remaining sector consumption of SMEs (percentage)
		%	$	Existing C.E. $/kg	Tons	Proposed C.E. $/kg	Tons		

Data Collection

11. As can be seen from the methodology described in the preceding section, disaggregated data of ODS consumption by size of industry is the start-off point for the analysis of the paper, as a matter of fact for any impact analysis on this group of enterprises. However apart from one completed country study on SMEs from India, this data is non-existent from the existing sources of information.

12. Therefore to collect this data, the Secretariat sent a data collection format to 42 countries, including the 28 countries whose annual ODS consumption is greater than 360 tonnes/ODP, the target group of this paper. The definitions adopted by UNEP/OzL.Pro/ExCom/19/54 for large, medium and small-sized enterprises were used in the survey. Annex I provides a copy of the data collection format and a list of countries included in the survey.

13. The response received as of 17 April 1997 is tabulated as follows:

Category of country	No. of questionnaires dispatched	No. of response received	Percentage
LVCs	14	6	43
Target group	28	9*	32
Total	42	15	36

* Two responses provided no data and another provided partial data.

14. A list of countries which have responded as of April 14, 1997 is included in Annex II.

15. Evidently 25% response from the target group of countries can not be considered as a representative sample to set up an approximate estimation of the size of the population of SMEs in this group of countries. As an alternative the Secretariat attempted to use the responses received to make an assumption about the "typical" consumption profile by large, medium and small-sized enterprises in each sector/sub-sector. However the profiles in the countries which responded do not point to any consistent direction for making any assumption and as a result the attempt was not pursued.

Definitions on SMEs

16. The mandate for this paper, specifically paragraph (d) of decision 20/41, requires efforts to refine the definitions on SMEs as used in the UNEP/UNDP study. However, it is not possible to proceed with this effort due to a lack of data from the target countries.

Conclusion

17. Since the data is the basis for the entire exercise, without it it is just impossible to complete the analysis. The Secretariat appeals through the Executive Committee to those countries which have not responded to the questionnaire to provide the data to the Secretariat to enable it to finish the analysis.

Recommendations

18. The Executive Committee is requested to:

(a) consider the methodology proposed in this paper;

(b) to request the countries that have not furnished data to do so.

ANNEX I

DISTRIBUTION OF ENTERPRISES BASED ON THEIR SIZE AND ODS CONSUMPTION (ODP TONNES)

SECTOR	Large-size				Medium-size				Small-size			
	Number of plants		ODP consumption		Number of plants		ODP consumption		Number of plants		ODP consumption	
	Funded	Not funded	Funded	Not funded	Funded	Not funded	Funded	Not funded	Funded	Not funded	Funded	Not funded
FOAM												
Extruded polyethylene/ polystyrene foam												
Flexible polyurethane foam												
Rigid polyurethane foam												
Integral skin foam												
REFRIGERATION												
Domestic refrigeration												
Commercial refrigeration												
Servicing												
AEROSOL												

COUNTRIES REQUESTED FOR INFORMATION ON PHASE-OUT OF ODS IN SMEs

LVCs	ODS CONSUMPTION	TARGET	ODS CONSUMPTION
Bangladesh	233.19	Algeria	2,221.13
Costa Rica	240.24	Argentina	4,401.66
Côte d'Ivoire	313.40	Brazil	8,918.20
Croatia	239.50	Chile	1,055.12
Cuba	331.40	China	55,948.40
Dominican Republic	278.24	Colombia	1,973.60
Guatemala	284.90	Ecuador	742.07
Panama	233.20	Egypt	2,762.84
Paraguay	211.20	India	13,111.00
Peru	297.28	Indonesia	6,657.30
Sri Lanka	231.37	Iran	2,445.00
Tanzania	264.35	Jordan	905.00
Uruguay	314.11	Korea, DPR	1,220.05
Zimbabwe	320.40	Lebanon	923.15
		Macedonia	560.00
		Malaysia	3,744.55
		Mexico	10,184.00
		Morocco	758.00
		Pakistan	2,538.90
		Philippines	2,536.10
		Romania	1,556.44
		Sudan	606.20
		Syria	1,859.90
		Thailand	8,893.10
		Tunisia	526.43
		Turkey	3,607.80
		Venezuela	3,194.10
		Vietnam	702.10

LVCs: Countries whose annual ODS consumption ≤ 360 tonnes, as contained in the country programme.

Target: Countries whose annual ODS consumption > 360 tonnes, as contained in the country programme.

ANNEX II

LIST OF COUNTRIES WHICH HAVE RESPONDED
(as of 17 April 1997)

Country	LVC	Target	Data
Algeria		X	Complete
China		X	No data
Côte d'Ivoire	X		Complete
Egypt		X	Complete
Jordan		X	Complete
Macedonia		X	No data
Malaysia		X	Complete
Mexico		X	Partial data
Panama	X		Complete
Paraguay	X		Complete
Peru	X		Complete
Romania		X	Complete
Sri Lanka	X		Complete
Syria		X	Complete
Uruguay	X		Complete
Total	6	9	