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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-ninth Meeting
Beijing, 24-26 November 1999

CONCESSIONAL LENDING

Introduction

This report is prepared in response to Decision 28/48 by which the Executive Committee took note of the four principles presented by Canada and discussed by the Executive Committee and decided to “invite the members of the Executive Committee to submit to the Secretariat comments on these four principles or further such principles required, to be incorporated into a broad framework document to be considered at the Twenty-ninth Meeting of the Executive Committee; and discuss the issue and the principles at the Twenty-ninth Meeting, both as an item on the agenda and in a large-scale informal meeting”.

(Decision 28/48)

This report contains the four principles which were presented by Canada and discussed by the Executive Committee at the 28th meeting, and the comments on the four principles and further principles submitted by Burkina Faso, Italy, Japan and Sweden in accordance with the above decision.

The report also contains a draft framework proposed by the Secretariat for consideration by the Executive Committee at its 29th meeting. The draft framework is based on the principles and the comments thereon from members of the Executive Committee.

Principles presented by Canada and discussed by the Executive Committee at the 28th Meeting

- Recipient Governments should not be required to assume additional official debt as a result of agreeing to Multilateral Fund projects that utilized more innovative financing arrangements;
- If a country agreed to a project which included concessional lending or “innovative funding” arrangements, any funds which are eventually repaid to the project should be used, at the direction of the Executive Committee, to address further related needs within the same country;
- The parameters of innovative financing projects must be tailored to meet the needs of the project being considered and the capacity of the recipient country;
- The operation of concessional loans, or other innovative financing mechanisms, required an appropriate provision for administrative costs.

- (i) Submissions to the 29th Meeting from members of the Executive Committee

Burkina Faso

1. We have engaged ourselves decisively on concessional lending rate. To do so we all need to understand the principles that will guide us.
2. Besides the acceptable principles proposed by Canada there is one that should be added perhaps as principle 5. That the concessional lending rate applies to all enterprises in eligible sectors whatever their size. I want to make reference to the end users and we need to review the cuts for less than US \$500,000, US \$1,000,000 and more than US \$1,000,000 where we had decided they should be reviewed on a case by case basis.
3. Everyone must accept all the principles.

Italy

1. Loans should be complementary to grants rather than replace them.
2. They should be applied to “win/win” solutions, where all stakeholders find something positive.
3. Equitable solutions for disbursing loans to Small Medium Size Enterprises (SMEs) should be sought.

We reserve further comments and inputs once we receive the draft “broad framework

Japan

Before commenting on each of the four principles, we express our appreciation to the Canadian Government’s initiative on this issue. We believe that all of these principles as identified by Canada are pertinent and conducive to the resolution of the problems involved in concessional lending.

Principle 1 (non assumption of additional official debt by recipient Governments).

This principle is hardly acceptable as a matter of principle as any lending entails the obligation of repayment. The recipient government cannot but eventually incur obligation in some fashion as

long as the lending arrangement is concluded between the recipient government and the Multilateral Fund or the implementing agency on behalf of the Fund. However, as reported by the World Bank, the case of the project it implemented in Thailand indicates that the government can be waived the incurring of direct obligation while the private enterprise commits itself to repaying the costs of purchase of equipment and the related services for which the government provides a guarantee. Such a case suggests the feasibility of developing an acceptable loan arrangement.

Principle 2 (reuse of the funds repaid in the same recipient country).

In view of the objective of the concessional lending e.g. increase the overall amount of aid resources available, it would not be appropriate if it were decided in advance that any funds to be repaid should be ear-marked for the financing of future projects in the same recipient country. Such an arrangement would prevent the Fund from allocating and managing its resources in the most effective way. Even if the Executive Committee admits the reallocation of the funds repaid to the original recipient country, such funds shall be made available on a loan basis.

Principle 3 (parameters of financing conditions depend on the needs and the capacity of the recipient).

We agree to this principle. Nevertheless, the credit worthiness of the recipient country and the beneficiary of the concessional loan is indispensable for loan arrangements in order not to impair the financial base of the Fund.

Principle 4 (provision for administrative costs).

The imposition of the administrative costs is an obvious need. But the 13 per cent programme support cost should not be a basis for determining the level of administrative costs for concessional lending if the level of the lending far exceeds that of normal assistance and investment projects.

Sweden

In relation to the third principle “the parameters of innovative financing”.

In particular conversion projects that lead to savings in operations costs should be considered for concessional lending, where a direct relationship should be sought between the amount of the savings and the term of concessionality.

As a general Swedish principle.

A concessional facility, if established should be accommodated within a total replenishment for 2000-2002 not exceeding the 1997-1999 replenishment, calculated at its net value.

Framework for discussion

Overarching principles for the concessional lending programme

- A lending programme should be complementary to the grant programme and not replace it.
- Use of concessional lending should not result in additional official debt for any Article 5 country whose enterprise(s) may decide to avail itself of the lending programme.

Flexibility in operating the lending programme

The lending programme should be tailored to the needs of projects and the capacity of the recipient country. Therefore there should be flexibility in

- Forms of funding. There could be straight lending from the Multilateral Fund, like in the case of the Thai chiller replacement programme. There could also be grants from the Fund but managed as lending in the country.
Under either form, however, project appraisal and monitoring are necessary to maintain the value of the resources of the Fund.
- Recycling of funds. Funds could revolve within the country, but on lending basis. Funds could also be returned to the Fund for reallocation to maximize efficiency.

Eligibility criteria

- The lending programme should be accessible to all enterprises in eligible sectors irrespective of their size.
- Projects with operating savings should be able to access the lending programme and the concessionality terms could be proportional to the amount of savings of the project.
- SMEs should be treated in equitable terms under the concessional lending programme.

Administrative cost

- There should be appropriate level of administrative cost to support any lending programme.

The level of cost should be based on project/programme size and not the current 13 percent support cost regime for the grant programme.