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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirtieth Meeting
Montreal, 29-31 March 2000

**FINANCIAL INTERMEDIARIES/ADMINISTRATIVE COSTS,
FOLLOW-UP ON DECISION 29/73**

1. In response to decision 28/49(b), the World Bank submitted to the 29th Meeting of the Executive Committee a clarification of the funds used for the financial intermediaries. The World Bank indicated that the role and responsibilities of a typical financial agent in supporting the World Bank and the country include:

- (a) Evaluating the financial viability of projects and beneficiary enterprises;
- (b) Preparing project appraisal reports;
- (c) Signing grant agreements with beneficiary enterprises;
- (d) Assisting the Bank in supervising project implementation including procurement, disbursement and compliance of national, Montreal Protocol and World Bank requirements;
- (e) Assisting in the preparation of progress reports of projects to national environment protection agencies; and
- (f) Assisting in the preparation of project completion reports at project completion. (UNEP/OzL.Pro/ExCom/29/60, para. 3).

2. With regard to the information supplied by the World Bank on the services provided by financial intermediaries, the Executive Committee decided:

- (a) To request the World Bank to clarify which of those services, strictly speaking, could fall under the heading of project preparation and to report to the Executive Committee at its Thirtieth Meeting;
- (b) To request the other implementing agencies to report to the Executive Committee at its Thirtieth Meeting on the arrangements which they made to have such services performed; and
- (c) To request the Sub-Committee on Monitoring, Evaluation and Finance to examine the above-noted issues related to administrative costs at the time of the Thirtieth Meeting of the Executive Committee.

(Decision 29/73)

3. The World Bank responded that none of these items could fall under the heading of project preparation. The Secretariat requested further clarification of this matter. The Bank indicated additional funds would be required to send financial experts to assess projects at the project preparation stage; however, the Bank's rules require an assessment of the financial viability of the beneficiary enterprise should be made by the financial intermediaries in advance of the release of any approved funds.

4. The Fund Secretariat discussed this matter with the implementing agencies at their Coordination Meeting held from 9-10 February 2000. It was agreed that the only item that might

be conducted during project preparation was the evaluation of the financial viability of beneficiary enterprises. The Secretariat subsequently requested agencies to answer the following questions, (1) is the financial viability of beneficiary enterprises determined during the project preparation stage, and (2) if not, why.

5. UNDP and UNIDO provided further clarifications on this matter as presented below. It should be noted that UNEP, in general, does not receive project preparation requests.

UNDP

6. UNDP indicated that for project proposals, sector experts (international and/or national) review enterprise production, consumption and purchasing records during project formulation when they visit the enterprise. Through discussions with enterprise management relating to the past, current and projected level of production and inspection of production facilities, sector experts obtain a general sense and impression of the financial situation of the enterprises. Further verification is sometimes obtained through phone calls to enterprise competitors to discuss market share and prospects.

7. In addition, UNDP uses one or more of the following options to gather more information on the financial viability of enterprises:

- (a) In several countries (e.g. Bahrain, Egypt, Indonesia, Iran, Lebanon, Malawi, Malaysia, Syria, Tanzania, Zimbabwe), UNDP obtains a letter from the Government stating that, based on preliminary screening, the enterprises are deemed to be financially sound enough to undertake the conversion project;
- (b) In some countries, the NOU may have information on the financial status of particular enterprises, in which case the financial condition of the enterprise is confirmed to UNDP by the NOU. In Argentina, the NOU requests the past three years of enterprise financial records, and then the legal and accounting departments of the Ministry help the NOU analyse them and verify national ownership and title. In China, SEPA carries out preliminary screening of the financial viability of enterprises and only allocates them to implementing agencies when it is satisfied with the current financial condition of those enterprises. And in India, project proposals have to go through the Government's Montreal Protocol Steering Committee which does preliminary checks to verify the financial viability of the enterprises before such proposals are cleared for submission by implementing agencies;
- (c) In some countries, UNDP uses information that industry associations may have on the financial status of particular enterprises. This option is used when industry associations are strong and have such capabilities, such as in Brazil.
- (d) In some countries (e.g. Brazil, Colombia, Mexico, Nigeria, Thailand) the NOU may review but is unable – for legal, accounting or other reasons – to officially comment on the financial status of enterprises. In such cases, in addition to the

review done by the international and national experts, UNDP may request audited financial statements if the financial stability of a particular enterprise is in doubt.

8. Since technical experts and most UNDP/NOU staff are not trained financial experts, they are not qualified to evaluate the precise financial condition of an enterprise. This would require a thorough in-depth analysis of enterprise financial statements as well as an analysis of its market prospects to guard against the potential of severe financial difficulty in the future. Current requests for project preparation do not include any funding provision for such activities.

9. And finally, in many cases, detailed enterprise financial records are treated as confidential, with enterprises willing to share them only with qualified financial auditors and only when compelled to do so.

UNIDO

10. UNIDO initially indicated that it has never implemented Montreal Protocol projects through financial intermediaries and therefore no arrangements were made to have such services performed. However, subsequent to the clarifications provided by the Fund Secretariat at the Coordination Meeting, UNIDO indicated that an assessment of the financial viability of an enterprise is not done for the following reasons:

- (a) All projects have to be supported by Ozone Officers and UNIDO expects that a review and at least a preliminary screening of the financial viability of the enterprises is being done by ozone authorities prior to submission of requests for assistance from the Multilateral Fund.;
- (b) The disclosure of information related to the financial viability of a company by management, as a world-wide practice, is to be treated in a very cautious and confidential manner; accordingly in most cases, management is reluctant or even defensive if requested to reveal financial details;
- (c) A project to convert production line(s) of beneficiary company(ies) addresses foremost the technical situation, and therefore, the UNIDO staff members who cover a technical portfolio in all cases visit project sites/enterprise and the factories, specifically to review the future feasibility of the project and its sustainability. In view of UNIDO's long experience in dealing with industrial enterprises, their staff members have adequate knowledge and experience to appreciate the situation. However, a very few UNIDO projects do suffer due to unpredictable developments at the enterprise level; and
- (d) A serious assessment of the financial viability issue would require separate expertise resulting in much higher budgetary and time requirements for project preparation.

RECOMMENDATIONS

11. The Sub-Committee on Monitoring, Evaluation, and Finance may wish to consider the adequacy of the clarifications provided by the implementing agencies in its examination of how financial intermediary services could fall under the heading of project preparation.