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EXECUTIVE COMMITTEE FOR THE
MULTILATERAL FUND UNDER THE
MONTREAL PROTOCOL

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CRITERIA FOR PROJECT ELIGIBILITY

This paper proposes interim project eligibility criteria created by Decision II/8 of the Second Meeting of the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer and based on Decision II/8 and Annex I. They were developed specifically for the purpose of aiding implementation of funding decisions for specific projects by elaborating on the meaning of incremental costs. Under the Terms of Reference, the Executive Committee is charged with further developing the criteria for project eligibility.

Criteria

1. Financial and technical assistance from the Multilateral Fund under the Montreal Protocol (Fund) shall be available only to Parties operating under Article 5, para. 1 of the Montreal Protocol and in compliance with the requirements of the Protocol. Such assistance shall be available only to ensure compliance with the control measures set out in Article 2A to 2E of the Protocol (Decision II/8, para. 1) and to finance the incremental costs incurred in meeting these requirements.

2. Financial assistance shall be available for categories of incremental costs identified (Decision II/8, Appendix I, para. 1 of Annex 4 of the Report). Assistance for other categories of costs requires the approval of the Executive Committee.

3. Financial and technical assistance shall be available for cost-effective and environmentally sound alternative technologies or substitutes to the substances restricted by the Protocol, taking into account the national industrial strategy of the recipient party (Decision II/8, Appendix I, para. 1 a of Annex 4 of the Report).

4. The calculation of incremental costs shall include sufficient disaggregation of costs to document the absence of double counting (Decision II/8, Appendix I, para. 1 b of Annex 4 of the Report).

5. Applications for assistance shall consider the net savings and benefits during the transition to ozone-safe substances (e.g., reduced operating costs if chemicals are recaptured and recycled) (Decision II/8, Appendix I, para. d of Annex 4 of the Report). The funding of incremental costs is intended to provide an incentive for the early adoption of ozone-protecting technologies. With this in mind, the Executive Committee shall agree which time scales for payments of incremental costs are appropriate in each sector. In addition, alternative uses of existing infrastructure that decrease net capital costs shall also be taken into consideration.

Other considerations

1. These criteria will be clarified in the process of preparing country studies and in project-specific review and approval between the applicant and the World Bank.

2. This is intended to be a flexible document and should be reviewed after one year of experience using the Fund.

3. All projects should take into consideration ease of replication and technology transfer to other Parties operating under Article 5, para. 1.

4. All projects must receive approval of the requesting country's government.

5. Costs other than project-specific incremental costs may also be incurred under other functions defined by the Parties to fall within the purview of the Fund (e.g., clearing house functions).

6. Apply simple criteria for deciding between concessional loans and grants based on payback period 1/:

Grants

- No financial payback;

- Continuing incremental cost (capital plus operating);

- Small amount of money;

1/ A three-tiered approach elaborated by the World Bank for investment projects under the Global Environmental Facility (GEF) warrants further discussion. This approach proposes that projects which are economically viable on the basis of domestic benefits and costs to the country itself would qualify for loans. Projects which would be justified only if they were subsidized or where additional costs or benefits would be incurred would qualify for grants.

- Training;

- Demonstration or pilot project; and

- Agreement by the recipient to replicate the project (training or technical consulting) at comparable value.

Concessionary loans

- Fast payback of a large amount of money to a few individuals or companies; and

- Cases where projects would occur without subsidy.

For purposes of project review, data should be provided that allows calculation of net present value (NPV), internal rate of return (IRR), break-even point, and cash flow and fund flow.
