UNITED
NATIONS

EP

United Nations Environment Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/24/46
26 February 1998

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-fourth Meeting
Montreal, 25-27 March 1998

CONCESSIONAL LENDING

(A proposal by the United States of America)

A Proposal by the United States of America
Concessional Financing

Article 10 of the Protocol states that "the Multilateral Fund shall meet, on a grant or concessional basis as appropriate, ... the agreed incremental costs".

To date, the Fund has acted almost exclusively on the basis of grants, rather than on a concessional basis, to meet the agreed incremental cost of phaseout projects. By limiting the use of Fund money to grants, the Fund may not be maximizing ozone layer protection benefits. The purpose of this paper is to recap the degree to which the Fund has historically carried out its work on a concessional basis, and to lay out a vision for the additional use of concessional financing to cover agreed incremental costs and achieve the goals of the Fund.

Various uses of Concessional Financing/Loans to Date, and their Potential Future Use

Loans to enterprises to enable CFC conversions can be implemented in a variety of ways:

1. On-lending

In 1992, the Fund was asked to approve a project for the incremental cost of the phaseout of a refrigerator manufacturer in Turkey. Upon reviewing the draft project proposal, and taking into account the status of the refrigerator manufacturer and its ability to make the transition to non-ODS largely without Fund support, the government of Turkey decided to request that the full agreed incremental cost of the project be paid to the firm in the form of a grant, with the understanding that the firm would repay 1/2 of the money granted. The money paid back would be directed to a government account that would, with Fund review, support additional ozone phaseout projects in the country. This made the project half grant, half loan. In this case, the government, and through it, the Fund, used a loan to leverage the phaseout in a company that was clearly able to undertake the transition without full grant support. In the process, it freed up Fund money to finance additional ODS phaseout activities.

Specific Actions Needed

An on-lending mechanism such as that described above can work on virtually any type of project. However, to implement an on-lending system on a more significant level, the Executive Committee should ask the Secretariat to work with the implementing agencies to identify parameters that could be used to judge whether specific firms requesting grants would be in a financial position to implement the projects with less then full grant support. In such cases, a portion the funds provided to the firm could be re-paid back to the government or the financial intermediary, with the understanding that those funds repaid could be used by the government for other ozone activities. To facilitate targeted re-use of loan payments, the Secretariat should be asked to work with the agencies to develop guidelines for the use of funds repaid through on-lending programs. Finally, it must be recognized that some loans could default, and that in any case, the costs to the Fund to manage loans could run to 10% or more of the loaned amount. This may have to be paid to the financial intermediary or National Ozone Unit to service the loans. However, the savings to the Fund could be high. We should ask the Secretariat and the agencies to investigate this issue, how it operated in the case of the project discussed above, and how it could operate in future projects.

2. Revolving Funds

Since 1994, the USEPA and UNDP, working with four countries, have been implementing recycling projects. Although each project differed in some respects, several included a revolving fund mechanism. Under some of these projects, the Fund initially pays for the full incremental cost of providing MAC technicians with training and recycling machines. However, these machines were only provided for a specified period. If, after that initial period, the user determined that it can make a profit, the user paid 40-60% of the cost of the machine to take over full ownership of the machine. This has two major benefits. First, it ensures that equipment purchased by the Fund is put to maximum use to reduce the use of new ODS - if the machine is not being used, the technician has an incentive to turn it in. Second, the money received from technicians for the purchase of the machines is then used to facilitate the purchase of additional machines that are placed with new users under the same conditions. In this respect, this type of project is similar to an on- lending situation. It leverages the resources of the Fund, while ensuring that machines provided to the firms are well used. This mechanism may be particularly well suited to facilitating implementation of refrigerant management plans.

Specific Actions Needed

Revolving fund systems like the one noted above seem particularly well suited to cases where the capital goods being provided through the Fund are readily mobile, and there is likely to be a benefit that accrues to the user of the machine. However, there may be other cases in which such systems can work effectively. In this regard, we should ask the Secretariat to work with the agencies to try to identify cases where revolving funds can be most useful.

3. Additional Areas for the Use of Concessional funding

The areas noted above are based on the Fund's initial experience to date. It should be noted that they cover areas where the Fund has recognized agreed incremental costs. They do not attempt to use even loans from the Fund to cover areas where there is no agreed incremental cost. There are likely to be other areas that could benefit from the use of concessional financing, and other types of concessional financing that may be worthwhile to pursue. For example, concessional financing may play a key role in the implementation of sectoral phaseout strategies. This paper is designed to stimulate further thoughts on this important area.

Unsettled Issues

It has been clear for some time that many Article 5 countries have been reticent to agree to the use of concessional funding. However, it is equally clear that concessional funding is included in the Protocol, and is strongly desired by many Article 2 countries.

The Parties in 1995 called for the use of concessional loans to be initiated by the end of 1996, to the extent that the need and demand exist. Some Article 5 parties express a belief that the need and demand do not exist. At the same time, these parties express a belief that the resources available through the Fund are currently inadequate, and that they can not get funding for all of the projects that they seek, including those in the SME sector. We respectfully suggest that this demonstrates the need and demand for concessional loans, and that concessional financing will be critical if the Fund is to facilitate meeting the 50% reduction step in 2005. Accordingly, we believe that a way must be found to use them now to leverage the existing resources in the Fund, consistent with the negotiated agreement of both Article 2 and Article 5 parties under the Protocol. We therefore propose that we work together to leverage the use of the Fund to ensure compliance by taking the specific actions noted at the earliest possible moment.