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

CO-FINANCING

1. Pursuant to Executive Committee Decision 23/41 which

   (a) requests the Secretariat to explore modalities for co-financing with the Implementing Agencies
   (b) to discuss the issue further at a subsequent meeting,

   the Secretariat had a discussion on the subject with the implementing agencies at the Coordination Meeting on 5-6 February 1998 in Montreal.

2. Depending on the practice which is followed in their regular programmes, co-financing is interpreted differently from implementing agency to implementing agency. Since the concept is not fully defined in Decision 23/91, it was agreed that each implementing agency communicate to the Secretariat by 20 February 1998 information on how co-financing is being implemented under its regular programme and that the Secretariat prepare an information paper based on inputs from the implementing agencies.

3. As of the time of the dispatch of documents to the Executive Committee, the Secretariat has only received input from UNEP/IE and the World Bank which is summarized as follows:

<u>UNEP IE</u>

4. Additional to their contributions to the Multilateral Fund, a few Non-Article 5 countries including Sweden and Finland have co-financed the following UNEP/IE ozone programme:

- ODS officers network in Southeast Asia and Pacific
- Technical assistance to developing countries (non-parties to the Montreal Protocol)
- Methyl bromide phaseout activities in Africa
- Workshop on hydrocarbon as retrofit in domestic refrigeration

<u>World Bank</u>

5. Three options are reviewed as possibilities for co-financing under the World Bank's operating polices and procedures.

   (a) ***Co-financing as part of the World Bank lending operations***: Any proposal to directly deploy the Bank's own resources toward part of an ODS phase out operation would require to have the following general characteristics:

   - It would be subject to the Bank's own procedures for project approval, including specific management/Executive Board clearance and legal agreements. The Bank's approved operational procedures regarding Montreal Protocol projects do not specifically provide authorization for use of any resources outside of the Ozone Trust Fund.
   - The funds proposed to be deployed would not be on a grant basis.

- Such proposals would also be influenced by other factors relating to the Bank's relationship including current levels of exposure on the overall portfolio of Bank lending to the country in question.
- Such proposals would need to conform with the prioritization of sectors and lending opportunities spelt out for the country in question in the Bank's Country Assistance Strategy, which specifically targets the bank's overarching objectives (such as poverty alleviation and infrastructure development) and is approved on an annual basis.
- In all but the most exceptional cases, the likely dimensions of any such co-financing requests will be quite small, and approvals through the Bank process will not necessarily be cost-effective.

(b) ***Co-financing by Financial Intermediaries (FIs):*** Depending on the specific national arrangements, FIs who are responsible for channeling the Ozone Trust Fund resources to projects can also offer to provide co-financing to cover additional financial requirements or investment requirements not covered in the Grants. The FIs are well placed to do so, as they have responsibility of financial appraisal of enterprises and hold project-related securities on ODS equipment. However, such a commercial or loan package (for example, via the Land Bank of the Philippines) will be resourced from the FI's funds, and will be subject to its own standard credit policies and procedures. In Turkey, a Revolving Fund for ODS Phaseout Activities was established as part of the first project in 1993. These funds are used primarily to finance small projects or parts of large projects to match available funds while ensuring quick implementation. The loan funds are dollar based interest-free credits with a maturity of 4 to 5 years including grace periods of 1 to 2 years depending on the project implementation period. The FI administers the roll-over of these funds, including selection of eligible projects, at a cost of 2-3% of the amount of financing provided.

(c) ***Trust funds administered by the World Bank:*** The Bank has also entered into separate Trust Fund agreements with individual bilateral donors to support specific studies or activities related to meeting the objectives of the Montreal Protocol. In addition to trust Fund resources, such exercises also require the Bank to cover expenses for its own staff and travel and processing of consultant contracts. Such studies or activities, including workshops involving key stake-holders, enable the identification of improved technological options or projected market demand related to ODS phaseout, and while they do not amount to co-financing they do contribute to reducing direct RD costs of the concerned industry.

Action Expected from the Executive Committee

6. The Executive Committee may wish to provide a clearer definition of the concept of co-financing to enable further pursuance of the subject.