

ANNEX IV

GUIDELINES FOR COST ASSESSMENT OF BILATERAL AND REGIONAL ACTIVITIES

This paper addresses the issues involved in assessing the incremental costs associated with bilateral and regional contributions to the Fund. Article 10 paragraph 6 of the Montreal Protocol as amended provides the basis for the consideration of bilateral and regional assistance:

"Bilateral and, in particular cases agreed by a decision of the Parties, regional co-operation may, up to a percentage and consistent with any criteria to be specified by decision of the Parties, be considered as a contribution to the Multilateral Fund, provided that such co-operation, as a minimum:

- (a) Strictly relates to compliance with the provisions of this Protocol;
- (b) Provides additional resources; and
- (c) Meets incremental costs".⁴

The Parties have given the Executive Committee the responsibility of assessing bilateral and some regional activities. The Executive Committee is charged with assessing:

"annually whether the contributions through bilateral co-operation, including particular regional cases, comply with the criteria set out by the Parties for consideration as part of the contributions to the Multilateral Fund".⁵

To provide a basis for consideration of bilateral and regional contributions, the Executive Committee adopted criteria and procedures at its Fifth Meeting⁶. These guidelines primarily address procedures for the submission of requests to have bilateral and regional assistance count as partial contribution to the Fund but not the costing of such assistance. This paper assumes the guidelines and procedures adopted at the Fifth Meeting as a point of departure, and proposes guidelines for assessment of costs for bilateral and regional assistance.

⁴ From Decision II/8 adopted at the Second Meeting of the Parties, London, 27-29 June 1990, pages 12-14, [UNEP/OzL.Pro.2/3].

⁵ Ibid.

⁶ Report of the Fifth Meeting of the Executive Committee, Montreal, 18-22 November 1991, UNEP/OzL.Pro/ExCom/5/16, 22 November 1991, Annex IV, pp. 52-54.

Background

The Fund Secretariat requested Parties not operating under paragraph 1 of Article 5 to provide information on the nature and extent of bilateral assistance to Parties not so operating. The Fund Secretariat has communicated the Executive Committee decision regarding "Bilateral and Regional Co-operation" as included in Annex IV of the report of the Fifth Meeting of the Executive Committee to all Parties of the Montreal Protocol. The Fund Secretariat has received some requests for allowing bilateral assistance to serve as partial contributions to the Fund. However, there has been some confusion. Most of the requests received were to provide assistance to countries that have not signed the Protocol and therefore do not qualify. The Executive Committee has not so far addressed the issue of how to assess a claim by a Party that the bilateral or regional assistance conforms to incremental costs.

Considerations for the Development of Guidelines

Compliance with incremental cost guidelines requires several considerations that have already been determined by the Parties. An assessment according to these guidelines can be an intricate procedure. For costs to be considered as incremental costs, they must, for example:

- . Be "the most cost-effective and efficient option",
- . Consider "alternative uses",
- . Consider "how to avoid deindustrialization and loss of export revenues",
- . Take into account "savings and benefits that will be gained", and
- . Provide incentives for "early adoption of ozone protecting technologies".⁷

The description of incremental costs suggests that a detailed assessment of incremental costs is necessary as one could conclude from the following statement: "Consideration of project proposals for funding should involve the careful scrutiny of cost items listed in an effort to ensure that there is no double-counting."⁸ Such a detailed cost assessment could account for all of the qualifications for incremental costs.

⁷ "Indicative List of Categories of Incremental Costs," Appendix I to Decision II/8 ("Financial Mechanism") adopted by the Second Meeting of the Parties, number 1 a-d.

⁸ Ibid.

In practice, however, detailed costs may not be submitted. Without such a cost assessment, it is possible that projects conducted by donor countries may inadvertently not conform to the above criteria. There could be a less than cost-effective use of Fund resources. A situation could arise where the cost of a bilateral activity significantly exceeds the maximum cost ever approved by the Executive Committee for similar activity implemented otherwise.

The development of maximum allowable costs by project type by the Executive Committee could solve this issue. With maximum costs, a situation would not occur where the bilateral contribution could exceed the maximum approved by the Executive Committee. Such a procedure is currently under consideration for use in providing assistance for institutional strengthening. Likewise, the experience with costs of preparing country programmes could also yield maximum allowable costs as related to the calculated level of consumption of ODSs in an Article 5 country.

However, there is no comprehensive list of maximum costs for all conceivable projects. Although certain parameters should be developed to provide guidance for future Executive Committee decisions, it is not clear that all possible scenarios can be foreseen. Furthermore, there are other vehicles for determining the type and cost of projects that should be considered eligible for bilateral and regional assistance, namely, the approved country programmes and the approved projects.

Regional Activities

The Parties also indicated that "in particular cases agreed by a decision of the Parties, regional co-operation may ... be considered a contribution to the Multilateral Fund."⁹ Therefore, regional assistance measures must be decided by the Parties. However, what constitutes regional cooperation is not clear. Several questions arise, for example does regional assistance mean:

1. assistance provided by a donor country to a regional organization? Also, what part of assistance to a regional organization comprising of both Article 5 and non-signatory developing countries is considered eligible regional assistance?
2. assistance from a donor country to a set of Article 5 countries that happen to be in the same region constitute regional assistance?

It is clear that regional assistance is a complex issue. It would appear that any request for

regional assistance would have to address questions such as the ones raised above at a minimum. It is likely that more questions would arise when a specific regional assistance request is considered.

However, under certain circumstances, a form of regional assistance could be considered as bilateral assistance to several Article 5 countries. An example of this type of "regional" assistance is when a donor country hosts a training workshop for citizens of more than one Article 5 country that happen to be in the same region. In this case the contribution made for participation of Article 5 citizens and a pro rata share of workshop costs could be considered bilateral assistance to each country. Under such circumstances, the same criteria, procedures, and guidelines would apply to this type of "regional" assistance as bilateral assistance.

Criteria

The following criteria should be used in assessing the costs claimed as bilateral or regional contributions to the Fund:

1. Donor countries should submit a detailed account of how the assistance conforms to incremental costs.
2. Lists of maximum costs by level of ODS consumption by project type, e.g., those used for institutional strengthening, should be developed and claims for bilateral or regional contributions should not exceed the maximum levels.
3. Activities that involve more than one Article 5 country may be considered bilateral activities providing that the above criteria are met and a pro rata share is determined which accounts for participation of any non-Article 5 country.