UNITED NATIONS

EP

United Nations Environment Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/96/57
25 April 2025

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Ninety-sixth Meeting
Montreal, 26-30 May 2025
Item 10(b) of the provisional agenda[1]

UPDATE ON THE OPERATIONALIZATION OF THE ENERGY EFFICIENCY REVOLVING FUND FOR END USERS (DECISION 95/87(h) and (i))

Introduction

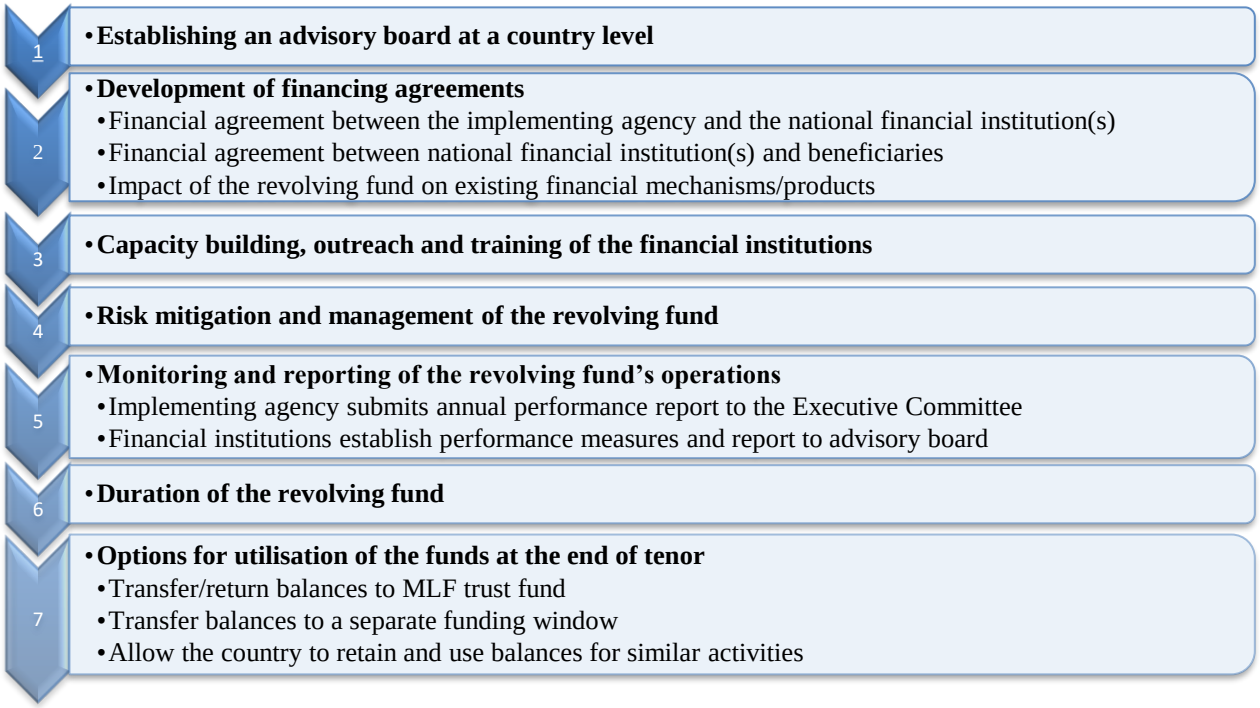
1. At its 95th meeting, the Executive Committee decided to establish a funding window of US $40 million for two energy-efficiency end-user projects using a revolving fund modality and requested the Secretariat to prepare for the 96th meeting an update on the operationalization of the revolving fund, as outlined in part C of document UNEP/OzL.Pro/ExCom/95/87 taking into consideration the discussions at the 95th meeting (decision 95/87(h)). The Secretariat was also tasked with working alongside implementing agencies experienced in revolving funds on energy efficiency to gather examples and lessons learned. Furthermore, the Secretariat was to illustrate the expected benefits of Multilateral Fund (MLF) contributions to both existing and new funds and present a summary paper at the 96th meeting (decision 95/87(i)). Information on the expected benefits of MLF funding for existing and new funds have been highlighted in paragraphs 18 and 19 of the present document based on information collected on experiences on similar financial mechanisms. The case studies are presented in document UNEP/OzL.Pro/ExCom/96/58.

2. This document was prepared based on consultations with technical and financial experts who have operationalised energy efficiency revolving funds, and relevant reports on revolving fund implementation in countries. Additionally, consultations were held with personnel involved in financing refrigeration, air-conditioning, and heat pump (RACHP) equipment to understand the specific requirements of their customers/clients for adopting such financial instruments. The document was prepared taking into consideration the discussion among members at the 95th meeting.

3. The following sections outline the main steps, with relevant guidance and conditions, required for operationalising the revolving fund in a country once the funds for energy-efficiency end-user projects are approved by the Executive Committee. These steps are also summarized in figure 1.

[1] UNEP/OzL.Pro/ExCom/96/1

Figure 1. Main steps for operationalization of the revolving fund



Establishing an advisory board

4. The first step in operationalising the revolving fund is to establish an advisory board to guide the entire process of the operations and management of the revolving fund. The advisory board could include representatives from key stakeholders from the country (e.g., Ministry of Finance, national ozone unit (NOU), energy efficiency regulatory organisations,[2] relevant line ministries/bodies, the respective implementing agency, national financial institution(s), and experts from international institutions implementing energy efficiency projects (e.g., Green Climate Fund (GCF), Global Environment Facility (GEF), bilateral agencies)). Subject-matter specialists and experts could also be included as they could provide specialised guidance for strengthening implementation.[3]

5. A clear definition of the roles and responsibilities of stakeholders is crucial to ensure transparency and accountability. The conditions that may accompany the approval of the energy-efficiency end-user projects by the Executive Committee will be incorporated into the institutional arrangements and the financing agreements.

6. The primary responsibilities of the advisory board or equivalent that is established will include:

(a) Overall guidance on target industry sectors/sub-sectors, framework on technologies to be supported through the revolving fund and priorities in accordance with the project approval conditions;

[2] This could include energy efficiency regulatory authorities, energy ministries, energy standards bodies depending on national circumstances.

[3] These experts can help in providing technical and financial inputs during the consultations relating to the revolving fund.

(b) Coordination with stakeholders on the revolving fund project implementation in line with the Executive Committee's conditions and general guidance;[4]

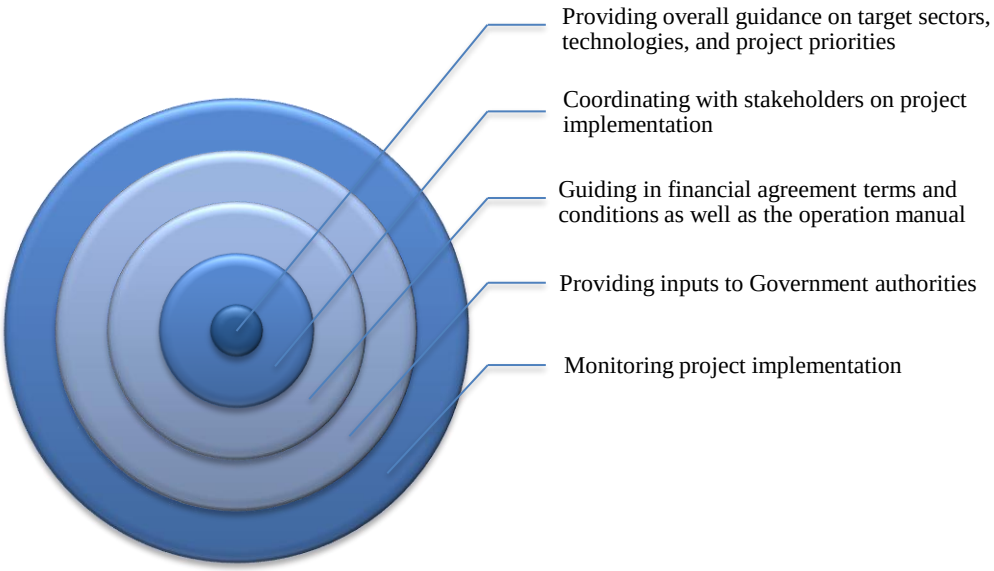
(c) Guidance on financial agreement terms and conditions including the project's operating procedures manual that would be part of the financing agreement. The manual will describe the financing modalities, the communication plan, the risk management framework, monitoring and reporting requirements;

(d) Guidance to government authorities (e.g., energy efficiency promotion authorities, tourism industry regulators, food processing and distribution industry regulators, etc.) on energy efficiency policies and regulations related to HFC phase-down in the country; and

(e) Monitoring of project implementation through periodic meetings, preferably on a biannual basis for the first two years and at an appropriate periodicity thereafter,[5] and review of progress reports as well as findings from relevant audit reports.

7. The implementing agency in close coordination with the NOU will oversee monitoring, guidance, and reporting related to energy efficiency and HFC phase-down policies including development of relevant reports to the Executive Committee. The financial institutions, under the guidance of the implementing agency, will be responsible for the disbursement and management of funds, with necessary safeguards to prevent administrative bottlenecks.

Figure 2. Primary responsibilities of the advisory board



Development of financing agreements

8. The energy-efficiency end-use projects with the revolving fund modality approved by the Executive Committee will trigger the development of financing agreements between the implementing

[4] This relates to revolving fund implementation and not the projects financed under the revolving fund; the latter would be responsibility of the national financial institution.

[5] This frequency can be decided based on project implementation performance; closer monitoring in the initial period is critical to provide necessary guidance and support for project implementation.

agencies and financial institutions, followed by additional financing agreements between national financial institutions and the beneficiaries (end-users).

Financing agreement between the implementing agency and the national financial institution(s) or intermediaries[6]

9. The financing agreement will outline:

(a) Roles and responsibilities of parties;

(b) Target beneficiaries and eligibility criteria;

(c) Environment and social safeguards for project implementation;

(d) Financing terms and conditions, including the threshold for each project, maturity, grace period, service fee, collateral guarantee, etc.;

(e) Legal arrangements and guarantees between financial institutions and beneficiaries. This includes the credit risk management structure for mitigating credit defaults as well as conditions associated with blended finance (if considered for operationalising the revolving fund);

(f) The financial institution procedures for loan approval, fund disbursement, repayment procedures;

(g) Procurement procedures for equipment and services procured through the revolving fund;

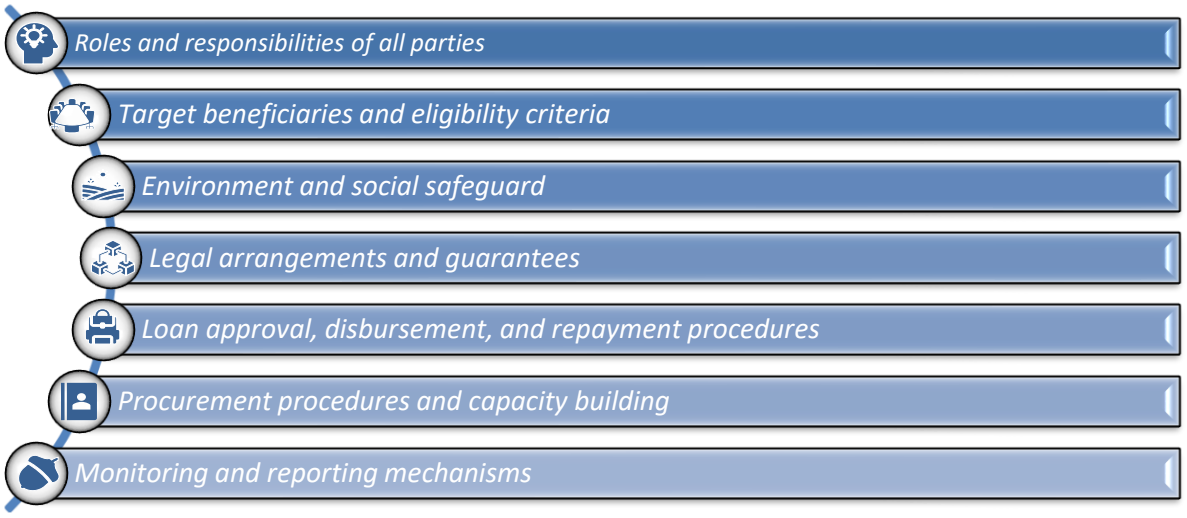
(h) Monitoring and reporting mechanisms undertaken by the financial institution(s) with relevant beneficiaries and by the authorised representatives of the advisory board and implementing agency. The progress reports will include technical and financial performance indicators;

(i) Capacity-building costs for the operationalisation of the revolving fund including who will fund which components; and

(j) Other relevant conditions based on project-specific and country-specific circumstances.

[6] Depending on the country's financial laws, agreements may have to be signed by the Ministry of Finance, Environment, or Foreign Affairs.

Figure 3. Outline of financing agreement between implementing agency and national financial institutions



10. The specific mechanisms of funds transfer will be in accordance with the provisions of the financing agreement and should ensure expeditious fund utilisation by the project beneficiaries. Details of the revolving and reuse of funds shall be described in the project's operating procedures manual annexed to the agreement.

11. There may be cases where for the operationalisation of a revolving fund, a special purpose unit had been established in a country as it is the case in Armenia.[7] In those cases where a special purpose unit exists, this can be also used for the energy-efficiency end-user project. Such entity may have advantages of focused implementation of the revolving fund, autonomy and independence in terms of management process, agile operations and streamlined procedures for financial procedures, management and accountability. Over time, these institutions can become a knowledge centre and handle similar activities based on their operational strategy.

Financing agreement between national financial institution(s) and beneficiaries

12. A standard contract/agreement for financing will be developed by the national financial institution(s) for use with the beneficiaries. The contract/agreement will mainly include the following terms:

(a) Loan amounts and co-financing requirements of the project;

(b) Project cash flow plan to ensure a successful project implementation;

(c) Interest rates and repayment terms. Since blended finance options can be used under this project, the repayment prioritisation aspects need to be covered;

(d) Collateral and credit risk management to mitigate payment defaults;

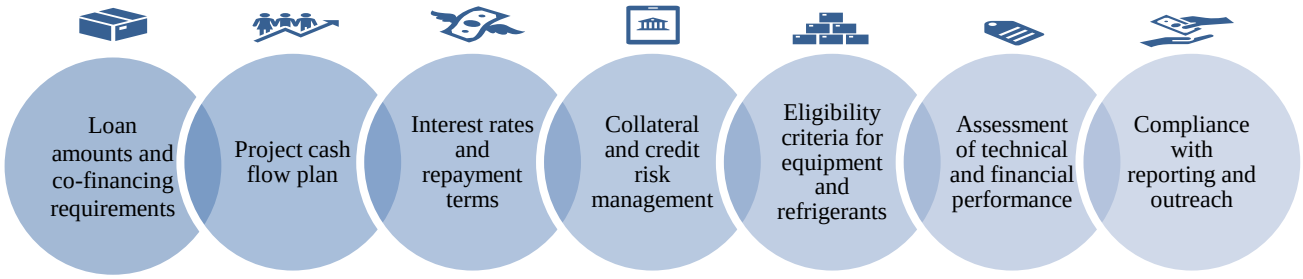
(e) Eligibility criteria for equipment and refrigerants. This includes energy performance levels of the equipment and technologies that are part of the project as well as the categories of costs that are eligible for funding through the revolving fund;

[7] The case study for Armenia is contained in document UNEP/OzL.Pro/ExCom/96/58.

(f) Assessment of technical and financial performance and other relevant aspects for projects, as necessary; and

(g) Compliance with reporting and outreach obligations by beneficiaries with a view to scale-up adoption of energy-efficient low-GWP refrigerant-based technologies and avoiding high-GWP refrigerant-based technologies in different RACHP applications. Procedures for reporting on financial and operational aspects relating to the project including confirmation for participating in any reviews relating to the project, if required.

Figure 4. Outline of agreement between national financial institution(s) and beneficiaries



13. It must be noted that financial institution(s) will design the overall financing package, aligning with eligibility criteria[8] while leveraging additional funding sources where applicable. Any blended finance options will be explored to maximize adoption of energy-efficient technologies including those related or linked to RACHP applications. However, any such arrangements must avoid delays (e.g., extra approval procedures, conflicting priorities and conditions) and excessive reporting burdens on beneficiaries. It is welcomed to use the internal procedures of the financial institutions if they are following the requirements of the projects. This will ensure smooth implementation and standardized procedures.

14. In the case of more than one financial institution, each one must establish an internal management structure for fund administration, confirming a focal point for coordination.

15. The financial institution(s) will disburse funds to the project beneficiaries following the approval of technical and financial safeguards through the relevant signed financial agreements.

16. In accordance with the terms of agreement, beneficiaries will be required to report on project outcomes and repay borrowed funds accordingly.

17. Technical and financial experts will support project execution while ensuring that the relevant technical and financial due diligence and safeguards are put in place. Their involvement in project implementation can vary based on the periodic reporting requirements to ensure that technical and financial performance of the project (e.g., project benefits in terms of reducing dependence on HFCs, safe disposal of recovered HFCs from the replaced equipment, energy efficiency, timely repayment of loans, accurate financial data reporting) are aligned to achieving the project goals. Strong and cost-effective technical and financial due diligence will minimise the project risks and ensure that the projects funded through the revolving fund achieve the desired outcomes.

[8] The details of the operational aspects need to be defined in the project's operations procedures manual or equivalent for the revolving fund that will be finalised and agreed by the advisory board.

Impact of the revolving fund on existing financial mechanisms/products

18. This revolving fund that focuses on RACHP equipment would catalyse adoption of energy efficiency financing products in the country. This can be achieved through a combination of structured financial instruments using revolving fund (e.g., financing large chillers, logistics and storage equipment in the country with a cost-effective financial blended financial product/existing financing facility[9] using revolving fund, financing retail stores/minimarts for conversion to energy efficient refrigeration and air-conditioning products with blended financial products using revolving fund), maximising synergies in awareness and outreach activities of the revolving fund with such support available for other financial products (e.g., GEF/GCF project promoting energy efficiency, other projects addressing specific segments of comfort cooling and refrigeration) and policy interventions promoting use of revolving fund for maximising energy efficiency impact in the country as this is a low-cost less investment intensive approach to reduce power demand in the country.

19. In many countries, implementation of steps to make cooling related applications or cooling itself less energy consuming are underway with activities using MLF and non-MLF funding.[10] Financing with a revolving fund modality would enhance the attractiveness of implementation of these initiatives involving non-MLF financial instruments and products. In addition, this would also add to other incidental benefits on upgradation of cooling and refrigeration infrastructure (existing and new) in the country.

Capacity building, outreach and training

20. Outreach activities will promote the revolving fund and its benefits, integrating with existing awareness programmes under the Kigali HFC implementation plan (KIP) and other energy efficiency initiatives in the country. Targeted awareness and promotion programmes addressing specific sectors (e.g., tourism, food transportation, storage and retail, fisheries) can also be used, as appropriate, for outreach programmes relating to the revolving fund.

21. National inter-institutional coordination mechanisms need to be strengthened as an integral part of the process involving fast-track adoption of the revolving fund; relevant operating processes would be defined for the revolving fund at the initial stages of operationalisation of the fund. Stakeholders identified in the cooling action plan and other key players at national level can play an important role in promoting use of funds.

22. For capacity building and training activities for financing energy efficiency, wherever feasible, funding from other sources for activities relating to RACHP technology conversion could be used. This would help in stronger support for accessing funds under revolving fund.

Risk mitigation and management

23. An overview of the risk mitigation and management aspects has been presented in paragraphs 116 to 120 of document UNEP/OzL.Pro/ExCom/95/87.

24. Implementing agencies will thoroughly assess and evaluate political and economic instability risks, ensuring safeguards against the revolving fund. As explained in paragraph 118 of document UNEP/OzL.Pro/ExCom/95/87, the national financial institution(s) need to play an important role

[9] This can include a financing facility say for cold chain infrastructure upgradation, retrofitting and refurbishing buildings etc.

[10] As mentioned above, this would reduce the pressure on electricity grid and avoid investment-intensive power generation, transmission and distribution requirements.

in the operational aspects relating to managing the risk and financial processes with beneficiaries. This is essential to safeguard against loss in total value of the fund, given that this is a non-grant facility.

Monitoring and reporting of the fund's operations

25. On an annual basis, the performance of the revolving fund will be reported to the Executive Committee by the relevant implementing agency through the MLF Secretariat. The different aspects covered in this report could include the client coverage, performance in terms of HFC consumption addressed and energy efficiency levels achieved for ongoing and completed projects within the revolving fund period, overall financial and technical performance of the project, credit off-take and defaults if any including mechanisms to address defaults, are presented in annex I to the present document.

26. National financial institutions may establish their own performance measurement systems, sharing insights with the advisory board where relevant.

27. The implementing agency may conduct biannual review missions for the first three years, supported by independent experts.

Duration of revolving fund

28. While the tenor of the revolving fund may be initially considered for eight years,[11] the actual duration will be determined based on market conditions. Once the markets are ready, the revolving fund should be closed. A comprehensive project completion report, covering different aspects of the project implementation and performance measures, will be developed by the implementing agency and the NOU to outline how experiences can be leveraged for future initiatives at national, regional, and global levels.

Options for utilisation of funds at the end of tenor of the revolving fund

29. At the end of the tenor, the implementing agency will report the information on balances available in the energy efficiency revolving fund to the Executive Committee. As presented in the overview of funds flow for energy efficiency revolving fund, on fund repayment, replenishment, reallocation or redistribution,[12] the Executive Committee could consider the following options:

(a) Transferring funds to projects approved by the Executive Committee by blending the funds back into MLF balances. This will be like the regular processes followed by the Executive Committee when balances are returned by the agencies after project implementation;

(b) Transferring these funds to a separate funding window which can be used for purposes identified by the Executive Committee for project implementation. This will be like the process used for additional contributions available for implementing enabling activities; and

(c) Allowing the country to continue to use the remaining balances for similar activities under a revolving fund modality, subject to conditions approved by the Executive Committee. This would require specific request to the Executive Committee on using such balances.

[11] Decision 95/87(f) specifies eight years; the actual duration may depend upon specific project needs that would be detailed in the project proposal that would be submitted by the agency.
[12] Page 22 of document UNEP/OzL.Pro/ExCom/95/87.

Recommendation

30. The Executive Committee may wish to note the updated information provided on the operationalization of the energy efficiency revolving fund for end users.

Annex I

MONITORING AND REPORTING OF OPERATIONS OF THE REVOLVING FUND

Most of the information given above will be available from the individual project reports and should be consolidated through an appropriately designed project database containing the following fields:

(a) Sector(s)

(b) Number of project proposals from interested beneficiaries

(c) Number of approved projects and number of projects completed and under implementation

(d) Type of equipment (e.g., large cold rooms, supermarket refrigeration units)

(e) Baseline and new refrigerants used and quantity of HFCs replaced through the project; this could include direct and avoided HFCs both in terms of equipment charge level and service charge level

(f) Baseline and energy consumption or energy-efficiency level achieved after project implementation in kWh/year

(g) Total cost of equipment in local currency and US $ equivalent

(h) Total support from the revolving fund in local currency and US $ equivalent

(i) Interest rate to the borrower through the funding mechanism

(j) Market interest rate for an equivalent transaction

(k) Number of women employees/personnel supported through capacity building and technical information outreach relating to this project

(l) Repayment default, if any, and the value of unpaid revolving fund amounts in US $

(m) Cumulative default value in local currency and US $ equivalent

(n) Status of implementation of energy performance standards and labelling programmes promoting low-GWP refrigerants in relevant sectors supported under the project

(o) Status of development of new innovative project implementation processes directly or indirectly supported by this programme for adoption of energy efficient low-GWP refrigerant-based technologies (e.g., energy distribution companies and energy service companies participating in promoting energy efficient RACHP equipment as a result of this project, greater market participation of national financial institutions in promoting energy efficient low-GWP refrigerant-based RACHP equipment, coordination with other projects funded under non-MLF funding support relating to promoting energy efficient low-GWP refrigerant-based RACHP equipment).