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Implementation of the Montreal Protocol

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RETROACTIVE FUNDING

Introduction

1. This paper is prepared in response to decision 20/26 which requests the Secretariat to prepare a policy paper for consideration at the Twenty-first Meeting on the issue of retroactive funding as a whole, covering *inter alia* the years to be used as a basis for determining ODS consumption, in order to give guidance to the implementing agencies.
2. At the Fifth Meeting of the Executive Committee (November 1991) an Article 5 country submitted its country programme with a request for reimbursement of the cost incurred by it for the preparation of the country programme. The Committee debated over the issue and requested the Secretariat to prepare a paper on the issue of retroactive funding.
3. The Secretariat submitted its draft paper on the issue to the Seventh Meeting of the Executive Committee (June 1992) which decided that:

“The resources of the Fund may be extended to cover the agreed incremental costs of projects that had not received prior approval by the Executive Committee provided that: (a) they were incurred by an Article 5 paragraph 1 country subsequent to the date on which it became a Party to the Montreal Protocol; (b) they meet the eligibility criteria” (UNEP/OzL.Pro/ExCom/7/30, para. 84).
4. To assist in the preparation of this paper, the Secretariat requested UNDP, UNIDO and the World Bank to furnish information on the projects approved for retroactive financing which were submitted by them.
5. The agencies concerned provided the information shown in the next table:

Profile of projects approved for retroactive funding

	Sector	Implementing Agency	Year of approval by ExCom	Year of phase-out	Base year for consumption	ODP Tonnes	Cost US \$	C.E.
1.	Aerosol	UNDP	1994	1995	1992	25	62,150	2.48
2.	Aerosol	UNDP	1995	1996	1992	155	474,705	3.06
3.	Aerosol	UNDP	1995	1996	1993	13	37,808	1.08
4.	Foams	UNDP	1993	1994	1991	150	235,811	0.39
5.	Foams	UNDP	1994	1995	1991	120	280,000	0.17
6.	Foams	UNDP	1994	1995	1993	160	241,000	1.50
7.	Foams	WB	1995	1993	1993	55	514,563	9.36
8.	Halons	WB	1995	1994	<1992-1994>	462	251,736	0.54
9.	Dom. Refrigeration	UNIDO	1995	1994	1993	206.7	1,237,689	5.54
10.	Dom. Refrigeration	WB	1995	1994	1994	99	500,644	5.06
11.	Dom. Refrigeration	UNDP	1995	1997	1994	47	112,244	2.38
12.	MAC	WB	1994	1993	<1991-1993>	85	141,500	1.66
13.	Solvents	WB	1993	1993	<1990-1992>	27.2	2,573,000	94.6
14.	Solvents	UNDP	1993	1994	1992	0.100	113,570	113.57
15.	Solvents	WB	1995	1995	<1992-1994>	16.8	56,893	3.39
16.	Solvents	UNDP	1995	1996	1992	155	474,703	3.06
17.	Solvents	UNDP	1995	1997	1993	21	104,700	4.98
18.	Solvents	WB	1996	1995	<1992-1994>	5	99,440	3.39

6. The table indicates the following:

- (a) Three projects were submitted in 1993, four in 1994, ten in 1995 and one project in 1996;
- (b) Eight projects were implemented either before or during the year in which they were approved;
- (c) Ten projects were to complete implementation after the year in which they were approved. (These projects requested reimbursement for equipment needed for the phase-out which had been procured before the project was prepared);
- (d) The cost effectiveness of the projects, with two exceptions, are below the threshold values established by the Executive Committee at its Sixteenth Meeting in 1995;
- (e) In most of the projects, the year used for calculation of the consumption level varied from 1-3 before the project was submitted for approval. In fewer projects, the average of the three years preceding approval was used as basis for calculating the consumption;
- (f) The total cost of the projects amounted to US \$7.5 million (of about US \$401 million approved for all investment projects as of October 1996).

Base year for determination of consumption

7. The Committee decided at its Sixteenth Meeting that ODS consumption should be calculated on the basis of either the year, or an average of the three years, immediately preceding project preparation (UNEP/OzL.Pro/ExCom/16/20, para 32 (b)).

8. The implication of the decision is that older projects, that is, projects where the phase-out occurred some years before preparation of the project, are unlikely to be eligible for funding. This is because, if the ODS consumption of the project is calculated on the average of the three years immediately preceding project preparation, then the consumption of an enterprise for which the phase-out was completed more than three years before project preparation would be zero. The project would thus be ineligible for funding as there was no ODS consumption. For projects between one and three years old, the ODS consumption would be reduced, as it is the average of figures for three years, some of which would be zero. Thus the cost-effectiveness of the project would be high and could exceed the threshold for the sector or sub-sector.

Retroactive funding and other decisions of the Executive Committee

9. Since its Seventh Meeting in June 1992, the Executive Committee has decided on important policy issues and established a series of guidelines to manage the business of the Multilateral Fund. Thus, financial support for national governments to set up dedicated units for the purpose of coordinating the implementation of the government national programme under the Multilateral Fund was considered by the Executive Committee as an eligible incremental cost. In addition, financial intermediaries in some Article 5 countries were compensated for their efforts which included, *inter alia*, identification, preparation and implementation of projects (national implementation). This effort at capacity building was further augmented by funding of Networks which cover many Article 5 countries. The Networks provide one of the instruments for dissemination of information on Fund's policies and guidelines. Together, these measures addressed, among other requirements, the perceived need for countries to be able to identify, in advance, enterprises which would meet the eligibility criteria for the provision of assistance from the Multilateral Fund.

10. The Executive Committee has also given clear guidance in its decisions on cost-effectiveness, business planning, destruction of replaced equipment, data reporting, and starting from 1997 all projects should be submitted with a statement as how the project will enable the Article 5 country concerned to meet the freeze.

Conclusion

11. The Executive Committee may wish to decide a further course of action regarding projects submitted with requests for retroactive funding.