

NATURE AND EXTENT OF PROJECTS SUPPORTED BY  
THE MULTILATERAL FUND

Communication from the Multilateral Fund for  
the Implementation of the Montreal Protocol

I. ESTABLISHMENT OF THE FUND

1. The Parties to the Montreal Protocol established at their second meeting (June 1990) an Interim Financial Mechanism for three years (1991-1993) which included a Multilateral Fund. Contributions to the Interim Fund were initially assessed at US \$160 million for 1991-1993 and were later increased to US \$240 million during the same period. The Fund became permanent in January 1993 and was replenished in the amount of US \$455 million for an additional three-year period (1994-1996). The third replenishment was approved by the Parties in the amount of US \$466 million in November 1996 to cover the period 1997-1999.

2. Under the Montreal Protocol, countries are classified into two categories which roughly correspond to developed and developing countries. The latter group is more precisely defined in Article 5(1) of the Protocol as those developing country Parties whose annual per capita consumption of controlled substances is less than 0.3 kilograms. These countries are referred to as Article 5 countries and are the ones that are eligible for assistance through the Fund. Non-Article 5 countries are responsible for financing the Fund, based on the United Nations' scale of assessment.

II. STRUCTURE OF THE FUND

3. The policies and funding levels of the Multilateral Fund are determined by the Conferences of the Parties to the Montreal Protocol. Responsibility for overseeing the operation of the Fund rests with an Executive Committee which is assisted by the Fund Secretariat. Implementation of the Fund is effected through four implementing agencies.

A. The Executive Committee

4. The Executive Committee is comprised of 7 members each from Article 5 and non-Article 5 countries, who are selected by the Parties to the Montreal Protocol for a one year term. The Chair and Vice-Chair are selected from among the 14 members, with one position from each group of countries and the Chair alternating between the two groups. The functions of the Committee include the development and monitoring of operational policies, guidelines and administrative arrangements, budgets, the allocation and disbursement of resources, determination of criteria for project eligibility and the review of performance reports. The Committee meets three to four times a year.

B. The Fund Secretariat

5. The Secretariat assists the Executive Committee in the discharge of its functions. Its activities include developing the three-year rolling business plan; providing a system for fund disbursement; monitoring the expenditures and activities of implementing agencies; assessing investment projects, agency business plans, country programmes, and work programmes; operational policy development; and acting as a liaison between the Committee, governments and the implementing agencies.

C. The Implementing Agencies

6. Four international agencies have contractual agreements with the Executive Committee. These agreements establish the responsibilities of the agencies in regard to assisting Article 5 countries to prepare country programmes, feasibility studies and project proposals and the provision of technical assistance for project development and implementation. The agencies are the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the United Nations Industrial Development Programme (UNIDO) and the World Bank. UNEP implements non-investment activities and provides the clearinghouse functions while the other agencies focus primarily on investment projects and technology transfer to enterprises in Article 5 countries.

III. MAIN FEATURES OF THE FUND

7. The purpose of the Multilateral Fund is to enable Article 5 countries to meet their commitments under the 1987 Montreal Protocol and its subsequent amendments.

8. The Multilateral Fund is an environment fund rather than a development Fund. The Fund only pays the agreed incremental costs to be incurred by Article 5 countries for the phase-out of their ODS consumption. The Parties to the Montreal Protocol adopted an indicative list of categories of incremental cost which forms the basis for determining the eligibility of costs. The Executive Committee is charged with making the final determination of eligible incremental costs and the approval of projects under the Multilateral Fund.

9. The categories of eligible incremental costs include: the supply of substitutes (e.g., conversion of ODS producing plant), use in manufacturing as an intermediate good (e.g., conversion of manufacturing facilities and associated training), and certain end use categories (e.g., recovery and recycling of ODS, reduction of their unintentional emissions and their eventual destruction). The Multilateral Fund defrays the cost of eligible new equipment, retrofits, royalties, licensing fees, patents, technology transfer fees, and operating costs.

A. Technology Transfer

10. Although the Fund ensures technology transfer, the Fund is not about technology transfer as technology transfer under the Fund is a means to an end and not an end in and of itself. Technology transfer agreements have been funded in project proposals approved by the Executive Committee for several projects in the tobacco, foam, and refrigeration and air conditioning sectors.

11. For costs to be considered incremental, the technology should be the most cost-effective and efficient option, environmentally viable, should not represent double-counting (i.e., costs addressed through other funded activities), and should contribute to an Article 5 country's efforts for an early phase-out. In some cases, technology transfer under the Multilateral Fund has been very rapid; the Fund has supported the transfer of the ozone-friendly technologies to Article 5 countries and, in some cases, at the same time they were being implemented in developed countries.

B. Operational Modality

12. Would-be beneficiary countries prepare country programmes with the assistance of one of the four implementing agencies.

13. In the beginning of Fund operations, the implementing agencies performed the main catalytic role in enabling Article 5 countries to access the Fund. There was a realization at an early stage that Article 5 countries did not have sufficient institutional capacities either to identify or to implement eligible projects. The Executive Committee decided to fund the setting up of capacities (ozone offices) in Article 5 countries, although such activities were not included in the list of categories of eligible incremental costs. Like country programmes, the establishment of ozone offices in Article 5 countries has become a permanent feature of the Fund.

14. Country programmes identify a country's level of ODS consumption and production by industrial sector. During this process, ODS users are also identified. This facilitates project identification and preparation. When a country is ready, implementing agencies invite all ODS user sectors to participate in workshops on how to receive support from the Fund. At such workshops, implementing agencies, Fund Secretariat and international ODS sector experts provide information on ODS substitutes and related technologies; and the operational policies of the Fund including procedures for obtaining project funding.

C. Project Proposals

15. The Fund through its Executive Committee pays for the preparation of projects in certain sectors by responding positively to requests for project preparation funding. Project proposals are then developed by the implementing agencies which in turn submit them to the Executive Committee on behalf of the Article-5 country concerned.

16. Project proposals contain information about the background of the sector and the enterprise(s) concerned, the ODS-using technology in-place, the proposed alternative technology and its costs, and the time frame for implementation. The Fund Secretariat reviews these proposals to ensure that the technology is ozone friendly and the costs are in fact incremental. Based on this review, the Secretariat makes a recommendation to the Executive Committee for action.

D. Profile of funded projects

17. Funded projects are grouped in two broad categories; namely, non-investment and investment projects. Under the first, all the capacity building activities, surveys, technical assistance and training are grouped. Investment projects focus mainly on conversion of industrial plants. In large-volume-ODS-consuming Article 5 countries, demonstration projects are implemented to ensure adoption and adaptation of the new technology before its wider replication in a given industrial sector. Demonstration projects are also mounted in low-volume-consuming Article 5 countries for the recovery and recycling of ODS.

18. To date the Fund has provided grant financing for the following categories of projects in some 106 Article 5 countries:

- US \$7 million for country programme preparation;
- US \$17 million for setting up of ozone offices;
- US \$30 million for preparation of projects;
- US \$47 million for technical assistance;
- US \$11 million for training;
- US \$6 million for demonstration projects; and
- US \$500 million for investment projects.

19. Funded projects cover important industrial sectors; such as, aerosol, foam, refrigeration and air conditioning, metal and electronic cleaning, expansion of tobacco, fire extinguishing and food and agriculture (methyl bromide).

#### IV. ACHIEVEMENTS AND CHALLENGES

20. The Multilateral Fund has been well subsidized, 87 per cent of 1991-1996 assessed contributions have been paid as well as about 30 per cent of 1997 contributions. (Often contributions are received in the last few months of the year).

21. Funded activities amount to US \$618 million as of June 1997, which will lead to the total elimination of about 80,000 tonnes of ODS or 40 per cent of the current reported consumption of Article 5 countries.

22. Guidelines for the phase-out of CFC production are being elaborated by an Expert Group consisting of industry experts from both Article 5 and non-Article 5 countries as a precursor to the commencement of project preparation in the Sector.

23. The development of strategies to phase out entire sectors in large volume ODS consuming countries have been funded and the first such strategy (halon sector in China) will be considered by the Committee in November 1997.

24. Novel approaches to eliminate the use of ODS in the small and medium-sized enterprises (SMEs) have been adopted by the Executive Committee. They include approval of any conversion project in a country whose ODS consumption is 360 tonnes or less without due regard to its cost-effectiveness.

25. Maintaining the current momentum will be crucial during the 1997-1999 triennium since every Article 5 country must freeze its ODS consumption and production in 1999 at its 1995-1997 level. Although it is likely that the majority of Article 5 countries have already met this first control measure, some important ODS consumers still lag behind.

26. Transfer of technology under fair and most favourable conditions, although achieved to a large degree in the ODS consumption sector, is still a subject of debate in the Production Sector. An Informal Group set up by the eighth meeting of the Parties (November 1996) is trying to address this issue.