



Multilateral Fund

for the Implementation of the Montreal Protocol

The Multilateral Fund Governance, Business Model, Access and Resulting Overall Achievements

Presentation to the Workshop for the Transitional
Committee of the Green Climate Fund

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GOVERNANCE AND INSTITUTIONS

- **Objective:** The Fund shall **meet all agreed incremental costs** to assist developing countries to meet the control measures of the Montreal Protocol [for the phase-out of consumption and production of ozone depleting substances (ODS)].
- **Incremental costs** are defined as the difference between the status quo and the environmental objective of the global community.
- **Guiding principle** agreed by the Parties is the **Indicative List of Categories of Incremental Costs** that provides *inter alia* that:
 - Funds should be for the most cost-effective and efficient option;
 - Project proposals should be carefully scrutinized
 - Savings and benefits should be taken into account
 - Funds should provide an incentive for early adoption of technologies



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Categories of Incremental Costs

(a) Supply of substitutes (Production)

- (i) Cost of conversion of existing production facilities
- (ii) **Costs arising from premature retirement or enforced idleness**
- (iii) Cost of establishing new production facilities for substitutes
- (iv) Net operational cost, including the cost of raw materials
- (v) Cost of import of substitutes

(b) Use in manufacturing as an intermediate goods (Consumption)

- (i) **Cost of conversion of existing equipment and product manufacturing facilities**
- (ii) **Cost of patents and designs and incremental cost of royalties**
- (iii) **Capital cost**
- (iv) **Cost of retraining**
- (v) Cost of research and development
- (vi) **Operational cost, including the cost of raw materials**

(c) End use (Consumption and Technical Assistance)

- (i) Cost of premature modification or replacement of user equipment
- (ii) Cost of collection, management, **recycling**, and, if cost-effective, destruction of ODS
- (iii) Cost of providing **technical assistance**

- As the Operational Committee of the GCF will address mitigation and adaption categories of costs, the Multilateral Fund addresses three main categories that contain sub-categories.
- The ExCom has based production sector funding on (a)(ii) the closure of plants, but may use (i) the cost of plant conversion in the future.
- All sub-categories of consumption were funded except R&D because approval guidelines require funding on the basis of proven technologies
- End use funding involved R&R programmes, technical assistance and training of customs officials and refrigeration technicians.



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INSTITUTIONS: Meeting of the Parties (MOP) to the Montreal Protocol

- **Universal accession** (as at 7 July--all countries of the world were Parties to the Montreal Protocol)
- **Established the Multilateral Fund** under Article 10
- The Meeting of the Parties (MOP):
 - Established the governing body of the Fund (the Executive Committee) and **provides overall guidance** to the Executive Committee through its decisions, including on **guiding principles, control measures, special funding windows, and incentives for other environmental benefits** (e.g. climate change)
 - **Selects membership** of the Executive Committee annually on a regional basis
 - **Receives reports** annually from the Executive Committee to the Parties that is presented to the MOP by the Chair of the Executive Committee
 - **Evaluates the operation** of the Fund and the other elements of the financial mechanism normally every three years
 - **Agrees a 3 year replenishment** of the Fund with annual contributions determined by the UN scale of assessments for developed countries only



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Executive Committee (ExCom)

- Consists of **14 members**, 7 from developed and 7 from developing countries with equal voting rights—but decisions have always been taken by consensus
- Endorses a rolling **3-year business plan and budget** based on the triennial replenishment agreed by MOP
- **Approves** operational policies and guidelines, national ODS strategies, and **funding requests** for projects and multi-year agreements (MYAs)
- **Exercises oversight** of ongoing projects and programmes
- **Meets 3 times per year** enabling rapid response to policy and implementation issues as well as funding requests:
 - Business planning at the first meeting
 - Progress reporting and annual evaluation of agency performance at the second meeting
 - Project completion reports and Fund accounts reviewed at the third meeting
 - Project and work programme activities approved at each meeting
 - Status of contributions, compliance and implementation reviewed at each meeting



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Fund Secretariat

- **Independent** from implementing agencies
- **Reviews all funding requests**, performance and implementation reports based on ExCom decisions, guidelines and precedents prior to consideration by ExCom resulting in savings of almost \$2 billion
- **Proposes** operational policies, guidelines and recommendations
- The Chief Officer is selected by the ExCom based on a job description approved by ExCom and the Secretary General and manages a staff of 13 professionals and 13 support staff
- 2011 budget: \$5.4 million (incl. costs for servicing meetings & developing country attendance)

Fund Treasurer

- **Responsible for contributions**, investment, and disbursement of funds
- ExCom selected UNEP as Treasurer at a fee of \$500,000 per year

Monitoring and Evaluation

- Independent Senior Evaluation Officer **reports directly to ExCom**
- Annual work programme approved by ExCom (about \$300,000 normally)



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Multilateral Implementing Agencies

- Provide interface between governments and the private sector in developing funding requests and explaining ExCom requirements
- UNEP is responsible for the information clearinghouse, regional networks, and non-investment activities.
- UNDP, UNIDO and the World Bank implement investment and non-investment projects
- **Administrative costs are 11 per cent of volume of approved projects** (\$263 million from 1991 to 2010)

Bilateral Implementing Agencies

- Article 10 of the Montreal Protocol allows **20% of a donor's contributions** to the Multilateral Fund to be used **as bilateral cooperation** after approval by the ExCom (\$136.9 million approved to-date)
- Although only 5 bilateral agencies are currently active, **23 countries have received credit for bilateral cooperation**: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Hungary, Israel, Italy, Japan, Poland, Portugal, Singapore, Slovakia, South Africa, Spain, Sweden, Switzerland, United Kingdom, and United States
- Bilateral activities have enabled donor countries greater involvement, opportunities for technology transfer and a better appreciation of the process of implementation of Fund projects



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Capacity Building/Institutional Strengthening

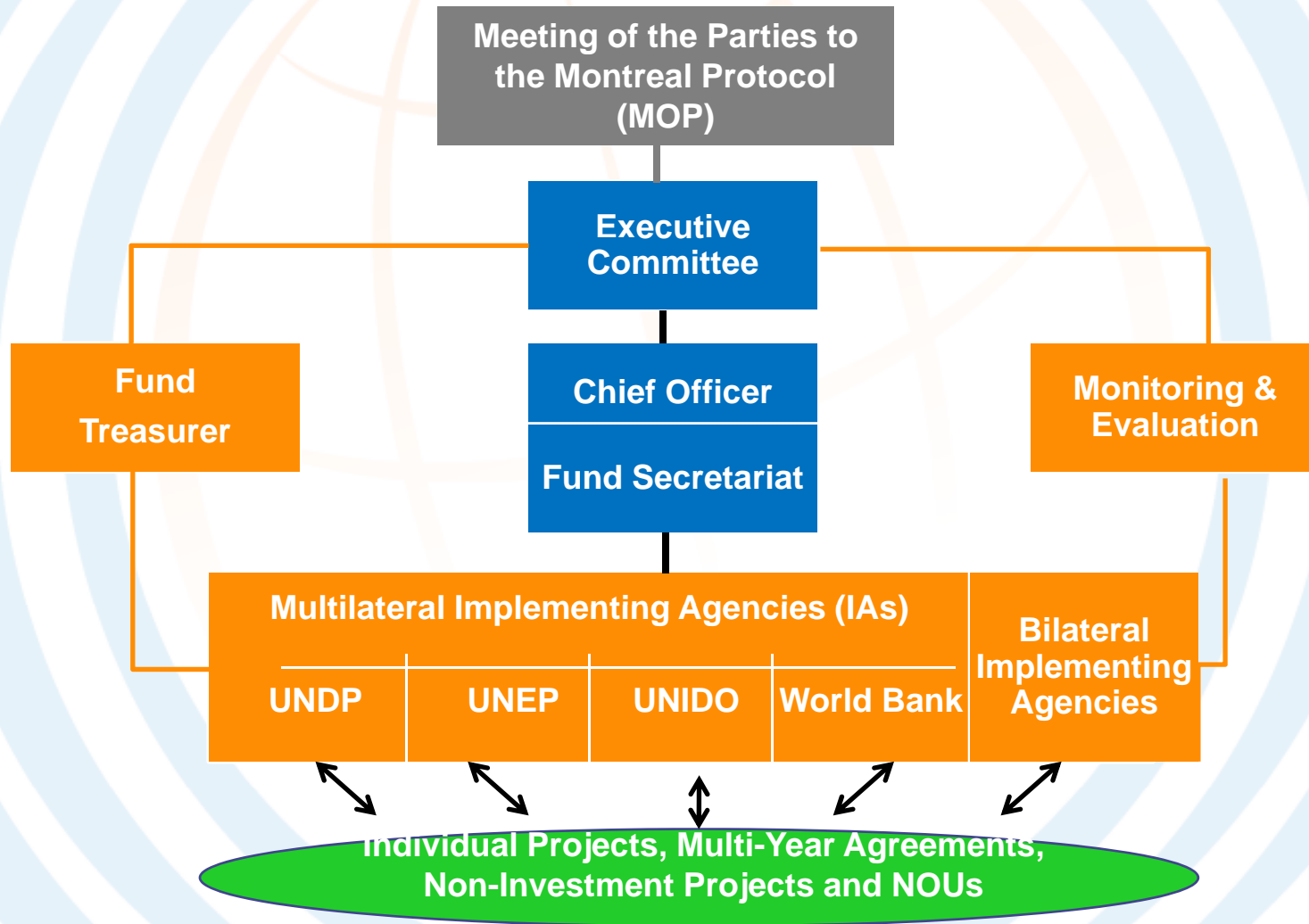
- National ozone units (NOUs) financed by the Fund in all 144 eligible Article 5 developing countries
 - Annual cost is about 3 per cent of a typical annual Fund budget
 - NOU staff coordinate all country activities related to implementation including data reporting the Montreal Protocol
 - Provide interface with implementing agencies and local enterprises
- 10 regional/sub-regional networks are supported by the Fund:
 - Namely: Latin America (2), Caribbean, West Asia, Southeast Asia, South Asia, Pacific Island Countries, French-speaking Africa, English-speaking Africa, and Europe and Central Asia
 - Networks allow developing countries to share experiences, develop common strategies regarding technology transfer, compliance and the implications of the decisions of the Parties, and the ExCom



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Institutional Relationships





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BUSINESS MODEL

Country-driven strategic planning and data (NOUs)



Preparation and Approval of Projects and MYAs (NOUs, IAs, Secretariat, ExCom)



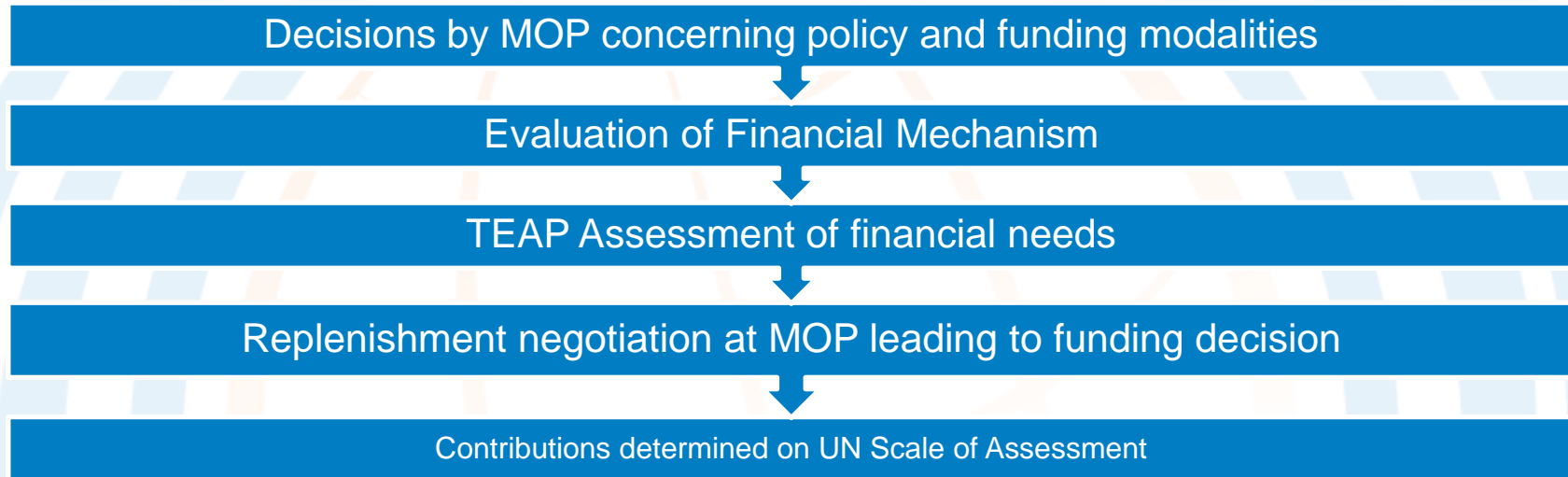
Permanent annual ODS phase-out and Resulting Compliance



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BUSINESS MODEL--INCOME



- **Pledged contributions** provided in the form of cash, promissory notes and bilateral cooperation
 - Donors may provide funding through a **fixed exchange rate mechanism**
 - **Over 97 per cent of pledges received**, which has enabled consistently accurate prediction of resources, so has facilitated precise business planning covering three-year cycles, this fact has instilled confidence between contributors and recipients
- **Interest** on funds held by the Treasurer and the implementing agencies in trust to implement MLF projects is returned to the Fund for reprogramming and projected as part of replenishments
- Funds not used in one triennium are part of a **carry over** to the next
- **Returned balances from unused project funds** are reprogrammed for further use



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BUSINESS MODEL—FUNDING PROCESS OF THE EXCOM

Financial Plan where funding is allocated over 3 years

3 Year Rolling Business Plan where planned activities are identified

Annual work programmes where ExCom decides what activities to prepare

Project review of individual projects and MYAs where funds are approved

Release of funding from the Treasurer to agencies

Release of funding to implement projects in developing countries

Project/Annual Tranche Completion

- Project **approval** occurs **8-14 weeks after submission** by agencies to the Fund Secretariat
- Treasurer disburses funds to agencies **one month after approval**
- **Multi-year performance-based agreements** (MYAs) are agreements are performance-based, i.e. based on the achievement of permanent annual reductions in ODS against predetermined baselines/starting points and subject to penalty clauses for non-performance
- **Annual tranche requests** contain:
 - **Independent verification** reports
 - **Accounting of funds** spent against those planned,
 - **Work plan** of activities where countries have **flexibility** within certain limits and with ExCom approval **to reallocate funds approved in principle**



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BUSINESS MODEL—MONITORING AND EVALUATION

Annual Agency Progress Reports/Annual Accounts Reconciliation



Special Report on Delays/Procedures for Cancellation



Project Completion Reports



Return of Balances (\$134 million)



Thematic Evaluations by Independent Evaluation Officer



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ACCESS MODALITIES

- All funding is provided through bilateral and multilateral implementing agencies:
 - Country-driven approach implemented through MYAs
 - Implementing agencies represent the interests of proposals from developing countries at ExCom meetings as countries may not intervene on behalf of their own projects.
- Co-financing is not required, but grant funding has often served as seed money for co-financing from beneficiary enterprises, governments, and other institutions
- 99% of funding has been on a grant basis



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OVERALL ACHIEVEMENTS

- **\$2.6 billion approved** for developing countries
 - Consumption and technical assistance: \$2 billion
 - Production sector: \$345 million
 - Non-investment (\$264 million): institutional strengthening, project preparation, demonstration projects, country programme and training projects
- 254,708 ODP tonnes of annual consumption and 192,627 ODP tonnes of annual production permanently phased out from 6,327 project approvals at a cost-effectiveness of **\$5.04/kilogram ODP**
- 222 MYAs approved--**penalty clauses used only 5 times** out of 586 annual tranche approvals
- **99% compliance** with control measures based on latest data and in a number of cases well ahead of the requirements of the Montreal Protocol
- Climate Impact of Montreal Protocol from 1991-2010 was estimated at **8 gigatonnes** of CO₂ equivalent units by the US National Academy of Sciences (10% resulting from developing countries)