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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Forty-first Meeting  
Montreal, 17 -19 December 2003

**CONCESSIONAL LENDING (DECISION 39/57 (A))**

1. The Executive Committee decided at its 39<sup>th</sup> Meeting in April 2003, to defer consideration of the issue of concessional lending to the 41<sup>st</sup> Meeting and request the Secretariat to prepare historical documentation on concessional lending for distribution to members of the Executive Committee (Decision 39/57).

2. The Secretariat carefully reviewed the historical documentation on concessional lending and found that the document Report on Concessional Lending (UNEP/OzL.Pro/ExCom/28/53) (attached), prepared for the 28<sup>th</sup> Meeting of the Executive Committee could be a good background for discussion. The Report contains two parts: Part I is a compendium of the decisions of the Executive Committee on loans and the experience of the Multilateral Fund on loans and projects with loan components. Part II is a discussion of the real life scenarios of funding ODS phase-out with loans in Article 5 countries.

3. In order to update the information, the Secretariat has introduced two addenda to the Report, Addendum I provides the additional decisions taken by the Executive Committee on the subject since the 28<sup>th</sup> Meeting in 1999. Addendum II contains an update on the experience of the Multilateral Fund in financing ODS phase-out on concessional terms in Thailand, Mexico, and Turkey. These are extracts from the Proceedings of the Technical Workshop on Concessional Lending held in July 2002 in Canada sponsored under the bilateral cooperation of Japan. Each case includes a short description of the history and status of implementation of the project, a discussion of the experiences and the lessons to be learnt.

## Addendum I

### ADDITIONAL DECISIONS TAKEN BY THE EXECUTIVE COMMITTEE ON CONCESSIONAL LENDING SINCE THE 28<sup>TH</sup> MEETING IN 1999

This addendum updates the information on the decisions of the Meetings of the Parties, and of the Executive Committee on concessional lending, contained in UNEP/OzL.Pro/ExCom/28/53, and lists the additional decisions adopted by the Executive Committee on the subject since the 28<sup>th</sup> Meeting in 1999.

1. Time: 1999

Context: Consideration of a discussion paper submitted by the Secretariat on concessional lending (UNEP/OzL.Pro/ExCom/28/53) at the 28<sup>th</sup> Meeting of the Executive Committee

Decision 28/48: The Executive Committee decided:

- (a) To take note of the following principles presented by the representative of Canada and discussed by the Executive Committee:
  - Recipient Governments should not be required to assume additional official debt as a result of agreeing to Multilateral Fund projects that utilized more innovative financing arrangements;
  - If a country agreed to a project which included concessional lending or “innovative funding” arrangements, any funds which are eventually repaid to the project should be used, at the direction of the Executive Committee, to address further related needs within the same country;
  - The parameters of innovative financing projects must be tailored to meet the needs of the project being considered and the capacity of the recipient country;
  - The operation of concessional loans, or other innovative financing mechanisms, required an appropriate provision for administrative costs;
- (b) To invite the members of the Executive Committee to submit to the Secretariat comments on these four principles or further such principles required, to be incorporated into a broad framework document to be considered at the Twenty-ninth Meeting of the Executive Committee;
- (c) To discuss the issue and principles at the Twenty-ninth Meeting, both as an item on the agenda and in a large-scale informal meeting.

2. Time: 1999

Context: Consideration of a paper by the Secretariat (UNEP/OzL.Pro/ExCom/29/59) and an informal paper from Canada at the 29<sup>th</sup> Meeting of the Executive Committee

Decision 29/71: The Executive Committee decided:

To take note of the documents on the subject, including an analysis prepared by the World Bank on past experience with concessional loans, and the proposed framework contained in pages 4 and 5 of document UNEP/OzL.Pro/ExCom/29/59, as a useful basis for further discussion, and to seek the guidance of the Meeting of the Parties on how to proceed further.

3. Time: 2001

Context: Consideration of an informal document on concessional, lending submitted by Japan (UNEP/OzL.Pro/ExCom/34/CRP.1) at the 34<sup>th</sup> Meeting of the Executive Committee

Decision 34/69: The Executive Committee decided:

- (a) To consider the proposal for a technical workshop on concessional lending at its 35<sup>th</sup> Meeting;
- (b) To request the Secretariat, as preparation for that meeting:
  - (i) to recirculate its document UNEP/OzL.Pro/ExCom/29/59, as well as the note produced by the representative of Canada, reporting on the informal meeting convened on 23 November 1999 during the 29<sup>th</sup> Meeting of the Executive Committee at Beijing;
  - (ii) to prepare a report containing a compilation of the experience of the World Bank, which had applied innovative funding modalities to projects financed by the Multilateral Fund in Mexico, Thailand and Turkey, as well as other relevant information that could facilitate the understanding of the process of concessional lending;
- (c) To take the proposal made by the Government of Japan as a basis of further discussion at its 35<sup>th</sup> Meeting, the text of which is reproduced as follows:

“The Executive Committee, having discussed the document submitted by the Government of Japan (UNEP/OzL.Pro/ExCom/34/CRP. 1 of 22 June 2001):

- “(a) decides to approve the convening of a technical workshop, in a project to be implemented by the Government of Japan with the assistance of the implementing agencies, to:

- “(i) promote exchange of views on the objectives and modalities of concessional lending including pros and cons to Article 5 countries among the Member Governments of the Executive Committee;
  - “(ii) deepen the understanding of operations of any practical and workable concessional lending schemes available within the United Nations system;
  - “(iii) review relevant experience of the Fund and the implementing agencies as well as Article 5 countries in innovative financing in this field;
- “(b) requests the Government of Japan in cooperation with the Secretariat and interested implementing agencies to make substantive and the relevant logistical arrangements for the convening of the workshop in a most cost-effective manner, at a time in which the Japanese Government deems appropriate by the end of June 2002, on the understanding that the agencies should make substantive contributions based on their experience in this area; and
- “(c) requests the Secretariat and, as appropriate, the agencies to report on the findings of the workshop to the 37<sup>th</sup> Meeting of the Executive Committee.
- “(d) requests the Executive Committee at its 34<sup>th</sup> Meeting to approve US \$[75,000] to support the participation of the relevant experts and resource persons from Article 5 countries. This amount should be offset against Government of Japan’s 2001 contribution to the Multilateral Fund.”

4. Time: 2001

Context: Follow-up to Decision 34/69 at the 35<sup>th</sup> Meeting of the Executive Committee

Decision 35/61: The Executive Committee decided:

- (a) To take note with appreciation of the information paper provided by the World Bank on innovative financing for effective ODS phase-out;
- (b) To approve the convening of a technical workshop, in the context of a project to be implemented by the Government of Japan with the assistance of the implementing agencies, to:
  - (i) promote exchange of views on the objectives and modalities of concessional lending including pros and cons, among Article 5 countries members of the Executive Committee;
  - (ii) deepen the understanding of operations of any practical and workable concessional lending schemes available within the United Nations system;
  - (iii) review relevant experience of the Fund and the implementing agencies, as well as Article 5 countries, in innovative financing in this field;

- (c) To request the Government of Japan, in cooperation with the Secretariat and interested implementing agencies, to make the substantive and relevant logistical arrangements for the convening of the workshop in the most cost-effective manner at a time deemed appropriate by the Japanese Government, preferably back-to-back with the meeting of the Open-Ended Working Group of the Parties to the Montreal Protocol, to be held at the end of July 2002, on the understanding that the agencies would make substantive contributions based on their experience in this area;
- (d) Also to request the Secretariat and, as appropriate, the agencies to report on the findings of the workshop to the next appropriate Meeting of the Executive Committee;
- (e) To approve US \$75,000, on an exceptional basis, to support the substantive and relevant logistical arrangements, including the participation of Executive Committee members from Article 5 countries and the relevant experts and resource persons from Article 5 countries. This amount should be offset against the Government of Japan's 2001 contribution to the Multilateral Fund.

5. Time: 2002

Context: Follow-up to Decision 35/61(d) at the 38<sup>th</sup> Meeting of the Executive Committee. Considered the report of the Fund Secretariat on technical workshop on concessional lending, held on 22 July 2002 in L'Estérel, Quebec, Canada (UNEP/OzL.Pro/ExCom/38/67 and Corr.1), which had to be read in conjunction with UNEP DTIE's report on the proceedings (UNEP/OzL.Pro/ExCom/38/Inf.2).

Decision 38/77: The Executive Committee decided:

- (a) To note with appreciation the report of the Fund Secretariat on the Technical Workshop on Concessional Lending (UNEP/OzL.Pro/ExCom/38/67 and Corr.1) as well as the report of UNEP on the proceedings of the workshop (UNEP/OzL.Pro/ExCom/38/Inf.2);
- (b) To express gratitude to the Government of Japan for the convening of the Technical Workshop with the assistance of UNEP;
- (c) To note that the technical workshop served for useful exchange of views between Article 5 countries and non-Article 5 countries on concessional lending;
- (d) To further note that the respective reports contained useful information on the modalities of concessional lending and their practical applications;
- (e) To acknowledge the significant progress achieved in discussing the issue of concessional lending at the technical workshop and at the 38th Meeting of the Executive Committee;

- (f) To include an item on concessional lending on the agenda of the 39th Meeting of the Executive Committee.

6. Time: 2003

Context: Follow-up to Decision 38/77(f) at the 39<sup>th</sup> Meeting of the Executive Committee

Decision 39/57: The Executive Committee decided:

- (a) To defer consideration of the issue to the 41st Meeting of the Executive Committee;
- (b) To request the Secretariat to prepare historical documentation on concessional lending for distribution to members of the Executive Committee.

## **Addendum II**

### **AN UPDATE ON THE EXPERIENCE OF THE MULTILATERAL FUND ON CONCESSIONAL LENDING**

**(Extracts from the Proceedings of the Technical Workshop  
on Concessional Lending held in July 2002 in Canada)**

#### **Innovative Financing for ODS Phase-Out (Montreal Protocol Unit, World Bank)**

Description: The World Bank described the challenges under the Multilateral Fund (MF), and the ways to fill in the gap between MF financial resources and increasing global, national and private sector demand. It focused on the importance of leveraging the financing. The obstacles such as lack of concrete project experiences, lack of concrete national regulations to support CFC phase-out in many developing countries, and the possibilities of additional foreign debt burden, were stressed. After detailed explanation on the case studies of Chile and India, the specific roles of the Bank in innovative financing were described.

Main points: (a) Financial mechanism should be adaptable in customizing financial approach to country and sector needs. (b) ODS phase-out has accelerated by ensuring cost-effectiveness. (c) Flexible design and simple implementation process enhances the successful implementation of the project.

Discussion points: (a) It is important to make the distinction between innovative financing and concessional lending. (b) There are shortfalls and difficulties for small companies in developing countries to receive funds. (c) Large companies were the main target group for MF assistance. Small and Medium-sized Enterprises should receive greater assistance. (d) Uniform interest-rates should not be applied. They should be driven by the financial conditions in the individual country.

#### **Thailand's Experience from Chiller Replacement (Industrial Finance Corporation of Thailand)**

Description: The Royal Government of Thailand had received a total amount of approximately US \$5 million in the form of loan from the MF and Global Environment Facility (GEF). The objectives of the project are to assist Thailand to (1) improve energy efficiency and reduce greenhouse gas emissions in the chiller sector, and (2) reduce consumption of ODS in the same sector. The Industrial Finance Corporation of Thailand (IFCT) was appointed by the Government to be an executing agency, and the Ministry of Industry and Ministry of Science was appointed as the main focal point. To date, 11 chiller conversions are underway. Five chillers are technically approved and are in the process of financial appraisal. Twenty more prospective chillers are in the process of initial study, that is, measuring power consumption etc. in order to proceed with conversion.



Main points: (a) Program design should be feasible, simple and easy to implement. (b) Provision of technical assistance funding is necessary for successful implementation of the project.

Discussion points: The acceptability of the chosen financial mechanism depends on the economic situation of the country. (b) It is important to provide right incentives for the private sector.

### **Mexico's Chiller Project (Fideicomiso para el Ahorro de Energia Electrica: FIDE)**

Description: FIDE was established in 1990 as part of the strategy to assure a sufficient and timely supply of electric energy. FIDE's programs and projects range from financing the sale of compact fluorescent lamps in the residential sector, to the promotion and commercialization of the efficiency equipment such as motors, air compressors and lineal T-8 fluorescent lamps. The objective of the program under the MF was to demonstrate that chiller substitution is profitable based on the savings of electric energy obtained. The objective was to replace 10 chillers in Mexico, with an average capacity of 400kg of CFCs each. The close collaboration between the World Bank specialists, USAID, manufacturers and FIDE allowed a successful implementation mechanism to develop.

Main points: (a) A simple evaluation scheme promotes alliances between energy saving consultants and manufacturers. (b) Provide financing with a constant interest rate depending on financial expectation is vital. (c) Involving manufacturers in financing projects is vital to successful implementation of the project. (d) Targeted financing should extend to corporate groups, industries, commercial chains and hotels.

Discussion points: (a) The importance of promoting commercial financing in cooperation with manufactures was emphasized. (b) The issue of pay-back duration was raised. (c) The need to utilize already existing institutional structures within the country.

### **Turkey's Experience in Revolving Fund Mechanism (Technology Development Foundation of Turkey: TTGV)**

Description: TTGV was established on 1 June 1991 as a non-profit organization to raise the industrial sector's awareness of research and development and to support the technology development projects of Turkish industry through funds provided by the Undersecretariat of Treasury with the resources of the World Bank. To date, approximately 35% of the amount has been allocated as credit and 95% of the loans have been paid back. The rest will be paid by 2003. To continue phase-out activities for the elimination of HCFCs and other ODSs, a revolving fund was established by giving partial loans and partial credits to the enterprises.

Main points: (a) Detailed evaluation by external technical experts was a key factor for the successful implementation of the project. (b) Legislative support of the government is

beneficial. (c) NGO-type local executing agencies could provide quick response to the needs of industry.

Discussion points: (a) The lack of qualified capacity in the country to implement projects can be a problem. (b) The importance of providing management skills together with the loans. (c) Directly assisting loan recipients via e-mail or phone to provide guidelines on project implementation was a success feature.

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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Twenty-eighth Meeting  
Montreal, 14-16 July 1999

**REPORT ON CONCESSIONAL LENDING**  
(A Discussion Paper by the Secretariat)

This discussion paper is submitted by the Fund Secretariat in response to the Decision 27/84 under which the Executive Committee decided:

- (a) To request the Secretariat, in cooperation with the Implementing Agencies, to prepare a document for the Twenty-eighth Meeting of the Executive Committee containing a compendium of past decisions and describing experiences so far with loan components;
- (b) To request the Secretariat and the Implementing Agencies to collaborate on real-life scenarios, highlighting issues and problems that might be associated with them, including such concerns as the lack of management capacity in some countries and the fear of augmenting the national debt of countries that were already in economic crisis;
- (c) To consider this subject again at the Twenty-eighth Meeting.

The paper includes two parts: Part I is a compendium of the decisions of the Meetings of the Parties and of the Executive Committee on loans and the experiences of the Multilateral Fund on loans and projects with loan components. Part II is a discussion of the real-life scenarios of funding ODS phase out with loans in Article 5 countries.



## **PART I**

### **(A) A COMPENDIUM OF DECISIONS AND EXPERIENCES OF THE MULTILATERAL FUND ON CONCESSIONAL LOANS**

#### **Decisions**

1. Time: 1990

Context: London Amendment adopted at the 2<sup>nd</sup> Meeting of the Parties:

Decision: “ The Multilateral Fund shall, meet on a grant basis or concessional basis as appropriate, and according to criteria to be decided upon by the Parties, the agreed incremental costs.”

2. Time: 1991

Context: Implementation Guidelines and Criteria for Project Selection approved at the 3<sup>rd</sup> Meeting of the Executive Committee:

Decision: “ Assisatance for investment projects shall generally be provided in the form of grants. However, where the investment project has a short payback period (e.g. one to two years), financing may take the form of highly concessional loans. If an Implementing Agency believes that a highly concessional loan is appropriate for a particular project, it shall recommend this action at the next meeting of the Executive Committee. The Committee shall make the final decision on the terms of assistance.”

3. Time: 1995

Context: Consideration of operating cost and savings in the halon portable fire extinguisher sub-sector at the 16<sup>th</sup> Meeting of the Executive Committee:

Decision: “ The World Bank should be asked to prepare a study on how to set up a concessional loans mechanism; i.e., what options were available given current Implementing Agencies and their procedures, what steps would be required to put the mechanism in practice, and to what extend could the Bank use its resources or the resources from other sources for phase out in Article 5 countries.”

4. Time: 1995

Context: Actions to Improve the Financial Mechanism for the Implementation of the Montreal Protocol, taken at the 7<sup>th</sup> Meeting of the Parties:

Decision: “ Action 10: The study by the World Bank on the establishment of a concessional loan mechanism, requested by the Executive Committee at its Sixteenth Meeting, should be completed as soon as possible, and analyzed and discussed by the Executive Committee at its Nineteenth Meeting, and a decision on suitable future steps be taken by the Executive Committee by its Twentieth Meeting or by the Meeting of the Parties in 1996, as appropriate, with a view to starting the use of the concessional loans by the end of 1996, to the extent that the need and demand exist.”

5. Time: 1996

Context: Consideration of a joint paper by the Secretariat and the World Bank on concessional loans at the 20<sup>th</sup> Meeting of the Executive Committee:

Decision 20/39: The Executive Committee decided:

- “(a) To take note of the joint World Bank/Fund Secretariat document on concessional lending for ODS phase-out;
- (b) To take note of the information provided during the discussion in the Committee on the interest expressed by the Inter-American Development Bank in providing concessional loans for ODS phase-out and the possibility of mobilizing funding from other sources, including the private sector;
- (c) To note also the reservations expressed by some members of the Committee with respect to the provision of concessional loans from the Multilateral Fund;
- (d) That, in the light of the discussion at the current meeting of the Executive Committee, there was a need for a wider examination of the various possibilities of concessional lending for ODS phase-out;
- (e) To request the Secretariat and the World Bank to prepare for submission to the Executive Committee, through its Sub-Committee on Financial Matters, a further report exploring the practical options for providing concessional loans for ODS phase-out in Article 5 countries, *inter alia*, through regional development banks and the private sector.”

6. Time: 1997

Context: 21st Meeting of the Executive Committee:

Decision 21/39:

- “(a) To invite the Secretariat and the implementing agencies to submit for the consideration of the Executive Committee an innovative proposal for a demonstration project or projects to illustrate how concessional lending and other forms of innovative funding, including financing from the private sector, can be used to advance the phase-out of ozone-depleting substances by providing

funding for projects and activities that may or may not otherwise be eligible for full funding in the form of grants from the Multilateral Fund;

- (b) To approve the request of the World Bank for US \$60,000 toward the cost of a concessional financing study to be carried out by the International Finance Corporation with a view to providing the Executive Committee with a comprehensive report that would:
  - (i) Explore ways in which private-sector finance can be mobilized to assist Article 5 countries in phasing out ozone-depleting substances, particularly in sectors with a good return on investments in ozone-friendly technologies;
  - (ii) Provide a final theoretical overview of ways in which concessional funding and other forms of innovative funding, including on-lending, can be used to augment and make most effective use of the resources of the Multilateral Fund.”

7. Time: 1997

Context: Consideration of the chiller replacement project from Thailand at the 23<sup>rd</sup> Meeting of the Executive Committee:

Decision 23/30:

- “(a) To request the World Bank to consider how innovative funding could be applied to this or a similar project;
- (b) That any project along these lines should be considered in the context of the paper on concessional loans currently being prepared by the World Bank.”

8. Time: 1998

Context: Consideration of a concept paper from the United States on concessional loans at the 24<sup>th</sup> Meeting of the Executive Committee:

Decision 24/62:

- “(a) To request members of the Executive Committee to submit their thoughts on the issue of concessional loans, in writing, to the Secretariat by the end of April;
- (b) To request the Secretariat to circulate those views to all members of the Executive Committee before the Twenty-fifth Meeting of the Executive Committee;
- (c) To request the World Bank to submit to the Twenty-fifth meeting of the Executive Committee the results of its study on concessional loans, and to

resubmit its project proposal on concessional loans in accordance with Decision 23/30; and

- (d) To undertake substantive discussion on the subject of concessional loans at its Twenty-fifth Meeting.”

9. Time: 1998

Context: Consideration of a study by the International Finance Corporation of the World Bank Group on the scope for a non-grant financing facility for ODS phase out at the 25<sup>th</sup> Meeting of the Executive Committee:

Decision 25/53: “establish an open-ended contact group, with no specific terms of reference to consolidate all views and formulate a consensus on concessional lending. The group should begin its discussions immediately and should report back to the next meeting of the Executive Committee.”

10. Time: 1998

Context: Consideration of the report from the convenor of the open-ended group at the 26<sup>th</sup> Meeting of the Executive Committee:

Report of the open-ended group:

“Progress was made by the Group in getting a better understanding of both the fears of countries in initiating concessional financing, and the broad conceptual framework under which such financing could exist;

There was agreement that it would be useful to more fully develop potential models for such financing, and provide examples, which, to the degree possible, describe how the fears were addressed;

There was agreement that it would be useful to ask implementing agencies, bilateral donors, Article 5 countries and companies to, if they desired, bring forward innovative ideas in this area for the Executive Committee’s consideration.”

11. Time: 1999

Context: Consideration of a paper from the United States on concessional loans at the 27<sup>th</sup> Meeting of the Executive Committee:

Decision 27/84:

- (a) “To request the Secretariat, in cooperation with the Implementing Agencies, to prepare a document for the Twenty-eighth Meeting of the Executive Committee containing a compendium of past decisions and describing experiences so far with loan components;



- (b) To request the Secretariat and the Implementing Agencies to collaborate on real-life scenarios, highlighting issues and problems that might be associated with them, including such concerns as the lack of management capacity in some countries and the fear of augmenting the national debt of countries that were already in economic crisis.
- (c) To consider this subject again at the Twenty-eighth Meeting.”

**(B) EXPERIENCE OF THE MULTILATERAL FUND WITH LOAN COMPONENTS**

12. With the exception of the Thai chiller project approved at the 26th Meeting, funding from the Multilateral Fund has been in the form of grants. In a few cases, the grants were transferred either partially or entirely into loans. Experiences of USEPA, UNDP and the World Bank in this respect were shared with the Secretariat. UNIDO referred to a project which it is currently preparing jointly with bilateral partners in Cuba for chiller replacement and which has a lending component, but did not provide any detail.

USEPA/UNDP: The global mobile air-conditioning (MAC) project

Project Data:

*Date of project approval by the Executive Committee:*

First phase of the project approved in Oct. 1992

Second phase approved in Nov. 1996, and

Third phase approved in Nov. 1998.

*Nature of funding (loan v. grant):* Grant from the Multilateral Fund to 20 participating countries however in 4 of these countries the grants from the Fund are managed as a combination of grant and a revolving fund. These countries include Colombia, Costa Rica, Dominican Republic, and Guatemala.

*Objective of the project:* Implement a national CFC recovery and recycling programme in the MAC sector in the participating countries.

*Level of funding approved:*

US\$ 318,584 for the first phase,

US\$ 500,000 for the 2<sup>nd</sup> phase

US\$ 250,000 for the 3<sup>rd</sup> phase.

*Project impact (to-date):* Data not available.

*Status of implementation:* On-going.

Management structure:

*USEPA and UNDP:* The division of labour between UNDP and USEPA under the project is that UNDP is responsible for procurement and delivery of the equipment and USEPA is responsible for the training and field management of the project.

*USEPA and the local agent:* In the four countries where the revolving fund is implemented, local agents involved include ozone office in three countries, Colombia, Dominican Republic and Guatemala and a local bank in Costa Rica. To regulate the relationship between USEPA and the local agents, the arrangement under the existing institutional strengthening project is used for the ozone offices however a separate agreement will be signed in Costa Rica where a local bank is used.

*Management cost:* The administrative cost which is paid to the local agent is collected from the funds which is paid back by the enterprises which participate in the revolving fund programme. In percentage-wise, it comes to a range between 9% to 30% of the funds paid back.

Operating procedure:

The basic structure of the programme in each of the 4 countries is the same. The grant from the Fund is used to pay for the training of the garage owners on the recovery and recycling equipment, as well as for the purchase of the equipment. A percentage of the equipment cost, ranging between 10% to 40% of the cost has to be paid back by the owners over a period of time..

The funds paid back are used to pay the administrative cost of the local agent and the procurement of additional equipment for another group of garage owners.

In the case of Costa Rica, the scheme will be implemented by a local bank using a small business-lending programme subsidized by the Government. The participating garages will be required to pay back 60% of the equipment cost which is provided as a loan.

*Eligibility criteria:* A willingness to participate, demonstrated by readiness to attend full day training and to remodel the garage to accommodate the new equipment; access to electricity; operating at a fixed location to store the equipment overnight and safeguard it against theft.

*Review/appraisal process:* Data not available.

*Monitoring:* Data not available.

Conditions of financing:

*Interest rate ( as against local commercial rate):* In three of the 4 cases, the programme operates on an interest-free basis for the part of equipment cost that has to be repaid. In

Costa Rica, the interest rate from the local bank managing the programme is going to be 18%.

*Need for collateral:* Not required.

*Grace period:* A few months.

*Payback period:* One year.

*Default rate :* Data not available.

### Experiences and Lessons

13. Based on the information provided on the implementation of the grant-based revolving fund under the global MAC project, the experiences and lessons learnt so far can be summarized as follows:

- (a) Clear policy statement from Multilateral Fund that for certain types of projects concessional lending is the only alternative.
- (b) Sustained incentive of local agent to ensure: the equipment selection meets the local needs, the equipment is transferred to local operators in timely manner and is not charged taxes, money is repaid and the continued use of the equipment.
- (c) The necessity of a legal and administrative infrastructure to deal with the programme.
- (d) The rate of repayment by participating garage owners should be reasonable to provide an incentive.
- (e) A 10% administrative cost collectable from repaid funds is reasonable.

### **The World Bank**

14. The World Bank provided information on the Thai chiller project, the Multilateral Fund's only loan programme to-date. However, the Bank could not provide any information on the implementation of the on-lending programme in Turkey, the first of such programmes of the Multilateral Fund.

#### The chiller replacement programme in Thailand:

Project Data:

*Date of project approval by the Executive Committee:* Nov. 1998

*Nature of funding (loan v. grant):* Concessional loan.

*Objective of the project:* Implement a pilot chiller replacement programme using loans.

*Level of funding approved:* US\$5 million (including US\$2.5 million from GEF)

*Project impact (to-date):* 13.2 ODP tonnes from direct phase out

*Status of implementation:* On-going

#### Management structure:

*World Bank and the local agent:* As this is a lending from the Multilateral Fund, this project is not governed by the existing grant agreement between the World Bank and the Government of Thailand for the grant-based programme. Instead a new loan agreement will have to be signed and for that the approval from the Thai Cabinet is necessary.

*Local arrangement:* Two options are being explored: One is to have the Electricity Generating Authority of Thailand (EGAT) to be the borrower from the Multilateral Fund through the World Bank while the Ministry of Finance will be the guarantor of the loan. In order to have the Ministry of Finance to be the guarantor, approval by the Cabinet of the project is needed.

Option Two is to have the financial intermediary, the Industrial Finance Corporation of Thailand (IFCT) to be the borrower. For that IFCT needs to include a provision to borrow these funds from the Multilateral Fund and GEF in its annual debt-repayment plan. As the major shareholder of IFCT is the Thai Government or the Ministry of Finance, IFCT requires a cabinet approval of its debt-repayment plan.

*Management cost:* Since the World Bank will hold the local agent responsible for the commercial risk, the local agent will require a management fee to cover the risk and the administration. The actual rate is being negotiated.

#### Operating procedure:

There will be an agreement/contract between the borrower (EGAT or IFCT) and the chiller suppliers for providing the equipment, installation and service for the life of the chiller. The borrower will maintain the ownership of the chillers and the building owners will pay nothing at the time of installation. Every month after installation of a chiller, the borrower will send a bill to the building owner an amount equal to the value of the electricity savings resulting from the replacement of the old chiller. The proceeds so collected will be used to repay the loan from the Multilateral Fund and GEF, and buy new chillers for another group of building owners and cover the cost of programme management incurred by the borrower.

*Eligibility criteria:* Criteria for selecting candidates for the programme include willingness of the building owners to repay a portion of the energy savings to the borrower, age of the chiller, CFC leakage rate of the chiller, amount of CFC in the chiller, and baseline energy consumption.

*Review/appraisal process:* Will be done by the local agent on the basis of financial profitability as a loan application in addition to the criteria above.

*Monitoring :* Will be done by the local agent, with periodical report to the World Bank.

Conditions of financing:

*Interest rate (as against local commercial rate):* An interest-free loan from the Multilateral Fund. The rate charged by the local agent on the building owners is not known.

*Need for collateral:* The local agent will require all participating owners to provide a letter of credit from their banks with the value equal to the amount of the outstanding loan.

*Grace period:* None. Repayment starts once the new chiller is up and running.

*Payback period:* Four to seven years..

*Default rate :* Not applicable.

## PART II

### **REAL-LIFE SCENARIOS OF CONCESSIONAL FUNDING OF ODS PHASE-OUT IN ARTICLE 5 COUNTRIES**

#### **Background**

15. Decision 27/84 emanates from the Executive Committee discussion on a paper on concessional lending submitted by the United States to the 27<sup>th</sup> Meeting which tried to address the fears of the Article 5 countries associated with initiating a lending programme either under the Multilateral Fund or through external financing. While acknowledging the concepts proposed in the paper, the Executive Committee wished to see how those concepts could be put to practice under the real situations in Article 5 countries and in the process highlighting issues and problems that might be associated with them, including such concerns as the lack of management capacity in some countries and the fear of augmenting the national debt of countries that were already in economic crisis.

16. Based on the experiences the Fund has acquired on funding loans and project with loan components, the following scenarios are developed for a discussion of the issues raised by the Executive Committee. The last one is included to show other potential use of loans.

17. Scenario 1. The use of a loan to cover a portion of the costs of conversion of a refrigerator manufacturer - on lending.

In the Arcelick project approved for Turkey, the government decided independently of any Fund requirement, that the refrigerator manufacturer was in such sound financial condition, that it did not need a full grant for the conversion. Accordingly, the government proposed that it would take the full grant that the firm was eligible for under existing Executive Committee rules, and provide a portion of those funds to the firm in the form of a loan. It further proposed that the loan money paid back to the government would be used by the government to fund additional ODS reduction activities.

18. Issues Raised by the Executive Committee:

- (a) **Management Capacity:** In this case, the government assumed the responsibility for collecting the loan money from the firm. In some cases, governments and/or ozone units may not have the management capacity or authority to collect money directly from a private firm. In such cases, the collection task could be given to an outside entity, such as a bank. The outside entity would have to be given some amount of money to cover its costs of collection and management of the funds.
- (b) **Increasing foreign debt burden:** In this case, the grant from the Fund is managed by the country as a loan, and the government did not assume a debt to the Fund or to any other institution. Indeed, even if the firm defaulted on the loan, the government would owe no one any funds.

19. Additional Practical Issues for Wider Implementation:

- (a) **Development of guidance for determining when a loan would be warranted:** The Executive Committee might like to consider identifying the circumstances under which a firm might not need full grant funding to effectuate its phaseout.
- (b) **Determining what rules, if any, should guide expenditure of funds paid back from the loan:** The Executive Committee might like to consider rules guiding how the funds repaid can be expended on activities such as other national projects or the enhancement of institutional strengthening funds.

20. Scenario 2 – Development of a recycling project:

In the case of the US recovery and recycling project in the Dominican Republic, the US agreed with the Dominican Republic to deploy 23 sets of recovery and recycling machines. Participating shops were required under the project to pay 40% of the costs of the equipment as follows: 5% at the time of training, 20% when the equipment was delivered, and then 3 monthly payments of 25%. The ozone unit collected the payments and was given \$2,000 (approximately 10% of the sum collected) as a management fee. The funds collected were used primarily to purchase a second round of equipment for additional shops. Shops that did not make their payments had their equipment confiscated for redeployment to other shops.

21. Issues Raised by the Executive Committee:

- (a) **Management Capacity:** In this case, the ozone unit assumed the responsibility for collecting the loan money from the firm. In some cases, governments and/or ozone units may not have the management capacity or authority to collect money directly from a private firm. In such cases, the collection task could be given to an outside entity, such as a bank. The outside entity would have to be given some amount of money to cover its costs of collection and management of the funds.
- (b) **Increasing foreign debt burden:** In this case, the grant from the Fund was managed in the country as a loan. The government did not assume a debt to the Fund or to any other institution. Indeed, even if the firm defaulted on the loan, the government would owe no one any funds.

22. Scenario 3 – A Concessional Loan for Chiller Replacement in Thailand:

In this case, a local institution in Thailand will get chiller owners to submit letters of credit to secure a loan for the purchase of new chillers. On this basis, the government of Thailand would be able to guarantee repayment of the loan in the case of default by any of the chiller owners. With this arrangement, the Multilateral Fund and GEF were able to provide a loan to the government to facilitate the purchase of 24 new CFC-free chillers.

This project was designed to demonstrate that the purchase of new energy efficient chillers was cost effective in its own right.

23. Issues Raised by the Executive Committee:

- (a) **Management Capacity:** In this case, the government will delegate the collection and loan management task to a local institution which would be given a fee to undertake this task.
- (b) **Increasing foreign debt burden:** The case of the Thai chiller project approved by the Executive Committee is different from the two cases above, in that in the Thailand case, the Multilateral Fund can be seen as the direct lender, and the country is responsible for repayment of the loan in the case of failure. While this can be seen as potentially increasing the foreign debt of the country, by securing letters of credit from the chiller owners prior to accepting the loan, the government has ensured that any losses would be covered by the chiller owner and not the government.

24. Scenario 4 - Loans from a bank - Loan Guarantees/Interest buy downs by the Fund:

In this scenario, a refrigerator manufacturer who is found to be financially secure and not in need of a full grant to effectuate its conversion, is seeking to have 50% of the cost of the project in the form of a loan. The firm notifies the relevant implementing agency of its primary lender, and the Fund/agency agrees with the lender to guarantee the loan. Because the loan is guaranteed by an international funding entity, and risk is reduced, the lender can afford to charge an interest rate that is lower than the typical one charged in the country. The Fund may also chose to buy down that interest rate further.

25. Issues Raised by the Executive Committee:

- (a) **Management Capacity:** In this case, the government would assume no management role. The role would be assumed by a bank.
- (b) **Increasing foreign debt burden:** In this case, the government did not assume a debt to the Fund or to any other institution. Indeed, even if the firm defaulted on the loan, the government would owe no one any funds. Instead, the Fund would have to repay the loan.



