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**OPEN-ENDED WORKING GROUP OF THE  
PARTIES TO THE MONTREAL PROTOCOL**

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**Note by the Executive Director**

**The proposed tripartite functions in the  
Funding Mechanisms for Montreal Protocol**

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## Introduction

1. Issues relating to the nature, scope and structure of possible funding mechanisms to deal with the transfer of financial resources and technology have been discussed over an extended period both in the Economic Assessment Panel and in the Open-ended Working Group. There is general agreement that if financial and technology transfers to developing countries are to be effective and on a level that will enable them to accept the discipline of the Montreal Protocol, the funding mechanisms established for the purpose will have a critical role to play. In order to enable them to play such a role, they must be put in place as quickly as possible, endowed with sufficient resources and supported by all Contracting Parties. Where there is less clarity is on the operational aspects of the funding mechanisms. At the same time, these operational aspects will have much to contribute to the success or failure of the mechanisms.
2. There is, in particular, a lack of clarity as to the functions that the funding mechanisms should perform, the question of over-all co-ordination and responsibility in terms of the objectives of the Montreal Protocol, and on ways to ensure that implementation of the spectrum of activities to be undertaken are complementary and not over-lapping.
3. These problems are not to be seen in a static way, fixed in terms of financial or technological requirements at any given time (say the Second Meeting of the Contracting Parties in June, 1990) but as evolving over time as the cost of a move from the depleting substances in terms of the Montreal Protocol change from modest to large incremental increases, stabilizes with the availability in the market of technological options, and finally decreases. Not only the cost but the different components of the funding mechanisms (capital investments, technical assistance programmes for reduction of depleting substances and identification of sector specific reduction technologies, clearing house functions, research, training, country-specific studies, etc) would be changing and raising new, sometimes unexpected, demands on the arrangements established. The curve of cost requirements and of technological advances is not expected to be of a predictable shape and the funding mechanism must be so structured as to respond to the changes.
4. These changes are not likely to be easy (particularly for developing countries) to introduce or negotiate. They will require substantial transfer of resources, identification of emerging technological options and their market availability, co-operation and goodwill on all sides, a pool of growing trained and skilled manpower in developing countries, and, above all, organizational arrangements including funding mechanisms fine tuned to meet the changing demands on them.
5. The funding mechanisms instituted should thus exhibit: flexibility in operations, technical and financial capacity, close co-operation and co-ordination amongst its different components.

### Present Arrangements

6. The arrangements under discussion stem from the decisions of the First Meeting of the Parties in Helsinki in 1989. In the Working Group there is tendency by a majority of government representatives towards establishing a Trust Fund for the Montreal Protocol with stated terms of reference for its administration and an estimated budget for the years 1991-1993. There is also an agreement on the need for burden sharing for the Trust Fund.

7. At the last meeting of the Open-ended Working Group there was discussion about the budget for the first 3 years that could have the following components. A component of capital expenditures to meet the needs of the present Contracting Parties estimated at around \$120 million and an additional \$100-120 million to meet the needs of an extended list of Parties (to include, India, China, Brazil and others). A second component related to the establishment of an executive committee to provide guidance to the funding mechanisms estimated to cost \$1 million per year or \$3 million for the three year budget. Finally, there is a technical assistance component under the direction of the parties at a cost of around \$5-6 million per year or \$15-18 million for the three year period. This makes a total of \$240-260 million. A later estimate by the representative of the USA puts the figure at \$150-200 million.

### Future Arrangements

8. There are two inter-related issues for consideration.

9. First, the raising of additional resources needed for the technology transfer. These resources will be needed to meet the incremental costs that are required by adhering to the Montreal Protocol. The very preliminary estimates as indicated in para 7 indicate around \$150-260 million for the 3 years 1991-1993. These could be achieved through increased contributions to the Trust Fund in UNEP (set up by the Contracting Parties in Helsinki with its formula for burden sharing, terms of reference for activities), or a separate Trust Fund to be established by the Parties for the purpose. Either options will require a consequent and appropriate enlargement of the present secretariat to have adequate technical and financial capacity. The World Bank has proposed a Global Environmental Facility based on voluntary contributions from donors of \$1,000 million to cover, ozone, climate, biodiversity and water resources. Wherever the location of the fund (Montreal Protocol Trust Fund, a special Trust Fund established by the parties or within the new facility proposed by the World Bank) is decided by the Parties it is clearly understood that the intention of the Parties is that such Fund must be under the authority of the Parties. They will establish the basis for contribution to the Fund, the policy framework and guidelines for using the resources in the Fund. They will monitor the implementation of these policies and guidelines. It is also understood that, if the Parties opt for the World Bank taking the responsibility for disbursement for the Ozone Fund, the resources for this fund, within the \$1000 million of the Bank environmental facility, will be those decided upon by the Parties in London and collected according to the burden sharing formula to be agreed by them in London, and no additional resources will be called by the Bank for that purpose.

11. Second, the management of the transfer of resources to the developing countries i.e. arrangements for a delivery system for the implementation of the programme of assistance. This can best be performed by a combination of agencies in areas of activities based on their comparative advantage. For example, a tripartite arrangement is proposed between the World Bank, UNDP, and UNEP, in which, within the policy framework and guidelines provided by the Contracting Parties, they will perform the following functions:

- (a) UNEP would continue to play its role in strategic planning, i.e. in managing and strengthening existing protocol, carrying out monitoring and assessment of global changes, supporting research in scientific and technical problems, and assisting developing countries in defining their needs (technical, financial and institutional) for implementing the treaty.
- (b) UNDP would perform pre-investment studies and provide technical assistance to enable the transfer of appropriate technologies to developing countries. Special attention would need to be paid to institution building and training of manpower resources as part of this effort.
- (c) The World Bank would provide through its Global Environmental Facility and within the understanding in para 9 above the experience of the World Bank in management of external financing for investments and programme and project implementation.

11. It is also possible to envisage a role for UNIDO in these arrangements in terms of technical assistance to reflect its broad experience with the industrial policies and activities of developing countries.

12. Co-ordination and complementarity of effort would be brought about through an inter-connected process: (i) following the policy framework and guidelines established and regularly reviewed by the executive committee to be established by the Contracting Parties or by the Parties themselves. The purpose of such Executive Committee could be to vet the requests for assistance to ensure that they were in line with the agreed funding criteria under the Protocol and prepared in keeping with the best available technical and scientific advice. (ii) all participants in the co-operative arrangements would operate within the provisions of the Montreal Protocol, and (iii) basing their activities on the technical and scientific guidelines provided by UNEP as Secretariat of the Convention.

13. In this process, a clearing house function has a special role and purpose under the supervision of the Parties or their Proposed Executive Committee. Its role is to ensure that all needs and requests for assistance from countries operating under Article 5 of the Montreal Protocol reach bilateral and multilateral assistance agencies expeditiously and in a form and at a level of presentation which will elicit early response. In other words, the clearing house component will help in building a viable project pipeline under the supervision of the Executive Committee. The functions of the clearing house will also include distribution of case studies, technical and scientific studies of relevance, training materials and the holding of workshops.

14. Through the clearing house functions, duplication of effort between the different components of the funding mechanism - the Fund available to the Contracting Parties, assistance from multilateral financing institution and bilateral aid agencies - would be minimised or avoided. In practical terms, this is done through (a) exchange of information and data, (b) sharing of knowledge on technological options available, and (c) providing a framework for bilateral and other multilateral co-financing.

15. Any co-operative arrangements established should be tested out through an initial period in order to determine whether such collaboration is feasible and whether the transfer of technology and capital investments under such arrangement respond to the needs identified. The mechanisms for establishing such a co-operative arrangement should thus lack rigidity and be kept simple.

16. Establishing the co-operative arrangements and ensuring their proper functioning will require continued extensive discussion not only among the agencies concerned but also with donors and developing countries as well as with the scientific community.

#### Comparison with Existing Institutional Arrangements

17. In the course of discussions in the Open-ended Working Group it was requested to compare the co-operative arrangements as outlined with certain existing bodies. Four such bodies were identified as possible models for the funding mechanism sought to be set up for the Montreal Protocol, namely, Tropical Forestry Action Plan (TFAP), Energy Sector Management Assistance Programme (ESMAP), Global Programme on AIDS (GPA) and the International Fund for Agricultural Development (IFAD).

18. These arrangements are briefly examined below:

#### A. Tropical Forestry Action Plan (TFAP):

This is a co-operative arrangement between the World Bank, FAO, UNDP as well as World Resources Institute (a NGO in Washington DC). There is provision for a small secretariat of six Professionals in FAO's Forestry Department since 1985. The essential function of TFAP is that of a clearing house of project proposals, training and institution building schemes as well as the covering of the cost of forestry sector reviews, with funds coming from donors on a case by case basis. A large number of project ideas ranging from training of foresters to establishing forestry research facilities to actual reforestation for fuel woods and forest based industry with a total estimated cost of over \$400 million have emerged from the process but the actual funds raised is small and subject to long delays. Frequently TFAP has provided good discussions among forestry experts. There seem to be still some delay in achieving substantive break through in action on the ground.

B. The Energy Sector Management Action Programme (ESMAP)

In 1983 the World Bank and UNDP jointly launched the ESMAP as a pre-investment facility. The principal objective in creating the ESMAP in the wake of the oil crisis was to identify viable projects for multilateral funding. The ESMAP secretariat is located in the World Bank (with a core contribution of \$3 million in terms of staff provided). It has 55 full-time professional staff with a budget of approximately \$16 million in 1990 (of which 11% is for overhead expenses). Since its initiation (a period of six years) ESMAP has done well with (a) pre-investment and pre-feasibility studies in 60 countries, (b) provision of technical assistance and policy advice on energy sectors to developing countries, (c) financing of modest efforts to improve stoves, expand fuel wood forests and introduce new types of renewable energy. Of a total obligation of \$23 million (1989) for 80 on-going activities, around 80% is devoted to policy and planning activities and 20% to actual projects for energy efficiency and conservation. Donor funding of ESMAP activities has remained small and seem to be uncertain. Equally lacking is commitment on the part of developing countries to follow through on the initiatives. This lack of critical interest on the part of both donors and recipient countries probably explains the relatively weak capital investment activities.

C. Global Programme on AIDS (GPA)

The GPA which is much larger (88 Professionals and 75 support staff) and better financed (\$100 million in 1990) is located at WHO Headquarters in Geneva. It provides both global leadership for the fight against AIDS and technical and financial support for programmes at the national level. It maintains good links with different UN agencies and NGOs. Supervision is exercised by a Management Committee which deals with budget, policy directives, plans and administration of GPA. The Committee is composed of (i) donors, (ii) representatives of other governments and (iii) major international organizations, notably, the World Bank and UNDP. Success since creation in 1986 has been in serving as a clearing house of information on AIDS, co-ordination of donors and mobilisation of resources. But the process has proved prone to delays largely because of bureaucratic procedures in project implementation. It is also as presently constituted unable to include NGOs and private voluntary groups into its projects. The first step in orchestrating support and planning are well done, but the second, and more critical, one concerned with project implementation and completion seem to be logging behind.

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D. International Fund for Agricultural Development (IFAD)

Created in 1977 as a UN agency to cater to the unmet needs of the small farmers and the landless poor in developing countries, it is funded almost equally by OECD and OPEC countries and the voting power is tripartite (OECD, OPEC and developing countries). In the relatively short time since its inception, IFAD has done remarkably well with a secretariat of 231 (of which 98 are Professionals) and operating costs at around \$44 million. Special Programming Missions to identify problems and possible projects have been undertaken and a large number of projects actually launched. Most of the projects are co-financed with the World Bank and the regional development banks. IFAD also depends on FAO's investment Centre for technical advice and consultancy. Donors, notably USAID and FRG, have carried out favourable evaluations and are generally satisfied with IFAD's performance and so are apparently the recipient countries both as to the raising of funds and carrying out of projects (medium sized projects of between 12-25 million) aimed at grassroots agricultural development to raise food production through activities that generate income. The replenishment of IFAD's funds is, however, coming increasingly under pressure as the OPEC income weakens.

19. On balance, these arrangements, indicate that they have been effective and largely successful in carrying clearing house functions, providing technical assistance in identifying projects and developing project proposals, as well as the provision of limited funds for ensuring capital investments and technological changes. They have not, however, except perhaps for IFAD, been able to tackle the problems arising from the needs of large financial transfers notably, project design and capital funding of the type that the world-wide needs for compliance to the Montreal Protocol. IFAD is on a different order of magnitude both in terms of its secretariat from the co-ordinating and co-operative arrangements currently under consideration.

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