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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-third Meeting  
Montreal, 4-8 April 2011

**AVAILABILITY OF CASH FLOW FOR THE 2011 BUDGET**

## Background

1. The sources of uncertainty in actual cash received may have an impact on the operation of the Fund and the resource availability for planned activities. The full budget of US \$490 million for the 2009-2011 triennium could be available for programming during the triennium based on the following assumptions:

- (a) Agreed pledges being fully paid during the triennium by June of each year in accordance with paragraph 7 of decision XI/6;
- (b) Promissory notes are encashed when needed to avoid any cash flow shortfall during the triennium;
- (c) The Parties that have paid pledged contributions in the past will continue to do so and pay the US \$43.2 million of the US \$73.9 million carryover from the previous triennium;
- (d) US \$16.1 million will be collected from interest and other sources during the 2009-2011 triennium to meet the commitment in the replenishment;
- (e) There will be no losses to Fund resources due to the implementation of the fixed-exchange-rate mechanism (FERM) or encashment of promissory notes; and
- (f) The Parties that have never paid their pledged contributions meet their pledges for 2009-2011 assessed at US \$5,924,635.

2. Based on the above assumptions, after subtracting the funds utilized in 2009 and 2010 from the US \$490 million replenishment for the 2009-2011 triennium, the 2011 budget of the Multilateral Fund would be US \$287.7 million.

3. In the context of its consideration of Financial Planning for the 2009-2011 triennium at its 57<sup>th</sup> Meeting, the Executive Committee decided, *inter alia*, to consider the availability of cash flow for the 2011 budget at the first meeting of the Executive Committee in 2011 in light of the collection of interest, the payment of contributions from countries that had not previously paid, and any losses due to non-payment or the FERM (decision 57/4(h)).

4. Cash flow in the Multilateral Fund can be considered from four perspectives: expected receipt of all revenue components of the replenishment for the 2009-2011 triennium, the timing of the receipt of expected revenue, the possibility of additional income, and the impact of business planning on budgeting. This document addresses each of these issues and concludes with summary observations and recommendations.

### **Expected receipt of revenue for the 2009-2011 triennium**

5. This document first addresses the expected revenue components of the US \$490 million 2009-2011 replenishment: pledged contributions (US \$400 million), carryover from the 2006-2008 triennium (US \$73.9 million) and interest (US \$16.1 million).

### Payment of pledges

6. The revenue from pledged contributions depends upon payments of contributions from countries that have not previously paid, losses due to non-payment, and losses/gains due to the FERM. Only two countries have never paid contributions. Their contributions for the 2009-2011 triennium amount to US \$5,924,635.

7. Historically, non-payment has also occurred due to funds being withheld for unapproved bilateral cooperation, exchange rate fluctuations and national laws for proscribed countries. The only funds expected to be withheld during the current triennium are those due to national laws for proscribed countries. For 2009 and 2010, this amounts to US \$920,342. A projected amount for 2011 is US \$2,372,703 which is based on values in the 2011 business plan.

8. Although the FERM has resulted in a substantial gain since its inception amounting to more than US \$33 million, during the current triennium there were losses amounting to US \$1,798,619 in 2009 and US \$6,032,898 in 2010. This average loss is projected to the year 2011 to assess cash flow.

#### Payment of contributions in arrears included in the carryover

9. The carryover from the last triennium was about US \$73.9 million, which included US \$30,676,630 in cash and promissory notes and US \$43,215,092 in arrears from the 2006-2008 triennium. All but about US \$3.5 million in arrears has been paid; however, since these Parties have historically paid contributions, this level of funding is expected to be received in 2011.

#### Contributions from triennia prior to the 2006-2008 triennium

10. The carryover only assumes payment from the previous 2006-2008 triennium, but not pledges due prior to 2006. In this way the Fund does not plan on receiving any pledges that were due prior to 2006. However, income has been received that has been credited to pledges due prior to 2006 amounting to US \$5,954,293.

#### Interest

11. The 2009-2011 replenishment assumes the receipt of US \$16.1 million in interest. However, interest amounting to only US \$8.1 million has been received in 2009-2010. Receiving a similar level of interest in 2011 would result in an overall shortfall of about US \$4.0 million in interest.

#### **Expected timing of receipt of revenue**

12. With respect to the timing of the receipt of expected revenue, the document considers the percentage of pledges paid in the year that they were due and the possibility of accelerated encashment of promissory notes.

#### Receipt of agreed pledged contributions

13. Since 1997, the contributing Parties (excluding countries that have never paid contributions, those with fixed promissory note schedules, and those that have some non-payments due to national legislation, whose contributions are discussed elsewhere) have provided 77 per cent of their contributions in the year that they were due as shown in Table 1. On this basis, it is estimated that of the US \$117.2 million due at the current replenishment level, excluding contributions mentioned above, the level of contribution received in the year due would be US \$27 million less.

Table 1

#### **PERCENTAGE OF CONTRIBUTIONS RECEIVED IN THE YEAR THEY WERE DUE\***

<b>Year</b>	<b>Paid</b>
2010	94%
2009	86%

<b>Year</b>	<b>Paid</b>
2008	69%
2007	71%
2006	61%
2005	74%
2004	75%
2003	83%
2002	66%
2001	82%
2000	92%
1999	81%
1998	62%
1997	76%
<b>Average</b>	<b>77%</b>

\*Excludes payments for Belarus, Germany, Russia and non-payments addressed elsewhere.

#### Encashment of promissory notes

14. All promissory notes are subject to accelerated encashment except for one country whose notes are based on fixed encashment schedules that result in two-thirds of its pledges for the 2009-2011 triennium being received after 2011. This amounts to about US \$27.8 million. At its 57<sup>th</sup> Meeting, the Executive Committee requested the contributing Parties that do not provide for accelerated encashment of promissory notes to consider either allowing an accelerated encashment schedule or adjusting their encashment schedules for future promissory notes to correspond to the year in which those contributions are due. The Secretariat enquired whether the policy of the Government concerned had changed since the 57<sup>th</sup> Meeting but was informed that there had been no relevant change in policy.

#### Return of balances

15. Cash flow could be positively impacted by the return of balances from cancelled or completed projects. It is expected that there will be a minimum amount of balances returned from individual projects since most of the remaining funds are being approved for multi-year agreements for which no balances are due. However, balances have been returned in 2009 and 2010 amounting to US \$4.4 million. The average level of balances returned may be expected to continue in 2011.

#### **Additional revenue from other sources**

16. Cash flow could also be enhanced by funds set aside from the Thai chiller project, but this would amount to only about US \$1.2 million. Funds could also be received based on the Parties' call for additional contributions for ODS destruction mentioned in decision XXI/2 of the Twenty-first Meeting of the Parties, but no funds have been received to-date. Funds could also be received from the adoption of the World Bank proposal for the monetization of donor commitments to scale-up Fund resources through advanced funding. This could result in more than double the amount of funds expected from pledges in the next triennium. However, since the activities for resource mobilization proposed in the World Bank's work programme (UNEP/OzL.Pro/ExCom/63/21) would have to be completed before the funds from scaling-up could be received, it is unlikely that any funds would be available for the 2011 budget.

### Impact on business planning

17. Table 2 shows that the business plan allocation was often not fully utilized since the Executive Committee was able to approve projects at a value lower than that in the business plans, at an average of 79 percent of the allocation.

Table 2

#### APPROVALS VERSUS ALLOCATIONS IN BUSINESS PLANS (2003-2009)\*

Year	Business Plan Allocation	Actual Approvals	Difference	Percent of Allocation
2003	226,732,762	147,040,404	79,692,358	65%
2004	221,409,010	176,459,996	44,949,014	80%
2005	226,796,158	191,948,480	34,847,678	85%
2006	161,412,541	130,830,593	30,581,948	81%
2007	171,419,512	133,263,147	38,156,365	78%
2008	145,296,562	134,339,567	10,956,995	92%
2009	106,014,427	79,267,558	26,746,869	75%
<b>Total</b>	<b>1,259,080,972</b>	<b>993,149,745</b>	<b>265,931,227</b>	<b>79%</b>

\* 2010 data was not included because it presented a very low percentage of approvals (50%) that would have had a significant impact on the overall percentage.

### Summary observations

18. Table 3 summarizes the availability of cash flow based on the above considerations.

Table 3

#### SUMMARY OF AVAILABILITY OF CASH FOR THE 2011 BUDGET

Item	Scheduled	Received	Projected	Running Balance	Notes
Carryover 2006-2008	73.9	70.4	3.5		\$30.7 million was the cash carryover from 2008; all but US \$3,539,485 was received as at the 62 <sup>nd</sup> Meeting; all donors have made previous payments.
Interest	16.1	8.1	4.0		US \$4,403,437 in 2009 and US \$3,645,451 in 2010; projections are based on an average of 2009 and 2010 for the year 2011.
Pledges	400.0				
Approved to-date		-202.3			Project and standard cost approvals at the 57 <sup>th</sup> to 62 <sup>nd</sup> Meetings.
Contributions prior to 2006 not part of the carryover		6.0			US \$5,954,293 from contributions received from triennia prior to 2006 that had not previously been paid.
<b>2011 Budget</b>	<b>287.7</b>			<b>289.7</b>	
Pledges from countries that have never paid		-3.9	-2.0		Russian Federation and Belarus for 2009-2011 (US \$5,924,634).

Item	Scheduled	Received	Projected	Running Balance	Notes
Non-payment by countries that have paid contributions		-0.9	-2.4		Includes actual 2009 and 2010 and business plan values in 2011 for proscribed states.
FERM		-7.8	-3.9		US \$1,798,619 in 2009 and US \$6,032,898 in 2010; projections is based on an average of 2009 and 2010 for the year 2011.
Return of balances		4.4	2.2		US \$2,495,301 in 2009 and US \$1,894,747 in 2010; projection is based on an average of 2009 and 2010 for the year 2011.
<b>Sub-total Expected Revenue</b>				<b>275.4</b>	
Rate of contributions not received in year due			-27.0		Rate of contributions not received is 23% based on the average rate of contributions for 1997-2010 excluding contributions for countries that have never paid, countries with fixed encashment schedules for promissory notes and for disputed contributions, leaving a balance of pledges of US \$117,203,135 of which US \$26,956,721 will be received after 2009-2011.
Promissory notes			-27.8		Based on fact that two-thirds of promissory notes are encashed on a fixed schedule after 2011.
<b>Sub-total Expected Receipts</b>				<b>220.6</b>	Any funding above this level may be contingent upon future receipt of contributions.
<b>Thai chiller project</b>		1.2	0.0	<b>221.8</b>	Thai chiller funds could be moved into the general fund for project funding.
<b>MOP decision XXI/2</b>		0.0	0.0	<b>221.8</b>	No funds received to-date in respect of the call for additional contributions for ODS destruction.
<b>World Bank scaling up proposal</b>		0.0	0.0	<b>221.8</b>	See World Bank Work Programme; not likely in 2011

19. Table 3 shows that interest is not expected to reach the level anticipated in the replenishment. Moreover, assumptions with respect to full payment of pledges may not materialize for those countries that have never paid; there will also likely be some non-payment due to national legislation as well as losses due to the FERM. However, some unexpected gains have materialized due to the return of balances from completed and cancelled projects.

20. Under the terms of reference of the Multilateral Fund (Report of the Fourth Meeting of the Parties to the Montreal Protocol, UNEP/OzL.Pro. 4/15, Annex IX), "In the event that the Chief Officer of the Fund Secretariat anticipates that there may be a shortfall in resources over the financial period as whole, [she] shall have discretion to adjust the budget approved by the Parties so that expenditures are at all times fully covered by contributions received" (paragraph 19). As a shortfall is anticipated, the Secretariat recommends that the budget for the year 2011 should be adjusted to US \$275.4 million.

Table 3 also shows that only US \$220.6 million of the US \$275.4 million in expected revenue will likely be available in 2011. Therefore, up to US \$54.8 million in approved projects may not have funds disbursed until after the last meeting in 2011. The table also points to additional sources of income. Although funds from the Thai chiller project could be transferred to cover project costs, other sources of income such as from the call for additional contributions for ODS destruction and the World Bank's scaling up proposal would not likely result in additional resources in 2011.

21. The Executive Committee may wish to:

- (a) Note the information on the availability of cash flow for the 2011 budget as contained in document UNEP/OzL.Pro/ExCom/63/5; and
- (b) Agree on a 2011 budget of US \$275.4 million noting that only US \$220.6 million is likely to be available in 2011.

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