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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-eighth Meeting
Montreal, 3-7 April 2006

FINANCIAL PLANNING FOR THE 2006-2008 TRIENNIUM

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issue of the document.

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Introduction

1. In decision XVII/40 taken at their Seventeenth Meeting the Parties decided, *inter alia*:

Paragraph 1: “To adopt a budget for the Multilateral Fund for the Implementation of the Montreal Protocol for 2006-2008 of US \$470,000,000 on the understanding that US \$59,600,000 of that budget will be provided from anticipated contributions due to the Multilateral Fund and other sources for the 2003-2005 triennium, and that US \$10,000,000 will be provided from interest accruing to the Fund during the 2006-2008 triennium. [...]”

Paragraph 2: “To adopt the scale of contributions for the Multilateral Fund based on a replenishment of US \$133,466,667 for 2006, US \$133,466,667 for 2007 and US \$133,466,666 for 2008 [...]”

Paragraph 3: “That the Executive Committee should take action to ensure, as far as possible, that the whole of the budget for 2006-2008 is committed by the end of 2008, and that Parties not operating under paragraph 1 of Article 5 should make timely payments in accordance with paragraph 7 of decision XI/6.”

2. The Secretariat has prepared this document to assist the Executive Committee to address these elements of Decision XVII/40. It provides the Executive Committee with suggested annual budgets and resource availability in light of the expected cash flow during the triennium, the funds available for new activities, and bilateral contributions.

Cash Flow and Commitment of Resources under the Multilateral Fund

3. Cash flow into the Multilateral Fund emanates from: agreed pledged contributions in the form of cash and promissory notes received in the year that they are pledged; the payment of contributions in arrears; interest from balances held in the accounts of the Treasurer and the implementing agencies; the return of balances from completed projects; gains/losses due to the fixed exchange rate mechanism (FERM); and payment of contributions from countries with economies in transition (CEITs) that have never made contributions to the Multilateral Fund.

4. 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), “no commitments shall be made in advance of the receipt of contributions” (para. 20) and “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” (para.19). Therefore, a cash flow analysis has been performed to determine the amount of resources that might be available for commitment during the 2006-2008 triennium.

Receipt of Agreed Pledged Contributions

5. Table 1 indicates the percentage of contributions received at the time of the third meeting of each year based on reports of the Executive Committee. On average, 67 per cent of the total

amount of pledges made during the years 2003, 2004 and 2005 has been received in time for the last meeting of the Executive Committee in the year the pledges were made.

Table 1

THE PERCENTAGE OF CONTRIBUTIONS RECEIVED BY THE THIRD MEETING OF EACH YEAR BASED ON REPORTS OF THE EXECUTIVE COMMITTEE

Item/Year	2003	2004	2005	Total
Outstanding Contributions	48,097,879	46,533,615	61,963,369	156,594,863
Agreed Contributions	158,000,000	158,000,000	158,000,000	474,000,000
Percentage of Contributions Received	70%	71%	61%	67%
Promissory notes that may not be cashed on an accelerated basis	29,632,943	42,151,632	0	71,784,575
Promissory notes not immediately cashable and outstanding contributions	77,730,822	88,685,247	61,963,369	228,379,438
Percentage of Promissory notes not immediately cashable and outstanding contributions compared to Agreed Contributions	49%	56%	39%	48%
Date of Status of Contributions	18-Dec-03	29-Nov-04	18-Nov-05	

6. The 2006-2008 budget that has been approved by the Parties includes US \$69.6 million in funds carried over from the 2003-2005 triennium and interest and other sources, in addition to US \$400.4 million in new pledges. The new pledges are assessed at US \$133,466,667 for the years 2006 and 2007, and US \$133,466,666 for 2008. Therefore based on the receipt of contributions during the 2003-2005 triennium an amount ranging from US \$66,733,334 to US \$89,422,667 might be available in the year of the pledge.

7. Prior to the 2003-2005 triennium, 85 percent on average of pledged contributions were received in the year that they were pledged. That level of contribution in 2006 would amount to US \$113,446,667.

Promissory Notes

8. Table 1 also indicates the amount of promissory notes that may not be used to cover cash flow shortfalls. The number of promissory notes not immediately cashable and outstanding annual pledges amount to about half of the agreed contributions in any given year.

9. In establishing promissory notes, the Executive Committee provided “the option of accelerated encashment on demand by the Treasurer in light of needs on a pro rata basis” (UNEP/OzL.Pro/ExCom/11/36, para. 128). This decision was reiterated at the 25th Meeting when the Executive Committee decided that, “in view of the significant shift in the composition of cash and promissory notes in the resources of the Multilateral Fund and operational needs, the

Treasurer should have the flexibility to implement the Executive Committee decision on accelerated encashment on need, provided that any accelerated encashment was done on a pro-rata basis across all the promissory notes received by the Treasurer, to provide fairness, and with a reasonable period of time of advance notice” (decision 25/2).

10. However, as had been mentioned at recent meetings of the Executive Committee, some countries have not enabled the Treasurer to accelerate the encashment of promissory notes. This led to a request to contributing Parties by the Executive Committee at its 41st Meeting to cooperate with the Treasurer to facilitate the timely encashment of promissory notes (decision 41/2, para. (d)). The Report of the Treasurer dated 18 November 2005 indicated that four countries held 2004 promissory notes that were not cashed partially or fully, and four other countries had 2005 promissory notes either not cashed or only partially cashed.

Annual Budgets

11. The total budget for the 2003-2005 triennium was allocated on an annual basis by frontloading the carryover from the prior triennium (2000-2002) together with interest into the first and second years of the triennium. The budget for each year was based on the agreed annual amount of pledged contributions. However, two-thirds of the carryover and anticipated interest was assigned to the first year of the triennium (2003) and one-third was assigned to the second year of the triennium (2004).

12. Annex I presents an analysis of the impact of three scenarios representing 67, 75 and 85 per cent of payment of annual pledges in the year pledged, if the budget for the 2006-2008 triennium were to be frontloaded as was done in the 2003-2005 triennium. Annex I shows that unless Parties paid 85 per cent of pledged contributions in the year of the pledge, there would be a shortfall of resources in every year of the triennium except in 2006 (assuming that the full US \$69.6 million carryover and interest were also received in 2006).

13. Annex II presents a similar analysis with an equal distribution of the budget for each year of the triennium, i.e., US \$156.67 million each year. Under this scenario, there would be sufficient funds to cover the 2006 budget if contributions were paid at a rate of 67 per cent or higher as long as the full carryover and anticipated interest is received in 2006. Nevertheless, under all scenarios, there would be a shortfall that is equivalent to the amount of annual pledges not received in the year they are due. The shortfall would range from US \$20 million if 85 percent of pledged contributions are received when they are due to US \$44 million if 67 per cent are received.

14. The implementing agencies and the Fund Secretariat held a coordination meeting on 23-24 January 2006 to *inter alia* consider possible resource allocation scenarios in light of the three-year phase-out plan. On the basis of this analysis, it was agreed to develop business plans that assume a budget of US \$156.67 million per year.

Other Sources of Cash Flow

15. Because US \$59.6 million in arrears from the 2003-2005 triennium are included in the 2006-2008 budget, cash flow could also be affected if countries that have historically paid do not continue to make their contributions.

16. There would also be an impact if interest accrued during the 2006-2008 triennium were either higher or lower than the US \$10 million already included in the budget, and if there were significant amounts of returned balances by the implementing agencies from completed and cancelled projects. It is expected that as the balance of funds for multi-year agreements is disbursed by the agencies, the amount of interest will be lower than in past triennia. It is also expected that there will be fewer balances returned from individual projects since most of the remaining funds are being approved for multi-year agreements for which no balances are returned.

17. Cash flow could also be affected by gains or losses due to the FERM. This potential impact is difficult to predict since there were losses due to the FERM for the 2000-2002 triennium but there were gains for the 2003-2005 triennium. Similarly, cash flow could be affected if CEIT countries that have never paid continue not to make their contributions in the 2006-2008 triennium. The total level of pledged contributions for the 2006-2008 for these countries amounts to US \$5,799,847.

Assumptions for the Full Allocation of the 2006-2008 Budget

18. These sources of uncertainty in actual cash received may have an impact on the operation of the Fund, and it may be necessary to reconsider the budget for the final year of the triennium in light of cash received in the context of the 2008 business plans. Nevertheless, the full budget of US \$470 million for the 2006-2008 triennium could be available for programming during the triennium based on the following assumptions:

- (a) The Parties that have paid pledged contributions in the past will continue to do so and pay the US \$59.6 million in carryover from the previous triennium;
- (b) The Parties make contributions for the triennium during the triennium and enable the timely encashment of promissory notes to avoid any cash flow shortfall during the triennium;
- (c) The Parties, in the group of CEIT that have never paid their pledged contributions meet their contributions for 2006-2008 assessed at US \$5,799,847;
- (d) US \$10 million will be collected from interest and other sources during the 2006-2008 triennium; and
- (e) There are no losses to Fund resources due to the implementation of the FERM or the encashment of promissory notes.

Commitments and Resources Available for New Activities during 2006-2008

19. The Multilateral Fund is entering the 2006-2008 triennium with commitments already made in the previous triennia. Those commitments consist of, *inter alia*, funding for multi-year agreements and funding for standard activities (such as institutional strengthening, the budget for meetings of the Fund Secretariat and Executive Committee, UNEP's Compliance Assistance Programme (CAP), Treasurer costs, and the core unit costs for UNDP, UNIDO and the World Bank). The largest amount committed, namely US \$244.5 million, is for funding the implementation of the ongoing multi-year agreements. Funding for other standard activities during the triennium totals US \$83 million. This leaves about US \$142 million of programmable resources for new activities during the 2006-2008 triennium (Table 2).

Table 2

COMMITMENTS AND RESOURCES AVAILABLE FOR NEW ACTIVITIES (US \$)

Description	2006	2007	2008	Total (2006-2008)
INCOME	156,666,667	156,666,667	156,666,666	470,000,000
PRIOR COMMITMENTS				
Annual Tranches of Approved Multi-year agreements	110,478,786	81,466,183	52,525,052	244,470,021
Other funding commitments				
Institutional strengthening	9,706,373	5,964,294	9,706,373	25,377,040
Secretariat/Executive Committee costs	4,546,095	4,727,939	4,917,056	14,191,090
UNEP CAP	8,643,348	8,902,648	9,169,728	26,715,724
Agencies core unit (UNDP, UNIDO, and the World Bank)	5,047,000	5,198,410	5,354,362	15,599,772
Treasurer	500,000	500,000	500,000	1,500,000
Total (other commitments)	28,442,816	25,293,291	29,647,519	83,383,626
Total Commitments	138,921,602	106,759,474	82,172,571	327,853,647
PROGRAMMABLE RESOURCES (Income minus Prior Commitments)	17,745,065	49,907,193	74,494,095	142,146,353

20. Programmable resources amounting to US \$142 million are required to phase out 5,213.2 ODP tonnes in compliance with decision 47/5 and the updated three-year phase-out plan. Any shortfall arising from interest and the non-payment (or delayed payment) of the full amount of pledged contributions from the current and past triennia would have an impact on the level of resources available for new activities during the 2006-2008 triennium.

Bilateral Contributions

21. Up to 20 per cent of pledged contributions may be used for bilateral cooperation (Decision II/10, Appendix IV, para. 8). Bilateral contributions for the 2006-2008 triennium are calculated on the basis of 20 per cent of the US \$400.4 million in new contributions out of the US \$470 million budget for the 2006-2008 triennium.

22. Table 3 presents the levels of bilateral contributions and bilateral commitments for multi-year agreements during the 2006-2008 triennium.

Table 3

BILATERAL CONTRIBUTIONS AND BILATERAL COMMITMENTS FOR MULTI-YEAR AGREEMENTS DURING THE 2006-2008 TRIENNIUM (US \$)

Country	20% of Agreed Pledged Contributions (2006-2008)	Annual Tranches of Multi-Year Agreements to be Approved in 2006-2008	Balance
Australia	1,596,086		1,596,086
Austria	861,205		861,205
Azerbaijan	5,013		5,013
Belarus	18,046		18,046
Belgium	1,071,744		1,071,744
Bulgaria	17,044		17,044
Canada	2,820,220		2,820,220
Cyprus	39,100		39,100
Czech Republic	183,470		183,470
Denmark	719,843		719,843
Estonia	12,031		12,031
Finland	534,368		534,368
France	6,045,476	2,124,947	3,920,529
Germany	8,684,231	8,931,763	*
Greece	531,360		531,360
Hungary	126,323		126,323
Iceland	34,087		34,087
Ireland	350,898		350,898
Israel	468,199		468,199
Italy	4,897,537		4,897,537
Japan	17,617,600	62,150	17,555,450
Latvia	15,038		15,038
Liechtenstein	5,013		5,013
Lithuania	24,062		24,062
Luxembourg	77,198		77,198
Malta	14,036		14,036
Monaco	3,008		3,008
Netherlands	1,694,337		1,694,337
New Zealand	221,567		221,567
Norway	680,743		680,743
Poland	462,183		462,183
Portugal	471,206		471,206
Russian Federation	1,102,823		1,102,823

Country	20% of Agreed Pledged Contributions (2006-2008)	Annual Tranches of Multi-Year Agreements to be Approved in 2006-2008	Balance
Slovakia	51,131		51,131
Slovenia	82,210		82,210
Spain	2,526,468	565,000	1,961,468
Sweden	1,000,561	65,364	935,197
Switzerland	1,200,072	829,736	370,336
Tajikistan	1,003		1,003
Ukraine	39,100		39,100
United Kingdom	6,142,725		6,142,725
United States of America	17,617,600		17,617,600
Uzbekistan	14,036		14,036
Total	80,080,000	12,578,960	67,748,572

* The total level of commitments for multi-year agreements exceeds the 20 per cent allocation by US \$247,532.

23. Table 3 indicates that contributing countries could use up to US \$80.8 million in new contributions for bilateral cooperation. Nearly US \$12.6 million has already been committed for approval for annual tranches of multi-year agreements. This means that up to US \$67.7 million of the US \$142 million in total Fund resources for new activities could, theoretically, be claimed as bilateral contributions. In order to ensure that the Executive Committee's commitments to new activities for multilateral implementing agencies does not exceed the 20 per cent entitlement for bilateral cooperation, the Executive Committee may wish to consider requesting bilateral agencies to specify the costs for the activities in their annual business plans and remain within those costs for project submissions during the 2006-2008 triennium.

24. Table 3 also indicates that Germany already has commitments for annual tranches deferred from previous triennia, which are included in the current triennium, that in total exceed Germany's maximum allocation for the 2006-2008 triennium. The Executive Committee may wish to take this issue into account when it considers the 2006-2008 business plans for bilateral agencies (UNEP/OzL.Pro/ExCom/48/7).

RECOMMENDATIONS

25. The Executive Committee may wish to:
- (a) Note the Report on financial planning for the 2006-2008 triennium as contained in UNEP/OzL.Pro/ExCom/48/5;
 - (b) Adopt a resource allocation of US \$156,666,667 in 2006, US \$156,666,667 in 2007, and US \$156,666,666 in 2008;

- (c) Urge contributing Parties to make payments for the year 2006 by June 2006 in accordance with paragraph 7 of decision XI/6 of the Eleventh Meeting of the Parties, and to enable the full commitment of the US \$470 million budget during the 2006-2008 as foreseen in decision XVII/40 of the Seventeenth Meeting of the Parties (paragraph 3);
- (d) Urge contributing Parties to pay the arrears amounting to the US \$59.6 million carryover from the 2003-2005 triennium during 2006;
- (e) Request contributing Parties using promissory notes to enable the Treasurer to accelerate the encashment of promissory notes as per decision 25/2;
- (f) Urge countries with economies in transition that have not paid previously to make their contributions to the Multilateral Fund for the Implementation of the Montreal Protocol for the 2006-2008 triennium for the full implementation of the three-year phase-out plan to enable the compliance of Article 5 countries with the control measures of the Montreal Protocol, and avoid shortfalls arising from non-payment or delayed payment of pledged contributions during the compliance period for Article 5 countries;
- (g) Agree that the US \$142 million in resources available for new commitments should be allocated as a first priority to the compliance needs of Article 5 countries; and
- (h) Request that bilateral agencies specify the costs of planned activities in their annual business plans and remain within those specified project submissions during the 2006-2008 triennium.

Annex I

**FRONT-LOADING THE BUDGET FOR THE 2006-2008 TRIENNIUM: AN ANALYSIS
OF THE IMPACT OF ALTERNATIVE PERCENTAGES OF PAYMENT OF ANNUAL
PLEDGES**

67 per cent receipt of pledges

	2006	2007	2008
Annual Pledge	133,466,667	133,466,667	133,466,667
Amount paid in year of pledge	89,422,667	89,422,667	89,422,667
Amount paid from previous year's pledge		44,044,000	44,044,000
Annual Budget frontloaded with the Carryover	179,866,667	156,666,667	133,466,666
Amount Needed to Achieve Annual Budget	90,444,000	23,200,000	(1)
Carryover	59,600,000		
Interest	10,000,000		
Balance at end of the year	(20,844,000)	(44,044,000)	(44,043,999)

75 per cent receipt of pledges

Annual Pledge	133,466,667	133,466,667	133,466,667
Amount paid from previous year's pledge	100,100,000	100,100,000	100,100,000
Amount paid from previous year's pledge		33,366,667	33,366,667
Annual Budget frontloaded with the Carryover	179,866,667	156,666,667	133,466,666
Amount Needed to Achieve Annual Budget	79,766,667	23,200,000	(1)
Carryover	59,600,000		
Interest	10,000,000		
Balance at end of the year	(10,166,667)	(33,366,667)	(33,366,666)

85 per cent receipt of pledges

Annual Pledge	133,466,667	133,466,667	133,466,667
Amount paid from previous year's pledge	113,446,667	113,446,667	113,446,667
Amount paid from previous year's pledge		20,020,000	20,020,000
Annual Budget frontloaded with the Carryover	179,866,667	156,666,667	133,466,666
Amount Needed to Achieve Annual Budget	66,420,000	23,200,000	(1)
Carryover	59,600,000		
Interest	10,000,000		
Balance at end of the year	3,180,000	(20,020,000)	(20,019,999)

Annex II

**AN EQUAL ANNUAL DISTRIBUTION OF THE BUDGET FOR THE 2006-2008
TRIENNIUM: AN ANALYSIS OF THE IMPACT OF ALTERNATIVE PERCENTAGES
OF PAYMENT OF ANNUAL PLEDGES**

67 per cent receipt of pledges

	2006	2007	2008
Annual Pledge	133,466,667	133,466,667	133,466,666
Amount paid in year of pledge	89,422,667	89,422,667	89,422,666
Amount paid from previous year's pledge		44,044,000	44,044,000
Annual Budget (No Frontloading)	156,666,667	156,666,667	156,666,666
Amount Needed to Achieve Annual Budget	67,244,000	23,200,000	23,199,999
Carryover	59,600,000		
Interest	10,000,000		
Balance at the end of the year	2,356,000	(20,844,000)	(44,043,999)

75 per cent receipt of pledges

Amount paid in year of pledge	133,466,667	133,466,667	133,466,667
Amount paid from previous year's pledge	100,100,000	100,100,000	100,100,000
Amount paid from previous year's pledge		33,366,667	33,366,667
Annual Budget (No Frontloading)	156,666,667	156,666,667	156,666,667
Amount Needed to Achieve Annual Budget	56,566,667	23,200,000	23,200,000
Carryover	59,600,000		
Interest	10,000,000		
Balance at the end of the year	13,033,333	(10,166,667)	(33,366,667)

85 per cent receipt of pledges

Amount paid in year of pledge	133,466,667	133,466,667	133,466,667
Amount paid from previous year's pledge	113,446,667	113,446,667	113,446,667
Amount paid from previous year's pledge		20,020,000	20,020,000
Annual Budget (No Frontloading)	156,666,667	156,666,667	156,666,667
Amount Needed to Achieve Annual Budget	43,220,000	23,200,000	23,200,000
Carryover	59,600,000		
Interest	10,000,000		
Balance at the end of the year	26,380,000	3,180,000	(20,020,000)
