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Executive Committee of
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Implementation of the Montreal Protocol

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FINANCIAL PLANNING AND PROJECTIONS OF CASH FLOW FOR THE TRIENNIUM 1997-1999

Introduction

1. The Parties, in their Decision VIII/4 taken at their Eighth Meeting, decided, *inter alia*:

Paragraph 2: "To adopt a budget for 1997-1999 of US $540,000,000 with the understanding that US $74,000,000 of that sum will be provided by funds unallocated during 1994-1996 ... etc."

Paragraph 4: "To adopt the scale of contributions of the Multilateral Fund based on a replenishment of US $466,000,000 ... of US $155,333,333 for 1997, US $155,333,333 for 1998 and US $155,333,333 for 1999;"

Paragraph 5: "That the Executive Committee should take actions to ensure as far as possible that the whole of the budget for 1997-1999 is committed by the end of 1999, and that Parties not operating under Article 5 should accordingly make timely payments."

2. In order to address these elements of Decision VIII/4, the Secretariat undertook the preparation of this document. The purpose of the document is to provide the Executive Committee with a projection of resource availability, options for annual budgets (Decision VIII/4, paragraphs 2 and 4), and to stimulate a discussion on how to address paragraph 5 of Decision VIII/4.

Annual Budgets

3. The 1997-1999 budget approved by the Parties consists of US $74 million in a carry over from 1996 and US $466 million in new pledges. The new pledges are assessed at US $155,333,333 for each year of the triennium.

4. Consequently, two options could be considered for the annual budgets. The first option (Option I) is to divide the sum of US $540 million into three equal amounts, i.e. US $180 million each, for 1997, 1998 and 1999. The second option (Option II) is to fix the annual budgets at the level of the new pledges decided for each year, with the addition of the US $74 million in carry over from the previous triennium to the 1997 budget, i.e. US $229,333,333 for 1997 and US $155,333,333 for each of 1998 and 1999.

Resource Availability

5. The Parties adopted a budget of US $540 million for 1997-1999, which consists of US $74 million as a carry over from the previous replenishment and US $466 million in new contributions, which have been assessed for 34 Parties not operating under paragraph 1 of Article 5 of the Protocol based on the 1996 United Nations Scale of Assessments.

6. Twenty-nine (29) of these Parties have always paid their pledged contributions in full in the past, and are expected to do so in the triennium. Their contribution accounts for 94 per cent of the pledged amounts, or US $438.04 million for this triennium. In addition, they are expected to pay the US $74 million in carryover from the previous triennium.

7. The remaining five (5) Parties, belonging to countries with Economies in Transition (EIT), have never paid their pledged contributions before. Their assessed contributions amount to 6 per cent of the 1997-1999 pledges, or US $27.96 million.

8. Not all contributing Parties pay their annual contributions, either in part or in full, in the year they are due. Historically, 65 per cent of a given year's pledged contributions is paid during that year. The outstanding contributions from a given year, which represents about 29 per cent of the year's pledged contributions, are usually paid during the following year.

9. If this pattern persists in the new triennium, the flow of contributions is likely to follow the profile presented in Table 1.

Table 1: Profile of contributions (1997-1999)
(US $ million)

Year	1997	1998	1999	Total
(1) Assessed pledges	155.333	155.333	155.333	466.000
(2) Carry over from last triennium	74.000			74.000
(3) Sub-total	229.333	155.333	155.333	540.000
(4) Collectable pledges:				
(a) year's pledges	101.000	101.000	101.000	303.000
(b) previous year's	74.000	45.047	45.047	164.094
(5) Historically uncollectable pledges	(9.320)	(9.320)	(9.320)	(27.960)
(6) Resources available for (1997-1999) commitment (4a+4b)	175.000	146.047	146.047	467.094
(7) Expected shortfall	(54.333)	(9.286)	(9.286)	(72.905)
(8) Collectable pledges in the year 2000				45.047

10. Table 1 indicates that an overall shortfall in resources amounting to about US $73 million could occur unless all pledged contributions are fully paid by all the 34 Parties by the end of 1999. The table also indicates that should past trends prevail, the resources available for commitment

The table also indicates that should past trends prevail, the resources available for commitment during the triennium will likely amount to US $467 million. The shortfall of US $73 million would be partially offset in the year 2000 by about US $45 million which is expected to be paid during that year.

Financial Management

11. The Executive Committee is requested, in paragraph 5 of Decision VIII/4, to ensure as far as possible that the whole budget of US $540 million is committed by the end of 1999.

12. Implementation of this request may require consideration of committing each year's budget by the end of that year. The impact of this exercise is depicted in Table 2 for the two budget options referred to in paragraph 4 above.

Table 2: Budget-based commitment
(US $ million)

Year	Commitable Resources	Budget Option I		Budget Option II	
		Budget	Deficit	Budget	Deficit
1997	175.0	180.0	(5.0)	229.3	(54.3)
1998	146.0	180.0	(34.0)	155.3	(9.3)
1999	146.0	180.0	(34.0)	155.3	(9.3)
Total	467.0	540.0	(73.0)	540.0	(73.0)

13. Table 2 indicates that in any given year of the triennium, budget-based commitment will result in a deficit. The deficit from one year will have to be offset from the amount of resources available for new commitment in the following year. This will amount to a deficit of US $73 million by the end of 1999.

14. The terms of reference of the Multilateral Fund as well as the agreements of the Executive Committee with the Implementing Agencies preclude commitment not covered by paid contributions. Therefore, committing the whole budget of US $540 million will be contingent on the receipt of this amount by the end of 1999.

15. The Executive Committee may therefore wish to consider a modified resource-based approach in order to address the requirements of paragraph 5 of Decision VIII/4.

Modified Resource-Based Approach

16. The approach is based on committing, during the triennium, all the financial resources that will be available from 1997-1999 pledges. The following assumptions are made:

(a) The current pattern of flow of contributions would continue;

(b) Parties with economies in transition would not be able to pay their pledged contributions in the foreseeable future; and,

(c) The Executive Committee would engage in approving projects as being eligible for funding, and that these projects would receive priority funding once resources became available

17. Commitment in any given year will be equivalent to the amount of resources expected to be available by the end of that year. Since about US $45 million will be available only during the year 2000, a pre-commitment equivalent to this amount could be made (based on approval of projects as being eligible for funding) during the triennium according to one of the following scenarios:

Scenario 1

18. To reserve the US $45 million for funding of closure projects which could be approved before the end of 1999 and funded during the year 2000.

19. To spread the pre-commitment of the US $45 million equally over the years 1997, 1998 and 1999 with deferral of disbursements to the Implementing Agencies according to an agreed payment schedule extending into the year 2000.

20. To dedicate the US $45 million for over programming (less than 10 per cent) to be disbursed during the year 2000.

21. To delay disbursing part of the Implementing Agencies support cost equivalent to US $45 million until the year 2000.

Scenario 2

22. The scenario is based on approving, during the triennium, projects with a value of US $45 million as being eligible for funding, the actual funding will be completed in the year 2000. The value of projects approved as such will depend on the budget option selected by the Executive Committee as shown in tables 3 and 4:

Table 3: Commitment according to Budget Option I
(US $ million)

	Year	1997	1998	1999	2000	Total
(1)	Budget Option I	180.0	180.0	180.0	0	540.0
(2)	Uncollectables	9.3	9.3	9.3	0	27.9
(3)	Annual commitment (1) - (2)	170.7	170.7	170.7	0	512.1
(4)	Available resources	175.0	146.0	146.0	45.0	512.1
(5)	Approved as eligible for funding (3) - (4)	(4.3)	24.7	24.7	(45.0)	0.0
(6)	Total commitment level	170.7	170.7	170.7	0.0	512.1

Table 4: Commitment according to Budget Option II
(US $ million)

	Year	1997	1998	1999	2000	Total
(1)	Budget Option II	229.3	155.3	155.3	0	540.0
(2)	Uncollectables	9.3	9.3	9.3	0	27.9
(3)	Annual commitment (1) - (2)	220.0	146.0	146.0	0	512.0
(4)	Available resources	175.0	146.0	146.0	45.0	512.0
(5)	Approved as eligible for funding (3) - (4)	45.0	0.0	0.0	(45.0)	0.0
(6)	Total commitment level	220.0	146.0	146.0	0.0	512.0

23. Commitment on the basis of budget Option I will create an equal level of commitments in each of the three years. In operational terms, 1997 will end with a small surplus; and 1998 and 1999 will each end with a deficit in the amount of US $24.7 million to accommodate those projects approved as being eligible for funding. The deficit from one year will be funded from resources of the following year, with the residual deficit in 1999 being offset in the year 2000.

24. Commitment on the basis of budget Option II will create a high level of commitment in 1997, to accommodate those projects approved as being eligible for funding. In operational terms, 1998 and 1999 will start with a deficit from the previous year in the amount of US $45 million which will be offset from resources available in the following years and in the year 2000.