UNITED
NATIONS

EP

United Nations
Environment
Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/66/5
14 March 2012

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-sixth Meeting
Montreal, 16-20 April 2012

FINANCIAL PLANNING FOR THE 2012-2014 TRIENNIUM

Introduction

1. Following its consideration of the 2012–2014 replenishment of the Multilateral Fund, the Twenty-third Meeting of the Parties decided:

> "1. To adopt a budget for the Multilateral Fund for the Implementation of the Montreal Protocol for 2012–2014 of $450,000,000 on the understanding that $34,900,000 of that budget will be provided from anticipated contributions due to the Multilateral Fund and other sources for the 2009-2011 triennium, and that $15,100,000 will be provided from interest accruing to the Fund during the 2012–2014 triennium. The Parties note that outstanding contributions from some Parties with economies in transition in the period 2009–2011 stand at $5,924,635;
>
> 2. To adopt the scale of contributions for the Multilateral Fund based on a replenishment of $133,333,334 for 2012, $133,333,333 for 2013, and $133,333,333 for 2014 as it appears in annex III to the report of the ninth meeting of the Conference of the Parties to the Vienna Convention and the Twenty-third Meeting of the Parties to the Montreal Protocol;
>
> 3. That the Executive Committee should take action to ensure, as far as possible, that the whole of the budget for 2012–2014 is committed by the end of 2014, and that Parties not operating under paragraph 1 of Article 5 should make timely payments in accordance with paragraph 7 of decision XI/6." (decision XXIII/15).

2. The Secretariat has prepared this document to assist the Executive Committee to address the above elements of decision XXIII/15. It reviews the commitments and resources available for new activities, bilateral contributions and resource availability in the light of expected cash flow during the triennium and provides the Executive Committee with suggested annual budgets and other recommendations for its consideration.

Commitments and resources available for new activities during 2012–2014

3. The Multilateral Fund is entering the 2012–2014 triennium with commitments already made in the previous triennia. Those commitments consist of, *inter alia*, funding for multi-year agreements (MYAs) and funding for standard activities (such as institutional strengthening, the budget for meetings of the Executive Committee and the operational costs of the Fund Secretariat including monitoring and evaluation activities, UNEP's Compliance Assistance Programme (CAP), Treasurer costs, and the core unit costs for UNDP, UNIDO and the World Bank). The single category with the largest amount committed, namely US $179.5 million, is for funding the implementation of ongoing MYAs. Funding for other standard activities during the triennium totals US $95.5 million. This leaves about US $175 million of programmable resources for new activities during the 2012-2014 triennium (Table 1).

Table 1

COMMITMENTS AND RESOURCES AVAILABLE FOR NEW ACTIVITIES
(US $)

Description	2012	2013	2014	Total (2012-2014)
INCOME	150,000,000	150,000,000	150,000,000	450,000,000
PRIOR COMMITMENTS				
Annual tranches of approved multi-year agreements	60,986,000	77,464,000	41,042,000	179,493,000

Description	2012	2013	2014	Total (2012-2014)
Other funding commitments				
Institutional strengthening	10,328,000	6,431,000	9,934,000	26,694,000
Secretariat/Executive Committee costs	5,991,000	6,120,000	6,252,000	18,363,000
UNEP CAP	9,997,000	10,297,000	10,606,000	30,900,000
Agencies core unit (UNDP, UNIDO, and the World Bank)	5,847,000	6,005,000	6,167,000	18,020,000
Treasurer	500,000	500,000	500,000	1,500,000
Total commitments	93,650,000	106,818,000	74,502,000	274,969,000
PROGRAMMABLE RESOURCES (Income minus prior commitments)	56,350,000	43,182,000	75,498,000	175,031,000

Bilateral contributions

4. Up to 20 per cent of pledged contributions may be used for bilateral cooperation (decision II/8, Appendix IV, paragraph 8). Bilateral contributions for the 2012-2014 triennium are calculated on the basis of 20 per cent of the US $400 million in new contributions (out of the US $450 million budget for the 2012-2014 triennium).

5. Annex I presents the levels of bilateral contributions and bilateral commitments for MYAs during the 2012–2014 triennium. It indicates that contributing countries could allocate up to US $80 million in new contributions for bilateral cooperation. US $12,327,000 million has already been committed for approval for annual tranches of MYAs. Therefore, in theory, up to US $67.7 million of the US $175 million in total Fund resources for new activities could be claimed as bilateral contributions. In order to ensure that the Executive Committee's commitments to new activities for implementing agencies does not exceed the 20 per cent entitlement for bilateral cooperation, the Committee may wish to consider requesting bilateral agencies to specify the costs of activities in their annual business plans and to remain within those estimates in project submissions during the 2012-2014 triennium.

Cash flow and commitment of resources under the Multilateral Fund

6. Cash flow into the Multilateral Fund emanates from: receipt of agreed pledged contributions, the encashment of promissory notes received in the year that they are pledged; payment of contributions in arrears included in the carry-over from the 2009-2011 triennium; interest from balances held in the accounts of the Treasurer and the implementing agencies; gains/losses due to the fixed exchange rate mechanism (FERM); payment of contributions from countries that have never made contributions to the Multilateral Fund; and, return of balances from cancelled and completed projects.

7. 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…" (paragraph 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" (paragraph 19). Therefore, a cash flow analysis has been performed to determine the level of resources that might be available for commitment during the 2012–2014 triennium.

<u>Receipt of agreed pledged contributions</u>

8. On average, 85 per cent of the total amount of pledges made during the year has been received in time for the last meeting of the Executive Committee for the year the pledges were made. The rate of

contributions received during the year in which they were pledged has improved as shown in Table 2 to a rate in 2010 of 94% and in 2011 of 92% of pledges received in the year they are due.

Table 2

PLEDGES RECEIVED IN THE YEAR THEY WERE DUE (2009-2011)

Year	2009	2010	2011
Total pledge	133,342,202	133,062,054	133,346,281
Total receipts	112,538,609	124,641,135	122,712,528
Percentage paid in year due	84.4%	93.7%	92.0%

9. All but US $12,257,779 in collectible funds were received during the 2009-2011 triennium. The average rate of pledges received during the 2009-2011 triennium was 90 per cent. On this basis, the Executive Committee might expect to receive US $120 million of the $133.3 million pledged per year.

10. The Executive Committee may wish to urge contributing Parties to make payments for each year by June in accordance with paragraph 7 of decision XI/6 of the Eleventh Meeting of the Parties, to enable the full commitment of the US $450 million budget during the 2012-2014 triennium as foreseen in decision XXIII/15 (paragraph 3) of the Twenty-third Meeting of the Parties.

Encashment of promissory notes

11. The Status of the Fund annexes to the reports of Executive Committee Meetings provided information on the level of promissory notes and cash available for each meeting during the last two triennia. Table 3 presents the net allocations approved by the Executive Committee and the balance available for new allocations based on cash and promissory notes.

Table 3

NET ALLOCATIONS APPROVED BY THE EXECUTIVE COMMITTEE SINCE THE 48TH MEETING AND THE BALANCE OF FUNDS AVAILABLE FOR NEW ALLOCATIONS IN TERMS OF CASH AND PROMISSORY NOTES (US $)

Meeting	Net allocations from approvals of the Executive Committee	Cash	Promissory notes	Total balance available for new allocations (cash + promissory notes)
65th	37,990,649	41,742,307	24,844,325	66,586,632
64th	164,545,368	158,893,492	34,273,214	193,166,706
63rd	23,543,923	106,684,542	35,174,394	141,858,936
62nd	45,470,992	143,713,054	40,767,323	184,480,377
61st	22,524,529	100,329,853	50,395,499	150,725,352
60th	33,538,595	87,083,523	30,671,458	117,754,981
59th	39,503,217	86,025,808	35,481,910	121,507,718
58th	18,494,391	56,999,643	37,830,504	94,830,147
57th	28,110,248	33,173,579	28,278,282	61,451,864
56th	66,073,243	74,748,383	29,761,206	104,509,589
55th	37,708,798	73,123,825	39,344,647	112,468,472
54th	35,088,001	46,654,921	39,344,647	85,999,567
53rd	44,858,534	70,654,991	31,459,790	102,114,781
52nd	34,359,110	45,104,235	37,734,395	82,838,630

Meeting	Net allocations from approvals of the Executive Committee	Cash	Promissory notes	Total balance available for new allocations (cash + promissory notes)
51st(a)	54,795,070	27,096,900	30,419,395	57,516,295
50th(a)	47,433,013	29,701,854	27,902,082	57,603,936
49th(a)(b)	16,257,209	0	26,672,599	26,672,599
48th(a)(c)	66,536,221	0	42,354,191	42,354,191

(a) The Executive Committee allocations were paid in part or in full by promissory notes.
(b) Promissory notes amounting to US $95,637,792 were held and all but US $26,672,599 had been assigned/committed.
(c) Promissory notes amounting to US $88,729,849 were held and all but US $42,354,191 had been assigned/committed.

12. Table 3 shows that there has been a sufficient level of resources available at each meeting since the 49th meeting to approve all of the new allocations made by the Executive Committee. Since the 52nd meeting, there have been sufficient funds available in cash alone to meet all of the net allocations approved by the Executive Committee except at the 64th meeting at which all but about $5.6 million of the US $164.5 million approved at the meeting was available in cash.

13. Of the balance of US $24,844,325 in promissory notes that had not been encashed by the last meeting of the Executive Committee, US $5,406,667 of that amount was for the United States which allows accelerated encashment. The balance of US $19,437,658 is for promissory notes from Germany that are not immediately cashable and must be encashed according to a fixed schedule. Since the encashment of these notes is part of the carry-over, not all of the carry-over will be available immediately, half being available in 2012, one-third in 2013, and one-sixth in 2014. While all of Germany’s promissory notes from the previous triennium (2009-2011) will be encashed during the current triennium, two-thirds of the notes for the current triennium contributions will only be encashed after 2014.

14. The encashment schedule has been in place since 1994 when it was presented to the Executive Committee at its 12th meeting in UNEP/OzL.Pro/ExCom/12/4. However, if this schedule is continued in the future (as it has been in the past) eventually the encashment of Germany’s promissory notes could occur two years after the completion of the Fund. As the planning for contributions to the Multilateral Fund by many donor countries including Germany occurs several years in advance, the Executive Committee may wish to consider requesting the contributing Parties that do not provide for accelerated encashment of promissory notes to consider either allowing an accelerated encashment schedule or adjusting the schedule of future promissory notes to correspond to the year in which those contributions are due. This would help to ensure there is no carry-over of promissory notes into the future triennium.

Payment of contributions in arrears included in the carry-over

15. The carry-over from the last triennium was about US $34.9 million, which included US $453,747 from the remaining balances of the Thai chiller loan project as per decision 65/3, US $22,187,696 in promissory notes, and US $12,257,779 in arrears from the 2009-2011 triennium. As at 1 March 2012, an additional US $1,908,372 has been paid towards the carry-over leaving a balance to be collected of US $10,349,407. It should be noted that there was no cash carry-over and that the level of arrears from the 2009-2011 triennium (US $12.3 million) was US $30.9 million less than the US $43.2 million in arrears from the 2006-2008 triennium. It should also be noted that the level of arrears does not include resources from countries that have historically not paid or from countries that have indicated that they would not pay. Therefore, all funds included in the carry-over are considered collectible. The Executive Committee may wish to urge those contributing Parties with arrears from the 2009-2011 triennium to pay them during 2012, since as at 1 March 2012 they accounted for the balance of US $10,349,407 from the 2009-2011 triennium carry-over.

Future interest and gains/losses due to the fixed-exchange-rate mechanism (FERM)

16. There would be an impact on cash flow if the interest to be accrued during the 2012-2014 triennium is lower than the US $15.1 million that has already been included in the budget. Based on consultations with the implementing agencies during the inter-agency coordination meeting held from 7 to 9 February 2012, interest might be programmed for the last year of the triennium (i.e. 2014) to ensure that it is collectible during this period given current world economic conditions. It should be noted that US $10.2 million of the US $16.1 million included in the 2009-2011 replenishment was collected while over US $40 million had been accrued during the 2006-2008 triennium. Continued low interest rates may have an impact on the Fund's ability to obtain the forecast level of interest early in the triennium. Moreover the level of interest during the 2009-2011 triennium would be further reduced by the extent to which countries choose to pay in promissory notes instead of cash since no interest is gained from such notes.

17. Cash flow could also be affected by gains or losses due to the FERM. This potential impact is difficult to predict. There were losses due to the FERM during the 2000-2002 triennium but there were gains during the 2003-2005 and 2006-2008 triennia, which amounted to a net gain to the Fund of US $38,573,647[1]. However, during the 2009-2011 triennium there was a loss of US $11,821,242, which leaves the overall FERM for the period 2000-2011 at a net gain of US $26,752,405[2]. This gain/loss has already been absorbed into the carry-over from the 2009-2011 triennium. At its Twenty-third Meeting, the Parties agreed to extend the FERM to the 2012-2014 triennium (decision XXIII/16).

18. Annex II assesses the potential impact of the FERM for those countries that used it in the 2009-2011 triennium that are qualified to use it for the 2012-2014 period. It shows that if the UN rates of exchange as at 1 March 2012 remain constant during the 2012-2014 triennium, the loss would amount to US $3,545,884. (It should be noted that a similar analysis in 2009 indicated a possible US $10 million loss). To accommodate this possibility, the Executive Committee might wish to consider allocating lower budgets for the first part of the triennium and more funds to the end of the triennium when the impacts of any late annual payments, interest rates and the FERM on cash flow are better known.

Contributions from countries that have never made contributions

19. Cash flow could also be affected if the countries (Belarus and the Russian Federation) that have never paid do not make their contributions during the 2012-2014 triennium. The total level of pledged contributions for 2009-2011 for these countries was US $5,924,635. The level pledged for 2012-2014 is US $8,388,990 which is almost US $2.5 million more than the previous triennium. Non-payment of pledges is often accommodated from gains in interest and the return of balances, but the interest gains may be limited during this triennium. The Executive Committee may wish to encourage countries that have never paid to make their contributions for the current triennium.

Return of balances

20. Cash flow could be positively impacted by the return of balances from cancelled or completed projects. However, it is expected that there will be fewer balances returned from individual projects since most of the remaining funds are being approved for MYAs for which no balances are due.

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[1] As at 7 November 2009 per Annex I of UNEP/OzL.Pro/ExCom/56/64, the Report of the 56th meeting of the Executive Committee.

[2] As at 11 November 2011 per Annex I of UNEP/OzL.Pro/ExCom/65/60, the Report of the 65th meeting of the Executive Committee.

Assumptions for the full allocation of the 2012-2014 budget

21. The sources of uncertainty in actual cash received may have an impact on the operation of the Fund and it will be necessary to monitor the budget in the context of business planning to ensure that there are sufficient resources for planned activities. The full budget of US $450 million for the 2012-2014 triennium could be available for programming during the triennium based on the following assumptions:

(a) Agreed pledges could be 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 $34.9 million of the carry-over from the previous triennium;

(d) US $15.1 million will be collected from interest and other sources during the 2012-2014 triennium to meet the commitment in the replenishment;

(e) There will be no losses to Fund resources due to the implementation of the FERM or encashment of promissory notes; and

(f) The Parties that have never paid their pledged contributions meet their pledges for 2012-2014 assessed at US $8,388,990.

Frontloading/back-loading budgets

22. As indicated in the Consolidated 2012-2014 Business Plan of the Multilateral Fund (UNEP/OzL.Pro/ExCom/66/7), the implementing agencies have included about US $201.2 million in their business plans for 2012 that exceeds one-third of the budget for the triennium, namely US $150 million prior to consideration by the Executive Committee, and have frontloading funding requirements to the first two years of the triennium.

23. Frontloading might be possible if all 2012 contributions are received in 2012, if there is either no loss or there is a gain through the FERM during the year, if all of the remaining US $10,349,407 of arrears in the carry-over, and one-third of the $15.1 million anticipated during the triennium in interest are received in 2012, and promissory notes encashment is accelerated or notes are accepted as cash. This would enable a 2012 budget of US $173.3 million and budgets for 2013 and 2014 of US $138.3 million.

24. However, a more conservative approach as suggested at the Inter-agency coordination meeting would propose lower budgets by the amount of US $15.1 million for the first two years of the triennium in order to assess the status of collection of contributions, the generation of interest from balances held and any loss or gain from the FERM for a final determination of a budget for 2014. The amount of US $15.1 million is the amount of interest projected during the replenishment but is also roughly the amount of funding that could be loss due to FERM ($3.5 million) and non-payment (US $11.2 to US $13.3 million). This would result in a budget of US $145 million for 2012 and 2013 and a budget of US $160 million for 2014.

RECOMMENDATIONS

25. The Executive Committee may wish to:

(a) Note the Report on financial planning for the 2012-2014 triennium as contained in UNEP/OzL.Pro/ExCom/66/5;

(b) Request:

(i) That bilateral agencies specify the costs of planned activities in their annual business plans and remain within those estimates specified when submitting these projects during the 2012-2014 triennium;

(ii) Those contributing Parties that do not provide for accelerated encashment of promissory notes to consider allowing either an accelerated encashment schedule or adjusting their encashment schedule of future promissory notes to correspond to the year in which those contributions are due;

(c) Urge:

(i) Contributing Parties to make payments for each year by June in accordance with paragraph 7 of decision XI/6 of the Eleventh Meeting of the Parties, to enable the full commitment of the US $450 million budget during the 2012-2014 triennium as foreseen in decision XXIII/15 (paragraph 3) of the Twenty-third Meeting of the Parties;

(ii) Those contributing Parties with arrears from the 2009-2011 triennium to pay them during 2012, since they account for US $10.3 million of the US $34.9 million carry-over from the 2009-2011 triennium noting that US $24.6 million is available for commitment;

(iii) 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 2012-2014 triennium;

(d) Consider the availability of cash flow for the 2014 budget at the first meeting of 2014 in light of the collection of interest, the payment of contributions from countries that have not previously paid, and any losses due to non-payment or the fixed-exchange-rate mechanism; and

(e) Adopt a resource allocation of US $145 million in 2012, US $145 million in 2013, and US $160 million in 2014 with any unallocated funds to be subsequently allocated during the present triennium.

Annex I

BILATERAL CONTRIBUTIONS AND BILATERAL COMMITMENTS FOR MULTI-YEAR AGREEMENTS DURING THE 2012-2014 TRIENNIUM (US $)

Party	20% of Agreed Pledged Contributions (2012-2014)	Annual Tranches of Multi-Year Agreements to be Approved in 2012-2014	Balance
Andorra	7,144		7,144
Australia	1,972,739		1,972,739
Austria	868,495		868,495
Azerbaijan	15,308		15,308
Belarus	42,863		42,863
Belgium	1,097,100		1,097,100
Bulgaria	38,781		38,781
Canada	3,272,931		3,272,931
Cyprus	46,946		46,946
Czech Republic (the)	356,175		356,175
Denmark	751,131		751,131
Estonia	40,822		40,822
Finland	577,636		577,636
France	6,248,879		6,248,879
Germany	8,182,837	11,047,000	-2,864,163
Greece	705,206		705,206
Holy See (the)	1,021		1,021
Hungary	296,982		296,982
Iceland	42,863		42,863
Ireland	508,238		508,238
Israel	391,894		391,894
Italy	5,101,771	147,000	4,954,771
Japan	12,787,596	240,000	12,547,596
Latvia	38,781		38,781
Liechtenstein	9,185		9,185
Lithuania	66,336		66,336
Luxembourg	91,850		91,850
Malta	17,349		17,349
Monaco	3,062		3,062
Netherlands (the)	1,893,136		1,893,136
New Zealand	278,612		278,612
Norway	888,906		888,906
Poland	845,022		845,022
Portugal	521,505		521,505
Romania	180,639		180,639
Russian Federation (the)	1,634,934		1,634,934
San Marino	3,062		3,062
Slovakia	144,919		144,919
Slovenia	105,118		105,118
Spain	3,242,314	893,000	2,349,314
Sweden	1,085,874		1,085,874
Switzerland	1,153,231		1,153,231
Tajikistan	2,041		2,041
Ukraine	88,789		88,789

Party	20% of Agreed Pledged Contributions (2012-2014)	Annual Tranches of Multi-Year Agreements to be Approved in 2012-2014	Balance
United Kingdom	6,739,767		6,739,767
United States of America (the)	17,600,000		17,600,000
Uzbekistan	10,206		10,206
Total	80,000,000	12,327,000	67,673,000

Annex II

POSSIBLE IMPACT OF THE FIXED EXCHANGE RATE MECHANISM (FERM) BASED ON CURRENT RATES OF EXCHANGE FOR THOSE COUNTRIES THAT QUALIFY AND USED THE FERM IN THE 2012-2014 TRIENNIUM

Parties	Adjusted United Nations scale of assessments with no party contributing more than 22%	Total Contributions 2012-2014 (US$)	FERM Users' currencies rates of exchange (2012-2014)	UN exchange rates as at 1 March 2012 (US$)	Value of Total Contributions as at 1 March 2012 UN Rates of Exchange (US$)	Difference (US$)
Australia	2.465924145	9,863,697	0.967	0.931	10,245,107	381,410
Austria	1.085618959	4,342,476	0.7203	0.746	4,192,876	-149,600
Belgium	1.371375301	5,485,501	0.7203	0.746	5,296,523	-188,978
Canada	4.091163338	16,364,653	0.9802	0.997	16,088,900	-275,753
Czech Republic (the)	0.445218586	1,780,874	17.71	18.61	1,694,749	-86,125
Estonia	0.051027918	204,112	0.7203	0.746	197,080	-7,032
Finland	0.722045042	2,888,180	0.7203	0.746	2,788,681	-99,499
France	7.811098572	31,244,394	0.7203	0.746	30,168,012	-1,076,382
Germany	10.2285462	40,914,185	0.7203	0.746	39,504,675	-1,409,510
Greece	0.881507286	3,526,029	0.7203	0.746	3,404,556	-121,473
Ireland	0.635297581	2,541,190	0.7203	0.746	2,453,645	-87,545
Luxembourg	0.114812816	459,251	0.7203	0.746	443,430	-15,821
New Zealand	0.348265541	1,393,062	1.2873	1.196	1,499,405	106,343
Norway	1.111132918	4,444,532	5.637	5.587	4,484,307	39,776
Sweden	1.357342623	5,429,370	6.4202	6.595	5,285,465	-143,905
Switzerland	1.441538688	5,766,155	0.9134	0.897	5,871,578	105,424
United Kingdom	8.424709288	33,698,837	0.6223	0.632	33,181,624	-517,213
TOTAL		**170,346,499**			**166,800,615**	**-3,545,884**
