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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-second Meeting
Montreal, 29 March to 2 April 2004

**FINANCIAL PLANNING (INCLUDING THE FUNDING WINDOW AND STATUS OF
FORWARD COMMITMENTS)**

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Introduction

1. As a follow-up to Decision 38/66 to adopt a three-year phase-out plan and three-year business plan for implementing agencies, members indicated that there was a need for a mechanism to monitor performance under the plans and adherence to budgets. Consistent with the strategic approach to business planning now in effect, it was suggested that the Secretariat might prepare a strategic paper on the three-year rolling phase-out plan and on the budget, which could serve as a compass in guiding the Executive Committee's review of the individual business plans of the agencies.

2. Following a discussion, the Executive Committee decided to request the Secretariat to prepare a financial planning document, providing:

- (a) A status report on the process undertaken up to the 41st Meeting in implementing the Fund's three-year model phase-out plan; and
- (b) Guidance on the funding allocations for the remainder of the triennium, including total allocations for 2004 and 2005, allocations of the implementing agencies and the bilateral agencies, and a possible allocation for a funding window on accelerated phase-out and maintaining momentum.

(Decision 41/81)

3. This document addresses financial planning aspects indicated in paragraph (b) of Decision 41/81. The status of the implementation of the three-year phase-out plan 2004-2006 is addressed in UNEP/OzL.Pro/ExCom/42/5.

Budget for 2003-2005

4. The Parties, in their Decision XIV/39 taken at their Fourteenth Meeting, decided, *inter alia*:

Paragraph 1: "To adopt a budget for 2003-2005 of US \$573,000,000 with the understanding that US \$76,000,000 of that sum will be provided by funds unallocated during 2000-2002, and that \$23,000,000 of the same sum will be provided from interest accruing to the Fund and other sources during the 2003-2005 triennium."

Projects approved in 2003 against the 2002 business plans

5. Excluded from that carryover of US \$76 million was US \$20,063,326 that was earmarked for projects submitted to the 38th Meeting and maintained in the 2002 business plans for funding from the 2000-2002 triennium. Therefore, some projects were submitted in 2003 and approved against 2000-2002 funds. Only one project amounting to US \$309,689 remains to be submitted.

6. As much of the total project costs approved in 2003 were assigned to the 2002 business plans as possible. Since most of the funds and phase-out were assigned to the 2002 business

plan, the implementing agencies' performance indicators may need adjustment to accommodate for the accounting difference resulting from this allocation.

Resources for the US \$23 million from interest accruing to the Fund and other sources during the 2003-2005 triennium

7. Table 1 shows that the Multilateral Fund has received more than the US \$23 million from interest and other sources (balances from cancelled or completed projects) for the first year of the triennium, the Fund had collected US \$26,838,694. Additional funds will be returned from balances and interest at the 42nd Meeting.

Table 1

RESOURCES FROM INTEREST AND OTHER SOURCES (US \$)

ITEM	SUB-TOTALS	ADDITIONAL INCOME	BALANCES RETURNED
Funds Returned and Interest Collected	26,838,694		
Completed Projects with Balances – Funds Returned		14,470,344	
<i>39th Meeting</i>			<i>5,139,578</i>
<i>40th Meeting</i>			<i>5,371,498</i>
<i>41st Meeting</i>			<i>3,959,268</i>
Interest Income in 2002 not Included in carryover from 2000-2002		11,093,459	
Interest Income in 2003 per 41st Meeting Report		1,274,891	
Balances and Interest required as part of 2003-2005 Replenishment	23,000,000		
Net Balances and Interest over amount required for Replenishment*	3,838,694		

* Does not include 2003 interest.

8. The net balances and interest of US \$3,838,694 could be used for cash flow purposes but is not a resource for the 2003-2005 budget as it was not included in the US \$573 million budget approved by the Parties at their XIVth Meeting. Increasing the budget beyond US \$573 million may be an issue for the Meeting of the Parties. It should be noted that the US \$573 million budget includes pledges from countries that have never paid contributions to the Multilateral Fund amounting to US \$7.5 million. However, it is also expected that due to exchange rate fluctuations, additional funds for cash flow may be received from gains due to the fixed

exchange rate mechanism. Additional funds may also become available from balances returned and the reconciliation of accounts.

9. The Treasurer has been requested to indicate the level of gains/losses from the fixed exchange rate mechanism for 2003.

Resource Allocation for 2004 and 2005 and Remaining Resources from 2003

10. At its 39th Meeting, the Executive Committee decided *inter alia* “to adopt a resource allocation of US \$224 million in 2003, US \$191 million in 2004, and US \$158 million in 2005” (Decision 39/5, para (b)). After allocating 2003 approvals to 2002, the Executive Committee approved US \$149.5 million for projects and activities, US \$3.7 million for Secretariat/Executive Committee/M&E Function, and US \$4.5 million for core unit costs. As shown in Table 2, US \$66 million remains from the 2003 resource allocation.

Table 2

REMAINING FUNDS FROM 2003 RESOURCE ALLOCATION (US \$)

2003 Resource Allocation	224,000,000
Total Approval (39th, 40th and 41st Meetings)	(149,561,341)
Allocation for Secretariat/Executive Committee/M&E Function	(3,754,067)
Allocation for Core Unit Costs	(4,500,000)
Remaining resources from 2003 business plan	66,184,592

11. During the compliance period, it is critical to approve resources to initiate activities as soon as possible to enable compliance with existing and immediate control measures but also to take into account the higher degree of certainty about 2004 activities than those indicated for 2005. Therefore, it is recommended that most of the US \$66 million should be allocated for 2004 to accommodate the needs of the 2004-2006 business plans while any additional funds should be earmarked for 2005.

12. It should be noted, however, that the expected allocation for 2004 would be the largest allocation for a single year of funding in the history of the Multilateral Fund and the ability of the implementing and bilateral agencies to deliver this level of funding should be considered in the context of their individual business plans as well as their ability to implement approved but unimplemented activities.

Status of Forward Commitments and Resources Available for New Activities during 2004-2005

13. At the beginning of the triennium, the Multilateral Fund had commitments already entered into in the previous triennia. Those commitments *inter alia* consist of funding for multi-year agreements, and other funding for standard activities such as institutional strengthening,

budget of the Fund Secretariat and Executive Committee meeting costs, UNEP's Compliance Assistance Programme (CAP), the core unit costs for UNDP, UNIDO, and the World Bank. The largest committed amount is for funding the implementation of the ongoing multi-year agreements, which amounts to US \$255 million. Funding for other standard activities during the triennium totals US \$70 million. This left a total amount of programmable resources for new activities during the triennium of about US \$248 million as indicated in the Executive Committee's decision on financial planning at its 39th Meeting (Decision 39/5) and explained in UNEP/OzL.Pro/ExCom/39/7.

14. As shown in Table 3, programmable resources for new activities at the beginning of the 2003-2005 triennium amounted to US \$95.6 million in 2003, US \$81.1 million in 2004 and US \$71.4 million in 2005.

Table 3

**COMMITMENTS AND RESOURCES AVAILABLE FOR NEW ACTIVITIES AT THE
BEGINNING OF THE 2003-2005 TRIENNium
(US \$)**

Description	2003	2004	2005	Total (2003-2005)
INCOME	224,000,000	191,000,000	158,000,000	573,000,000
PRIOR COMMITMENTS				
Annual Tranches of Approved Multi-year agreements	104,437,358	88,916,532	61,834,082	255,187,972
Other funding commitments				
Institutional strengthening	9,432,159	6,078,973	9,432,159	24,943,290
Secretariat/Executive Committee costs	3,754,067	3,904,230	4,060,399	11,718,696
UNEP CAP	6,297,356	6,549,250	6,811,220	19,657,826
Agencies core unit (UNDP, UNIDO, and the World Bank)	4,500,000	4,500,000	4,500,000	13,500,000
Total (other commitments)	23,983,582	21,032,453	24,803,778	69,819,813
Total Commitments	128,420,940	109,948,984	86,637,860	325,007,785
PROGRAMMABLE RESOURCES (Income minus Prior Commitments)	95,579,060	81,051,016	71,362,140	247,992,216

15. As shown in Table 4, commitments for multi-year agreements increased in 2003 by US \$26.3 million in 2003 approvals of annual tranches, US \$32.3 million in 2004 and US \$25.6 million in 2005 in additional commitments.

Table 4
COMMITMENTS AND RESOURCES AVAILABLE FOR NEW ACTIVITIES
(US \$)

Description	2003	2004*	2005*	Total (2003-2005)
Total Budget	224,000,000	191,000,000	158,000,000	573,000,000
Annual Tranches of Approved Multi-year agreements at beginning of Triennium	104,437,358	88,916,532	61,834,082	255,187,972
Annual Tranches of Approved Multi-year agreements after 2003 approvals	130,744,946	121,171,689	87,389,229	339,305,864
Difference	26,307,588	32,255,157	25,555,147	84,117,892
Other funding commitments at beginning of triennium	23,983,582	21,032,453	24,803,778	69,819,813
Other funding commitments after 2003 approvals	21,953,778	25,420,057	21,224,671	68,598,506
Difference	(2,029,804)	4,387,604	(3,579,107)	(1,221,307)
PROGRAMMABLE RESOURCES FOR NEW ACTIVITIES (Income minus Prior Commitments) at the beginning of the triennium	95,579,060	81,051,015	71,362,140	247,992,215
PROGRAMMABLE RESOURCES FOR NEW ACTIVITIES (Income minus Prior Commitments) after 2003 approvals	71,301,276	44,408,254	49,386,100	165,095,630
Difference	(24,277,784)	(36,642,761)	(21,976,040)	(82,896,585)

*Excluding the US \$66 million carryover.

16. The amount of programmable resources for new activities in 2004 and 2005 is US \$44.4 million and US \$49.4 million, respectively, as indicated in Table 4 plus the carryover of US \$66 million for a total of US \$159.8 million for the remainder of the current triennium (2004 and 2005).

17. Prior to the current triennium, the Executive Committee had forward commitments totalling US \$425.7 million for the period 2003 through 2010. Based on approvals in 2003, the total level for forward commitments increased by US \$111.7 million to US \$537.4 million for the period 2003 through 2010. 18 new multi-year agreements were approved in 2003 bringing the total number of multi-year agreements to 48.

18. Bilateral agencies have a total level of forward commitments beyond the current triennium amounting to US \$24.9 million. Since the level of future replenishments is unknown, it is unclear at this time if these commitments will fall below or above the 20 per cent entitlement for bilateral activities.

Implementing and Bilateral Agencies' Resource Allocations

19. The 2003-2005 business plans effectively indicated the allocations for implementing and bilateral agencies despite the fact that the overall levels indicated in the business plans exceeded the budget by US \$48 million.

20. Table 5 indicates the status of the 2003-2005 business plan in terms of the approvals of the Executive Committee in 2003 and the resulted status of the budget for the 2003-2005 triennium. It shows that the approvals in 2003 resulted in overall savings of US \$26.9 million from the levels of funding indicated in the 2003-2005 business plans, but that there remain activities in the business plan that if approved at the level indicated would exceed the budget for the 2003-2005 triennium by US \$21.2 million.

Table 5

BUDGET FOR 2003-2005 TRIENNIUM AND APPROVED OR COMMITTED FUNDS, AND THE 2003-2005 BUSINESS PLAN (US \$)

	Budget, Projected Costs, and Balance	Cost Sub- totals	Items	Business Plan Value	Approved or Committed Value
BUDGET FOR 2003-2005 TRIENNIUM	573,000,000				
<i>Total Value in 2003-2005 Business Plans</i>			595,832,466		
<i>Core agency costs</i>			13,500,000		
<i>Secretariat/Executive Committee/M&E</i>			11,718,696		
Total Value in Business Plan plus other Savings/Costs for 2003-2005		621,051,162			
<i>Business Plan 2003</i>			(18,126,263)	167,687,604	149,561,341
<i>Business Plan 2004</i>			2,224,041	118,947,648	121,171,689
<i>Business Plan 2005</i>			(10,991,117)	98,380,346	87,389,229
Savings from 2003 Approvals and Commitments for 2004 and 2005		(26,893,339)			
BUSINESS PLAN VALUE, OTHER COSTS & ADDITIONAL COSTS	594,157,823				
POSSIBLE OVERRUN OF BUDGET	21,157,823				

Bilateral Agencies

21. At its 39th Meeting, the Executive Committee decided

That the total allocation for the bilateral projects during the triennium, 2003-2005, was

US \$47.4 million for planning purposes only, not as an absolute cap on the value of bilateral projects that could be submitted (para. (f));

To request contributing Parties that had not submitted an annual business plan for 2003 and/or a three-year business plan to do so prior to the 40th Meeting of the Executive Committee (para. (g));

Also to request the Sub-Committee on Monitoring, Evaluation and Finance to consider, at its 20th Meeting, the allocation of any resources from the total bilateral allocation not anticipated to be required by contributing Parties based on the bilateral business plan submitted to the 40th Meeting of the Executive Committee, in view of the compliance requirements of all Article 5 Parties (para. (h));

To note that the level of the bilateral allocation planned for the triennium did not limit the right of a party to use up to 20 per cent of its contribution for bilateral projects (para. (i)).

22. The document submitted to the 39th Meeting on financial planning indicated that the average level of bilateral contributions in the triennium 2000-2002 was US \$7.5 million.

23. The total allocation for bilateral activities included in the 2003-2005 business plans was US \$64.3 million after taking into account the modifications and additions submitted to the 40th Meeting thereby raising the allocation approved at the 39th Meeting. However, the total level of approvals in 2003 was US \$6.4 million while the business plans indicated US \$20.4 million for 2003.

24. It should however be noted that 20 per cent of annual pledges during the triennium amounts to US \$94.8 million minus the following:

- US \$2.9 million approved in 2003 for 2004 bilateral contributions,
- US \$4.9 million committed for 2004; and
- US \$5.3 million committed for 2005.

25. Therefore, US \$74.8 million in bilateral contributions could be submitted which amounts to about half of the programmable resources for new activities in 2004 and 2005 (US \$159.8 million). However, in the light of historic levels of bilateral contributions, it is unlikely that this entitlement will be fully used during the triennium.

26. The new level of funds indicated by bilateral donors for the years 2004 and 2005 is contained in the document entitled, “2004-2006 Business Plans of Bilateral Agencies” (UNEP/OzL.Pro/ExCom/42/7).

Window for Accelerated Phase-out and Maintaining Momentum

27. The window for accelerated phase-out and maintaining momentum addresses both the level of funds available from the sources for the window and the decision before the Executive Committee concerning the continuation of the window and its criteria after the 42nd Meeting.

Level of funds available for the window

28. At its 40th Meeting in the context of its discussion on the Fund Secretariat's proposal on criteria for project funding to accelerate phase-out and/or to maintain momentum (Decision 39/6(c)(ii)), the Executive Committee decided:

That the funds listed in subparagraphs (i), (ii) and (iii) below could be allocated to a funding window to accelerate phase-out, maintain momentum and meet the as yet unidentified compliance needs of Article 5 countries:

- (i) funds not required in the current year's business plan defined as the difference between the value for each activity in the business plan and the amount approved for it by the Executive Committee;
- (ii) funds returned from balances, cancellations, and changes in ownership from projects approved during the triennium; and
- (iii) funds from annual tranches not approved during the business plan year due to a delay in submission and approval, taking into account the funds required for the entire triennium (Decision 40/7, para. (a)).

29. Table 6 indicates that the level of funding available for the window is approximately US \$18 million but that amount could expand to US \$20 million if one or more annual tranche is moved to the next triennium.

Table 6

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

	2003 Business Plan	39th Meeting	40th Meeting	41st Meeting	Total 2003 Approvals	Savings/ Potential Savings
Approval that are included in the 2003 Business Plan	167,687,604	50,558,461	18,776,380	77,705,563	147,040,404	
Approval that are not included in the 2003 Business Plan		57,120	804,637	1,659,180	2,520,937	
Total for Available Decision 40/7 (a) (i)	167,687,604	50,615,581	19,581,017	79,364,743	149,561,341	(18,126,263)
Total for Decision 40/7 (a) (ii)						0
Total Potential for Decision 40/7 (a) (iii)						2,360,547
Costa Rica Methyl Bromide						1,085,653
Morocco Methyl Bromide						1,274,894
Total Potential Available for window Decision 40/7						(20,486,810)

Criteria for continuation of the window

30. In adopting the window, the Executive Committee decided that the following criteria would expire after the 42nd Meeting of the Executive Committee unless previously re-approved or modified by the Executive Committee:

That the funds identified in accordance with subparagraphs (a) (i), (ii) and (iii) above could be redeployed to projects/agreements for the following in descending order and on the basis of cost-effectiveness within each category so as to accelerate phase-out, maintain momentum and meet the as yet unidentified compliance needs of Article 5 countries:

- (i) new Parties to the Montreal Protocol and its amendments;
- (ii) countries with low levels of consumption of methyl bromide, halon, CTC and TCA;
- (iii) LVC countries that have received funding for an RMP pursuant to Decision 31/48;

- (iv) countries for which project preparation has been approved and utilized;
- (v) countries with a low level of residual consumption on a case-by-case basis; and
- (vi) countries for the purpose of phasing out ODS production. (Decision 40/7, paras. (b) and (c));

31. The Consolidated 2004-2006 Business Plan of the Multilateral Fund (UNEP/OzL.Pro/ExCom/42/6) identifies the projects included in the business plans for funding from the window. The list of projects submitted for funding to the 42nd Meeting under the window for accelerated phase-out/maintaining momentum is found in the document entitled “Investment Projects with Issues” (UNEP/OzL.Pro/ExCom/42/22).

Impact of the 2004-2006 Business Plans

32. The level of resources required for window projects and to achieve the control measures of 2005 and 2007 are indicated in the 2004 and 2005 years of the 2004-2006 business plans.

Impact of window projects in business plans

33. As indicated above, the 2003-2005 business plan still had a potential overrun after the approval of projects in 2003. However, the 2004 and 2005 components of the 2004-2006 business plans have a net surplus of US \$17 million after including all of the window projects. Since all substances of all Article 5 countries are addressed to achieve the 2005 and 2007 control measures either through approved or planned projects or CAP activities, there may not be a need to withhold projects ready for submission to accelerate phase-out or maintain momentum. However, it should be noted that projects/activities/annual tranches would have to be approved at the levels indicated in the business plan and no higher unless other savings are identified.

Impact on Resource Allocation

34. As indicated above, Decision 39/5 para. (b) established a resource allocation of US \$191 million for 2004 and US \$158 million for 2005 and there is a carryover of US \$66 million from 2003. The bilateral and implementing agencies have indicated projects amounting to US \$236.7 million in 2004 and US \$164.4 million in 2005 as of the writing of this document. Since additional activities may arise in the planning for 2005, consideration should be given to allocating US \$237 million to 2004 and US \$178 million for 2005 with any carryover from 2004 to be used in 2005.

RECOMMENDATIONS

The Executive Committee may wish to consider:

1. Noting the Report on Financial Planning as contained in UNEP/OzL.Pro/ExCom/42/4.

2. Adopting a resource allocation of US \$237 million for 2004 and US \$178 million for 2005 with any remaining funds from 2004 to be allocated to 2005.
3. Noting that US \$18 million was allocated for the window for accelerating phase-out and maintaining momentum pursuant to Decision 40/7(a) that would accommodate window projects included in the 2004-2006 business plan.
4. The possibility of continuation of the window for a period of time to be agreed and approving the criteria for accelerating phase-out and maintaining momentum on which this is to be based.
