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

TREATMENT/ENCASHMENT OF PROMISSORY NOTES

(FOLLOW-UP TO DECISION 41/4)

NOTE FROM THE SECRETARIAT

1. At the 41st meeting of the Executive Committee, the representative of the United States of America presented a proposal for a study on the historical use of promissory notes, contained in document UNEP/OzL.Pro/ExCom/41/5.
2. Following a discussion on the United States proposal, the Executive Committee decided:
 - (a) To request the Treasurer to provide a report to the 42nd Meeting of the Executive Committee on the historical use of promissory notes. For each promissory note submitted to date, the report should include: country of origin, denomination, date of submission, place of custody, deposit bank of account, date of final Treasurer encashment, any exchange rate loss or gain that resulted to the Fund from the use of the note, schedule of encashment or other stipulation (if any) included by the country concerned with the submission of the note, but should not be drafted with a view to limiting countries' right to use promissory notes;
 - (b) Also to request the Treasurer to report on rules and/or systems for the transparent and equitable encashment of promissory notes used in other forums, with a view to enabling the Executive Committee to determine the advisability of establishing more standardized rules for the use of promissory notes, and in an effort to ensure that the notes, as well as the contributions in cash, of all donors were treated equitably and exchange rate loss was minimized.

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3. As a follow-up to decision 41/4, the Secretariat requested the Treasurer to provide the information requested by the Executive Committee.

4. The Secretariat provided the Treasurer with a suggested draft outline attached as Annex 1, as a suitable format for the paper required by the Executive Committee.

5. It also provided for reference purpose copy of documents UNEP/OzL.Pro/ExCom/11/7 and UNEP/OzL.Pro/ExCom/12/4, as two additional papers on promissory notes addressing a number of similar views.

6. In its reply to the Secretariat, UNON indicated the following:

“Given the timeframe, it would not be possible to complete a study of the magnitude of Decision 41/4, requiring historical and comparative methods to studying the Multilateral Fund and similar organizations’ use of promissory notes. Firstly, it is the time of year when [UNON] is closing their books and do not have the resources necessary to do this study. Secondly, a comparison study to similar institutions will inevitably require access to their records at a time when they are also closing their books and can ill afford the time to help UNON. Thirdly, it has been less than a year since the role of the Treasurer was assumed by a new staff member; and the historical perspective of this assignment is made more difficult by the loss or at least removal of the institutional memory. Finally, [UNON] is in the process of preparing reports for the 42nd Executive Committee meeting that have to be ready weeks before the meeting.”

Annex I

Suggested Outline (11 February 2004) Follow-up to decision 41/4

I Background information on the promissory notes

- (a) Definition of promissory notes used by Executive Committee
- (b) Relevant documentation prepared by the Treasurer to the Executive Committee on Promissory notes
- (c) Policy decision made by Executive Committee on Promissory notes to date including the encashment schedules.
- (d) The purpose of the paper and the methodology on the approach to address the issues and present the findings and recommendations

II Information requested in Decision 41/4 para. (a)- The historical use of the promissory notes (PN)

- (a) The country of origin of the PN issued
- (b) The denomination of the PN
- (c) The date of submission by the country to the Treasurer
- (d) The place of custody or the bank where the PN was deposited
- (e) The date on which the Treasurer encashed the PN
- (f) The dates on which the final encashment incurred
- (g) The loss or gain to the Fund resulting from the fluctuation of the exchange rate
- (h) The schedule of encashment

III System currently in use by the Treasurer

- (a) Methodology and assumptions used by the Treasurer when submitting information on PNs to the Executive Committee
- (b) Procedures put in place by the Treasurer, the Implementing agencies and the donors countries in the issuance and encashment of PNs
- (c) Agreement between the Executive Committee and the Implementing agencies on issuance and encashment of PNs
- (d) Impact of the use of PNs on the cash flow, the interest accrued, the gain and loss to the Fund.

IV System in use in other forums

The description might include information with respect to the encashment schedule, the transfers effected, the interest rate accrued, the Bank charges, the documentation required, the recording and the reporting system, the loss and gains when applicable, etc...

(a) Financial institutions

- World Bank

- Others

(b) Other UN agencies

- GEF

- Others

V Findings and recommendations to the Executive Committee

