



United Nations Environment Programme



Distr.
General

UNEP/OCST/Prog.46.III(2)/Inf.3
4 May 1990

ORIGINAL - ENGLISH

OPEN-ENDED WORKING GROUP OF THE PARTIES TO THE MONTREAL PROTOCOL

Second session of the third meeting
Geneva, 9-11 May 1990

THE ROLE OF EXISTING ORGANIZATIONS IN A FINANCIAL MECHANISM FOR ASSISTANCE TO DEVELOPING COUNTRIES UNDER THE MONTREAL PROTOCOL

Elements of an inter-agency agreement for
a financial mechanism under the Montreal Protocol
(prepared by Dr. Rudolf Schmidt, UNEP Consultant)

THE ROLE OF EXISTING ORGANIZATIONS IN A FINANCIAL MECHANISM
FOR ASSISTANCE TO DEVELOPING COUNTRIES UNDER THE
MONTREAL PROTOCOL

1. Following the Second Meeting of the Open-ended Working Group of the Parties to the Montreal Protocol (cf. report in UNEP/Oz1.Pro.WG.II(2)7), further discussions were held with UNDP and the World Bank as to their possible role in a financial mechanism under the Montreal Protocol and on the early operations to be carried out. The same subjects were discussed with UNIDO (paragraph 49 of the above report).
2. The suggestions outlined in UNEP/Oz1.WG.II(2)/Inf.3 were developed further in light of the opinions expressed during the Second Meeting of the Open-ended Working Group with regard to the elements of a fund and a financial mechanism (paragraphs 26 - 58 of the report).
3. Annex I contains elements of an inter-agency agreement for the co-operation between UNEP, UNDP and the World Bank in administering a fund under the Montreal Protocol. The text relies upon the consultations with the agencies and takes account of their suggestions without having been the subject of any formal understanding. It could serve as a basis for discussions among the agencies once the Parties to the Protocol in the Working Group indicate they want to move in this direction.
4. The final form of an inter-agency agreement necessarily depends on the decision of the Parties to establish a fund and financial mechanism to enable developing countries to meet the requirements of the Protocol, and on the terms of reference of such a fund cum mechanism agreed to by the Parties. The terms of reference will also have to outline the broad distribution of responsibilities between

Annex I

ELEMENTS OF AN INTER-AGENCY AGREEMENT FOR A FINANCIAL MECHANISM UNDER THE MONTREAL PROTOCOL

The following elements are based on the assumption that the Contracting Parties to the Montreal Protocol establish a Fund (Ozone Layer Fund) in conjunction with the Secretariat to enable developing countries to meet the requirements of the Protocol, and that they agree on its terms of reference through an amendment of the Protocol and/or a Decision of the parties. It is further assumed that an Executive Committee of the Parties is set up to supervise the activities of the Fund.

1. The Agreement is concluded between the United Nations Environment Programme, the United Nations Development Programme, the International Bank for Reconstruction and Development (hereinafter referred to as the Agencies), and the Secretariat of the Vienna Convention for the Protection of the Ozone Layer.
2. The Agreement is based on the Vienna Convention for the Protection of the Ozone Layer Article 7, paragraph 1e, the Montreal Protocol on Substances that Deplete the Ozone Layer, Article 5, Paragraphs 2 and 3 in conjunction with Articles 9 and 10, and on the Decision of the Parties to the Protocol to establish an Ozone Layer Fund to enable developing countries to meet the requirements of the Protocol.
3. Within the framework of the terms of reference of the Ozone Layer Fund and according to the guidelines as laid down by the Parties to the Protocol, the Agencies and the Secretariat agree to cooperate in administering the Fund. They will coordinate their actions and consult regularly.
4. Depending on their special technical and geographical expertise other organizations of the United Nations system, regional devel-

opment banks and bilateral donor institutions from among the Parties may be associated with the activities carried out individually or jointly by the Agencies.

5. A common three-year rolling Plan of Activities submitted jointly by the Agencies to the Parties shall set out the basic division of responsibilities between the Agencies as well as the distribution of funds to be administered by them.
6. The United Nations Environment Programme is the leading Agency for political promotion of the objectives of the Protocol, research, data gathering and strategic planning. The United Nations Development Programme is the leading Agency for feasibility and pre-investment studies, and for other technical assistance measures. The International Bank for Reconstruction and Development is the leading Agency for financing the incremental costs of the transition to alternative substances and technologies and for administering the projects related to them.
7. The Agencies will cooperate closely in providing assistance for the establishment of country programs. They will, each in their respective field of activity, assist in ensuring access of developing countries to environmentally safe alternative substances and technologies (transfer of technology) and provide developing countries with information on funding for relevant projects (clearing-house function).⁷
8. The Secretariat will be responsible for organizing the cooperation among the Agencies by convening periodic meetings as well as securing necessary consultations between them, and carry out other steps through which the cooperation of the Agencies is realized. Submissions to the Parties will be made through the Secretariat.

9. Project proposals and requests for financing from the Ozone Layer Fund will normally be submitted directly by the Contracting Parties to the Agencies. Proposals and requests addressed to the Secretariat will after consultation be transmitted to the Agency concerned.
10. The Agencies will assist Governments in the preparation and implementation of projects, and will supervise and evaluate such projects financed from the Ozone Layer Fund according to their own normal practices and standards, and may enter into such agreements, and pursue such actions as may be necessary or appropriate to accomplish the foregoing.
11. The funds made available by the Parties to the Agencies through the Ozone Layer Fund will be utilized according to the conditions and criteria as stipulated by the Parties in the terms of reference of the Ozone Layer Fund. The proper use of the resources will be supervised by the Executive Committee of the Conference of the Contracting Parties.
12. Each Agency will maintain separate records and accounts in respect of the funds made available through the Ozone Layer Fund. They will invest and disburse the funds, and have the accounts and records audited in conformity with their own regulations and rules.
13. The Agencies will make available to the Parties at annual intervals a progress report on all projects and programs financed by the Ozone Layer Fund as well as appropriate financial statements together with their audit records.
14. The Agencies will be entitled to perceive 13 percent out of the funds made available to them from the Ozone Layer Fund as support costs for the management of the programs and projects under the Common Plan of Activities.

Annex II

ELEMENTS FOR TERMS OF REFERENCE OF A FINANCIAL MECHANISM UNDER THE MONTREAL PROTOCOL

The following elements for terms of reference relate particularly to the administration of a Fund (Ozone Layer Fund) through a co-operative venture of several agencies. They are predicated upon an agreement of the Parties to create such a Fund by amending the Protocol and/or a corresponding Decision of the Meeting of the Parties. They should be supplemented by an agreement among the relevant agencies.

1. Establishment of a Fund (Ozone Layer Fund) under United Nations Regulations and Rules for an initial period of three years beginning 1 January 1991, with the possibility of further extensions for three-year periods.
2. Purpose of the Fund:
 - general promotion of the Montreal Protocol.
 - data gathering, research, country studies.
 - technical assistance, including assistance for country programmes,
 - provision of information to developing countries on project funding and securing relevant contacts (clearing-house function),
 - transfer of technology relating to control and reduction of emissions of substances depleting the ozone layer, and
 - financing of incremental costs of transition to technology protective of the ozone layer as identified by the Parties.
3. The Fund shall be administered by the Executive Director of the United Nations Environment Programme on behalf of the Parties to the Protocol. The Secretariat of the Vienna Convention for the Protection of the Ozone Layer and agencies participating in the implementation of a three-year rolling Plan financed from the Fund shall co-operate on the basis of an agreement approved by the Parties.

4. An Executive Committee established by the Parties on the basis of a balanced representation of Parties operating under Article 5 and those not operating under Article 5, shall supervise and guide the administration of the Fund. It shall approve a three-year rolling Plan during its annual meeting, issue periodic guidelines for the implementation of the Plan, evaluate the annual performance reports relative to the Plan and decide on the budget of the Secretariat financed from the Fund.
5. The three-year rolling Plan submitted jointly by the participating agencies and the Secretariat shall set out the activities and other costs to be financed on an annual basis over the three-year period together with the estimates of the required expenditures in United States Dollars. Each activity or other expenditure item shall be attributed to one of the agencies or the Secretariat as being responsible for its technical and financial management.
6. The expenditure of the Fund shall be financed by annual contributions from the Parties to the Protocol according to a percentage scale as approved by the Parties for each three-year period. Additional voluntary contributions from parties to the Protocol and contributions from other sources may be accepted into the Fund, provided the purposes for which they are made are consistent with the purposes of the Fund.
7. The contributions paid into the Fund as well as other income shall be distributed among the participating agencies and the Secretariat every six months in advance according to the approved implementation of the Plan. The agencies will manage, invest and account for the funds received as fiduciaries of the Parties, according to their own regulations, standards and practices.
8. Requests for financing projects or other costs can be addressed to the agency responsible under the three-year rolling Plan or

to the Secretariat by any developing country Party to the Protocol and operating under Article 5 of the Protocol.

9. Requests for financing incremental costs for transition to technology protective of the ozone layer should be based on a national industrial strategy (country programme) and present the most cost-effective and efficient option taking account of savings or benefits to be gained at both the general strategic and the project levels.
10. The Fund shall cover financing requirements which cannot be met under arrangements of bilateral or multilateral co-operation between the Parties or agencies (safety-net function).
11. The Secretariat [and the participating agencies] shall cooperate with developing and developed countries which are Parties to the Protocol [as well as the participating agencies] to provide information on funding available for relevant projects, to secure the necessary contacts and to co-ordinate, where appropriate, projects financed from other sources with activities financed under the Protocol (clearing-house function).
12. The financing of activities or other costs shall be based on agreements with the Governments concerned and, as the case may be, shall be channeled through Governments to third-party beneficiaries. The latter shall be associated to the planning of projects and programmes where appropriate. The financing of ventures by private companies shall take into account ownership of such companies held in developed countries.
13. Staff and other costs of the Secretariat incurred for the administration of the Fund shall be covered by the contributions of the Parties. The Secretariat shall submit a three-year budget for this purpose, annexed to the three-year rolling Plan.

14. The participating agencies shall be entitled to support costs for their preparation and implementation of projects as agreed to between the Secretariat and the agencies and approved by the Parties.