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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

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1. Following the second session of the Second Meeting of the Open-Ended Working Group of the Parties to the Montreal Protocol (see UNEP/OzL.Pro.WG.II(2)/7), further discussions were held with UNDP and the World Bank on 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 (see UNEP/OzL.Pro.WG.II(2)/7, paragraph 49).
2. The suggestions outlined in UNEP/OzL.WG.II(2)/Inf.3 were developed further in light of the opinions expressed during the second session of the Second Meeting of the Open-Ended Working Group with regard to the elements of a fund and a financial mechanism (see UNEP/OzL.WG.II(2)/7, paragraphs 26-58).
3. Annex I of the present report 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 is based on 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 that 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 a financial mechanism to enable developing countries to meet the requirements of the Protocol, and depends on the terms of reference of such a fund cum mechanism that are agreed to by the Parties. The terms of reference will also have to outline the broad

distribution of responsibilities between the Secretariat of the Vienna Convention for Protection of the Ozone Layer and its Montreal Protocol and the participating agencies, for example as regards the clearing-house mechanism. The balance in the functions taken on by the partners to the inter-agency agreement will have to be adjusted accordingly.

5. Annex II of the present report contains proposed elements for the terms of reference of a fund and mechanism as far as a co-operative venture among the agencies is concerned. Some of the elements can be incorporated into either the terms of reference or the inter-agency agreement, some might also have to be reflected in the amendment to the Protocol or in a decision by the Parties creating the fund. Pending further discussions of the issues by the Parties, certain overlaps in Annex I and Annex II have been allowed to remain, and a complete alignment of both annexes has not been deemed necessary at this stage.

6. The texts of the annexes are based on the assumption that the administrative structure of a new fund should be as simple as possible. The budget and planning procedures and the procedures for co-operation among the Secretariat and the agencies should be uncomplicated and straightforward, while allowing for the necessary co-ordination and a proper flow of funds.

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 through a Decision of the Parties. It is further assumed that an Executive Committee of the Parties is to be 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 co-operate in administering the Fund. They will co-ordinate their actions and consult regularly.
4. Depending on their special technical and geographical expertise, other organizations within the United Nations system, regional development 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 co-operate closely in providing assistance for the establishment of country programmes. They will, each in its respective field of activity, assist in ensuring access for 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)].
8. The Secretariat will be responsible for organizing the co-operation among the Agencies by convening periodic meetings as well as ensuring necessary consultations between them, and will take other steps through which the co-operation among the Agencies is to be 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 to the Agencies by the Contracting Parties. 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 that are 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 stipulated by the Parties in the terms of reference of the Ozone Layer Fund. The proper use of the resources will be supervised by an Executive Committee.
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 programmes 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 per cent] out of the funds made available to them from the Ozone Layer Fund as support costs for the management of the programmes and projects under the Common Plan of Activities.
15. The Secretariat will explore appropriate personnel arrangements with the Agencies in order to ensure that the necessary expertise from the Agencies is available to the Secretariat with a view to properly assisting the Contracting Parties.
16. The present agreement will be submitted to the Parties and to the Governing Bodies of the Agencies for approval.

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 by 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) to operate 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 the securing of relevant contacts (clearing-house function);
 - Transfer of technology relating to control and reduction of emissions of substances that deplete the ozone layer; and
 - Financing of incremental costs of transition to technology that protects 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 at its annual meeting, issue periodic guidelines for the implementation of the Plan, evaluate the annual performance reports relative to the Plan and decide on that part of the budget of the Secretariat which is to be 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 item of expenditure shall be attributed to one of the agencies or to the Secretariat as the body 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 the agencies' 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 that is a Party to the Protocol, and operating under Article 5 of the Protocol.
9. Requests for financing incremental costs for a transition to technology that protects the ozone layer should be based on a national industrial strategy (country programme) and should present the most cost-effective and efficient option, taking account of savings or benefits to be gained at both the general strategic level and the project level.
10. The Fund shall cover the financing of 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 co-operate 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 channelled through Governments to third-party beneficiaries. The latter shall be associated with the planning of projects and programmes, where appropriate. The financing of joint ventures shall take into account any ownership in developed countries held by private companies participating in the joint venture.

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 between the Secretariat and the agencies and approved by the Parties.
