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

Second session of the second meeting
Geneva, 26 February - 5 March 1990
Item 3 (c) of the provisional agenda

INTERNATIONAL FINANCIAL AND OTHER MECHANISMS FOR ASSISTANCE
TO DEVELOPING COUNTRIES UNDER THE MONTREAL PROTOCOL

Study on the role that new or existing institutions might
play in meeting the objectives of the Montreal Protocol
in developing countries

Study prepared by Dr. R. Schmidt (Federal Republic of Germany)

Executive summary

1. The objective of the paper is to highlight the issues that Governments may wish to consider before deciding on mechanisms for technology transfer and financial assistance to developing countries under the Montreal Protocol. It is designed to narrow down the choice of options and to focus on possible areas of agreement.
2. Such mechanisms would have to be decided upon in the course of the revision of the Protocol, for which proposals have already been submitted. The effect that an agreement on a financial mechanism to combat the depletion of the ozone layer might have on the wider issues of climate-control financing should be left for later examination.

3. It is assumed that financing for CFC phase-out will be additional to general development assistance. Measures specifically undertaken to help developing countries comply with the Montreal Protocol will, however, complement other development efforts so that a good co-ordination between both will be required.
4. Uncertainties as to the total cost should not delay the creation of a mechanism. Such a mechanism has to be flexible enough to accommodate a gradual build-up of fund flows in line with increased knowledge about the programmes to be financed.
5. A decision on Government contributions, either voluntary or assessed, is more easily reached than an agreement on financing through levies or fees on production/consumption or emissions of controlled substances. The revenue from national users' fees could determine the Parties contribution to an international fund although questions could arise as to the adequate level of contributions and the distribution of charges once the CFC phase-out has been achieved in some countries. Burden-sharing can be based on past or current CFC uses or through an adjusted United Nations scale.
6. Requirements for assistance range from data gathering and research to strategic planning, to the establishment of country programmes and to technical aid as well as capital investment and programme financing. The functions to be covered combine a clearing-house and a funding mechanism including co-ordination, design and promotion of programmes and assistance in the transfer of technology. Where financing through existing processes is not available, additional financial assistance under the Montreal Protocol is most effectively channelled through a special facility of an existing organization. It should have enough flexibility for either applying the contributions to self-executed projects, to transfer funds directly to recipients, or to arrange the financing of projects through another agency.
7. Constitutionally, the additional resources are to be utilized under the supervision of the Contracting Parties, and received in the first instance by UNEP which administers the Secretariat. UNEP, UNDP and the World Bank seem to be in a position to play a leading role in designing and implementing programmes and projects under the Montreal Protocol. None of their policies and past experience seem to cover all areas of activity envisaged. Other agencies or regional institutions might also share in the implementation of the programmes making available their special expertise.
8. Rather than creating a new organization or solely expanding the role of one of the existing organizations, a joint or co-operative venture of the three lead agencies to which other institutions could be attached seems preferable. This will harness their expertise and experience in their own field and ensure the support of their constituencies.
9. A common strategic programme approved by the Parties would form the basis for the division of responsibilities and the allocation of funds among the participating agencies. They would implement the programme in close contact, but proceed with implementation on their own authority. A unit would have to be attached to the Secretariat which would organize the co-operation of the agencies and prepare specific proposals for submissions to the Parties.

(f) While it is the prerogative of each country to determine how to raise funds to meet its assessed contribution, establishing a user's fee for activities that harm the ozone layer has several advantages and may be considered by countries as one of many options.

7. On the subject of transfer of technology, the Executive Director pointed out that the following two related issues had to be addressed: (i) the means of ensuring that patents and proprietary rights for substitute chemicals and technologies are available to developing countries in an accessible and affordable manner; and (ii) the issue of the know-how required to work the patents once they have been obtained. A number of new technologies are patented only in a limited number of countries and are thus available to other countries, but they are useless without the know-how, which is available only to the owner of the patent. In this context, the Executive Director informed the Working Group that he had agreed with the Director-General of the World Intellectual Property Organization (WIPO) to convene a meeting on the issue of patents and proprietary rights before June and that the Director-General of WIPO believes governments have little space for manoeuvre with private industries beyond persuasion and incentives. The Executive Director was also expecting a response from the Secretary-General of the International Chamber of Commerce on how industrial conglomerates see the issue of technology transfer.

8. In closing, the Executive Director noted that he sensed a strong consensus on the need for a global partnership to address the issue of development of a financial mechanism to ensure developing country compliance with the Protocol. The challenge faced by the Working Group was to help change that consensus into commitment through formulation of a concrete proposal.

B. Attendance

9. The meeting was attended by delegations from the following Contracting Parties: Australia, Austria, Belgium, Burkina Faso, Canada, Denmark, Egypt, European Community, Finland, France, Germany (Federal Republic of), Ghana, Greece, Guatemala, Ireland, Japan, Jordan, Kenya, Malaysia, Maldives, Malta, Mexico, Netherlands, New Zealand, Nigeria, Norway, Portugal, Sweden, Switzerland, Thailand, Tunisia, Uganda, Union of Soviet Socialist Republics, United Kingdom, United States of America and Venezuela.

10. In addition, the following non-contracting countries attended the Working Group session: Argentina, Brazil, Chad, Chile, China, Colombia, India, Iraq, Malawi, Philippines, Republic of Korea, Sao Tome and Principe, Swaziland, and Turkey.

11. Observers from the following United Nations bodies and specialized agencies were also present: United Nations Economic Commission for Europe (ECE), International Labour Organisation (ILO), United Nations Conference on Trade and Development (UNCTAD), United Nations Industrial Development Organization (UNIDO), United Nations Development Programme (UNDP), World Bank, and the World Meteorological Organization (WMO).

12. The following organizations also participated: African Development Bank and Friends of the Earth International.

C. Election of officers and adoption of the agenda

13. In accordance with the decision of the first session of the first meeting of the Open-ended Working Group, the following Bureau elected at that session remained in office:

Chairman:	H.E. Mr. Ilkka Ristimäki (Finland)
Vice-Chairmen:	Mr. Yuji Ikeda (Japan)
	Mr. Kwame A. Tenkorang (Ghana)
Rapporteur	Mr. Christos Makridis (EEC)

14. The meeting adopted the following agenda contained in document UNEP/OzL.Pro.WG.II(2)/1:

1. Opening of the meeting
2. Adoption of the agenda
3. Follow-up of the report on the first session of the first meeting of the Open-ended Working Group, Nairobi, 21-25 August 1989: note by the Executive Director:
 - (a) Specific needs of the developing countries:
 - (i) transfer of technology;
 - (ii) estimated costs;
 - (iii) country-specific case studies;
 - (b) Assumptions and methodologies for calculations of the total cost of assistance to the developing countries;
 - (c) Existing mechanisms and new mechanisms that might be established for the transfer of funds;
 - (d) Possible sources of financing
4. Other matters
5. Adoption of the report
6. Closure of the meeting

III. GENERAL DEBATE

15. The Chairman requested the Consultants to present the results of their studies on the total cost to developing countries of conversion from controlled substances and the role that new or existing institutions might play in administering a financial mechanism. The Consultants introduced their studies, summaries of which are contained in UNEP documents UNEP/OzL.Pro.WG.II(2)/3, 4, 5 and 6.
16. The Chairman then called upon the Consultants who had helped to prepare the India country study to present their findings. The Consultants reviewed India's use of substances presently controlled by the Montreal Protocol and those likely to be controlled by a strengthened protocol. They explained that their results were very preliminary based on the cost model they had used in order to reach the estimated additional cost to India of complying with a strengthened Protocol. Up to the year 2010, the estimated additional cost to the Indian economy was US\$ 1.2 billion, discounted (to 1990 dollars) at a real interest rate of 8 per cent. However if CFC use for recharging continued, the cost to the year 2010 fell to US\$120 million. In this case, the continuing cost beyond 2010 was estimated at approximately US\$140 million per annum. The costs may decrease over the years as "learning" and economies of scale decrease the price differential between existing chemicals and substitutes. However, the incremental costs may increase as the economy grows.
17. In considering agenda items 3(a), (b) and (c), the Chairman suggested that the Working Group focus attention on refining the list of incremental costs that might be covered by the international financial mechanism, as set out in the report of the last meeting of the Working Group (paragraph 12 of UNEP/OzL.Pro.WG.I(1)/3). He also suggested that the Working Group consider the question of developing a total cost estimate to bring to the attention of governments following this meeting.
18. It was noted that it was premature for the current Working Group session to formulate estimated total costs for transmission to governments due not only to the present lack of information and the status of ongoing case studies, most of which will not produce estimates until April or June 1990, but also because the results of these studies and the assumptions on which they are based were likely to vary as slight changes were made in the critical parameters. For example, it was noted that a costly assumption in the draft Indian country study was a significant energy efficiency penalty through the use of substitutes and that this assumption may not be true. Furthermore, the cost estimates contained in the draft Indian study did not take into account the significant possible savings through recycling and conservation. However, while appreciating the difficulty for this meeting of formulating a total cost figure, the Working Group agreed that this should in no way impede work on the development of a financial mechanism.
19. A drafting group was established to refine the list of costs that might be covered by a fund or financial mechanism. The Working Group developed the following principles and a refined list of costs to be considered further by governments before the next meeting of the Working Group 7-10 May 1990:

20. In the context of international financial mechanisms, "transfer of technology" means "facilitating access to environmentally safe alternative substances and technologies for Parties that are developing countries and assist them to make expeditious use of such alternatives" (Article 5, paragraph 2 of the Montreal Protocol) by meeting the incremental costs associated with transition from the controlled substances to alternatives and substitutes.

21. The evaluation of requests for financing costs of a given transition project would take into account the following general principles:

- (a) The most cost effective and efficient option should be chosen taking into account the national industrial strategy of the recipient country.

It should be considered carefully to what extent the infrastructure presently used for CFC production could be put to alternative uses, thus resulting in decreased capital abandonment.

- (b) Consideration of project proposals by the appropriate process set by the Parties within the financial mechanism should involve the careful scrutiny of cost items listed in an effort to ensure that there is no double-counting.
- (c) Savings or benefits that will be gained at both the strategic and project levels during the transition process should be taken into account on a case-by-case basis as provided by the rules established by the Parties.
- (d) Incremental cost shall apply only to facilities that were developed prior to the [availability to*] [adoption by] the developing country of substitute technologies.
- [(e) In transition projects to be carried out in joint ventures of companies from a developed and a developing country incremental costs will not be eligible for reimbursement from the financial mechanisms if the company from the developed country holds over 50 per cent.]

22. Incremental costs that might be covered by the international financial mechanism would include those listed below. If other incremental costs than those mentioned below are identified and quantified, a decision as to whether they are to be covered by the financial mechanism shall be taken according to guidelines to be laid down by the Parties. The incremental recurring costs shall apply only for a transition period to be defined. The following list is indicative:

*The definition of "availability to" warrants further study and needs to be defined by the Parties.

(a) Supply of substitutes

- (i) cost of conversion of existing production facilities:
- cost of patents and designs and incremental cost of royalties;
 - capital cost of conversion;
 - cost of retraining of personnel, as well as the cost of research to adapt technology to local circumstances.
- (ii) Subject to agreement on a cut-off date, costs due to premature retirement or enforced idleness:
- of productive capacity previously used to produce substances controlled by existing and/or revised protocol provisions; and
 - where such capacity is not replaced by converted or new capacity to produce alternatives.
- (iii) Cost of establishing new production facilities for substitutes of capacity equivalent to that of the scrapped plants:
- cost of patents and designs and incremental cost of royalties;
 - capital cost;
 - cost of training, as well as the cost of research to adapt technology to local circumstances.
- (iv) Net operational cost including the cost of raw materials.
- (v) Cost of import of substitutes.

(b) Use in manufacturing as an intermediate good

- cost of conversion of existing equipment and product manufacturing facilities;
- cost of patents and designs and incremental cost of royalties;
- capital cost;
- cost of retraining;
- cost of research and development;
- operational cost*

*including the cost of raw materials except where otherwise provided for.

(c) End Use

- (i) cost of premature modification or replacement of user equipment;
- (ii) cost for collection, recycling and destruction (if cost effective) of ozone-depleting substances;
- (iii) cost for providing technical assistance to reduce consumption and unintended emission of ozone-depleting substances;
- (iv) [operational costs];
- (v) [cost of imports].

Country Studies

23. On the subject of country studies, the Chairman requested countries currently undertaking such studies to report to the Working Group on their status. In addition to the Indian country study described earlier, the following positions were reported:

<u>Brazil</u>	A study is being undertaken. Preliminary data will be available after this meeting.
<u>China</u>	A study is at an early stage and will be completed in approximately six months.
<u>Egypt</u>	A study is being carried out and is expected to be ready before June 1990.
<u>India</u>	Phase II of the study referred to above will be completed by 15 May 1990.
<u>Indonesia</u>	Some preliminary work has been carried out to prepare a study, but no detailed information is available.
<u>Kenya</u>	The first phase of a study is under way and information on the major sectors has been compiled. The study will not be completed by June 1990, but preliminary figures may be available.

Malaysia

Is in the process of identifying a consultant to undertake the study but only preliminary figures are expected by June.

Malta

Is planning to phase-out use of most CFCs in aerosols, and is interested in carrying out a study.

Mexico

The on-going study will be completed by April 1990.

Panama

Informed the Secretariat that it would like to carry out a study.

Philippines

Has informed the Secretariat of its interest in having a study undertaken and submitted a draft proposal to be refined further. Preliminary report will be available mid-June.

Tunisia

Informed the Secretariat that it would like to carry out a study.

Uganda

Informed the Working Group of efforts at national level to collect information on consumption of controlled substances and welcomed any form of assistance in carrying out the exercise.

Venezuela

The study is at a preliminary data collection stage. The report will be ready by the end of 1990.

24. Several Parties informed the Working Group of their activities to assist developing countries in country studies, workshops, training courses and technical assistance; one delegation emphasized that funds had been placed at the disposal of UNEP. These funds were available to undertake studies that would also be useful in establishing national plans for meeting the requirements of the Montreal Protocol.

25. There was a general agreement that the reports on country studies revealed the need for a clearing-house mechanism to provide developing countries with information on technology and also with funding for relevant projects. The studies also underlined the need for opportunities to enable developing countries to exchange views on how to carry out Protocol activities. It was suggested that regional ozone workshops could fill this need. One delegation expressed its interest in and readiness to support the organization of such regional workshops.

Financial Mechanisms

26. With regard to the establishment of financial mechanisms, the World Bank and UNDP expressed their willingness to participate in a joint venture with UNEP, as outlined in document UNEP/OzL.WG.II(2)/Inf.3. UNIDO also expressed its willingness to assist in undertaking studies to facilitate technology transfer.

27. One representative made a presentation on existing co-operative financial transfer efforts and said that it might be useful to consider the following three different activities for a funding mechanism:

- to act as a technical clearing-house;
- to undertake pre-feasibility studies;
- to carry out capital disbursement;

The key considerations for such a mechanism should include:

- a mechanism to co-ordinate activities;
- a mechanism to provide technical assistance;
- a mechanism to undertake capital commitments.

28. The Working Group continued with a general discussion on the elements of financial mechanisms and the sources of funding. In this regard, one delegation emphasized that, if agreement on a funding mechanism was not reached, developing countries would not be able to comply with the Protocol in a timely manner.

29. In the general debate, all delegations indicated the need for a fund or any other sort of financial mechanism to enable developing countries to comply with the Protocol. It was the general opinion that the Parties should carry overall responsibility for the policies and guidelines under which it should operate. However, the debate showed that there were different proposals on how to administer such a mechanism or fund and which organizations to entrust with the lead role.

30. The Secretariat informed the Working Group that the elements of a financial mechanism or fund could be adopted as an amendment, since a proposal for amendment of the Protocol containing a provision for such a fund had been circulated to all Parties six months in advance of the second meeting of the Parties. The significance of possible adoption as a decision was also discussed. It was suggested that the legal drafting group of the meeting on amendments and adjustments should be asked to further clarify the implications of adopting the elements as a decision and/or as an amendment.

31. The Working Group discussed in detail each of the elements of a fund and a financial mechanism.

32. The Working Group discussed these elements one by one on the basis of the two proposals attached to this report in Annex I and Annex II and made the following comments on each of the elements:

A. Establishment of a fund/funding mechanism

(Annex I, paragraph 1 and Annex II, paragraph 1)

33. Some delegations preferred the establishment of a "fund", while others preferred the establishment of a "financial mechanism". Several delegations pointed out that both a fund and other financial mechanisms were necessary. One delegation considered that other financial mechanisms could operate within the fund. Some delegations pointed out that there was not a big difference between the concepts of "fund" and "safety-net", as contained in Annexes I and II.

34. Some delegations emphasized the necessity of studying further the implications of using various mechanisms so as to be able to choose the most efficient and appropriate.

35. Several delegations stressed the need to use existing institutions and some described three separate functions, namely:

- (i) capital investment,
- (ii) studies, and
- (iii) technical assistance

to be undertaken by the World Bank, UNDP and UNEP, with one institution to co-ordinate and administer the financial mechanisms in question.

B. Contributions, voluntary or assessed nature; scale of assessment

(Annex I, paragraph 2 and Annex II, paragraph 8)

36. Many delegations proposed that only developed countries should contribute. Some delegations expressed their preference for having contributions from all Contracting Parties.

37. Some delegations indicated their preference for mandatory contributions while others preferred voluntary contributions on an assessed basis. Some delegates preferred to have voluntary contributions from developing countries and mandatory contributions from developed countries. Some delegations stated that it was not important whether contributions were mandatory or voluntary as long as non-payment was considered a violation of the Protocol or Parties recognized an obligation to make their specified contributions.

38. One delegate favoured the formula for trust funds under the Vienna Convention and the Montreal Protocol.

39. Some delegates considered that the United Nations scale of assessment ought to be used on an indicative basis, while others favoured the 1986 level of consumption of controlled substances by the Parties as the bench mark figure.

40. While it is the prerogative of each country to determine how to raise funds, user fees were referred to as one of many ways to generate funds in addition to existing contributions. It was recognized that user fees had an advantage in that they also constituted an incentive to reduce consumption further, although it was pointed out that if this goal was achieved quickly either no or few funds would be generated further.

C. Additionality

(Annex I, paragraph 3 and Annex II, paragraph 9)

41. All delegations approved the principle of additionality after one delegation had sought and obtained clarification regarding the meaning of the term.

D. Role of bilateral co-operation; clearing-house function

(Annex I, paragraph 4 and Annex II, paragraphs 1 and 2)

42. It was the common understanding that bilateral co-operation should be used, but only when agreed mutually by the countries. There were slight differences of opinion regarding the priority to be established between bilateral and multilateral assistance. Parties should have equal access to both.

43. Some delegates proposed that bilateral aid payments could be deducted from a Party's contribution according to guidelines to be established by the Parties, while other delegates opposed this principle. Some delegates considered that such deductions should be permitted subject to a minimum direct contribution to the fund or funding mechanism.

44. Several delegates emphasized the necessity of having a clearing-house mechanism to give guidance to and co-ordinate bilateral and multilateral co-operation.

45. One delegate stressed the importance of using the framework for a clearing-house and technical assistance already laid down in the Montreal Protocol.

E. Channelling of funds within the recipient country

(Annex I, paragraph 5 and Annex II, paragraph 10)

46. Many delegations felt that the resources of a fund should be channelled through the governments of the recipient countries. One delegate, supported by others, suggested that funds should be channelled to developing countries with the concurrence of their governments, but not necessarily through the governments.

F. Administration/management

(Annex I, paragraphs 6-7 and Annex II, paragraphs 5-7)

47. It was the general understanding that the Parties should decide on terms of reference for a fund and a financial mechanism, set up guidelines and revise them periodically.

48. Many delegates supported the establishment of a small executive body to supervise the activities of a fund or a funding mechanism. Some preferred to refer to it as a co-ordinating body. Several delegates supported the concept of this body having a balanced representation between countries operating under Article 5 and those not operating under Article 5 and being supported by economic and technical expertise. The responsibilities of the executive committee should be further examined.

49. Several delegates emphasized the need to make use of the capabilities and expertise of other existing organizations such as UNDP, UNIDO, the World Bank, regional banks and bilateral donors and to associate them with the process. The representatives of the World Bank and UNDP provided information on their organizations' mandates and involvement in environmental issues. The Executive Director was asked to seek the opinion of these multilateral institutions on their possible role in the financing mechanism and their views on the early operations to be carried out. He was also asked to circulate the individual views so obtained from UNDP, UNIDO and the World Bank to the next meeting of the Working Group and replies from the other institutions not later than the second meeting of the Parties in June.

50. Several delegations expressed the view that the safety-net function should be handled by the World Bank, while several others suggested that this remain with the Parties. One delegate suggested that until further information was obtained on the organizations it was premature to select them at this stage.

51. In connection with the clearing-house function, several delegates perceived this as a task for the Secretariat of the Montreal Protocol. One delegate expressed the desirability of requesting UNEP's Industry and Environment Office to undertake this function, bearing in mind its experience with technology transfer.

G. Time-frame

(Annex I, paragraphs 8-9 and Annex II, paragraph 4)

52. It was the general understanding that a fund or a financial mechanism should function until the requirements of the Montreal Protocol were completely met and that it would be useful to operate with three-year rolling plans.

H. Cost

(Annex I, paragraphs 1 and 10 and Annex II, paragraph 3)

53. The issue was discussed in the context of the principles and refined list which is detailed in paragraphs 20-22.

54. One delegation suggested that, while the concept of incremental costs is applicable to compute the burden on a country, it is not a good guide for disbursements from the fund for sector-wise projects as the country concerned might use cross-sectoral subsidies to promote compliance with the Protocol. It suggested a system of project-wise disbursements from the fund.

55. In light of the comments by delegates, the Executive Director of UNEP presented a set of points that could be taken into account by the Parties at their second meeting in June. These points are attached to this report as Annex III. They were collated by the Executive Director and submitted to the governments for their consideration at the next meeting of the Working Group, together with Annexes I and II.

56. By a separate decision the meeting was postponed from 4-6 April 1990 to 7-10 May 1990.

57. On the issue of the amount of funds that may be needed, one delegation noted the need to address initial funding to show good will, and to initiate the activities of the funding mechanism. In this regard, several delegations put forward a discussion paper on principal activities which would require funding during the first three years. These include:

- (a) establishment of an executive committee or co-ordinating body to develop guidelines and to co-ordinate and oversee technical and financial assistance activities;
- (b) initiation of country and sector-specific studies and training courses and organization of regional workshops; and
- (c) initiation of project-specific feasibility studies and capital funding for first project proposals reaching the implementation stage, (e.g. aerosols, recycling, foams, solvents).

58. A very preliminary estimate of costs for points (a) and (b) was given as US\$18-20 million. One delegate provided a very preliminary estimate of the cumulative costs for point (c) for countries currently Parties to the Montreal Protocol as US\$ 120 million during the first three years. For countries expected to become Parties during the early part of the three years, an additional US\$100-120 million may be needed.

IV. ADOPTION OF THE REPORT

59. The meeting adopted this report.

V. CLOSURE OF THE MEETING

60. After a brief statement by the Executive Director and the customary exchange of courtesies, the Chairman declared the meeting closed at 6 p.m. on Monday, 5 March 1990.

ANNEX I

ELEMENTS TO BE CONSIDERED FOR FINANCIAL MECHANISM
TO BE INCLUDED IN THE MONTREAL PROTOCOL

(Proposal by China, Finland, the Group of 77 and the Netherlands)

1. A Multilateral Fund shall be established during the second meeting of the Parties in London in 1990 to finance the cost of technology transfer and all the incremental costs of the countries operating under Article 5 of the Montreal Protocol.
2. The Fund shall be contributed on an obligatory basis by the Parties not operating under Article 5 of the Protocol in proportion to their calculated level of consumption of controlled substances in 1986.
3. The contributions to the Fund shall be additional to other financial flows to the countries operating under Article 5 of the Protocol.
4. Bilateral co-operation shall be encouraged between developed and developing countries that are Parties to the Protocol. As and when needed the Fund shall act in the capacity of a clearing-house.
5. The resources of the Fund shall be channelled through the Governments of the recipient countries.
6. The Fund shall be under the authority of the Parties to the Protocol. An Executive Committee shall be established on the basis of a balanced geographical distribution and a balanced representation of the countries operating under Article 5 of the Protocol and others.
7. The proposals to incur expenditures from the Fund will be processed by the Secretariat of the Protocol assisted by such relevant and competent organizations as may be designated by the Parties.
8. The Fund shall be active until such time as the objectives of the Protocol are completely met.
9. The activities of the Fund shall be planned in terms of consecutive three years periods and the cost of the approved activities shall be committed by the Parties not operating under Article 5 at least six months before the start of the period.
10. The types and categories of incremental costs to be financed shall be specified by the Parties to the Protocol during their second meeting in London in June 1990.

ANNEX II

ELEMENTS FOR A DECISION OR AN AMENDMENT

(Proposal by the United Kingdom)

1. A funding mechanism shall be established by the Parties to the Montreal Protocol to provide financing to developing countries to facilitate their compliance with the Protocol. The mechanism shall provide a clearing house function and a safety net.
2. As part of this funding mechanism bilateral and multilateral co-operation shall be encouraged between developed and developing countries that are Parties to the Protocol, through the clearing house. The multilateral agencies shall be invited to undertake within the clearing house those activities best suited to their charters and experience.
3. The funding mechanism shall meet the agreed costs of technology transfer and agreed incremental costs of compliance of the developing countries which are Party to the Protocol. The types and categories of the costs to be met (preliminarily outlined in para 12 of the Report of the First Session of the First Meeting of the Open-ended Working Group) are to be specified at the meeting of the Parties in London, June 1990, and at subsequent meetings of the Party.
4. The funding mechanism [and the contributions to it] shall be planned in terms of consecutive three-year periods till the requirements of the Protocol are completely met.
5. The policies, financial rules, procedures and institutional mechanisms as well as the financial frame of the safety-net shall be decided by the Parties.
6. As and when needed, the safety-net mechanism shall take care of those funding requirements which are not covered by bilateral or multilateral co-operation between the various Parties.
7. This safety net mechanism shall be administered by a lead agency which should be the World Bank.
8. The costs of the approved activities for each three-year period shall be met by the Parties to the Protocol in proportion to their contributions to the UN scale.
9. The contributions to the funding mechanism shall be additional to other financial flows to the developing countries.
10. The financial flows shall be arranged in co-operation with the government of the recipient country.

ANNEX III

PROPOSAL BY THE EXECUTIVE DIRECTOR

1. A Funding Mechanism shall be established by the Parties to the Montreal Protocol to provide financing to the developing countries to facilitate their compliance with the Protocol. The mechanism shall provide:
 - (a) a multilateral fund;
 - (b) a clearing-house function;
 - (c) contributions in kind, especially in respect of transfer of technology.
2. The Multilateral Fund shall be used to finance all agreed incremental costs of the countries operating under Article 5 of the Montreal Protocol.
3. The contributions to the Fund are to be based on the (scale of assessment of the U.N.) (the calculated 1986 consumption level of controlled substances). The contributions percentages and figures for each three-year fiscal period shall be adopted by the Parties.
4. Contributions to the Fund shall be additional to other financial flows to the countries operating under Article 5 of the Protocol.
5. The Fund shall be under the authority of the Contracting Parties. For that purpose the Conference of the Parties shall establish an Executive Committee on the basis of a balanced representation of Parties operating under Article 5 and those not operating under Article 5.
6. Bilateral co-operation shall be encouraged between developed and developing countries that are Parties to the Protocol. Contributions in the form of bilateral co-operation - in cash or in kind - can, according to criteria to be adopted by Parties be deducted from the agreed contributions to Multilateral Fund.
7. The clearing-house function of the Funding Mechanism can be used to facilitate the transfer of bilateral and other multilateral financial resources that would be available for assisting developing countries operating under Article 5 of the Montreal Protocol to meet the requirements of the Protocol.