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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Thirty-second Meeting
Ouagadougou, 6-8 December 2000

**Status Report
on the implementation of the fixed-exchange-rate mechanism**

1. Decision ExCom 31/1 of the 31st meeting of the Executive Committee of the Multilateral Fund requests “the Treasurer to prepare for submission to the Committee at its 32nd meeting a status report on the implementation of paragraph 6 of decision XI/6 of the Parties” (UNEP/OzL.Pro/ExCom/31/61 para 15 item (e)).
2. Paragraph 6 of decision XI/6 of the Parties states: “That the Meeting of the Parties should review the implementation of the mechanism at the end of 2001 for consideration at the technical segment of the Meeting of the Parties to determine the impact of the mechanism on the operations of the Multilateral Fund and its impact on the funding of the phase-out of ozone-depleting substances in Article 5 countries during this triennium so that the ozone-depleting substances phase-out process is not adversely affected.”

3. Aware of the fact that it is only ten months since the system of fixed-exchange-rate mechanism was introduced as an option for some of the Parties in making payments to the Multilateral Fund, also knowing that a more thorough study was called for by the Parties by paragraph 6 of decision XI/6 to be done at the end of year 2001; the current review is aimed at being a quick exercise which will give an indicative results of the implementation of the system and should therefore not be taken conclusively.

4. When calling for the contributions for year 2000, the Treasurer also requested the twenty seven (27) Parties who are eligible to using the fixed exchange rate mechanism, to confirm their decision as to whether they would use the mechanism in their payments to the Multilateral Fund. Of the 27 Parties eligible to the use of the mechanism, the following mixed reactions have been received:-

- (a) confirmed their decision to use the mechanism in making their payments towards the 2000 – 2002 replenishment period;
- (b) simply paid in their national currencies without specifying whether they were or were not going to use the mechanism;
- (c) have firmly indicated they were going to pay or have gone on to make payments to the full or good part of their year 2000 pledges in US dollars; and
- (d) have neither made any payments nor made any confirmation of their decision on the matter.

5. The Treasurer's assessment was largely based on (a) the 4 Parties who have confirmed they would be using the mechanism and who have indeed made some form of payments, and (b) the 6 who have paid in full or part in their national currencies. These consist of:-

Table 1: Parties Using the Fixed-Exchange-Rate Mechanism			
1.	Australia	2.	Austria
3.	Belgium	4.	Czech Republic
5.	Denmark	6.	France
7.	Germany	8.	New Zealand
9.	Switzerland	10.	United Kingdom

6. The first impact on the funding is the loss or gain due to the differences in rates of exchange of the national currencies from the rates established by the mechanism. This is

achieved by comparing the US dollar amount realized by the Treasurer's bank from the national currency amount paid by the Parties to the amount of pledged US dollars. If only a portion is paid in national currencies, that partial payment's US dollar realized is compared with its US dollar equivalent at the mechanism's rate and the remaining unpaid amount is held as outstanding in US dollars using the mechanism's rate.

7. In the case of the Parties using the promissory notes, the US dollar equivalence varies in value with the fluctuations of the exchange rates for the national currencies. For purposes of this study, the UN rate of exchange during the month of October 2000 has been used to establish their US dollar value. The actual US dollar value will finally be determined by the national currencies conversion rates at the time of encashing the promissory notes.

8. The net results of the calculations shown in page 1 of Annex I are that, as at 31 October 2000, the Fund has experienced a net (loss) amounting to US dollars 6.2 million or about 4.22 percent of the total pledges for Year 2000 or 13.57 percent of the year 2000 pledges for Parties using the fixed-exchange-rate mechanism.

9. The main reason for the loss to the Multilateral Fund is the global strengthening of the US dollar against nearly all the major currencies. For the 10 countries using the fixed-exchange-rate mechanism, for the whole period from the time of fixing the rates in December 1999 to October 2000, the average national currencies depreciation rate was 17.37 percent – meaning the average monthly depreciation rate experienced was 1.737. The full details are shown in page 2 of Annex I and the breadth of the range is New Zealand on the high end and the United Kingdom on the low end and in between is the Euro zone as the table below shows:-

Table 2 Period's Currencies Depreciation Experience (%age)		
Country	Period's Total	Average Monthly
United Kingdom	9.575	0.958
Euro Zone	18.729	1.873
New Zealand	26.112	2.611
Group Average	17.370	1.737

10. In accordance with paragraph 6 of decision XI/6, the Treasurer will furnish to the thirteenth Meeting of the Parties to the Montreal Protocol a fuller review of the implementation of the mechanism with the view of enabling the Parties to determine the mechanism's impact on

the operations of the Multilateral Fund and its impact on the funding of the phase-out of the ozone-depleting substances in Article 5 countries during this triennium.

11. In the light of this, the US dollar value of contributions to the Fund has to be adjusted with the fluctuating exchange rates over time due to the mechanism's operations. This accounts for the difference between the Parties' payments which are booked using the rates of exchange established at the replenishment period and the amounts realized by the bank using rates of exchange at the times of payment, and/or the amounts realized from promissory notes encashments using rates of exchange at the time, and/or the US dollar value of the promissory notes at anytime their US dollar value has to be determined using the rates applicable then. An item "*provision for fixed-exchange-rate mechanism's fluctuations*" now appears in the Status of the Fund.

12. In the meantime, it would indeed be helpful if the Parties who have decided to use the fixed-exchange-rate mechanism in making their payments to the Multilateral Fund would confirm to the Treasurer their decisions. Lacking such confirmation, it will be construed that the Parties in question are continuing to make their payments in US dollars.

ANNEX I

INDICATIVE PERFORMANCE OF THE FIXED-EXCHANGE-RATE MECHANISM IN THE PAYMENTS TO THE MULTILATERAL FUND BY BY THE PARTIES USING THE MECHANISM

Parties	Qualified for FERM Use	Pledges as at 11th Meeting of the Parties				Payments Made		Payments Portion for Year 2000			Payments Portion for Future Years			Total (Loss) or Gain in Payments in US Dollars	Outstanding Pledges	
		US Dollars	National Currencies	Rates of Exchange	National Currencies	National Currencies	US Dollar Value Realized	National Currencies	US Dollar Value Realized	(Loss)/Gain in US Dollars	National Currencies	US Dollar Value Realized	(Loss)/Gain in US Dollars		National Currencies	US Dollar Value Realized
Australia	Yes	2,482,262	Australian Dollar	1.560	3,872,327	4,274,564	2,582,632	3,872,327	2,339,606	(142,656)	402,237	243,026	(14,818)	(157,474)	0	0
Austria	Yes	1,576,118	Euro	0.940	1,481,551	1,485,597	1,275,385	1,481,551	1,271,912	(304,206)	4,046	3,473	(831)	(305,037)	0	0
Belgium	Yes	1,847,459	Euro	0.940	1,736,611	1,741,231	1,564,829	1,736,611	1,560,677	(286,782)	4,620	4,152	(763)	(287,545)	0	0
Czech Republic	Yes	202,668	Czech Koruna	35.060	7,105,530	7,105,530	188,771	7,105,530	188,771	(13,897)	0	0	0	(13,897)	0	0
Denmark	Yes	1,157,383	Danish Krone	7.020	8,124,832	8,124,832	1,019,235	8,124,832	1,019,235	(138,148)	0	0	0	(138,148)	0	0
France	Yes	10,954,107	Euro	0.940	10,296,861	8,841,366	7,831,148	8,841,366	7,831,148	(1,574,561)	0	0	0	(1,574,561)	1,455,495	1,548,399
Germany	Yes	16,427,810	Euro	0.940	15,442,141	15,442,141	13,677,716	15,442,141	13,677,716	(2,750,094)	0	0	0	(2,750,094)	0	0
New Zealand	Yes	370,162	New Zealand Dollar	1.870	692,203	790,000	369,019	692,203	323,337	(46,825)	97,797	45,682	(6,616)	(53,441)	0	0
Switzerland	Yes	2,035,052	Swiss Franc	1.500	3,052,578	2,800,000	1,714,846	2,800,000	1,714,846	(151,821)	0	0	0	(151,821)	252,578	168,385
United Kingdom	Yes	8,525,444	British Pound	0.620	5,285,775	5,285,775	7,773,199	5,285,775	7,773,199	(752,245)	0	0	0	(752,245)	0	0
TOTAL	N.A.	45,578,465	N.A.	N.A.	N.A.	N.A.	37,996,779	N.A.	37,700,445	(6,161,236)	N.A.	296,334	(23,028)	(6,184,263)	N.A.	1,716,784

