

Trust Fund for core activities not covered by the EMEP Protocol: Distributing the non-earmarked contributions over the centres

Introduction

At the twenty-third session of the Executive Body (ECE/EB.AIR/87 para 94) the delegation of the Netherlands questioned the current mechanism of equal distribution of non-earmarked funds to programme centres, suggesting that a fairer distribution could be made using previous years' budget deficits. The secretariat drew attention to the difficulties of using alternative distribution mechanisms (EB.AIR/2005/2, section IV).

At the 24th session of the Executive Body (ECE/EB.AIR/89 para 78) in 2006 the Netherlands again "questioned the current mechanism of even distribution of non-earmarked funds to programme centres, suggesting that a different procedure should be used. The delegate from Germany stressed that the needs of the centres should also be taken into account. The secretariat and the Chair of the Working Group on Effects drew attention to the difficulties of using alternative distribution mechanisms. The Executive Body agreed that a small ad hoc group should propose alternative mechanisms at the twenty-fifth session".

At present, the effects programme centres are funded by lead countries that have indicated to the Executive Body, usually when the programme or centre was established, that they would take the lead for certain activities; the work of the Centre for Integrated Assessment Modelling (CIAM) is similarly supported by IIASA.

In addition to what is described by the Working Group on Effects as "essential coordination costs" provided by the lead countries, centres also receive important contributions from the Convention's Trust Fund of voluntary contributions. The present distribution of the incoming non-earmarked contributions to this Trust Fund is on an equal basis so all the centres receive an equal amount of the contributions each year. This sharing arrangement does not take account of annual budgets and what is received through earmarked contributions to the Trust Fund each year. Such sharing is also independent of what centres receive "in-kind" from their host/lead country. Under this arrangement, it is possible, that some centres receive from the Trust Fund more than 100% of their agreed yearly budget for the essential international coordination costs, while others receive 30-60 % of their budgets.

The EB at the 23rd session in 2005 (ECE/EB.AIR/87 para 95 (j)) "noted the need for the Working Group on Effects to discuss possibilities for the distribution of trust fund support for core activities not covered by the EMEP Protocol.". The WGE in 2006 approved its financial document, as amended, (ECE/EB.AIR/WG.1/2006/13/rev.1) which noted in para. 15 "the secretariat has continued to share the non-earmarked contributions equally between all programme centres due to the lack of information on the needs of the programme centres and the undeclared in-kind contributions of Parties to them. A primary aim should be to ensure full financial contribution from the

Parties in accordance with Executive Body decision 2002/1. A review mechanism for the distribution of the contribution may have to be developed based on the needs of international coordination and priorities of the core activities". The Working Group was unable to suggest any alternative options beyond the current approach given the problems outlined by the secretariat. The Working Group and its Bureau deem the current distribution system deemed appropriate (e.g. ECE/EB.AIR/WG.1/2006/2 para. 61, ECE/EB.AIR/WG.5/84 para. 69)

As noted above the 24th session of the Executive Body "agreed to set up a small ad hoc group to draft a document, for discussion at its twenty-fifth session, devising alternatives for distributing non-earmarked funds among the eight centres supported by the trust fund for core activities not covered by the EMEP Protocol; the group would comprise experts from Finland, Germany, the Netherlands and the United Kingdom as well as the Chair of the Working Group on Effects and the secretariat, while also remaining open to other interested Parties; the current even distribution of non-earmarked funds would continue pending a decision at the twenty-fifth session". (ECE/EB.AIR/89 para 79 (f)).

This paper does not completely fulfill the request of the EB. Although experts from the Netherlands, United Kingdom, Germany, Finland, the Chair of the WGE and the Secretariat have worked on the paper and views from all sides have been taken on board no agreement could be reached on the final text. That is the reason this document is tabled under the responsibility of the Netherlands.

This paper provides firstly some background on the financing of core activities not covered by the EMEP Protocol, including an explanation of the issue at hand. The paper follows on to provide two options for the distribution of the non-earmarked contributions to the centres. The current process of even distribution of non-earmarked contributions over all centres is described in Option 1. An alternative approach, based on host/lead country contributions to centres is given in Option 2. A possible third option that is explored is a mandatory arrangement such as a protocol. For each option the pros and cons are highlighted. There might be other options, orienting the distribution of the Trust Fund to the actual costs of the centers¹ or the budget deficits or other criteria. All these options have the same advantages and disadvantages in a similar way as option 1, 2 and 3. The Options presented in this paper are those generally considered most likely to be manageable by the Secretariat, Centres and Parties. The paper ends with a summary of the options and the key issues.

Background

Under the Convention, the work on the effects programmes and on integrated assessment for the Convention is coordinated by centres, which are hosted/led by countries that have offered to support the work (see Table 1 for information on budgets for centres and details of the lead and host countries). For two main reasons it has been suggested that a better model would be to use the approach adopted by EMEP, where a Trust Fund is used to support centre activities. The first is that, as for EMEP, all Parties should share the costs, not just a few lead countries. The second is that when only one Party finances a centre it may makes it vulnerable to budget cuts by that country – this

¹ The annual budgets (essential coordination costs) have been agreed but do not necessarily reflect the actual cost of core activities within the Centres. The actual costs of running the centres is, in most cases, much higher.

has happened in the past for example with the CCE. In order to make the system more robust, the Convention has tried to agree on a legal instrument to finance the essential coordinating costs for the centres. However, the Parties to the Convention could not agree upon a protocol like the one for the activities under EMEP that utilize the EMEP Protocol. Therefore, the countries have worked to strengthen the existing voluntary arrangement for provision of funding to the effect centres and CIAM through an EB Decision (Decision 2002/1).

The EB Decision 2002/1 details the agreement on the financing of core activities not covered by the EMEP Protocol. The annual budgets for the coordination of effects oriented core activities and integrated assessment modelling (see Table 1) cover the essential coordination costs. The total annual budgets of all the centres are equivalent to the total of the recommended contributions by the Parties to the Convention (Table 2 gives an example for 2006). Both are adopted yearly by the EB. Any other country, organization or individual wishing to contribute can do so subject to approval by the Executive Body, on the recommendation of the Working Group on Effects or the EMEP Steering Body. Contributions can be made in-kind by any Party direct to centres or as cash contributions to the Trust Fund account. These cash contributions can be made as non-earmarked (for distribution as agreed by the Executive Body – currently to all centres) or earmarked for one or more specific centres.

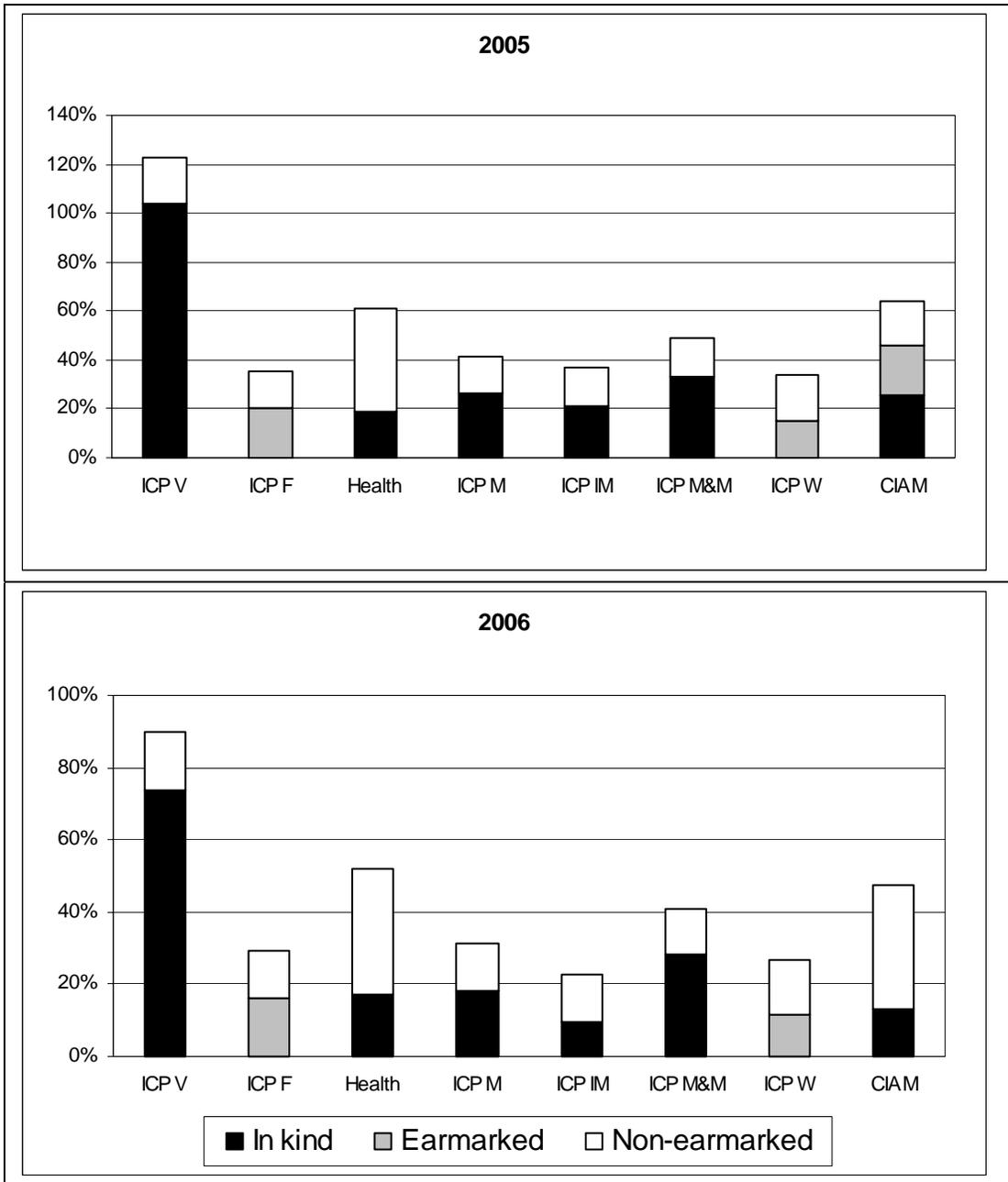
The Secretariat presents for the consideration of the Executive Body at each annual session a list of the earmarked and non-earmarked contributions, whether in cash or in-kind, for the previous financial year. The Secretariat also produces an overview of the earmarked and in-kind contribution to the centres. For different reasons, which cannot be at present overcome, not all Parties provide accurate figures for their in-kind contributions to the centres. Therefore at present, the list of figures presented to the EB is not accurate as the figures are incomplete.

Options for distribution of funding to centres

- **Option 1.** Equal distribution to all centres (status quo)

At present, the secretariat shares the non-earmarked contributions equally between all programme centres regardless of the earmarked contributions to the Trust Fund and the in-kind contributions to a centre. The equal sharing also does not take into account the agreed annual budget of each centres. The equal sharing approach has been adopted in the absence of the necessary information on detailed budgets and in-kind contributions and as it was straightforward to implement. A further difficulty is that all contributions (earmarked, non-earmarked and in-kind) can only be summarized after the end of the financial year, and in some cases arrears are being paid years after. A third issue of note is that the contributions to the Trust Fund and in-kind contributions fall far short of the funds required to meet the budget costs. It is difficult to change this system until the key issues have been addressed. The Secretariat has explored options for improving the information provided from countries and centres to aid the consideration of a more targeted distribution of the non-earmarked funds but information provided, like the contributions made, has been inconsistent from year to year. Not all countries find it easy to publicly acknowledge the contributions they make. Without accurate and up-to-date financial details of income to the centres from earmarked and in-kind contributions, and without a majority of Parties contributing to the centres and/or trust Fund, the Secretariat

has continued, with the approval of the Working Group on Effects and its Bureaux, to distribute equally the non-earmarked contributions between the centres (see figure 1).



PM Figure 1. Bar graph showing contributions to centres, as percentage of each centre's annual budget, with distribution of funding of the non-earmarked cash contributions as in option 1 using figures of 2005 and 2006

Pros. The current system for equal distribution of the non-earmarked funds provides a simple mechanism for distribution of funds. With the lack of accurate figures on in-kind funding to the centres, the lack of consistency of contributions to the Trust Fund from

one year to the next, the large shortfall in voluntary contributions to meet the budget and the problems of funding a budget when contributions are made “in arrears”, this option provides some guaranteed support for the centre. The approach is also consistent with lead countries continuing to support the essential costs of centres as, it allows each centre to accomplish additional required tasks, such as the substantive reports produced in the past.

Cons. Regardless of the centres budgets or contributions to the centres, all centres receive the same allocation of funding from the trust fund. Some centres receive a greater percentage of their annual budget than others. There is also a risk that, using this assumption, some centres receive more than 100 % of their agreed budget for essential coordination costs.

- **Option 2.** Distribution based on recommended contributions from the host countries of the centres

An alternative approach for distributing the non-earmarked contributions is to take account of the recommended contributions from the countries hosting and leading a centre (see footnote table 1 for the hosting countries).

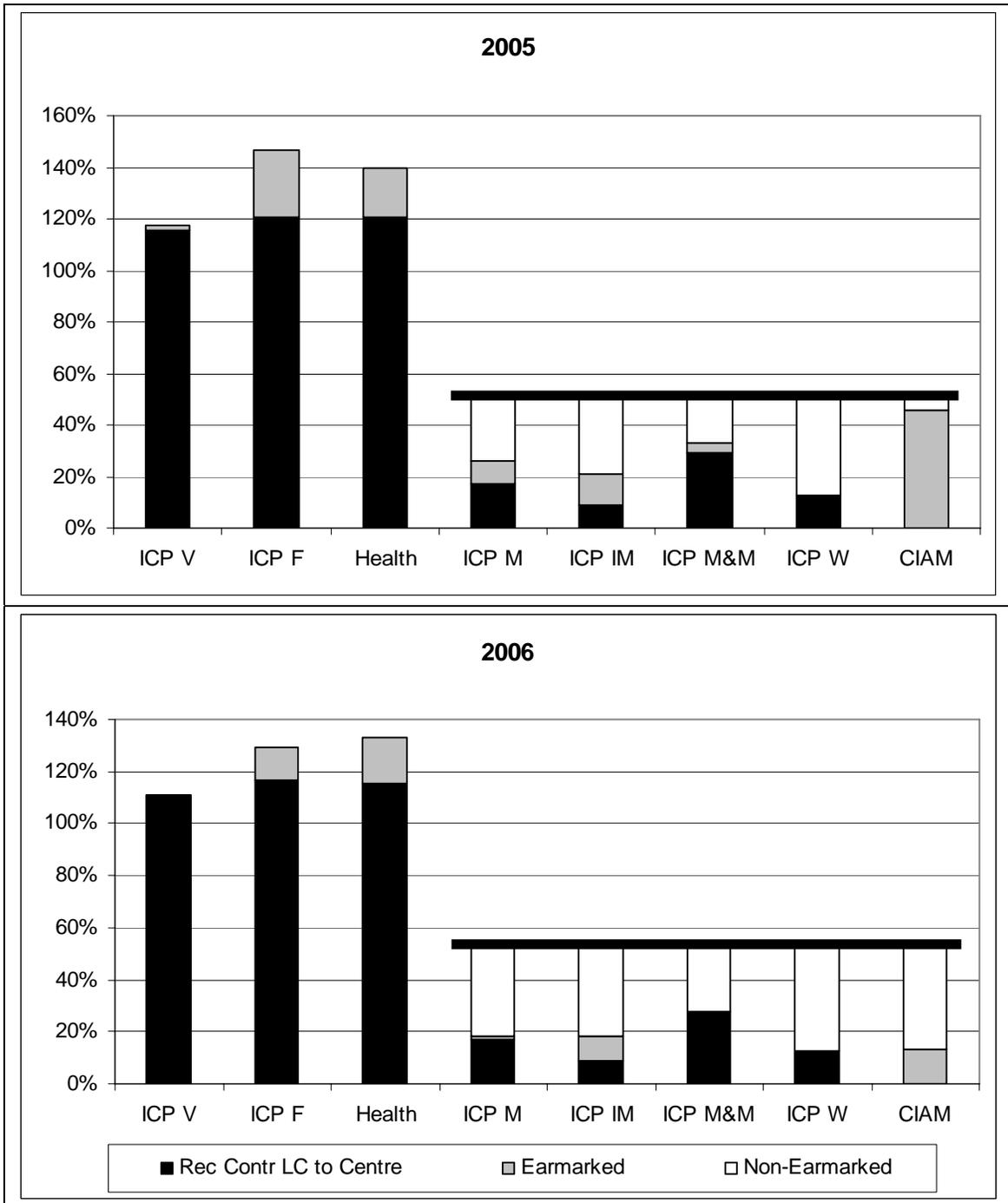
Option 2 starts therefore with the assumption that the host/lead countries only donate their recommended contribution directly to their centres, outside the Trust Fund and in-kind. By doing this the system is not dependant on what the host countries for a centre declare as their in-kind contribution.

Some of the hosting countries have recommended contributions that exceed the annual budgets of their centres. This is the case for the Centres of Vegetation (United Kingdom), Forests (Germany) and Health (Germany). Under this option, these three centres would not receive any money from the Trust Fund since the recommended contribution of the United Kingdom (Vegetation) and Germany (Forests and Health) exceeds the agreed annual budgets of these centres. To overcome the unwanted “over funding” of international coordination costs of the three centres, under the assumption of full contribution by the UK and Germany; these countries could utilise the excess of 100% of the centres annual budgets either by donating to the Trust Fund or through in-kind contributions to other centres. This assumes that the substantive work in addition to the budgeted essential coordination costs receive support from other sources.

The distribution of the incoming non-earmarked money from the Trust Fund of this option 2 begins with the centre with the lowest income from the recommended contribution, to be made in-kind, coming from the country hosting the centre plus the earmarked contributions². The other four centres (ICP Waters (Norway), ICP Materials (Sweden), ICP Integrated Monitoring (Finland), ICP Mapping and Modeling (Netherlands) and start with the sum that their host countries are recommended to pay as their contribution plus the earmarked contributions. CIAM is hosted by IIASA and not the country (Austria) where it resides. Note, that ICP Integrated Monitoring is led by Sweden, and ICP Materials is led by Sweden and co-chaired by Italy. When the percentage sum going to

² To get an overview of the earmarked contributions the Secretariat could sum the earmarked contributions from December 1 the previous year to December 1 the running year. By doing this one could get a financial year that would be compatible with the EB meetings. A more simple way is to comply with the fiscal year and have the secretariat use that and use this to distribute the non-earmarked money from the fund and report a year later to the EB meeting.

the first of these centres reaches the percentage of the second lowest centre, both centres start receiving evenly up until the third lowest centre etc until either the money is out or all centres receive the same remaining percentage (see figure 2).



PM Figure 2. Bar graph showing contributions to centres with distribution of funding of the non-earmarked cash contributions as in option 2 using figures of 2005 and 2006. The earmarked contribution to CIAM include parts of previous years' contributions to it not paid in full immediately.

Pros. The main advantage of this option is that it is not dependant on the information of the in-kind contributions to the centres from the host/lead countries. This option also ensures that the centre with the lowest recommended contribution, to be made in-kind, plus earmarked contributions has the first call on funding from the Trust Fund. In this way a more equitable funding over the centres is achieved than with option 1.

Cons. This option assumes that the lead/host countries for ICP Vegetation (United Kingdom), Forests (Germany) and Health (Germany) donate their contribution almost completely to their own centres. The option results in these centers being solely funded by one country. This situation makes those centres vulnerable to budget cuts in that lead/host country. On the other hand, such budget cuts would result in less funding of their own centres and it would mean that the recommended contribution from the host/lead country would not be met.

- ***Option 3. Protocol for the funding of effects-oriented activities***

An alternative option, and one which the EB may wish to consider, is a protocol for the financing of the activities of the centres. This option would make it possible for some Parties to the Convention to contribute to the effects work that currently cannot contribute to the voluntary arrangement (EB Decision 2002/1). Some countries have difficulties with a new binding financial arrangement. One could think of a dual system that most of the countries pay through a protocol and some pay through EB Decision 2002/1. Such a system would generate more income and thus more finances to the centres. A dual system does not necessarily ensure that contributions are made in full and, in the context of this paper, see to a full equitable distribution to the centres. To achieve the latter the lead/host countries has to officially declare their in-kind contributions. One possibility to overcome this problem is to only allow contributions to be made through the Trust Fund, either mandatory (protocol) or voluntary (EB Decision). Another possibility is that the hosting/leading countries for a centre officially declare the money going to their centres.

Pros.

A dual system with a protocol and an EB Decision will generate more income.

Cons.

This option does not address the distribution of the non-earmarked money to the centres unless the issue of non-declaration of the in-kind contributions is settled. The possibilities sketched in option 3 to overcome this problem will most probably not be acceptable to the hosting countries because of different budgets in the countries for the centres and for the Trust Fund. A voluntary arrangement where hosting countries would be obliged to declare its in-kind money would in effect create a mandatory arrangement for these Parties hosting/leading a centre.

There was no agreement a few years ago on a mandatory arrangement such as a protocol.

Summary

For the funding of the coordination of effects-oriented activities and integrated assessment modelling the Convention works with a voluntary Trust Fund based on EB

Decision 2002/1. It is difficult to determine the actual contributions in-kind made to the Centres or predict the level of contributions that will be made in any given year. This makes it difficult to evaluate how well each centre is funded each year. The equal distribution of the non-earmarked cash contributions may thus not help centres who would require them most. The incoming non-earmarked cash contributions are simply distributed over the centres evenly regardless of what the centres receive through earmarked cash and in-kind contributions (current situation, Option 1). To overcome the sometimes large differences in what the centres receive in cash, the EB could opt for a distribution taking account of earmarked contributions. It could further assume that the lead and host countries would contribute just their recommended contribution directly to their centres (Option 2). Moving from option 1 to option 2 would result in a reallocation of non-earmarked cash from the centres hosted by the United Kingdom and Germany to the other centres.

Neither solution is ideal and both have pros and cons, which have been signalled in this paper. Option 2 might be fairer to the centres than option 1. Option 2 does not either result in a full equitable funding across all centres.

Option 2, more than option 1, might have the potential for alienating some of the host/lead countries, limiting the opportunities for cross funding of centres by different Parties, and could lead to a drop in contribution from countries who have been up to now, effective at meeting their commitments.

A third option has been explored as an alternative to the options 1 and 2. A dual system of a protocol and an EB Decision could result in a higher income but would not necessarily overcome the difficulties related to the distribution of the non-earmarked contributions. The only way to solve that completely is a situation where all Parties donate their recommended contributions or officially declare their in-kind contributions.

Table 1. Agreed annual budgets of the centres

Year	Budget				
	2002	2003	2004	2005	2006
ICP Forests	270.000	285.000	295.000	295.000	305.000
ICP Waters	230.000	240.000	250.000	250.000	260.000
ICP Materials	275.000	290.000	300.000	300.000	310.000
ICP Vegetation	220.000	230.000	240.000	240.000	250.000
ICP Integrated Monitoring	260.000	275.000	290.000	290.000	300.000
ICP Modelling and Mapping	270.000	285.000	300.000	300.000	310.000
Task Force on Health		105.000	110.000	110.000	115.000
Centre for Integrated Assessment Modelling	240.000	240.000	240.000	240.000	240.000
Total net budget	1.765.000	1.950.000	2.025.000	2.025.000	2.090.000
Programme support costs 3%	52.950	58.500	60.750	60.750	62.700
Total	1.817.950	2.008.500	2.085.750	2.085.750	2.152.700

Note: Germany is lead-country for the ICP on Forests and hosts the Forests centre and the centre on Health. Norway is lead-country for ICP Waters and hosts its centre. Sweden leads ICP materials and hosts the centre. United Kingdom leads ICP Vegetation and hosts the centre. Sweden leads ICP Integrated Monitoring and Finland hosts its centre. The Netherlands is hosting the Modelling and Mapping Centre (CCE). CIAM has no lead-country for it is hosted by IIASA.

Table 2. 2006 contributions in cash and in-kind, earmarked and non-earmarked, towards financing the core activities under the Convention

	ICP F	ICP W	ICP M	ICP V	ICP IM	ICP M&M	Health	CIAM	Non-earmarked	Recomm contribn	Total received	Arrears
Armenia									100	100	100	
Austria	2,360								44,998	47,358	47,358	
Azerbaijan										200		
Belarus									950	950	950	
Belgium									65,915	56,460	65,915	29,519
Bosnia and Herzegovina										200		
Bulgaria	525								650	650	1,175	
Canada										Voluntary		
Croatia	225								1,950	1,950	2,175	
Cyprus									1,900	1,900	1,900	
Czech Republic	1,500								10,152	10,152	11,652	
Denmark									37,456	37,456	37,456	
Estonia	262								1,000	500	1,262	
Finland	1,585									26,104	1,585	
France	17,986								34,906	323,355	52,892	
Georgia									250	250	250	264
Germany	27,705									488,533	27,705	
Greece										26,955		
Hungary	675								6,001	6,001	6,676	
Iceland									1,650	1,650	1,650	
Ireland									14,702	14,702	14,702	
Italy										253,280		
Kazakhstan										1,400		
Kyrgyzstan										50		
Latvia									500	500	500	
Liechtenstein	30								300	300	330	
Lithuania									829	850	829	
Luxembourg	129								4,001	4,001	4,130	
Malta										750		
Monaco									200	200	200	
Netherlands						86,915*				86,915	86,915	
Norway	1,695	32,280								32,305	33,975	
Poland	2,130								18,903	18,903	21,033	
Portugal										23,104		
Republic of Moldova									100	100	100	
Romania									2,900	2,900	2,900	
Russian Federation										60,010		
Serbia and Montenegro										1,000		
Slovakia	810								2,960	2,150	3,770	
Slovenia									4,051	4,051	4,051	
Spain	5,310								125,959	125,959	131,269	
Sweden			54,200‡		22,238‡					51,346	76,438	
Switzerland	3,365						20,000§		63,292	63,711	86,657	
The FYR of Macedonia										300		
Turkey										22,004		
Ukraine										2,650		
United Kingdom				184,468#	6,180#			31,352#		276,847	222,000	
United States									10,000	Voluntary	10,000	
European Community									71,665	71,685	71,665	
TOTAL 2006 CONTR	66,292	32,280	54,200	184,468	28,418	86,915	20,000	31,352	493,335	2,152,700	1,032,166	29,783

‡ Contribution in-kind worth Skr 390,000 and 160,000, respectively.

§ Contribution in-kind worth SwF 25,000.

Contribution in-kind worth £ 100,000, 3,350 and 16,996, respectively (pending confirmation from centres).

Table 3. Summary of non-earmarked, earmarked and in-kind contributions

Year	Non-earmarked cash paid*				
	2002	2003	2004	2005	2006
ICP Forests	20.300	15.000	45.000	46.000	40.000
ICP Waters	20.300	15.000	45.000	46.000	40.000
ICP Materials	20.300	15.000	45.000	46.000	40.000
ICP Vegetation	20.500	15.000	45.000	46.000	40.000
ICP Integrated Monitoring	20.300	15.000	45.000	46.000	40.000
ICP Modelling and Mapping	20.300	15.000	45.000	46.000	40.000
Task Force on Health	20.000	15.000	45.000	46.000	40.000
Centre for Integrated Assessment Modelling			4.295	44.642	83.000
Substantive reporting	4.545	17.164	11.902		
Total	146.545	122.164	331.197	366.642	363.000

* Non-earmarked contributions were shared equally among ICPs, Task Force (and since 2004 CIAM; the sum for CIAM has included additional amounts from the past years' accumulated allocation and earmarked contributions)

Year	Earmarked cash paid				
	2002	2003	2004	2005	2006
ICP Forests	75.700	76.200	52.000	59.000	50.000
ICP Waters	1.200	33.300	34.000	38.000	30.000
ICP Materials	6.700				
ICP Vegetation					
ICP Integrated Monitoring	700				
ICP Modelling and Mapping	4.700	37.600			
Task Force on Health					
Centre for Integrated Assessment Modelling		60000	60.705	47.358	
Substantive reporting					
Total	89.000	207.100	146.705	144.358	80.000

Contributions	In-kind				
	2002	2003	2004	2005	2006
ICP Forests		193.200			
ICP Waters					
ICP Materials		105.402	102.564	78.300	54.200
ICP Vegetation		209.677	227.148	249.168	184.468
ICP Integrated Monitoring		152.017	43.580	61.242	28.418
ICP Modelling and Mapping		94.293	84.212	99.711	86.915
Task Force on Health		66.096	19.193	20.833	20.000
Centre for Integrated Assessment Modelling			27.344	62.141	31.352
Substantive reporting			12.723		
Total		820.685	516.764	571.395	405.353

Year	Total cash paid and in-kind contributions				
	2002	2003	2004	2005	2006
ICP Forests	96.000	284.400	97.000	105.000	90.000
ICP Waters	21.500	48.300	79.000	84.000	70.000
ICP Materials	27.000	120.402	147.564	124.300	94.200
ICP Vegetation	20.500	224.677	272.148	295.168	224.468
ICP Integrated Monitoring	21.000	167.017	88.580	107.242	68.418
ICP Modelling and Mapping	25.000	146.893	129.212	145.711	126.915
Task Force on Health	20.000	81.096	64.193	66.833	60.000
Centre for Integrated Assessment Modelling		60.000	92.344	154.141	114.352
Substantive reporting	4.545	17.164	24.625		
Total	235.545	1.149.949	994.666	1.082.395	848.353