



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/62/60
1 November 2010



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-second Meeting
Montreal, 29 November - 3 December 2010

**AGREEMENT BETWEEN UNEP AS TREASURER OF THE MULTILATERAL FUND AND
THE EXECUTIVE COMMITTEE (DECISION 59/51)**

Background

1. At the 59th Executive Meeting, the Chief Officer introduced document UNEP/OzL.Pro/ExCom/59/57, which contained a proposal submitted by the Treasurer on the agreement with the Executive Committee, with a budget breakdown that reflected an increase of US \$50,100. She advised that, under the 2004 agreement between the Executive Committee and UNEP, as the Treasurer, services were provided by the Budget Financial and Management Services of the United Nations Offices in Nairobi. That arrangement had changed in 2007, and services were now provided by the newly established Corporate Services Section within UNEP's Executive Office. The Treasurer had indicated that the cost structure as per the previous agreement had changed in line with the new arrangement within UNEP and was reflected in the new cost structure.

2. When considering the proposal, the Chief Officer suggested that the Executive Committee might wish to bear in mind the fact that the 2004 agreement with UNEP did not contain a clause requesting the Treasurer to submit annual accounts in respect of fees and expenditures, and that the Secretariat had been subject to an audit on administrative and fund management matters. The auditors' report was still in draft form and would be made available to the Committee once it had been finalized.

3. By Decision 59/51, the Executive Committee decided to maintain the fee level at US \$500,000 per annum until it had had an opportunity to consider the results of the audit of the Secretariat on administrative and Fund management matters, and to review the Treasurer's service at its 62nd Meeting, taking into account any relevant audit observation. The Executive Committee also decided to note that provision of data on expenditures was a matter of transparency and was inherent to the mandate of UNEP and to request UNEP to provide indicative data on expenditures between 2004 and 2009, to the extent feasible, and to bring to the 62nd Meeting a plan for providing expenditure data as part of its future treasury services.

4. This document contains feedback received from the Treasurer. It also provides the feedback from the auditors on the services of the treasurer, addresses indicative data on expenditures between 2004 and 2009 as submitted by the Treasurer, and reflects the revised annual costing for the provision of the treasury services to the Multilateral Fund (MLF) as submitted by the Treasurer. It ends with conclusions and a set of recommendations.

Audit observation on the services of the Treasurer

5. The UN Board of Auditors for the 2008 – 2009 biennium included visits to the MLF Secretariat in Montreal and the offices of UNEP/UNON in Nairobi and included a review of the financial transactions and operations of the MLF including the services of the Treasurer in the context of the 2004 agreement between the Executive Committee and the Treasurer. The Secretariat received the audit report for the biennium ending 31 December 2009 through UNEP. In its final report, the Board of Auditors did not include any audit observations on the services provided by the Treasurer.

Indicative data on expenditures between 2004 and 2009

6. UNEP had provided services at no cost to the Fund for the period 1991 to 2003, and used its own internal resources to manage the MLF trust fund until the time it reported to the Committee the difficulties it faced with continuing these services at no cost. When UNEP proposed its services at a cost of US \$500,000 per annum in 2004, UNEP had provided an itemised indicative breakdown of the US \$500,000 fees consisting of full and part time professional staff costs (US \$335,880), support staff costs (US \$82,500) travel costs to the Executive Committee and other related missions (US \$28,000), and centrally provided support, including IT, communication, human resources, and internal and external audit (US \$36,100) as well as an inflation rate provision of (US \$16,580) as shown in the UNON Chief of the Administrative Services’ memo of 19 March 2004 to the Chief Officer.

7. At the 42nd Meeting, the Executive Committee agreed through decision 42/42 to remunerate UNEP with US \$500,000 annually for its services as Treasurer, and that this sum would remain unchanged for a period of five years as of the date of entry into force of the agreement. Based on the 2004 – 2009 indicative itemised cost submitted under the 2004 agreement, the Treasurer is submitting to the 62nd Meeting an indicative expenditure breakdown as shown in Table 1. In addition, the Treasurer reported yearly expenditures during the period 2004 -2009 as part of the Secretariat’s budget under the subcontract component.

Table 1

UNEP’s indicative annual cost of providing treasury services to the Multilateral Fund (2004-2009)

	US Dollars
Staff cost	276,900
Mission travels	32,582
Sub-total	309,482
Overhead support cost (UNON/UNEP allocated cost)	166,500
Contingency	24,018
TOTAL	500,000

8. Table 1 shows that UNEP used flexibility between budget lines but remained within the agreed budget of US \$500,000 per annum. UNEP also indicated that 50 per cent of the overall budget has been used for staff cost and about 40 per cent covered UNEP/UNON common operational costs as well as some contingency needs.

UNEP’s plans for providing expenditure data as part of its future treasury services.

9. UNEP has re-considered the earlier proposal made to the 59th Meeting requesting an increase of US \$50,100, and decided to maintain the current level of US \$500,000 until it reverts to the Executive Committee sometime in the future, if needed.

10. The Treasurer’s proposal for 2010 – 2014 indicates the staff costs requirement and remains consistent with UNEP’s initial request to be compensated for services to the Fund, which has become more specialised over time and increased in volume and complexity. UNEP requires a proper level of staffing in order to deliver quality services within tight deadlines in line with its agreement with the Executive Committee.

11. Given the size of the MLF and its continued growth which stands now at US \$450 million per triennium and totals approximately US \$2.5 billion since its inception, UNEP needs to maintain the current practices including management of a transparent system of issuance and encashment of promissory notes, design and maintenance of a financial reporting system for transfers, disbursements, interest and expenditures, and ensuring that the Secretariat’s databases and implementing agencies’ accounts are consistent and in agreement with the Treasurer’s records to facilitate the reconciliation of the account exercise.

12. An adequate staffing level is therefore necessary for UNEP to continue contributing to studies requested by the Executive Committee such as the facility for additional income, the evaluation on the financial mechanism, the administrative cost study etc. In addition to monitoring the Fixed Exchange Rate Mechanism, projecting implementing agencies accrued interest income as part of any carry-over calculation into the next triennium, and determining contributing parties pledged amounts over the triennium as soon as the MLF replenishment level is agreed upon at the Meeting of the Parties.

CONCLUSION AND RECOMMENDATIONS

13. As mentioned earlier, UNEP has reported expenditures of its annual fees as part of the Secretariat’s budget under the subcontract budget line. In future UNEP would be able to continue with the same practice and would supplement its reporting with an indicative breakdown following the same structure as in Table 1.

14. UNEP explained the difficulties it would have in providing a more detailed itemized breakdown of its annual fees in the light of the configuration of its accounting system, whereby the US \$500,000 fee is reflected as an OBMO i.e. obligation of miscellaneous funds in the UNEP accounts in line with the terms of the agreement between UNEP and the Executive Committee resulting in a lump sum payment due to UNEP on an annual basis.

15. The Executive Committee may wish to:

- (a) Note the Treasurer’s indicative report on its 2004 – 2009 expenditures;
- (b) Note that the UN audit report did not contain any observation on the services of the Treasurer;

- (c) Consider approving the Treasurer's proposal to maintain the existing level of its fees of US \$500,000 per annum until UNEP reverts to the Executive Committee;
- (d) Request the Treasurer to include in the accounts of the Multilateral Fund Secretariat an indicative breakdown of the US \$500,000 annual fees for the provision of treasury services, as shown in table 1 of document UNEP/OzL.Pro/ExCom/62/60.
