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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-first Meeting
Montreal, 2-6 December 2013

**DISBURSEMENT OF FUNDS FOR THE HCFC PHASE-OUT MANAGEMENT PLAN
FOR CHINA (DECISION 69/24(b)(i))**

Introduction

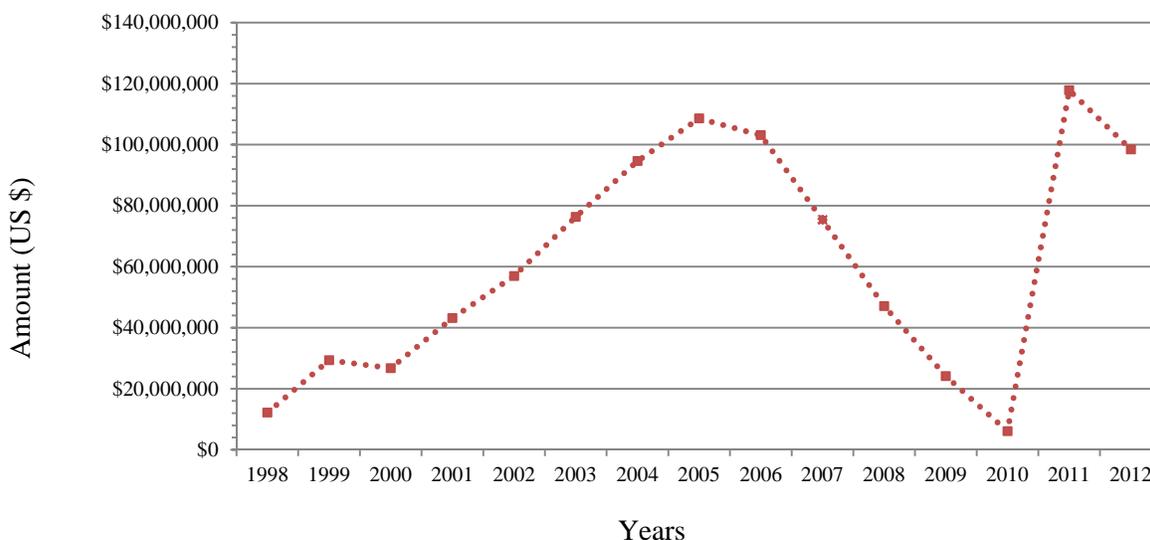
1. At its 69th meeting, the Executive Committee requested the Secretariat, in collaboration with the implementing agencies and the Treasurer, to prepare a paper for consideration at the 71st meeting on options as to how funds for the HCFC phase-out management plan (HPMP) in China could be disbursed as close as possible to the time when funds were needed, taking into account the relevant agreements between the Executive Committee and the Treasurer, the Executive Committee and the implementing agencies, and between the Government of China and the implementing agencies (decision 69/24(b)(i)).
2. In response to decision 69/24(b)(i), the Secretariat consulted the Treasurer and the implementing agencies on the options as to how funds for the HPMP in China could be disbursed as close as possible to the time when funds were needed, and on how the disbursement procedures from the Treasurer to the implementing agencies and the implementing agencies to China would be reviewed.
3. This document considers the two transactions involved in the transfer of funds from the Executive Committee to China: the transfer from the relevant implementing agency to China and the transfer from the Treasurer to the relevant implementing agency.

Fund transfer from the implementing agency to China

4. The Secretariat reviewed the historical financial data for transfers from the implementing agencies to China from 1998 to 2012 and noted an increasing trend of the yearly funds balance from 1998 to 2005 followed by a decreasing trend until the year 2010 in line with the reductions in the consumption and production of CFC, halons and CTC in accordance with the Montreal Protocol. The sharp increase in the funds balance in 2011 resulted from the approval of stage I HPMP¹. Figure 1 presents the yearly funds availability calculated from the Annual Progress and Financial Reports.

Figure 1

FUNDS BALANCE FOR CHINA FROM 1998 TO 2012*



*The World Bank transferred all the remaining funds available to China for final implementation of the CFC production, halon and CTC projects amounting to US \$27 million that is not accounted for in the graph above.

¹ At its 64th meeting (July 2011), the Executive Committee approved the first tranche of stage I of the HPMP for China at the amount of US \$133 million.

5. Based on the discussions at the Inter-agency coordination meeting held in Montreal from 24 to 25 September 2013 and the review of the reports on disbursement procedures submitted by the implementing agencies at the 69th meeting, the Secretariat would like to draw the Committee's attention on the following:

- (a) UNEP advised that up to 50 per cent of the first tranche could be disbursed based on projected need for activities planned for the first six months. Further payments are based on submission of semi-annual progress reporting on outputs delivered, results and achievements and financial report (performed-based);
- (b) UNIDO informed that the Executive Committee's concern is addressed through the recent decision of China to ask for the contractual disbursements from UNIDO when funds are needed, and not necessarily immediately after fulfilling their contractual obligations for each payment, since interest is to be returned; and
- (c) The World Bank's agreements allow for transferring no more than 30 per cent of the sub-grant agreement upon signing it, and subsequent payments are made on the basis of the statement of expenditures. The milestones/deliverables are defined in the Agreements/Memorandum of understanding/project document/tranche reports. The World Bank has further indicated to the Secretariat that it would minimize fund transfers in the polyurethane (PU) foam sector (UNEP/OzL.Pro/ExCom/71/30) by funding contract signing for enterprises covered in future tranches with funds available from previous tranches. This means that the World Bank has been able to use funds intended for several future tranches in advance of the release of funds from the Executive Committee.

6. The Executive Committee may wish to note the efforts of UNEP, UNIDO and the World Bank to transfer funds to China as soon as possible to the time when funds are needed for disbursement to the final beneficiary for stage I of the HPMP and encourage UNDP to report in its efforts in this regard.

Fund transfer from the Treasurer to the relevant implementing agency

7. Based on the submissions of the implementing agencies to the 71st meeting on behalf of the Government of China (UNEP/OzL.Pro/ExCom/71/30), of the US \$159.5 million approved for the stage I HPMP to-date, US \$42.6 million was transferred to the Foreign Economic Cooperation Office (FECO) and US \$34.1 million was disbursed from FECO to final beneficiaries. The balances of funds held by China was US \$9 million, while those held by the implementing agencies were accumulating to at least US \$117 million (from funds transferred from the Treasurer). An additional US \$32.9 million is being requested at the 71st meeting.

8. Although balances held by the implementing agencies on behalf of the China HPMP are increasing, there are also significant balances held for all countries by the agencies. The 2012 accounts of the Multilateral Fund (UNEP/OzL.Pro/ExCom/71/60) indicate that the total net excess of income over expenditure held by the implementing agencies amounted to US \$361 million. The level of income received in 2012 (US \$128.6 million) exceeds the expenditures of the Fund (US \$124.5 million) by US \$4.1 million. The balances held by the implementing agencies at the end of 2012 amounted to almost three times as much funds needed for disbursement from the agencies, i.e., implementing agencies held three times more balances in funds that needed for disbursement for the year 2012.

9. This raises several issues that may merit additional consideration by the Executive Committee including *inter alia*:

- (a) The Board of Auditor's observation that cash balances should be paid out to implementing partners with a six month period and that fund should be provided when there is sufficient evidence that the funds are required for immediate settlement of project costs, and to recall these funds wherever projects are subsequently subject to delay;
- (b) The agreements between the Executive Committee require that all funds are transferred upon approval and that the agencies should not start any activity supported by the Fund before the transfer of resources, and that the agency should hold all unutilised contributions until all commitments and liabilities incurred in the implementation of projects have been satisfied and concluded;
- (c) Holding balances at the Treasurer would maximize interest if the Treasurer receives greater interest than would be generated from the implementing agencies but data to assess this is not currently available;
- (d) The current term of the Treasurer expires at the last meeting of 2014 and any change in the fund transfer policy of the Multilateral Fund should be considered in the approval of the next Treasurer;
- (e) The impact of a change in fund transfer policy would require an assessment of the additional administrative burden if any;
- (f) The Multilateral Fund will be entering into stage II HPMP agreements possibly starting in 2014 and any change in fund transfer policy should be taken into account for stage II; and
- (g) The impact on project implementation from transferring funds based on anticipated need instead of transferring funding up-front should be assessed based on the experience of other financial mechanisms² and agencies using the approach of fund transfer as close as the time needed for implementation.

Recommendations

10. The Executive Committee may wish to consider:

- (a) Noting:
 - (i) The document of Disbursement of funds for the HCFC phase-out management plan (HPMP) for China (decision 69/24(b)(i)) (UNEP/OzL.Pro/ExCom/71/58);
 - (ii) The efforts of UNEP, UNIDO and the World Bank to transfer funds to the Foreign Economic Cooperation Office (FECO) as soon as possible to the time when funds are needed for disbursement to the final beneficiary for the HCFC phase-out management plan (HPMP) in China;
- (b) Encouraging UNDP to report its efforts to transfer funds to FECO to the time when funds are needed for disbursement to the final beneficiary for the HPMP in China; and

² For example, the Global Environment Facility (GEF) releases funds to its implementing and executing agencies based on funding requested by the agencies for project implementation for the next six months.

- (c) Requesting the Secretariat, in cooperation with the implementing agencies and the Treasurer, to further consider the impact of fund transfers to implementing agencies from the Treasurer in the light of the information provided in document UNEP/OzL.Pro/ExCom/71/58.
