



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/72/44
15 April 2014



ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-second Meeting
Montreal, 12-16 May 2014

**ACCOUNTS OF THE MULTILATERAL FUND
(FOLLOW-UP TO DECISION 71/46(D) AND (E))**

Background

1. At its 71st meeting, the Executive Committee considered the final accounts of the Multilateral Fund (MLF) for the year 2012¹ submitted by the Treasurer. Further to a discussion, the Executive Committee decided *inter alia* to request the Treasurer to report to the 72nd meeting on the:

- (a) Consolidation of the MLF accounts with those of UNEP under the International Public Sector Accounting Standards (IPSAS);
- (b) Mitigation of exchange rate risks on pledged contributions; and
- (c) Procedures set by the UNEP-wide standard on cash advances and the potential impact on MLF funded project implementation (decision 71/46(d)).

2. The Executive Committee also considered the document on “Disbursement of funds for the HCFC phase-out management plan for China”² which included, *inter alia*, an issue relating to the fund transfer policy from the Treasurer to implementing agencies (IAs). Further to a discussion³, the Executive Committee requested the Secretariat, in cooperation with the IAs and the Treasurer, to further consider the impact of fund transfers to IAs from the Treasurer, including information on rates of return on interest, and to report back to the 72nd meeting (decision 71/46(e)).

3. The present document has been prepared by the Treasurer together with the Secretariat to address decision 71/46(d) and (e).

¹ UNEP/OzL.Pro/ExCom/71/60.

² UNEP/OzL.Pro/ExCom/71/58.

³ This issue was considered under Agenda item 14, Accounts of the MLF.

4. The document consists of two sections: Section I, addresses the three issues on the accounts of the MLF; and Section II addresses issues on transfers from the Treasurer to IAs.

Section I: Issues on the accounts of the MLF

Consolidation of the MLF account with those of UNEP under IPSAS

5. In November 2005, the High Level Committee on Management⁴ approved the recommendation that the United Nations system organizations adopt IPSAS. Effective 1 January 2014, UNEP has adopted IPSAS. UNDP and UNIDO have already adopted IPSAS. The World Bank as a corporate entity applies International Financial Reporting Standards (IFRS), the equivalent of IPSAS. However, they report on MLF projects using a modified cash basis of accounting to report their financial statements.

6. Under the United Nations System Accounting Standards (UNSAS) the financial statement of the MLF are included in the financial report of UNEP, as a separate annex. Under IPSAS, the MLF financial statement will be fully consolidated with other segments of UNEP operations. Although it is the responsibility of UNEP to determine its accounting policies, it was considered necessary to get opinion through consultations with the United Nations Offices at Nairobi (UNON), United Nations headquarters (UNHQ) IPSAS Team and the United Nations Board of Auditors (UNBoA). The UNHQ IPSAS Team reviewed the proposal using criteria on tests of administrative controls, benefits and responsibilities and concluded that the approach to consolidate MLF within the financial statements of UNEP is appropriate. UNEP also shared with the UNBoA Team, the simulated version of financial statements in the consolidated format prepared by UNON during the interim audit in November 2013. UNEP expects confirmation of agreement to the consolidated approach during the final audit for the biennium 2012-2013 from 14 April 2014 to 9 May 2014.

7. Under the consolidated approach, the financial position and performance of MLF will form part of UNEP statements. However, a separate segment will specifically report on the accounts of MLF. There will also be additional schedules in the financial statements that will provide detailed financial information of the MLF. The segment on MLF and additional schedules will enable reporting on financial performance and position of MLF to the Executive Committee.

8. With regard to the fixed-exchange-rate mechanism (FERM), in the Status of the Fund document the Treasurer will continue providing separate information on the gain and losses associated with the FERM as in the past. With regard to the promissory notes, the Treasurer will continue reporting on the status of promissory notes, promissory notes ledger and the outstanding promissory notes schedule of encashment at each meeting of the Executive Committee.

9. Under UNSAS, the bilateral cooperation programme assistance⁵ was not reflected in the accounts (as revenue and expenditures) because UNEP did not have detailed information on actual disbursement of fund and related expenditures of bilateral activities and, therefore, could not present it to the auditors if they decided to audit such activities to the extent that they were included in the UNEP financial statements. Given the unique nature of the bilateral cooperation programme under the MLF (where there is no agreement specifying any reporting obligations from the donor country), the Treasurer will seek opinion from the UNBoA and report back to the Executive Committee.

⁴ Identifies and analyses administrative management reforms with the aim of improving efficiency and simplifying business practices. The Committee is comprised of senior administrative managers from the member organizations of the United Nations system who meet twice a year.

⁵ As of 11 April 2014, bilateral contribution to the MLF amounts to US \$150,162,962.

Mitigation of exchange rate risks on contributions

10. As a result of operating the FERM, the MLF is exposed to unanticipated changes in the exchange rates of the US dollar to other national currencies that are being used in the settlement of pledged contributions. In the audit report for the biennium ended 31 December 2011, the UNBoA noted an exchange loss of US \$10.3 million relating to the operation of the FERM. As a result, the UNBoA recommended that UNEP should find ways to mitigate exchange losses. However it should be noted that since its inception in the year 2000 to date, the FERM has a net gain of approximately US \$19.5 million.

11. To mitigate such exchange rate risks, consideration would have to be given to various foreign exchange hedging strategies, including the use of money markets and foreign exchange derivatives such as forward contracts, options and swaps. UNEP's treasury functions are centrally managed by UNHQ in New York who have to consolidate investments of secretariat entities while taking into account a low risk profile appropriate to ensure to safety of investments. Under the FERM mechanisms, the Parties commitments are determined and established in advance, which is beneficial for planning their disbursements. The fluctuations arising from exchange rate movements can be managed through budgetary mechanism and UNEP will advise the UNBoA accordingly in order to review and close this recommendation.

Procedures set up by the UNEP-wide standard on cash advances and the potential impact on MLF funded project implementation

12. UNEP did not enforce recovery of cash already advanced to implementing partners not due to be expended within a six month period on either its own projects or on projects funded by the MLF, given the practical difficulty that would arise in the implementation of such a recommendation. However, subsequent disbursements for UNEP projects are based on expenditure forecast for the next quarter. UNEP also requires that the implementing partners submit reports showing the utilization of previous advances before replenishments are considered.

General observations

13. UNEP adopted IPSAS as of 1 January 2014 while Umoja⁶ will be implemented towards the last quarter of 2014. Therefore, at this time it is not possible to identify with accuracy potential changes to the accounts of the MLF. Furthermore, adjustments might be required to address issues that could arise during the introductory period. Accordingly, the Executive Committee might wish to request the Treasurer to report on the status of the consolidation of the accounts of the MLF to the 74th meeting once IPSAS and Umoja are fully operational.

Section II: Issues on transfers from the Treasurer to IAs

14. The document on the disbursement of funds for the HPMP for China⁷ submitted to the 71st meeting reported that the total net excess of income over expenditure held by the IAs amounted to US \$361 million. The level of income received in 2012 exceeded the expenditures of the MLF by US \$4.1 million. The balances held by the IAs at the end of 2012 amounted to almost three times as much funds needed for disbursement from the agencies. This situation raised the following issues that merit further consideration:

- (a) The UNBoA noted that cash balances should be paid out to implementing partners with a six month period and that funds should be provided when there is sufficient evidence that

⁶ Umoja will be the United Nations new central administrative system, replacing multiple and fragmented legacy systems such as IMIS, Mercury and Sun.

⁷ UNEP/OzL.Pro/ExCom/71/58.

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 MLF 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 IAs but data to assess this is not currently available;
- (d) The impact of a change in fund transfer policy would require an assessment of the additional administrative burden if any; and
- (e) 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 mechanisms⁸ and agencies using the approach of fund transfer as close as the time needed for implementation.

15. The Secretariat discussed the issues raised by the Executive Committee with the Treasurer and the IAs at the Inter-agency Coordination Meeting held in Montreal on 11 to 13 February 2014. The Secretariat requested IAs to revert with data and information on historical balances, interest rates accrued against the balances, options for preferential interest rates for the MLF, the IAs respective investment strategies and policies, as well as policy on fund reserves if any. IAs were also requested to revert with options on the way forward in terms of remaining with the status quo or introducing changes to the present arrangements on funds transfers from the Treasurer.

16. The Secretariat shared the information collected from the IAs with the Treasurer. In reviewing the information the Treasurer concluded that the historical data received from IAs by end of February 2014 is not complete in some cases and requires verification as to the source of the data provided. Some of the information provided by the IAs would need to be further elaborated and verified before using it for a comprehensive analysis to be presented to the Executive Committee. The impact of such analysis would also have to be reviewed in the context of existing agreements between the Executive Committee and IAs and related administrative procedures. It is therefore recommended that an independent expert's view be considered before a final report be submitted to the 73rd meeting in November 2014.

Recommendations:

17. The Executive Committee may wish to:

- (a) Note the Accounts of the Multilateral Fund contained in document UNEP/OzL.Pro/ExCom/72/44;
- (b) Request the Treasurer to report on the status of the consolidation of the accounts of the Multilateral Fund to the 74th meeting once the International Public Sector Accounting Standards and Umoja are fully operational; and

⁸ 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) Request the Treasurer in consultation with the Secretariat to seek expert's views on the issue of the fund transfers from the Treasurer to the implementing agencies and report back to the 73rd meeting of the Executive Committee.
