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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-third Meeting
Paris, 9-13 November 2014

**DISBURSEMENT OF FUNDS FOR THE HCFC PHASE-OUT MANAGEMENT PLAN
FOR CHINA (DECISION 72/38)**

1. At its 72nd meeting, the Executive Committee requested the Secretariat, in collaboration with the implementing agencies and the Treasurer, to consider the options on the timing of the disbursement of funds under stage II of the HCFC phase-out management plan (HPMP) for China; and to provide a report on the matter to the 73rd meeting (decision 72/38).
2. In response to decision 72/38, the Secretariat had discussions on the matter with the implementing agencies and the Treasurer. Specifically, during the Inter-agency coordination meeting held in Montreal (2 to 3 September 2014), the disbursement options suggested by the Executive Committee, such as providing funds to the Foreign Economic Cooperation Office (FECO) of China for stage II of the HPMP on a semi-annual basis or releasing funds to FECO up to a level not exceeding 30 per cent of the tranche in advance of FECO's submission of final contracts with beneficiary enterprises, were discussed. At the meeting, implementing agencies were also reminded to submit a report on the disbursement modalities for the HPMP in China to the 73rd meeting.
3. Subsequently, the implementing agencies considered options for the disbursement of funds under stage II of the HPMP for China, and provided comments as presented in Table 1.

Table 1: Implementing agencies' report on disbursement options

Agencies	Semi-annual disbursement modality	30 per cent disbursement threshold
UNDP	Funds releases may not be linked to achievement of performance milestones. This would cause difficulties in managing fund utilization at FECO/MEP. For example, if FECO finds that the beneficiaries are able to achieve more than the targets during a specific half year, the funds to be disbursed to the enterprises could not be provided.	UNDP proposed a payment schedule as follows: 20 per cent (upon approval by the Executive Committee for the tranche release, receipt by UNDP of tranche transfer from Multilateral Fund Treasury, and upon signing of UNDP project budget revision); 50 per cent (confirmation that FECO has identified enterprises that can phase out the defined tonnage of HCFCs and performance-based contracts with these enterprises can be signed, detailed project

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Agencies	Semi-annual disbursement modality	30 per cent disbursement threshold
		implementation plan for the year finalized and at least 60 per cent of the previous tranche funding received by FECO has been disbursed); 30 per cent (upon submission of progress report on enterprise-level of project implementation activities, HCFC national consumption of previous year does not exceed the maximum allowable set forth in the Agreement, as reported through independent verification process).
UNEP	Agreements with FECO/MEP are established on a six-month basis with quarterly payments upon receipt of progress reports and submission of projected disbursement. This modality would ensure that funding is disbursed no more than six months in advance of needs for final beneficiaries.	This disbursement modality is not applicable since UNEP does not have beneficiary enterprises. FECO is the final beneficiary.
UNIDO	UNIDO cannot at this point of time confirm either agreement or disagreement to it, since this option has been not conclusively discussed with the Government of China. However, a time-specific payment, such as semi-annual payment, schedule does not seem to be a preferred option, since payment by milestones seems to be conceptually much closer to when funds are needed. Funding levels are easier to pre-determine and, therefore, to administer with payments by milestones. They also appear to be a stronger incentive for fast progress.	It seems currently that in actual implementation, this would be broken down to a monitoring by activity, with a given level of activities (contracts signed) and the related budget for each activity being transferred only up to a level of maximum 30 per cent prior to submission of the respective final contract with a beneficiary enterprise. Each payment to FECO is dependent upon the achievement of specific milestones. Furthermore, as per the current contract terms, after releasing the first three payments to FECO amounting to 50 per cent in total, no further payment will be released by UNIDO until at least 60 per cent of the funds available at FECO had been disbursed, even if the subsequent milestone is achieved. UNIDO is of the view that it has made additional efforts to not only limit the level of the first payments, but also to control the flow of funds at subsequent stages of implementation of the tranches.
World Bank	This would probably be done on the basis of projected disbursement for the period of six months. While this is a better option than the 30 per cent disbursement threshold, this approach also has some limitations. In case the projected amount is lower than what is actually needed, this will result in a disruption of project implementation. In cases where the projected amount is much higher than what is actually needed, this will not address the concern of the Executive Committee. The Bank is, therefore, proposing that there should be some flexibility. Another option with a similar approach is to disburse on a semi-annual or quarterly basis; however, if the actual disbursement during that period exceeds the projection, China should be allowed to replenish the funds instead of waiting for the next disbursement cycle.	This is not practical as the condition for the next disbursement is when the last contract for that particular tranche is signed. This approach does not have any connection to the actual disbursement. For example, in case the project is moving well, enterprises that sign contracts earlier in the year may not have sufficient funds to proceed with conversion. No additional funds could be disbursed to China as the last contract of that particular funding tranche has not been signed (or the whole grant funds for the specific funding tranche are not fully committed). This could cause a major implementation disruption.

4. In reviewing the reports submitted by implementing agencies, the Secretariat noted that the Government of China and the implementing agencies are attempting to reduce to the extent possible the accumulation of funds in FECO accounts. The reports highlighted the advantages and disadvantages of each of the options taking into account the specifics of the projects under the responsibility of the

agencies; and that both options cannot be used by any of the implementing agencies. On this basis, the Secretariat suggests that the agencies continue monitoring the disbursement of the approved funds during stage I of the HPMP for China, and submit their respective disbursement modality agreed with the Government of China along with the specific milestones in order to allow the disbursement of funds to the Government of China closer to the time when they would be needed, at the time of the submission of stage II of the HPMP for China for consideration by the Executive Committee.

Recommendation

5. The Executive Committee may wish:

(a) To note:

(i) The report on disbursement of funds for the HCFC phase-out management plan (HPMP) for China (decision 72/38) as contained in document UNEP/OzL.Pro/ExCom/73/52;

(b) To request implementing agencies:

(i) To continue monitoring the disbursement of the approved funds during stage I of the HPMP for China; and

(ii) To include, at the time of the submission of stage II of the HPMP for China for consideration by the Executive Committee, their respective disbursement modality agreed with the Government of China along with the specific milestones in order to allow the disbursement of funds to the Government of China closer to the time when they would be needed.
