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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fortieth Meeting
Montreal, 16 -18 July 2003

Addendum

**SERVICE OF THE TREASURER
(FOLLOW-UP TO DECISION 39/3 AND DECISION 39/4)**

The Role of Treasurer of the Fund

Background

This study is being submitted by the Secretariat pursuant to Decision 39/3. The study was prepared by a consultant in accordance with the terms of reference included as Annex II to document UNEP/OzL.Pro/ExCom/40/5.

Structure of the report

The study consists of two Parts; Part I addresses the tasks carried out by UNEP as Treasurer, and Part II presents a synthesis based on responses received from ICAO, UNIDO, World Bank, and UNEP.

Part I

A Review of Tasks Carried out by UNEP as Treasurer

A. General review of the functions of Treasurer as set out in the 1991 Agreement between UNEP and the Executive Committee.

1. The functions of Treasurer for the Multilateral Fund (the Fund) have been undertaken by UNEP since the Fund was established. Arrangements for UNEP to do this were formalized under an Agreement between the Executive Committee and UNEP signed in November 1991.

2. Under the Agreement, UNEP undertook specific functions as set out in Articles 1, 2 and 4 of the Agreement and under Article III agreed that it would not “seek reimbursement for costs incurred for services it will provide pursuant to this Agreement”. The services set out in Articles I, II and IV were:

- 1.1 to administer the Fund in accordance with the Financial Regulations and Rules of the United Nations
- 1.2 to inform all Parties not operating under paragraph I of Article V of the Protocol of their contributions due to the Fund at the beginning of each calendar year and request remittance of those contributions.
- 1.3 to acknowledge receipt of contributions from Parties and shall, from time to time issue reminders to Parties whose contributions are outstanding.
- 1.4 to seek contributions from other Parties.
- 1.5 to place contributions in a bank account established for the purpose.
- 1.6 to invest contributions received and not immediately required and credit interest earned to the Fund.

- 1.7 to maintain accounts of the Fund in United States dollars.
- 2.1 enter into agreement with each implementing agency regarding the administration of funds remitted to them from the Fund consistent with agreements between the Executive Committee and the implementing agencies.
- 2.2 remit funds to the implementing agencies on the basis of work programmes and corresponding budgets approved by the Executive Committee
- 4.1 submit accounts of the Fund to the Executive Committee for each calendar year based upon expenditures incurred by the Fund Secretariat, the statements of expenditure submitted by the implementing agencies taking into account interest earned by them on Fund balances they have held as well as interest earned by UNEP on balances it holds as Treasurer of the Fund.

B. Description of Tasks undertaken by the treasurer from the time of signature of the agreement to date

3. The tasks that UNEP originally agreed to undertake in 1991 gradually widened and UNEP absorbed this additional work without comment at the time it occurred.

4. It adapted to the changes necessary to accommodate bilateral co-operation programmes which while at a fairly low level initially have grown steadily from US dollars 4,332,697 (with 5 donors) in 1991-1993 to US dollars 22,834,515 (with 10 donors) in 2000-2002. Bilateral projects are individually approved by the Executive Committee and require the Treasurer to make continual adjustments in the amounts of the cash contributions due from the Parties partly contributing to the Fund with bilateral programmes in accordance with the rules of the Fund.

5. Promissory notes were accepted as a means of paying contributions in 1994 with the objective of reducing the high level of surplus funds held by the Treasurer while providing for the payment of contributions as due or in advance. The promissory notes have evolved through two stages.

- (a) The first generation of notes could be denominated in US dollars or national currencies and although there was a recommendation to have an indicative half-yearly schedule of encashment during the three years of the triennium, this was not always adhered to by Parties and resources were not always made available when due or on request by the Treasurer. Similarly, although it was understood that the US dollar value of the notes would be equal to the assessed dollar contribution this also was not strictly adhered to – as there are Parties who still owe considerable sums as a result of this.
- (b) The second generation of promissory notes coincided with the introduction of “the fixed exchange rate mechanism” (the FERM) under which the loss or gain arising at the time of the encashment of promissory notes was absorbed by the Fund.

6. Over the last two triennia, payment of contributions with promissory notes increased from 5.3% in 1997-1999 to 17.8% in 2000-2002.

7. The introduction of the FERM in triennium 2000-2002 initiated payments of contributions in national currencies – at fixed rates of exchange to the US dollar. This seems to have reduced the administrative burden of the Parties although it has added to the workload of the Treasurer, particularly since the Executive Committee required frequent up-dates on the impact of the FERM on the total availability of funds, and the Treasurer has been required to re-estimate the dollar value of contributions of Parties participating in the scheme during a period of frequent and substantial exchange rate movements. Payment of contributions under the FERM represented 44% of the total due in 2000-2002 triennium when the scheme was first initiated.

C. UNEP'S institutional arrangements to carry out its role as Treasurer

8. While UNEP did not seek payment for the expanded work load involved in undertaking the role of Treasurer as the Fund widened the scope of its financial instruments, it is relevant that effective 1 July 1997, in response to the 49th session of the UN General Assembly's resolution A/49/336 on the restructuring of the United Nations Secretariat, the Secretary General established the United Nations Office at Nairobi (UNON) to provide common administrative services in Nairobi to replace the two separate administrations of UNEP and UN-Habitat. As a result of this organizational change introduced by the General Assembly, the Treasury functions of the Fund were largely transferred to UNON with effect from 1998. In practice – at least at first - this made no difference because the Executive Director of UNEP was also the Director General of the United Nations Office at Nairobi and thus responsible for the work of UNON. Also although the financial services for the Fund were from 1998 undertaken by staff members of UNON rather than UNEP, in practice the same individuals carried out the work. In the same way the staff of UNON Human Resources Management Unit continued to administer Fund Secretariat staff contracts as they had before, since Fund staff members continued to be staff members of UNEP, as originally agreed by the Parties, when they agreed that the Secretariat should be “co-located with UNEP”. This did not change.

9. Gradually, however, there was some change in strategic thinking as a result of the establishment of UNON. UNEP had, ever since the establishment of the Fund, felt it had a strategic interest in its success since the Montreal Protocol and the Multilateral Fund was in effect part of its own work programme and it was prepared to give all the administrative support it could to the formative years of the Fund without looking for financial reimbursement of the costs of that support. UNON's concern was much more towards having to undertake its administrative work programme within the budget allocation it received from the United Nations Regular Budget, plus what it could earn from services it provided to its client organizations i.e. UNEP and UN-Habitat and the Multilateral Fund. In particular, they started to worry about the lack of reimbursement involved in undertaking the administrative work on behalf of the Treasurer, particularly when the work was so much heavier and “customized” than it was for other trust funds that paid a standard administrative deduction to UNON for the services it provided.

10. These concerns were conveyed to the Executive Committee by UNEP/UNON and the Executive Committee indicated at the 39th Meeting of Executive Committee that it did not expect UNEP to continue providing the services of Treasurer indefinitely without reimbursement and it was incumbent upon UNEP to provide written notice of its desire to change the terms of the Agreement. Accordingly, the Executive Director of UNEP wrote to the Chairman of the Executive Committee on 23rd April 2003 invoking paragraph 6.3 of the Agreement which stipulates that any amendment to the (1991) Agreement shall require the concurrence in writing of both parties and proposed for consideration of the Executive Committee that Article III of the Agreement be amended as follows:

- 3.1 UNEP in its capacity as Treasurer shall be reimbursed for costs incurred for services it will provide pursuant to this Agreement. Modalities of reimbursement shall be agreed upon by the Executive Committee of the Multilateral Fund and the United Nations Environment Programme”.

11. Even before that letter was received, the Executive Committee by decision 38/37 “requested the Secretariat to explore with UNEP, the World Bank and other potential bodies, which might act as Treasurer of the Multilateral Fund, their experience, potential services and fees associated with taking on that role, taking into account the views expressed by representatives at the 39th meeting of the Executive Committee”. This document is the report of the Secretariat on that issue.

Description

12. The institutional arrangements implemented by UNEP to fulfill its role as Treasurer are as follows:

- (a) The Chief of Budget and Financial Management Services and the Chief of Trust Funds Unit are responsible for the Parties system of payments to the Multilateral Fund; application of UN scale of assessment; fixed-exchange mechanism procedures; calculation of the Parties contributions, reporting to the Executive Committee at its meetings; management of promissory notes; disbursements to Implementing Agencies as approved by the Executive Committee in accordance with the separate Agreements between the Executive Committee and the Implementing Agencies; presenting all financial statements of the Multilateral Fund to the Executive Committee and the Parties; undertaking and/or supporting any studies on the Multilateral Fund for the Parties and the Executive Committee.
- (b) The Trust Funds Unit manages the trust fund by generally overseeing the activities in accordance with the governing UN financial, administrative and personnel regulations and rules, the implementation of its terms of reference and reporting on it.
- (c) The Treasury Section is responsible for recording the Multilateral Fund’s pledges in the accounting system; sending out invoices and reminders on outstanding pledges; receiving the cash contributions, promissory notes and bilateral cooperation programme’s adjustments to pledges; receipting and

acknowledgement of payments; adjustments of the receipts for losses or gains due to fixed-exchange-rate mechanism; updating the status of contributions; management of the bank account; management of surplus funds investments in co-ordination with the UN headquarters; and actually transferring funds to Implementing Agencies and Multilateral Fund Secretariat for its operations.

- (d) The Finance Support Unit records pledges in US dollars and national currencies; records contributions in both cash and promissory notes in the accounting system; valuation of national currencies and promissory notes held; appropriately records the losses and gains due to the fixed-exchange-rate mechanism; and bank reconciliation.
- (e) The Project Accounts Unit prepares the disbursement vouchers for transfers of funds to Implementing Agencies and the Multilateral Fund Secretariat; processing of obligations by the Secretariat; recording of aggregate expenditures by the implementing agencies and the Secretariat; recording of investment incomes and other elements of the account reported by Implementing Agencies and the Secretariat; and carrying out any other adjustments to the accounts.
- (f) The General Accounts Unit of the Accounts Section is responsible for the general accounts of the Multilateral Fund trust fund, other general transactions like support costs and the generation of the financial reports.
- (g) The Payroll Unit of the Accounts Section is responsible for payrolling of Secretariat staff and other minor payments to staff.
- (h) General Services Section undertakes some limited general services e.g. procurement.
- (i) The Treasury of the United Nations Headquarters in New York maintains the Bank Account of the Fund and, as for other UN organization, centralizes a co-ordinated investment service of all funds surplus to immediate requirements on a day to day basis.

D. Efficiency of the Treasurer vis-a-vis the implementing agencies and bilateral cooperation programmes in terms of transfers of funds to them.

13. No evidence of problems was uncovered in the transmission of funds to the agencies once the payments system was up and running. The Executive Committee approves the sums to be transferred to each individual agency on the basis of the projects they have approved and the unused cash then being held by the agency, instructions to pay those approved sums are conveyed to the Treasurer by the Chief Officer and the amounts are transferred to the agencies quickly. Part of the transfer of funds to the World Bank has usually taken the form of re-assignment to the World Bank of promissory notes received by the Treasurer by way of contributions. These promissory notes are subsequently encashed by the Bank who then, in due course, claim from the Treasurer any losses that may be incurred due to currency rate changes before encashment, a loss which falls on the Fund.

14. Except in the case of one Party, budgets approved by the Executive Committee for bilateral co-operation projects are deducted from annual cash contributions by the donor Party concerned. These approved budgets are advised to the Treasurer by the Chief Officer and, except to adjust the amount of contribution due, the Treasurer has no other function as he is not required to issue cash. Only one Party pays its contribution in full and requests the Treasurer to pay the sums approved to it relevant aid department. No problems were apparent in this exception and indeed the Treasurer indicated some preference for this method of handling bilateral projects.

E. Actual yearly costs to UNEP

15. UNON estimate that they spend US dollars 301,705 undertaking work for the Treasurer of the Fund and it is this figure which they seek to be reimbursed. This estimate covers costs of staff on Fund tasks, (after making broad estimates in terms of percentages of the amount of time individual officers undertaking Fund work on a part time basis). They also seek reimbursement for the proportional cost of office rent for accommodating staff involved, IT and communication costs, cost of travel to meetings of Executive Committee and an estimate of other support services costs. A schedule of their estimates as submitted to the Secretariat is included in this document as Annex I.

F. Review of UNEP effectiveness in rendering the Treasury services in the context of 1991 Agreement with the Executive Committee.

16. An assessment of effectiveness must inevitably be somewhat subjective but given the normal minor aggravations of inter-departmental interactions in any bureaucracy, firstly UNEP and latterly UNON have been remarkably effective in rendering the Treasury services to the Parties for twelve years. They have accommodated the changing and usually widening unique customized requirements of the Parties and Executive Committee with equanimity with no particular disruption of the overall level of service provided. The Fund has been particularly fortunate in that over this period there have been individual staff members who have taken a personal interest in seeking out tailored solutions to the problems of analysis and presentation as they arose.

Part II

Possibility of Other Relevant Institutions Assuming the Role of Fund Treasurer

A. Organizations that have indicated an interest in undertaking role of Treasurer

1. Four organizations have indicated an interest in the role of Treasurer—viz. ICAO, UNIDO, World Bank and UNEP. UNDP has stated that it is in no position to undertake this task.

2. All four of the organizations state that they would expect to be reimbursed in full for their costs in undertaking the work involved. They estimate- provisionally- their costs (in US dollars) as follows:

<u>Organization</u>	<u>Annual Costs</u>	<u>Hand-over Costs</u>
ICAO	645,000	290,000
UNIDO	500,000	100,000
World Bank	2,000,000	to be reimbursed on basis actual costs
UNEP	301,705	nil

Indications are made that these are best estimates as at today and they would have to be reviewed in the light of experience in undertaking the role of Treasurer.

3. ICAO state that their Financial Regulations require that the cost of any services should be fully recovered and Treasury services to the Fund can only be provided on this basis. The cost of all external audit work would be extra. Details of ICAO's estimated costs are set out in Annex II.

4. UNIDO state they require reimbursement of staff time in the various parts of their Financial Services Branch dealing with Treasury assessments, accounts, payments, reporting etc., including the time of their Treasurer, and the Director, in ensuring that the functions of Treasurer of the Fund are carried out in accordance with an Agreement to be entered into with the Executive Committee. They expect to recover travel costs to Montreal or wherever they are required to travel, communication costs and staff time in attending meetings. No breakdown of UNIDO's cost estimate has been provided.

5. The World Bank state that they would need to take on the management of the "trust fund" on a full cost recovery basis, including all start up and transition costs. They comment that some of the services required are highly customized and imply additional services beyond standard bank trustee services.

6. UNEP have set down their estimate as in Annex I of the staff and their current costs, plus other general and centrally provided support services, including IT, rent communications, Human Resources inputs.

B. Financial regulation framework

7. UNEP operates under the Financial Rules of the United Nations determined by the General Assembly. ICAO and UNIDO are both specialized agencies of the United Nations which have the power to determine their own Financial Rules although they are in general very similar to those of the General Assembly. There is a UN-wide agreement to follow similar external audit procedures.

8. The World Bank-while still technically part of the United Nations family -was set up with its own separate governing system, rules and financial regulations.

9. There seems no particular reason why if the Parties so agree that the Fund could not operate under the financial framework of any of the four organizations under discussion in this document. Some changes in working procedures may, however, have to be introduced to effect the transfer of the role from UNEP depending on which organization is selected to undertake the role of the Treasurer.

C. Financial management capabilities

10. It would be invidious to suggest that any one of the four organizations discussed here is more competent than another but some may have greater strengths in particular areas.

11. Possibly the World Bank is stronger than others in the management of large bank accounts and dealing in currencies while others may be stronger or more able to adapt to changing requirements overall, e.g. the need to adjust to the changes in the levels of bilateral funding. The World Bank has long experience of handling promissory notes whether denominated in US dollars or other currencies.

12. All four institutions are experienced in managing annual contributions to numerous funds and all will be aware of the importance of collecting such contributions early in the year to facilitate their early commitment for programme implementation.

13. The World Bank has long experience and excellent facilities for investing balances of cash not immediately needed but so have, to a lesser degree perhaps, the others including UNEP who have the experience and strength of the United Nations Treasurer in New York behind them. Information was not provided on the rates of interest earned by the four institutions at particular dates which would be necessary to enable a comparison to be made to form a judgement on the relative advantages of each as an investment institution. At current international interest rates this is arguably less of an issue at the moment.

14. All four institutions other than UNEP have experience in purchasing foreign currencies forward although in the case of the Fund most of the commitments are made in US dollars and the issue of buying currencies forward against commitments does not arise except in respect of the Canadian dollar needs of the Secretariat. It would in theory be advantageous to buy US dollars forward against contributions expected in other currencies but whether the risks and costs involved in following such a practice are worth the possible benefits is debatable.

D. Conclusions

15. Any of the four organizations that have offered to undertake the role of Treasurer of the Fund have the capacity and experience to undertake the task. It is however clear that any change from the present arrangements would involve additional expenditure and substantial disruption in the transitional phase.

Annex I**UNEP'S Annual Cost of Providing Trusteeship to the Multilateral Fund
(US dollars)**

Description	
Chief, Budget and Financial Management service, providing overall guidance on the Multilateral Fund's trusteeship – costing 5% at D-1 level	8,655.00
Fund Programme Management Officer, providing Multilateral Fund's trusteeship line management services – costing 100% at P-4 level	138,500.00
Chief, Projects Accounts Unit, providing accounting services to the Multilateral Fund – costing 10% at P-4 level	13,850.00
Chief, Treasury section, providing billing, contributions, receipting and funds transfer services to the Multilateral Fund and Implementing Agencies – costing 20% at P-4 level	27,700.00
Missions to the meetings of the Executive Committee and other trusteeship related (4 missions @ US dollars 7,000.00)	28,000.00
Support staff (3 secretaries, 1 finance assistant and 1 treasury assistant) with an overall contribution of 2 staff of GS-6 level	55,000.00
Other general and centrally provided support services inclusive of IT, rent, communication, human resources management	30,000.00
TOTAL	301,705.00

Annex II**Provision of Treasury services – Multilateral Fund
(in United States dollars)****International Civil Aviation Organization (ICAO)**

Description	Amount US dollars	Total US dollars
1) Estimated Annual Cost of Providing Treasury Services		
1 Professional staff, Project Manager, (P-5 level)	127,000	
1 Professional staff, (Contributions), (P-3 level)	95,000	
1 Professional staff, (Projects Accounting), (P-3 level)	95,000	
1 Professional staff, Treasury Officer (exchange and investments), (P-3 level)	95,000	
1 General Service staff, Secretary (data entry), (G-5 level)	28,000	
1 General Service staff, Accountant, (G-8 level)	36,000	
1 General Service staff, Accountant, (G-7 level)	35,000	
Database administrative and technical support	9,000	
Operating Expenses	22,000	
Administrative Charges including Overhead	103,000	645,000
2) Start-up Costs:		
Computers and office furniture	42,000	
Software purchase	23,500	
Conversion of data & procedures definition	10,000	
Server and database	20,000	
2 sets of Mission travel for air travel to Nairobi, Kenya, and DSA	75,000	
Staff costs for 3 staff for 3 months of transition	79,250	
Administrative Charges including Overhead	40,250	290,000
