UNITED
NATIONS

EP

United Nations Environment Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/69/35
21 March 2013

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Sixty-ninth Meeting
Montreal, 15-19 April 2013

FUND TRANSFERS AND INFORMATION ON ANY INTEREST ACCRUED ON FUNDS HELD BY CHINA FOR STAGE I OF ITS HCFC PHASE-OUT MANAGEMENT PLAN, AND HISTORICAL IMPLEMENTATION MODALITIES OF THE MULTILATERAL FUND (DECISION 68/22(a) AND (b))

Background

1. At its 68th meeting, the Executive Committee decided, *inter alia*:

(a) To request the implementing agencies and the Secretariat to further discuss sub-paragraphs (b), (c), (d) and (f) of paragraph 31 of document UNEP/OzL.Pro/ExCom/68/24/Rev.1 on the HCFC phase-out management plan (HPMP) for China with a view to providing recommendations on those issues to the 69th meeting, including identification of opportunities for providing information specifically on disbursement from China to enterprises, and to request the Secretariat to include in the document a table comparing the different historical implementation modalities of the Multilateral Fund, including those relating to HPMPs;

(b) To request the implementing agencies to work with China to obtain information on any interest accrued on funds held by China for stage I of its HPMP and to offset those amounts against further funding towards subsequent tranches (decision 68/22).

2. There are two main issues emanating from sub-paragraphs (b), (c), (d) and (f) of paragraph 31 of document UNEP/OzL.Pro/ExCom/68/24/Rev.1: (i) should disbursement be reported as funds transferred to China or should there be reporting on when Multilateral Fund resources are disbursed from China to the final beneficiary enterprises, and (ii) how to record interest collected by China (now required by decision 68/22(b)).

3. This document begins with an overview of agreements relevant to the implementation of stage I of the HPMP for China. It then reviews the historical implementation modalities of the Multilateral Fund, addresses opportunities for providing information specifically on disbursement from China to beneficiary enterprises, and considers the issues of the interest accrued on funds held by China. The document briefly discusses the oversight of fund expenditure and provides recommendations for consideration by the Executive Committee.

4. For the preparation of this document, the Secretariat held discussion with relevant bilateral and implementing agencies with a view to providing recommendations on those issues to the Executive Committee at the Inter-agency Coordination Meeting (Montreal, 30 January-1 February 2013), followed by a video conference on 14 February 2013. The Secretariat prepared a matrix that was confirmed by the implementing agencies, describing key features of the agreements between the implementing agencies and China (Foreign Economic Cooperation Office, Ministry of Environment Protection, FECO/MEP), which is attached as Annex I to this document.

An overview of agreements relevant to implementation of stage I of the HPMP for China

5. The Secretariat reviewed the issues raised during the review of the second tranche request associated with stage I of the HPMP for China in the context of the following agreements:

(a) The Executive Committee and each implementing agency[1];

[1] At its 4th meeting, the Executive Committee adopted the draft agreements of UNDP, UNEP and the World Bank the in the form which they had proposed (documents UNEP/OzL.Pro/ExCom/4/7, 8 and 9, Rev.3 respectively). At its 8th meeting, the Executive Committee approved the agreement with UNIDO (Annex IV of document UNEP/OzL.Pro/ExCom/8/29).

(b) The Executive Committee and UNEP as the Treasurer of the Multilateral Fund[2], and the Treasurer and each implementing agency[3];

(c) The Government of China and the Executive Committee for the reduction in consumption of HCFCs[4]; and

(d) China and the implementing agencies for the implementation of stage I of the HPMP for China (i.e., individual agreements between FECO/MEP and UNDP, UNEP and UNIDO; and agreement between the Government of China and the World Bank).

6. Although there are several agreements between the Executive Committee and the agencies, there are no agreements between the Executive Committee and any executing agency chosen by an implementing agency. For example, when the United Nations Office for Project Services (UNOPS) was the executing agency for UNDP there was no agreement between the Executive Committee and UNOPS. Moreover, the Fund Secretariat has not reviewed agreements between the agencies and their executing agencies until this issue of disbursement and modality of implementation was raised in the context of the review of the second tranche request of the stage I HPMP for China.

Agreements between the Executive Committee and the implementing agencies

7. The agreements between the Executive Committee and the implementing agencies have operational procedures and financial provisions. Each implementing agency administers and manages the approved projects within its financial rules, regulations and procedures, usually in a separate Trust Fund[5], and consistent with guidelines adopted by the Executive Committee. Any interest income derived from contributions to the Trust Fund is credited to the Trust Fund in accordance with the agencies' procedures. The agencies' accounts are subject to the internal and external auditing procedures provided in their financial regulations, rules and directives.

Agreements with the Treasurer

8. UNEP as the Treasurer of the Multilateral Fund is responsible for receiving and administering contributions, disbursing funds based on the directive of the Executive Committee, and in accordance with the Financial Regulations and Rules of the United Nations. Among its responsibilities is the remittance to the implementing agencies of funds approved for them by the Executive Committee (the funds remitted to the agencies are disbursed in accordance with the respective agencies' financial regulations and rules). The Treasurer is also responsible for submitting accounts of the Multilateral Fund to the Executive Committee based upon the expenditures incurred by the Fund Secretariat, the statements of expenditure submitted by the implementing agencies, taking into account interest earned (the accounts are subject solely to the internal and external audit of the United Nations for the UN agencies). Among the functions of the Treasurer is the reconciliation of the accounts with bilateral and implementing agencies, taking into account funds returned from completed projects, cancelled projects and adjustments to approvals, including projects transferred between implementing agencies.

[2] The Agreement with UNEP as the Treasurer of the Interim Multilateral Fund was approved at the 5th meeting of the Executive Committee. It was superseded by a revised agreement (Annex XIV of document UNEP/OzL.Pro/ExCom/42/54) approved at the 42nd meeting (decision 42/42).
[3] At its 46th meeting, the Executive Committee endorsed the text of the draft agreements between the Treasurer and UNDP, UNEP, UNIDO, and the World Bank (decision 46/34), contained in Annexes VIII, IX, X and XI, respectively of document UNEP/OzL.Pro/ExCom/46/47.
[4] Annex X of document UNEP/OzL.Pro/ExCom/67/39.
[5] UNIDO does not have a separate Trust Fund for Multilateral Fund activities.

9. As required by their agreements with the Treasurer, each implementing agency submits an annual provisional financial statement duly signed by an authorized official of the respective agency, as well as certified annual statement or audited biennial statement of income and expenditure for the previous year(s), including any pertinent comments made by the Auditors. The financial statements submitted to the Treasurer are audited in accordance with the UN rules and procedures of each implementing agency.

Agreement between the Government of China and the Executive Committee

10. The Agreement between the Government of China and the Executive Committee for the phase-out of HCFCs in China describes the roles and responsibilities of the “Country”, the relevant bilateral and implementing agencies, and of FECO/MEP as institution responsible for the overall co-ordination of activities to be undertaken in the HPMP (i.e., closely supervise those enterprises carrying out the conversion activities in stage I to ensure the phase-out target in those enterprises had been achieved; will co-ordinate with the lead and cooperating implementing agencies to facilitate the verification of the targets set in the Agreement, and in the preparation of reports according to paragraph 5(b)(ii) and Appendix 4-A (format for implementation of reports and plans) of the Agreement). FECO, in the agreement, is thus described to be in a supervising role. The Agreement also specifies that any remaining funds will be returned to the Fund upon completion of the last tranche of the Agreement.

Agreements between China and the implementing agencies

11. Agreements of the implementing agencies[6] and executing agencies such as FECO/MEP have not been reviewed by the Secretariat as these agreements are prepared after approval of the project proposal by the Executive Committee. However, in order to understand the agencies’ reporting (in particular for agreements representing US $270 million in Multilateral Fund resources), the Secretariat requested copies of the agreements of the agencies. All agencies provided their agreements with FECO/MEP (as the beneficiary). The Secretariat requested an un-redacted version of UNIDO’s agreement, but at the time of writing, an un-redacted version of that agreement has not been received.

12. The Secretariat prepared a draft matrix describing key features of the agreements including the type of agreement, the ability to modify the agreements, fees for FECO/MEP to administer the agreements, budgets for the agreements, the treatment of cash advances, financial reporting requirements, audit requirements, exchange rate fluctuations, and mechanisms for the return of funds. It also addresses issues related to International Public Sector Accounting Standards (IPSAS) requirements including the impact of disbursements, treatment of obligations, treatment of cash advances, impact of the annual progress and financial reports, and the Accounts of the Fund. The draft matrix was sent to the implementing agencies for their review. The revised matrix with detailed information as agreed with the implementing agencies is contained in Annex I to this document.

13. The main observations from the matrix are:

(a) All implementing agencies can receive disbursement information from FECO/MEP to final beneficiary enterprises;

(b) All implementing agencies may request annual financial reports from FECO/MEP as their executing agency;

(c) In all cases, Multilateral Fund resources transferred/disbursed from the implementing agencies to FECO/MEP are held in separate accounts for each agency by FECO/MEP;

[6] The agreements of the bilateral implementing agencies were not requested.

(d) Implementing agencies are discussing with China means of reporting the interest collected; and

(e) Agreements between FECO and the implementing agencies appear to need modification to accommodate the Executive Committee's decision 68/22(b) on any interest accrued on funds held by China and to enable the return of balances.

Historical implementation modalities of the Multilateral Fund

14. Among the issues raised by the Secretariat during the review of second tranches of the stage I HPMP in China submitted to the 68th meeting was that the implementing agencies reported disbursement as the funds transferred to FECO/MEP and not to the beneficiary enterprises. At that time, no funding was yet transferred to enterprises in any of the manufacturing sectors. In discussing this issue, the Committee requested opportunities to be considered for providing information specifically on disbursement from China to enterprises.

15. Implementation modalities are specified in the annual progress and financial reports. This includes *inter alia* whether a project is a multi-year agreement (MYA) or individual project; whether it is national or agency implementation; and disbursement modalities. With regard to the disbursement modalities, the operational guidelines agreed by the Secretariat and the implementing agencies as at 20 February 2012 defined the following three modalities: disbursement during implementation (I); disbursement for retroactive projects (R) (i.e., projects approved after the ODS has been phased out); and disbursement provided after implementation (D).

16. Accordingly, projects had been associated with one of the three disbursement modalities in their annual progress and financial reports; these reports had been reconcilable with the Accounts of the Fund. However, the disbursement modality of stage I of the HPMP for China is different from the above. The funds transferred from the implementing agencies to FECO/MEP (as the final beneficiary) are recorded as disbursement in the financial accounts of the agencies, but do not represent actual implementation of ODS phase-out activities at the beneficiary enterprise level in the case of UNDP and UNIDO. The actual amount disbursed from the intermediate accounts of FECO/MEP to the enterprises will be known at a later stage of implementation.

Information on disbursement from China to beneficiary enterprises

17. Information on disbursement from China to beneficiary enterprises can be provided in the context of the progress reports from relevant bilateral and implementing agencies when submitting tranche funding requests.

18. The Executive Committee may wish to note that the request for funding for the second tranche of the extruded polystyrene (XPS) foam sector plan, re-submitted to the 69th meeting[7], had included a report on funds disbursed associated with the first tranche from UNIDO and the Government of Germany (as the agencies responsible for the plan) to FECO/MEP, and from FECO/MEP to the beneficiary enterprises[8]. The other implementing agencies will also be able to provide actual amounts for funds disbursed from FECO/MEP to beneficiary enterprises for all of the sector plans. This report will relate to the status as of 1 January, consistent with annual tranche reporting. This will typically refer to September of the year, as funding for a future tranche is considered at the last meeting of the Executive Committee.

[7] UNEP/OzL.Pro/ExCom/69/23.

[8] As of January 2013, of the total funding of US $21,831,023 approved so far for the XPS Foam Sector Plan, US $11,075,023 had been disbursed to FECO. Of this amount, US $6,802,187 will be disbursed from FECO to the beneficiary enterprises by the end of March 2013 (i.e., over 31 per cent of the total funding approved).

19. Information pertaining to actual disbursements made against respective activities carried out within the reporting period can be provided as part of agreements and in this case by FECO/MEP as it can be asked to submit financial management reports at least on an annual basis (as shown in Annex I to the present document).

20. During the review of the second tranche requests submitted to the 68th meeting, the Secretariat also raised the issue of the condition of a minimum level of disbursement in paragraph 5 of the Agreement with the Government of China (i.e., 20 per cent). In discussing this issue, implementing agencies reported that, while reaching the 20 per cent level of disbursement to the beneficiary enterprises was a problem for the first tranche of the HPMP, this will not be a problem for future tranches of stage I of the HPMP.

Interest accrued on funds held by China for stage I of its HPMP

21. Since the inception of the Multilateral Fund, interest accrued on funds held by the implementing agencies and the Treasurer has been returned to the Fund. The agreements between the Executive Committee and each implementing agency specifically include provisions on interest income derived from contributions to their Trust Fund. Also, the accounts of the Multilateral Fund submitted by the Treasurer to the Executive Committee are based, *inter alia,* on the statements of expenditure submitted by the implementing agencies, taking into account interest earned by them, as well as interest earned by UNEP on balances it holds as Treasurer.

22. Accordingly, annual audit reports submitted by the implementing agencies show the amount of interest collected by them and reflected in the Accounts of the Fund[9]. However, the interest accrued on funds is returned to the Fund and not offset against a specific tranche submitted for approval (if the interest is offset against the tranche, the tranche would appear to have received less funding that it actually had thereby contradicting tranche approval levels).

23. In the case of the HPMP for China, the funds approved by the Executive Committee are disbursed by the relevant bilateral and implementing agencies to FECO/MEP in accordance with specific agreements between China and bilateral/implementing agencies for each of the sector plans associated with the HPMP. In this regard, when reviewing the request for second tranches submitted to the 68th meeting the Secretariat noted that "the interest that will be gained from the time the funds are transferred to FECO/MEP until it is fully disbursed to beneficiary enterprises will accrue for the Government of China instead of the Multilateral Fund". In considering this issue the Executive Committee requested "implementing agencies to work with China to obtain information on any interest accrued on funds held by China for stage I of its HPMP and to offset those amounts against further funding towards subsequent tranches" (decision 68/22)(b)).

24. The Secretariat noted that the agreements between China and each of the implementing agencies had not taken into consideration interest accrued on funds held by China for stage I of the HPMP, except in the case of the World Bank where the interest was reported in the annual financial report but not expected to be returned to the Fund. In several discussions that were initiated during the Inter-agency Coordination Meeting, the implementing agencies were requested to address this issue bilaterally with China and report back to the Secretariat.

25. Agencies had different proposals on how to address the matter of the return of interest. UNDP and UNIDO would receive the net amount of the approval and report it in the annual accounts to the Treasurer instead of deducting the amount from the project approvals at the relevant meeting. UNEP suggested reporting the interest in the balance report, but this would effectively reduce the net approved

[9] As of 30 November 2012, the total interest earned by the Multilateral Fund amounted to US $207,648,829 (Annex I of document UNEP/OzL.Pro/ExCom/68/53).

for the project and would not allow for the interest to be attributed to Interest received by the Multilateral Fund. It should be noted that interest collected by the Multilateral Fund is part on the triennial budget of the Multilateral Fund that is considered in the triennial replenishments of the Fund by the Parties. The Bank would have FECO/MEP return the interest as this would be outside the Bank's accounts despite the fact that the amount of interest collected by FECO/MEP is provided in the annual financial report from FECO/MEP to the Bank.

26. The Executive Committee may wish to request the implementing agencies to report at the 69th meeting on how the interest accrued on funds held by China for stage I of its HPMP will be returned to the Multilateral Fund.

Annual progress and financial report

27. Sub-paragraph (c) of paragraph 31 of document UNEP/OzL.Pro/ExCom/68/24/Rev.1 states:

> "One of the pillars of monitoring, the reporting of disbursement information under the progress report as an approximation of activity in the country, is rendered of limited use for this purpose since the fund transfer recorded as disbursement is performed before the related activities are carried out, while traditionally disbursements were shown after."

28. Agencies agree that the disbursement from FECO/MEP to final beneficiary enterprises as of 1 January of every year will be shown in the tranche requests along with the amount of funds transferred/disbursed from the agencies. When UNOPS was the executing agency for UNDP, executing agency disbursement was reflected as implementing agency disbursement. A similar treatment may not be possible for the HPMP for China or similar agreements, but an additional column in the progress report could provide data on an annual basis on what funds have reached the final beneficiary enterprise from the executing agency, FECO/MEP. This column would only be needed for the HPMP in China for UNDP and UNIDO and also the 2009 and subsequent tranches of the solvent sector plan in China, since these are the only projects where this modality is being used. UNIDO did not agree to the extra column because such disbursement would not be consistent with the disbursement reported in its Accounts.

Condition for minimum level of disbursement

29. Sub-paragraph (d) of paragraph 31 of document UNEP/OzL.Pro/ExCom/68/24/Rev.1 stated:

> "The condition of a minimum level of disbursement in paragraph 5 of the Agreement with China, meant as an indicator for progress in implementation, no longer has a role and would be in need of amendment since the fund transfer recorded as disbursement is performed before the related phase-out activities are carried out, traditionally disbursements were shown after."

30. All agencies agreed to provide disbursement information from FECO/MEP to final beneficiary in the tranche requests. Although no agency felt that the 20 per cent level of disbursement would be a problem for future tranches of stage I of the HPMP, it could be a problem for the first tranche of stage II. The level of funding approved by the Executive Committee for the first tranche was not based on the needs of the agreement for activities in the first year, which made the achievement of the 20 per cent disbursement 12 weeks before the last meeting of the year impossible to meet. Additional consideration might be appropriate for taking into account the annual distribution of the overall funds approved in principle in determining the threshold level for future agreements.

Oversight over fund expenditures

31. At the 68th meeting, the Secretariat also raised the issue that the "oversight over fund expenditure has been moved, at least partially, from the Multilateral Fund overseeing the implementing agencies, to

the implementing agencies overseeing a Government" (sub-paragraph (f) or paragraph 31 of document UNEP/OzL.Pro/ExCom/68/24/Rev.1). The financial oversight in the Multilateral Fund consists of the information provided by the implementing agencies in their progress and financial reports submitted to the Fund Secretariat, and their reports in the Accounts of the Fund submitted in accordance with the Terms of Reference of the Fund Secretariat. All approvals, disbursements, balances returned and interest collected are reported in the Accounts of the Fund. The approvals and disbursements in the Accounts of the Fund are verified by the progress and financial reports and vice versa. In addition, the two reports from the implementing agencies are reconciled with the Inventory of Approved Projects database. The annual reconciliations began when it was discovered that the individual approvals did not match the overall Accounts. Transactional errors are corrected annually through this exercise. This reporting system provides reliable, verifiable information to the Executive Committee, enabling it to take action as appropriate.

32. If final disbursements to beneficiary enterprises and interest accrued on funds held by China are recorded outside the annual progress and financial reports and the Accounts of the Fund, then it would be reported outside of the long established financial oversight of the Multilateral Fund.

Observations

33. The implementing agencies agreed to provide disbursement information in tranche requests. However, no agreement was reached that would have led to consistent intervals between reports.

34. The issue of the collection and reporting of interest was still under discussion at the time of writing this document.

35. The issue of an improved definition of the 20 per cent disbursement threshold might need to be considered when drafting future agreements as a means to ensure submission of tranches only when sufficient progress has been demonstrated through an adequate level of disbursement and when there was a demonstrable need for cash transfers/disbursements in future tranches.

36. The Fund Secretariat and the implementing agencies were not able to reach an agreement on recording disbursement within the Fund's annual progress and financial reports and the Accounts of the Fund. There was also no agreement reached on the Secretariat's proposal to add a column to the annual progress report, and provide an annual financial report from FECO/MEP on disbursement to beneficiary enterprises and interest accrued on funds held by FECO/MEP as part of the Accounts of the Fund.

Recommendations

37. The Executive Committee might wish to:

(a) Note:

(i) The document "Fund transfers and information on any interest accrued on funds held by China for stage I of its HCFC phase-out management plan, and historical implementation modalities of the Multilateral Fund (decision 68/22(a) and (b))" as contained in UNEP/OzL.Pro/ExCom/69/35;

(ii) With appreciation, the input of UNDP, UNEP, UNIDO and the World Bank on their agreements with Foreign Economic Cooperation Office, Ministry of Environment Protection (FECO/MEP) for the implementation of stage I of the HCFC phase-out management plan (HPMP) for China;

(b) Request:

(i) The implementing agencies to provide a status report containing information on any interest accrued on funds held by China for stage I of its HPMP in the light of decision 68/22(b), to the 69th meeting;

(ii) The Fund Secretariat to consider in the context of its paper on guidelines for stage II HPMPs, options to ensure that the level of funding for the first year of stage II could meet the 20 per cent disbursement threshold and that subsequent tranches might be considered with respect to the need for cash and the likelihood of reaching the threshold; and

(c) Urge the implementing agencies to reach an agreement with the Fund Secretariat on recording disbursement for the implementation modality used for the stage I of the HPMP in China and similar projects within the Fund's annual progress and financial reports and the Accounts of the Fund and report back to the 70th meeting.

Annex I

MATRIX ON AGREEMENTS BETWEEN IMPLEMENTING AGENCIES AND FECO

		UNDP	UNEP	UNIDO	WORLD BANK
Agreement					
	Nature of Agreement	MOU for performance-based payment mechanism (PBP) and Project Document	Project Cooperation Agreement	MoU + individual subcontracts for each sector plan. The subcontracts were sole sourced.	Grant Agreement with Government of People's Republic of China, signed by Ministry of Finance
	Type of Agreement	National Implementation Modality (NIM), where government (represented by Ministry of Environment Protection or MEP) is the implementing partner (IP) and FECO is the executing agency designated by MEP.	Agreement with supporting organization with Government of China represented by FECO	FECO as contractor	FECO is the executing agency designated by the government and as reflected in the agreement
	Does disbursement for this implementation modality differ from other implementation modalities?	It does not differ from the modality used for the CFC phase-out Solvents Sector Plan (from 2009). However it differs slightly from the modality used in other countries.	This modality is used for all UNEP partnerships over US $200,000	Unique to China. Implementation modality is unique to China, but disbursement is following the same procedure as for other sub-contracts.	Similar to others. All agreements have a designated executing agency typically part of government.
	Possibility to modify agreement	Upon mutual agreement of the Parties reflected in writing (Article 3)	Upon mutual agreement of the Parties reflected in writing (Clause XVIII)	Upon mutual agreement of the Parties reflected in writing (Article 9.7). Article 3 of MOU.	One way only: Upon request from the Government of China (Ministry of Finance). The Bank agrees or disagrees and makes modifications requested.
	Fees to FECO	No fees to FECO from UNDP, but fees as executing agency charged to project.	No fees or budget cost items for FECO	Fee to FECO for contracting services with beneficiaries	Budget cost item. Meaning that this is coming from the PMU budget, not from agency support costs.
	Are project milestones linked to funding needs? For example, are funds advanced according to needs?	There are two sets of milestones: one set of milestones applies to performance-based payments (PBP) from UNDP to FECO and another set of milestones applies to PBP from FECO to enterprises. Milestones are based on implementation needs. There are no cash advances.	1st tranche up to 50% based on projected need for activities planned for the first 6 months. Activities based on agreed project document and work plan. Next payments are performance based on submission of semi-annual progress reporting on outputs delivered, results and achievements and financial report.	Similar to UNDP, there are two sets of milestones: one set of milestones applies to performance-based payments from UNIDO to FECO and another set of milestones applies to performance based payments from FECO to enterprises. Milestones are based on implementation needs.	Not more than 30% of sub-grants upon signing of the sub-grant agreement. Subsequent payments made on the basis of statement of expenditures.

		UNDP	UNEP	UNIDO	WORLD BANK
	Must all funds for contracts with enterprises be advanced in full? Why?	Yes. According to FECO financial rules, 100% of the contract funds should be with FECO, before they can sign the contract. This is in line with UN rules.	Not applicable to UNEP. FECO is not considered the beneficiary	As per common practices governing issuance of sub-contract by national authorities, FECO must hold 100% of contract funds before signing the contract. However, FECO is allowed to exercise some flexibility in signing contracts under the HPMP implementation on a case by case basis.	Advance to the enterprises is limited at 30% of the sub-grant amount. However, for FECO to enter into sub-grants FECO must have all funds in full available.
Budget structure					
	By component (milestone/deliverable)	According to milestones in MOU	Detailed project cost estimates by milestones and activities are included in the project document.	According to milestones in contract By project component, in line with the table submitted as part of the tranche report	According to milestones in grant agreement
	By budget line	Only for monitoring purposes	Yes according to budget lines as in the CAP budget (staff, travel, etc.) Detailed project cost estimates by milestones and activities are included in the project document.	No	No
Cash advances					
	Standard percentages for cash advances for projects under $500,000	No cash advances since all payments are performance based	Performance-based	Standard: 10% 10% of the contract value was transferred to FECO upon contract signature as advance payment.	Funds in the designated account cannot be withdrawn until the expenditures are incurred (i.e., initial payments upon signing of sub-grant agreements, subsequent disbursements against SOEs). The schedule for disbursement to SOEs is based on milestones: 50% of the annual funding tranche upon ExCom's approval of the annual plan; an additional 30% once 80% of the 1st installment has been committed to phase-out activities; and the last 20% once 60% of the first two tranches has been committed to phase-out activities.
	Standard percentages for cash advances for projects over $500,000	No cash advances since all payments are performance based	For projects exceeding $200,000 - 50% supposed to cover 3 to 6 month activities.	There is no different standard for projects over $500,000.	There is no different threshold standard for projects over $500,000 related to cash advances.

		UNDP	UNEP	UNIDO	WORLD BANK
	Funds to FECO are considered cash advances	No. These are considered as performance based payments, not cash advances. This is because they are subject to national level performance indicators.	Yes for the purposes of financial reporting recorded once quarterly expenditure report received from FECO.	No. Only the first payment to FECO is considered as advance payment.	No, project disbursements.
Financial reporting					
	From FECO to IA's****	Performance-based (MoU-Annex I - 1)	Cash based (Clause XI-(c)). Cash Based Financial Report submitted with a narrative Performance Progress Report including status of activities, deliverables and results.	Performance based upon strict technical and financial verification of activities implemented and milestones achieved. A financial report from FECO to UNIDO can be submitted before each tranche request.	Semi-annual unaudited interim financial reports and annual audited financial reports. In addition, semi-annual progress reports detailing commitments and disbursements through sub-grant agreements and other expenditures are provided to the Bank.
	From IA to the MF*****	In next tranche and in annual financial and progress report under separate disbursement column	in next tranche request and in annual financial and progress report under existing disbursement column	in next tranche request only Financial reporting of disbursements from UNIDO to FECO in the tranche report as well as in the PFR under the existing disbursement column. Financial reporting on disbursements effected by FECO as part of the tranche report.	in next tranche request and in annual financial and progress report under existing disbursement column
	From IA to treasurer	Disbursements are reported to Treasurer but interest on funds held by China is currently not reported	No separate reporting of China disbursement or interest to treasurer. China is included as part of the Financial Report of UNEP to the Treasurer.	No reporting of China disbursement or interest to treasurer Expenditures at the portfolio/fund level are reported to the Treasurer.	No reporting of China disbursement or interest to treasurer
Periodicity of Financial Report					
	From FECO to IA's	Semestrial	Quarterly (Clause XI - 2(a))	Annual and upon request, as per chapter 3.4.	Semestrial (Section II.B.2)
	From IA to the treasurer/Excom (accounts of the Fund)	Annual***	Annual***	Annual***	Annual***

		UNDP	UNEP	UNIDO	WORLD BANK
Interest					
	Reported by FECO to IA?	Not currently.	Not addressed: Need to modify agreement; started discussions with FECO to include amendment. The PCA is a partnership and the agreement is modified by mutual agreement.	Interest is not part of the contract - agrees that FECO has to report on that, but not in a position to modify anything on that issue. Currently not reported by FECO, but based on the ExCom's decision, FECO will have to report on the interest earned, the modality of this is still to be worked out.	Not addressed: Not dealt with through agreement. Interest is captured and reported in financial audit of FECO's bank account.
	From IA to the treasurer/MF?	UNDP proposes that in the request for the next funding tranche, FECO will report interest amount through UNDP to Ex-Com. Ex-Com approval will be net of reported interest and UNDP will receive net funds from Treasurer	Cumulative interest to be deducted from the tranche approved for China and to be returned to the MF as part of balances returned from completed projects.	Provided that there is confirmation from FECO on the above item, at the time of tranche approvals, the actual cash transfer to UNIDO could be reduced by the interest earned reported by China, however, that should not affect the agreed funding level of the tranche.	It would not be up to the Bank to report interest accrued in a recipient's account that is completely outside its accounts to the Treasurer.
	Does FECO have a separate bank account?	Yes.	Yes (Clause IX -1)	Funds for the implementation of the RAC and XPS sector plans go in a common FECO pool. However, FECO applies a sound accounting system to that account and transactions are recorded on a sector by sector basis.	Yes referred to as the Designated Account.
	Is the bank account interest bearing?	Likely, but we are awaiting information from FECO.	Had not been specified as requirement of the PCA. The agreement with China is standard UNEP based on similar size. The project is not be large enough to consider a special agreement.	The bank account for the RAC and XPS sector plans is interest bearing (variable). The actual average interest is 0.03%.	Not specified in the agreement.
Exchange rate fluctuation is addressed					
	How is it accommodated?	Exchange fluctuations if any are absorbed by the project and included in total disbursements	Reported in FR (clause XI - 2(b))	Despite bank account is managed and contracts are signed in USD, payment to beneficiaries and sub-contractors are performed in local currency. Fluctuations are absorbed by beneficiaries and sub-contractors.	See below.

		UNDP	UNEP	UNIDO	WORLD BANK
	How is it reported in the account/MLF?	Exchange fluctuations if any are absorbed by the project and included in total disbursements	China project reported as part of Annual Progress Report to MLF and is part of the project cost.	Despite bank account is managed and contracts are signed in USD, payment to beneficiaries and sub-contractors are performed in local currency. Fluctuations are absorbed by beneficiaries and sub-contractors.	The account is in U.S. dollars, which is the Ozone Trust Fund's functional and presentation currency. (OTF = the fund at the WB made up of receipts from the MLF.) The sub-grant agreement is signed on the basis of US dollars; hence, the exchange rate risk is passed on to enterprises.
Mechanism foreseen to return funds					
		Currently, there is no provision in the MOU for return of unspent funds, as UNDP management cannot define "unspent", the timing of returning them, etc. If there is more specific guidance from ExCom on the definition and timing of return of unspent funds, then we can incorporate it in the next amendment to MoU (foreseen to address the issue of interest on unspent funds).	Unspent funds shall be returned within two month of the termination of the agreement (Clause IX - 4) at the end of Stage I	In line with ExCom agreement, paragraph 7.d. Remaining funds to be returned after completion of the last tranche of the agreement.	Returned at the agreement termination date, however, the termination date can be extended. Unspent balance shall be returned to the Bank at the completion of the Project (Financial Management Manual)
IPSAS compliance					
	Impact on disbursements	None expected. UNDP is already IPSAS compliant.	Financial Report from FECO prepared on "Cash Basis"	Only for the first advanced payment	Not applicable.
	Treatment of obligations	Will be recorded as commitments	Not defined yet: Still in discussion to comply with UNEP guidance	Recorded as commitments	Not applicable.
	Treatment of cash advances	No cash advances since all payments are performance based		Advance payment in accordance with IPSAS requirements.	Not applicable.
	Impact on the Accounts of the Fund	Disbursement from UNDP to China will not have any obligations or commitments, but only disbursements.	The payment to FECO is recorded as an accounts receivable and when the financial report is received it is then recorded as a disbursement.	Obligations/Commitments in the progress reports will no longer be reconcilable with the Accounts of the Fund UNIDO can continue to report to the MLF based on the historical reporting mechanism and then there won't be any reconciling problem.	Not applicable.

		UNDP	UNEP	UNIDO	WORLD BANK
	Impact on the annual progress report	Agree to add column	Agree to add column	Does not agree to add column Because it is not part of UNIDO's accounts. As mentioned above, UNIDO would be happy to report outside the PFR as part of the tranche request.	Do not believe that adding a column that will transect all projects but will only apply to China is the best place for the data. Normally, audited reports of designated accounts are available six months after the end of the calendar year, possibly affecting the timing for progress report submission.
	Treatment of collection of agency fees	Only disbursements will release agency fees.	Agency Fees for UNEP is calculated as before based on disbursement and commitments. In the event the commitments are cancelled the Agency fees is reimbursed.	Disbursement and commitment amounts will release funds to agency Thus, there is no change to the historical methodology and it is accepted by UNIDO's external auditors.	agency fees are immediately available but are considered in progress reporting according to the rules of the other agencies.
Audit					
	periodicity	Annual	Annual (Clause XII - 1)	Ad-hoc/Anytime	Annual (Section II.B.3)
	necessity	At least once during Stage 1	Automatic (Clause XII - 1)	Upon request by UNIDO (Clause 5.0) including the granting of access rights to the beneficiaries	Automatic (Section II.B.3) with possibility to waive in any given year if disbursements are too low to justify it. In these cases the subsequent audit will cover two years.
	International, national or independent audit?	National government audit	Issued by an independent audit authority - UNEP shall have the right to audit or review activity related books and records of the Government as necessary	UNIDO may use its internal or external auditors, staff members and/or technical experts, who may carry out auditing and inspection functions in China.	in accordance with the provisions of Section 2.07(b) of the Standard Conditions
Documentation					
	Any other relevant documents?	Comments on: ExCom Pre-Meeting Document UNEP/OzL.Pro/ExCom/68/24	Comments on: ExCom Pre-Meeting Document UNEP/OzL.Pro/ExCom/68/24	Comments on: ExCom Pre-Meeting Document UNEP/OzL.Pro/ExCom/68/24 Already provided before the 68th ExCom, but UNIDO's views were not reflected in the ExCom Pre-Meeting Doc.	Comments on: ExCom Pre-Meeting Document UNEP/OzL.Pro/ExCom/68/24

******* Based on the agreement between ExCom and IA's (E.) / Based on agreement that includes provisional and final report.
**** Performance-based / Cash based / both.
***** Disbursement to beneficiaries as reported by FECO or obligations or disbursements as transfers to FECO as final beneficiaries or as accounts receivable.