



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

**A Note from the Secretariat:
Service of the Treasurer (follow-up to Decision 39/3 and Decision 39/4)**

1. By letter dated 22 April 2003 (Annex I), the Executive Director of UNEP informed the Chairman of the Executive Committee that in accordance with Article VI of the agreement between the Executive Committee and UNEP, the Executive Committee should consider the following amendment to Article III:

“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.”

2. As a follow up to Decision 39/3 the Secretariat has:
- a) Recruited a consultant and defined the terms of reference for the conduct of the study (see Annex II)
 - b) The Secretariat has subsequently addressed a letter to ICAO, the World bank, UNIDO, UNDP and UNEP (see attached sample as Annex III), and provided for reference a detailed description of the functions presently carried out by UNEP as Treasurer to the Fund (see Annex IV).
3. The consultant's report will be transmitted to the members of the Executive Committee as soon as it is completed.



United Nations Environment Programme

برنامج الأمم المتحدة للبيئة • 联合国环境规划署
PROGRAMME DES NATIONS UNIES POUR L'ENVIRONNEMENT • PROGRAMA DE LAS NACIONES UNIDAS PARA EL MEDIO AMBIENTE
ПРОГРАММА ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ ПО ОКРУЖАЮЩЕЙ СРЕДЕ

Ref: AS/BFMS/SK/

22 April 2003

Your Excellency,

I wish to refer to UNEP's proposal to amend Agreement between the United Nations Environment Programme (UNEP) as the Treasurer of the Multilateral Fund for the Montreal Protocol and the Executive Committee (ExCom) of the Multilateral Fund established by the parties of the Montreal Protocol and offer the following suggestions:

1. According to Article III of the Agreement, UNEP in its capacity as Treasurer will not seek reimbursement for costs incurred for services.
2. During the discussion of the Treasurer Service at the 39th Meeting of the ExCom, it was pointed out that given the changing requirements of the job, the Executive Committee does not expect UNEP to continue providing the services of Treasurer indefinitely without reimbursement.
3. It was also clarified that the Agreement between the Executive Committee and UNEP with regard to the provision of services as Treasurer given free of cost, was valid until cancellation by mutual consent, and that it was incumbent upon UNEP to provide written notice of its desire to change the terms of the Agreement.
4. According to paragraph 6.3 of Article VI of the Agreement which stipulates that any amendment to the Agreement shall require the concurrence in writing of both parties, UNEP proposes for the ExCom consideration, an Amendment to Article III of the Agreement to read 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”.

Please Accept, Your Excellency, the assurances of my highest consideration.

Klaus Töpfer
Executive Director

Mr. Tadanori Inomata
Chairman of the Executive Committee
of the Multilateral Fund
1800 McGill College Ave,
27th Floor, Montreal,
Quebec, Canada H3A 3J6

Terms of Reference for the consultant

Follow - up to decision 38/37 (a) and decision 39/3.

Decision 39/3 (a) *“request(s) 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 Excom”*

The consultant will carry out the following tasks:

1. Review of Tasks carried out by UNEP as Treasurer :
 - a. General review of the functions of treasurership as set out in the agreement with the ExCom
 - b. Description of tasks undertaken by the Treasurer from the time of signature of the agreement to-date
 - c. Description of UNEP institutional arrangements to carry out its role as treasurer (systems and processes)
 - i. Internal: (Role of trust fund unit, finance section, project account unit, cashier, etc)
 - ii. External (Chase Manhattan bank, UNHQs, Excom, UNMFS, implementing agencies)

- d. Efficiency of the Treasurer vis a vis the Implementing Agencies and bilateral cooperation programmes in terms of transfers of funds to them.
 - e. Actual yearly costs to UNEP
 - f. Review of UNEP effectiveness in rendering the Treasurership services in the context of its agreement with the ExCom (UNEP Excom5/4/rev 2
2. Explore with UNEP, the World Bank, UNDP, ICAO and other relevant institutions the possibility of one of them assuming the role of the Fund Treasurer taking into account the following:
- a. Experience with management of contributions made in cash (including payment using the FERM),
 - b. promissory notes denominated in currencies other than US \$ and with varying encashment schedules,
 - c. institutional advantages of receiving the annual contribution within the first 6 months of the calendar year,
 - d. speed of transfer of approved funding by the Excom to the relevant implementing Agencies
 - e. management of bilateral contributions
 - f. institutional modalities for investment of trust funds
 - g. safeguards against loss on exchange .
3. Provide a report to the ExCom highlighting the comparative advantages(disadvantages) of the institutions interviewed.

14 June 2003

Dear Mr.,

Re: Provision of Treasury Services to Multilateral Fund

In accordance with Article III of the Agreement between UNEP and the Executive Committee of the Multilateral Fund signed in 1991, as set out in UNEP/OzL.Pro/ExCom/5/4/Rev.2 (copy attached), UNEP has undertaken the role of Treasurer of the Multilateral Fund (**the Fund**) since its establishment. To date, the service of the Treasurer was provided by UNEP without any reimbursement from the Fund.

The Executive Director of UNEP has however advised the Chairman of the Executive Committee, through his letter dated 22 April 2003, that in accordance with the discussions at the 39th Meeting of the Executive Committee where it was accepted that given the changing requirements of the Treasurer's functions, the Executive Committee should not expect UNEP to continue providing the services of Treasurer indefinitely without reimbursement. UNEP proposed that in accordance with Article VI of the above mentioned agreement, the Executive Committee should consider the following amendment to Article III:

“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.”

Prior to that letter, the Executive Committee had agreed by decision 39/3 that the Secretariat explores 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.

Enclosed is a summary of the tasks presently undertaken by UNEP as Treasurer of the Fund. Based on the description of these tasks, I kindly request you to advise:

- (a) whether your organization would be prepared to undertake these functions,
- (b) whether you could describe for the benefit of the Executive Committee the experience and capacity your institution possesses to undertake these functions,
- (c) what financial rules and regulations your institution would apply,

(d) what are the basis of reimbursement that your institution would require to provide these services to the Fund and,

(e) what would be the estimate of the actual costs to the Fund.

I would highly appreciate receiving your feedback on items (a) to (e) above by 20 June 2003 to enable the Secretariat to report back to the Executive Committee at its 40th meeting scheduled for 16 – 18 July 2003 in Montreal, Canada.

Yours truly,

Omar E. El-Arini
Chief Officer

Enclosure

Functions of Treasurership to the Multilateral Fund:

1. Multilateral Fund trust fund:

- 1.1 establishments and management of a trust fund for the management of the Multilateral Fund resources and the preparation of financial reports;
- 1.2 calculation of the triennial and yearly pledges by each Party (some 42 Parties) in accordance with the terms of reference approved by the Parties to the Montreal Protocol in US dollars and national currencies as applicable;
- 1.3 keeping updated tools for the calculation of the distribution of pledges to the Parties to the Montreal Protocol in accordance with the UN scales of assessment;
- 1.4 calling for and sending reminders to the Parties for contribution payments, receiving the contributions, acknowledging the receipts and managing the bank account and the appropriate accounting for the transactions; and
- 1.5 making remittances to the implementing agencies¹ in accordance with the approvals of the Executive Committee of the Multilateral Fund.

2. Multilateral Fund Bank Account(s):

- 2.1 establishment of a bank account for receiving contributions by Parties and others into and effecting transfers and payments in accordance with the approvals of the Executive Committee;
- 2.2 management of the resources in the bank account with the view of maximizing the returns on any surplus funds not immediately needed; and
- 2.3 management of any other subsidiary (bank) accounts which are opened for the smooth operations of the Fund like for the management of promissory notes and their subsequent encashments.

3. Bilateral² Cooperation Assistance

- 3.1 maintaining an accurate report on the bilateral cooperation assistance (up to 20 % of a party's assessed contribution per annum) approved to Parties by the Executive Committee for their direct implementation;
- 3.2 adjustment of pledges of Parties to account for bilateral cooperation assistance approved by the Executive Committee; and
- 3.3 introduction of the bilateral cooperation assistance's adjustments as reported in the annual progress reports on their implementation.

4. Fixed Exchange Rate Mechanism:

- 4.1 monitoring and recording of the countries inflationary parameters needed in the application of the fixed exchange rate mechanism in determining the Parties who qualify to using the mechanism and secondly fixing the national currencies rates;
- 4.2 monitoring and recording of the various currencies exchange rates needed in the calculation of the fixed exchange rates for use in calculating the national currency pledges by the Parties who qualify to using the mechanism;

¹ Currently the agencies are: UNDP, UNEP, UNIDO, and the World Bank

² Among the bilateral agencies with active projects portfolio are: CIDA (Canada), CFD (France), GTZ (Germany) and agencies designated by other donor governments.

- 4.3 requesting the Parties qualifying to use the fixed exchange rate mechanism to advise whether they intended to contribute to the Fund in national currencies or in United States dollars;
 - 4.4 monitoring and recording of the performance of the fixed exchange rate mechanism by each Party using the mechanism with the view to calculating the shortfall or gain realized by the mechanism in totality;
 - 4.5 monitoring and recording of the value of the promissory notes established within the fixed exchange rate mechanism with the view to have the current value at any time in order to report on the status of the Fund;
 - 4.6 monitoring and recording of the net gain or loss due to the implementation of the fixed exchange rate mechanism in order to factor this into the calculation of the net funds available for programming in the report of the status of the Fund; and
 - 4.7 preparing any reports on the implementation of the fixed exchange rate mechanism as the Executive Committee or the Meeting of the Parties to the Montreal Protocol may require from time to time.
5. Multilateral Fund's Reports on the Status of the Fund:
- 5.1 monitoring and recording the yearly payments in the various forms (cash, promissory notes, bilateral cooperation assistance, and promissory notes encashments) by Parties to the Fund from inception to date for inclusion in the reports on the status of the Fund;
 - 5.2 monitoring and recording the other income elements like interest and miscellaneous income (at the levels of the Treasurer and the implementing agencies) from inception to date for inclusion in the reports on the status of the Fund;
 - 5.3 monitoring and recording transfers of cash and promissory notes to implementing agencies or reservation of promissory notes for implementing agencies and any subsequent promissory notes encashments following approvals by the Executive Committee from inception to date for inclusion in the reports on the status of the Fund;
 - 5.4 monitoring and recording of commitments and expenditures by the Multilateral Fund Secretariat following approvals of the Executive Committee from inception to date for inclusion in the reports on the status of the Fund; and
 - 5.5 preparing the aggregate report³ on the status of the Fund for the Executive Committee's meetings giving the pertinent information on all elements of income and expenditures/disbursements/commitments and the balance available for new approval.
6. Multilateral Fund's Financial Reports:
- 6.1 preparation of the cumulative financial reports including the statement of income and expenditure; and the report on changes in reserve and fund balance and cumulative fund balance;
 - 6.2 preparation of the annual financial reports including the statements of income and expenditure; and the report on changes in reserve and fund balance and cumulative fund balance;
 - 6.3 preparation of the implementing agencies summarized/aggregated expenditures reports annually and cumulatively; and
 - 6.4 preparation of the Multilateral Fund Secretariat's reports on the annual expenditures vis-à-vis the approvals by the Executive Committee.

³The most recent one can be viewed/downloaded from the Secretariat website by clicking at:
http://www.unmfs.org/documents/3943_E.pdf

7. Reconciliation of Treasurer's Accounts with Implementing Agencies and the Multilateral Fund Secretariat:

- 7.1 reconciliation of approvals by the Executive Committee taking into account funds returned from completed projects, cancelled projects and adjustments to approvals including projects transferred from one Implementing Agency to another;
- 7.2 reconciliation of cash resources transferred by the Treasurer and received by the Implementing Agencies;
- 7.3 reconciliation of promissory notes transferred to the World Bank considering the actual amounts realized in encashments;
- 7.4 reconciliation of reported interest income earned by Implementing Agencies and approvals granted by the Executive Committee to the agencies;
- 7.5 reconciliation of adjustments to the bilateral cooperation assistance to Parties as per annual implementation progress reports made to the Executive Committee through the Multilateral Fund Secretariat and approvals granted by the Executive Committee; and
- 7.6 submission of final annual accounts of the Fund to the United Nations Board of Auditors and the Executive Committee.