1. At its 71st meeting, the Executive Committee requested the Secretariat, in cooperation with the implementing agencies, to continue work pursuant to decision 69/24(b)(i)\(^1\) and to report any additional information to the Executive Committee at its 72nd meeting (decision 71/44(b)).

2. Pursuant to the above-mentioned decisions, the Secretariat had worked on several options that could achieve the objective of disbursing funds to the Foreign Economic Cooperation Office/Ministry of Environmental Protection (FECO/MEP) of the Government of China as close to the time when funds are needed and assessed their feasibility taking into account China’s project specifics and the agreements signed between FECO/MEP and the implementing agencies.

3. During the Inter-agency coordination meeting (IACM) held in Montreal from 11-13 February 2014, the Secretariat proposed the following two main options for consideration by the agencies:

   (a) A special account. The Government of China would open a special bank account for which the maximum level of funds would be calculated based on the specifics of the tranche/activities to be implemented. The Government could then request a replenishment of that account as soon as a certain percentage (to be determined) of the funding deposited in the special account has been disbursed. FECO/MEP may also request the implementing agencies to proceed with payments on its behalf to final beneficiaries in order to reduce the pressure on resources in the special account. This type of payment will require certification of works and services by FECO/MEP; and

\(^1\) The Fund Secretariat, in collaboration with the implementing agencies and the Treasurer, were requested “to prepare a paper for consideration at the 71st meeting on options as to how funds for the HPMP in China could be disbursed as close as possible to the time when funds were needed, taking into account the relevant agreements between the Executive Committee and the Treasurer, the Executive Committee and the implementing agencies, and between the Government of China and the implementing agencies”.

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issuance of the document.
(b) Semi-annual or annual payments. Based on the yearly work programme, funds could be released for 6 or 12 months operations to FECO/MEP adjusted by the amount of funds FECO/MEP may request implementing agencies to pay on its behalf to final beneficiaries in order to reduce the pressure on resources in the special account. This type of payment will require certification of works and services by FECO/MEP.

4. However, after discussion on these two options, the Secretariat and the implementing agencies did not reach an agreement. The reasons provided by the implementing agencies for not agreeing with these options are diverse and include the necessity for providing funds upfront to FECO/MEP, and the fact that these options are not compatible with performance-based payment which are being used by UNDP and UNIDO. Consequently, the Secretariat then considered the different modalities used by the implementing agencies under status quo conditions to assess possible means of improving fund transfer processes to final beneficiaries when needed.

5. In the case of UNDP, the review of the agreement with FECO/MEP reveals that the performance-based modality is used for funds disbursement. Payments are based on pre-determined milestones that do not have any apparent relationship to the needs for disbursement to final beneficiaries.

6. With regard to 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.

7. Concerning UNIDO, the agreement with FECO/MEP indicates that funds are released in four tranches: 10 per cent (contract countersigned), 40 per cent (submission and approval of a detailed work plan), 40 per cent (submission and approval of the confirmation of performance-based contracts), and 10 per cent (receipt and approval of the final report). Nevertheless, the percentage of funds released by UNIDO to FECO/MEP has been modified during implementation of the second tranche of the HPMP to 20 per cent (contract countersigned), 30 per cent (submission and approval of a detailed work plan), 40 per cent (submission and approval of the confirmation of performance-based contracts), and 10 per cent (receipt and approval of the final report). UNIDO also disburse funds from its main accounts in cases where it handles the procurement of specific goods and/or services. UNIDO indicated that the third milestone is a disbursement related milestone, i.e., having a requirement for a certain level of disbursement from FECO/MEP to beneficiaries. UNIDO and FECO/MEP agreed this milestone after the Committee took a decision relating to disbursement to final beneficiaries when needed according to UNIDO. At the IACM, UNIDO also suggested that adding disbursement milestones with performance-based milestones would result in the disbursement of funds to final beneficiaries closer to the time needed.

8. In the case of the World Bank, the agreement with FECO/MEP for the production sector shows that funds are released in four tranches:

   (a) 30 per cent (signing of the sub-grant agreement);

   (b) 20 per cent (receipt by FECO/MEP of a report from the relevant beneficiary enterprise, confirming that the said enterprise has achieved satisfactory reduction in HCFC production during the first six months of the programme year in accordance with the provisions of the sub-grant agreement);

   (c) 30 per cent (receipt by FECO/MEP of a report from the relevant beneficiary enterprise confirming that the said enterprise has achieved satisfactory reduction in HCFC production during the programme year in accordance with the provisions of the sub-grant agreement); and
(d) 20 per cent (receipt by FECO and the World Bank of a report from an independent verification agent, satisfactory to the Bank, certifying that relevant beneficiary enterprise’s HCFC production during the programme year is within the HCFC production quota for the said year as set out in the sub-grant agreement).

9. With respect to the consumption sector, the World Bank reported to the 69th meeting that 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 statement of expenditures (SOEs)). The schedule for disbursement to SOEs is based on milestones: 50 per cent of the annual funding tranche upon Executive Committee’s approval of the annual plan; an additional 30 per cent once 80 per cent of the first instalment has been committed to phase-out activities; and the last 20 per cent once 60 per cent of the first two tranches has been committed to phase-out activities.

10. In summary, the implementing agencies are using either performance-based payments or performance- and disbursement-based payment modalities with some direct disbursement from headquarters for some procurement. Under the status quo, UNEP’s fund transfer process ensures that funds are transferred close to the time needed; the World Bank’s process appears to have some relation to disbursement needs; UNIDO’s inclusion of disbursement-based milestones in its stage I HPMP should result in fund transfer closer to the time needed; and UNDP’s performance-based process does not appear to have any relationship to disbursement needs to the final beneficiary. The disbursement-based payment modalities used by the implementing agencies could, to a greater extent in some cases, enable the release of funds to the final beneficiaries when needed by defining milestones with a view to providing funds to final beneficiaries when needed starting with stage II of HCFC phase-out management plans.

Recommendation

11. The Executive Committee may wish:

(a) To note:

(i) The report on disbursement of funds for the HCFC phase-out management plan for China (decision 71/44) as contained in document UNEP/OzL.Pro/ExCom/72/38;

(ii) That the balance of funds transferred from the implementing agencies to the Foreign Economic Cooperation Office/Ministry of Environmental Protection (FECO/MEP), and from FECO/MEP to final beneficiaries continue to be monitored in annual financial audit reports submitted by FECO/MEP to the Treasurer through the implementing agencies pursuant to decision 70/20; and

(b) To encourage implementing agencies to define milestones with a view to providing funds to final beneficiaries when needed in stage II of HPMP.

---------