# Annex VI

## OVERARCHING PRINCIPLES FOR THE IMPLEMENTATION MODALITY OF MULTILATERAL FUND PROJECTS IN CHINA

**Submitted by the Government of China through UNDP, as lead implementing agency for stage II of the HCFC phase-out management plan**

*General principles*

(a) The implementation procedures established for Multilateral Fund projects are governed by the relevant implementing agencies' rules and procedures. According to these rules, each implementing agency maintains oversight responsibilities for project execution performance ensuring the proper allocation of funds (as per Multilateral Fund policies), and compliance with the Agreement with the Executive Committee.

(b) In addition, specific administrative, financial, and operational procedures must follow national regulations governing technical cooperation projects, as mandated by the Ministry of Finance of China, along with other relevant policies, rules, and regulations within the country.

*Funds management*

(c) With the exception of the World Bank, all other sector plans funded by the Multilateral Fund for China are managed by the Foreign Economic Cooperation Office (FECO)/Ministry of Ecology and Environment (MEE) using a national account in renminbi (RMB), therefore RMB will be used as the bookkeeping currency.

(d) The funding approval schedule for sector plans in the Agreement with the Executive Committee is in United States (US) dollar amounts. Funds transferred from the relevant implementing agencies to FECO/MEE will be converted into RMB and transferred to FECO's bank account based on the actual conversion exchange rate provided by the bank.

*Reporting of disbursements and balances*

(e) Unlike the previous reporting practice where only estimated balances in US dollar amounts were reported in tranche progress reports, FECO will now provide disbursement figures (expenditures) in both RMB and US dollars in future progress reports and tranche requests. The disbursements in US dollars will be calculated using the exchange rate at the time when the funds were transferred from the implementing agency to FECO.

(f) In the case where there were multiple transfers, a weighted average exchange rate of the multiple transfers will be used to reflect expenditures in US dollars. UNDP will coordinate with the auditor to ensure the same methodology is used in the audit report, aiming to minimize discrepancies between the audit report and the progress report.

*Improving the funds transfer schedule from implementing agencies to FECO*

(g) Implementing agencies will collaborate with FECO to improve the current funds transfer schedule, aiming to prevent the accumulation of large balances in FECO's RMB account and thereby mitigate exchange rate risk. The respective implementing agencies and FECO will agree upon a limit for a maximum amount of each transfer based on the implementation plan of the specific sector. For the ICR sector, the proposed limit is set at 5 to 25 per cent of the tranche for each payment.

(h) In addition to the milestones set in the current implementation agreement established between implementing agencies and FECO, an estimated disbursement plan will also be agreed upon for a specific number of months based on the enterprise conversions and disbursement plans. This aims to optimize the payment schedule based on the best estimates against the conversion milestones of the enterprises. For the ICR sector, the proposed period is set at 3 to 6 months.

(i) In principle, implementing agencies will withhold payments if there are sufficient funds in FECO's account for the committed payments in the upcoming number of months. Each payment from an implementing agency to FECO should not exceed an agreed percentage of the tranche (which will, in turn, be commensurate with the Conversion Plan and Disbursements Plan from FECO to the enterprises).

*Last payment of the funding from implementing agencies to FECO*

(j) To facilitate the potential return of balances unspent by the end of the implementation, implementing agencies will withhold the last payment until there is a clear report from FECO on the amount of funds that will be disbursed in the agreed time frame and estimated balance of the entire project. The final payment from an implementing agency to FECO should cover the committed amounts and will be disbursed accordingly. Any final remaining balances should stay in the implementing agencies' account for return to the Multilateral Fund.