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SEVENTH MEETING OF THE PARTIES TO  
THE MONTREAL PROTOCOL ON SUBSTANCES  
THAT DEplete THE OZONE LAYER

Vienna, 5-7 December 1995

**REPORT OF THE EXECUTIVE COMMITTEE  
ON THE FINANCIAL PLANNING IN THE MULTILATERAL FUND**



## INTRODUCTION

1. This report is prepared by the Executive Committee in response to the following request from the 12th Meeting of the Open-ended Working Group held in August 1995:

“The Open-ended Working Group should request the Executive Committee to provide the Seventh Meeting of the Parties with a report that included:

- (i) An outline and framework for a three-year rolling business plan for the Fund for approval by the Parties;
- (ii) An indicative projection of demand for resources, based on scenarios under consideration for Annex A and Annex B substances, including the currently agreed control measures, over the full term of the scenarios;
- (iii) A detailed plan including projected cash flow for 1996.”

2. Consequently, the report consists of three sections:

**Section I:** An outline and framework for Three-Year Rolling Business Plan for the Multilateral Fund;

**Section II:** Indicative Projection of Resources for ODS Phase-out Scenarios;

**Section III:** A detailed plan including projected cash flow for 1996

## SECTION I

### AN OUTLINE AND FRAMEWORK FOR THREE-YEAR ROLLING BUSINESS PLAN FOR THE MULTILATERAL FUND

#### Introduction

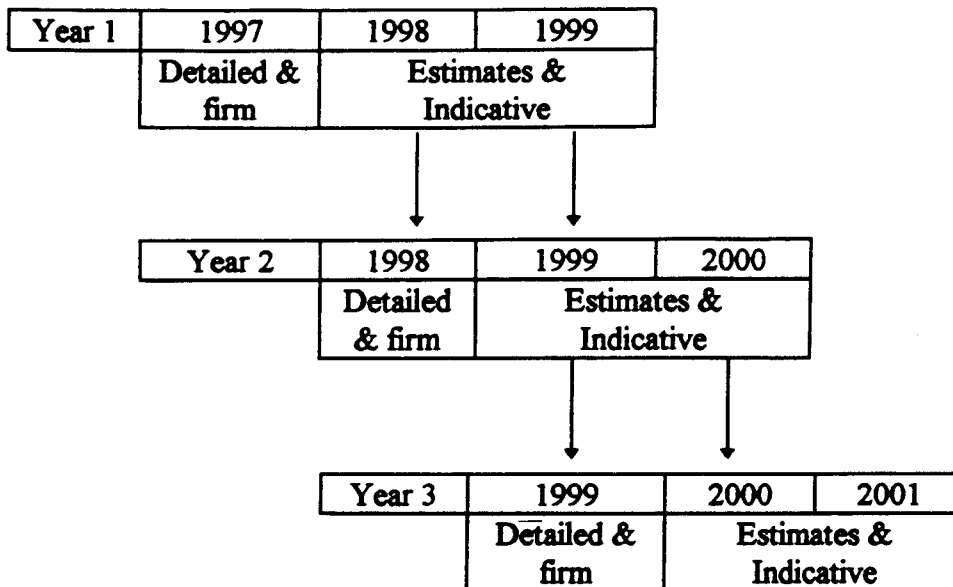
1. This section addresses the request to prepare an outline and framework for a Three-Year Rolling Business Plan for the Multilateral Fund.
2. The request from the Open-ended Working Group reflects the need for strategic management of the Fund within the broad policy framework provided by the Parties. Adoption of a three-year rolling business plan will enable Parties and Implementing Agencies to plan their programmes and activities, and to see where their projects will be accommodated thereby reducing uncertainty. The task of managing a rising demand within a fixed budget necessitates staging of projects to ensure that all countries are able to comply with the agreed Protocol phase-out requirements. Such a strategy may take place between sectors and even between countries
3. The purpose of this section is to lay down a broad framework, and formulate the general orientation that will enable preparation in 1996 of the first three-year rolling business plan covering the period 1997-1999. Therefore, this section first discusses the strategic considerations to be taken into account in the preparation of the Plan and the approach to be adopted and then moves on to a preliminary outline of the Plan.

#### Strategic considerations

4. The Three-Year Plan:
  - should reflect the primary aim of the Fund which is to assist Article 5 Parties to meet their Protocol obligations;
  - will include a transparent mechanism to facilitate monitoring and evaluation of the Fund and implementing agencies' activities;
  - will estimate the quantities of ODS to be phased out by Article 5 countries during this three-year period;
  - should be based on the phase-out schedule decided upon by the Parties, and the level of funding provided by the Parties;
  - should achieve a desirable balance between programme development and implementation;
  - will be updated annually to maintain its continuing relevance as a planning tool;
  - will reflect the priorities identified in the country programmes.

Approach

5. The concept of a three-year rolling programme differs from the current practice of having three-year work programmes in that it is updated each year; specifically each year a new 3-year rolling programme is developed based on the previous programme. This could be illustrated by the following diagram:



6. The Plan will adopt a target-driven approach within the parameters of the decisions on the funding levels by the Meeting of the Parties. The targets (as discussed below) will be developed for the triennium to provide overall direction and the goal for the period. The targets will be set Fund-wide, by implementing agency, and by sector. The plan will contain targets for the first year in terms of ODS to be phased out and will be identified on an implementing agency and sector basis. The combination of annually updated three-year indicative planning and detailed annual planning will provide for continuous and smooth operation and, at the same time, maintain adequate flexibility to adapt to the changing circumstances.

Preliminary outline of the Plan

7. Following is a preliminary outline of the plan and, under each subtitle, a brief description is provided about what is going to be included thereunder:

Part I: Introduction

A statement of the period the Plan covers, the purpose and the structure of the document.

Part II: Strategic considerations

This will be a discussion of the important parameters which have a bearing on the preparation of the Plan. These parameters may include, among other things,:

- the global phase-out scenario decided upon;
- the global phase-out basis for Article 5 countries to come into effect in the Plan period;
- likely policy directives from the Meeting of the Parties which are of concern to the Multilateral Fund operation and, in particular, those on funding level;
- national ODS phase-out priorities identified in the country programmes.

Part III: Indicative ODS phase-out targets and further Indicative ODS programming targets

Indicative annual and triennial targets will be established according to the following distribution:

- sector
- agency
- Fund-wide

These targets should reflect the priorities identified in the country programmes.

Methodology:

8. Whenever possible, the planning will make use of implementation data:
  - It is the latest empirical data for the actual operation of the Multilateral Fund;
  - The latest Fund implementation data should reflect the maturity of implementing agencies and Article 5 countries in project development.
9. The development of targets will also need to take account of:
  - The need to synchronize with Montreal Protocol control schedule;
  - The delivering capacities of implementing agencies and governments. The implementing agencies and the governments are the means of delivery of the Multilateral Fund and their capacities to develop as well as implement phase-out is the determining factor for the speed of actual phase-out. The adjustment according to this delivery capacity will rationalize the current imbalance between project development and project implementation;
  - Guidelines on priorities established by the Meeting of the Parties and the Executive Committee;
  - National priorities identified in the country programmes.

Part IV: Financial consideration

10. The overall level of funding is determined by the Parties on a triennium basis. The Eighth Meeting of the Parties will determine the level of the Multilateral Fund for 1997-1999. For subsequent rolling plans prepared annually to cover periods 1998-2000 and onwards, the Executive Committee will base the funding level on the previous level provided by the Parties for planning purposes only.

11. For the purpose of the current framework, it is deemed adequate to indicate the broad categories of activities to be considered. It is also assumed that the operational policies and guidelines, as developed under the Multilateral Fund, will continue to guide the operations of the Fund in the future. The plans will reflect:

- Investment activities;
- Non-investment activities which will include such activities like clearing-house, country programme preparation and updating, institutional strengthening, and others;
- Administration and other support costs;
- Performance of the implementing agencies.

Part V: Annual programme review and adjustment

12. This will be an elaboration of the Approach as discussed on page 3. The review and adjustment will be built upon the idea of a rolling plan, by combining the medium-term indicative planning with preparation of annual business plans. It is intended to keep the Three-Year Plan up-to-date to be a continuing effective planning tool, and maintain the flexibility to adapt to changing circumstances. The review and adjustment will take account of:

- Macro indicators like the annual targets to evaluate the performance of the Fund and the implementing agencies in the previous year;
- The impact on the global phase-out scenario;
- New programming guidelines and policies;
- The needed adjustments in the Plan as reflected in the annual business plan.

## SECTION II

### INDICATIVE PROJECTION OF RESOURCES FOR ODS PHASE-OUT SCENARIOS

#### Introduction

1. This section addresses the request to prepare an indicative projection of resources for ODS phase-out scenarios.

2. According to paragraph 14 of the Report of the Twelfth Meeting of the Open-ended Working Group (UNEP/OzL.Pro/WG.1/12/4), the phase-out scenarios under consideration are 2006 plus service tail, 2010, and 2010 plus service tail. Consequently, the analysis in this section follows this decision.

3. This section will provide an indicative projection of the demand for resources for each of the scenarios mentioned in paragraph 2 above, based upon one of the three cost estimates i.e. the Fund cost estimate, included in the Report under Paragraph 8 of Article 5 of the Montreal Protocol (UNEP/OzL.Pro/WG.1/11/4) (herein after referred to as the Report).

4. An estimated annual demand for resources is also calculated on the basis of the Fund cost estimate for each of the scenarios 2006 plus service tail, 2010 and 2010 plus service tail, as included in the Report.

5. Alternative approaches to estimating annual demand for resources could also be contemplated. These alternatives could include:

- calculating total requirements on the basis of historic experience of ODP phase out achieved with resources already allocated.
- calculating total requirements on the basis of projections included in the current Business Plans
- calculating annual requirements without assuming a constant, flat rate of demand (for example, increased demand in some years)

6. It should be emphasized that the coverage of the analysis in the section is limited to the cost implications of implementing the control measures for substances included in Annex A and B of the Montreal Protocol, and is, as requested, limited to the demand for resources for the specific scenarios noted above. Demand projections not directly related to these specific scenarios were, therefore, deemed beyond the scope of the document.



### Approach of the section

7. This section relies for its analysis on the information from the Report, which is the most comprehensive and up-to-date information currently available on the subject. The Report was done under the supervision of the Executive Committee by an independently selected consulting consortium with membership from both Article 5 and non-Article 5 countries. As a result, this section sometimes transplants data directly from the Report and sometimes undertakes analysis based on the information from the Report.

### An indicative projection of demand for resources for the various phase-out scenarios

#### Fund Costs of Phase-out Scenarios

8. The Fund costs of the three phase-out scenarios calculated at zero per cent discount rate are presented under the heading "Fund Cost" in the second column of the table entitled Resource Requirement Profiles of the Multilateral Fund for Phase Out Scenarios on page 8 (data extracted from Exhibit 6-10 of the Report).

#### Estimation of Fund Costs

9. Fund costs measure the expected financial demand on the Multilateral Fund for the full duration of its operation, that is, from the inception of the Fund through the final phase-out date. The cost components included in the Fund costs were those specified in the document entitled "Indicative List of Categories of Incremental Costs" adopted at the Second Meeting of the Parties to the Protocol. Key features of this measure of costs include consideration of operating costs, the reduction of grants from the Fund to reflect the fraction of foreign, non-Article 5 ownership of ODS-using enterprises, exclusion of negative costs (or savings) for projects that are profitable without funding and the use of escalating ODS prices over time. Rising ODS prices are used to reflect the practice of calculating Fund grants based on prices projected to actually be paid by enterprises. (as per paragraph 35 and 128 of the Report).

10. In addition to the costs associated with investment projects to reduce ODS use, the costs of phasing out ODS production in Article 5 countries and non-investment (administrative costs) are added to the costs associated with phasing out ODS use. Non-investment activities include the support activities of the implementing agencies, the operations of the Secretariat and the Executive Committee, institutional strengthening grants for Article 5 governments, and the information clearing house functions (as per paras. 173 and 183 of the Report).

### Resource requirement profiles of the Multilateral Fund for phase-out scenarios

11. The analysis in this section is intended to further elaborate the work in the preceding section by placing the analysis into the ongoing operations of the Multilateral Fund. This is done by the following:

- bring into the estimated Fund Cost the funds already disbursed from the Multilateral Fund as of November 1995, which includes the approvals at the Eighteenth Meeting of the Executive Committee on 22-24 November 1995.

- use zero per cent discount rate to account for the fact that the financial obligations of the Multilateral Fund are spread over the entire duration of the Fund operation.

**Resource Requirement Profiles of the Multilateral Fund for Phase Out Scenarios  
(Based on the Report under Paragraph 8 of Article 5 of the Montreal Protocol)  
(US \$ million)**

Scenario	Fund Cost <sup>1</sup>	Funds disbursed as of November 1995 <sup>2</sup>	Residual Cost (1996 →) <sup>3</sup>	Years Remaining (1996 →) <sup>4</sup>	Annual Rate of Disbursement <sup>5</sup>
2010	3,188	442.7	2,745.3	14	196.1
2006 + tail	2,179	442.7	1,736.3	10	173.6
2010 + tail	2,181	442.7	1,738.3	14	124.2

12. Fund disbursement in the last year of each of the scenarios listed above are expected to cover also costs of: phase-out of remaining use of methyl chloroform; shut down of residual production facilities; and costs of recovery and recycling.

13. The annual rate of disbursement is not adjusted for the implementation of the interim control measures mandated by the Protocol. This will be determined when the global consumption figure equivalent to the freeze is known.

14. In considering the figures in the table above, it should be recognized that alternative approaches to estimating annual demand for resources could also be contemplated. These alternatives could include:

- calculating total requirements on the basis of historic experience of ODP phase out achieved with resources already allocated.
- calculating total requirements on the basis of projections included in the current Business Plans
- calculating annual requirements without assuming a constant, flat rate of demand (for example, increased demand in some years)

<sup>1</sup> The Fund cost uses a zero percent discount rate as shown in Exhibit 6-10 in the Report.

<sup>2</sup> The total of funds disbursed as of November 1995 from the Multilateral Fund, which includes the approvals at the 18th Meeting of the Executive Committee.

<sup>3</sup> The balance between columns 2 and 3.

<sup>4</sup> The remaining number of years until the end of the scenario from 1996 onward.

<sup>5</sup> The annual figure is column 4 divided by column 5.

## SECTION III

### A DETAILED PLAN INCLUDED PROJECTED CASH FLOW FOR 1996

#### Introduction

1. This section addresses the request to prepare a detailed plan including project cash flow for 1996.
2. The plan establishes goals and targets for the Executive Committee and the implementing agencies including the amount of ozone depleting substances (ODS) to be phased out as a result of approvals in 1996, the level of funds for Executive Committee approvals and programme expansion, rates of implementation in terms of disbursements against approvals for the implementing agencies, levels of allocation for non-investment activities, cost-effectiveness goals, and performance indicators to measure the progress of the implementing agencies in achieving project implementation. The plan was based on input from the implementing agencies and a review of that input by the Executive Committee.

#### **ODS Phase Out Target**

3. Current ODS consumption in Article 5 countries is estimated at approximately 210,000 ODP tonnes. On a regional basis, the two largest ODS consuming regions, Asia and the Pacific and Latin America and the Caribbean represent over 90 per cent of the ODS consumption in all Article 5 countries.
4. It is expected that the Multilateral Fund will approve investment projects in 1996 that will phase out over 25,000 ozone depleting potential (ODP) tonnes when implemented. This will bring the total to over 80,000 ODP tonnes as a result of Executive Committee approvals through 1996. Out of this amount, 7,500 ODP tonnes will have been phased out by the end of 1995 and an additional 19,000 ODP tonnes are expected to be phased out by the end of 1996.
5. Table 1 presents the estimated current ODS consumption, the ODS represented by approvals through 1996, and the ODS phased out to-date as a result of projects from the Multilateral Fund.

Table 1

## REGIONAL DISTRIBUTION OF ODS PHASE-OUT

Amount of ODS Phase Out	Africa	Asia and Pacific	Europe	Latin Amer/ Caribbean	Total
Estimated Consumption	10,000	140,000	10,000	50,000	210,000
From Approved Projects through 1995	5,225	45,575	2,170	2,196	55,166
From Projects Expected to be Approved in 1996	1,373	19,414	2,170	2,196	25,153
From Approved and Expected Approved Projects through 1996	6,597	64,990	3,638	8,301	83,526
Expected by the End of 1995 for Projects Not Yet Closed <sup>6</sup>	573	2,629	950	865	5,017
Expected in 1996	2,403	14,893	474	1,276	19,045
Expected by the End of 1996	2,976	17,522	1,424	2,141	24,062

## Projected Cash Flow for 1996

6. To enable the development of a detailed plan to accomplish these ODS phase-out targets and other programmatic and administrative functions, a projection of cash flow for 1996 was necessary. The projection was based on the level of pledged contributions for the current triennium budget and a review of the receipt of contributions since the inception of the Fund and it was assumed that the current pattern of contribution payment would continue.

7. As part of the triennium budget for the period of 1994 through 1996 approved by the Parties in November 1993, the 1996 level of pledges is set at US \$148.6 million.<sup>7</sup>

8. In any given year, the Multilateral Fund receives a combination of payments against the current year pledge and arrears. Typically, this combination represents over 80 per cent of the pledge for that year. For 1996, it was estimated that US \$132 million or 89 per cent of the 1996 pledge of US \$148.6 million would be available for programming purposes.

<sup>6</sup> These figures do not include the phase-out of another 2,500 ODP tonnes reported by the implementing agencies after preparation of their business plans in October 1995.

<sup>7</sup> The original figure of US \$151.66 million, as approved by the Fifth Meeting of the Parties, was revised downwards as a result of the reclassification of some Parties as Article 5 countries.

9. It has been observed that payment of contributions of a given year is sometimes spread over a period of three years, the current year and the following two years. Consequently, part of the collectible contributions of this triennium (1994 through 1996) will be collected in 1997 and 1998.

10. Of the US \$132 million available for 1996, it is expected that US \$97 million would be available for investment projects, US \$15 million for bilateral co-operation, and US \$20 million would be allocated for work programme and other non-investment activities, administration, and special initiatives (which could include additional investment projects). Table 2 provides the resource allocations for 1996.

Table 2

## INDICATIVE RESOURCE ALLOCATION FOR 1996

Activities	Allocation Categories	Amount (US million dollars)		
		Work Programmes	Sub-Totals	Totals
				97.0
<b>Investment Projects</b>				
	Low Consuming Countries		6.5	
	Recycling/Halon Banking		3.3	
	MACs and Compressors		7.6	
	Other Investment Projects		79.6	
<b>Bilateral Co-operation</b>				15.0
<b>Non-Investment Activities<sup>8,9</sup></b>				20.0
	Work Programmes for 1997		9.56	
	• UNDP	2.00		
	• UNEP	3.00		
	• UNIDO	1.63		
	• World Bank	2.93		
	Discretionary Fund		8.44	
	Administration (Fund Secretariat and Executive Committee)		2.0	
<b>TOTAL</b>				132.0

<sup>8</sup> Additional funds for the renewal of institutional strengthening and for the few remaining country programmes may be required.

<sup>9</sup> This amount excludes the 1996 work programme that will be submitted at the first meeting in 1996.

11. The special allocation for low consuming countries is in addition to any funds received as a result of approval of projects from low-ODS-consuming countries that qualified under the cost-effectiveness thresholds established at the Sixteenth Meeting of the Executive Committee.

12. The terms of reference for the Executive Committee allow the Committee to allocate Multilateral Fund resources among the implementing agencies (UNEP/OzL.Pro.4/15 Annex X para. 10(b)). At its Seventeenth Meeting, the Executive Committee determined that funds for investment projects should be allocated among the three implementing agencies engaged in investment project implementation. Table 3 presents the percentage allocations and levels available for funding in 1996 for investment projects.

**Table 3**

**ALLOCATIONS FOR INVESTMENT PROJECTS IN 1996, BY AGENCY**

<b>Agency</b>	<b>Per Cent of Total</b>	<b>Level of Funds for Investment Projects in 1996</b>
UNDP	30	US \$29 million
UNIDO	25	US \$24 million
World Bank	45	US \$44 million
<b>TOTAL</b>	<b>100</b>	<b>US \$97 million</b>

**Investment Projects**

13. Although US \$97 million is estimated to be available for funding of investment projects in 1996, the implementing agencies have been requested to submit proposals totaling 135 per cent of available resources. Implementing agencies indicated that they expect to submit over US \$120 million in investment project proposals in 1996. Table 4 presents the distribution of funding and ODS phase out for project approvals expected in 1996.

Table 4

**EXPECTED PERCENTAGE DISTRIBUTION OF INVESTMENT PROJECT APPROVALS AND RESULTING PHASE-OUT, BY SECTOR**

Sector	Funds (per cent)	ODP (per cent)
Aerosol	4	6
Foam	21	17
Halon	6	26
Other	0	0
Production	2	15
Refrigeration	59	31
Several	0	0
Solvent	8	4
TOTAL	100	100

14. A total of about US \$4.4 million is expected to be available for project preparation in 1996. This level of project preparation is expected to produce 345 project proposals in 1996 with an additional 25 project proposals carried over until 1997. Table 5 present project preparation and the number of projects it will generate from funds allocated for project preparation in 1996.

Table 5

**PROJECT PREPARATION IN 1996, BY SECTOR**

Sector	Surplus from Approved Project Preparation (US \$)	Additional Requests for 1996 (US \$)	1996 projects (number)	1997 projects (number)
Aerosol	63,000	70,000	27	5
Foam	338,900	343,000	107	8
Halon	69,000	22,000	24	0
Other	0	0	1	0
Production	0	0	3	0
Refrigeration	307,000	484,000	144	5
Several	0	200,000	1	2
Solvent	34,000	200,000	38	5
World Bank	1,270,000	985,000		
Sub-Total	2,081,900	2,304,000	345	25
TOTAL	4,385,900			

15. The regional distribution of project preparation funds is roughly proportionate to the level of ODS consumption with the exception of low-consuming regions where project preparation is higher than their proportionate level of global ODS consumption. Project preparation by region is as follows:

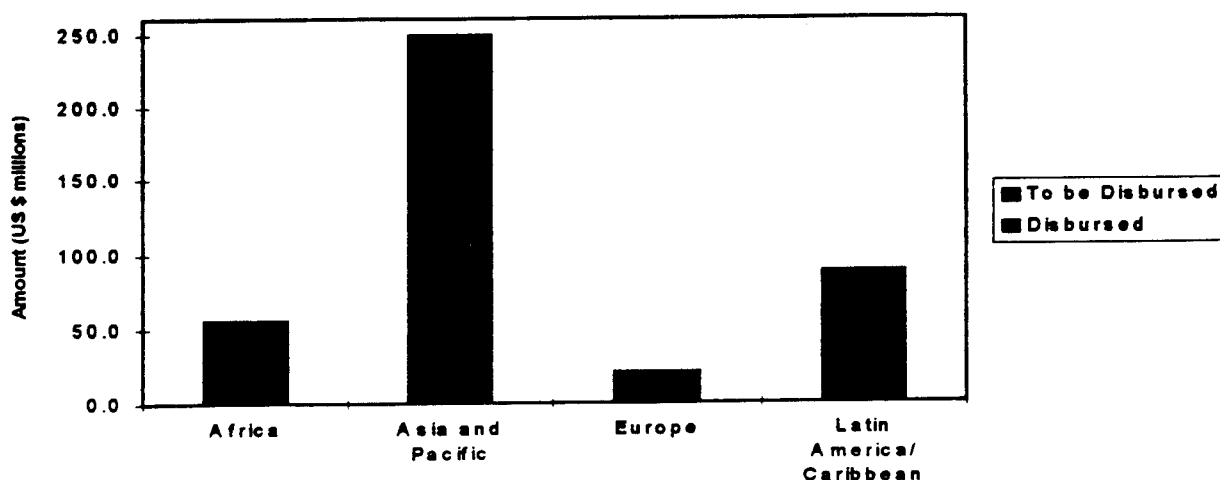
REGION	PROJECT PREPARATION (in per cent of total)	ODS CONSUMPTION (in per cent of total)
Africa	13.1	4.75
Asia and the Pacific	52.4	66.7
Europe	9.1	4.75
Latin America and the Caribbean	25.4	23.8
TOTAL	100.0	100.0

Rates of Disbursement

16. Through 1995, the implementing agencies are projected to complete projects that will result in the final phase-out of approximately 7,500 ODP tonnes of the 58,000 ODP tonnes approved for phase-out. It is expected that by the end of 1996, over 50 per cent of the funds approved will have been disbursed. On a regional basis, implementation in Africa is expected to reach 66 per cent of approvals, while implementation in the largest ODS consuming regions, is expected to be at rates of 44 and 50 per cent for Asia and the Pacific Region and the Latin America and Caribbean Region, respectively. Disbursement for Europe is expected to be 50 per cent of the funds approved. Figure 1 presents the rate of approvals and disbursements by region.

Figure 1

**EXPECTED DISBURSEMENTS FOR INVESTMENT PROJECTS THROUGH 1996**





### Non-Investment Projects

17. Non-Investment projects include country programme preparation, demonstration projects, institutional strengthening, and technical assistance and training not included in investment projects. A total of over US \$25 million is expected to have been approved through 1996 for non-investment projects. The rate of implementation of these projects is relatively high compared to investment projects due in large part to their short time frame for implementation. Overall, non-investment projects have a 70 per cent rate of implementation. Institutional strengthening is normally approved for a three-year period, but it is implemented annually. For this reason, the rate of implementation is related to its relatively long time frame for implementation vis-à-vis other non-investment projects.

### Performance Indicators

18. The guidelines for business plans require implementing agencies to develop performance indicators to enable an assessment of the agencies' performance against 1996 business plan projections. Those indicators can be grouped into the following categories: speed of delivery of funding, project implementation, ODS phase-out, cost of delivery of project proposals, and cost-effectiveness.

19. The speed of delivery from the time of approval to the first disbursement ranged from six to nine months. The speed of delivery from the time of approval to the final disbursement was up to 27 months but varied according to the type of conversion.

20. The cost of delivery is specified in the guidelines as the agencies' administrative costs as a percentage of project approval amounts and project preparation costs as a percentage of project approval amounts. Administrative costs are set at 13 per cent of the cost of project approvals.

21. Performance indicators also include the amount and speed of ODS phase-out. The implementing agencies plan to phase-out in 1996 from 28 per cent to 53 per cent of the ODS represented by approved projects through the end of 1996. Although the final disbursement is expected to take up to 27 months from the time of approval, the actual phase-out is expected to occur before the final disbursement. Implementing agencies indicated that projects should complete the ODS phase-out within up to 25 months of Executive Committee approval depending on the type of investment project.

22. The cost-effectiveness of projects is calculated as the amount of the grant divided by the amount of ODS in ODP equivalents and it is expressed in US dollars per kilogram ODP. The agencies provided estimates of the projected cost effectiveness of their projects as follows:

Agency	Cost-Effectiveness
UNDP	US \$7.0/Kg.
UNIDO	US \$13.11/Kg.
World Bank	US \$3.5-4.5/Kg.

23. It should be noted that these figures are influenced strongly by the sectoral break down of the agencies' activities (some sectors are inherently much more cost-effective than others) and by the size of projects undertaken by the agency (large projects can be more cost-effective).

