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EXECUTIVE COMMITTEE OF
 THE MULTILATERAL FUND FOR THE
 IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-seventh Meeting

Montreal, 28 November - 2 December 2016

CONSOLIDATED BUSINESS PLAN OF THE MULTILATERAL FUND for 2017-2019

# **Introduction**

# The Secretariat and the bilateral and implementing agencies began their collaborative efforts on business planning for 2017-2019 of the Multilateral Fund with the submission of the initial business plan tables on 15 August 2016. The total value of the 2017-2019 business plan tables as submitted is summarized in Table 1.

**Table 1: Total initial business plan values for 2017-2019 (U$ $000)**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Item** | **2017** | **2018** | **2019** | **Total** **(2017-2019)** | **2020** | **Total after 2020** |
| **Grand total** | **175,936** | **260,841** | **191,219** | **627,995** | **245,268** | **346,178** |
| Indicative budget | 153,800 | 169,167 | 169,167 | 492,133 | 169,167 |   |
| Difference | 22,136 | 91,674 | 22,052 | 135,862 | 76,101 |   |

# Programme officers reviewed new activities in particular stage II of HCFC phase-out management plans (HPMPs) in the light of stage I of HPMPs, remaining funding eligibility and costs, and sent comments to bilateral and implementing agencies. During the Inter-agency coordination meeting (IACM) held in Montreal from 31 August to 1 September 2016, the Secretariat discussed the issues arising from the review of the initial business plan tables including *inter alia*: over-programming, projects in the 2016 business plans but not submitted to the 77th meeting, and the production sector including tranches associated with the HCFC production phase-out management plan (HPPMP) for China.

# Further to the discussion at the IACM, bilateral and implementing agencies revised their business plan tables and resubmitted them together with the narrative sections. The total value of the business plan for 2017-2019 is summarized in Table 2.

**Table 2: Total revised business plan values for 2017-2019 as submitted (US $000)**

| **Item** | **2017** | **2018** | **2019** | **Total** **(2017-2019)** | **Total** **2020** | **Total after 2020** |
| --- | --- | --- | --- | --- | --- | --- |
| **Grand total** | **173,198** | **274,359** | **272,104** | **719,660** | **335,485** | **871,520** |
| Indicative budget | 153,800 | 169,167 | 169,167 | 492,133 | 169,167 |  |
| Difference | 19,398 | 105,192 | 102,937 | 227,527 | 166,319 |  |

Content

# This document presents the consolidated business plans of the Multilateral Fund for 2017-2019 and is based on the business plans for 2017-2019 of bilateral agencies[[1]](#footnote-1) and UNDP[[2]](#footnote-2), UNEP[[3]](#footnote-3), UNIDO[[4]](#footnote-4) and the World Bank[[5]](#footnote-5) submitted to the 77th meeting.

# This document consists of the following sections:

* Resource allocation in the business plan for 2017-2019
* Secretariat’s observations on activities required for compliance
* Secretariat’s observations on standard activities
* Adjustments to the consolidated business plan of the Multilateral Fund for 2017-2019
* Other policy issues
* Recommendations of the Secretariat

**Resource allocation in the business plan for 2017-2019**

# Table 3 presents, by year, the value of activities included in the business plan for 2017-2019. The values exceed the indicative budget by US $227.53 million.

**Table 3: Resource allocation in the business plan for 2017-2019 as submitted (US $000s)\***

| **Item** | **2017** | **2018** | **2019** | **Total****(2017-2019)** | **2020** | **Total after 2020** |
| --- | --- | --- | --- | --- | --- | --- |
| **Required for compliance** |
| Approved HPMPs | 23,279 | 49,698 | 8,218 | 81,195 | 17,350 | 5,940 |
| HCFC production project preparation (PRP) – stage I | 107 | 0 | 0 | 107 | 0 | 0 |
| HCFC production – stage I | 0 | 533 | 533 | 1,065 | 533 | 0 |
| HCFC production – stage II | 29,306 | 29,306 | 29,306 | 87,917 | 29,306 | 172,777 |
| HPMP stage I | 127 | 853 | 8 | 988 | 191 | 0 |
| HPMP stage I – additional funding PRP | 60 | 0 | 0 | 60 | 0 | 0 |
| HPMP stage I – additional funding | 1,417 | 430 | 0 | 1,846 | 0 | 0 |
| HPMP PRP – stage II | 868 | 4,186 | 228 | 5,282 | 0 | 80 |
| HPMP stage II | 83,116 | 155,176 | 198,054 | 436,347 | 181,834 | 409,194 |
| HPMP PRP – stage III | 0 | 0 | 0 | 0 | 102 | 0 |
| HPMP stage III | 0 | 0 | 0 | 0 | 70,945 | 283,530 |
| HPMP verification | 589 | 589 | 589 | 1,766 | 589 | 0 |
| **Standard activities** |
| Compliance Assistance Programme (CAP) | 10,931 | 11,259 | 11,596 | 33,786 | 11,944 | 0 |
| Core unit | 5,864 | 5,905 | 5,946 | 17,715 | 5,988 | 0 |
| Secretariat, Executive Committee, and Monitoring and Evaluation costs minus Canadian counterpart | 5,759 | 5,893 | 6,030 | 17,682 | 6,172 | 0 |
| Treasurer | 500 | 500 | 500 | 1,500 | 500 | 0 |
| Institutional strengthening (IS) | 11,276 | 10,033 | 11,096 | 32,405 | 10,033 | 0 |
| **Grand total** | **173,198** | **274,359** | **272,104** | **719,660** | **335,485** | **871,520** |
| Indicative budget\*\* | 153,800 | 169,167 | 169,167 | 492,133 | 169,167 |  |
| Difference | 19,398 | 105,192 | 102,937 | 227,527 | 166,319 |  |

\* Including agency support costs where applicable.
\*\* Based on decision 74/3(c) for 2017, and the level of previous replenishments for 2018, 2019 and 2020.

# **Secretariat’s observations on activities required for compliance**

Production sector

# A total of US $1.7 million (including US $107,000 for project preparation activities in 2017) is included for stage I of the HPPMP in the Democratic People’s Republic of Korea.

# US $29.31 million per year is included for 2017 to 2020 and US $172.78 million for after 2020 for stage II of the HPPMP for China. This annual level of funding for 2017 to 2020[[6]](#footnote-6) would exceed the average annual amount left after stage I (US $21.87 million for each year between 2017 and 2030) by 34 per cent.

# Stage I of HPMPs and additional projects

# There are three countries[[7]](#footnote-7) for which stage I of HPMPs have not yet been approved. The business plan includes US $1.18 million for activities of which US $988,385 is programmed for the period 2017 to 2019.

# Implementing agencies included additional projects outside stage I of HPMPs for six countries, namely Bahrain, Bolivia (Plurinational State of), Costa Rica, Cuba, Ecuador and Paraguay[[8]](#footnote-8), amounting to US $1.91 million for the period of 2017 to 2019 (including one project preparation activity amounting to US $60,000 in 2017 for Bolivia (Plurinational State of)). These requests fall under different decisions of the Executive Committee that allow those countries to submit additional projects during the implementation of stage I of their HPMPs.

# Stage II of HPMPs in low-volume-consuming (LVC) countries

# The total level of funding for stage II of HPMPs for the servicing sector in LVC countries is US $25.99 million of which US $423,865 is for the period 2017 to 2019 to reach the 67.5 per cent reduction from the baseline consumption of HCFCs in 2025. The value of projects for the servicing sector in LVC countries required to reach a 35 per cent reduction is US $707,387 (including US $563,292 for the period of 2017 to 2019).

Stage II of HPMPs in non-LVC countries

# The total level of funding for stage II of HPMPs in non-LVC countries is US $1 billion with an associated phase-out of 13,090 ODP tonnes of HCFCs (including US $435.36 million for the period of 2017 to 2019 with a phase-out of 4,640 ODP tonnes of HCFCs). The funding distribution by sector is provided in Table 4.

**Table 4: Funding distribution of stage II of HPMPs in non-LVC countries by sector (US $000)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Sector** | **2017-2019** | **2020** | **After 2020** | **Total** | **Per cent of total** |
| Foam general | 4,628 | 769 | 0 | 5,397 | 0.5 |
| Foam rigid | 79,720 | 27,809 | 91,405 | 198,934 | 19.9 |
| Foam rigid and refrigeration servicing | 747 | 121 | 0 | 868 | 0.1 |
| Foam rigid and extruded polystyrene (XPS) | 5,632 | 1,609 | 805 | 8,046 | 0.8 |
| XPS foam | 64,900 | 23,540 | 75,153 | 163,593 | 16.3 |
| Foam, refrigeration, air conditioning | 27,887 | 17,330 | 2,179 | 47,396 | 4.7 |
| Fire fighting | 31 | 3 |   | 34 | 0.0 |
| Production of hydrocarbon-based refrigerant, XPS and foam | 6,572 | 0 | 1,502 | 8,075 | 0.8 |
| Refrigeration air-conditioning | 84,913 | 28,051 | 702 | 113,666 | 11.4 |
| Refrigeration assembly | 1,221 | 467 | 0 | 1,688 | 0.2 |
| Refrigeration general (including manufacturing, commercial, and industrial) | 100,435 | 42,815 | 21,346 | 164,596 | 16.4 |
| Refrigeration servicing | 43,635 | 23,205 | 172,160 | 239,000 | 23.9 |
| Solvent | 14,984 | 6,518 | 27,796 | 49,298 | 4.9 |
| Production sector monitoring | 54 | 18 | 18 | 90 | 0.0 |
| **Grand total** | **435,360** | **172,256** | **393,065** | **1,000,681** | **100.0** |

# Project preparation for stage III of HPMPs

# The total level of funding for project preparation for stage III of HPMPs (Chile, the Democratic Republic of the Congo and Peru) is US $101,700 for the period after 2019.

Stage III of HPMPs in LVC countries

# The total level of funding for stage III of HPMPs in two LVC countries (Armenia and the Republic of Moldova) in the refrigeration servicing sector amounts to US $429,670 for the period after 2019.

Stage III of HPMPs in non-LVC countries

# The total level of funding for stage III of the HPMP in one non-LVC country (China) is US $354.05 million for after 2019 in the refrigeration air-conditioning sector and refrigeration industrial and commercial sector.

HPMP verification

# The Secretariat has included an amount of US $588,600 per year for verification reports[[9]](#footnote-9) assuming that 18 reports, each at a cost of US $32,700, will be prepared (US $1.77 million for the period of 2017 to 2019 and US $588,600 for 2020).

# **Secretariat’s observations on standard activities**

Standard costs

# The standard costs, e.g., CAP, core unit costs, Secretariat/Executive Committee and monitoring and evaluation costs, and the Treasurer’s costs, are expected to be maintained at the rates of increases that have been agreed to-date.

IS

# For IS activities, US $42.44 million has been included in the business plan of which US $32.41 million is for the period of 2017 to 2019[[10]](#footnote-10), and US $10.03 million for 2020.

**Adjustments to the consolidated business plan of the Multilateral Fund for 2017-2019**

# During the IACM, adjustments to the business plans of bilateral and implementing agencies were agreed based on relevant decisions of the Executive Committee as explained under the introduction section. In reviewing the revised business plan of bilateral and implementing agencies for 2017-2019, the Secretariat noted that the following adjustments were not included:

**Table 5: Adjustments to the consolidated business plan of the Multilateral Fund for 2017-2019**

| **Adjustment** | **2017-2019 (US $000)** | **2020 and after 2020 (US $000)** |
| --- | --- | --- |
| HPMP values to reflect the actual amounts approved under the agreements | 394 | 5 |
| HPMP values to reflect tranches of HPMPs that are due but not submitted to the 77th meeting | 3,897 | 0 |
| New HPMP activities (stage I) with submissions to the 77th meeting to match the proposed funding level as originally submitted | 45 | 11 |
| New HPMP activities (stages II) with submissions to the 77th meeting to match the proposed funding level as originally submitted | 16,674 | -142,601 |
| Stage II of HPPMP starting in 2017 as per decision 71/23(c) | -22,295 | 38,535 |
| Additional stage I of HPMP preparation  | -23 | 0 |
| Stage I of HPMPs with phase-out exceeding the maximum eligibility for HCFC-141b (including those contained in imported pre‑blended polyol) | -16 | 0 |
| Project preparation for stage II of HPMPs pursuant to decision 71/42 | -98 | -34 |
| Stage II of HPMPs in LVC countries to the maximum allowable value to achieve 35 or 67.5 per cent reduction in the HCFC baseline consumption based on decision 74/50(c)(xii) | -34 | -1,244 |
| Stage II of HPMPs in non-LVC countries with the foam sector based on a maximum cost-effectiveness of US $7.00/kg[[11]](#footnote-11) | 0 | -11 |
| Stage II of HPMPs in non-LVC countries with the refrigeration servicing sector based on a maximum cost-effectiveness of US $4.80/kg | -0.497 | -103 |
| Stage II of HPMPs with phase-out exceeding the maximum eligibility for HCFC-141b (including those contained in imported pre‑blended polyol) | -1,498 | 0 |

# Table 6 presents the results of the proposed adjustments to the consolidated business plan for 2017-2019.

**Table 6: Adjusted resource allocation for the business plan for 2017-2019 (US $000s)\***

| **Item** | **2017** | **2018** | **2019** | **Total** **(2017-2019)** | **2020** | **Total after 2020** |
| --- | --- | --- | --- | --- | --- | --- |
| **Required for compliance** |
| Approved HPMPs | 27,542 | 49,727 | 8,218 | 85,487 | 16,293 | 7,002 |
| HCFC production PRP – stage I | 107 | 0 | 0 | 107 | 0 | 0 |
| HCFC production – stage I | 0 | 533 | 533 | 1,065 | 533 | 0 |
| HCFC production – stage II | 21,874 | 21,874 | 21,874 | 65,623 | 21,874 | 218,743 |
| HPMP stage I | 127 | 898 | 8 | 1,034 | 202 | 0 |
| HPMP stage I – additional funding PRP | 37 | 0 | 0 | 37 | 0 | 0 |
| HPMP stage I – additional funding | 1,400 | 430 | 0 | 1,830 | 0 | 0 |
| HPMP PRP – stage II | 837 | 4,184 | 163 | 5,184 | 0 | 46 |
| HPMP stage II | 81,134 | 172,260 | 198,095 | 451,488 | 188,680 | 258,389 |
| HPMP PRP – stage III | 0 | 0 | 0 | 0 | 102 | 0 |
| HPMP stage III | 0 | 0 | 0 | 0 | 70,945 | 283,530 |
| HPMP verification | 589 | 589 | 589 | 1,766 | 589 | 0 |
| **Standard activities** |
| CAP | 10,931 | 11,259 | 11,596 | 33,786 | 11,944 | 0 |
| Core unit | 5,864 | 5,905 | 5,946 | 17,715 | 5,988 | 0 |
| Secretariat, Executive Committee, and Monitoring and Evaluation costs minus Canadian counterpart | 5,759 | 5,893 | 6,030 | 17,682 | 6,172 | 0 |
| Treasurer | 500 | 500 | 500 | 1,500 | 500 | 0 |
| IS | 11,276 | 10,033 | 11,096 | 32,405 | 10,033 | 0 |
| **Grand total** | **167,975** | **284,084** | **264,648** | **716,707** | **333,854** | **767,710** |
| Indicative budget\*\* | 153,800 | 169,167 | 169,167 | 492,133 | 169,167 |  |
| Difference | 14,175 | 114,917 | 95,481 | 224,574 | 164,687 |  |
| **By agency** |
| France | 180 | 0 | 0 | 180 | 5 | 0 |
| Germany | 2,017 | 10,445 | 751 | 13,212 | 7,553 | 5,433 |
| Italy | 266 | 107 | 266 | 638 | 0 | 0 |
| Japan | 285 | 130 | 100 | 516 | 100 | 0 |
| UNDP | 27,101 | 79,968 | 82,603 | 189,672 | 92,213 | 163,584 |
| UNEP | 26,508 | 28,590 | 24,956 | 80,055 | 33,381 | 15,766 |
| UNIDO | 52,272 | 86,584 | 85,332 | 224,188 | 130,921 | 268,171 |
| World Bank | 52,498 | 71,278 | 63,522 | 187,298 | 62,421 | 314,758 |
| HPMP verification | 589 | 589 | 589 | 1,766 | 589 | 0  |
| Secretariat, Executive Committee, and Monitoring and Evaluation costs minus Canadian counterpart | 5,759 | 5,893 | 6,030 | 17,682 | 6,172 | 0  |
| Treasurer | 500 | 500 | 500 | 1,500 | 500 | 0  |

\* Including agency support costs where applicable.

\*\* Based on decision 74/3(c) for 2016 and 2017, and the level of previous replenishments for 2018.

**Other policy issues**

**Activities in the 2016 business plan not approved at the 77th meeting**

# Activities included in the 2016 business plans of bilateral and implementing agencies but not submitted to the 77th meeting have already been included in the 2017-2019 business plan. Any project submitted to the 77th meeting but subsequently deferred should also be included in the 2017-2019 business plan along with the resource allocation provided for them in the 2015‑2017 triennium as advised by the bilateral and implementing agencies.

# The approval of activities not included in the 2016 business plan at the 77th meeting may result in less resources being available for the remainder of the 2015-2017 replenishment as indicated in the Update on the status of implementation of the 2016-2018 consolidated business plan of the Multilateral Fund[[12]](#footnote-12).

# **Over-budgeting**

# After adjustments are made, the activities in the business plan exceed the overall indicative budget by US $224.57 million for 2017-2019 (i.e., US $14.18 million in 2017, US $114.92 million in 2018, and US $95.48 million in 2019), and by US $164.69 million in 2020. The indicative budget assumes US $169.167 million annually for the next replenishment period of 2018-2020 at the same level as the current replenishment (2015-2017).

# The business plan values for 2017 is US $14.1 million (9.2 per cent) above the overall budget of US $153.8 million. This may likely be accounted for: by funds allocated for activities that might not be submitted as planned; and by the level of approved funding below the business plan values. However, the entries in the business plan for 2018 to 2020 exceed the indicative budget by an average of US $145 million, annually. The over‑budgeting is mostly related to business plan values for non-LVC countries whose stages II of HPMPs have tranches funded back-loaded, i.e., with higher tranche values after 2017.

# The total value of new HPMPs (stages I and II) submitted to the 77th meeting was US $720.38 million for 2017 to after 2020[[13]](#footnote-13) that exceeds business plan cost-effectiveness values by US $108.33 million. The approval in principle of these new HPMPs will determine the actual resource requirements for 2018-2020 and beyond.

# The 2017-2019 business plan would more accurately reflect the resource allocation required to fund them if the business plans were further adjusted based on the values approved in principle for them at the 77th meeting. This is particularly important at this time as Technology and Economic Assessment Panel (TEAP) Task Force will be using the business plan as one of the reference documents for its assessment of future replenishment needs. The Executive Committee may which to adjust the 2017-2019 business plan based on the level of funds approved in principle for the HPMPs approved at the 77th meeting.

**RECOMMENDATIONS**

# The Executive Committee may wish:

## To note the consolidated business plan of the Multilateral Fund for 2017-2019 contained in document UNEP/OzL.Pro/ExCom/77/20;

## To decide whether:

### To adjust the business plan as proposed by the Secretariat in document UNEP/OzL.Pro/ExCom/77/20;

### To further adjust the business plan during the discussion by the Executive Committee and/or during the presentation of the business plan by bilateral and implementing agencies by adding those HCFC phase-out management plans (HPMPs), institutional strengthening activities from the 2016 business plan that were deferred at the 77th meeting to the 2017 business plan;

### To further adjust the business plan based on the values approved in principle for new HPMPs at the 77th meeting;

## To request bilateral and implementing agencies to include in the business plans stage II of HPMP activities for Kenya and Syrian Arab Republic; and

## To endorse the consolidated business plan of the Multilateral Fund for 2017-2019, as adjusted by the Secretariat [and the Executive Committee], while noting that endorsement denoted neither approval of the projects identified therein nor their funding or tonnage levels.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  |  |  |  |  |

1. UNEP/OzL.Pro/ExCom/77/21. [↑](#footnote-ref-1)
2. UNEP/OzL.Pro/ExCom/77/22. [↑](#footnote-ref-2)
3. UNEP/OzL.Pro/ExCom/77/23. [↑](#footnote-ref-3)
4. UNEP/OzL.Pro/ExCom/77/24. [↑](#footnote-ref-4)
5. UNEP/OzL.Pro/ExCom/77/25. [↑](#footnote-ref-5)
6. The Executive Committee decided that the total funding for the HPPMP for China would be up to US $385 million. Of this amount, US $95 million was approved for stage I with a balance of US $290 million. [↑](#footnote-ref-6)
7. Mauritania, South Sudan and Syrian Arab Republic. However, the HPMP for South Sudan has been submitted to the 77th meeting (UNEP/OzL.Pro/ExCom/77/63.) [↑](#footnote-ref-7)
8. A project to phase out HCFC consumption in the foam sector has been submitted to the 77th meeting, but subsequently withdrawn. [↑](#footnote-ref-8)
9. Decision 61/46(c) requires verification reports for a sample of 20 per cent of the LVC countries with approved HPMPs. [↑](#footnote-ref-9)
10. In line with decision 74/51(c), to approve all IS projects and renewals at a level 28 per cent higher than the historically agreed level, with a minimum level of IS funding of US $42,500 per year. [↑](#footnote-ref-10)
11. As agreed at the IACM. [↑](#footnote-ref-11)
12. UNEP/OzL.Pro/ExCom/77/5. [↑](#footnote-ref-12)
13. Excluding 2016 values. [↑](#footnote-ref-13)