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DRAFT UNDP 1999 BUSINESS PLAN

**EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND
OF THE MONTREAL PROTOCOL
(26th Meeting, 11-13 November 1998, Cairo, Egypt)**

UNDP DRAFT 1999 BUSINESS PLAN: NARRATIVE

(Revised: 2 October 1998)

A. UNDP's 1999 BUSINESS PLAN RELATIONSHIP TO THE 1998 UNDP PROGRAMME

UNDP 1999 BUSINESS PLAN IN A HISTORICAL CONTEXT

1. A review of UNDP's 1991-1998 investment projects as of end-August 1998 (assuming remaining 1998 Business Plan approvals at the 26th ExCom Meeting), and the sectoral relationship to the draft UNDP 1999 Business Plan shows the following trends by sector:

SECTOR	1991-1998 INV. PROJECTS		1999 BUSINESS PLAN	
	APPROVALS		PROPOSED BUDGET	
	$ millions	Percent	$ millions	Percent
Aerosols	5.13	2.6	1.10	2.8
Foams	99.86	49.7	13.60	34.9
Halons	1.51	0.8	1.45	3.7
Methyl Bromide	6.90	3.4	5.50	14.1
Refrigeration	79.24	39.4	9.35	24.0
Solvents	8.35	4.1	8.00	20.5
TOTAL	200.99	100.0	39.00	100.0

2. During 1991-98, the foams (49.7%) and refrigeration (39.4%) sectors in UNDP's portfolio together accounted for 89% of UNDP's cumulative approval total for investment projects, with much smaller shares for solvents (4.1%), methyl bromide (3.4%), aerosols (2.6%) and halons (0.8%).

3. UNDP's 1999 Business Plan has been based on evaluation of the requests received from Governments, considering ExCom directives in the many different areas. In the 1999 UNDP Business Plan, the share of foams will fall from the 49.7% average during 1991-98 to 34.9% in 1999, that in refrigeration will fall from 39.4% to 24.0%, that of solvents will rise from 4.1% to 20.5% to cover expected approval of the first phase of the China solvents sectoral programme, that of aerosols will rise slightly from 2.6% to 2.8%, and that of halons will rise from 0.8% to 3.7%. While at present UNDP intends to develop MeBr alternative demonstration projects totalling $5.5 million in 1999, all efforts are underway to inform Governments they can request additional demonstration projects to be implemented through UNDP. A total of 3,240 ODP tonnes would be eliminated under the UNDP 1999 Business Plan approvals.

4. Overall UNDP investment project cost-effectiveness (in $/kg.) by year of approval is as follows:

Year	Cost-Effectiveness ($/kg.)
1992	$9.5/kg.
1993	$7.8/kg.
1994	$7.5/kg.
1995	$5.5/kg.
1996	$7.1/kg.
1997	$6.7/kg.
1998 (est.)	$8.5/kg.
1999 (est.)	$12.0/kg.

5. Overall investment programme cost-effectiveness decreased during 1992-95, from $9.5/kg. in 1992 to $5.5/kg. in 1995. By end-1995, however, most large cost-effective projects had already been approved, and UNDP was increasingly being requested to also start investment project preparation for low-volume ODS consuming countries (LVCCs) where cost-effectiveness criteria do not apply. As a result, overall programme cost-effectiveness increased from $5.5/kg. in 1995 to $7.1/kg., declining slightly to $6.7/kg. in 1997.

6. Indications in mid-1998 are that UNDP overall investment programme cost-effectiveness would be $8.5/kg. in 1998, significantly below UNDP's previous estimate of $9.9/kg., yet significantly above the 1997 figure of $6.7/kg. This figure includes MeBr alternative demonstration projects where there may be no direct ODS phaseout. In 1999, UNDP's investment project portfolio cost-effectiveness is estimated at $12.0/kg. including MeBr and $10.3/kg. excluding MeBr; the inclusion of a greater proportion of commercial refrigeration and solvent sector projects also contribute significantly to this higher figure.

7. Thus, ODS phaseout investment projects in UNDP's 1998 Business Plan would not be as cost-effective as in previous years. The reasons include the following:

- the completion of most large projects and many of the bigger mid-sized projects
- the greater number of mid-to-smaller sized enterprises left whose cost-effectiveness should be close to (or exceed) the sectoral/sub sectoral CE threshold levels
- increased coverage of LVCCs, especially in Africa, which often have smaller-sized enterprises and where cost-effectiveness threshold limits do not apply
- an increasing proportion of higher-cost commercial refrigeration and solvent sector projects
- the mandated allocation for MeBr alternative demonstration projects which may not directly result in ODS phaseout
- an increasing number of sectoral/sub sectoral ODS phaseout projects that, in general, cover many SMEs.
- UNDP will be presenting in 1999 the solvent sector financing plan for China, which would increase the proportion of higher-cost solvent sector projects.

SPECIAL AREA RESOURCE ALLOCATIONS

8. a) **Low-ODS Consuming Countries (LVCCs)**. In 1998, UNDP had programmes in 29 low-ODS consuming countries (Bahamas, Bahrain, Bangladesh, Bolivia, Botswana, Central African Republic, Congo (Braz.), Cuba, El-Salvador, Gabon, Gambia, Georgia, Ghana, Guatemala, Jamaica, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Niger, Panama, Paraguay, Peru, Tanzania, Trinidad & Tobago, Uganda, Uruguay, Zambia). In 1999, however, 7 additional LVCCs would be added: Chad, Congo (Kinshasa), Mali, Moldova, Mongolia, Nepal, and Papua New Guinea. Thus, by end-1999, UNDP should have programmes in a total of 62 countries comprising 36 LVCCs and 26 medium-to-high level ODS consuming countries.

b) It should be noted that three former LVCCs in UNDP's Business Plan (Costa Rica, Dominican Republic, Sri Lanka), based on their submitted 1996 data, have been reclassified as non-LVCCs since their reported ODS consumption now exceeds 360 tonnes/annum. Had they been included, UNDP would, by end-1999, have been active in 39 rather than 36 LVCCs.

c) **Refrigerant Recovery/Recycling in LVCCs as Part of RMPs**. In its 1997 Business Plan, UNDP was to submit for approval 12 such programmes. However, at its 22nd Meeting in May 1997, the ExCom under Decision 22/25 (Development of Refrigeration Management Plans - RMPs) made development of national RMPs a precondition for other project activities in LVCCs to ensure sustainability. Further, such projects could only be submitted if fully justified by an RMP. Due to delays in agreement on RMP guidelines and the consequent delay in RMP preparation, six potential programmes could not be submitted in 1997; three should be approved in 1998 and an additional four (Chad, Congo-Kinshasa, Papua New Guinea, Paraguay) should be approved in 1999. The ExCom's condition that national measures be in place before project implementation can start has seriously delayed ongoing project implementation as LVCCs struggle to put in place the required legislation.

d) **Methyl Bromide (MeBr)**. Following the decision of the 9th Meeting of the Parties to the Montreal Protocol in Sept. 1997 and guidance received at the 23rd Executive Committee Meeting in November 1997, UNDP has been coordinating with UNEP, UNIDO and the World Bank to harmonize activities in this area. UNDP has received requests and/or identified MeBr alternative demonstration proposals in 17 countries (Argentina, Brazil, Chile, China, Costa Rica, Indonesia, Lebanon, Malawi, Malaysia, Mexico, Morocco, Mozambique, Peru, Philippines, Sri Lanka, Tanzania and Tunisia). Under its 1999 Business Plan, UNDP is planning for 13 such projects with budgets of $5.5 million. UNDP's offer to assist several countries in this area have not been responded to by the Governments concerned, which has resulted in the relatively low figure for potential projects in 1999. As usual, UNDP makes maximum use of both national consultants and qualified NGOs to ensure project sustainability.

SPECIAL INITIATIVES

9. a) **Assisting Countries Meet their 1999 CFC Freeze Targets**. While most investment projects approved in 1999 will not be completed in time to directly help countries meet their 1999 CFC freeze targets, the UNDP 1999 Business Plan will do the following:

- o For LVCCs where the refrigeration sector is dominant and RMPs are a pre-requisite, UNDP is timing its investment project preparation activities to contribute to formulation of national refrigerant management plans. Where the potential for national refrigerant recovery/recycling projects exist, UNDP is strongly advising the respective Governments to urgently adopt the measures required by the Executive Committee to ensure programme sustainability. This will facilitate quick project implementation when the respective projects are approved by the Executive Committee.

- o For mid-to-larger size countries, UNDP's strategy would concentrate on maintaining programme continuity since projects approved in 1999 would be completed in 2001 given the normal two-year period required for investment project completion.

b) **Strategies for ODS Phaseout in Small-and-Medium Sized Enterprises (SMEs)**. In 1997, the Executive Committee approved UNDP umbrella projects in rigid foam and commercial refrigeration in Guatemala, an umbrella project for rigid spray thermoware in India, umbrella projects in rigid spray foam and integral skin foam in Mexico, an umbrella foam project for Paraguay, and an umbrella rigid foam project for the Philippines. In 1998, UNDP expects to receive approval for the umbrella solvents (Phase II) in the Philippines, a terminal commercial refrigeration sector programme in Costa Rica, and a terminal automotive trim foam project in China. In 1999, UNDP will continue using this approach which is exceedingly useful in dealing with the special needs of SMEs. A key objective is to prevent growth in SME consumption of ODS while the Fund is approving projects to eliminate ODS consumption in larger enterprises in the same country. It is expected that, due to their small scale, SME investment projects in 1998 and future years may have great difficulty meeting existing CE sectoral thresholds. UNDP has pioneered and will continue to develop new and innovative approaches to facilitate effective ODS phaseout in SMEs.

c) **Increased Coverage in Africa**. In 1998, UNDP has work programmes in 18 African countries (3 mid-sized, 15 LVCCs). This number would increase to 22 in 1999 with the addition of Chad, Congo (Kinshasa), Mali and Zimbabwe. The four mid-size countries are Egypt, Morocco, Nigeria and Zimbabwe. The 18 LVCCs are Botswana, Central African Republic, Chad, Congo (Braz.), Congo (Kinshasa), Gabon, Gambia, Ghana, Kenya, Lesotho, Malawi, Mali, Mauritius, Mozambique, Niger, Tanzania, Uganda and Zambia.

d) **Sectoral Approaches**. UNDP is lead agency assisting China in the development of its solvent sector strategy and financing plan. It is anticipated that this would be presented to the ExCom for approval in 1999 with the first phase funded at that time.

B. PLANNED BUSINESS ACTIVITIES: UNDP

ONGOING ACTIVITIES

10. **Table 1 on Funded Investment Projects by Sector** shows that, as of 31 December 1998, UNDP expects to have 594 approved investment projects in 51 countries with cumulative budgets of $201 million. The sector shares for ongoing projects are aerosols (2.6%), foams (49.7%), halons (0.8%), methyl bromide (3.4%), refrigeration (39.4%), and solvents (4.1%). These 594 projects would be expected to eliminate 27,951 ODP tonnes/annum. Investment project disbursements by UNDP during 1991-1998 (excluding obligations) would amount to $98.68 million with 9,625 ODP tonnes eliminated. Since less than one-third of UNDP's 1998 Business Plan was approved at the 25th ExCom Meting in July 1998, there is significant uncertainty as to the final level of 1998 project approvals.
11. During 1999, investment project disbursements are targeted at $42 million with 4,900 ODP tonnes to be eliminated. In the following years, project disbursements would total $60.3 million with 13,426 ODP tonnes to be phased out. The level of expected disbursements by UNDP in 1999 is

conditioned on the expected completion of several projects approved in late-1996 and in 1997 based on the 24–28-month duration that UNDP has now found to be typical of its investment projects, and also based on implementation experience during 1997-98. However, the severe economic recession experienced by several developing countries where UNDP has ongoing investment projects - both in South-East Asia (e.g. Indonesia, Malaysia, Thailand) and Latin America (e.g. Argentina, Brazil, Mexico, Venezuela) - may be an external force that prevents UNDP from achieving its disbursement target.

12. **Table 4, based on Table 1, shows Funded Investment Projects by Country**. UNDP has investment projects in 51 countries, 18 in Africa, 12 in Asia/Pacific, 2 in Europe, and 19 in Latin America/Caribbean. Table 4 shows that project approval shares by region are 12.5% for Africa, 51.8% for Asia/Pacific, 0.1% for Europe and 35.6% for Latin America/Caribbean. The shares of ODP phaseout by region are 14.1% for Africa, 55.0% for Asia/Pacific, 0.1% for Europe, and 30.8% for Latin America/Caribbean, reflecting both the larger-size countries and enterprises in the Asia/Pacific region and the significant number of smaller countries currently being assisted in Africa and Latin America/Caribbean. For a few countries, UNDP's 1998 plan includes "umbrella" projects to close out the remaining enterprises and/or activities in sectors/subsectors where UNDP has been active.

13. **Table 3 on Non-Investment Projects** covers the remaining 37 non-investment projects, of which 21 are institutional strengthening renewals. A total of $19.82 million would have been approved by end-1998, of which $16.08 million or 81% would have been disbursed by end-1998. In 1999, $1.08 million in new project approvals are expected. In 1999 expected disbursements would be $3.07 million, leaving a balance of $1.73 million for future years. The 21 ongoing institutional strengthening projects which last 2-3 years help explain why disbursements last over several years.

14. The following six institutional strengthening renewal requests amounting to $1,077,887 will be submitted to the ExCom for approval in 1999:

a)	Bangladesh:	Institutional Strengthening: Phase II	100,000
b)	India:	Institutional Strengthening: Phase III	287,000
c)	Malaysia:	Institutional Strengthening: Phase III	215,000
d)	Nigeria:	Institutional Strengthening: Phase II	200,000
e)	Pakistan:	Institutional Strengthening: Phase II	172,667
f)	Sri Lanka:	Institutional Strengthening: Phase III	103,120

15. UNDP does not, at the present time, intend to submit any technical assistance projects to the ExCom for approval in 1999.

PROGRAMME EXPANSION

16. **Table 2 shows UNDP's request for investment project preparation by sector, including that for development of MeBr alternative demonstration projects**. This table excludes the contingency list covering projects with policy issues and projects against unspent bilateral allocations. UNDP, by end-1998, could have a balance of $0.19 million in previously approved project preparation funds. UNDP will have to prepare $39.00 million in investment projects in 1999 covering regular programming as well as $9.05 million in contingency projects for a total of $48.05 million. UNDP is thus requesting $1.705 million in total additional project preparation assistance ($1.455 million for table 5A and $0.25 million for table 5B) which would enable it to formulate and submit for approval 147 investment and MeBr alternative demonstration projects

under the regular programme ($39.00 million) as well as 39 projects under the contingency list ($9.05 million).

17. The regular programme would eliminate 3,240 ODP tonnes while the contingency programme would eliminate 1,065 ODP tonnes. Under the regular programme, project value by sector would be aerosols (2.8%), foams (34.9%), halons (3.7%), methyl bromide (14.1%), refrigeration (24.0%) and solvents (20.5%). Expected ODP phaseout by sector is: aerosols (7.7%), foams (47.9%), halons (4.5%), refrigeration (20.6%) and solvents (19.3%). The contingency programme covers the foam and refrigeration sectors only. UNDP will include 15% of the above-mentioned project preparation request (i.e. $252,000) for 1999 in its Work programme Amendment to be presented at the 26th Meeting of the Executive Committee. This amount will be offset against Project Preparation requests that will be approved during the rest of 1999.

18. **Table 5, based on Table 2, shows UNDP's request for investment project preparation by country (including MeBr) under the regular programme**. A total of 39 countries are covered: 12 in Africa, 14 in Asia/Pacific, 1 in Europe and 12 in Latin America/Caribbean. Of total project preparation funds of $1.645 million (the $0.19 million balance plus the requested $1.455 million), Africa has 19% which includes project formulation in Chad, Congo (Braz.), Congo (Kinshasa), Egypt, Malawi, Mali, Morocco, Mozambique, Niger, Nigeria, Zambia and Zimbabwe. Asia/Pacific will have 58% covering project formulation in Bahrain, China, India, Indonesia, Iran, Lebanon, Malaysia, Mongolia, Nepal, Papua New Guinea, Sri Lanka, Syria, Thailand and Vietnam. Latin America/Caribbean will have 23% covering investment project formulation in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Paraguay, Peru and Venezuela. The one European country would be Moldova. Countries that would receive their first investment project would include Chad, Congo (Kinshasa), Gabon, Mali, Mongolia, Nepal, Niger, and Papua New Guinea.

19. **Table 5A, based on Table 5, presents project preparation requests disaggregated by country, sector, and subsector**. It is self-explanatory. However, a word of explanation is due on the China solvents sector projects. In 1999, UNDP will resubmit the Caihong solvents project which had been deferred in late-1997; this would have both a CFC-113 and TCA component with a combined budget of $2.85 million. UNDP would also be presenting in 1999, together with the Government of China, the solvent sector financing plan and strategy; it is assumed that a first tranche funding of $5.15 million will be requested in 1999.

20. **Table 5B presents the contingency list of projects**. The total contingency list amounts to $9.05 million which would eliminate 1,065 ODP tonnes in the foam and refrigeration sectors. It comprises two components:

a) The contingency list of projects prepared to consider projects in the UNDP regular programme that may raise policy issues. This amounts to $7.55 million. the main item comprises uncertainty whether the $5.15 million budgeted as the first phase of the China solvent sector plan gets funded in 1999. Other uncertainties comprise some LVCC refrigerant recovery/recycling projects and the Venezuela refrigeration project.

b) The contingency list of projects prepared to meet potential shortfalls in bilateral and non-investment projects. UNDP's share of this amounts to $1.5 million and comprises foam and refrigeration projects.

C. PERFORMANCE INDICATORS

21. **Project Disbursements**. Estimated project disbursements by UNDP in 1999, excluding obligations, should total $46.07 million comprising $42.0 million on investment projects, $3.07 million on non-investment projects and $1.0 million of project preparation funds.

22. The disbursement targets are possible only if no critical delays are encountered, such as disagreements with Governments on implementation modalities, delays in signing project documents, inability of equipment suppliers to meet deadlines, inability of joint venture companies or companies that have accepted partial funding to provide their share in foreign exchange, and the tendency of some Governments to levy taxes/duties on equipment purchased through MLF projects, with enterprises refusing to complete their projects until the policies change. Total disbursements by year (excluding obligations) would be:

Year	Disbursements ($ millions)	Cumulative Disbursements ($ millions)
1991	0.251	0.251
1992	0.518	0.769
1993	3.862	4.631
1994	6.467	11.098
1995	11.532	22.630
1996	29.501	52.131
1997	34.330	86.461
1998 (prelim. est.)	34.093	120.554
1999 Target	46.071	166.625

23. The above will be possible only if the recessionary cycles in South East Asia and in Latin America are resolved quickly with no major ad verse impact on the ability of enterprises to complete their approved projects, including providing the needed counterpart contributions where mandated.

24. For the period 1991-1998, preliminary estimates show cumulative UNDP project disbursements of $120.554 million as compared to total approvals of $222.315 million giving a delivery rate of 54.2%. In 1999, net additional disbursements of $46.07 million are anticipated. A comparison of disbursements on investment, non-investment, and project preparation activities during 1991-1998 (estimate), in calendar year 1999 and cumulatively during 1991-1999 is as follows:

Period	Inv. Project Disbursements ($ millions)	Non-Inv. Project Disbursements ($ millions)	Project Prep. Disbursements ($ millions)	Total Disbursements ($ millions)
1991 - Dec 98 (prelim. est.)	98.676	16.078	5.800	120.554
1999 Target	42.000	3.071	1.000	46.071
1991-99 Target	140.676	19.149	6.800	166.625

25. **1998 UNDP Investment Project Disbursement Target**: In its 1998 Business Plan, UNDP had targeted its total 1991-98 disbursement on investment projects to be $98.676 million. Preliminary indications based on first-half 1998 disbursements are that UNDP would be able to achieve its specified target.

26. **Investment Project Approvals in 1998** UNDP's 1998 Business Plan had projected investment project approvals of $37.15 million in 1998, including overprogramming. A total $10.4 million was approved at the 25th ExCom Meeting in July 1998 and projects covering the full balance were submitted for consideration at the 26th ExCom Meeting in November 1998. Thus, UNDP should meet its project approval targets in 1998.

27. **ODP to be Phased Out from 1998 Business Plan Approvals**: UNDP's 1998 Business Plan had a projected ODP phaseout target of 3,000 ODP tonnes for projects to be approved in 1998. Since only one-third of the UNDP programme has been approved as of September 1998, it is premature to estimate ExCom approvals in November 1998. However, UNDP has submitted enough projects for consideration to enable it to meet its ODP target.

28. **ODP Phased Out in 1998**: UNDP's 1998 Business Plan had projected an ODP phaseout target of 3,000 ODP tonnes in 1998. Several investment project conversions took place in first-half 1998. As of end-August 1998, it is difficult to predict exactly which projects will close on schedule, especially since the severe economic difficulties being experienced by economies in South-East Asia and Latin America.

29. **Speed of Investment Project Delivery**. Analysis of UNDP's speed of delivery and completion for investment projects shows the following:

Year	Months from Approval to First Disbursement	Months from Approval to Completion	Cost-Effectiveness
1992	18	29	9.5
1993	14	26	7.8
1994	14	32	7.5
1995	15	24	5.5
1996	9	22	7.1
1997	12	31	6.6
1998 (est.)	12	27	8.5
1999 (target)	12	27	11.6

30. Based on evaluation of UNDP's July 1998 Progress Report for the period ending December 1997, and since these detailed tables are only prepared once a year, UNDP will stay with its previously proposed estimates as follows:

a) The average length of time between investment project approval and first disbursement for investment projects averaged between 9-18 months for projects approved during 1992-96. For 1997 and 1998, UNDP has been able to keep this figure down to 12 months and proposes that the same target will hold for 1999.

b) UNDP's investment projects, approved during 1992-96, have taken between 22-32 months to complete their ODS phaseout. In 1997, due to very difficult circumstances facing many enterprises caused by the South-East Asian and Latin American stock market crashes and economic recessions, investment project completion was delayed at many enterprises and the period to completion jumped to 31 months. In 1998 UNDP will strive to reduce it back to 27 months, with the same being true for 1999, despite the larger number of umbrella projects, often covering SMEs, which often take three years or more to complete.

31. **Speed of Non-Investment Project Delivery**. Analysis of UNDP's speed of delivery and completion for non-investment projects done based on UNDP's Progress Report to the 25th ExCom Meeting in July 1998 showed the following:

Year	Months from Approval to First Disbursement	Months from Approval to Completion
1991	11	24
1992	16	33
1993	10	33
1994	6	24
1995	4	15
1996	6	24
1997	10	29
1998 (est.)	9	27
1999 (target)	9	27

32. The above table shows the following:

a) The average length of time between non-investment project approval and first disbursement averaged 10-16 months during 1991-93, fell during 1994-96, rising to 10 months in 1997. UNDP is trying to cut it to 9 months in both 1998 and 1999.

b) UNDP's non-investment projects, approved during 1991-96, have taken between 15-33 months to complete. In 1997 it averaged 29 months. UNDP is targeting a figure of 27 months in both 1998 and 1999. Most comprise 2-year institutional strengthening renewals which often take between 26-29 months to complete their activities.

33. **ODS Phaseout**. With an estimated 9,625 ODP tonnes to be eliminated as of end-December 1998, UNDP proposes to eliminate an additional 3,000 ODP tonnes in 1999 so that by end-1999 UNDP would have eliminated a total of 12,625 ODP tonnes/annum. This would amount to 45% of the existing UNDP programme of 27,951 ODP tonnes. The actual and projected ODS phaseout expressed in ODP tonnes is as follows:

Year	ODP Tonnes/Yr Phased Out	Cumulative ODP Tonnes/Yr Phased Out
1992	0	0
1993	178	178
1994	227	405
1995	1,497	1,902
1996	1,658	3,560
1997	3,065	6,625
1998 (est.)	3,000	9,625
1999 (target)	3,000	12,625
Future years	15,326	27,951

34. **1999 ODS Phaseout as a Percentage of UNDP Programme**. The total ODP to be eliminated in 1999 under UNDP investment projects would be 3,000 ODP tonnes. This amounts to 10.7% of the total UNDP programme of 27,951 ODP tonnes.

35. **Diversity of the UNDP Portfolio**. The Executive Committee has requested implementing agencies to diversity their project portfolios to reach the largest number of potential recipient countries. The following table highlights UNDP's efforts in this area by comparing the programme portfolio as of end-1998 with that expected as of end-1999.

DIVERSITY CRITERIA	As of end-1998	As of end-1999
a) Total number of countries covered	54	62
b) Number of LVCCs covered	29	36
c) Countries in the Africa region	18	22
d) Countries in the Asia/Pacific region	15	18
e) Countries in Latin America/Caribbean region	20	20
f) Countries in Europe/CIS region	1	2

36. **Project Costing and Use of Contingency Costs**. For several projects approved during 1995-1998, contingency costs will have to be utilized fully and in many cases additional funding from the recipient enterprises will be essential since equipment costs have in several instances been going up rather than down. With the smaller size of enterprises being covered, project cost-effectiveness is also not as favorable. Revised baseline equipment calculations would increase the counterpart funding required from recipient enterprise.

37. **Cost of Investment Project Preparation**

a) During 1991-98, $5.80 million in project preparation funds disbursed would result in the approval of $201 million in investment projects. The cost of preparation was 2.9% of the total value of the projects approved. It should be noted that some of the project preparation funds resulted in approval of a few non-investment projects also.

b) For 1999, around $1.0 million in project preparation funds would be disbursed with the expected approval of $37.5 million in investment and MeBr alternative projects, giving a ratio of around 2.7%. However, obligated costs would only be recorded in year 2000 and it is likely that the overall cost of project preparation will be closer to 3.5%. This reflects the growing cost of investment project preparation as the projects get smaller and more numerous, together with the increasing use of umbrella projects. It also reflects the higher cost of developing MeBr alternative demonstration projects which involve more substantive participation by national experts and additional Government ministries (e.g. Agriculture) as well as NGOs.

38. **Cost-Effectiveness of UNDP Investment Projects**

a) The average cost-effectiveness of approved UNDP ODS phaseout investment projects decreased during 1992-95, it being $9.5/kg. in 1992, $7.8/kg. in 1993, $7.5/kg. in 1994 and $5.5/kg. in 1995. However, in 1996 the cost-effectiveness figure was $7.1/kg. reflecting both a smaller number of large cost-effective projects and a larger number of small projects, especially in LVCCs. During 1997, a few large highly cost-effective projects were developed counterbalancing many smaller ones with a resulting cost-effectiveness of around $6.7/kg. In 1998 it is estimated that this will jump to $8.5/kg. with the large number of MeBr alternative demonstration projects that may not have an ODP phaseout as well as the larger number of smaller enterprises being converted, especially through umbrella or sector phaseout projects.

b) For 1999, under the regular programme (excluding the contingency list), 147 projects would be prepared amounting to $39.00 million that would eliminate 3,240 ODP tonnes. Overall programme cost-effectiveness would be $12.0/kg. including methyl bromide.

c) During 1999, UNDP's regular programme should have project submissions from 18 LVCCs amounting to $4.8 million, and which would eliminate 193 ODP tonnes. This would give a cost-effectiveness of $24.9/kg. for LVCC projects.

d) During 1999, UNDP's regular programme should have project submissions from 21 non-LVCCs amounting to $34.20 million, and which would eliminate 3,047 ODP tonnes. This would give a cost-effectiveness of $11.2/kg. for non-LVCC countries.

Category	Value of 1999 Submissions ($ millions)	ODP Tonnes	Cost-Effectiveness
LVCC (18)	4.80	193	24.9
Other (21)	34.20	3,047	11.2

D. POLICY ISSUES TO BE ADDRESSED IN 1999

39. a) As agencies start to develop sector approaches, guidance is required from the Executive Committee as to how agencies should budget for these new approaches in their annual Business Plans.

b) Despite the strenuous attempts made by UNDP to convince Governments to go in for additional MeBr alternative demonstration projects, the response has been small. On the other hand, UNDP has at least $5 million of non-MeBr investment projects which will not be able to be submitted in 1999 since it would exceed UNDP's share. UNDP requests the Executive Committee to provide guidance as to whether unused MeBr funds in 1998 could be utilized for non-MeBr ODS phaseout investment projects.

E. ADMINISTRATIVE AND FINANCIAL MATTERS

40. a) UNDP can now accept promissory notes since its legal agreement with the Executive Committee has been suitably amended. No cash transfers would be required at the 26th ExCom Meeting for projects approved for UNDP implementation.

b) UNDP is seriously concerned about efforts to reduce agency support costs, at a time when its costs are rising due to smaller projects, a greater number of LVCCs and the work involved in umbrella projects that group many SMEs. A realistic approach to such costing is urged. A unilateral cut in overall agency support costs could result in UNDP being unable to accept and implement projects under $100,000, which would adversely affect UNDP's ability to accept projects from several LVCCs as well as from SMEs.

c) However, economies of scale would be feasible when the China solvent sector financing plan is adopted by the Executive Committee. Since UNDP has been requested by China to implement this programme, a support cost of 10% would be sufficient for its effective implementation.

d) The increasing paperwork is seriously impacting the ability of UNDP to implement its projects effectively, with the rapid submission of investment and non-investment project completion reports posing particularly severe difficulties. To facilitate project implementation, a reduction in the burden of paperwork is urgently requested.

ANNEX – Resource Table.

The following table explains how the total amounts mentioned in tables 2, 5, 5a and 5b which follow were derived. These revised figures are based on the Secretariat's fax of 1 October 1998 which provided revised (lower) resource estimates in certain areas, and which updated the Secretariat's fax of 24 September 1998.

Category	Code used in tables	Amounts (million US$) as agreed with Mr. Andrew Reed after reviewing our first draft 99 bus plan	Same amounts but incl 15% and excl 13% Overhead	Where to be found
Normal Investment Projects Excluding Policy Issues (see note 1)	1-N	19.75	20.10	Annex 5a
Halons/Aerosol Window	2-HA	2.51	2.55	Annex 5a
SME Window	3-SME	3.24	3.30	Annex 5a
Requests in 5a with Policy Issues (see note 2)	4-PI	7.42	7.55	Annex 5a
Contingency against requests with Policy Issues (see note 2)	5-C-PI	7.42	7.55	Annex 5b
Contingency against Bilateral and other savings	6-C-B	1.47	1.50	Annex 5b
Methyl Bromide	7-MBR	5.40	5.50	Annex 5a
Subtotal Annex 5a		38.32	39.00	
Subtotal Annex 5b		8.89	9.05	
Grand Total		47.21	48.05	

Note 1: Categories 1-N and 4-PI combined gives 27.17 million US$ (or 27.65 incl 15% overpr. and excl 13% overhead)
Note 2: The amount of category 4-PI must be equal to category 5-C-PI .