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Executive Committee of
the Multilateral Fund for the
Implementation of the Montreal Protocol

Eighteenth Meeting
Vienna, 22-24 November 1995

# CONSOLIDATED 1996 BUSINESS PLANS

Introduction

1. At its Seventeenth Meeting, the Executive Committee requested the Sub-Committee on Project Review to meet with the implementing agencies around the time of the Twelfth Meeting of the Open-ended Working Group to discuss the development of business plans/programmes, and invited the members of the Executive Committee to provide their ideas on what might constitute a business plan/programme for the implementing agencies (Decision 17/19).

2. In response to this decision, and to facilitate the task of the Committee and the implementing agencies, the Fund Secretariat prepared a paper entitled "Business Plan for the Multilateral Fund" and circulated it to members of the Sub-Committee and the implementing agencies. Comments from four Parties and two implementing agencies were received by the Fund Secretariat.

3. The Sub-Committee on Project Review met in Geneva on 26 August 1995, discussed with the agencies the principles of business planning and issued a set of guidelines to the agencies. The guidelines are attached to this consolidated report as Annex I.

4. As per the guidelines, the Fund Secretariat prepared a format for the agencies' business plans, and provided the agencies with a projection of the financial resources in 1996.

5. The agencies sent their draft business plans to the Fund Secretariat. Following that, a meeting was convened in Montreal to discuss the business plans, their format, and co-ordination of business planning activities between the agencies.

6. This document consolidates the information included in the agencies' 1996 business plans. The individual agencies' business plans are presented in documents: UNEP/OzL.Pro/ExCom/18/13-16.

<u>Agency of Business Plans</u>

7. Each agency's business plan addresses five major sections:

(a) Relationship between the 1991-1995 ongoing activities and their implementation, and 1996 business planning: provides a review of the agency's 1994-1995 ongoing investment projects and other activities including expected approvals at the 18th meeting; and the sectoral relationship to the agency's 1996 Plan. Information is also provided by sector and sub-sector on the special sectoral categories, e.g. low consuming countries and enterprises, recycling; and special sectoral initiatives, e.g. halon fire extinguishers.

(b) Planned business activities: describes both ongoing and programme expansion activities distributed by sector/sub-sector on a country by country basis, and provides a profile of disbursement and phase-out to-date, and expected disbursement and phase-out in 1996 and beyond. The data are presented in tables which provide the details on funded investment projects by sector and country, project preparation by sector and country, and non-investment projects.

(c) Performance indicators: provides indicators for the agencies implementation performance, such as time between funding approval and disbursement to enterprises, cost of project preparation and administration as a percentage of project budget, amount and speed of ODS phase-out, and the cost-effectiveness of the agencies' projects.

(d) Policy issues: provides, from an agency's perspective, issues that the agencies would like the Executive Committee to address in 1996.

(e) Administrative and financial matters: provides information on the agencies' support costs, the speed of transfer from the Treasurers, changes in administrative and financial arrangements, etc.

8. This report is a consolidation of the information provided in the agencies' 1996 business plans.

**Resources Available in 1996**

9. Based on the average percentage of contributions received per year (89 per cent) which includes contributions for the year and arrears, it is estimated that the Multilateral Fund will have US $132 million available for funding in 1996. Of this amount, it is expected that US $97 million would be available for investment projects and US $20 million would be allocated for UNEP's work programme and other non-investment activities, administration, and special initiatives, and US $ 15 million for bilateral co-operation.

10. The percentage allocations and levels available for commitment in 1996 are as follows:

| **Agency** | **Per Cent of Total** | **Level of Funds for Investment Projects in 1996** |
|---|---|---|
| UNDP | 30 | US $29 million |
| UNIDO | 25 | US $24 million |
| World Bank | 45 | US $44 million |

11. UNEP has inidcated that its resource requirements for 1996 are estimated at US $2.65 million (UNEP/OzL.Pro/ExCom/18/14, UNEP 1996 Business Plan).

**Sectoral Summary of Investment Projects**

12. The implementing agencies provided information on the funds approved, disbursed and expected to be disbursed, ODS phased out and expected to be phased out for each Article 5 country on a sectoral level. For the planned 1996 activities, the information focused on a sectoral distribution of activities by country, and by the amount of resources required to prepare such activities. UNDP, UNIDO and the World Bank included all new projects submitted to and

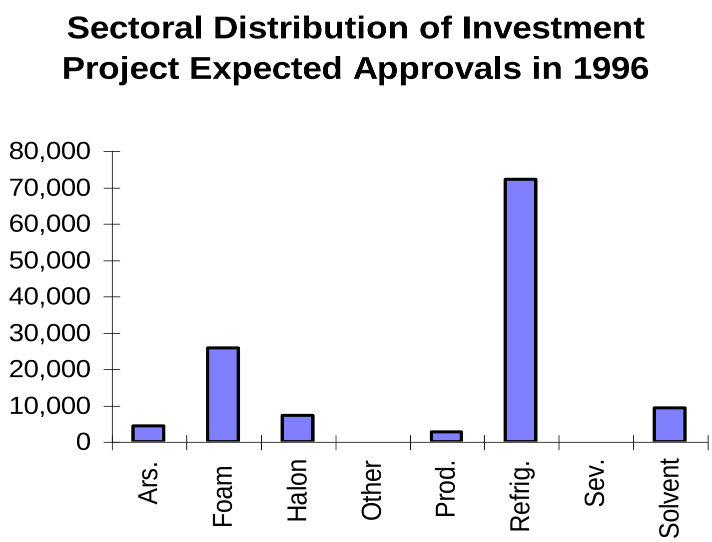
expected to be approved, but not funded, by the Eighteenth Meeting as part of their 1996 investment activities. The following table presents the value of 1996 investment projects and the phase-out they represent by agency and sector.

**EXPECTED INVESTMENT PROJECT APPROVALS AND THE PHASE-OUT THEY REPRESENT, BY SECTOR AND AGENCY (in US $ thousands)**

| | World Bank | | UNDP | | UNIDO | | TOTALS | |
|---|---|---|---|---|---|---|---|---|
| Sector | Amount Expected to be Approved | ODP | Amount Expected to be Approved | ODP | Amount Expected to be Approved | ODP | Amount Expected to be Approved | ODP |
| Aerosol | 400 | 150 | 1,604 | 250 | 2,300 | 1,240 | 4,304 | 1,640 |
| Foam | 7,800 | 1,404 | 14,473 | 2,182 | 3,550 | 827 | 25,823 | 4,413 |
| Halon | 4,000 | 2,910 | 2,130 | 1,258 | 990 | 2,515 | 7,120 | 6,683 |
| Other | 100 | 120 | 0 | 0 | 0 | 0 | 100 | 120 |
| Production. | 2,600 | 3,800 | 0 | 0 | 0 | 0 | 2,600 | 3,800 |
| Refrig. | 38,800 | 4,330 | 12,542 | 1,044 | 20,721 | 2,577 | 72,063 | 7,951 |
| Several | 100 | 0 | 0 | 0 | 0 | 0 | 100 | 0 |
| Solvent | 3,800 | 443 | 4,838 | 411 | 700 | 135 | 9,338 | 989 |
| Grand Total | 57,600 | 13,157 | 35,587 | 5,145 | 28,261 | 7,294 | 121,448 | 25,596 |

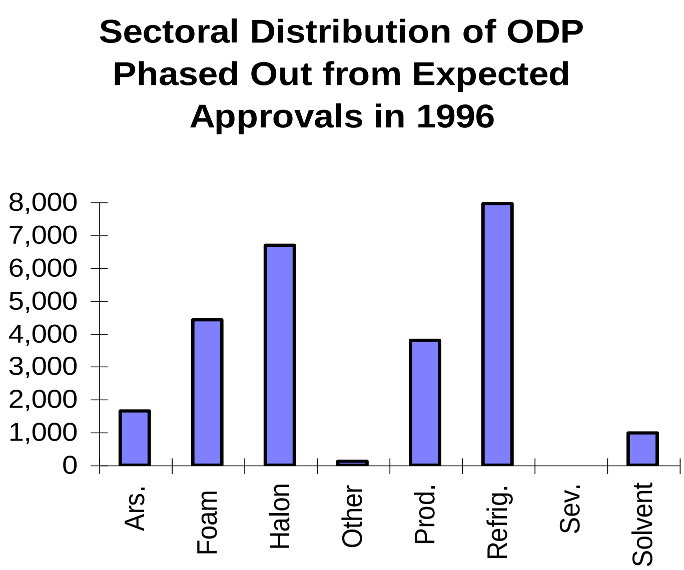
13. Figure 1 which represents the distribution of funds through 1996 by sector, indicates that about 85 per cent of the funds are allocated to the refrigeration and foam sectors.

**Figure 1**




14. The sectoral distribution of ODS shown in Figure 2 indicates that the main sectoral impact of funding has been in the refrigeration, foam, aerosol, and halon sectors. The proportionately higher impact of the aerosol and halon sectors relative to funding and the lower proportionate impact of the refrigeration projects is due to the relative cost-effectiveness of these sectors.

**Figure 2**



**Regional Summary of Investment Projects**

15. The Executive Committee has approved over US $290 million for investment projects through 1995 that will lead to the phase out of almost 58,000 ODP tonnes. In 1996, agencies plan to submit approximately US $120 million in requests[1] for investment projects that are expected to contribute to the phase out of another 25,000 ODP tonnes. The regional distribution of both funded and planned activities is proportionate to the level of consumption per region. The implementing agencies will have a balance of over US $2 million for project funds by the end of 1995. An additional US $2 million is requested for 1996 activities. The following levels of project preparation funds are expected to be available for 1996 activities as follows:

| Region | Amount (US $) |
|---|---:|
| Africa | 548,000 |
| Asia and the Pacific | 2,199,000 |
| Europe | 382,000 |
| Latin America and the Caribbean | 1,068,000 |

16. 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 at rates of 44 and 50 per cent for Asia and the Pactific Region and the Latin America and Caribbean Region, respectively. Figure 3 presents the regional rate of approvals and disbursements.

**Figure 3**

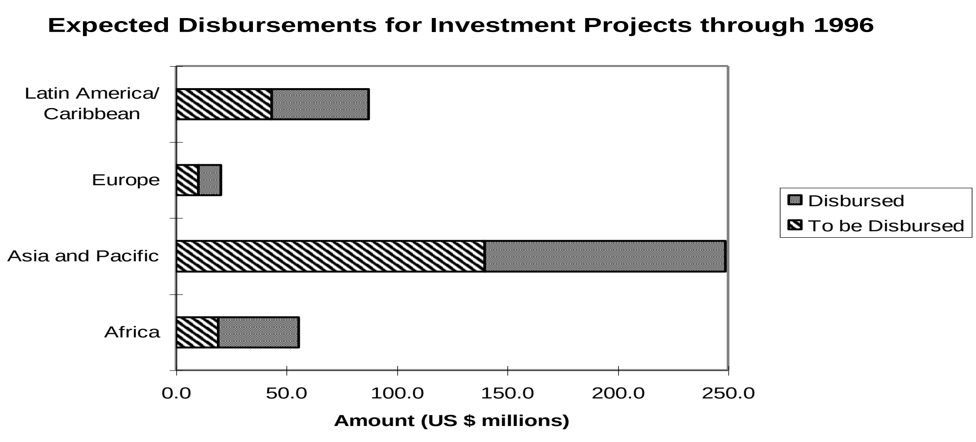
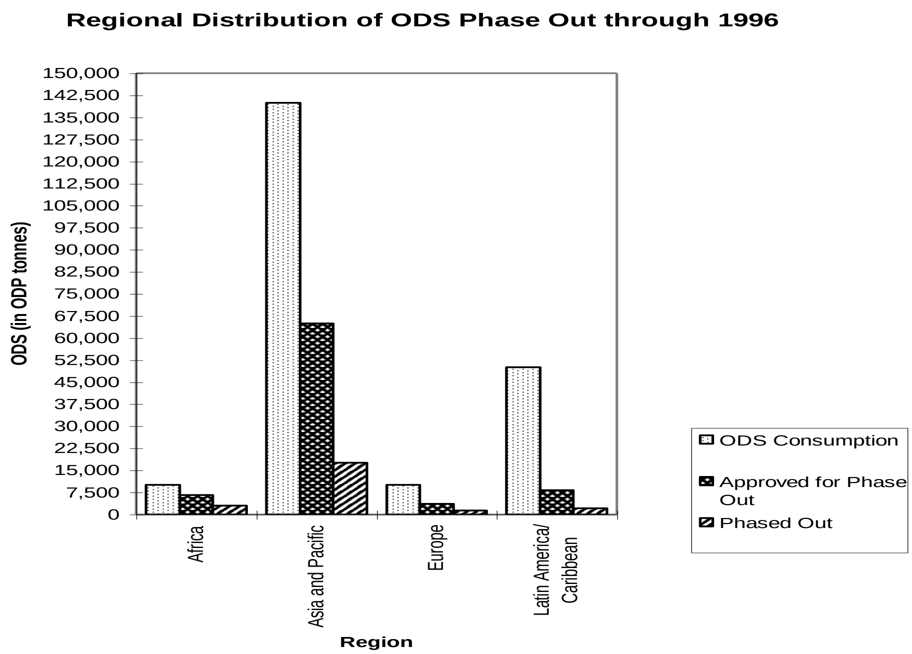



Figure 4 reflects this distribution, which is proportional to the total ODS consumption per region, and the impact of Executive Committee approvals expected through 1996 and the amount of ODS that will be phased out at the end of 1996.

[1] The Project Review Sub-Committee of the Executive Committee allows implementing agencies to submit 135 per cent of the amount of resource availability for the year in investment project proposals.

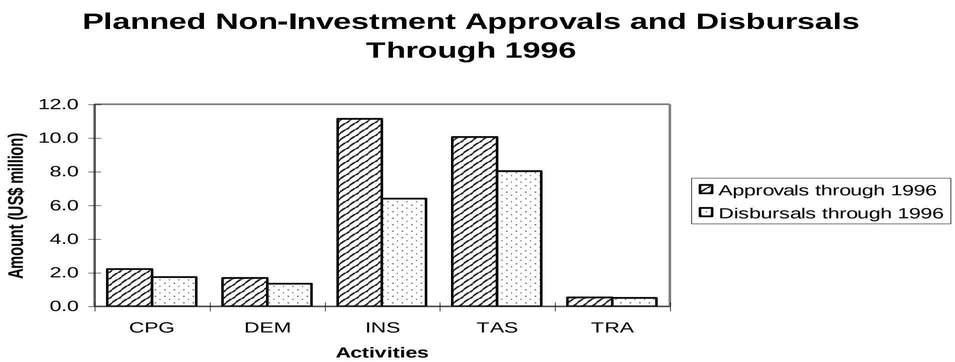
**Figure 4**




## Non-Investment Projects

17. Non-Investment projects include country programme preparation, demonstration projects, institutional strengthening, 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-a-vis other non-investment projects. Figure 5 presents approvals and disbursements for non-investment projects by type.

**Figure 5**




## 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 projects. Those indicators can be grouped into the following categories: speed of delivery of funding, cost of delivery of project proposals and project implementation, ODS phase-out, and cost-effectiveness.

19. The speed of delivery ranged from six to nine months for the first disbursement made, and up to 27 months for the final disbursement.

20. The cost of delivery is specified in the guidelines as the percentage of administrative costs to project approval amounts and the percentage of project preparation to project approval amounts. Administrative costs are set a 13 per cent of the cost of project approvals. Project preparation as a percentage of project approvals was US $14,610 per project for UNIDO and 3 per cent of project value for the World Bank.

21. Performance indicators also include the amount and speed of ODS phase-out. Estimates ranged from 28 per cent to 53 per cent for phase-out and up to 25 months to effect the phaseout.

22. The cost-effectiveness measurement is based on the amount of the grant divided by the amount of ODS in ozone depleting potential (ODP) equivalents. It is expressed in US dollars per kilogram ODP. The agencies provided estimates of the 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. |

## Policy Issues

23. The following policy issues have been articulated in the agencies' business plans:

1. Approaches to phase out in small- and medium-sized enterprises.
2. Approaches to phase out in low-volume consuming-countries and very low volume consuming countries.
3. Prioritisation of low-cost phase-out projects, e.g. training in good practices and refrigerant management plans at national and regional levels.
4. Evaluation and monitoring guidelines for institutional strengthening projects.
5. Should projects in the halon sector continue to be prepared in the light of the difficulties encountered in the determination of incremental costs of conversion of this sector.
6. What happens when, following project approval by the Executive Committee but before signature of the project document, a nationally-owned company become significantly foreign (non-Article 5) owned? What if this happens after the project document is signed?
7. Funding of small-scale investment projects where their cost-effectiveness is higher than the threshold of the sub-sector but the enterprise cannot afford partial funding.
8. Since the agencies have been requested to prepare a business plan for the next years, a project-by-project approach may no longer constitute a tool for good planning. It might be more effective to request Article 5 strategy papers indicating some palnning of their respective future ODS phase-out programme, or amending country programmes accordingly.
9. Standarisation of project documents and templates in all sectors will enable agencies, in the framework of the business plan, to have a clear picture of approvable projects with a good estimate of related costs.
10. Whether the Executvie Committee could initiate priorities on sectors in order to enable agencies to focus on particular sectors at given periods.
11. Definition and quantification of what constitutes technological upgrade.
12. Duration of incremental operating costs in other sectors such as rigid foam and commercial refrigeration where there appears to be confusion and inconsistency.
13. Cost-effectiveness threshold for the aerosol sector may be too low and that it has become difficult to find projects for this sector.

**ANNEX I**
**GUIDELINES FOR 1996 IMPLEMENTING AGENCY BUSINESS PLANS**

INTRODUCTION

- Business planning is essential to ensure the achievement of the overall objectives of the Multilateral Fund.

- Business planning will provide clear guidance to the implementing agencies, and information to Article 5 countries, on priorities, monitoring and evaluation, and performance indicators.

- Business planning will increase the transparency of the financial mechanism for all Parties.

- At the strategic level, business planning will have the overall aim of enabling the phase-out dates mandated in the Montreal Protocol to be achieved through effective use of the financial resources provided by the Parties through the Multilateral Fund.

- Within this overall objective, business planning will assist Article 5.1 countries to equip themselves to achieve the ODS freeze which will enter into force for Article 5.1 countries in 1999.

- For 1996 business planning will be:

  - Based on the level of resources provided by the Parties at the 6th Meeting for the period 1994-1996, and on decisions of the Executive Committee, particularly recent decisions pertaining to resource allocation.

  - Guided by Article 5 countries' needs and strategies expressed in country programmes.

  - Directed to achieving the ODS phase out targets for activities planned to be completed in 1996.

GUIDELINES

- The World Bank, UNDP, UNIDO and UNEP will prepare their business plans for 1996 by addressing, separately, activities for which funding has been approved by the Executive Committee (funded activities) and proposed activities for which funding has not yet been approved (programme expansion).

IMPLEMENTATION OF FUNDED ACTIVITIES

Investment projects

Agencies will include information aggregated for each Article 5 country in which the Agency has projects funded by the Executive Committee on:

- Projected annual disbursement to project beneficiaries;
- Projected annual ODS phase out.

Training, Institutional Strengthening and Other Non-investment Activities

Agencies will include information aggregated for each Article 5 country in which the Agency has projects funded by the Executive Committee for each approved activity including projected disbursement, activity schedules (including completion dates) and projected outcomes.

Project and Programme Preparation

Agencies will include information aggregated for each Article 5 country in which they are active, for each portfolio of projects under preparation on:

- Approved project preparation funds previously used, and proposed to be used in 1996;
- Number of projects in each portfolio;
- Aggregated annual figures for the quantity, sector and country of ODS phase out from the proposed projects.

Agencies will provide an overall reconciliation of approved project preparation funds with activities included in their project preparation portfolios.

PROGRAMME EXPANSION (Proposals which are not yet funded)

- Funding proposals for programme expansion in the 1996 business plan will be provided according to the categories shown in Figure I.
- The percentage of the total estimated budget for each funding category for which a percentage has been specified - excluding an allowance for priority funding of investment projects carried forward from the 18th Meeting - is shown in each of the categories in Figure I.
    - Administrative costs and fees will be calculated on the basis of 13 per cent for each agency.
- Business plans are separate to Work Programmes and Work Programme Amendments which will continue to be the mechanism for approval of project preparation and other non-investment project proposals.
    - However, all primary planning information to support Work Programme approval will not be found in the business plan.

- Work Programme funding requests will be consistent with the business plan and should be submitted in conjunction with it.

- Work Programme Amendments while still acceptable, are expected to occur on an exceptional basis only.

- The Secretariat and the Agencies will develop a format for business plans and a new format for Work Programme funding requests.

<u>Investment projects</u>

- Implementing agencies involved with investment projects will develop a programme of proposals in 1996 which does not exceed 135 per cent of the total funding estimated to be available in 1996 for approval of investment projects to be submitted in 1996.

- The estimated level of funding for investment projects to be submitted in 1996 is:

  US $29 million (UNDP)
  US $24 million (UNIDO)
  US $44 million (World Bank)

- The share of available investment project funding taken by each agency for investment projects to be submitted in 1996 will be in accordance with the decision of the Executive Committee at its 17th meeting, <u>viz</u>:

| | |
|---|---|
| World Bank | 45 per cent |
| UNDP | 30 per cent |
| UNIDO | 25 per cent |

  Any shortfall from the World Bank and UNDP will be available to UNIDO.

- The percentage allocation to implementing agencies does not include those projects which were presented for consideration at the 17th Meeting of the Executive Committee. It will apply to all future projects.

- In preparing their programmes, agencies will bear in mind the other relevant decisions taken by the Executive Committee at its 16th and 17th Meetings regarding resource allocation, in particular:

  - The threshold cost-effectiveness values established at the 16th Meeting;

  - Decisions relating to the calculation of cost-effectiveness taken at the 17th Meeting;

  - Special funding categories established at the 16th Meeting.

- These decisions form part of the guidelines for business planning and are reproduced in Attachment II.

Training, Institutional Strengthening and Other Non-investment Activities
UNEP

- A global allocation will be provided for UNEP's core information clearinghouse, dissemination and capacity-building programmes. For 1996, the global UNEP allocation is US $ *, ***, ***.

- UNEP's business plan will provide an outline of its project disbursements and activities with an emphasis on planned achievements, and outcomes for 1996 for the core programmes.

- It will include proposed activity levels and outcomes for non-core country programme and institutional strengthening projects for low volume ODS consuming countries.

- It will also include details of any programmes and proposed funding transfers resulting from activities in support of investment projects.

Other Agencies

- Other agencies will provide information on their proposed projects and goals for non-investment activities including funding levels and timings.

- Agencies will consider what assistance might be needed from UNEP in support of investment project programmes and should refer to this in their business plans together with details of proposed funding allocations.

Project preparation

- Implementing Agencies will submit project preparation proposals within the following ceiling (to be determined).

- Proposals for project preparation will provide information by sector and country on:

  - Approximate value of projects which will come forward for approval each year;

  - Approximate ODS to be phased out each year.

PERFORMANCE INDICATORS

- With regard to both funded activities and programme expansion, the following performance indicators will be used (pending the adoption by the Executive Committee of guidelines for monitoring and evaluation) when assessing agencies' performance against 1996 business plan projections.

Speed of delivery

- Time between funding approval and signing of legal agreement with beneficiary (enterprise).
- Time between funding approval and first disbursement to enterprise.
- Time between funding approval and final disbursement to enterprise.

Cost of delivery

- Project preparation expenses as a percentage of project approvals.
- Administrative costs as a percentage of project approvals (all agencies will receive the equivalent of a 13 per cent fee, however, the Committee will take note of agencies which spend less than 13 per cent on delivery of their programme.

Amount and speed of ODS phase out

- Time between funding approval and ODS phase out for each completed project.
- Amount of ODS phase out for agencies' portfolios as a proportion of total funded phase out for that agency.

Cost-effectiveness

- Average cost effectiveness of portfolio of approved projects.

Other

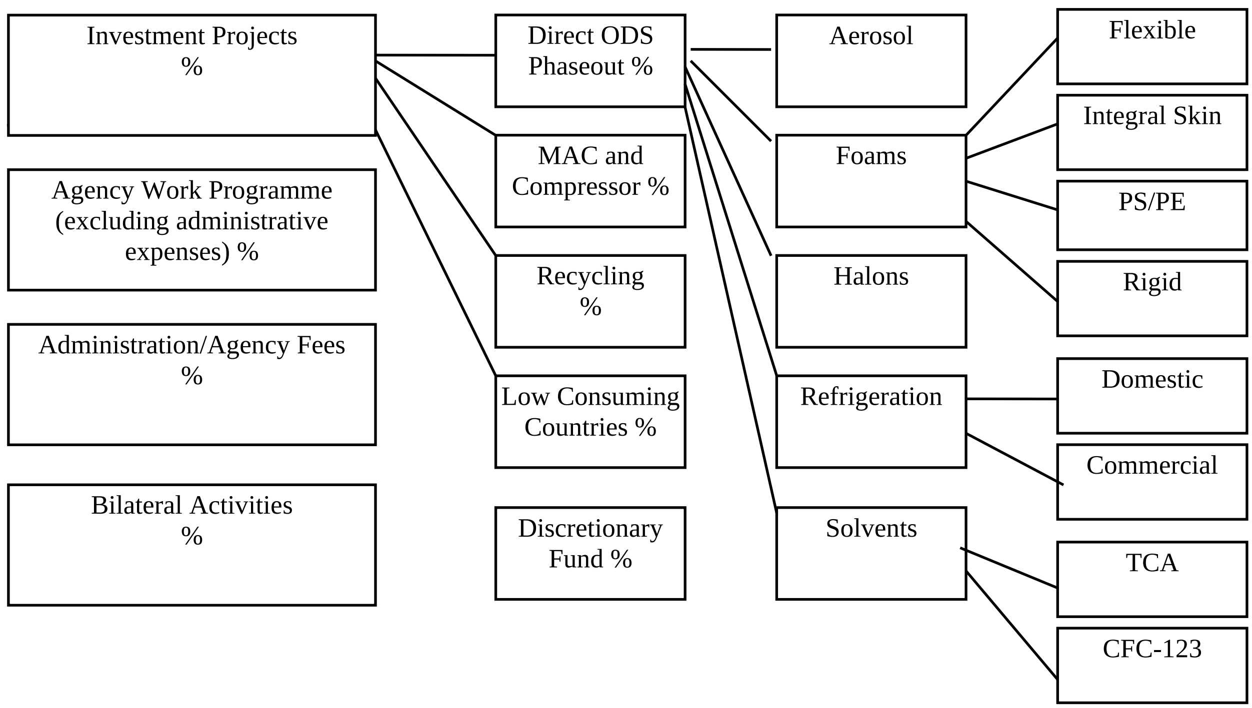
- Agencies may nominate additional performance indicators in their business plans.

POLICY

- The overall 1996 Multilateral Fund Business Plan will include a list of policy issues for which resolution is planned during that year. Agency plans will include policy issues agencies with to bring forward for consideration.

**FIGURE I**

**'96 Budget**
**(Based ON 1995 Allocations)**


Investment Projects %
Agency Work Programme (excluding administrative expenses) %
Administration/Agency Fees %
Bilateral Activities %
Direct ODS Phaseout %
MAC and Compressor %
Recycling %
Low Consuming Countries %
Discretionary Fund %
Aerosol
Foams
Halons
Refrigeration
Solvents
Flexible
Integral Skin
PS/PE
Rigid
Domestic
Commercial
TCA
CFC-123