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Executive Committee of
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Implementation of the Montreal Protocol

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REPORT OF THE EXECUTIVE COMMITTEE TO THE SEVENTH MEETING OF THE PARTIES ON FINANCIAL PLANNING IN THE MULTILATERAL FUND

(Draft)

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
(To be provided after adoption by the Executive Committee of the Consolidated Business Plan and the Business Plans of the Implementing Agencies).

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.

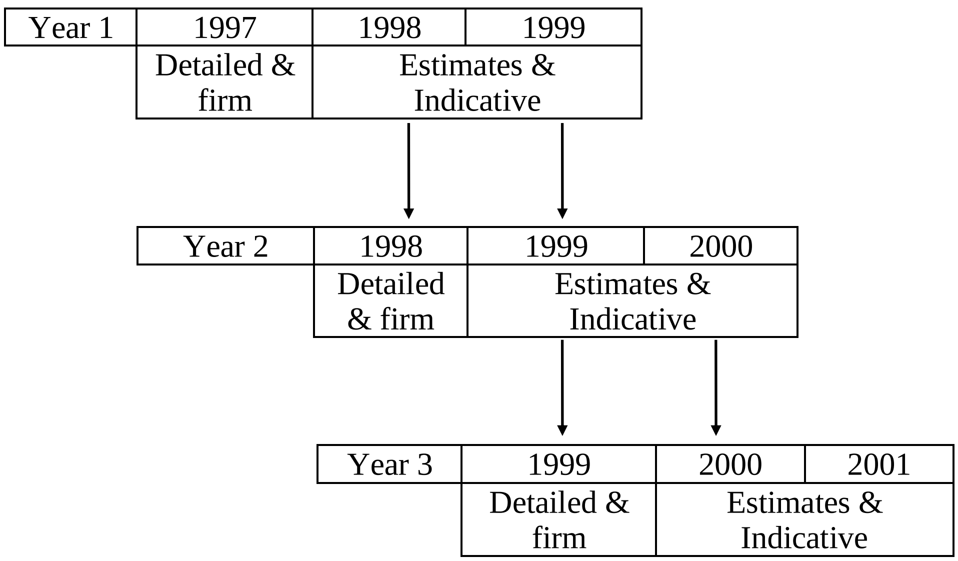
Strategic considerations

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 measurable impact on a global phase-out basis for Article 5 countries to be reached 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.

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.

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.

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 global phase-out scenario;
- 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.

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.

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. 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

6. 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

7. 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 4 (data extracted from Exhibit 6-10 of the Report).

Estimation of Fund Costs

8. 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).

9. 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

10. 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 costs the funds already disbursed from the Multilateral Fund as of October 1995. This figure will be revised after the conclusion of the 18th Meeting of the Executive Committee to reflect the disbursement level from the Multilateral Fund as of the end of 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)

Scenario	Fund Cost[1] (US $mil.)	Funds disbursed as of October 1995 [2] (US $mil.)	Residual Cost (1996 □)[3] (US $mil.)	Years Remaining (1996 □)[4]	Annual Rate of Disbursement[5] (US $mil.)
2010	3,188	368	2,820	14	201.43
2006 + tail	2,179	368	1,811	10	181.1
2010 + tail	2,181	368	1,813	14	129.5

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

12. 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.

1 The Fund cost uses a zero percent discount rate as shown in Exhibit 6-10 in the Report.
2 The total of funds disbursed as of October 1995 from the Multilateral Fund, to be revised after the 18th Meeting of the Executive Committee.
3 The balance between columns 2 and 3. These figures will be reduced as a result of new approvals at the 18th Meeting of the Executive Committee.
4 The remaining number of years until the end of the scenario from 1996 onward.
5 The annual figure is column 4 divided by column 5. These figures will be reduced as a result of new approvals at the 18th Meeting of the Executive Committee.

SECTION III

A DETAILED PLAN INCLUDED PROJECTED CASH FLOW FOR 1996

(To be provided after adoption by the Executive Committee of the Consolidated Business Plan and the Business Plans of the Implementing Agencies)