UNITED
NATIONS

EP

United Nations Environment Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/21/6
19 January 1997

ORIGINAL: ENGLISH

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

Twenty-first Meeting
Montreal, 18-20 February 1997

THREE-YEAR (1997-1999) BUSINESS PLAN OF THE MULTILATERAL FUND

Introduction

Mandate

1. The 1997-1999 business plan of the Multilateral Fund is based on the amount of replenishment adopted in Decision VIII/4 and on the 1996-1998 rolling business plan, which was submitted by the Executive Committee to the Eighth Meeting of the Parties in accordance with Decision VII/23.

Purpose

2. The purpose of the business plan is to reflect the need to continue with strategic management of the Fund within the broad policy framework provided by the Parties, and the relevant decisions of the Executive Committee. 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.

Structure

This business plan consists of the following sections:

I. A brief review of the performance of the 1996 business plan

II. Strategic considerations

III. Financial planning:

- Preface
- Allocations among major categories of activities

IV. Programme targets:

- ODS phase out accounting for the triennium
- Targets for ODS approvals and expenditures for the triennium
- Other targets

V. Management of the three-year business plan

- Annual evaluation of the performance of the business plan of the previous year
- Updating and adjustment of the remaining year(s) of the business plan.

I. A brief review of the performance of the 1996 business plan

3. This review is to evaluate the implementation of the 1996 business plan as of October 1996, with the knowledge that the implementation is to continue until the end of the year. The brief review is focused primarily on the performance of the 1996 budget and ODS approval targets. A full review is provided under a separate document (UNEP/OzL.Pro/ExCom/21/7). Since the Twentieth Meeting of the Executive Committee in October 1996 was the last meeting of the year, commitment of the balance of the budget and of ODS approval targets of the 1996 business plan will have to be undertaken in 1997.

4. The Executive Committee decided at its Twentieth Meeting that implementing agencies which did not fulfill their investment shares for 1996 as of the Twentieth Meeting will be allowed to submit projects to the Twenty-first Meeting amounting to the remainder of these shares (US $5-6 million), which could bring the total expenditure on investment projects up to the budgeted allocation of US $97 million for 1996.

5. However, due to reasons which will be explained in the following paragraphs, some of the ODP approval targets will not be met, and will be carried over into the new triennium. Since these unfinished ODP approvals from 1996 will have an impact on the business planning in the new triennium, it is important to be clear on what is being rephased into 1997-1999. Table 1 sums up the implementation of the 1996 budget and ODS approvals as of October 1996.

6. Overall, the commitment of the 1996 budget will not result in the targeted ODP to be phased out, with 83 per cent of the budget committed and only 47 per cent of the ODP target achieved. This is especially evident from the approval of the investment portion. As of October 1996, US $92.8 million, or 96 per cent of the budgeted allocation of US $97 million was already committed where, on the other hand, the total ODP approvals of 11,675 ODP tonnes is only 46 per cent of the 25,596 tonnes target set for the year. While commitment at the Twenty-first Meeting equivalent to the remainder of 1996 shares of UNIDO and the World Bank would achieve the budget allocation of US $97 million and some additional ODP approvals, a large balance of over 10,000 ODP tonnes from the 1996 ODP approval target would have to be rephased into the new triennium. Among other things, this is due primarily to the two following factors:

- The ODP target for halons which was set at 6,683 tonnes for 1996 was not achieved due to the efforts in the year to refine the guidelines for the halon extinguisher sub-sector.
- The target for production which was set at 3,800 ODP tonnes for 1996 was not achieved due to the longer than expected time needed to complete the guidelines for shutting down ODS producing facilities in the production sector.

7. Both halon and ODS production sectors offer very cost-effective phase-out. The fact that the targets for these two sectors have not been met has adversely affected the cost-effectiveness of the entire programme for 1996.

8. On the two other major categories of activities; i.e. non-investment and bilaterals, there will be a favourable balance of the budget to be rephased into 1997, especially from the bilaterals.

TABLE 1

IMPLEMENTATION OF 1996 BUDGET AND ODS APPROVALS

AS OF OCTOBER 1996

CATEGORIES	TARGET		COMPLETION		% OF TARGET ACHIEVED		BALANCE	
	Amount budgeted in US$ (thou.)	ODP approvals (in tonnes)	Amount approved in US$ (thou.)	ODP tonnes approved	Amount approved	ODP tonnes approved	Amount remaining in US$ (thou.)	ODP tonnes remaining
Investment	97,000	25,596	92,851	11,675	96%	46%	4,149	13,921
Non-Investment*	20,000	----	13,100	----	66%	----	6,900	----
Bilateral	15,000	----	3,700	328	25%	----	11,300	----
TOTAL	**132,000**	**25,596**	**109,651**	**12,003**	**83%**	**47%**	**22,349**	**13,593**

*Includes implementing agencies' work programmes, UNEP core programme, country programme formulation, institutional strengthening and administration.

II. Strategic considerations

9. In decision VII/23, the Parties noted at their Seventh Meeting that the "three-year rolling business plan must reflect the purpose of the Multilateral Fund, which is to enable Parties operating under Paragraph 1 of Article 5 to meet their Protocol obligations".

10. Under the provisions of the Montreal Protocol, each Party operating under Article 5 is obligated to freeze its production and consumption of chlorofluorocarbons by 1 July 1999. Since there is a considerable time lag between project approval and project completion, strategically the Multilateral Fund will try to achieve as far as possible in 1997 and 1998 the maximum approvals so that these approvals will be implemented and have an impact on the freeze obligations of Article 5 countries.

11. Since the obligation for Article 5 countries is both on production and on consumption of chlorofluorocarbons, the Multilateral Fund will take on board in the triennium projects in the production sector to assist CFC producing Article 5 countries to meet their obligations in the production sector.

12. The Multilateral Fund will continue funding projects in Article 5 countries which have met their 1999 freeze obligations for the consumption of CFCs. This will enable these countries to maintain the phase out momentum which has been built up with the Fund's assistance. In this regard, the Executive Committee will continue implementing its decision taken at its Sixteenth Meeting to set aside a specific level of funding for low-volume-ODS-consuming countries. The Fund will also continue to address the needs of small and medium-sized enterprises in their efforts for phase out.

13. Due to their high ozone-depleting potential and the subsequent impact on the ozone layer, the Executive Committee will give priority funding for the preparation of projects in the very cost-effective halon sector in 1997 and 1998, although the freeze on halons is not obligatory for Article 5 countries until the year 2002.

14. By October 1996, the Executive Committee has approved funding for the phase out of more than 75,000 ODP tonnes in Article 5 countries and, in the same period, total actual phase out is around 15,000 tonnes. As only real phase out impacts on the freeze obligations of the Article 5 countries and the protection of the ozone layer, the Executive Committee will intensify its supervision and monitoring of the implementation of the approved portfolio of investment projects.

15. In the plan period, the Executive Committee will adhere to the existing operational policy framework which has been established. As part of that framework, the Fund will continue supporting institutional strengthening in Article 5 countries to facilitate the implementation of approved country programmes in accordance with decision 19/29 taken by the Executive Committee. The Fund will also continue supporting the clearinghouse function of the Executive Committee currently being implemented by UNEP.

III. Financial planning

Preface

16. This section on financial planning of the Multilateral Fund 1997-1999 is being presented to the Twenty-first Meeting of the Executive Committee under a separate document (UNEP/OzL.Pro/ExCom/21/5). It is expected that deliberations at the Twenty-first meeting will produce decisions on an annual budgeting option and a financial management scheme presented in that document. Those decisions will be the basis to revise this section presented currently in this document.

17. Pending those decisions, this document undertakes its analysis under the existing policy of the Multilateral Fund, in particular, the financial rule of the Multilateral Fund, which follows a resource-based financial management model. The analysis also assumes that the current pattern of the inflow of contributions as observed to date will continue in the new triennium.

18. That analysis results in a resource availability scenario for the triennium as follows:

TABLE 2

RESOURCE AVAILABILITY FOR 1997-1999
(in US $millions)

Year	1997	1998	1999	Total
Resources Available:	175	146	146	467

Allocations among major categories of activities

19. Based on the resource availability indicated in Table 2, the budget allocation among the major categories of activities are presented in the following Table 3:

TABLE 3

ALLOCATION AMONG MAJOR CATEGORIES OF ACTIVITIES

Categories of Activities	1997		1998		1999		TOTAL	
	US $ (mil.)	%	US $ (mil.)	%	US $ (mil.)	%	US $ (mil.)	%
Investment	141	81	111	76	112	77	364	78
Non-investment*	16	9	16	11	16	11	48	10
Methyl Bromide**	3	2	4	3	3	2	10	2
Bilateral Activities	15	8	15	10	15	10	45	10
TOTAL	175	100	146	100	146	100	467	100

* Includes agency work programmes, UNEP's core programme, country programme formulation, institutional strengthening, training, and administration.

** This allocation is subject to the decision taken by the 9th Meeting of the Parties on Methyl Bromide.

IV. Programme targets

ODS phase out accounting for the triennium

20. The following Table 4 intends to facilitate supervision and monitoring of the ODS phase-out to be achieved by the Multilateral Fund in the years 1997-1999. Separate accounts for production and consumption are shown for both halons and CFCs. The figures are planning figures which will be revised at the end of each year in the triennium by the actual implementation numbers.

TABLE 4

ODS PHASE OUT ACCOUNTING (ODP tonnes)

A. Consumption (Halons + CFCs)

Year	1997		1998		1999		Total		App./Impl. Ratio	
ODS Approvals	Halons	CFCs	Halons	CFCs	Halons	CFCs	Halons	CFCs	Halons	CFCs
Opening balance	1,138	59,092	4,138	43,428	3,455	40,051				
+										
New approvals	6,000	14,564	6,000	10,417	6,000	10,337	**18,000**	**35,318**		
-									113%	61%
Phase-out	3,000	30,228	6,683	13,794	6,285	14,143	**15,968**	**58,165**		
=										
Ending balance	4,138	43,428	3,455	40,051	3,170	36,245				

B. Production (Halons + CFCs)

Year	1997		1998		1999		Total		App./Impl. Ratio	
ODS Approvals	Halons	CFCs	Halons	CFCs	Halons	CFCs	Halons	CFCs	Halons	CFCs
Opening balance	0	0	3,000	0	3,000	10,000				
+										
New approvals	6,000	2,500	6,000	13,500	6,000	8,500	**18,000**	**24,500**		
-									120%	169%
Phase-out	3,000	2,500	6,000	3,500	6,000	8,500	**15,000**	**14,500**		
=										
Ending balance	3,000	0	3,000	10,000	3,000	10,000				

21. The ODS annual approvals and actual phase-out in Table 4A and 4B are vertically linked up and, by linking them up further with the opening balance of ODS approvals of the current year (also the ending balance of the previous year), it is possible to review at a glance the performance of the Fund in ODS phase-out in a given year. The ending balance gives a snapshot picture of the amount of ODS approved, but not implemented, at a certain point in time.

22. More significantly is the average approval/implementation ratio expressed in percentage in the table, which indicates, on the average, the relationship between the number of ODP tonnes approved for each ODP tonne actually phased out. This ratio could be a good indicator to monitor the speed of implementation of ODS phase-out as against ODS approvals. In Table 4A, for instance, the ratio for CFCs between approvals to actual phase-out is 61 per cent which shows that actual implementation will outpace approvals in this triennium. This is important because it will enable the Fund to implement the backlog of projects approved over the previous two triennia, in addition to implementing the approvals realized in this triennium. This is indicated by the decrease in the ending balance in 1999 (36,245 ODP tonnes) at the end of the current triennium from the opening balance in 1997 (59,092 ODP tonnes) in the beginning of the triennium.

Targets for ODS approvals and expenditures for the triennium

23. Table 5 provides the targets for ODS approvals and expenditures to be achieved by the Multilateral Fund during the three years, as estimated by the implementing agencies. Consistent with the resource availability during the triennium as depicted in Table 2, the targets for ODS approvals and expenditures are set up at a level of US $467 million. As this is a planning exercise and strategic in nature, the targets are provided in broad categories including CFC consumption, production, halons, methyl bromide and low-volume-consuming countries (LVCs). The LVCs are listed separately as a category in order to be accorded special attention. These macro targets will be broken down further into targets of sectors/sub-sectors in annual business planning.

24. The targets for the current year 1997 will be firmed up once the Executive Committee considers the 1997 business plans of the implementing agencies, and those targets for 1998 and 1999 are indicative and will be adjusted according to the implementation of the 1997 business plan and other circumstances.

25. In developing these targets, the following was taken into consideration:

- The Multilateral Fund, in 1997 and the first half of 1998, will give priority to approving projects with the highest ODP value and short implementation duration for countries which have yet to meet their freeze obligations. This will allow these projects to be implemented before 1 July 1999 in order to curtail the ODS consumption growth in these countries.

- The Fund will continue to provide funding for all ODS consumption sectors to enable all Article 5 countries to maintain the momentum of phase-out according to the strategies in their country programmes.

- Halon will continue to receive high priority due to its high ODP value and cost-effectiveness. This will include consideration of the first sectoral phase out programme from an Article 5 country in the halon sector.

- The Fund will continue the practice of setting up a special allocation for low-volume-consuming countries.

- Funding of closure projects in the production sector will most probably be considered during this triennium. Considering that the guidelines for shutting down ODS production facilities will be ready in the first half of 1997, and project formulation will be underway in the same year, allocations for the production sector will be made in 1998 and 1999.

Other targets

26. The Multilateral Fund will continue to approve requests for preparation of the country programmes for all the remaining eligible Article 5 countries.

TABLE 5

ODS APPROVALS AND EXPENDITURES*
1997 - 1999

SECTOR	1997				1998				1999				TOTAL			
	ODS		Expenditures		ODS		Expenditures		ODS		Expenditures		ODS		Expenditures	
	Tonnes	%	US $ mil.	%	Tonnes	%	US $ mil.	%	Tonnes	%	US $ mil.	%	Tonnes	%	US $ mil.	%
Consumption	13,226	57	106.8	74	9,377	34	74.52	65	8,967	51	78.02	68	31,570	46	259.34	69
Production	2,500	11	1.2	1	13,500	47	12.64	11	3,500	20	9.14	8	19,500	28	22.98	6
Halons	6,000	26	11.35	8	4,000	14	9.54	8	4,000	23	9.54	8	14,000	20	30.43	8
Methyl Bromide	50	1	3.0	2	50	1	4.0	3	50	1	3.0	3	150	1	10.00	3
LVCs	1,248	5	21.7	15	980	4	15.3	13	900	5	15.3	13	3,128	5	52.30	14
TOTAL	23,024	100	144.05	100	27,907	100	116.00	100	17,417	100	115.00	100	68,348	100	375.05	100

* Based on the resource availability shown in Table 2. Based on the annual allocation to investment activities in the triennium as shown in Table 3 (US $146, US $112, and US $112 million).

V. Management of the three-year business plan

27. Management of the three-year business plan is the responsibility of the Executive Committee. This will be done through the following two tools:

Annual evaluation of the performance of the business plan of the previous year

An evaluation of the annual business plan will be undertaken by the Secretariat and the implementing agencies at the end of each year according to the performance indicators established in the annual business plan. This will provide the basis for the preparation of the business plan of the following year and adjustment of the three-year business plan for the balance of the triennium.

Updating and adjustment of the remaining year(s) of the business plan

Since the figures in the plan could be considered as firm figures for the current year (pending consideration of the 1997 business plans by the Executive Committee) and indicative for the next two years (1998 and 1999), the figures for the last two years will be firmed up by the annual business plan for 1998 and 1999 and adjusted according to the circumstances prevailing at that time.