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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-first Meeting
Montreal, 2-6 December 2013

CONSOLIDATED 2014-2016 BUSINESS PLAN OF THE MULTILATERAL FUND

Introduction

1. Bilateral and implementing agencies provided initial business plan tables by 13 September 2013 to the Fund Secretariat. The Secretariat and the bilateral and implementing agencies began their collaborative efforts on business planning at the Inter-agency Coordination Meeting held from 24 to 25 September 2013.

2. The Secretariat compiled and analysed the information provided in the light of decisions of the Executive Committee taken in 2011, 2012 and 2013 in particular with respect to the 2010-2014 business plans and HCFC guidelines, and indicated the resulting adjustments. Revised business plan tables and narratives were submitted, as required, on 9 October 2013. Information on historic performance indicators as requested in decision 42/5 is available upon request.

RESOURCE ALLOCATION IN THE BUSINESS PLAN

3. Table 1 presents, by year, the value of activities included in the business plan according to categories “required for compliance” and “not required for compliance”. The values included in the business plan exceed the 2014-2016 budgets by US \$160.4 million.

Table 1

RESOURCE ALLOCATION IN BUSINESS PLANS SUBMITTED TO THE EXECUTIVE COMMITTEE (2014-2016) (US \$000s)

Item	2014	2015	2016	Total (2014-2016)	Total (2017-2020)	Total After 2020*
Required for Compliance						
Approved multi-year agreements (MYAs)	76,889	92,391	40,895	210,175	19,317	768
HCFC production – stage II			33,338	33,338	133,352	
HCFC production PRP – stage II		496		496		
HPMP stage I	2,433	1,821	466	4,719	388	30
HPMP PRP – stage I	190			190		
HPMP stage I – additional funding	2,571	1,505	1,977	6,053		
HPMP stage II	7,563	41,444	199,497	248,504	720,218	289
HPMP PRP – stage II	11,890	2,439	282	14,611	6,650	
HPMP verification	540	540	540	1,620	2,160	
Methyl bromide (MB) phase-out	1,162			1,162		
Not required for compliance						
Disposal of unwanted ODS	2,626			2,626		
ODS alternative mapping studies	989			989		
MB workshops	120			120		
Standard cost activities						
CAP	10,493	10,808	11,132	32,433	47,969	
Core unit	5,778	5,819	5,859	17,456	23,850	
Secretariat, ExCom, and M&E cost minus Canadian counterpart	6,252	6,389	6,530	19,171	27,611	
Treasurer	500	500	500	1,500	2,000	
Institutional strengthening (IS)	8,937	7,399	8,937	25,274	32,945	

Item	2014	2015	2016	Total (2014-2016)	Total (2017-2020)	Total After 2020*
Grand total	138,934	171,550	309,953	620,437	1,016,459	1,087
Indicative budget	160,000**	150,000***	150,000***	460,000	600,000***	
Difference	-21,066	21,550	159,953	160,437	416,459	

* All activities after 2020 are for approved MYAs with the exception of US \$187,600 for Mauritius, US \$100,900 for Namibia and US \$30,000 for South Sudan.

** According to decision 66/3(e).

*** Based on the level of previous replenishment.

Required for compliance

MYAs

4. Approved MYAs amount to US \$210.2 million including US \$132.9 million for HPMP stage I activities, US \$75 million for the HCFC production sector, US \$368,448 for MB activities and US \$1.9 million for MB production activities. The value for the activities from 2017 to 2020 amounts to US \$19.3 million.

Stage II production sector and project preparation

5. US \$33.3 million per year is included in the business plans for 2016 to 2020 for stage II production sector in China. This annual level of funding for stage II plus agency fees would exceed the average annual amount left after stage I is funded (US \$20.4 million) by 50 per cent. This suggests an accelerated funding that may also be associated with an accelerated phase-out. The project preparation associated to stage II amounting to US \$496,320 that would be requested in 2015 would be used, *inter alia*, to assess the potential project closure and dismantling and retirement of facilities required under decision 69/28(e).

Stage I of HPMPs and preparation

6. There are seven countries¹ for which stage I HPMPs have not yet been approved. The business plan includes US \$5.1 million for these activities of which US \$417,530 is programmed for the period 2017 to after 2020. All of these countries have stage I HPMPs included in 2014 except for the Democratic People's Republic of Korea which is included in 2015 since there are currently UN sanctions that prevent implementation of the stage I HPMP. However, no bilateral or implementing agency has included Botswana in their business plans. The Executive Committee may wish to request bilateral and/or implementing agencies to include Botswana HPMP activities in their business plan.

7. Additional projects for seven countries² are included in the business plan for stage I HPMPs amounting to US \$6.05 million. These requests fall under different decisions of the Executive Committee that allow countries to submit additional projects during the implementation of stage I. Preparation projects were also included in three of these countries (Costa Rica, Cuba, and Paraguay) for additional stage I HPMP activities amounting to US \$190,000.

Stage II HPMP project preparation

8. At its 63rd meeting, the Executive Committee decided that project preparation could be funded for stage II activities and might be included prior to the completion of stage I in business plans for the years

¹ Botswana, Democratic People's Republic of Korea (the), Libya, Mauritania, South Sudan, Syrian Arab Republic and Tunisia.

² Bahrain, Bolivia, Costa Rica, Cuba, Mexico, Paraguay and Uruguay.

2012-2014³. The total level of funding for project preparation for stage II HPMPs⁴ is US \$21.3 million including US \$14.6 million for the period of 2014-2016.

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

9. The total level of funding included in the business plan for stage II HPMPs for the servicing sector in LVC countries is US \$8.2 million of which US \$1.2 million is for the period 2014 to 2016. This includes activities for LVC countries to achieve the 35 per baseline reduction.

10. Projects for the HCFC servicing sector in LVC countries to reach a 35 per cent reduction amount to US \$1.7 million (including US \$738,234 for the period of 2014 to 2016).

11. Germany, Italy and UNIDO were the only implementing agencies that have provided activities for stage II HPMPs for LVC countries that already received approved projects to achieve the 35 per cent reduction amounting to US \$4.9 million (including US \$162,000 for the period of 2014 to 2016). The details on the reduction level were not provided in the business plans. In addition, UNIDO has indicated that UNEP will be the lead or cooperating agency for most of these activities. However, UNEP did not include these activities in its business plan.

12. The business plan also include US \$1.5 million (including US \$336,518 for the period of 2014 to 2016) for stage II HPMP for three countries (Mauritius, Namibia and Papua New Guinea) for which total phase-out projects have been approved.

13. The details on the level of reduction were not provided in UNIDO’s business plan for the entries, therefore the Secretariat could not assess the values, accordingly. In addition, UNIDO has indicated that UNEP will be the lead or cooperating agency for most of these activities. However, UNEP did not include these activities in its business plan. The Secretariat requested all agencies to indicate in their business plans any countries in which they expected a 100 per cent phase-out submission with funding beginning prior to 2020 for planning purposes with LVC countries indicated as qualified pursuant to decision 62/10. The Executive Committee may wish to consider requesting bilateral and implementing agencies to indicate, in future business plans, those countries for which business plan entries represent a 100 per cent phase-out in accordance with decision 62/10.

Stage II HPMPs in non-LVC countries

14. The total level of funding for stage II HPMP for non-LVC countries is US \$960.8 million with an associated phase-out of 8,041 ODP tonnes of HCFCs (including US \$247.3 million for the period of 2014 to 2016 with a phase-out of 2,178 ODP tonnes of HCFCs). The sectors breakdown is provided in Table 2.

Table 2

STAGE II HPMP BY SECTOR (US \$000)

Sector	Total (2014-2016)	Total (2017-2020)*	Total	Per cent of Total
Extruded polystyrene (XPS) foam	26,484	72,789	99,273	10.3%
Foam general	25,457	71,978	97,434	10.1%

³ According to decision 63/5(f)(i).

⁴ The guidelines for stage I HPMP project preparation that were applied to stage II preparation requests were based on 2007 HCFC consumption. The guidelines have not been updated to replace 2007 HCFC consumption with the established HCFC baselines.

Sector	Total (2014-2016)	Total (2017-2020)*	Total	Per cent of Total
Rigid foam	47,965	109,650	157,615	16.4%
Fire-fighting	17	70	87	0.0%
Refrigeration air-conditioning	44,317	137,475	181,791	18.9%
Refrigeration general (including manufacturing, commercial, and industrial)	57,252	205,163	262,415	27.3%
Refrigeration servicing	32,977	86,711	119,688	12.5%
Refrigeration transportation and assembly	4,462	0	4,462	0.5%
Solvent	7,435	29,728	37,163	3.9%
HC production for use as a refrigerant	902	0	902	0.1%
Total	247,267	713,564	960,831	100.0%

* Values for stage II HPMPs after 2020 were not provided as agreed at the Inter-agency Coordination Meeting.

15. Non-LVC countries that do not have funding in the business plan to address a 35 per cent reduction of the baseline include: Democratic People's Republic of Korea (the), Kenya, Libya, Mauritania, Syrian Arab Republic and Tunisia.

MB

16. The business plan includes US \$1.16 million for MB projects in three countries (Algeria, Sudan (the) and Tunisia) in 2014. The projects are intended to address high-moisture content dates for which the Methyl bromide Technical Options Committee (MBTOC) has indicated that alternatives are available.

HPMP verification

17. At its 70th meeting, the Executive Committee identified a sample of 17 countries for which verification reports⁵ are to be prepared and requested lead implementing agencies to include these reports in their work programme requests⁶. Verification reports are approved at a cost of US \$30,000 per country. The Secretariat has included an amount of US \$540,000 per year for verification reports in the future assuming that 18 reports will be prepared per year once all eligible countries have approved stage I HPMPs. US \$1.6 million is included in the 2014-2016 business plan. An additional US \$2.1 million is included for the period of 2017 to 2020.

Not required for compliance

Disposal of unwanted ODS

18. The business plan includes US \$2.6 million for ODS disposal projects that would result in the destruction of 175 ODP tonnes of ODS. All of these projects result from approved project preparation. These projects should be submitted no later than the 72nd meeting⁷.

MB

19. The business plan includes US \$120,000 for MB activities that are not required for compliance including regional technical workshops for sustainable adoption of MB alternative technologies in the Africa region.

⁵ Decision 61/46(c) requires verification reports for a sample of 20 per cent of the LVC countries with approved HPMPs.

⁶ According to decision 70/15(c).

⁷ According to decision 69/5(i).

Mapping of ODS alternative

20. The business plan includes US \$989,000 for technical assistance projects on mapping of ODS alternatives at the national level in eight countries, namely: Cuba, Dominican Republic (the), Egypt, India, Iran (Islamic Republic of), Kuwait, Lebanon and Malaysia. These activities will assess the performance, cost and availability of ODS alternatives to facilitate the selection of appropriate safe and efficient technologies for various applications for stage II HPMPs.

Standard cost activities

21. 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.

22. For IS activities, US \$58.2 million has been included the business plan of which US\$25.3 million for the period of 2014 to 2016⁸. The funding levels for IS have been agreed until 2015⁹. The funding levels for IS for the period of 2017 to 2020 amount to US \$32.9 million.

Adjustments based on existing Executive Committee decisions on business plans as submitted

23. In line with relevant decisions by the Executive Committee, the Secretariat proposed the consolidated business plan of the Multilateral Fund with the following modifications:

- (a) Adjustments to MYA values for the period 2014 to 2020 and after to reflect the records of the Fund Secretariat through increasing the budget by US \$1.79 million including US \$31,928 for the period of 2014 to 2016;
- (b) Adjustments to one activity of the additional stage I HPMP activities would limit the funding level to the maximum allowable for the refrigeration assembly sector of US \$4.50/kg and reduce the total level of funding for the project by US \$1,632 for the period of 2014 to 2016;
- (c) Remove project preparation for additional stage I HPMP activities for Costa Rica, Cuba, and Paraguay amounting to US \$190,000. These activities were previously approved but at its 70th meeting, the Executive Committee requested implementing agencies not to incur any new commitments and to return project preparation fund balances for these activities by the end of 2013¹⁰. The Secretariat has recommended reinstating project preparation for Costa Rica, Cuba and Paraguay from this decision in the context of Status reports and compliance document (UNEP/OzL.Pro/ExCom/71/6) since the project document submitted to the Executive Committee for the approval of the relevant HPMPs indicated that additional projects would be submitted from the remaining project preparation;
- (d) Adjustments would reduce the level of funding for stage II project preparation for HPMPs pursuant to decisions 55/13 and 56/16 for the period of 2014 to 2020 by US \$1.3 million (including US \$ 866,350 for the period of 2014 to 2016);

⁸ In line with decision 63/5(b), current levels of funding for IS are used for business planning purposes for 2014-2016 business plans up to 2020 until such time as a decision is taken on the actual levels.

⁹ According to decision 61/43(b).

¹⁰ According to decision 70/7(b)(iii).

- (e) Adjustments would limit the funding levels to the maximum allowable provided for LVC countries¹¹ to achieve the 35 per cent reduction that would result in a reduction of the total level of funding by US \$355,634 for the period of 2014 to 2020 (including US \$181,422 for the period of 2014 to 2016);
- (f) Adjustment for projects with a cost-effectiveness that exceeds the relevant cost-effectiveness thresholds. This would reduce the projects for non-LVC countries for the refrigeration servicing sector with a cost-effectiveness of US \$4.50/kg by US \$329,688 for the period of 2014 to 2020 (there are no adjustment for years 2014 to 2016). It would reduce the foam sector projects by US \$3,420 for the period of 2014 to 2016¹² to a maximum costs effectiveness of US \$6.92/kg¹³. This will reduce project values by US \$18,385 for the period of 2014 to 2020 (including US \$3,677 for the period of 2014 to 2016) for the refrigeration air-conditioning sector to a cost-effectiveness of US \$9.00/kg. It would reduce the projects in the solvent sector by US \$610 for the period of 2014 to 2020 (including US \$120 for the period of 2014 to 2016) to a cost-effectiveness threshold of US \$4.50/kg;
- (g) Adjustments to reduce the funding for stage II HPMPs for three LVC countries by US \$ 1.5 million since these countries have already total phase-out projects approved;
- (h) Remove “ODS alternative mapping studies” since these activities were removed from the 2013 business plan at the 69th meeting¹⁴. This would reduce the implementing agencies’ business plans by US \$989,000;
- (i) Although funding levels for IS and the timing of the submission of those requests are known, implementing agencies have included values for IS in their business plans that vary from those allowed under the current funding structure by US \$720,601 for the period of 2014 to 2020 (including US \$149,500 for the period of 2014 to 2016). The adjustments would modify the business plans according to when IS renewals are due based on the latest approvals of the IS requests and the current funding structure.

24. Table 3 presents the results of the Secretariat’s proposed adjustments to the consolidated 2014-2016 business plan, including totals by agency.

Table 3

**ADJUSTED RESOURCE ALLOCATION IN BUSINESS PLANS SUBMITTED TO THE
EXECUTIVE COMMITTEE BASED ON
EXISTING EXECUTIVE COMMITTEE DECISIONS
(US \$000s)**

Item	2014	2015	2016	Total (2014-2016)	Total (2017-2020)	Total After 2020*
Required for compliance						
Approved MYAs	76,580	91,835	41,792	210,207	20,735	1,110
HCFC production - stage II			33,338	33,338	133,352	
HCFC production PRP - stage II		496		496		
HPMP stage I	2,433	1,821	466	4,719	388	30

¹¹ According to decision 60/44(f)(xii).

¹² There are no activities for which adjustments are required after 2016.

¹³ According to decision 60/44(f).

¹⁴ According to decision 69/5(c)(i).

Item	2014	2015	2016	Total (2014-2016)	Total (2017-2020)	Total After 2020*
HPMP PRP - stage I						
HPMP stage I - additional funding	2,571	1,503	1,977	6,052		
HPMP stage II	7,563	41,423	198,992	247,979	718,787	
HPMP PRP - stage II	11,200	2,263	282	13,744	6,192	
HPMP verification	540	540	540	1,620	2,160	
MB phase-out	1,162			1,162		
Not required for compliance						
Disposal of unwanted ODS	2,626			2,626		
ODS alternative mapping studies						
MB- workshops	120			120		
Standard cost activities						
CAP	10,493	10,808	11,132	32,433	47,969	
Core unit	5,778	5,819	5,859	17,456	23,850	
Secretariat, ExCom, and M&E cost minus Canadian counterpart	6,252	6,389	6,530	19,171	27,611	
Treasurer	500	500	500	1,500	2,000	
IS	8,937	7,250	8,937	25,124	32,374	
Grand Total	136,756	170,647	310,345	617,747	1,015,417	1,140
Indicative budget	160,000**	150,000***	150,000***	460,000***	600,000	
Difference	-23,244	20,647	160,345	157,747	415,417	1,140
By agency						
France	224	232	198	654	105	
Germany	424	2,279	5,147	7,850	2,677	496
Italy	562	267	73	902	68	
Japan	1,121	90	2,314	3,526		
UNDP	29,368	32,196	77,423	138,987	304,110	51
UNEP	21,161	19,088	29,874	70,123	95,295	593
UNIDO	42,513	60,409	94,254	197,176	301,434	
World Bank	34,090	48,657	93,492	176,238	279,958	
HPMP verification	540	540	540	1,620	2,160	
Secretariat, ExCom, and M&E cost minus Canadian counterpart	6,252	6,389	6,530	19,171	27,611	
Treasurer	500	500	500	1,500	2,000	

* All activities after 2020 are for approved MYAs with the exception of US \$187,600 for Mauritius, US \$100,900 for Namibia and US \$30,000 for South Sudan.

** According to decision 66/3(e).

*** Based on the level of 2014 to 2016 replenishment.

OTHER POLICY ISSUES

Requests for activities not required for compliance

25. The Executive Committee may wish to consider whether activities included in the business plans not required for compliance should be removed, maintained, or maintained but re-phased to after 2014 pending resolution of outstanding requirements for compliance, in the light of the budgetary limitations for activities required for compliance.

Business plan assumptions

26. The World Bank noted that there is a time lag between funding and actual phase-out but this has an adverse effect on calculating cost-effectiveness in any given annual tranche since some tranches would have zero phase-out with substantial approvals. The Bank and the Fund Secretariat have raised this issue in the past. The Executive Committee requested the implementing agencies to provide annual phase-out based on the overall cost-effectiveness of the tranche. For this reason, the information provided in the business plans does not appropriately reflect, on an annual basis, the phase-out that is funded in that year. The Executive Committee may wish to request bilateral and implementing agencies to provide a distribution of tonnage for HPMPs in future business plans, according to the cost-effectiveness of the overall HPMP agreement.

27. Another issue raised in the World Bank's business plan was the fact that the assumptions used for business planning for the amount of eligible consumption could understate the amount of phase-out required by, in particular, non-LVC countries where the level of phase-out approved for stage I exceeded 10 per cent of the baseline (in some cases up to 18 per cent of the baseline), but the agreements commit only to achieving the 10 per cent baseline reduction. It should be noted, however, that this assumption was applied to all countries and that the level of funding in the business plans exceed the indicative budget level for the years 2015 to 2020. The Executive Committee may wish to request bilateral and implementing agencies to indicate project funding requirements based on the estimated tonnage needed to achieve the next schedule reductions taking into account the phase-out commitment by Article 5 countries in their respective agreements with the Executive Committee in future business plans.

Over-budgeting and distribution of annual tranches of HPMPs

28. The activities in the 2014-2016 business plans exceed the overall budget by US \$160.4 million as shown in Table 1 and by US \$157.8 million after adjustments are made as shown in Table 3. Adjustments have been applied to all new HCFC activities except those in the production sector.

29. Moreover, both tables indicate that the over-budgeting is not distributed equally among the three years of the triennium but instead the year 2016 exceeds the budget by US \$160.3 million after adjustments, while in 2014, over US \$23 million of the indicative budget will not be requested, which would be carried over to the next triennium assuming that interest and the return of balances account for the non-pledged part of the 2012 to 2014 replenishment.

30. The 2014-2016 business plan as adjusted include US \$7.6 million for stage II HPMPs in 2014, US \$248 million from 2014-2016. The implementing agencies included US \$965.9 million in total for stage II HPMP activities in their business plans for the period 2014 to 2020.

Policy issues in agency business plans

31. UNDP, UNIDO and the World Bank raised, respectively, several policy issues including need to complete stage II guidelines, elements to be included in project preparation for stage II such as updating surveys and the overarching strategy, mapping ODS alternatives to enable technology choices for stage II, the addition of pilot demonstration on alternatives to MB in quarantine and pre-shipment (QPS) to evaluate the technical and economic feasibility of existing alternatives in different regions and countries, production swing plants, the time lag between funding and when ODS is phased out, and the level of eligible consumption for stage II HPMPs for determining business planning funding levels. The Secretariat's comments on the issues raised in the implementing agencies' business plans are covered in the individual business plans.

Possible overlaps

32. The Secretariat has identified possible overlaps in implementing business plans for the following countries: Bosnia and Herzegovina in the refrigeration servicing sector (Italy and UNIDO), Brazil in the foam sector (Italy and UNDP) and Mexico in the refrigeration servicing sector (Germany, Italy and UNIDO). The Executive Committee may wish to request the respective implementing agencies during the 71st meeting to report on the resolution of these overlaps.

Activities in the 2013 business plan not approved or submitted to the 71st meeting

33. The Secretariat recommends to automatically add those approved MYAs and IS activities that were due to the 71st meeting, but not submitted or approved to the 2014 business plan after the 71st meeting.

RECOMMENDATIONS

34. The Executive Committee may wish to:

- (a) Note the Consolidated 2014-2016 business plan of the Multilateral Fund as contained in document UNEP/OzL.Pro/ExCom/71/7;
- (b) Decide whether to:
 - (i) Adjust the business plan as proposed by the Secretariat;
 - (ii) 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 to:
 - a) Remove or maintain the activities not required for compliance;
 - b) Add those multi-year agreement and institutional strengthening activities from the 2013 business plans that were not submitted or not approved at the 71st meeting to the 2014 business plans;
- (c) Request bilateral and implementing agencies to:
 - (i) Submit stage I HCFC phase-out management plan (HPMP) activities not included in the business plans for Botswana;
 - (ii) In future business plans:
 - a) Provide a distribution of tonnage for HPMPs according to the cost-effectiveness of the overall HPMP agreement;
 - b) Indicate project funding requirements based on the estimated tonnage required to achieve the next schedule reductions;
 - c) To indicate those countries for which business plan entries represent a 100 per cent phase-out in accordance with decision 62/10;

- (d) Request the concerned implementing agencies during the 71st meeting to report on the resolution of overlaps identified in paragraph 32 of document UNEP/OzL.Pro/ExCom/71/7; and
- (e) Endorse the Consolidated 2014-2016 business plan of the Multilateral Fund, as adjusted by the Secretariat [and the Executive Committee], while noting that endorsement denotes neither approval of the projects identified therein nor their funding or tonnage levels.
