



United Nations
Environment
Programme



Distr.
LIMITED



UNEP/OzL.Pro/ExCom/9/14/Add.1
17 February 1993

ORIGINAL: ENGLISH

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

Ninth Meeting
Montreal, 8-10 March 1993

REVISED PROJECT PROPOSAL: CHINA

GENERAL COMMENTS

1. A revised incremental cost estimate and funding request was received from the World Bank on 8 February 1992 for the group of projects entitled "China - First ODS Phase Investment Project". This group of sub-projects was approved by the Executive Committee at its Sixth and Seventh meetings for a total amount of US \$9 million; it consists of six sub-projects. It is to be noted that this is the first time such a request is being made. The Sub-Committee of the Executive Committee that met in Washington, DC in September 1992 considered the issue of cost overruns for already approved projects. The Sub-Committee's recommendations were adopted by the Executive Committee at its Eighth meeting.

2. The US \$9 million approved by the Executive Committee is inclusive of the US \$480,000 transferred to UNDP for "a component of one of the foam sub-projects". In August 1992, the Bank and China signed a project preparation advance in the amount of US \$1.5 million which is also considered as a component of the approved US \$9 million budget. The Bank has subsequently disbursed US \$250,000 to China for project preparation expenses.

3. Since the revised incremental cost estimates for five of the six sub-projects are each less than US \$500,000, the Bank has submitted the modifications as work programme amendments, as follows:

	Meeting		Balance
	7th	9th	
	(in thousand US\$)		
Tianjin CFC conversion to LPG propellant	2500	2770	270
Shanghai CFC conversion to LPG propellant	1900	2309	409
Zhejiang foam plant conversion to butane	1042	973	-69
Zhejiang halon extinguisher conversion	797	710	-67
Beijing ABC powder production project	403	900	497

4. The above adjustments represent an additional request for US \$1,176,000 for three sub-projects and budget reductions totalling US \$136,000 for two sub-projects.

5. The sixth sub-project proposal was prepared for the sub-project "50 per cent reduced CFC foam" for which a request for a budget increase of US \$5.8 million is being submitted separately.

6. In addition to the adjustments in paragraph 3 above, US \$70,000 are being requested to provide technical supervision of technology procurement and detailed sub-project design for:

- US \$50,000 for technical assistance for the sub-projects, Zhejiang halon extinguisher conversion and Beijing ABC powder production project, and
- US \$20,000 for technical assistance for Zhejiang foam plant conversion to butane sub-project.

7. A request is also made "to pay the financial agent fee for appraisal, procurement, disbursement and auditing of the project (based on 1.2 per cent of total grant amount)", i.e. US \$185,000.
8. The above sub-project modifications, technical assistance request, and fee for a financial intermediary were submitted following the submission of the 1993 World Bank work programme. As such they are considered amendments to the Bank's work programme.
9. Sub-Committee recommendation number 11 approved at the Eighth Meeting (UNEP/OzL.Pro/ExCom/8/29, Annex III, page 26) states that "overruns which do not cause total expenditures to exceed \$500,000 can be approved within the context of a work programme or work programme amendment".
10. Furthermore, at its Eighth Meeting, when the Executive Committee was informed of the possible change in the costs for these projects, "one representative [stated] that the Executive Committee needed full justification concerning the costing before giving its approval".
11. In view of these facts, these amendments are considered as they are presented with the supporting information contained in the consultant's report. The justifications for the requested budget modifications were basically that costs were higher and savings were lower than originally anticipated for the aerosol projects.
12. A technical review was completed for the two sub-projects in the aerosol sector based on results of a pre-appraisal mission by an OORG sector expert.

SECRETARIAT'S RECOMMENDATIONS

13. The Fund Secretariat recommends as follows:
 - (1) Approval of the cost overruns referred to in paragraph 3 above;
 - (2) That this approval will constitute ceilings for the incremental costs of each of the sub-projects;
 - (3) The financial agent fee for appraisal, procurement, disbursement and auditing of the project in the amount of US \$185,000 should be approved; and,
 - (3) That the requested US \$70,000 be disbursed from project preparation advances as agreed to by the Government of China and the World Bank at the conclusion of the first National Country Programme Workshop held in Beijing on 1-4 June 1992.
14. If these recommendations are adopted by the Executive Committee, a total of US \$1,225,000 should be transferred to the World Bank.

PROJECT EVALUATION SHEET

COUNTRY OR REGION: China

PROJECT TITLE: 50 per cent reduced CFC foam

BUDGET: US \$12,100,000

INCREMENTAL COSTS: US \$7,648,000

COST EFFECTIVENESS: US \$6.5 per Kg. ODP Saved Annually

PROJECT DURATION: Two years

IMPLEMENTING AGENCY: World Bank

NATIONAL COORDINATING AGENCY: Ministry of Light Industry (MLI) and the
National Environmental Protection Agency
(NEPA)

TECHNICAL REVIEW COMPLETED: YES X NO

SECRETARIAT'S COMMENTS

1. The original sub-project proposal, was submitted to the Seventh Meeting of the Executive Committee as part of the group of sub-projects entitled, "China - First ODS phaseout investment project". The Executive Committee approved the sub-project at the said meeting. Subsequently, US \$480,000 was transferred to UNDP for a component of the sub-project.
2. The sub-project is being resubmitted to the Executive Committee with a request to disregard the sub-project that was already approved. The resubmission represents an US \$5.8 million increase in project incremental costs. Almost half of the requested grant is the result of net positive operational costs calculated over a four-year time frame.
3. This sub-project concerns activities at 13 different institutions including: two design institutions, four chemical producers, four refrigerator factories, and three panel manufacturers. The four-page project document is supplemented by a 13-page technical review.
4. The project document does not provide an incremental cost analysis with sufficient information for an assessment as to whether or not all cost components are eligible incremental costs. The detailed cost breakdown provided only local and foreign capital cost totals by company and operational costs by year and company. The financial and economic analysis section only describes the financial and economic analyses that will be performed in the future.

5. The technical review raises several important issues which have not been addressed in the submitted document.

SECRETARIAT'S RECOMMENDATIONS

6. Consideration of the request should be deferred until the next meeting of the Executive Committee pending fulfilment of the following requirements:

- (1) Project documentation should follow the same format used by the World Bank;
- (2) Adequate information should be provided regarding sub-project participating beneficiaries regarding proposed activities, co-ordination and incremental costs;
- (3) The new request should be an expansion of the already approved sub-project (the approved sub-project should not be disregarded as requested in this resubmission); and,
- (4) Concurrence of the Government of China to this arrangement should be provided.