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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighteenth Meeting
Vienna, 22-24 November 1995

REPORT OF THE SUB-COMMITTEE ON PROJECT REVIEW

INTRODUCTION

1. The Sub-Committee on Project Review of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol met at the Vienna International Centre on 20 and 21 November 1995.

2. Opening the meeting, the Chairman of the Sub-Committee, Mr. Geoffrey Tierney (United Kingdom), expressed his gratitude to Ms. Tcheknavorian-Asenbauer of the United Nations Industrial Development Organization (UNIDO) for the arrangements made to assist the Sub-Committee in its work.

I. ADOPTION OF THE AGENDA

3. The Sub-Committee adopted the following agenda:

1.Adoption of the agenda.

2.Appraisal of the new procedure for submitting project documentation.

3.Overview of issues identified during project review (UNEP/OzL.Pro/ExCom/18/6/Rev.1).

4.Decision 17/20 of the Executive Committee:

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(a) Draft consolidated list;

(b) List of projects and activities submitted to the Eighteenth Meeting of the Executive Committee;

(c) Resource allocation for (a) and (b).

5. 1996 business plans:

(a) Consolidated business plan;

(b) Business plan of UNDP;

(c) Business plan of UNEP;

(d) Business plan of UNIDO;

(e) Business plan of the World Bank.

6. Other matters, including policy matters that have an impact on project evaluation.

7. Adoption of the report.

II. APPRAISAL OF THE NEW PROCEDURE FOR SUBMITTING PROJECT DOCUMENTATION

4. The Chairman said that, as decided by the Executive Committee in paragraph (a) of its decision 17/18 (UNEP/OzL.Pro/ExCom/17/60, page 11), the Secretariat had not circulated the full documentation for project proposals before the Eighteenth Meeting of the Executive Committee. The result had been a considerable decrease in the volume of documents sent to Committee members. The full documentation was, however, available from the Secretariat upon request.

5. The Sub-Committee discussed the procedure for dealing with projects that raised substantive issues which could not be resolved by agreement between an implementing agency and the Secretariat, as well as the need to give members sufficient time to consider project documents.

6. It decided to recommend the following to the Executive Committee:

(a) The deadline for any new written information to be submitted to the Executive Committee should be two weeks before the date of the meeting;

(b) The summary of projects should contain:

(i) A synopsis of agreed projects which should come before the two weeks deadline if possible;

(ii) For projects to be considered individually, a description of the outstanding issues related to implementation of existing policies and guidelines;

(iii) For projects that raised policy issues, where there were no guidelines or inadequate guidelines, a summary presenting joint solutions whenever possible or adequate representation of the issues for consideration by the Sub-Committee on Project Review;

(c) Discussions to resolve any outstanding issues already identified could continue until the meeting of the Sub-Committee on Project Review and their outcome would be presented orally to the meeting. The number of projects to be resolved at this late stage would be kept to the minimum for reasons of financial planning;

(d) Significant new issues could only be raised less than one week before the two-week deadline under exceptional circumstances;

(e) The justification for proposed amendments to projects should be explained and disseminated so that all implementing agencies could be made aware of the criteria being applied to evaluate projects;

(f) To the extent possible, documentation should be disseminated in the form of diskettes.

III. OVERVIEW OF ISSUES IDENTIFIED DURING PROJECT REVIEW (UNEP/OzL.Pro/ExCom/18/6/Rev.1)

7. The Secretariat drew attention to policy issues relating to seven halon fire extinguisher conversion projects in China (UNEP/OzL.Pro/ExCom/18/21, pp. 7-9) and one halon fire extinguisher conversion project in India (UNEP/OzL.Pro/ExCom/18/26, pp. 9-11). The projects did not comply with the guidelines on incremental operating costs and savings in the portable fire extinguisher sub-sector, adopted by the Executive Committee at its Sixteenth Meeting (UNEP/OzL.Pro/ExCom/16/20).

8. The observers for the World Bank and UNIDO pointed out that the guidelines had been drawn up on the basis of enterprises consuming 30 tonnes annually. The enterprises in China, however, consumed much larger quantities and the level of funds recommended by the Secretariat would not provide sufficient incentive for the companies to proceed with phase-out. In addition, conversion to one technology would not cover the full range of fire extinguishers supplied by these enterprises.

9. The Sub-Committee agreed to recommend to the Executive Committee that flexibility should be shown in the case of large halon-producing enterprises, but that the burden of proving the need for conversion to a range of technologies should be placed on the enterprise. It also underlined the desirability of maintaining the 85-15 per cent ratio after conversion of the sector.

10. One representative, however, expressed concern at the abandonment of guidelines immediately problems were experienced.

11. The Sub-Committee discussed the advisability of funding the building modifications requested and decided that no exception to the guidelines should be made in this instance.

12. The Sub-Committee agreed to recommend to the Executive Committee that the halon fire extinguisher conversion projects included in UNEP/OzL.Pro/ExCom/18/6/Rev.1, Annex I should therefore be deferred.

13. The Secretariat explained that the policy issue in the Siltal project in Egypt (UNEP/OzL.Pro/ExCom/18/24) related to the excessively high capacity of the cleaning machine.

14. The Sub-Committee recommended to the Executive Committee that the cost of the automatic transporter on the cleaning machine should be deducted and the project approved. If any resources remained from the contingency fund, they should be allocated to this project.

15. The Secretariat drew attention to the recommendations concerning the P.T. Garuda project in Indonesia (UNEP/OzL.Pro/ExCom/18/27), which related to the calculation used to establish the cost-effectiveness.

16. The Sub-Committee recommended to the Executive Committee that it approve the amount of US $33,624 for the P.T. Garuda project.

17. The Sub-Committee, in discussing the project in the Seychelles (UNEP/OzL.Pro/ExCom/18/39), noted that it raised a point of policy: how to deal with very low-ODS-consuming countries that wished to take some action on phasing out ODS. It agreed to recommend to the Executive Committee that guidelines on dealing with low-ODS-consuming countries should be approved before taking any decision on the Seychelles project.

18. The Sub-Committee was apprised of two project proposals, one on the elimination of CFC-11 and CFC-12 in the manufacture of refrigeration units at Refrigeracao Parana S.A. Cuitiba in Brazil, and the other on the elimination of CFC-12 in household refrigerator projects in the Philippines, for which no project documentation had been provided in advance.

19. The Sub-Committee regretted that the project proposals had not been made available in sufficient time to allow careful consideration, but was prepared to consider those projects to avoid prejudicing them unnecessarily.

20. In response to the doubts raised by the Secretariat concerning the nature of the units produced at the facility in Brazil, the observer for the World Bank expressed the view that the project document clearly showed that the major proportion of the units was for commercial use. Seventy-five per cent of part of the production was composed of commercial refrigeration units and for the remaining part the proportion was 90 per cent.

21. One representative, commenting that it was highly unusual for incremental operating costs to exceed capital costs by such a large amount, sought assurances from the World Bank that costs would be monitored and not passed on to the consumer.

22. Another representative said that, as the project met the guidelines approved by the Executive Committee, there were no grounds for recommending its rejection.

23. The Sub-Committee decided that, in the absence of agreement on the project the Chairman of the Sub-Committee should present the argument to the Executive Committee, requesting the latter to take a decision.

24. Regarding the household refrigerator projects in the Philippines, the Sub-Committee's attention was drawn to the following two issues:

(a) Whether the World Bank had implemented the decision taken by the Ninth Meeting of the Executive Committee to consider particular issues of concern to the Committee when appraising foam conversion projects at the enterprises in question and to what extent that should have a bearing on consideration of the refrigeration component of those projects, which had first been submitted to the Seventeenth Meeting of the Executive Committee;

(b) Whether or not projects which, on their own merits, would not meet the cost- effectiveness threshold could be submitted in combination with more cost-effective projects in the same sector in order to form a "sector phase-out approach" that, taken as a whole, would meet the cost-effectiveness threshold.

25. The Sub-Committee decided that, due to lack of advance information, it was not possible to reach a decision. As an exceptional measure, the Chairman would present the argument to the Executive Committee for decision.

26. The Sub-Committee, in discussing two projects for the closure of halon production facilities in China (UNEP/OzL.Pro/ExCom/18/6/Add.1, Annex II), noted that it raised two policy issues: the conformity of those projects with previous decisions of the Committee and whether individual projects should be considered in advance of the completion of guidelines for the closure of production facilities. It also noted apparent disparities in the figures for total halon production.

27. The Sub-Committee decided that no action should be taken on these projects until guidelines on production-sector phase-out had been agreed by the Executive Committee.

28. In connection with a project on the conversion of rigid foam manufacture at Recrusul, Brazil (UNEP/OzL.Pro/ExCom/18/20), the Secretariat recommended that a transition period of up to two years be adopted for calculating the incremental operating costs of all rigid polyurethane foam projects other than those relating to the domestic refrigeration sector. The Secretariat explained that this recommendation was based on current practice, as a period of two years or less had been adopted by the implementing agencies to calculate the incremental operating costs of the majority of approved rigid polyurethane foam projects.

29. The Sub-Committee recommended that the Executive Committee approve a time-frame of up to two years for the calculation of incremental operating costs for this particular sub-sector, and that it request the Secretariat and the implementing agencies to prepare a guidance paper for consideration by the Committee at its Nineteenth Meeting on the transition periods for calculating the incremental operating costs for all sectors and sub-sectors.

IV. DECISION 17/20 OF THE EXECUTIVE COMMITTEE

A. Draft consolidated list

30. In connection with the Consolidated List of Projects (UNEP/OzL.Pro/ExCom/18/SC/1, Appendix 1), the observer for the World Bank pointed out that the figures for all World Bank projects marked with a double asterisk appearing on the list would have to take into account the 13 per cent agency support cost now applicable to the World Bank.

31. The Sub-Committee agreed to recommend to the Executive Committee that US $2,453,498 should be approved to cover the 13 per cent support cost to the World Bank for all the projects referred to in UNEP/OzL.Pro/ExCom/18/SC/1, Appendix 1.

32. One representative noted a significant discrepancy in costs among similar projects to be undertaken by UNIDO and UNDP in the area of CFC recovery and recycling in refrigeration. It was suggested that implementing agencies should consult with each other to ensure that their projects were as cost-effective as possible.

33. In connection with the training workshop on safety aspects of CFC substitutes to be held in China and contained in the amendments to UNEP's work programme (UNEP/OzL.Pro/ExCom/18/9), one representative pointed out that approved projects already already included funding for safety training and there was no need to fund additional training that was not related to a particular project.

34. The Sub-Committee decided to recommend that the Executive Committee approve the project proposal on a one-off basis on the understanding that it would provide training in the setting of safety standards. It also recommended that implementing agencies coordinate such training in this sector.

35. Subject to the above amendments, the Sub-Committee recommended that the Executive Committee approve the Consolidated List of Projects, which is included as Annex I to the present report.

B. List of projects and activities submitted to the Eighteenth Meeting of the Executive Committee

36. The representative of the United States informed the Sub-Committee that the bilateral cooperation project in Brazil for MAC servicing demonstration had been cancelled (UNEP/OzL.Pro/ExCom/18/SC/1, Appendix 2, part (g), page 14).

37. The observer for the World Bank informed the Sub-Committee that the following project had been cancelled:

China: Conversion to CFC-free technology in the manufacture of flexible (slabstock) polyurethane foam at Chengdu Plastics No. 7 (UNEP/OzL.Pro/ExCom/18/SC/1, Appendix 2, part (a), page 1).

38. Subject to the above amendments, the Sub-Committee recommended approval of the new project proposals which are included as Annex II to the present report.

C. Resource allocation for (a) and (b)

39. The Sub-Committee considered a revised table showing the funds available at the Eighteenth Meeting in the light of the latest information provided by the Treasurer, the recommended value of projects in the draft consolidated list, the recommended value of new projects, based on the recommendations of the Sub-Committee, and the total recommended value of all projects, for all the funding categories. After deducting the projects contained in the consolidated list from the funds available, the amount available for new projects presented to the Eighteenth Meeting would be US $19,029,074.

40. After discussing how the amount available should be allocated, the Sub-Committee recommended to the Executive Committee that it adopt the framework and methodology agreed at the Sixteenth and Seventeenth Meetings, including the differential allocations by sector. Where projects for low-consuming countries fell below the cost-effectiveness threshold, they should where possible be funded under the low-consuming countries category. It also recommended that, since the MAC sector would receive significantly more than the agreed allocations, new projects in the MAC and compressors sector should not receive further priority at the Eighteenth Meeting. It further recommended that the new projects in the CFC-recovery and halon-banking sector be covered in full from within the sectoral allocation previously agreed.

41. The Sub-Committee also considered an indicative table of resource allocations for 1996 based on the framework and pro rata allocations previously agreed. The amounts included investment projects, non-investment projects and institutional strengthening. The Project Review Sub-Committee strongly recommends that when allocating resources for 1996, the Executive Committee should adopt the framework, sector allocations and methodologies agreed and applied at the Sixteenth and Seventeenth Meetings.

42. It was made clear that, when business plans were being prepared they should take into account the indicative sector allocations and other relevant decisions of the Executive Committee.

43. The Sub-Committee decided to transmit the indicative table of resource allocation for 1996 (UNEP/OzL.Pro/ExCom/18/62/Add.1/Corr.2) to the Executive Committee for its approval. It also recommended that any new project proposals submitted to, but not funded at, the Eighteenth Meeting form part of the 1996 business plans of the implementing agencies and be funded in 1996, ahead of projects contained in the 1997 business plans.

V. 1996 BUSINESS PLANS: (a) CONSOLIDATED BUSINESS PLAN; (b) BUSINESS PLAN OF UNDP; (c) BUSINESS PLAN OF UNEP; (d) BUSINESS PLAN OF UNIDO; (e) BUSINESS PLAN OF THE WORLD BANK

44. Introducing agenda item 5, the Chairman recalled that, in accordance with Executive Committee decision 17/19, the Sub-Committee had met with the implementing agencies in Geneva at the end of August 1995 to reach an agreed understanding on what constituted a business plan. That meeting had produced guidelines, which had then been used by the Secretariat to develop a format for use by the agencies in the preparation of their plans (documents UNEP/OzL.Pro/ExCom/18/13-16). The guidelines produced by the Sub-Committee were annexed to the consolidated business plan (UNEP/OzL.Pro/ExCom/18/12). The consolidated business plan itself showed the activities of the agencies broken down by sector and sub-sector, the planned regional allocation of funding, which was proportional to the amount of ozone-depleting substances to be phased out in each region, as well as performance indicators to enable the agencies' performance to be assessed against the business plan. He drew particular attention to paragraph 23 of the consolidated business plan, which listed a number of policy issues that had been articulated in the individual agency plans, and suggested that the Sub-Committee might wish to recommend to the Executive Committee the issues to which it should give priority consideration.

45. At the invitation of the Chairman, the representatives of UNDP, UNEP, UNIDO and the World Bank presented the business plans of their respective organizations.

46. Following the agency presentations, there was general agreement in the Sub-Committee that the exercise had been a useful one and that it was helpful to see the overall planning context in which projects were approved. It was also agreed that the Executive Committee should ensure that the model for the preparation of the business plans was adopted to serve as guidance to prepare future plans.

47. On the question of the policy issues raised by the implementing agencies in their business plans, the following were highlighted by the Sub-Committee as issues to which priority attention might be given by the Executive Committee:

(a) Approaches to phase-out in small- and medium-sized enterprises;

(b) Approaches to phase-out in low-volume-consuming countries and very-low-volume-consuming countries;

(c) Evaluation and monitoring guidelines for institutional-strengthening projects;

(d) Review of the duration of incremental operating costs across sectors;

(e) Action to be taken when a locally-owned company for which a project had been approved become significantly foreign- (i.e. non-Article 5) owned, before or after the signature of the project document or grant agreement with the implementing agency;

(f) Alternatives to the project-by-project approach as a result of the request to the implementing agencies to prepare business plans.

48. With respect to the request by UNIDO for funds for project preparation in the tobacco sector in China, it was noted that the policy of the Executive Committee on tobacco projects was not clear and that it was important to reach agreement on the issues before moving to project preparation.

49. On the general subject of project preparation, it was agreed that some of the discretionary fund might be used for project preparation in those countries not included in the implementing agencies' work programmes, especially where those countries that had not yet received funding from the Multilateral Fund.

50. Following statements by the representatives of UNDP and UNIDO, the Chief Officer clarified that low-volume-consuming countries must have country programmes in place before the implementing agencies could prepare projects.

VI. OTHER MATTERS, INCLUDING POLICY MATTERS THAT HAVE AN IMPACT ON PROJECT EVALUATION

51. There were no other matters.

VII. ADOPTION OF THE REPORT

52. In accordance with past practice, the Chairman was entrusted with the finalization of the report of the Sub-Committee.

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SPECIAL INSTRUCTIONS:

This document includes the first 5 pages sent under document No. UNEP/OzL.Pro/ExCom/SC/18/L.1. There are some minor changes on format and hyphenation in cost-effectiveness and halon-banking. The marked-up of these pages are being sent by fax.

PLS. NOTE!!!!!!!!

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