United Nations Environment Programme

Distr.
LIMITED

UNEP/OzL.Pro/ExCom/12/30
16 February 1994

ORIGINAL: ENGLISH

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

Twelfth Meeting
Montreal, 28-30 March 1994

REVIEW OF PROJECT PROPOSALS

(DRAFT)

Introduction

1. Two papers were presented at the Eleventh Meeting on the review process: Streamlining the Executive Committee's Review Process by the Secretariat and a discussion paper prepared by the United States and Canada on project review with an emphasis on the technical review process (UNEP/OzL.Pro/ExCom/11/34). The Committee decided that "the implementing agencies and the Fund Secretariat should develop a standard format for technical reviews for the Executive Committee's consideration at its next meeting" (UNEP/OzL.Pro/ExCom/11/36, para. 156). The Committee also decided to request the Fund Secretariat and the implementing agencies to prepare a paper on the technical review of projects, taking into consideration the paper prepared by the United States and Canada, and to submit it to the Twelfth Meeting of the Executive Committee (Ibid, para. 157).

2. This document seeks to address the requests from the Eleventh Meeting by considering the issues raised in the US/Canada paper and the ensuing Committee discussion within the context of the overall project review process and by proposing a set of guidelines, a standard format for technical reviews, and a modality for providing independent technology advice to the Committee. It begins with the background leading to the Committee's decisions at its Eleventh Meeting. It provides a description of the current situation which leads to the issues raised in the US/Canada paper. After providing guidelines, the document concludes with a set of recommendations for the Committee's consideration and the technical review format.

Background

3. Project proposal review has been addressed in several decisions taken by the Executive Committee. The Implementation Guidelines approved at the Third Meeting called for the Fund Secretariat to "complete reports for the Executive Committee on project proposals where the agreed incremental costs exceed US $500,000" (UNEP/OzL.Pro/ExCom/3/18/Rev.1, Annex III, Section I.2, para. g).

4. At the Seventh Meeting, the Committee approved the Guidelines for Presentation of Projects and Criteria for Project Approval which includes the requirements for the contents of project proposals, project approval criteria, project approval process, a sample project cover sheet, and a project evaluation sheet (UNEP/OzL.Pro/ExCom/7/30, Annex III). The need for a technical review was specified in the Guidelines which require "a copy of any technical review reports of the project, if available".

5. In the section on Criteria for Project Approval, the Project Approval Process specifies the responsibility of the Fund Secretariat in the project proposal review process. It states that "the Fund Secretariat is responsible for ensuring that complete documentation pertaining to projects submitted for approval is provided to the Executive Committee." It also stipulates that "the Fund Secretariat would engage itself in close consultations with the implementing agency, donor country, or Article 5 country submitting the project so as to ensure, to the extent possible, that:

- The appropriate documentation and level of detail are provided;
- Technical reviews have been completed, where required;
- Incremental costs have been calculated and explained; and,
- Cost-effectiveness has been determined" (Ibid, Criteria for Project Approval, para. 4).

6. At its Tenth Meeting, the Committee considered a document on "Future Work Procedures of the Executive Committee" (the Norway paper) which specified that "the objective of the suggestions for streamlining work on projects was to leave room and time for the Committee to take policy decisions" (UNEP/OzL.Pro/ExCom/10/40, para. 172). The Committee then "authorized the Secretariat to prepare a paper on how the Committee's project review efforts could be streamlined and how to deal with policy issues" (Ibid, para. 179).

Current situation

7. The first investment projects were developed and directly submitted by one Article 5 country for the consideration of the Executive Committee at its Sixth Meeting in February 1992. The Fund Secretariat identified consultants to review the projects, and based on their review the Secretariat proposed recommendations for the Committee's action. The same process was repeated by another Article 5 country at the Eighth Meeting of the Executive Committee in October 1992.[1]

8. The World Bank retains a group of sector experts, the Ozone Operation Resource Group (OORG), for the purpose of offering advice on technology and for review of technical aspects of projects identified and developed by the Bank's task managers and their consultants. OORG members were recruited internationally. It must be emphasized here that the Bank's internal procedures require technical review of all projects funded by or through the Bank (Operational Directive BP 10:21, 23 November 1993, page 1).

9. In accordance with Executive Committee guidelines, the World Bank has always provided a technical review with each project it submitted for funding. While the Bank reviewers use a Bank specified format for their reviews, the depth and quality of the individual reviews varied, and until recently not all issues raised by the reviewer were answered prior to the submission of projects to the Executive Committee.

10. UNDP and UNIDO have traditionally submitted their projects without the requisite technical review. However, UNDP provided those reviews for the projects it submitted to the Eleventh Meeting of the Committee in a format similar to that followed by the World Bank.

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[1]In response, the Executive Committee adopted Guidelines calling on Article 5 Parties to select an approved implementing agency before preparing projects for submission to the Executive Committee.

11. Most of the project reviews submitted thus far did not address in any detail the incremental costs of projects, although sometimes cursory comments on certain cost components and cost effectiveness were provided by the reviewer. A standard format, used by all agencies, would lead to greater consistency in the reviews submitted to the Committee and facilitate the review process. The provision of guidelines for project review will also assure that certain issues such as the extent of the review, the qualifications of the reviewer, the provision of background information, the standardization of eligible cost items, and the standard format for project reviews are taken into account.

12. The Secretariat has fulfilled its responsibilities as mandated by the Executive Committee and as referred to in paragraph 3 above. This did not prove easy and in certain projects protracted discussions with the implementing agencies did not conclude in convergence of views regarding eligibility and costing of either the entire project proposal as submitted or certain components thereof. Such divergence in views between the Secretariat and the implementing agencies was documented in the Secretariat's comments and recommendations which are always included with the project document submitted to the Committee. This has often led to related discussion at the Committee meetings.

13. The US/Canada paper and the discussion it engendered during the Eleventh Meeting identified the deficiencies in the current review process as:

- The quality of technical reviews have not been uniform;
- Technical reviews do not adequately address issues of concern to the Executive Committee including the cost effectiveness of the option selected and the reasonableness of the estimated costs of the individual project components;
- Technical reviews do not scrutinize estimates for equipment and other cost items delineated in project proposals; and,
- Project proposals are often submitted without providing explanation for issues raised in the technical reviews.

The paper suggested that these deficiencies often prompted an in depth review by the Secretariat and Executive Committee members which could be obviated if a standard format for technical reviews were adopted.

14. The debate which ensued on this paper also resulted in the suggestion that advice on technology matters could be sought from an independent group outside of the implementing agencies. The Section on Other Issues addresses this subject.

Recommended guidelines for project reviews

15. The main objectives of the review of a project submitted for consideration of the Executive Committee are: to determine its eligibility for funding under the rules of the Multilateral Fund; to ensure that the technology chosen is proven, viable, transferable, cost effective for the proposed use and will not have unacceptable adverse environmental impact; to identify eligible incremental costs; and to identify any policy issues that had not been

encountered before and could require a decision by the Executive Committee or possibly the Meeting of the Parties. To ensure that these objectives are adequately addressed, the following guidelines should be followed.

16. Technical reviewers should:

(a) Address the viability of the proposed technology, as well as the comparative cost effectiveness of the option selected; and,
(b) Scrutinize lists of equipment and all cost items delineated in project proposals to ensure that the proposed equipment is essential to the conversion and the related costs are reasonable given the same level and kind of service proposed.

17. Implementing agencies should:

(a) Only choose internationally recognized experts in the technology, outside of the agency, for technical reviews who have technical experience in developing countries in the field of their expertise but who did not participate in the development of the proposal, nor did they or their employer have a financial stake in the project;
(b) Familiarize technical reviewers with the Indicative List of Categories of Incremental Costs, the guidelines, criteria, and procedures of the Executive Committee and relevant policy and project decisions of the Parties and the Executive Committee by providing information concerning all relevant decisions of the Parties and the Executive Committee on the approval of projects and the determination of eligible incremental costs;
(c) Justify costs that exceed the indicative cost levels developed in the indicative list of standard equipment and expected costs;
(d) Have those involved in project preparation ensure that sufficient information is provided for the technical reviewer to address all of the questions and issues in the standard format for technical reviews proposed in Annex I;
(e) Use the standard format for technical reviews attached to this document as Annex I; and,
(f) Ensure that projects submitted to the Executive Committee for review shall take into consideration the comments of the technical reviewer.

18. Implementing agencies, in cooperation with the Fund Secretariat, should:

(a) Hold seminars for all consultants, employees, technical reviewers, and others who might participate in the development, evaluation or review of project proposals;
(b) Develop an indicative list of standard equipment and expected costs for use by consultants and technical reviewers in project preparation and review; and,
(c) Develop a negative indicative list of equipment and other costs that should not be funded which will also assist in project preparation and review.

19. The Fund Secretariat should continue to fulfil its role in the project review process as defined in previous Executive Committee decisions as referenced in the background section of this document.

Other issues

20. The US/Canada paper suggested the use of the World Bank's OORG as both the sole body charged with providing technical reviews of Fund projects and to provide the technical background to allow the Secretariat and the Executive Committee to formulate policy recommendations on issues of concern. However, during the discussion of this proposal at the last meeting, "several representatives expressed concern that the new technical group might not operate independently, others thought that it might lead to a conflict of interest and would usurp the role of the Executive Committee and the Fund Secretariat" (UNEP/OzL.Pro/ExCom/11/36, para. 149).

21. One way of addressing this concern is to establish an independent technology advisory group to advise the Executive Committee on technology issues. Such a group could be drawn in part from UNEP's Technology and Economic Assessment Panel (TEAP). Sector experts with proven experience in developed and developing countries could be recommended by the Co-chairs of TEAP upon a request from the Executive Committee.

Recommendations

22. The Fund Secretariat recommends that the Executive Committee should:

(a) Adopt the guidelines for project reviews as proposed in this document in paragraphs 17-19 which includes the technical review; and,

(b) Establish, as needed, an independent technology advisory group under the aegis of the Executive Committee which will meet as directed by the Executive Committee.

ANNEX I

FORMAT FOR TECHNICAL REVIEWS

NOTE: Implementing agencies are requested to complete the relevant sections in this format, and to provide sufficient information for the reviewer to address all of the questions and issues in this format.

1. **Country of origin:**

2. **Project title:**

3. **Sector/sub-sector:**

4. **Relationship to country programme**
   Does the project document indicate if:
   - (a) The project is included in or consistent with the country's action plan?
   - (b) It constitutes an important part of an articulated sectoral/sub-sectoral strategy?

5. **Technology**
   - (a) Assess the environmental soundness and safety of selected technology to other alternatives?
   - (b) Is the technology transitional? Are there non-transitional options which might have been more cost effective taking into account total costs to and duration of phase-out?
   - (c) Feasibility of transfer to the country concerned:
     - (i) Does the proposed technology transfer agreement (if any) take into account appropriate requirements?
     - (ii) Is there a licensing agreement and do costs appear reasonable given international norms?
     - (iii) Were other technologies considered? Do you agree with the determination made in this case?
     - (iv) Is the proposed technology the most cost effective technology available for this conversion? If not, were there adequate reasons that more cost effective technologies could not be deployed in this case?

6. **Environmental impact**
   - (a) Impact of ODP and GWP of the substitute.
   - (b) Appropriateness of proposed measures and related costs estimates to minimize health and safety and other environmental impact.

7. **Project costs**

(a) Are all cost components identified in the project essential for the conversion? Assess the necessity of proposed equipment to facilitate existing level of service.

(b) Should any of the cost components have been expected to be present in the facility prior to conversion?

(c) Cost of equipment

(i) Is the baseline cost of existing equipment addressed in a manner that is consistent with your experience?

(ii) Do you agree with the finding regarding whether some/all baseline equipment should/should not be replaced?

(iii) Do you believe requests for any additional equipment essential for the conversion?

(iv) Can all/part of baseline equipment be modified to perform functions needed in the conversion, and could such modification costs lead to lower project costs?

(v) Is the fate of scrapped equipment addressed in a manner which ensures it will not be redeployed?

(vi) Is the a calculation of salvage value of scrapped equipment, if any, reasonable?

(vii) Will the new equipment/modification of existing equipment result in an increase in existing capacity?

(d) Appropriateness of proposed training and related costs, if any.

(e) Operating costs

(i) Are the components and magnitude of operating costs appropriate given your experience with other implemented projects (e.g. cost of substitutes, energy, labour, etc.)?

(ii) Are any operating savings, including energy saving and expected savings through reductions in defects included in the project?

(iii) Do you believe this finding and/or the calculated level of savings reasonable given your knowledge of results achieved in similar projects?

8. **Implementation timeframe**

Do you believe that the proposed implementation timeframe is feasible?

9. **Recommendations**

(a) Approval categories

- Approval as proposed
- Approval after modification (with a proposal for modifications)
- Permission to proceed
- Rejection and justification

(b) Other comments.