

**TRAINING AGENDA**  
**APPRAISAL OF ENVIRONMENTAL PROJECTS FINANCED FROM PUBLIC FUNDS**

**TRAINING FOR MOLDOVAN EXPERTS**  
**16 – 19 JANUARY 2007, CHISINAU**

**Background**

Strengthening public environmental expenditure management, in general and public environmental funds, in particular, has been one of the major objectives of the work on environmental finance of the EAP Task Force over the past few years. One of the main conclusions emerging from this work, is the need for practical management tools and operational procedures that can be used by managers of public environmental expenditure programmes in their daily operations as a benchmark to improve their effectiveness and efficiency. This training workshop will use as background material the Handbook for Appraisal of Environmental Projects Financed by Public Funds as well as the Good Practices for Public Environmental Expenditure Management, two tools developed by the EAP Task Force as part of its Programme on Environmental Finance in response to the demand expressed by EECCA countries for such tools.

**Overall Training Objectives**

- Help improve the capacity of managers of public environmental expenditure programmes in good practices of project appraisal (including programming and the complete management of the project cycle);
- Provide Moldovan managers with practical knowledge and tools across a range of issues related to programming and project cycle management;
- Test the tools and approaches developed as part of the Handbook with the aim of further improving the training materials;
- Meet the needs of the Moldovan experts by contrasting local and international practices.

**Specific Objectives**

- Build understanding of the programming development process of environmental expenditure programmes;
- Ensure understanding of investment project appraisal techniques – economic, financial, environmental and technical;

- Ensure understanding of project ranking and selection techniques;
- Build understanding of critical issues related to after-project selection and implementation and post-implementation monitoring and selection.

The training will be conducted by a group of CEE consultants and practitioners from Poland with strong hands-on experience who have been working on programming and appraisal of environmental projects for years, either as practitioners or consultants to public Funds in Poland. The training is co-organised by the Ministry of Environment and Natural Resources of Moldova.

This project is implemented with financial support from the UK Department for Environment, Food and Rural Affairs.

### **Logistical Issues**

The training will be carried out by a group of CEE consultants and practitioners. It will be implemented through a combination of presentations and practical exercises (including computer exercises) in an interactive environment. All training materials will be made available to the participants in Russian. For the purpose of the exercises, Moldovan colleagues are requested to bring their own calculators.

The training will be held on 16 – 19 January 2007 at the Moldovan REC premises in Chisinau (57/1 Banulescu Bodoni St.). The training will be conducted in Russian. Travel expenses for participants coming from outside of Chisinau will be reimbursed by the OECD. Hotel accommodation and meals will be provided.

**Day One – 16 January 2007**

**Introduction to Public Environmental Expenditure Management and Public Finance Issues**

9:30-10:00 **Registration**

10:00-10:30 **Introduction Session**

**Opening:** Welcome and Introductory Remarks – *Ms. Violeta Ivanov, Ministry of Ecology and Natural Resources of Moldova*

**Introduction of Trainers and Participants**

**Presentation of the Objectives and the Agenda for the Training Programme**

*Nelly Petkova, OECD*

10:30-11:15 **Introduction to the Good Practices for Public Environmental Expenditure Management and the Handbook for Appraisal of Environmental Projects Financed from Public Funds**

*Nelly Petkova, OECD*

Over the past several years, the OECD EAP Task Force has developed two major documents which contribute to the better management of environmental expenditure programmes in EECCA: the **Good Practices for Public Environmental Expenditure Management (PEEM)** and a **Handbook for Appraisal of Environmental Projects Financed from Public Funds**. The Good Practices for PEEM aim to assist governments in designing and implementing public environmental expenditure programmes and supervising and evaluating the performance of agencies implementing such programmes. The Handbook provides domestic institutions managing public environmental expenditure with useful step-by-step guidance as to how to implement the Good Practices in real life. The Handbook does not deliver a complete, "ready-to-use" toolkit that could be directly applied by any environmental financing institution. It rather provides a menu of options to choose from depending on the specific conditions and operational environment in a given country.

11:15-11:40 Coffee / tea break

11:40-12:30 **Presentation of the Moldovan Funds System** – *Ms. Violeta Ivanov, Ministry of Ecology and Natural Resources of Moldova*

12:30-14:00 Lunch

14:00-15:30 **Programming Cycle – Part I – Priorities for the Fund's Operations and an Environmental Expenditure Programme**

*Mr. Stanislaw Sitnicki, Deputy President, Polish EcoFund*

Programming is the process by which decisions are made with regard to which priority areas need public support. The public expenditure programme allocates resources to priority areas to achieve the expected outputs and impacts. Priorities steer the Fund's operations allowing for the concentration of resources and achieving environmental benefits.

15:30-15:45 Coffee/tea break

15:45-17:45 **Programming Cycle – Part II – Institutional Structure and the Choice of Eligible Form of Subsidy**

*Mr. Stanislaw Sitnicki, Deputy President, Polish EcoFund*

Areas of activities and type of projects to be subsidised require a proper legal and institutional set-up of the Fund. The environmental expenditure programme needs to be carried out by a well-organised entity equipped with tools and instruments that allow delivering the expected results. The programming cycle ends up with a well-defined and equipped organisation capable of implementing the tasks listed in the expenditure programme. One of the important elements of the expenditure programme is the form in which the subsidies will be disbursed (grants, loans, interest rate subsidies).

19:00 Reception

**Day Two – 17 January 2007**

**Appraisal of Environmental Investment Projects, SST-Consult**

9:00-9:30 **Project Cycle Management: Major Stages and Milestones**

*Mr. Andrzej Gula, Consultant, SST, Poland*

The project cycle represents the critical path for selecting projects for financing. From the point of view of the public financier, the project cycle consists of several major phases:

- Identification
- Appraisal
- Selection of projects
- Contract preparation
- Implementation / monitoring of projects
- Evaluation

The project cycle can be defined as the overall algorithm of completing these phases. The project cycle is a practical tool too, providing that each stage of the cycle is clearly defined and supported by detailed and transparent operational rules and procedures.

10:00-11:15 **Setting Formal Project Eligibility, Appraisal and Selection Criteria (Technical, Environmental, Financial, Economic)**

*Mr. Andrzej Gula, Consultant, SST, Poland*

A two-stage appraisal process is the best practice for evaluating complex investment projects. The first stage of this process is eligibility screening (or pre-appraisal) and the second stage is appraisal proper. All projects are subjected to a number of technical, environmental, financial and economic criteria. Eligibility criteria are “hard” or “knock-out” criteria which allow the agency to: (i) reveal at an early stage those projects that do not have a chance to be financed; and (ii) identify, as early as possible, those projects that might be eligible for financing but are not very well prepared and need further development. This implies that if a project proposal fails to meet even one of the eligibility criteria, the project is rejected at this stage. Appraisal criteria allow for the in-depth evaluation of the project and form the basis for decision of whether to select a project for financing or not.

11:15-11:30 Coffee / tea break

11:30-12:15 **Financial Viability Analysis**

*Mr. Rafal Stanek, Consultant, SST, Poland*

The Fund needs to check the financial viability and profitability of a project in order to assess the project's capacity to generate revenue and thus the necessity or not for public support. The two most common indicators of financial viability, based on discounted cash-flows, are internal rate of return to an investment (IRR) and net present value (NPV). Another important role of the financial analysis is to check the feasibility of the project implementation, this implies verifying that all sources of financing (including grants, transfers from local government, revenues generated by the project) will provide sufficient resources to cover project costs (investment and O&M) over the project life time.

12:15-13:30 Lunch

13:30-14:00 **Introduction to Various Methods for Appraisal of Environmental Investments**

*Mr. Andrzej Gula, Consultant, SST, Poland*

There are different methods for and approaches to the appraisal of environmental investment projects. These include, among others, cost-benefit analysis, cost-effectiveness analysis (including dynamic generation cost and annualised cost analysis) and multi-criteria analysis. These will be discussed in detail in the second half of the day. Specific exercises for applying these methods are developed and will be tested in practice during the third day of training.

14:00-14:45 **Methods for Appraisal of Environmental Investments – Cost-Benefit Analysis (CBA)**

*Mr. Andrzej Gula, Consultant, SST, Poland*

Cost-Benefit Analysis (CBA) measures the costs and benefits of a given project, assessing whether the benefits exceed the costs. The financial viability analysis shows whether a project is self-sustained, from a financial point of view. The objective of CBA is to analyse a project's overall impact on society's well-being in a region (or a country) in which the project is implemented. The fundamental rule in selecting projects holds that benefits from a project should exceed its costs. In a CBA context, this implies that the project should generate a positive economic net present value (ENVP).

14:45-16:15 **Methods for Appraisal of Environmental Investments – Cost-Effectiveness Analysis (CEA), Including Dynamic Generation Cost and Annualised Costs**

*Mr. Rafal Stanek, Consultant, SST, Poland*

Cost-Effectiveness Analysis (CEA) sees that a project achieves ITS environmental objectives at the lowest possible cost. It is used to select the cheapest approach to addressing a given problem. It assumes that all projects produce homogenous environmental benefits.

16:15-16:30 Coffee / tea break

16:30-17:30 **Methods for Appraisal of Environmental Investments - Multi-Criteria Analysis (Quantifiable and Non-Quantifiable) - Scoring Systems**

*Mr. Andrzej Gula, Consultant, SST, Poland*

Investment evaluation using this method involves the development of a finite number of criteria against which all project proposals will be measured. The criteria themselves may vary in their detail, ranging from simple questions (yes or no) to more detailed and graded criteria depending on the degree to which the criterion is met (such as the extent to which some desired effect has been obtained). In practice, each criterion is assigned a weight corresponding to its relative importance among all criteria.

The essence of this evaluation method is the project's consistency with a set of defined appraisal criteria. Each proposed project is evaluated against the same criteria. Each investment project receives a score (sum of points) reflecting its importance relative to other proposals.

17:30-18:30 **Example from the Polish Krakow Environmental Fund - Appraisal Method, Application Form, Appraisal Form**

*Mr. Rafal Stanek, Consultant, SST, Poland*

Example from a regional Environmental Protection Fund in Poland. In 1996, the Krakow Fund introduced project selection procedures based on the Environmental Project Effectiveness (EPE) method (which selects projects that provide the maximum benefit at the lowest cost) and developed an automated computer tool to build a project ranking list.

**Day Three – 18 January 2007**

**Computer-Based and Other Exercises, SST-Consult**

9:00-10:15 Case Studies and Exercises – **Financial Viability Analysis, Discounting**

10:15-11:15 **Case Studies and Exercises – Cost-Benefit Analysis**

11:15-11:30 Coffee / tea break

11:30-12:30 Case Studies and Exercises – **Dynamic Generation Cost (Part I)**

12:30-13:30 Lunch

13:30-14:00 Case Studies and Exercises – **Dynamic Generation Cost (Part II)**

14:00-15:15 Case Studies and Exercises – **Annualised Costs**

15:15-15:30 Coffee / tea break

15:30-16:45 Case Studies and Exercises – **Scoring Systems**

16:45-17:30 Case Studies and Exercises – **Evaluation Form**

17:30-18:00 **Closing Session – Summary**

**Day Four – 19 January 2007**

**Financing of Environmental Investment Projects**

9:30-10:45 **Post-Selection Activities of the Fund**

*Mr. Stanislaw Sitnicki, Deputy Director, Polish EcoFund*

A project selected for subsidies engages the Fund in an implementation process. A contract with the beneficiary should be prepared and signed. A payment system and an implementation schedule should be agreed upon. Progress implementation needs to be monitored and reported. Evaluation of environmental benefits requires action by the Fund. Responsibility for demonstration of environmental benefits is shared between the Fund and the beneficiary.

10:45-11:00 Coffee / tea break

11:00-11:30 **Review of Potential EU Sources of Financing**

*Mr. Andrzej Gula, Consultant, SST, Poland*

A brief overview of the potential EU sources of financing relevant to Moldova and their respective requirements.

11:30-12:15 **Recommendations for Further Improvements**

*Nelly Petkova, OECD*

At the end of the training workshop, it is proposed that participants jointly with the team of consultants develop and agree on a set of recommendations for future improvements of the Funds' practices in Moldova in the short- to medium-term. These recommendations can be further presented to the management of the Ministry of Ecology and Natural Resources. In addition, these recommendations can be used in discussions with donors in preparing technical assistance programmes in the area of environmental protection in Moldova.

12:15- 12:30 **Closing Session and Summary**

*Nelly Petkova, OECD*

Feedback on the training workshop will be sought from participants (on the structure of the training, training materials, trainers).

12:30-14:30 Lunch and departure