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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Seventieth Meeting  
Bangkok, 1-5 July 2013

**PROJECT PROPOSAL: SRI LANKA**

This document consists of the comments and recommendations of the Fund Secretariat on the following project proposal:

Phase-out

- HCFC phase-out management plan (stage I, second tranche)

UNDP/UNEP

## PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

### Sri Lanka

<b>(I) PROJECT TITLE</b>	<b>AGENCY</b>
HCFC phase out plan (Stage I)	UNDP (lead), UNEP

<b>(II) LATEST ARTICLE 7 DATA (Annex C Group I)</b>	Year: 2012	18.02 (ODP tonnes)
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<b>(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)</b>								<b>Year: 2012</b>	
Chemical	Aerosol	Foam	Fire fighting	Refrigeration		Solvent	Process agent	Lab Use	Total sector consumption
				Manufacturing	Servicing				
HCFC-123									
HCFC-124									
HCFC-141b									
HCFC-141b in Imported Pre-blended Polyols		1.9							1.9
HCFC-142b									
HCFC-22				1.8	14.6				16.4

<b>(IV) CONSUMPTION DATA (ODP tonnes)</b>			
2009 - 2010 baseline:	13.9	Starting point for sustained aggregate reductions:	13.9
<b>CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)</b>			
Already approved:	4.76	Remaining:	9.14

<b>(V) BUSINESS PLAN</b>		2013	2014	2015	2016	2017	2018	2019	2020	Total
UNEP	ODS phase-out (ODP tonnes)	0.2			0.6				0.2	0.9
	Funding (US \$)	27,120			84,863				28,137	140,120
UNDP	ODS phase-out (ODP tonnes)	0.5	0.0	0.0	1.0	0.0	0.0	0.0	0.2	1.7
	Funding (US \$)	64,500	0	0	137,348	0	0	0	33,433	235,281

<b>(VI) PROJECT DATA</b>		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total	
Montreal Protocol consumption limits		n/a	n/a	n/a	13.9	13.9	12.51	12.51	12.51	12.51	12.51	9.14	n/a	
Maximum allowable consumption (ODP tonnes)		n/a	n/a	n/a	13.9	13.9	12.51	12.51	12.51	12.51	12.51	9.14	n/a	
Agreed Funding (US\$)	UNDP	Project costs	180,000	0	0	60,000	0	0	127,766	0	0	0	31,100	398,866
		Support costs	13,500	0	0	4,500	0	0	9,582	0	0	0	2,333	29,915
	UNEP	Project costs	125,000	0	0	24,000	0	0	75,100	0	0	0	24,900	249,000
		Support costs	16,250	0	0	3,120	0	0	9,763	0	0	0	3,237	32,370
Funds approved by ExCom (US\$)	Project Costs	305,000	0	0	0	0	0	0	0	0	0	0	305,000	
	Support Costs	29,750	0	0	0	0	0	0	0	0	0	0	29,750	
Total funds requested for approval at this meeting (US\$)	Project Costs	0	0	0	84,000	0	0	0	0	0	0	0	84,000	
	Support Costs	0	0	0	7,620	0	0	0	0	0	0	0	7,620	

<b>Secretariat's recommendation:</b>	Blanket Approval
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## PROJECT DESCRIPTION

1. On behalf of the Government of Sri Lanka UNDP, as the lead implementing agency, has submitted to the 70<sup>th</sup> meeting of the Executive Committee a request for funding for the second tranche of stage I of the HCFC phase-out management plan (HPMP) at a total cost of US \$84,000, consisting of US \$60,000 plus agency support costs of US \$4,500 for UNDP, US \$24,000 plus agency support costs of US \$3,120 for UNEP. The submission included a progress report on the implementation of the first tranche of the HPMP and an implementation plan (2013-2015) for the second tranche.

### Background

2. Stage I of the HPMP for Sri Lanka was approved in principle by the Executive Committee at its 62<sup>nd</sup> meeting, to reduce HCFC consumption by 35 per cent of the baseline by the end of 2020, at a total funding level of US \$647,866 (i.e. US \$560,000 for the servicing sector, US \$18,866 for a project to phase out 0.45 ODP tonnes of HCFC-141b in the domestic refrigeration manufacturing sector and US \$69,000 for technical assistance activities for the refrigeration and air-conditioning (RAC) assembly sub-sector) plus agency support costs of US \$62,285. At the same meeting, the Executive Committee also approved the first tranche of stage I of the HPMP at the amount of US \$334,750, consisting of US \$180,000, plus agency support costs of US \$13,500 for UNDP and US \$125,000, plus agency support costs of US \$16,250 for UNEP.

### Progress report on the implementation of the first tranche of the HPMP

3. During the period covered by the first tranche, the Government of Sri Lanka strengthened its ODS regulatory and licensing system by putting in place stringent controls on the import and export of HCFCs including blends. It also introduced a ban on the import of second hand refrigeration and air conditioning equipment and components effective January 2013.

4. With regard to its quota system, it became operational in January 2013. For 2013, the annual import quota was determined by the National Ozone Unit (NOU) by allocating 90 per cent of the baseline value divided among the individual importers based on their mean value of imports calculated for the last four years. The remaining 10 per cent was kept for any additional demand after September 2013. For the next few years, the annual quota will be set according to the Montreal Protocol consumption limits for that specific year. The ban on the import and use of HCFC-141b or HCFC-141b-based polyols in manufacturing foam products will be aligned to the date of completion of the conversion project in the foam sector.

5. Stage I of the HPMP included the conversion at Regnis, a refrigeration equipment manufacturer using pre-blended polyols with HCFC-141b as a blowing agent for insulation foam. The enterprise will use hydrocarbons as the alternative. UNDP reported that the Memorandum of Agreement (MoA) with the enterprise has been finalised and was due for signature in May 2013. The investment project is expected to be completed before the end of 2014.

6. Other activities under UNDP's responsibility included the phase-out of the use of HCFC-22 for the RAC assemblers as well as technical assistance for the refrigeration installers. The report indicated that consultations were underway on the conversion of enterprises assembling air-conditioning equipment, and a site verification was completed. With regard to the refrigeration installers, it was agreed that the activities would be undertaken in 2013 and 2014 instead.

7. Activities completed in the refrigeration servicing sector included the development of training curricula for technicians, some training workshops in good practices for trainers as well as other service technicians, training of enforcement and customs officers as well as awareness raising activities.

8. The specifications for the equipment needed for the recovery and reclamation programme for RAC service applications were completed and procurement is in progress. Equipment delivery is expected by the third quarter of 2013. The retrofit incentive scheme, while planned for implementation during this period, was also moved to 2013-2015 due to the unavailability of low-GWP retrofit technology.

9. The Project Management Unit (PMU) is now functional and provided support to the NOU on the implementation of the licensing and quota systems, interaction with stakeholders on project implementation, information outreach targeted at specific sectors and day-to-day management of the HPMP project activities including administration and coordination with cooperating agencies.

*Level of funding disbursement*

10. By the end of March 2013, of the amount of US \$305,000 approved for the first tranche, US \$147,476 had been disbursed (US \$44,079 is from UNDP and US \$103,397 is from UNEP) and the balance of US \$157,524 were already committed. This indicated a disbursement level of 48 per cent of the approved first tranche.

Implementation plan (2013-2015) for the second tranche of the HPMP

11. During the second tranche stage I of the HPMP, the following will be achieved:

- (a) The Government of Sri Lanka will continue to enforce the licensing and quota systems;
- (b) Conversion at Regnis: the enterprise will complete equipment procurement, installation and initiation of commercial production with hydrocarbons by the end of 2014;
- (c) The technical assistance activities to phase out HCFCs for air-conditioning assemblers as well as those for installers of RAC equipment to use non-HCFC alternative technology will continue implementation. Equipment procurement and installation will be completed by the end of 2013 and commercial production will follow;
- (d) Implementation of the incentive scheme for the servicing sector will commence in the third quarter of 2013 and continue until December 2015; procurement of equipment required under the recovery and reclamation programme and its distribution will be completed by first quarter of 2014; establishment of mini-reclaim centres will also be completed during the first quarter of 2014;
- (e) Training workshops for service technicians and customs and enforcement officers, as well as awareness raising activities will continue until 2015; and
- (f) The PMU will continue implementing operational activities, including the harmonized system codes for individual HCFCs.

## SECRETARIAT'S COMMENTS AND RECOMMENDATION

### COMMENTS

#### Operational licensing system

12. In line with decision 63/17, the Government of Sri Lanka confirmed that an enforceable system of licensing and quotas for HCFC imports and exports is in place and that the system is capable of ensuring the country's compliance with the HCFC phase-out schedule.

#### HCFC consumption

13. The HCFC baseline for compliance has been established at 13.9 ODP tonnes, based on the actual consumption reported under Article 7 of the Montreal Protocol for 2009 and 2010 as shown in Table 1. The established baseline is 0.19 ODP tonnes lower than that of 14.09 ODP tonnes estimated at the time when the HPMP for Sri Lanka was approved. The starting point will be therefore adjusted based on the estimated baseline, without any funding implications to the Multilateral Fund.

Table 1: HCFC consumption 2007 to 2012 as reported under Article 7

Year	Article 7 data (tonnes)							
	HCFC-22		HCFC-123		HCFC-141b		Total	
	MT	ODP	MT	ODP	MT	ODP	MT	ODP
<b>2007</b>	267.27	14.70	0	0	6	0.66	<b>273.27</b>	<b>15.36</b>
<b>2008</b>	172.55	9.49	0.60	0.01	6.91	0.76	<b>180.09</b>	<b>10.26</b>
<b>2009</b>	211.51	11.63	0	0	16.23	1.785	<b>227.74</b>	<b>13.41</b>
<b>2010</b>	225.29	12.39	0	0	17.37	1.91	<b>242.66</b>	<b>14.30</b>
<b>2011</b>	271.18	14.91	0	0	12.87	1.42	<b>284.05</b>	<b>16.33</b>
<b>2012</b>	298.35	16.41	0	0	14.61	1.61	<b>312.96</b>	<b>18.02</b>

#### Review of the 2011-2012 progress report submitted by UNDP

14. Several issues related to the activities being implemented in stage I of the HPMP were discussed and satisfactorily addressed by the implementing agencies specifically:

- (a) With regard to the low level of progress on the conversion project for Regnis, UNDP and the NOU were working with the enterprise to sign the MoA as soon as possible, and explained that delays were due to aligning the work that needed to be done with the company's business plan. UNDP did not foresee any further delays in the conversion of the enterprise, and envisaged its completion by end of 2014. UNDP also provided a work plan with specific target milestones to allow for a closer monitoring of the investment project;
- (b) On the delays associated with the implementation of the phase-out project in the assembly sector and the technical assistance activities for the installers, UNDP indicated that enterprise level agreements were currently being finalized and the project activities would be expedited and were expected to be completed as planned.
- (c) Responding to a query seeking details on the implementation of the recovery and reclamation programme, UNDP clarified that the proposed plan for the next period would

include the procurement and distribution of recovery and reclamation equipment for six cities. The technical schools that will be involved in implementing the training programmes have also been identified, although no agreements have been signed with them to date.

- (d) On the possibility of delaying the tranche request to the next meeting in order to allow for activities to have more progress, UNDP mentioned that all activities are now being smoothly implemented, albeit with some delays in starting others. It also reiterated that as the funds from the first tranche are already committed, and would be disbursed by the first quarter of 2013, any delays in approving the second tranche might cause further downstream interruptions in project implementation, and therefore would like to ensure that the second tranche is approved at this meeting.

15. Overall, the Secretariat noted that the import licensing and quota systems are operational and will enable the Government to reduce its HCFC consumption by 35 per cent of its baseline by 2020. Several technical assistance activities in the refrigeration servicing sector have started and will continue as part of the second tranche, thus further reducing the amounts of HCFC-22 used in servicing practices. UNDP, as lead implementing agency, has also committed to expedite project implementation in the coming period so as to make up for the delays in the activities during the first tranche. The Secretariat further noted that the updated information provided by UNDP showed that progress in implementation is proceeding quite well.

16. With regard to the financial report and the manner by which funds had been transferred to the country, to support the disbursement percentage reported in the progress report, both agencies had indicated that these transfers were done through signed agreements with the country which is the final beneficiary.

#### Work plan 2013-2015

17. After reviewing the work plan submitted jointly by UNDP and UNEP, the Secretariat requested UNDP to provide quantitative targets for the activities proposed (i.e. number of trainings to be held, number of trainees, etc). It also asked UNEP to ensure that those activities from the previous tranche as well as the remaining balances are fully reflected in the current work plan as they will be implemented at the same time. The work plan was subsequently revised and provided to the Secretariat.

#### Revision to the Agreement of the HPMP

18. The HPMP for Sri Lanka was approved prior to the establishment of the HCFC baseline for compliance. Accordingly, in approving the HPMP the Executive Committee requested the Secretariat to, *inter alia*, update Appendix 2-A ("The targets, and funding") to the Agreement with the figures for the maximum allowable consumption, and to notify the Committee of the resulting levels accordingly (decision 62/54(d)). Based on the data reported by the Government of Sri Lanka under Article 7 and its revised phase-out schedule, the relevant paragraphs of the Agreement have been updated, and a new paragraph has been added to indicate that the updated Agreement supersedes that reached at the 62<sup>nd</sup> meeting, as shown in Annex I to this document. The full revised Agreement will be appended to the final report of the 70<sup>th</sup> meeting.

**RECOMMENDATION**

19. The Fund Secretariat recommends that the Executive Committee:
- (a) Takes note of the progress report on the implementation of the first tranche of stage I of the HCFC phase-out management plan (HPMP) in Sri Lanka;
  - (b) Notes that the Fund Secretariat had updated paragraph 1, Appendices 1-A and 2-A of the Agreement between the Government of Sri Lanka and the Executive Committee, based on the established HCFC baseline for compliance, and that a new paragraph 16 had been added to indicate that the updated Agreement superseded the Agreement that reached at the 62<sup>nd</sup> meeting, as contained in Annex I to the present document; and
  - (c) Further notes that the revised starting point for sustained aggregate reduction in HCFC consumption was 13.9 ODP tonnes, calculated using consumption of 13.4 ODP tonnes and 14.3 ODP tonnes reported for 2009 and 2010, respectively, under Article 7 of the Montreal Protocol.
20. The Fund Secretariat further recommends blanket approval of the second tranche of the HPMP for Sri Lanka, and the corresponding 2013 to 2015 tranche implementation plans, with associated support costs at the funding level as shown in the table below:

	<b>Project Title</b>	<b>Project Funding (US \$)</b>	<b>Support Cost (US \$)</b>	<b>Implementing Agency</b>
(a)	HCFC phase-out management plan (stage I, second tranche)	60,000	4,500	UNDP
(b)	HCFC phase-out management plan (stage I, second tranche)	24,000	3,120	UNEP

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**Annex I**

**AGREEMENT BETWEEN THE GOVERNMENT OF SRI LANKA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE REDUCTION IN CONSUMPTION OF HYDROCHLOROFLUOROCARBONS**

(Relevant changes are in bold font for ease of reference)

1. This Agreement represents the understanding of the Government of Sri Lanka (the “Country”) and the Executive Committee with respect to the reduction of controlled use of the ozone-depleting substances (ODS) set out in Appendix 1-A (“The Substances”) to a sustained level of **9.14** ODP tonnes prior to 1 January 2020 in compliance with the Montreal Protocol schedules.

**16. This updated Agreement supersedes the Agreement reached between the Government of Sri Lanka and the Executive Committee at the 62<sup>nd</sup> meeting of the Executive Committee.**

**APPENDIX 1-A: THE SUBSTANCES**

Substance	Annex	Group	Starting point for aggregate reductions in consumption (ODP tonnes)
HCFC-22	C	I	<b>12</b>
HCFC-141b	C	I	<b>1.9</b>
Total			<b>13.90</b>

**APPENDIX 2-A: THE TARGETS, AND FUNDING**

		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	<b>13.90</b>	<b>13.90</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>9.14</b>	n/a
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	<b>13.90</b>	<b>13.90</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>12.51</b>	<b>9.14</b>	n/a
2.1	Lead IA (UNDP) agreed funding (US \$)	180,000	0	0	60,000	0	0	127,766	0	0	0	31,100	398,866
2.2	Support costs for Lead IA (US \$)	13,500	0	0	4,500	0	0	9,582	0	0	0	2,333	29,915
2.3	Cooperating IA (UNEP) agreed funding (US \$)	125,000	0	0	24,000	0	0	75,100	0	0	0	24,900	249,000
2.4	Support costs for Cooperating IA (US \$)	16,250	0	0	3,120	0	0	9,763	0	0	0	3,237	32,370
3.1	Total agreed funding (US \$)	305,000	0	0	84,000	0	0	202,866	0	0	0	56,000	647,866
3.2	Total support costs (US \$)	29,750	0	0	7,620	0	0	19,345	0	0	0	5,570	62,285
3.3	Total agreed costs (US \$)	334,750		0	91,620	0	0	222,211	0	0	0	61,570	710,151
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this agreement (ODP tonnes)												<b>2.86</b>
4.1.2	Phase-out of HCFC-22 to be achieved in previously approved projects (ODP tonnes)												<b>0.0</b>
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)												<b>9.14</b>
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this agreement (ODP tonnes)												<b>1.9</b>
4.2.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)												<b>0</b>
4.2.3	Remaining eligible consumption for HCFC-141b (ODP tonnes)												<b>0</b>