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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Sixty-sixth Meeting  
Montreal, 16-20 April 2012

**PROJECT PROPOSAL: ARMENIA**

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

Phase-out

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

UNDP and UNEP

**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS****Armenia**

<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: 2010	7.1 (ODP tonnes)
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<b>(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)</b>								<b>Year: 2010</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 polyol		1.5							1.5
HCFC-142b									
HCFC-22				1.5	5.6				7.1

<b>(IV) CONSUMPTION DATA (ODP tonnes)</b>			
2009 - 2010 baseline:	7.0	Starting point for sustained aggregate reductions:	7.0
<b>CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)</b>			
Already approved:	0.0	Remaining:	5.6

<b>(V) BUSINESS PLAN</b>		<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Total</b>
UNDP	ODS phase-out (ODP tonnes)	1.0	0.0	0.1	1.1
	Funding (US \$)	319,465	0	33,879	353,344
UNEP	ODS phase-out (ODP tonnes)			0.0	0.0
	Funding (US \$)			8,458	8,458

<b>(VI) PROJECT DATA</b>			<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>
Montreal Protocol consumption limits			n/a	n/a	n/a	7.0	7.0	6.3	
Maximum allowable consumption (ODP tonnes)			n/a	n/a	n/a	7.0	7.0	6.3	
Agreed Funding (US \$)	UNDP	Project costs	265,661	297,177			31,515		594,353
		Support costs	19,925	22,288			2,364		44,577
	UNEP	Project costs	31,515				7,485		39,000
		Support costs	4,097				973		5,070
Funds approved by ExCom (US \$)	Project costs		297,176	0	0	0	0		297,176
	Support costs		24,022	0	0	0	0		24,022
Total funds requested for approval at this meeting (US \$)	Project costs		0	297,177	0	0	0		297,177
	Support costs		0	22,288	0	0	0		22,288

<b>Secretariat's recommendation:</b>	For individual consideration.
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## PROJECT DESCRIPTION

1. On behalf of the Government of Armenia UNDP, as the lead implementing agency, has submitted to the 66<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 \$297,177 plus agency support costs of US \$22,288 for UNDP. UNEP, as the cooperating agency, is not requesting funds for this tranche. The submission includes a progress report on the implementation of the first year of the HPMP together with a verification report on HCFC consumption in Armenia, and annual implementation plans for 2012, 2013 and 2014.

### Background

2. The HPMP for Armenia was approved in principle by the Executive Committee at its 62<sup>nd</sup> meeting, to reduce HCFC consumption in the country to a sustained level of 90 per cent of the baseline, at a total funding amount of US \$633,353, plus agency support costs of US \$49,647, consisting of US \$265,661, plus agency support costs of US \$19,925 for UNDP and US \$31,515, plus agency support costs of US \$4,097 for UNEP for implementation of the first year of the HPMP.

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

3. The implementation of the project commenced immediately after the project documents were signed in July and October 2011. Experts for legal and regulatory action and technical assistance to customs, the refrigeration servicing sector, for monitoring and for the conversion project in commercial refrigeration have been recruited. The UNEP small-scale funding agreement (SSFA), forming the legal basis for UNEP's implementation, was endorsed in July 2011, and the UNDP project document in October 2011. A national consultation on HCFC import licensing modalities in November 2011 formed the basis for an extension of the ODS import quota system to HCFCs. The report points to some challenges that caused a late endorsement of, in particular, the UNDP project document related to the investment part, which needed high-level consultations with UNDP to be resolved.

4. The main investment activity under this HPMP will convert the local commercial refrigeration manufacturer SAGA to hydrocarbon technology both for refrigeration as well as foam manufacturing. During a field visit in January 2012 by an expert the tender documents were finalised and an agreement reached on the resources to be contributed by SAGA to the overall conversion.

5. As of 31 December 2011, of the US \$297,176 approved for the first tranche, US \$17,579 had been disbursed. The disbursement represents 6 per cent of the funds approved for the first tranche. The submission also informed that UNEP had obligated the remainder of its tranche of US \$13,936.

6. A verification of the HCFC consumption of Armenia is not required for the year 2011.

### Annual plans for the second tranche of the HPMP

7. The conversion of one commercial refrigeration enterprise, SAGA, will absorb 84 per cent of the total budget under the HPMP for Armenia. In the years up to 2014, it is planned to procure, install and commission the equipment necessary to convert the manufacturer to hydrocarbon technology.

8. During 2012, an international tender for the conversion of SAGA would be carried out in order to achieve cost-effective implementation with one unified safety system for both foam blowing as well as charging of refrigerant. UNDP advised that, for this purpose, approval of the second tranche is necessary to ensure sufficient available funding to be able to carry out the tender process. It is expected that the equipment will be supplied towards the end of 2012, with a subsequent mission in conjunction with the equipment installation by the supplier, ensuring appropriate delivery and start-up with the new technologies. The activities are expected to be completed during 2013.

9. A manual on the ODS legislation and import/export procedures will be completed before 2013, and customs as well as refrigeration technician training is planned for 2012 and 2013. The refrigeration technician training will be held in two sessions for 20 technicians each, to allow for feedback on the quality of the training material and the introduction of improvements where necessary. Upon completion of the refrigeration training in 2013, 20 sets of refrigeration tools for technicians will be distributed. The functioning of the quota system will be assessed through a review of the results during 2013. Two complementary legislative measures will be forwarded for adoption during 2012 and 2013, one being an import ban on HCFC containing polyol in conjunction with the conversion of SAGA, and the other one an extension of a licensing system for HCFCs in transit through the country.

## SECRETARIAT'S COMMENTS AND RECOMMENDATION

### COMMENTS

#### HCFC consumption

10. The HCFC baseline for compliance has been established at 7.0 ODP tonnes, based on the actual consumption reported under Article 7 of the Montreal Protocol for 2009 and 2010 as shown in Table 1. Despite lower consumption of HCFC-22 than forecast by 1.12 metric tonnes (0.06 ODP tonnes) for 2010, the established baseline is not affected due to rounding inaccuracies and remains at the level of 7.0 ODP tonnes estimated at the time Armenia's HPMP was approved.

Table 1- HCFC consumption (Article 7)

HCFC	2006	2007	2008	2009	2010	Baseline
<b>Metric tonnes</b>						
HCFC-22	69.50	80.00	88.00	123.80	129.58	126.69
HCFC-123	0.00	0.00	0.29	0.00	0.00	0.00
Total	69.50	80.00	88.29	123.80	129.58	126.69
<b>ODP tonnes</b>						
HCFC-22	3.8	4.4	4.8	6.8	7.1	7.0
HCFC-123	0.0	0.0	0.0	0.0	0.0	0.0
Total	3.8	4.4	4.8	6.8	7.1	7.0

11. A level of 20 per cent of disbursement of a tranche is one of the conditions for approval of the following tranche under paragraph 5(c) of the Agreement between the Government of Armenia and the Executive Committee. In the submission UNDP had already advised about the delay in signing of the project documents and the resulting delays in commencing implementation. UNDP indicated that the level of expenditures being about 6 per cent of the approved funding in the case of Armenia is not suitable as an indicator for progress during the first tranche, or to assess the need for approval of the second tranche. This is because the disbursement for the implementation of non-investment activities in the first tranche has actually shown a disbursement rate of 41 per cent. Also, more than 80 per cent of the funding in the overall HPMP is needed for the conversion of SAGA, and an additional approval almost equal to the amount of the first tranche is required to enable the related tender process to start. In this context, it is important to recall that, in order to minimise the costs related to the conversion, the Secretariat and the agency agreed to fund only one safety system for both the charging of refrigeration units with HC-290 (propane) and the foam blowing (cyclopentane) operations, necessitating joint tender and implementation. The Secretariat also recalled that, with a similar rationale, UNDP had originally requested the cost of the investment project at SAGA to be part of the first tranche; however, due to business plan constraints at the time, UNDP had agreed to split the funding necessary for the implementation at SAGA into two tranches to accommodate the Executive Committee. As a consequence, the Secretariat believes that

approval of the second tranche for Armenia would be justified in light of the specific circumstances of the HPMP in Armenia, despite the low disbursement rate.

#### Revision to the Agreement of the HPMP

12. The HPMP for Armenia was approved prior to the establishment of the HCFC baseline for compliance. Accordingly, in approving the HPMP the Executive Committee requested the Secretariat to update to the Agreement accordingly (decision 62/40). Based on the data reported by the Government of Armenia under Article 7, the Agreement has been updated to reflect the confirmation of the baseline estimated when the Agreement had been concluded, 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 66<sup>th</sup> meeting.

#### **RECOMMENDATION**

13. The Executive Committee may wish to:

- (a) Note the progress report on the implementation of the first tranche of stage I of the HCFC phase-out management plan (HPMP) in Armenia;
- (b) Note that the Fund Secretariat has updated paragraph 1 and Appendix 2-A of the Agreement between the Government of Armenia and the Executive Committee, based on the established HCFC baseline for compliance, and a new paragraph 16 has been added to indicate that the updated Agreement supersedes the Agreement reached at the 62<sup>nd</sup> meeting, as contained in Annex I to the present document; and
- (c) Approve the second tranche of stage I of the HPMP of Armenia, and the corresponding annual implementation plans, at the amount of US \$297,177, plus agency support costs of US \$22,288 for UNDP.

**Annex I**

**TEXT TO BE INCLUDED IN THE UPDATED AGREEMENT BETWEEN THE GOVERNMENT OF ARMENIA 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 Armenia (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”) prior to 1 January 2015 in compliance with Montreal Protocol schedules to a sustained level of **6.3** ODP tonnes representing the maximum consumption allowed for 2015 under the Montreal Protocol reduction schedule.

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

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

		<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>Total</b>	
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	<b>7.0</b>	<b>7.0</b>	<b>6.3</b>	n/a	
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	n/a	n/a	n/a	<b>7.0</b>	<b>7.0</b>	<b>6.3</b>	n/a	
2.1	Lead IA UNDP agreed funding (US \$)	265,661	297,177	0	0	31,515	0	594,353	
2.2	Support costs for Lead IA(US \$) 7.5%	19,925	22,288	0	0	2,364	0	44,577	
2.3	Cooperating IA UNEP agreed funding(US \$)	31,515	0	0	0	7,485	0	39,000	
2.4	Support costs for Cooperating IA(US \$) 13%	4,097	0	0	0	973	0	5,070	
3.1	Total agreed funding (US \$)	297,176	297,177	0	0	39,000	0	633,353	
3.2	Total support cost (US \$)	24,022	22,288	0	0	3,337	0	49,647	
3.3	Total agreed costs (US \$)	321,198	319,465	0	0	42,337	0	683,000	
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this agreement (ODP tonnes)								1.40
4.1.2	Phase-out of HCFC-22 to be achieved in previously approved projects (ODP tonnes)								0
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)								5.60
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this agreement (ODP tonnes)								0.83
4.2.2	Phase-out of HCFC-141b to be achieved in previously approved projects (ODP tonnes)								0
4.2.3	Remaining eligible consumption for HCFC-141b (ODP tonnes)								0

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