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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Seventy-second Meeting
Montreal, 12-16 May 2014

PROJECT PROPOSAL: BOSNIA AND HERZEGOVINA

Phase-out

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

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

UNIDO

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS
Bosnia and Herzegovina

(I) PROJECT TITLE	AGENCY
HCFC phase out plan (Stage I)	UNIDO (lead)

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2012	4.06 (ODP tonnes)
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(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)								Year: 2012	
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		7.1							7.1
HCFC-142b									
HCFC-22				0.7	3.3				4.1

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	4.7	Starting point for sustained aggregate reductions:	4.70
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	3.11	Remaining:	1.59

(V) BUSINESS PLAN		2014	2015	2016	2017	2018	2019	2020	Total
UNIDO	ODS phase-out (ODP tonnes)	1.0	0.0	0.8	0.0	0.2	0.0	0.2	2.2
	Funding (US \$)	154,058	0	126,519	0	33,325	0	32,250	346,152

(VI) PROJECT DATA			2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Montreal Protocol consumption limits			n/a	4.70	4.70	4.23	4.23	4.23	4.23	4.23	3.06	
Maximum allowable consumption (ODP tonnes)			n/a	4.70	4.70	4.23	4.23	4.23	4.23	4.23	3.06	
Agreed funding (US \$)	UNIDO	Project costs	631,282		143,310		117,692		31,000		30,000	953,284
		Support costs	47,346		10,032	0	8,238	0	2,170	0	2,100	69,886
Funds approved by ExCom (US \$)	UNIDO	Project costs	631,282	0	0	0	0	0	0	0	0	631,282
		Support costs	47,346	0	0	0	0	0	0	0	0	47,346
Total funds requested for approval at this meeting (US \$)	UNIDO	Project costs			143,310							143,310
		Support costs			10,032							

Secretariat's recommendation:	For individual consideration
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PROJECT DESCRIPTION

1. On behalf of the Government of Bosnia and Herzegovina UNIDO, as the designated implementing agency, has submitted to the 72nd meeting of the Executive Committee a request for funding for the second tranche of stage I of the HCFC phase-out management plan (HPMP)¹, at the amount of US \$143,310 plus agency support costs of US \$10,748. The submission includes a progress report on the implementation of the first two years of the HPMP, and annual implementation plans for 2014 to 2016, and submission of the multi-year agreement (MYA) tables regarding implementation in 2012 and 2013.

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

2. The HPMP for Bosnia and Herzegovina includes the conversion of one manufacturer of polyurethane foam sandwich panels, Alternativa, to cyclopentane foam-blowing technology, phasing out 43.5 metric tonnes (mt) of HCFC-141b. Implementation of the project is progressing: locally procured equipment such as storage tanks and ventilation exhausts have been purchased in February 2014 and the main equipment has been delivered in March 2014. It is expected to complete the conversion in the first half of 2014. The conversion of six small and medium-sized enterprises (SME) in the commercial refrigeration sector consuming both 14.7 mt of HCFC-22 as refrigerant and 13.5 mt of HCFC-141b in pre-blended polyols is also progressing: the equipment is expected to reach the beneficiaries in April 2014 and the conversion is planned to be completed by September 2014.

3. The activities in the servicing sector have been limited during the first tranche, since the country gave priority to the conversion of the manufacturing sector. A first set of eight training course for 134 technicians was already carried out in 2013, using remaining funding from the national phase-out plan (NPP). While it was principally related to the servicing needs of the remaining CFC equipment, it also targeted HCFC-22 and its alternatives.

Disbursement

4. Of the US \$631,282 approved for the first tranche, US \$132,790 (21 per cent) had been disbursed at the time of submission of the tranche. During the review, the disbursement increased to US \$410,809 (65 per cent).

Annual implementation plans

5. From 2014 to 2016, remaining uncommitted funding of US \$220,473 from the first tranche, of which US \$156,273 are already obligated for conversion activities, and funding provided in the second tranche will be used to complete the conversion activities in the manufacturing sector. In addition, it is intended to develop a code of good practices in refrigeration, to be used as a basis for training of technicians in 2015. Based on the code of good practices and the trainings, a certification system for refrigeration workshops will be introduced in 2016. This also foresees to establish and support a refrigeration and air-conditioning association in Bosnia and Herzegovina to assist in the co-ordination and information exchange.

¹ The HPMP for Bosnia and Herzegovina was approved by the Executive Committee at its 66th meeting to reduce HCFC consumption by 35 per cent of the baseline by 1 January 2020.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

Licensing and quota system

6. The Secretariat had received a letter from the Ministry of Foreign Trade and Economic Relations, stating that since November 2013 Bosnia and Herzegovina has an enforceable HCFC licensing and quota system in place and that the system is capable of ensuring the country's compliance with the Montreal Protocol HCFC phase-out schedule for the duration of the Agreement with its Executive Committee. This letter submitted before the consumption data for 2013 was established, indicates compliance with the tranche requirement for an existing and enforceable system of licenses and quotas from January 2014 onwards.

HCFC consumption and verification report

7. The original submission did not include the 2013 consumption data for HCFCs; 2012 consumption of 4.06 ODP tonnes had been 14 per cent lower than the baseline consumption. Subsequent to the original submission, UNIDO submitted a verification report for Bosnia and Herzegovina, which examined the legal basis for the licensing and quota system in the country, the import licenses issued, actual imports against these licenses, export licenses and customs data. The report provided information on the various imports of, *inter alia*, HCFC-22 and R-406A (a refrigerant blend which contains both HCFC-22 and HCFC-142b). Using the data in the verification report regarding imports and exports licenses and customs data, the Secretariat recalculated the consumption of Bosnia and Herzegovina for 2013 as shown in the Table 1 below:

Table 1. Consumption of HCFC in 2013

Substance	HCFC-22	R-406A	Total	Max allowed
Unit	m kg	m kg	ODP kg	ODP kg
Annual import quota	151,112.0	23,962.0	9,674.60	n/a
Report from importer and checked customs data	83,557.6	9,418.0	5,131.55	n/a
Import from 2012 quota imported in 2013	2,720.0	-	149.60	n/a
Total import	86,277.6	9,418.0	5,281.15	n/a
Export quota	6,300.0	-	346.50	n/a
Report from exporter	6,300.0	-	346.50	n/a
Actual exports in 2013	-	-	0.00	n/a
Total export	-	-	0.00	n/a
Consumption	86,277.6	9,418.0	5,281.15	4,700.00

8. The Secretariat noted that for 2013, Bosnia and Herzegovina appears to be in non-compliance with the Montreal Protocol and the Agreement with the Executive Committee. The Secretariat also noted that the apparent non-compliance is linked mainly to three issues: the fact that in January 2013, the shipment of 2,720 mt of HCFC-22 was imported against a 2012 import license; the fact that it was apparently unknown that stockpiling for future exports is counted as consumption in the year of import; and that substantially higher quotas were issued than the maximum allowable consumption under the Agreement and the Montreal Protocol. An additional oversight had been not to account for the HCFC-142b content of the imports of R-406A. The Secretariat advised UNIDO of these findings, and UNIDO after investigating the issue informed that the quota system had only been put into effect during 2013.

9. The verifier provided a revised verification report, indicating that the HPMP was adopted by the Council of Ministers of Bosnia and Herzegovina on 6 November 2013 in the form of a “decision of the Council of Ministers on HPMP implementation”. The control of imported HCFCs was adopted for the period 2014 to 2020, under a regime of import licenses. According to the amended verification, quotas for 2014 are set at the levels show in Table 2.

Table 2. 2014 import quotas for HCFCs

Substances	m kg	ODP kg
HCFC-22	59,407	3,267
HCFC-22 contained in R-406A	2,530	139
HCFC-142b contained in R-406A	1,886	123
Total	63,823	3,529

10. The verification report clarified further that prior to the adoption of the HPMP and official adoption of annual consumption targets, the national ozone unit (NOU) was issuing import/export permits and “quotas with no restrictions” for HCFC simply in order to keep track of the import and export of these substances, since no legal basis for limiting the quota had been established in the country.

11. With the import of 5.28 ODP tonnes of HCFCs, and given a maximum allowable consumption of 4.70 ODP tonnes for 2013, the country is in non-compliance with the Agreement. The Agreement contained the penalty clause informing that the amount of funding of the HPMP may be reduced by US \$307 per ODP kg of consumption beyond 4.70 ODP tonnes for 2013, resulting in a penalty of US \$178,060.

Agency support costs

12. The HPMP for Bosnia and Herzegovina was approved at the 66th meeting when the Executive Committee also decided on support costs of future tranches of HPMPs (decision 66/17(c))². UNIDO differs with the Secretariat’s interpretation on whether to apply the support costs regime valid at the 66th meeting or a new one approved at the 67th meeting. The related policy issue is described under document UNEP/OzL.Pro/ExCom/72/12.

13. The Secretariat has updated Appendix 2-A to revise the agency support costs, in accordance with the interpretation by the Secretariat, and a new paragraph has been added to indicate that the updated Agreement supersedes that reached at the 66th meeting, as shown in Annex I to this document. The fully revised Agreement will be appended to the final report of the 72nd meeting. This Agreement could be revised based on the decision taken by the Executive Committee on the issue of the support costs described on the Overview of issues identified during project review.

Conclusions

14. The implementation of the first tranche progressed according to plan. The highest priority was given to the conversion projects in the refrigeration and foam sectors, which are nearing their completion and are expected be completed in the first half of 2014. Progress in the servicing sector has been limited. The approval of the HPMP by the Council of Ministers of Bosnia and Herzegovina, during the implementation of the first tranche, appears to be a major milestone due to the fact that the Government has instituted the quotas for fulfillment of the HPMP, and adopted the activities and policies outlined in the HPMP. The disbursements are 65.1 per cent of the approved funds, and another 30.1 per cent of the funds have been obligated; mainly to complete conversion of the projects in the manufacturing sector.

² To apply the existing administrative cost regime to the first tranche of agreements approved at the 66th meeting and to reconsider the agency fee for subsequent tranches at the 67th meeting.

15. The country has fulfilled the requirements for approval of the second tranche which are linked to the progress in implementation; however, with the apparent non-compliance with both the Agreement and the Montreal Protocol, the country has not met the targets set out in the Agreement. In the view of the Secretariat, the main underlying cause for non-compliance seems to have been addressed by the country; and, the funds available for the first tranche have almost completely been used.

RECOMMENDATION

16. The Executive Committee may wish to consider:

- (a) Noting the progress report on the implementation of the first tranche of stage I of the HCFC phase-out management plan (HPMP) for Bosnia and Herzegovina and the verification report on the HCFC consumption for Bosnia and Herzegovina in the year 2013;
- (b) Further noting:
 - (i) With concern the consumption of 580 ODP kg of HCFCs in 2013 above the maximum allowable consumption limit established in the Agreement between the Government of Bosnia and Herzegovina and the Executive Committee; and
 - (ii) That Bosnia and Herzegovina has undertaken the necessary steps to return to compliance with the Agreement in 2014 and future years;
- (c) Whether to apply a reduction in funding as per Article 11 and Appendix 7-A of the Agreement calculated at US \$307 for each ODP kg of consumption over the maximum allowable consumption limit, resulting in a penalty of up to US \$178,060;
- (d) Whether to:
 - (i) Approve the updated Appendix 2-A of the Agreement between the Government of Bosnia and Herzegovina and the Executive Committee to reflect the change in support costs owing to the new administrative cost regime, and that a new paragraph 16 had been added to indicate that the updated Agreement superseded that reached at the 66th meeting, as contained in Annex I to the present document; and
 - (ii) Approve the second tranche of stage I of the HPMP for Bosnia and Herzegovina, and the corresponding 2014-2016 tranche implementation plans at the amount of US \$143,310, plus agency support costs of US \$10,032 for UNIDO.

Or

 - (iii) Maintain the Agreement between the Government of Bosnia and Herzegovina and the Executive Committee reached at the 66th meeting, as contained in Annex XVI of document UNEP/OzL.Pro/ExCom/66/54; and
 - (iv) Approve the second tranche of stage I of the HPMP for Bosnia and Herzegovina, and the corresponding 2014-2016 tranche implementation plans at the amount of US \$143,310, plus agency support costs of US \$10,748 for UNIDO.

Annex I

TEXT TO BE INCLUDED IN THE UPDATED AGREEMENT BETWEEN THE GOVERNMENT OF BOSNIA AND HERZEGOVINA 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)

16. The updated Agreement supersedes the Agreement reached between the Government of Bosnia and Herzegovina and the Executive Committee at the 66th meeting of the Executive Committee.

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	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	4.70	4.70	4.23	4.23	4.23	4.23	4.23	3.06	n/a	
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	n/a	4.70	4.70	4.23	4.23	4.23	4.23	4.23	3.06	n/a	
2.1	Lead IA (UNIDO) agreed funding (US \$)	631,282	0	143,310	0	117,692	0	31,000	0	30,000	953,284	
2.2	Support costs for Lead IA (US \$)	47,346	0	10,032	0	8,238	0	2,170	0	2,100	69,886	
3.1	Total agreed funding (US \$)	631,282	0	143,310	0	117,692	0	31,000	0	30,000	953,284	
3.2	Total support costs (US \$)	47,346	0	10,032	0	8,238	0	2,170	0	2,100	69,886	
3.3	Total agreed costs (US \$)	678,628	0	153,342	0	125,930	0	33,170	0	32,100	1,023,170	
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)											1.61
4.1.2	Phase-out of HCFC-22 to be achieved through previously approved projects (ODP tonnes)											0.00
4.1.3	Remaining eligible consumption of HCFC-22 (ODP tonnes)											1.59
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this Agreement (ODP tonnes)											1.50
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
4.3.1	Total phase-out of HCFC-141b contained in imported pre-blended polyols agreed to be achieved under this Agreement (ODP tonnes)											3.47
4.3.2	Phase-out of HCFC-141b contained in imported pre-blended polyols to be achieved in previously approved projects (ODP tonnes)											0
4.3.3	Remaining eligible consumption for HCFC-141b contained in imported pre-blended polyols (ODP tonnes)											0
