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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-second Meeting
Montreal, 29 March - 2 April 2004

PROJECT PROPOSAL: SRI LANKA

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

Phase out

- National compliance action plan Japan, UNDP, UNEP

**PROJECT EVALUATION SHEET
SRI LANKA**

SECTOR: Phase out ODS use in sector (2000): 4.6 ODP tonnes

Sub-sector cost-effectiveness thresholds: n/a

Project Title:

(a) National compliance action plan

Project Data	Phase out		
Enterprise consumption (ODP tonnes)			
Project impact (ODP tonnes)	152.7		
Project duration (months)	60	60	60
Initial amount requested (US \$)	2,881,000	145,725	121,940
Final project cost (US \$):			
Incremental capital cost (a)			
Contingency cost (b)			
Incremental operating cost (c)			
Total project cost (a+b+c)	2,881,000	145,725	121,940
Local ownership (%)	100%	100%	100%
Export component (%)	0%	0%	0%
Amount requested (US \$)	2,881,000	145,725	121,940
Cost effectiveness (US \$/kg.)	16.55		
Counterpart funding confirmed?			
National coordinating agency			
Implementing agency	Japan	UNDP	UNEP

Secretariat's Recommendation			
Amount recommended (US \$)			
Project impact (ODP tonnes)			
Cost effectiveness (US \$/kg)			
Implementing agency support cost (US \$)			
Total cost to Multilateral Fund (US \$)			

PROJECT DESCRIPTION

1. The Government of Japan submitted to the Secretariat a national compliance action plan (NCAP) for Sri Lanka for consideration by the Executive Committee at its 40th and 41st Meetings. The project proposal was not considered by the Executive Committee since it involved accelerated phase-out of CFCs. The project has been re-submitted to the 42nd Meeting of the Executive Committee under the window for accelerated phase out (Decisions 41/12 and 41/81).
2. The Executive Summary of the project is presented below. A copy of the complete NCAP as submitted, will be made available to members of the Executive Committee on request.
3. This NCAP is presented in the form of a plan for the total phase-out of all ODSs in use in the country. The plan is the outcome of a dialogue and close cooperation among stakeholders, including relevant government organizations, implementing agencies and the Ozone Unit of Sri Lanka, achieved through a country consultation process conducted as bilateral cooperation by the Government of Japan in the Asia and Pacific Region. The bilateral cooperation project was approved at the 24th Meeting of the Executive Committee as a pilot project to assist one country in the region with the implementation of strategic planning to promote compliance with the Montreal Protocol.
4. The NCAP includes strategies for the halon sector, the refrigeration servicing sector and the solvent sector. The plan aims to complete phase-out of CFCs by 2005 and all other ODSs by the Montreal Protocol targets while complying with the Montreal Protocol phase-out requirements.
5. The total consumption of CFCs reported by Sri Lanka in 2001 was 230 ODP tonnes. According to Decision 35/57 of the Executive Committee of the Multilateral Fund, Sri Lanka has opted for Option 1, or 348.1 ODP tonnes, as the starting point based on its Article 7 baseline data. After accounting for all the projects funded by the Executive Committee since then, there is an unfunded ODS consumption of 152.7 ODP tonnes. The Government of Sri Lanka wishes to distribute the unfunded consumption as follows:

Sector	ODP tonnes	Funds requested (US \$)	CE (US\$/kg)
Refrigeration Servicing sector	152.7	2,527,000	16.55
Halon sector	0	40,000 (*)	
Solvent sector	30	-	-
Methyl bromide	0	-	-
Monitoring	-	314,000	-
Total (excluding support costs)	-	2,881,000	-

* Funds requested based on ExCom Decision 18/22

6. In order to assist Sri Lanka in establishing the implementation structure to achieve Sri Lanka's reduction targets, and to initiate measures necessary to meet the other reduction targets, the Government of Japan is requesting the Executive Committee to approve provision of US \$2,881,000 plus agency support costs to Sri Lanka.

7. Sri Lanka would like to retain the flexibility to move funding between budget lines within the National Compliance Action Plan to ensure maximum impact.

8. The annual reductions in ODS consumption required to achieve the targeted ODS consumption reduction schedule, and the requested MLF funding instalments, are as follows:

	2003	2004	2005	2006	2007	2008	2009	Total
Montreal Protocol Reduction Schedules	445.7	445.7	222.9	222.9	66.9	66.9	66.9	0.0
Reported/Expected Consumption (ODP Tonnes)								
Maximum allowable total consumption (ODP Tonnes) [1999 reported data as starting point]	174.1	163.4	124.7	80.3	39.9	12.0	-6.3	
Reduction from ongoing projects - aerosol sector								5.2
Reduction from ongoing projects - R&R project								12.3
Reduction from ongoing projects - RMP end user project			2.5	2.5				5.0
Reduction from ongoing projects - RMP technicians training (non-investment)		19.1						
Reduction from ongoing projects - RMP customs training (non-investment)	7.2							7.2
Reduction from on-going projects - RMP Monitoring (non-investment)		1.3						
Total Reduction from all ongoing projects	7.2	20.4	2.5	2.5	0.0	0.0	0.0	50.1
New reduction under plan - End User Incentive				10.0	11.0			21.0
New reduction under plan -Recovery/Recycling			20.0					20.0
New reduction under plan-MAC Recovery/Recycling and Retrofit			5.0					5.0
New reduction under plan- illegal trade (non-investment)		4.8	4.8	4.8	4.8	4.8	4.8	28.9
New reduction under plan- Technicians training (non-investment)			9.6	9.6	9.6			28.9
New reduction under plan-monitoring (non-investment)	3.6	2.4	2.4	2.4	2.4	2.4	2.4	18.0
Total New reduction under plan	3.6	7.2	41.9	26.9	27.9	7.2	7.2	121.9
Ineligible ODS reduction								0.0
Ineligible ODS reduction - refrigeration sector								0.0
Ineligible ODS reduction								0.0
Total Ineligible ODS reduction								0.0
Total annual reduction (ODP Tonnes)	10.8	27.6	44.4	29.4	27.9	7.2	7.2	171.9
Reduction for I.S. component @\$12.1 per kg		11.1		11.1		11.1		44.3
Grand Total annual reduction (ODP Tonnes)	10.8	38.7	44.4	40.4	27.9	18.3	7.2	216.2

Refrigeration servicing sector phase-out plan

9. The Executive Committee approved Sri Lanka's country programme in 1994. In addition, a recovery and recycling project was approved in 1996 and a refrigerant management plan (RMP) was approved in 2000. The refrigeration sector component in the NCAP takes all these activities into account and proposes additional activities to fully phase-out the use of the

remaining CFCs in this sector in line with relevant decisions of the Executive Committee related to RMP and strategy preparation. The major activities in the refrigeration sector, their costs and the agencies that will implement the activities are indicated in the table below:

Activity	Agency	Cost (US \$)
New reduction under plan – End-user incentive	UNDP	1,040,000
New reduction under plan -Recovery/recycling	UNDP	418,000
New reduction under plan-MAC recovery/recycling/retrofit	Japan/UNDP	171,000
Enhancement of national capacity to monitor trade and prevent illegal trade of ODS	UNEP	350,000
Extension training of the established refrigeration technicians	UNEP	548,000
Total cost (US \$)		2,527,000

The refrigeration servicing sector has a cost effectiveness of \$16.55 per kg (based on eligible consumption).

Halon sector phase-out plan

10. The objective of this plan is to assist Sri Lanka to phase-out the installed halon capacity through a combination of awareness actions, policies, and regulations (the “non-investment component”) as well as a halon banking project (the “investment component”).

11. Sri Lanka has no import of halons and has not received any funding for a project in the halon sector. The funding for this project is requested on the basis of Decision 18/11 of the Executive Committee regarding funding for halon bank management to address the installed capacity of the substance, instead of the consumption. Total incremental project costs are US \$40,000; the project will be implemented by UNEP. The budget breakdown is shown in the project document.

Solvent sector phase-out plan

12. No grant funding is requested for the solvent sector from the Multilateral Fund in this funding request, recognising the past decision of the Executive Committee not to fund projects which benefit enterprises that export more than 75 per cent of their production to non-Article 5 countries (Decisions 25/44 and 28/50). The only remaining ODS-solvent consuming industry in Sri Lanka is the activated carbon industry, which exports the majority of its production.

13. However, the CTC consumption trend over the past years and the fact that the industry in question still does not have a financially viable plan for introducing alternative technologies, despite past dialogue and discussion between the Ozone Unit and the relevant corporations, indicate the difficulty in achieving 85 per cent consumption reduction from the baseline in 2005.

14. It is therefore requested that the possibility should be left open for future application for a concessional lending scheme or any other innovative funding scheme, which is being discussed at the Executive Committee of the Multilateral Fund once the relevant modalities are finalised.

MB phase-out plan

15. A demonstration project for MB phase-out in the tea-growing industry has been approved. As regards the methyl bromide sector, Sri Lanka is subject to the condition that it will not request any additional funding for tea plantations. (Decision 27/67).

16. Another project for MB phase-out for all remaining controlled uses was approved at the 38th Meeting of the Executive Committee (Decision 38/18), and covered all the MB consumption eligible for the funding from the Multilateral Fund.

Summary

17. In summary the following activities are proposed for the NCAP in Sri Lanka:

	Unfunded ODP tonnes	Cost (US \$)	CE (US \$/kg)
Refrigeration	152.7	2,527,000	16.55
Halon	0	40,000*	
Monitoring	-	314,000	-
Total (excluding support costs)	152.7	2,881,000	

* Funds requested on the basis of Decision 18/22

Project component	2004	2005	2006	2007	2008	2009
End-user incentive			X	X		
Recovery/recycling		X				
MAC recovery/recycling		X				
Enhancement of national capacity to monitor trade and prevent illegal trade of ODS	X	X	X	X	X	X
Extension training of the established refrigeration technicians		X	X	X		
Halon management	X	X	X	X	X	X
Monitoring	X	X	X	X	X	X

SECRETARIAT'S COMMENTS AND RECOMMENDATION**COMMENTS**

18. The Secretariat reviewed the NCAP and provided the following comments and observations to the Government of Japan. Responses were received from the Government of Japan which are presented below.

ODS consumption

19. The Secretariat noted that the CFC baseline consumption had been revised in the NCAP and sought a clarification from the Government of Japan on the basis for revising the CFC baseline consumption taking into consideration that, according to Decision XIII/15 of the Parties to the Montreal Protocol, changes in baseline consumption should be submitted to the

Implementation Committee for approval by the Parties. Subsequently, the Government of Japan indicated that the situation arose due to a mistake made when entering the data reported by the Government of Sri Lanka. It was brought forward at the Implementation Committee and the Committee's approval was obtained to correct the mistake.

20. Upon a request by the Secretariat, the Government of Japan indicated that the level of ODS consumption in the northern territories that had not been addressed in approved projects proposals was estimated at 20 tonnes.

Basic information not included

21. The Secretariat also requested additional information on the servicing sector necessary to address the level of assistance required to phase out ODS consumption, including *inter alia* current distribution of CFCs by type of refrigeration equipment being serviced; the volume of refrigeration equipment in operation; the number of refrigeration services performed on an annual basis by type of refrigeration equipment; and the annual amount of refrigerants (by type) used per workshop. Subsequently, the Government of Japan provided relevant information on the refrigeration servicing sector. The current prices of refrigerants in the country are as follows:

Refrigerant	March 2004 (US \$/kg)	August 2002 (US \$/kg)
CFC-11	3.50	3.50
CFC-12	6.00	2.54
R-404	12.00	13.55
R-502	12.00	11.85
HCFC-22	3.00	3.22
HFC-134a	6.00	6.35

Policy and regulation

22. The Secretariat noted that the following proposed actions by the Government of Sri Lanka have not yet been implemented: (i) introduction of a user permit scheme; (ii) customs duty concessions for the import of ODS substitutes; and (iii) duty concessions for the import of equipment based on ODS substitutes. The Secretariat sought an explanation on the reasons for not implementing these actions taking into account their relevance for the sustainability of the proposed ODS phase out activities in the refrigeration servicing sector. The Government of Japan indicated that introduction of a user permit scheme will be taken care of through the training of refrigeration service technicians; according to the result of the training programme, a certificate will be provided and registration will be done accordingly. Due to the Government's economic and trade policies, it was not feasible to adopt the planned duty concession for the import of equipment based on ODS substitutes. However, through the licensing and quota system in place, ODS consumption has been reduced by 60 per cent.

Report on the implementation of the RMP

23. The Secretariat sought clarification from the Government of Japan on the requests for additional training of refrigeration service technicians (and training material) and customs

officers, considering that: the training programme for refrigeration technicians approved under the RMP project proposed the training of 50 trainers that would train at least 2,200 technicians and funding had been provided for purchasing equipment to furnish 10 training centres; and the customs training under current implementation is expected to cover training for 20 customs officers who will in turn train an additional 400 officers on ODS related issues.

24. In this regard, the Government of Japan indicated that Sri Lanka was able to hold 14 workshops for refrigeration service technicians in various parts of the country. However, in many cases one technician from each of the workshops had not been trained. With the additional training proposed it is expected that all technicians would be trained. Regarding customs officers, it was indicated that: of the 800 customs officers in the country, 467 have been trained. In order to control illegal trade and achieve the early phase out of CFCs, the remaining officers should be trained; and, also, ODS identification kits have been provided at major entry points.

25. The Secretariat also noted that through the recovery and recycling programme (comprising 124 recovery units and 8 recycling centres), it was planned that 31.2 ODP tonnes would have been recovered and recycled. However, the NCAP reports that only 12 ODP tonnes had been recovered and 4 ODP tonnes had been recycled. It is also reported that the recovery and recycling operations in the country were not successful, among other things, because CFC-12 was readily available at a low price and because of the down-time needed to recover refrigerants. However, based on the results of the programme and taking into account the progressively declining volume of CFC-based equipment in the country throughout the years, the request for additional CFC recovery and recycling machines did not appear to be justified.

26. Subsequently, the Government of Japan indicated that in many cases the ODS amount phased out when a project is completed is higher than the amount assessed during the preparation of the project proposal. In some cases, however (mostly for recovery/recycling projects) the actual amount of ODS phased out is lower than originally estimated. The Secretariat was also informed that the decline in the volume of CFC based equipment in Sri Lanka will not be substantial in the next few years. While new equipment will be non-CFC-based, the existing CFC-based equipment will continue to be used until catastrophic failure occurs. Thus, CFCs will be needed when servicing the equipment. Since availability of new CFCs will be limited, there will be a need for recycled CFCs. The proposal is for funding an additional 19 recycling machines and 100 recovery machines (one recycling machine in each district; and the 100 recovery machines will be distributed to select workshops across the country).

Level of funding

27. On the basis of the RMP project approved at the 32nd Meeting (including the recovery/recycling project), similar terminal plans so far approved by the Executive Committee for other Article 5 countries, the remaining CFC consumption that has not been addressed in Sri Lanka (157 ODP tonnes), and the halon consumption to be addressed through a halon banking scheme, the Secretariat noted that the level of funding requested for the NCAP was very high (US \$2,881,000). The Government of Japan and the Secretariat are still discussing the level of funding of the NCAP. Results of the discussions will be communicated to the Executive Committee prior to the 42nd Meeting.

RECOMMENDATION

28. Pending.
