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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-ninth Meeting
Montreal, 10-14 July 2006

PROJECT PROPOSAL: CROATIA

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

Phase-out

- Terminal CFC phase-out management plan (fourth, fifth and sixth tranches) UNIDO and Sweden

Pre-session documents of the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol are without prejudice to any decision that the Executive Committee might take following issue of the document.

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**PROJECT COVER SHEET - (MULTI-YEAR PROJECTS)
CROATIA**

PROJECT TITLE	BILATERAL/IMPLEMENTING AGENCY
Terminal phase-out management plan (fourth, fifth & sixth tranches)	UNIDO and Sweden

NATIONAL CO-ORDINATING AGENCY:	Ministry of Environmental Protection, Physical Planning and Construction (MEPPPC)
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LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**A: ARTICLE-7 DATA (ODP tonnes, as of May 2006)**

2004 Data	Annex A Group I, CFCs	78.16
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B: COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes, 2004, as at 25 May 2006)

ODS	Aerosol	Foam	Ref. mfg.	Ref. Service	Lab Use	Total
CFC-11	0	0	0	1.96		1.96
CFC-12	0	0	0	40.929		40.929
CFC-13				0	0.002	0.002
CFC-115			0.0	0.73		0.73
CFC Total	0.0	0.0	0.0	78.16	0.002	43.621

CFC consumption remaining eligible for funding (ODP tonnes)	n.a.
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CURRENT YEAR BUSINESS PLAN: Total funding US \$22,000 : total phase-out 6 ODP tonnes

PROJECT DATA		2003	2004	2005	2006	2007	2008	2009	2010	Total
CFCs (ODP tonnes)	Montreal Protocol limits	219.3	219.3	109.6	109.6	32.9	32.9	32.9	0	n.a.
	Annual consumption limit	98.0	98.0	65.0	21.9*	21.9*	21.9*	21.9*	0.0	n.a.
	Annual phase-out from ongoing projects	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0
	Annual phase-out newly addressed	0.0	0.0	33.0	43.1	0.0	0.0	0.0	21.9	98
	Annual unfunded phase-out	-	-	-	-	-	-	-	-	-
TOTAL ODS CONSUMPTION TO BE PHASED OUT		-	-	33.0	43.1	0.0	0.0	0.0	21.9	98
Total ODS consumption to be phased in (HCFCs)		-	-	-	-	-	-	-	-	-
Final Project costs (US\$):										
Funding for UNIDO		184,000	48,300	35,000	10,200	5,000	5,000	0	0	287,500
Funding for Sweden		46,000	24,700	21,500	0	0	0	0	0	92,200
Total project funding		230,000	73,000	56,500	10,200	5,000	5,000	0	0	379,700
Final Support costs (US\$):										
Support cost for UNIDO		13,800	3,623	2,625	765	375	375	0	0	21,563
Support cost for Sweden		3,450	1,853	1,613	0	0	0	0	0	6,916
Total support costs:		17,250	5,476	4,238	765	375	375	0	0	28,479
TOTAL COST TO MULTILATERAL FUND (US\$)		247,250	78,476	60,738	10,965	5,375	5,375	0	0	408,179

* Import on exceptional basis as specified in the agreement

Final Project cost effectiveness (US\$/kg ODP)	3.87
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FUNDING REQUEST: Approval of funding for fourth, fifth & sixth tranches as indicated above.

SECRETARIAT'S RECOMMENDATION	Individual consideration
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PROJECT DESCRIPTION

1. On behalf of the Government of Croatia UNIDO, as the lead agency, has submitted a request for approval of the fourth, fifth and sixth tranches of the TPMP amounting to US \$20,200 plus US \$1,515 agency support cost for consideration by the Executive Committee at its 49th Meeting. At the same time, UNIDO submitted a revised draft agreement to allow for the three tranches to be combined, and a letter from the Government of Croatia requesting for a change accordingly (both attached). If approved, this represents the last request for funding for the TPMP in Croatia.

2. The Terminal CFC Phase-out Management Plan (TPMP) for Croatia was approved in April 2003 at the 39th Meeting of the Executive Committee. The total funds approved in principle amounted to US \$379,700 plus US \$28,479 in support costs. The implementation of this TPMP supports the Government of Croatia in meeting its Montreal Protocol obligations including the complete phase-out of CFCs by 1 January 2010. In order to achieve these targets, a series of investment, non-investment, technical assistance and capacity building activities will be, and are being, implemented by Croatia with the assistance of UNIDO and Sweden. The 2003, 2004 and 2005 Annual Implementation Programmes of this TPMP were approved, and related funds were released at the 39th, 42nd and 46th Meetings of the Executive Committee, respectively.

3. The milestones that were agreed for 2005 have been almost completely fulfilled. An overview is shown in the following table:

Milestone	Achievement	Status
CFC consumption of no more than 65 ODP tonnes between 1 January and 31 December 2005	CFC consumption of 44.1 ODP tonnes	Fulfilled
Acceptance of new ODS-regulation by-law	Accepted September 2005, in force October 2005	Fulfilled
Development of pamphlets under the information activities; Code of Practice prepared and agreed with the relevant stakeholders	Pamphlet: Draft text developed and distributed for comments; final text outstanding. Code of practice: Completed and accepted; distribution ongoing	Fulfilled
Purchase of training equipment for vocational	Training Equipment: 8 schools equipped Train the trainer: 16 trainers (2 each of the	Fulfilled

Milestone	Achievement	Status
schools, completion of train the trainers programme in eight schools; additional training of (existing) refrigeration servicing technicians	8 schools), January 05 Additional technician training: In total 272 technicians trained (target 100)	
Putting in operation the reclamation centres, and obtaining an agreement on the reuse scheme	Reclamation centres: Equipment for all planned centers (3) purchased, two delivered, one pending conclusion of agreement. Agreement on reuse: Demonstration set-up established, workshops carried out, legislation in place, but not yet fully operational due to a number of remaining institutional issues. Note: Levy on all refrigerant of ~ US \$0.5/kg for destruction established to promotes further reuse	Reclamation centres: Largely fulfilled; Agreement on reuse: Good progress

4. In earlier years of implementation, important activities such as the implementation of legislation and licensing systems, development of training programmes and a detailed definition of needs had been successfully carried out. The verification of the consumption shows a level of 44.1 ODP tonnes, well below the target of 65 ODP tonnes. In addition UNIDO verified, through the report “2005 Annual Programme Accomplishments”, that the activities planned for 2005 had actually been largely performed (see above). The agreement with Croatia specifies only the need for confirmation that the agreed phase-out targets for the previous year have been achieved, and verification that the activities planned for the previous year have been undertaken in accordance with the annual implementation plan.

5. The almost complete fulfilment of the 2005 milestones also marks the completion of most of the activities foreseen under the TPMP, other than monitoring and minor activities related to reclamation centres. Objectives regarding reclamation planned for the year 2005 were delayed because of institutional issues within Croatia. The 2006 milestones in the Croatia TPMP, as specified in the request for the 2006 to 2008 tranches, are designed to achieve compliance with the agreed consumption limits and in addition to provide:

- (a) A revised Code of Practice by 31 December 2006, in order to reflect provisions of the new By-Law;
- (b) Pamphlets for targeted information activities printed and distributed by December 2006;
- (c) At least one reclamation centre to be operational by 31 December 2006; and
- (d) Continued monitoring activities until complete CFC phase-out is achieved.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

6. The Secretariat noted that the activities planned in the original project document submitted to the 39th Meeting have predominantly been carried out. In addition the TPMP achieved the establishment of legislative structures as well as strengthening of institutions and the refrigeration servicing sector as a whole.

7. Since commencing the implementation of the TPMP, the consumption in the country was reduced by more than 50%, the target value being only a 34% reduction. In 2006, the country has to achieve another 50% reduction from the present consumption to fulfil the agreement. To comply with the Montreal Protocol, the country has to reduce its consumption by 25% by 2007. The status of the organisational set-up within the government as well as the thorough licensing system makes it likely that Croatia will be able to continue its successful phase-out efforts, and achieve compliance with both the Agreement as well as the Montreal Protocol.

8. The payments for the 5th and 6th tranche are only US \$5,000 for each year, so providing only a limited incentive for reduction measures. The administrative costs for these two tranches are high, and there seem to be no tangible benefits associated with approving the tranches separately. In 2005 Croatia consumed a significantly lower level of CFCs than the agreed consumption limit. Furthermore, the deviations from planned activities seem relatively minor, and the reporting and planning requirements have been fulfilled. Based on these considerations, the Secretariat can support the proposal from Croatia to approve the remaining three tranches at this meeting. An amendment to the Agreement between Croatia and the Multilateral Fund, which is necessary to facilitate the change in the payment schedule, has been proposed by Croatia and is attached to this document.

RECOMMENDATION

9. The Executive Committee may wish to consider:

- (a) approving the revised Agreement between the Government of Croatia and the Executive Committee as contained in Annex I to this document; and
- (b) approving the fourth, fifth and sixth tranches of the terminal CFC phase-out management plan with associated support costs at the funding levels shown in the table below, on the understanding that UNIDO will provide annual reports confirming the achievement of the agreed consumption targets and that all activities relevant for that period, as foreseen in the implementation plan, have been completed.

Project Title	Project Funding (US\$)	Support Cost (US\$)	Implementing Agency
Terminal phase-out management plan (fourth to sixth tranche) –	20,200	1,515	UNIDO

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**REVISED DRAFT AGREEMENT FOR THE TERMINAL CFC PHASE-OUT
MANAGEMENT PLAN (TPMP) FOR CROATIA**

1. The Executive Committee approves a total of US \$379,700, excluding agency support costs, in funding for the phased reduction and complete phase-out of Annex A, Group I substances used in Croatia. This is the total funding that would be available to Croatia from the Multilateral Fund for the total elimination of the use of Annex A, Group I substances in Croatia. The agreed level of funding would be paid out in installments in the exact amount of US dollars specified in paragraph 2, and on the basis of the understanding set out in this Agreement.

2. By this Agreement, Croatia commits that, in exchange for the funding level specified below in Table 1, it will eliminate its total Annex A, Group I CFC consumption in accordance with the annual consumption limits given in Table 2.

Table 1: Funding levels and profile under the TPMP

Funding (US \$)	2003	2004	2005	2006	2007	2008	
Component I (Sweden)	46,000	24,700	21,500	0	0	0	92,200
Component II (UNIDO)	184,000	48,300	35,000	20,200	0	0	287,500
Agency fees (Sweden)	3,450	1,853	1,613	0	0	0	6,915
Agency fees (UNIDO)	13,800	3,623	2,625	1,515	0	0	21,563
Total (Sweden)	49,450	26,553	23,113	0	0	0	99,115
Total (UNIDO)	197,800	51,923	37,625	21,715	0	0	309,063
Grand total	247,250	78,475	60,738	21,715	0	0	408,178

Table 2: Maximum allowable consumption for Annex A, Group I (CFCs) in ODP tonnes

Year	(ODP tonnes)
2003	98
2004	98
2005	65
2006	*
2007	*
2008	*
2009	*
2010	0

*The By-Law on Substances that Deplete the Ozone Layer (of 30 January 1999) includes a clause on importing on an exceptional basis between 2006 and 2009 up to 21.9 ODP tonnes of Annex A (Groups I and II) and/or Annex B (Groups II and III) or products containing these substances, when these substances and/or products are for preserving human, plant and/or animal life; national defense, safety and fire-fighting; and scientific research safety, when such products cannot be replaced by environmentally-sound and economically-viable alternatives.

3. In order to assist Croatia in achieving the 2003 reduction targets and to initiate measures necessary to meet the other reduction targets included in Table 2, the Executive Committee decides at its 39th Meeting to provide US \$379,700 plus agency support costs to Croatia. The TPMP consists of the phase-out plan for the remaining CFC consumption in the servicing sector prepared with assistance from the Government of Sweden. As the lead agency, UNIDO will assist the Government of Croatia to implement the overall TPMP, particularly activities indicated in Table 3. The Government of Sweden, as co-implementing agency, will provide assistance to Croatia to implement activities included in Table 3. The funding provided by the Government of Sweden, as stated in Table 1, will be counted against the Swedish bilateral quota of its contribution to the Multilateral Fund in annually specified tranches.

4. The Executive Committee also agrees, in principle, that the funds for 2003 will be provided upon approval of this Agreement and thereafter funds will be provided at the first meeting of the Executive Committee of each year, in accordance with Table 1, for the exact amounts listed in Table 1 and on the basis of an annual implementation plan for the following implementation period, subject to the performance requirements contained in this Agreement. On this basis, the payment indicated in year 2003 will be for activities to be undertaken in the remainder of 2003 until June 2004.

5. Payments noted in Table 1, other than the payment in 2003, will be released based on confirmation that the agreed phase-out targets noted in Table 2 for the previous year have been achieved and it has been verified that the activities planned for the previous year have been undertaken in accordance with the annual implementation plan. Hence, payment in 2004 for the 2004 implementation plan would be released based on confirmation that the 2003 consumption target had been met and all 2003 implementation plan activities had been completed, and likewise for future years.

6. The Government of Croatia agrees to ensure accurate monitoring of the phase-out. The Government of Croatia will provide regular reports, as required by its obligations under the Montreal Protocol and this Agreement. Consumption figures provided under this Agreement are consistent with Croatia's report to the Ozone Secretariat under Article 7 of the Montreal Protocol.

7. The Government of Croatia also agrees to allow independent verification audits as provided for in this Agreement and, in addition, external evaluation as may be directed by the Executive Committee, to verify that annual consumption levels correspond to those agreed in Table 2 and that implementation of the TPMP proceeds as scheduled and agreed in annual implementation programmes.

8. The Croatia Terminal CFC Phase-out Management Plan may include estimates of specific funds that are thought to be needed for specific items. Notwithstanding this, the Executive Committee wishes to provide Croatia with maximum flexibility in using the agreed funds to meet the consumption limits agreed in Table 2. The Executive Committee understands that during implementation, as long as it is consistent with this Agreement, the funds provided to Croatia pursuant to this Agreement may be used in any manner that Croatia believes will achieve the smoothest possible CFC phase-out, consistent with operational procedures as agreed between the Government of Croatia, UNIDO as the lead implementing agency, and the Government of

Sweden as co-implementing agency. In the Executive Committee's acknowledgement of the flexibility available to Croatia to achieve a complete CFC phase-out, it is noted that Croatia is committing to contribute the level of resources necessary to implement the plan and to achieve the consumption limits in Table 2 of this Agreement.

9. The Government of Croatia agrees that the funds being agreed in principle by the Executive Committee at its 39th Meeting for the complete phase-out of Annex A, Group I substances are the total funding that will be available to Croatia to enable its full compliance with the reduction and phase-out as agreed with the Executive Committee of the Multilateral Fund, and that no additional Multilateral Fund resources will be requested for any related activities. It is also understood that, apart from the agency fees referred to in paragraph 11 below, the Government of Croatia, the Multilateral Fund, its implementing agencies, and bilateral donors will neither request nor provide further Multilateral Fund-related funding for the accomplishment of the total phase-out of CFCs in the country.

10. The Government of Croatia agrees that if the Executive Committee meets its obligations under this Agreement but that the Government of Croatia does not meet the reduction requirements stated in paragraph 2 and other requirements outlined under this document, the implementing agency and the Multilateral Fund will withhold funding for subsequent tranches of funding outlined in paragraph 2 until such time as the required reduction has been met. It is clearly understood that the fulfillment of this Agreement depends on the satisfactory performance of its obligation by both the Government of Croatia and the Executive Committee.

11. UNIDO has agreed to be the lead implementing agency for the implementation of this Terminal Phase-out Management Plan, with the Government of Sweden as co-implementing agency for the implementation of Component I of the TPMP. A fee of a total of 7.5 per cent of the annual funds has been agreed in accordance with the provisions of this Agreement and distributed between the two agencies as shown in Tables 1 and 3. As the lead implementing agency, UNIDO will be responsible for the following:

- (a) Ensuring performance and financial verification in accordance with this Agreement and requirements as specified in the Croatia Terminal CFC Phase-out Management Plan;
- (b) Reporting annually on the implementation of the annual implementation programmes;
- (c) Providing verification to the Executive Committee that the control targets listed in Table 2 and the associated activities have been met;
- (d) Ensuring that technical reviews undertaken by UNIDO are carried out by appropriate independent technical experts;
- (e) Assisting Croatia in the preparation of annual implementation programmes, which will incorporate achievements in previous annual programmes;
- (f) Carrying out required supervision missions;

- (g) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the programme and accurate data reporting;
- (h) Ensuring that disbursements are made to Croatia based on agreed performance targets in the project and provisions in this Agreement; and
- (i) Providing policy development assistance when required.

12. The Government of Sweden, as co-implementing agency, will be responsible for the following:

- (a) Assisting the Government of Croatia in the implementation and verification of the activities funded by the Swedish bilateral quota as per Component I of Table 1, including providing policy development assistance;
- (b) Providing reports to UNIDO on these activities, for inclusion in consolidated reports; and
- (c) Ensuring that disbursements are made to Croatia based on agreed performance targets in the project and provisions in this Agreement.

13. The funding components of this Agreement shall not be modified on the basis of future Executive Committee decisions that may affect the funding of any other consumption sector projects or any other related activities in the country.

Table 3: Cash flow of the TPMP for Croatia

Description	Total (US\$)	2003		2004		2005		2006
		UNIDO	Sweden	UNIDO	Sweden	UNIDO	Sweden	UNIDO
Training of existing workforce								
3-day training course	11,000	11,000						
1+1 -day training course	45,000	15,000		10,000		20,000		
Technical assistance	6,000		6,000					
Contingency	6,200			6,200				
Sub-Total	68,200	26,000	6,000	16,200		20,000		
Strengthening of vocational schools								
Update/produce training materials	10,000	10,000						
Procurement of equipment	36,000	36,000						
Training of trainers	5,000	5,000						
Technical assistance	3,000		3,000					
Contingency	5,400			5,400				
Sub-Total	59,400	51,000	3,000	5,400				
Code of practice	22,000		8,000		8,700		5,300	
Contingency	2,200						2,200	
Sub-Total	24,200		8,000		8,700		7,500	
Reclamation capability								
Initiate infrastructure	20,000		20,000					
Contingency	2,000				2,000			
Equipment	102,000	102,000						
Contingency	10,200			10,200				
Sub-Total	134,200	102,000	20,000	10,200				
Monitoring and implementation								
Targeted information	15,000	5,000		5,000		5,000		
Contingency	1,500			1,500				
Monitoring/implementation/evaluation	52,000		9,000		14,000		14,000	15,000
Contingency	5,200							5,200
Subsidies for demo. projects	20,000			10,000		10,000		
Sub-Total	93,700	5,000	9,000	16,500	14,000	15,000	14,000	20,200
Total	379,700	184,000	46,000	48,300	24,700	35,000	21,500	20,200
Support Cost (7.5%)	28,478	13,800	3,450	3,623	1,853	2,625	1,613	1,515
Grand Total	408,178	197,800	49,450	51,923	26,553	37,625	23,113	21,715



REPUBLIC OF CROATIA
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Mr. S. M. Si Ahmed, Director
Multilateral Environmental Agreements Branch
Programme Development and Technical
Cooperation Division
UNIDO
Vienna International Centre, P.O. Box 300
1400 Vienna, Austria

Subject: Project "Terminal Phase-out Management Plan of Croatia"

Dear Mr Si Ahmed,

The Government of the Republic of Croatia requests UNIDO, as the lead implementing agency for the Croatia Terminal Phase-out Management Plan, to request the Executive Committee to release the three remaining funding tranches under the Terminal Phase-out Management Plan of Croatia, at its forthcoming 49th Meeting.

The reason for this request is the very low amount of remaining funding (only US\$ 20,200 in total) and that the remaining activities are mainly related to monitoring.

In light of the above, kindly forward our request to the Executive Committee.

Thank you for your attention and cooperation.



Nikola Ružinski, Ph.D.

State Secretary