

Annual Project Report

[Sector Plan for HCFC Phase-out in the Solvents Sector in China
(Stage-I compliance with 2013 and 2015 targets)]

[January,2013]

Basic Project Information

Project Title:	
UNDP Award ID	00066894
UNDP Project ID	
Project Duration	2012-2016
Reporting Period	2012
Total Approved Project Budget	USD 5,000,000
Participating UN agencies	UNDP
Implementing Partners/ National collaborating agencies	FECO/MEP
International collaborating agencies	
Cost-sharing third parties	
UNDP Contact officer	Cao Qiaohong
Project website	

Executive Summary

The Project Document has been signed and the first payment has been made from UNDP to FECO in May 2012. Preparation work including experts recruiting, financial appraisal as well as workshops organization of phase out project has been accomplished in August,2012. Four Contracts between FECO/MEP and enterprises will be signed in the first Quarter of 2013, after financial appraisal finished and implementation plans approved by FECO/MEP. More than 350 metric tonnes HCFC-141b will be phased out through above 4 contracts.

1. Background

Development Context

China signed Vienna Convention for the Protection of the Ozone Layer in June 1989, Montreal Protocol on Substances that Deplete the Ozone Layer (hereinafter Montreal Protocol) in June 1991. As of May 2010, China has ratified all amendments to the Montreal Protocol. Chinese government compiled and approved “Country Program for Phase-out of Ozone Depleting Substances” (hereafter Country Program) in January 1993 and established phase-out strategies for major sectors of ODS production and consumption in 1995.

In November 1999, Chinese Government updated the Country Program. According to Country Program, with the support of Multilateral Fund and international institutions, China has conducted more than 400 projects and 18 sector plans including chemical production sector, Automobile Air-conditioner Sector, Tobacco Sector, Industrial and Commercial Refrigeration and Air Conditioning, Extinguishing Sector, Solvent Sector, Household Appliance, Foam Sector etc. to phase out production and consumption of CFCs, Halons, CTC, TCA and Methyl Bromide subsequently. With two decades of hard work, China had completed the phase-out of the production and consumption of CFCs and Halons on July 1st 2007, two and a half year earlier than the phase-out schedule under Montreal Protocol.

Until January 1st 2010, except for essential use, Chinese Government had completely eliminated the production and consumption of CFC, Halons, CTC and TCA (5 year ahead the schedule) to meet the requirement of Montreal Protocol, which is an outstanding contribution to Ozone Layer protection.

Project Objectives and Strategy

Approved in the 65th Meeting of the Executive Committee, with UNDP as the implementing agency, the total funding was US \$ 5,000,000 for Sector Plan for HCFC Phase-out in the Solvent Sector in China (Stage-I). The Sector Plan is designed to address 2013 freezing target and 2015 7.9% reduction target. Upon successful completion, the Sector Plan will result in sustainable reductions of 69 ODP tonnes of HCFC consumption in the Solvents Sector by 2015, contributing to China’s compliance with the 2013 and 2015 control targets for Annex-C, Group-I substances (HCFCs) under the Montreal Protocol. In addition, the project will result in direct CO₂-equivalent emission reductions of about 435,204 tonnes annually.

The Sector Plan comprises of a combination of interventions such as technology transfer investments, policies and regulations, technical assistance, training, and public awareness to be implemented over 5 years from 2012 to 2016.

2. Key Results

The Project Document has been signed between FECO/MEP and UNDP. The Biennial Implementation plan (TYW-plan) has been formulated and submitted. The first payment of 1,250,000 USD has been made from UNDP to FECO/MEP.

The experts have been recruited by FECO/MEP under the project of Consultancy Services. The financial appraisal has been conducted by FECO/MEP and an accounting firm for eligibility of enterprises and HCFC-141b consumption. Workshops have been organized for phaseout strategy formulation and enterprises training. The implementation plans of 4 eligible enterprises were reviewed and will be approved when they revised the plans according to expert's suggestion and opinions.

According verified consumption data, the four contracts with 4 enterprises will phase out 353 metric tonnes HCFC-141b by production equipment conversion, which is more than 273 tonnes 2013 freeze target and has realized more than 30% of 2015 7.9% reduction target.

Activities and output

Output 1: Implementation preparations made following progress:

Project Document between UNDP and FECO/MEP has been signed in May 2012.

Biennial Implementation plan (TYW-plan) has been approved in May 2012.

Basic investigation on candidate enterprises has been conducted to get information of HCFC-141b consumption, current technology and willingness to participate in phase-out projects.

Stakeholders meetings and workshop meetings have been organized in Beijing, in August 2012, FECO/MEP officers, Financial staff, technical experts and enterprise representatives participated in the meeting. Stakeholder meeting report including strategy and principle of Solvent Sector Plan has been finished and submitted to UNDP.

The first payment of 1,250,000 USD has been made from UNDP to FECO/MEP.

The Executive Program with identified threshold value was approved in November.

FECO/MEP reviewed the implementation plans submitted by qualified Medical Devices enterprises and received the revised versions, which will be reviewed by sector experts and safety experts in January, 2013.

Output 2 Technical Assistance

Activity 2.1 Stakeholder meetings and workshops

Stakeholder workshops have been organized in Beijing by FECO/MEP with participants of experts and industry organization to discuss strategy and principle of Sector Plan. In August 22, a training workshop has been organized with participants from enterprises, the accounting firm and experts who will join the investigation.

FECO/MEP has informed the participants about the policies and strategy of HCFCs Phase-out in China and in Solvent Sector. The accounting firm lectured enterprises about how to prepare the investigation data and the investigation method. FECO/MEP and the Demonstration Project enterprise KDL also introduced the Implementation Plan Format. KDL especially discussed their experiences in alternative technologies and project implementation. FECO/MEP, experts and the

accounting firm have discussed the investigation principles and solutions to possible problems may rise in the investigation.

This workshop has given enterprises opportunity to understand the Solvent Sector Plan and the procedure of financial appraisal, and also helped them to prepare for that.

Activity 2.2 Consultancy Services

To select consultants specialized in cleaning and/or medical devices cleaning and silicification to provide consultancy services to HCFC phase-out preparation work in year 2012, FECO/MEP drafted the Terms of Reference of consultancy services, and get approved by UNDP. FECO/MEP sought advices from industrial association and reviewed the performance of former experts served in the TCA/CFC phaseout projects and HPMP preparation. 15 experts have been recommended as candidates.

In May 2012, 5 experts have been selected based on their expertise and available time. Three of them are consultants of Industry Association, one from university, one from research institute. They will be attending consultation meetings/training workshops, and participating in assessment of implementation plan, as well as providing technical advices on the Solvent Sector Plan implementation.

Activity 2.3 Baseline Verification

An accounting firm needed to be recruited to assist FECO/MEP in the verification of baseline consumption, evaluation of the financial status, and providing financial appraisal and suggestion for selection of the beneficiary enterprises in reports. The firm will be responsible for inviting technical expert(s) of solvent sector to assist the verification.

In May 2012, FECO/MEP drafted the Terms of Reference of Financial Appraisal, and get approved by UNDP. Upon the approval of the TOR, FECO/MEP issued a bidding document in websites of Chinabidding and China Ozone Layer Protection. 4 enterprises have submitted their proposals. After bidding evaluation, an independent audit agency (Beijing Zhong Li Cheng CPAs) has been selected to conduct verification to the candidate enterprises in 2012.

After preliminary evaluation on 8 project applications, there are 4 qualified enterprises willing to participate in the first batch of phase-out projects. In September 2012, the baseline verification team which consists of FECO/MEP staff, accounting firm (accounting staff and technical experts) conducted on-site baseline verification to the 4 enterprises. The financial experts from the accounting company will verify the financial status, baseline consumption of enterprises and appraise the eligibility of the enterprises from financial point of view. The technical expert(s) recruited by the accounting firm will give advices and make technical judgements on the production and technologies.

Financial verification reports (one for each verified enterprise) will give conclusion of financial status of enterprises, appraisal of eligibility, as well as the baseline consumption of base year, and should have appendixes of the technical verification reports formulated by experts, and the copy of essential documents including invoices and receipts or sale records for raw materials and

final products, etc. Based on the verification results, the phase-out contracts will be developed accordingly.

Outcome 2: The preliminary result of on-site financial appraisal/baseline verification:

No.	Enterprises	Chinese Proportion	HCFC-141b Consumption (Kg)				Production lines
			2009	2010	2011	baseline	
1	Zhejiang KDL	100%	136,266	162,190	179,400	131,465	28 Assembly machine 1 Cleaning machines
2	Shandong WEGO	50.71%	49,375.3	49,875.4	53,678.3	25,850	51 Printers 8 Cleaning machines
3	Jiangxi Hongda	100%	84,462.00	106,740.00	221,318.25	137,507	76 Printers 30 Assembly lines 9 Cleaning machines
4	Jiangxi Yikang	100%	6,435.00	4,680	89,010.00	33,375	6 Assembly Lines 14 Printer 5 Cleaning machines
Total			276,538	323,483	543,406	353,323	

Note: 1.The above figures have been verified and finalized by the accounting firm;2.Zhejiang KDL baseline consumption has reduced that part which was phased out by demonstration project.

Output 3 Project Management

2012 Progress Report on the Implementation of the Solvent Sector Plan for HCFC Phase Out in China has been formulated and submitted to UNDP.

Sustainability

Meeting the project targets could help china ensure environmental suitability, address climate change, and promote a green, low carbon economy

MDG Targets

Low carbon and other environment sustainable strategies and technologies are adapted widely to meet China’s commitments and compliance with Multilateral Environment Agreements

Partnership Effectiveness

Not applicable.

Cross-cutting Issues

Not applicable.

3. Project Management and Oversight

Implementation status

The preparation activities for phase-out have been carried out according to Project Document and Implementation Plan The conversion contract will be signed in the first Quarter of 2013, And the conversion activities at enterprise level shall be started then.

Monitoring and Evaluation

FECO had finished the first survey to 4 Medical enterprises with the support of experts and accountants, identified their ODS consumption data during 2009-2011.

The baseline verification of 4 candidate enterprises have been finished, please check the above table to get more information.

Human Resource Management

The project officers of division III at FECO, Ms. Gao Lingyun and Ms. Li Juan have been assigned as the focal point of the Sector Plan.

Risk management

1. As the alternative technology is more inflammable than HCFC-141b, enterprises should formulate a concrete implementation plan with comprehensive and professional safety measures prevention and ventilation, and through review and assessment of experts are also needed.
2. FECO and UNDP will supervise and monitor the implementation schedule and financial management as well as procurement of the project under the Performance-based Mechanism to ensure the project can be smoothly completed in time as planned.

Inter-Agency Coordination and Delivering as One

Not applicable.

Communication and advocacy

Not applicable.

4. Financial Management

	Source of Fund	Budget	Expenditure
Expenditure Vs. Approved project budget by source of funding	UNDP	5,000,000	1,250,000 */81,250 **
	Government Cost Sharing		
	Third Party Cost-sharing		
	Other (please specify)		
	Total		5,000,000

Note: * refers to the cumulative expenditure from UNDP to FECO/MEP; ** refers to the cumulative expenditure by FECO/MEP until the reporting year.

Output	Activities	Source of Funding	Budget Description	Annual Budget (USD)	Annual Expenditure (USD)	Note
Output 1 Investment Projects	1.1 Implementation preparation: Including completing stakeholders meeting and preparing Biennial Implementation plan (TYW-plan)	MLF	Subcontracts with beneficiary enterprises for Incremental Capital Cost (procurement of equipments, redesign and reinstall the production lines etc) and Incremental Operational Cost(alternative materials procurement etc.)	1,141,250	0	The conversion contracts should be signed at the begin of 2013. The first payment to enterprises will be made after the contracts signed
	1.2 signing conversion contracts of 200 tonnes with 2-5 enterprises					
	1.3 Signing conversion contracts at least total of 300 tonnes with 3-6 enterprises					
	1.4 Contracts completion for contribution to the 272.7 tonnes phaseout target of 2013					
Output 2 Technical Assistance	2.1 2-3 Training workshops of project management, alternative technologies to enterprises with assistance of consultants	MLF	Training workshops, consulting service for the enterprises, etc.	10,000	0	
	2.2 Study tour organized to exchange technical and policy experience in HCFC phaseout		Travel to other countries for sharing experiences of policy and technology, miscellaneous costs, etc.	0	0	
	2.3 Public awareness with publishing and distributing communication materials and/or conducting workshops, campaigns, etc.		subcontract, miscellaneous costs, etc.	5,000	0	
	2.4 Consultancy services:6-8 technical experts for implementation of phaseout at enterprises level and national level		local consultant, travel, miscellaneous costs, etc.	0	0	

	2.5 Baseline verification: Accounting company commissioned to conduct baseline verification and complish reports		Subcontract to third party of accounting company for verification and reports accomplishment, miscellaneous cost, etc.	0	0	
	2.6 Other activities may be needed to support the conversion and other technical assistance		Sub-contracts, travel, local consultants, workshop, miscellaneous cost, etc.	12,500	0	
Output 3	3.1 Monitoring: including field monitoring, review meetings, etc.		Travel, workshop, miscellaneous cost, etc.	81,250	81,250	
	3.2 Reporting: PMO submits Implementation Reports to UNDP		local consultants, service contracts, miscellaneous cost, etc.			
	3.3 Financial, technical and managerial supervision: Financial management, technical support and managerial supervision		Implementing and operational cost, miscellaneous cost etc.			
			Total	1,250,000	81,250	

Note: the annual expenditure from UNDP to FECO/MEP is USD 1,250,000 in the reporting year.

5. Management recommendations

5.1 Cooperation with related industrial association, academic institutes and enterprises is significant to the implementation of the Solvent Sector Plan.

5.2 Given that most Solvent enterprises in China lack information on alternative technologies and their management capacity is poor, technical support from experts and association is needed.

5.3 For smoother and better transferring of technology in Medical Devices Sub-sector, and also for laying solid foundation for future comprehensive phase-out in the whole sub-sector, big enterprises as flagship role in the industry will be given special attention and should be encouraged to participate in the phase-out project as early as possible.

5.4 Experiences and lessons learnt in the KDL Demonstration Project have provided the Solvent Sector Plan valuable knowledge in phase-out strategy formulation and KDL has served as pioneer and leading model in alternative technology and project implementation for other enterprises.

6. Conclusion

The preparation of phase-out activities has been conducted.

The contracts will be signed between FECO/MEP and enterprises in the first Quarter of 2013, and then the conversion activities at enterprise level will be started. Generally 2012 implementation and/or management is smooth, effective. We would initiate the 2013 phase out activities such as project recruiting, as soon as possible, and try our best to finish all the preparation work and start the equipment conversion in 2013.

7. Annexe/s

Financial Verification reports in Chinese for 4 enterprises.