UNITED
NATIONS

EP

United Nations
Environment
Programme

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/86/61
21 October 2020

ORIGINAL: ENGLISH

EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Eighty-sixth Meeting
Montreal, 2-6 November 2020
Postponed to 8-12 March 2021[1]

PROJECT PROPOSAL: MONGOLIA

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

Phase-out

- HCFC phase-out management plan (stage II, first tranche) — UNEP and Japan

[1] Due to coronavirus disease (COVID-19)

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 issuance of the document.

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

Mongolia

(I) PROJECT TITLE	AGENCY
HCFC phase-out plan (stage II)	UNEP (lead), Japan

(II) LATEST ARTICLE 7 DATA (Annex C Group l)	Year: 2019	0.74 (ODP tonnes)

(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)									**Year:** 2019
Chemical	Aerosol	Foam	Fire-fighting	Refrigeration		Solvent	Process agent	Lab use	Total sector consumption
				Manufacturing	Servicing				
HCFC-22				0.00	0.74				0.74

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	1.4	Starting point for sustained aggregate reductions:	1.4
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	1.0	Remaining:	0.4

(V) BUSINESS PLAN		**2020**	**2021**	**2022**	**Total**
UNEP	ODS phase-out (ODP tonnes)	0.11	0	0	0.11
	Funding (US $)	31,696	0	0	31,696
Japan	ODS phase-out (ODP tonnes)	0	0	0	0
	Funding (US $)	0	0	0	0

(VI) PROJECT DATA			**2020**	**2021-2022**	**2023**	**2024**	**2025**	**2026**	**2027-2029**	**2030**	**Total**
Montreal Protocol consumption limits			0.9	0.9	0.9	0.9	0.5	0.5	0.5	0	n/a
Maximum allowable consumption (ODP tonnes)			0.4	0.4	0.4	0.4	0.3	0.3	0.3	0	n/a
Project costs requested in principle (US $)	UNEP	Project costs	116,000	0	92,000	0	0	108,000	0	54,000	370,000
		Support costs	15,080	0	11,960	0	0	14,040	0	7,020	48,100
	Japan	Project costs	110,000	0	60,000	0	0	0	0	0	170,000
		Support costs	14,300	0	7,800	0	0	0	0	0	22,100
Total project costs requested in principle (US $)			226,000	0	152,000	0	0	108,000	0	54,000	540,000
Total support costs requested in principle (US $)			29,380	0	19,760	0	0	14,040	0	7,020	70,200
Total funds requested in principle (US $)			255,380	0	171,760	0	0	122,040	0	61,020	610,200

(VII) Request for approval of funding for the first tranche (2020)		
Agency	**Funds requested (US $)**	**Support costs (US $)**
UNEP	116,000	15,080
Japan	110,000	14,300
Total	226,000	29,380

Secretariat's recommendation:	Individual consideration

PROJECT DESCRIPTION

Background

1. On behalf of the Government of Mongolia, UNEP as the lead implementing agency, has submitted a request for stage II of the HCFC phase-out management plan (HPMP), at a total cost of US $610,200, consisting of US $370,000, plus agency support costs of US $48,100 for UNEP, and US $170,000, plus agency support costs of US $22,100 for the Government of Japan as originally submitted.[2] The implementation of stage II of the HPMP will phase out the remaining consumption of HCFCs by 2030.

2. The first tranche of stage II of the HPMP being requested at this meeting amounts to US $255,380, consisting of US $116,000, plus agency support costs of US $15,080 for UNEP, and US $110,000, plus agency support costs of US $14,300 for the Government of Japan, as originally submitted.

Status of implementation of stage I of the HPMP

3. Stage I of the HPMP for Mongolia was originally approved at the 63rd meeting[3] and revised at the 71st and 77th meetings[4] to meet the 35 per cent reduction from the baseline by 2020, at a total cost of US $366,000, plus agency support costs to phase out 1.00 ODP tonne of HCFC-22 used in the extruded polystyrene foam manufacturing and the refrigeration and air-conditioning (RAC) servicing sectors. The fourth and final tranche of stage I of the HPMP was approved under the intersessional approval process for the 85th meeting in May 2020; stage I will be completed by 31 December 2021.

HCFC consumption

4. The Government of Mongolia reported a consumption of 0.74 ODP tonnes of HCFC in 2019, which is 47 per cent below the HCFC baseline for compliance. The 2015-2019 HCFC consumption is shown in Table 1.

Table 1. HCFC consumption in Mongolia (2015-2019 Article 7 data)

HCFC	2015	2016	2017	2018	2019	Baseline
Metric tonnes						
HCFC-22	11.56	8.18	10.71	12.61	13.38	23.73
Total (mt)	**11.58**	**8.18**	**10.71**	**12.61**	**13.38**	**23.73**
ODP tonnes						
HCFC-22	0.64	0.45	0.59	0.69	0.74	1.4
Total (ODP tonnes)	**0.64**	**0.45**	**0.59**	**0.69**	**0.74**	**1.4**

5. The decrease in the HCFC consumption in 2016 was due to the weak economic growth experienced in the country; subsequently, a steady growth in the construction sector and an increase demand in cold storage systems for meat processing industries resulted in an increase in HCFC consumption from 2017. Despite the increase, the consumption between 2017-2019 was lower than that allowed under the Montreal Protocol (i.e., 1.26 ODP tonnes) and the Agreement between the Government and the Executive Committee (i.e., 0.77 ODP tonnes) because of the implementation of phase-out activities under the HPMP, including the enforcement of the licensing and quota system, training provided to customs officers and refrigeration and air-conditioning (RAC) technicians and technical assistance provided to the servicing sector. In 2019 some importers were stockpiling HCFCs because of the reduction of HCFC consumption required in 2020 (i.e., from 0.77 ODP tonnes to 0.40 ODP tonnes), as committed by the Government in the Agreement between the Government and the Executive Committee. UNEP also reported that for the first six months of

[2] As per the letter of 8 July 2020 from the Ministry of Environment and Tourism of Mongolia to UNEP.
[3] UNEP/OzL.Pro/ExCom/63/43 and Annex XXXII of document UNEP/OzL.Pro/ExCom/63/60.
[4] Annex XIV of document UNEP/OzL.Pro/ExCom/71/64 and Annex XII of document UNEP/OzL.Pro/ExCom/77/76, respectively.

2020, the country had imported less than the quota allocated for the year of 0.40 ODP tonnes. While past import trends show the tendency to bring in remaining allocations towards the last quarter of the year, it appears that imports in 2020 will be lower than the allowable quota because of the COVID-19 pandemic. An increased uptake of HFC-based equipment was also reported, as HCFC imports have been declining.

CP implementation report

6. The Government of Mongolia reported HCFC sector consumption data under the 2019 CP implementation report which is consistent with the data reported under Article 7 of the Montreal Protocol.

Status of progress and disbursement

Legal framework

7. The Government of Mongolia has an operational licensing and quota system for HCFC since 2012; banned any new foam manufacturing dependent on HCFC-22 and HCFC-141b from 1 January 2014; and entered into force, on 1 January 2019, an updated resolution,[5] which *inter alia*, regulates the ODS licensing and quota system for ODS alternatives and ODS-based equipment; includes a revised format for import quota application for controlled substances, and for reporting RAC equipment charged with any type of refrigerant imported and sold; and requires that the servicing of RAC equipment can only be undertaken by certified technicians.

8. A total of 25 trainers and 460 customs officers and state environmental inspectors received training in the first three tranches of stage I of the HPMP. Three refrigerant identifiers were acquired for custom ports to support enforcement activities.

Manufacturing sector

9. Stage I of the HPMP included the conversion from HCFC-22 to HFC-152a of two extruded polystyrene (XPS) foam manufacturing enterprises (i.e., Bilguun Trade LLC and New Warm LLC). The conversions were completed in 2017 resulting in the phase out of 9.9 mt (0.54 ODP tonnes) of HCFC-22. The National Ozone Authority (NOA) in cooperation with the General Agency of Specialized Inspection conducted inspections in 2018 and 2019 and verified the destruction of obsolete baseline equipment at both enterprises, the implementation of safety procedures, and the disbursement of the final instalment to the two enterprises.

Refrigeration servicing sector

10. Under the first three tranches of stage I of the HPMP the following activities were implemented:

(a) A Masters Skills training centre was established through the Mongolian Refrigeration Association (MRA) for RAC training;

(b) A total of 352 RAC technicians received training on good service practices including 26 trainers on good practices in the handling of HFC-32 and HC-290-based split-air conditioners and heat pumps; a database was established in 2015 containing an inventory of large HCFC-based equipment and information on alternative technologies; and

(c) Awareness programmes including the publication of interviews on ozone protection and the phase-out of HCFCs in newspapers, websites, and television broadcasts; publication of two handbooks namely, Legal framework of ozone layer protection and HCFC control policies/regulation for customs enforcement officers, and Refrigeration system and heat

[5] Resolution #277 of 2018.

pump-personnel competence were developed and disseminated; and publication in the local language of the handbooks on good practice in refrigeration, and on phasing-out HCFCs in the refrigeration and air-conditioning servicing sector. The NOA organized the first O_2C technology roadshow and industry roundtable in 2019 with 150 participants from industries, research institutes, education and training centres, and government agencies, where the latest zero-ODP and low-global warming potential (GWP) alternative technologies were displayed.

Level of fund disbursement

11. As of July 2020, of the total funds of US $366,000 approved (US $236,000 for UNEP and US $130,000 for the Government of Japan), US $316,846 had been disbursed (US $186,846 for UNEP and US $130,000 for the Government of Japan). The balance of US $49,154, will be disbursed in 2020 and 2021. UNEP confirmed that the first disbursement for the fourth and final tranche amounting to US $37,000 (75 per cent of remaining funds) was released in the third week of August 2020, and received by the country.

Stage II of the HPMP

Remaining consumption eligible for funding

12. After deducting 1.00 ODP tonne of HCFCs associated with stage I of the HPMP, the remaining consumption eligible for funding in stage II amounts to 0.40 ODP tonnes of HCFC-22. All consumption is used in the refrigeration servicing sector only.

Sector distribution of HCFCs

13. There are 168 certified and 328 uncertified RAC technicians working in 82 workshops servicing industrial cold storage systems; unitary, split and centralized air-conditioning systems; chillers; and commercial refrigeration systems as shown in Table 2. HCFC-22 represents 34.8 per cent of the refrigerants used in the servicing sector, the rest (65.2 per cent) is attributed to other refrigerants, mostly HFC-134a and R-410A.

Table 2. Demand in 2019 for HCFC-22 in the RAC servicing sector in Mongolia

Sector/Application		**Number of units**	**Average charge per unit (kg)**	**Annual need for servicing (% of average charge)**	**Servicing requirements (mt)**	**Sectoral consumption (%)**
Air-conditioning	Room AC	10,425	1.5	20	3.13	33.4
	Central AC	168	20	30	1.01	10.8
Commercial refrigeration	Smaller systems	100	5	20	0.1	1
Industrial refrigeration	Cold storage	101	100	50	5.00	53.4
Chillers	AC and industry	10	120	10	0.12	1.3
Total		**10,804**	**n/a**	**n/a**	**9.36**	**100**

Phase-out strategy in stage II of the HPMP

14. Stage II of the HPMP will build upon the experience gained during the implementation of stage I; it will continue to focus on limiting the supply of HCFCs through the import/export licensing and quota system; reducing the demand of HCFCs through continuous implementation of good servicing practices, and limiting the demand for HCFCs by introducing and enforcing a ban on the import of HCFC-based RAC equipment by 1 January 2022.

Proposed activities in stage II of the HPMP

15. Stage II proposes the following activities:

(a) *ODS policy and regulations:* Strengthen the licensing and quota process and improve data reporting by developing an online licensing application and quota registration system for importers; draft and enforce a ban on the import of HCFC-based equipment; review relevant international safety standards for refrigerants and adopt, at minimum, a national standard for flammable refrigerants; promote the use of low-GWP-based and energy efficient RAC equipment through fiscal incentives (UNEP) (US $45,000);

(b) *Customs and enforcement training:* Train 300 customs and enforcement officers and inspectors through 15 training sessions (targeting 25 per cent female participation) on the following topics: ODS-related regulations and the role of customs and enforcement officers in their strict enforcement, identification of refrigerants and HCFC-based equipment, use of refrigerant identifiers, and the importance of data monitoring and reporting; develop online training for officers in remote locations and strengthen the training on risk profiling to strictly monitor imports of refrigerants; participate in four regional border dialogue meetings to reduce illegal trade; procure five refrigerant identifiers; and implement six capacity building workshops for importers and custom agents for better record keeping and reporting of imports (UNEP) (US $64,000);

(c) *RAC technician equipment:* Provide technical assistance, tools and equipment (e.g., electronic leak detectors, vacuum pumps, recovery cylinders) to workshops that service HCFC-22-based industrial refrigeration systems to promote recovery and recycling of HCFCs; identify and provide technical assistance to cold storage workshops; provide tools/equipment (e.g., cold storage and mini-split AC demonstration units, rotary vacuum pump, leak detectors, scales, gauges, recovery machine and cylinders, brazing kits, thermostatic expansion and ball valves, ferrule set and pressure regulator for high pressure, nitrogen and oxygen regulators, oxygen regulator, other general tools and safety equipment) to four technical and vocational education and training (TVET) institutes; and provide specific training for technicians servicing larger industrial applications like cold storages (Government of Japan) (US $170,000);

(d) *RAC technician training and certification:* Train 375 RAC servicing technicians on good service practices through 15 training workshops (including three workshops for trainers) and update the training curriculum to include cold storages; facilitate the approval of a national occupational standard and develop a competence-based TVET curriculum for the first two qualification levels defined by the TVET Assessment centre; integrate the good service practices component into the national RAC technician certification programme, and recognition of prior learning (RPL) certification programme, and expand the RPL to include commercial and industrial refrigeration sectors; finalize a study on the participation of women in the RAC sector; translate OzonAction mobile application for RAC technicians; and develop an online database to connect end-users with certified technicians (UNEP) (US $118,000); and

(e) *Awareness-raising:* Develop at least four information briefs on the HPMP priorities and activities for selected sectors (building and construction, cold chains in meat processing and food storage, manufacturing including foam industry, and public procurement); organize four stakeholder consultations, two technical awareness workshops for the cold chain and food processing sectors, and foam end-users; implement general awareness activities including developing videos and locally adapted awareness materials and conducting awareness raising workshops for consumers/end-users on the commitment of the country to phase out HCFCs by 2030 and encourage use of alternative technologies (UNEP) (US $37,000).

Project implementation and monitoring

16. The monitoring mechanism established under stage I of the HPMP will continue into stage II, where the national ozone unit (NOU) will monitor activities, report progress, and work with stakeholders to phase out HCFCs, including the collection of gender indicators in the projects to be implemented. The cost of those activities amounts to US $106,000 for stage II, which will be allocated to staff and consultants.

Gender policy implementation

17. In line with decision 84/92(d),[6] throughout implementation of stage II of the HPMP gender parity will be ensured to the extent possible on project committees and in management, and opportunities for female participation will be identified and promoted in training and consultation activities. The Government will target at least 25 per cent participation in customs training and awareness programmes. The NOA will engage stakeholders in the potential collection of gender specific indicators.

<u>Total cost of stage II of the HPMP</u>

18. The total cost of stage II of the HPMP for Mongolia amounts to US $540,000, as originally submitted for achieving 100 per cent reduction from its HCFC baseline consumption by 2030, which is in accordance with decision 74/50(c)(xii).

<u>Activities planned for the first tranche of stage II</u>

19. The first funding tranche of stage II of the HPMP at the total amount of US $226,000 will be implemented between December 2020 and December 2023 and will include the following activities:

(a) *ODS policy and regulations:* Develop standard operating procedures for licensing application, quota allocation and process for data reporting; develop an online licencing and quota system; organize one consultation meeting to support the proposed ban on the import of HCFC-based equipment (UNEP) (US $27,000);

(b) *Customs and enforcement training:* Train 75 customs and enforcement officers through three workshops including one train-the-trainers workshop on ODS-related regulations and the role of customs and enforcement officers in their strict enforcement, identification of refrigerants and HCFC-based equipment, use of refrigerant identifiers, and the importance of data monitoring and reporting; develop online training for officers in remote locations and strengthen the training on risk profiling to strictly monitor imports of refrigerants; procure five refrigerant identifiers; develop one video for online training for officers in remote locations; and conduct one capacity building workshop on record keeping and reporting or importers and custom brokers (UNEP) (US $34,000);

(c) *RAC technician equipment:* Procure tools and equipment (e.g., vacuum pump, leak detectors, scales, gauges, recovery machine and cylinders, brazing kits, other tools and safety equipment) for four TVET institutes; carry out one survey to identify workshops servicing cold storage systems, which will be provided with technical assistance in future tranches; and develop a training programme for technicians in cold storages in food processing industry for implementation under a future tranche (Government of Japan)

[6] Decision 84/92(d) requested bilateral and implementing agencies to apply the operational policy on gender mainstreaming throughout the project cycle.

(US $110,000);

(d) *RAC technician training and certification:* Update the training curriculum to include a module for cold storage; train 60 RAC technicians on good service practices through three workshops including sessions targeted for technicians servicing cold storage equipment, and large end-users; adopt the national occupational standard related to the heating, ventilation, and air-conditioning sector and develop the curriculum for the RAC sector for implementation by the TVET Assessment centre; translate the OzonAction mobile applications for refrigeration technicians in the local language; develop the online database to connect end-users with certified service technicians; and integrate the good service practice component into the RPL certification and expand the RPL certification to include commercial and industrial refrigeration sectors (UNEP) (US $24,500);

(e) *Awareness-raising:* Develop one policy briefing on HCFC import controls for importers and custom brokers; organize one awareness workshop for the public and other stakeholders on what; develop a video highlighting Mongolia's responsibilities under the HPMP; and implement awareness raising activities for end-users (UNEP) (US $6,500); and

(f) *Project implementation and monitoring*: Project coordination, stakeholder engagement and implementation of planned activities; funding requested for one staff (UNEP) (US $24,000).

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

20. The Secretariat reviewed stage II of the HPMP in light of stage I, the policies and guidelines of the Multilateral Fund, including the criteria for funding HCFC phase-out in the consumption sector for stage II of HPMPs (decision 74/50), and the 2020-2022 business plan of the Multilateral Fund.

<u>Overarching strategy for stage II</u>

21. The Government of Mongolia proposed to meet the 100 per cent reduction of its HCFC baseline consumption by 2030, on the understanding that Mongolia's consumption between 2030 and 2040 (i.e., the servicing tail) may exceed zero in any year so long as the sum of its calculated levels of consumption over the ten-year period from 1 January 2030 to 1 January 2040 divided by 10, does not exceed 2.5 per cent of Mongolia's baseline, and provided that such consumption is restricted to the servicing of RAC equipment existing on 1 January 2030, as provided by the Montreal Protocol.[7] The Government further commits to ensure that where consumption for the servicing tail may be required, it will do its utmost to establish strict criteria within its existing licensing system to limit and monitor the amounts used to those allowed by the Protocol.

[7] Article 5, paragraph 8 ter(e)(i) of the Montreal Protocol. Other applications where HCFCs can be used include the servicing of fire suppression and fire protection equipment existing on 1 January 2030; solvent applications in rocket engine manufacturing; and topical medical aerosol applications for the specialized treatment of burns.

Legal framework

The Government of Mongolia has already issued HCFC import quotas for 2020 at 0.4 ODP tonnes, which is lower than the Montreal Protocol control targets and in accordance with the maximum allowable consumption under its Agreement with the Executive Committee. The target for 2021 has not been set, but is expected to be at the same level.

Technical issues

22. In responding to the Secretariat's observation on the increased uptake of high-GWP RAC equipment as alternatives to HCFC-22-based equipment, UNEP explained that during implementation of stage II the Government will introduce fiscal incentives and will prioritize activities that promote the introduction of RAC equipment based on low-GWP refrigerants and take into account energy efficiency issues under the Government Resolution 468/2019 (amendment of previous Resolution 303/2016[8]).

23. UNEP clarified that the reference to a lack of equipment provided by the HPMP referred to the fact that in stage I such equipment was provided only to the Master Skills training centre and not to the service workshops and technicians. In stage II, equipment will be given to workshops engaged in servicing cold storage systems, which account for 53.4 per cent of the total HCFC-22 use in the country. Additionally, tools designed for high pressure and flammable refrigerants will be provided to the TVET institutes to build their capacity to sustain training of RAC technicians in the future (the centre and the institutes were equipped during stage I of the HPMP).

Impact of the COVID-19 pandemic on HPMP implementation

24. In 2020, the COVID-19 pandemic has affected the overall pace of implementation of business and economic activities, including HPMP activities, in Mongolia, due to various measures and restrictions imposed by the Government. After restriction measures were partially lifted, the NOA successfully organized training workshops by maintaining social distancing rules and stakeholder meetings for the preparation of stage II were held virtually. At present, the remaining restrictions have been lifted, and the ban on international travels has been extended and will potentially remain in place until 2021. It is expected that stage II of the HPMP can be conducted as planned; however, adjustments may need to be made for those activities that require the assistance of international experts due to travel restrictions, and options are being considered for online consultations where possible.

Impact on the climate

25. The proposed activities in the servicing sector, which include better containment of refrigerants through training and provision of equipment, will reduce the amount of HCFC-22 used for RAC servicing. Each kilogram of HCFC-22 not emitted due to better refrigeration practices results in savings of approximately 1.8 CO_2-equivalent tonnes. Although a calculation of the impact on the climate was not included in the HPMP, the activities planned by Mongolia including its efforts to promote low-GWP energy-efficient alternatives, and refrigerant recovery and reuse especially in the industrial food sector indicate that the implementation of the HPMP will reduce the emission of refrigerants into the atmosphere, resulting in climate benefits.

Co-financing

26. The Government of Mongolia has committed in-kind contribution for the implementation of stage II of the HPMP through providing logistical and personnel support when required.

---

[8] Provides tax incentives for refrigeration equipment based on low-GWP refrigerants (i.e., R-290 (propane), HFC-32, HFC-152a and R-744 (carbon dioxide).

2020-2022 draft business plan of the Multilateral Fund

27. UNEP and the Government of Japan are requesting US $540,000, plus agency support costs, for the implementation of stage II of the HPMP for Mongolia. The total requested value of US $255,380 including agency support costs for the period of 2020–2022, is US $223,684 above the amount in the business plan.

Draft Agreement

28. A draft Agreement between the Government of Mongolia and the Executive Committee for the phase-out of HCFCs in stage II of the HPMP is contained in Annex I to the present document.

RECOMMENDATION

29. The Executive Committee may wish to consider:

(a) Approving, in principle, stage II of the HCFC phase-out management plan (HPMP) for Mongolia for the period from 2020 to 2030 for the complete phase-out of HCFC consumption, in the amount of US $610,200, consisting of US $370,000, plus agency support costs of US $48,100 for UNEP, and US $170,000, plus agency support cost of US $22,100 for the Government of Japan, on the understanding that no more funding would be provided from the Multilateral Fund for the phase-out of HCFCs;

(b) Noting the commitment of the Government of Mongolia:

(i) To reduce HCFC consumption by 78.6 per cent of the country's baseline by 1 January 2025 and completely phase out HCFCs by 1 January 2030, and that HCFCs would not be imported after that date, except for the allowance for a servicing tail between 2030-2040 where required, and consistent with the provisions of the Montreal Protocol; and

(ii) To ban the import of HCFC-based refrigeration and air-conditioning equipment by 1 January 2022.

(c) Deducting 0.40 ODP tonnes of HCFCs from the remaining HCFC consumption eligible for funding;

(d) Approving the draft Agreement between the Government of Mongolia and the Executive Committee for the reduction in consumption of HCFCs, in accordance with stage II of the HPMP, contained in Annex I to the present document; and

(e) Approving the first tranche of stage II of the HPMP for Mongolia, and the corresponding tranche implementation plans, in the amount of US $255,380, consisting of US $116,000, plus agency support costs of US $15,080 for UNEP, and US $110,000, plus agency support costs of US $14,300 for the Government of Japan.

Annex I

DRAFT AGREEMENT BETWEEN THE GOVERNMENT OF MONGOLIA AND THE EXECUTIVE COMMITTEE OF THE MULTILATERAL FUND FOR THE REDUCTION IN CONSUMPTION OF HYDROCHLOROFLUOROCARBONS IN ACCORDANCE WITH STAGE II OF THE HCFC PHASE-OUT MANAGEMENT PLAN

Purpose

1. This Agreement represents the understanding of the Government of Mongolia (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”) to a sustained level of zero ODP tonnes by 1 January 2030 in compliance with Montreal Protocol schedule.

2. The Country agrees to meet the annual consumption limits of the Substances as set out in row 1.2 of Appendix 2-A (“The Targets, and Funding”) in this Agreement as well as in the Montreal Protocol reduction schedule for all Substances mentioned in Appendix 1-A. The Country accepts that, by its acceptance of this Agreement and performance by the Executive Committee of its funding obligations described in paragraph 3, it is precluded from applying for or receiving further funding from the Multilateral Fund in respect to any consumption of the Substances that exceeds the level defined in row 1.2 of Appendix 2-A as the final reduction step under this Agreement for all of the Substances specified in Appendix 1-A, and in respect to any consumption of each of the Substances that exceeds the level defined in row 4.1.3 (remaining consumption eligible for funding).

3. Subject to compliance by the Country with its obligations set out in this Agreement, the Executive Committee agrees, in principle, to provide the funding set out in row 3.1 of Appendix 2-A to the Country. The Executive Committee will, in principle, provide this funding at the Executive Committee meetings specified in Appendix 3-A (“Funding Approval Schedule”).

4. The Country agrees to implement this Agreement in accordance with the stage II of the HCFC phase-out management plan (HPMP) approved (“the Plan”). In accordance with sub-paragraph 5(b) of this Agreement, the Country will accept independent verification of the achievement of the annual consumption limits of the Substances as set out in row 1.2 of Appendix 2-A of this Agreement. The aforementioned verification will be commissioned by the relevant bilateral or implementing agency.

Conditions for funding release

5. The Executive Committee will only provide the Funding in accordance with the Funding Approval Schedule when the Country satisfies the following conditions at least eight weeks in advance of the applicable Executive Committee meeting set out in the Funding Approval Schedule:

(a) That the Country has met the Targets set out in row 1.2 of Appendix 2-A for all relevant years. Relevant years are all years since the year in which this Agreement was approved. Years for which there are no due country programme implementation reports at the date of the Executive Committee meeting at which the funding request is being presented are exempted;

(b) That the meeting of these Targets has been independently verified for all relevant years, unless the Executive Committee decided that such verification would not be required;

(c) That the Country had submitted a Tranche Implementation Report in the form of Appendix 4-A (“Format of Tranche Implementation Reports and Plans”) covering each previous calendar year; that it had achieved a significant level of implementation of activities initiated with previously approved tranches; and that the rate of disbursement of funding available from the previously approved tranche was more than 20 per cent; and

(d) That the Country has submitted a Tranche Implementation Plan in the form of Appendix 4-A covering each calendar year until and including the year for which the funding schedule foresees the submission of the next tranche or, in case of the final tranche, until completion of all activities foreseen.

Monitoring

6. The Country will ensure that it conducts accurate monitoring of its activities under this Agreement. The institutions set out in Appendix 5-A ("Monitoring Institutions and Roles") will monitor and report on implementation of the activities in the previous Tranche Implementation Plans in accordance with their roles and responsibilities set out in the same appendix.

Flexibility in the reallocation of funds

7. The Executive Committee agrees that the Country may have the flexibility to reallocate part or all of the approved funds, according to the evolving circumstances to achieve the smoothest reduction of consumption and phase-out of the Substances specified in Appendix 1-A:

(a) Reallocations categorized as major changes must be documented in advance either in a Tranche Implementation Plan as foreseen in sub-paragraph 5(d) above, or as a revision to an existing Tranche Implementation Plan to be submitted eight weeks prior to any meeting of the Executive Committee, for its approval. Major changes would relate to:

(i) Issues potentially concerning the rules and policies of the Multilateral Fund;

(ii) Changes which would modify any clause of this Agreement;

(iii) Changes in the annual levels of funding allocated to individual bilateral or implementing agencies for the different tranches;

(iv) Provision of funding for activities not included in the current endorsed Tranche Implementation Plan, or removal of an activity in the Tranche Implementation Plan, with a cost greater than 30 per cent of the total cost of the last approved tranche; and

(v) Changes in alternative technologies, on the understanding that any submission for such a request would identify the associated incremental costs, the potential impact to the climate, and any differences in ODP tonnes to be phased out if applicable, as well as confirm that the Country agrees that potential savings related to the change of technology would decrease the overall funding level under this Agreement accordingly;

(b) Reallocations not categorized as major changes may be incorporated in the approved Tranche Implementation Plan, under implementation at the time, and reported to the Executive Committee in the subsequent Tranche Implementation Report;

(c) The Country agrees, in cases where HFC technologies have been chosen as an alternative to HCFCs, and taking into account national circumstances related to health and safety: to monitor the availability of substitutes and alternatives that further minimize impacts on the climate; to consider, in the review of regulations standards and incentives adequate provisions that encourage introduction of such alternatives; and to consider the potential for adoption of cost-effective alternatives that minimize the climate impact in the implementation of the HPMP, as appropriate, and inform the Executive Committee on the progress accordingly in tranche implementation reports; and

(d) Any remaining funds held by the bilateral or implementing agencies or the Country under the Plan will be returned to the Multilateral Fund upon completion of the last tranche foreseen under this Agreement.

Considerations for the refrigeration servicing sector

8. Specific attention will be paid to the execution of the activities in the refrigeration servicing sector included in the Plan, in particular:

(a) The Country would use the flexibility available under this Agreement to address specific needs that might arise during project implementation; and

(b) The Country and relevant bilateral and/or implementing agencies would take into consideration relevant decisions on the refrigeration servicing sector during the implementation of the Plan.

Bilateral and implementing agencies

9. The Country agrees to assume overall responsibility for the management and implementation of this Agreement and of all activities undertaken by it or on its behalf to fulfil the obligations under this Agreement. United Nations Environment Programme (UNEP) has agreed to be the lead implementing agency (the “Lead IA”) and the Government of Japan (Japan) has agreed to be the cooperating agency (the “Cooperating IA”) under the lead of the Lead IA in respect of the Country’s activities under this Agreement. The Country agrees to evaluations, which might be carried out under the monitoring and evaluation work programmes of the Multilateral Fund or under the evaluation programme of the Lead IA and Cooperating IA taking part in this Agreement.

10. The Lead IA will be responsible for ensuring co-ordinated planning, implementation and reporting of all activities under this Agreement, including but not limited to independent verification as per sub-paragraph 5(b). The Cooperating IA will support the Lead IA by implementing the Plan under the overall co-ordination of the Lead IA. The roles of the Lead IA and Cooperating IA are contained in Appendix 6-A and Appendix 6-B, respectively. The Executive Committee agrees, in principle, to provide the Lead IA and the Cooperating IA with the fees set out in rows 2.2 and 2.4 of Appendix 2-A.

Non-compliance with the Agreement

11. Should the Country, for any reason, not meet the Targets for the elimination of the Substances set out in row 1.2 of Appendix 2-A or otherwise does not comply with this Agreement, then the Country agrees that it will not be entitled to the Funding in accordance with the Funding Approval Schedule. At the discretion of the Executive Committee, funding will be reinstated according to a revised Funding Approval Schedule determined by the Executive Committee after the Country has demonstrated that it has satisfied all of its obligations that were due to be met prior to receipt of the next tranche of funding under the Funding Approval Schedule. The Country acknowledges that the Executive Committee may reduce the amount of the Funding by the amount set out in Appendix 7-A (“Reductions in Funding for Failure to Comply”) in respect of each ODP kg of reductions in consumption not achieved in any one year. The Executive Committee will discuss each specific case in which the Country did not comply with this Agreement, and

take related decisions. Once decisions are taken, the specific case of non-compliance with this Agreement will not be an impediment for the provision of funding for future tranches as per paragraph 5 above.

12. The Funding of this Agreement will not be modified on the basis of any future Executive Committee decisions that may affect the funding of any other consumption sector projects or any other related activities in the Country.

13. The Country will comply with any reasonable request of the Executive Committee, the Lead IA and the Cooperating IA to facilitate implementation of this Agreement. In particular, it will provide the Lead IA and the Cooperating IA with access to the information necessary to verify compliance with this Agreement.

Date of completion

14. The completion of the Plan and the associated Agreement will take place at the end of the year following the last year for which a maximum allowable total consumption level has been specified in Appendix 2-A. Should at that time there still be activities that are outstanding, and which were foreseen in the last Tranche Implementation Plan and its subsequent revisions as per sub-paragraph 5(d) and paragraph 7, the completion of the Plan will be delayed until the end of the year following the implementation of the remaining activities. The reporting requirements as per sub-paragraphs 1(a), 1(b), 1(d), and 1(e) of Appendix 4-A will continue until the time of the completion of the Plan unless otherwise specified by the Executive Committee.

Validity

15. All of the conditions set out in this Agreement are undertaken solely within the context of the Montreal Protocol and as specified in this Agreement. All terms used in this Agreement have the meaning ascribed to them in the Montreal Protocol unless otherwise defined herein.

16. This Agreement may be modified or terminated only by mutual written agreement of the Country and the Executive Committee of the Multilateral Fund.

APPENDICES

APPENDIX 1-A: THE SUBSTANCES

Substance	Annex	Group	Starting point for aggregate reductions in consumption (ODP tonnes)
HCFC-22	C	I	1.40

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	2020	2021-2022	2023	2024	2025	2026	2027-2029	2030	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	0.91	0.91	0.91	0.91	0.46	0.46	0.46	0.00	n/a
1.2	Maximum allowable total consumption of Annex C, Group I	0.40	0.40	0.40	0.40	0.30	0.30	0.30	0.00	n/a

Row	Particulars	2020	2021-2022	2023	2024	2025	2026	2027-2029	2030	Total
	substances (ODP tonnes)									
2.1	Lead IA (UNEP) agreed funding (US $)	116,000	0	92,000	0	0	108,000	0	54,000	370,000
2.2	Support costs for Lead IA (US $)	15,080	0	11,960	0	0	14,040	0	7,020	48,100
2.3	Cooperating IA (Japan) agreed funding (US $)	110,000	0	60,000	0	0	0	0	0	170,000
2.4	Support costs for Cooperating IA (US $)	14,300	0	7,800	0	0	0	0	0	22,100
3.1	Total agreed funding (US $)	226,000	0	152,000	0	0	108,000	0	54,000	540,000
3.2	Total support costs (US $)	29,380	0	19,760	0	0	14,040	0	7,020	70,200
3.3	Total agreed costs (US $)	255,380	0	171,760	0	0	122,040	0	61,020	610,200
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)									0.40
4.1.2	Phase-out of HCFC-22 to be achieved in the previous stage (ODP tonnes)									1.00
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)									0.00

*Date of completion of stage I as per stage I Agreement: 31 December 2021

APPENDIX 3-A: FUNDING APPROVAL SCHEDULE

1. Funding for the future tranches will be considered for approval at the second meeting of the year specified in Appendix 2-A.

APPENDIX 4-A: FORMAT OF TRANCHE IMPLEMENTATION REPORTS AND PLANS

1. The submission of the Tranche Implementation Report and Plans for each tranche request will consist of five parts:

(a) A narrative report, with data provided by tranche, describing the progress achieved since the previous report, reflecting the situation of the Country in regard to phase out of the Substances, how the different activities contribute to it, and how they relate to each other. The report should include the amount of ODS phased out as a direct result from the implementation of activities, by substance, and the alternative technology used and the related phase-in of alternatives, to allow the Secretariat to provide to the Executive Committee information about the resulting change in climate relevant emissions. The report should further highlight successes, experiences, and challenges related to the different activities included in the Plan, reflecting any changes in the circumstances in the Country, and providing other relevant information. The report should also include information on and justification for any changes vis-à-vis the previously submitted Tranche Implementation Plan(s), such as delays, uses of the flexibility for reallocation of funds during implementation of a tranche, as provided for in paragraph 7 of this Agreement, or other changes;

(b) An independent verification report of the Plan results and the consumption of the Substances, as per sub-paragraph 5(b) of the Agreement. If not decided otherwise by the Executive Committee, such a verification has to be provided together with each tranche request and will have to provide verification of the consumption for all relevant years as specified in sub-paragraph 5(a) of the Agreement for which a verification report has not yet been acknowledged by the Committee;

(c) A written description of the activities to be undertaken during the period covered by the requested tranche, highlighting implementation milestones, the time of completion and the interdependence of the activities, and taking into account experiences made and progress achieved in the implementation of earlier tranches; the data in the plan will be provided by calendar year. The description should also include a reference to the overall Plan and progress achieved, as well as any possible changes to the overall Plan that are foreseen. The description should also specify and explain in detail such changes to the overall plan. This description of future activities can be submitted as a part of the same document as the narrative report under sub-paragraph (b) above;

(d) A set of quantitative information for all Tranche Implementation Reports and Plans, submitted through an online database; and

(e) An Executive Summary of about five paragraphs, summarizing the information of the above sub-paragraphs 1(a) to 1(d).

2. In the event that in a particular year two stages of the HPMP are being implemented in parallel, the following considerations should be taken in preparing the Tranche Implementation Reports and Plans:

(a) The Tranche Implementation Reports and Plans referred to as part of this Agreement, will exclusively refer to activities and funds covered by this Agreement; and

(b) If the stages under implementation have different HCFC consumption targets under Appendix 2-A of each Agreement in a particular year, the lower HCFC consumption target will be used as reference for compliance with these Agreements and will be the basis for the independent verification.

APPENDIX 5-A: MONITORING INSTITUTIONS AND ROLES

1. The monitoring process will be managed by the National Ozone Authority (NOA) under the guidance of Ministry of Environment and Tourism with the assistance of the Lead IA.

2. The consumption will be monitored and determined based on official import and export data for the Substances recorded by the NOA.

3. The NOA shall compile and report the following data and information on an annual basis on or before the relevant due dates:

(a) Annual reports on consumption of the Substances to be submitted to the Ozone Secretariat; and

(b) Annual reports on progress of implementation of the Plan to be submitted to the Executive Committee of the Multilateral Fund.

4. The verification of the achievement of the performance targets, specified in the Plan, will be assigned to an independent company or to independent consultant(s) by the Lead IA.

5. The Lead IA will also provide administrative, budgetary and financial monitoring necessary for the implementation of project activities.

APPENDIX 6-A: ROLE OF THE LEAD IMPLEMENTING AGENCY

1. The Lead IA will be responsible for a range of activities, including at least the following:

   (a) Ensuring performance and financial verification in accordance with this Agreement and with its specific internal procedures and requirements as set out in the Country's HPMP;

   (b) Assisting the Country in preparation of the Tranche Implementation Reports and Plans as per Appendix 4-A;

   (c) Providing independent verification to the Executive Committee that the Targets have been met and associated tranche activities have been completed as indicated in the Tranche Implementation Plan consistent with Appendix 4-A;

   (d) Ensuring that the experiences and progress is reflected in updates of the overall plan and in future Tranche Implementation Plans consistent with sub-paragraphs 1(c) and 1(d) of Appendix 4-A;

   (e) Fulfilling the reporting requirements for the Tranche Implementation Reports and Plans and the overall plan as specified in Appendix 4-A for submission to the Executive Committee, and should include the activities implemented by the Cooperating IA;

   (f) In the event that the last funding tranche is requested one or more years prior to the last year for which a consumption target had been established, annual tranche implementation reports and, where applicable, verification reports on the current stage of the Plan should be submitted until all activities foreseen had been completed and HCFC consumption targets had been met;

   (g) Ensuring that appropriate independent technical experts carry out the technical reviews;

   (h) Carrying out required supervision missions;

   (i) Ensuring the presence of an operating mechanism to allow effective, transparent implementation of the Tranche Implementation Plan and accurate data reporting;

   (j) Co-ordinating the activities of the Cooperating IA, and ensuring appropriate sequence of activities;

   (k) In case of reductions in funding for failure to comply in accordance with paragraph 11 of the Agreement, to determine, in consultation with the Country and the Cooperating IA, the allocation of the reductions to the different budget items and to the funding of the Lead IA and Cooperating IA;

   (l) Ensuring that disbursements made to the Country are based on the use of the indicators;

   (m) Providing assistance with policy, management and technical support when required;

(n) Reaching consensus with the Cooperating IA on any planning, co-ordination and reporting arrangements required to facilitate the implementation of the Plan; and

(o) Timely releasing funds to the Country/participating enterprises for completing the activities related to the project.

2. After consultation with the Country and taking into account any views expressed, the Lead IA will select and mandate an independent entity to carry out the verification of the HPMP results and the consumption of the Substances mentioned in Appendix 1-A, as per sub-paragraph 5(b) of the Agreement and sub-paragraph 1(b) of Appendix 4-A.

APPENDIX 6-B: ROLE OF THE COOPERATING IMPLEMENTING AGENCIES

1. The Cooperating IA will be responsible for a range of activities. These activities are specified in the Plan, including at least the following:

(a) Providing assistance for policy development when required;

(b) Assisting the Country in the implementation and assessment of the activities funded by the Cooperating IA, and refer to the Lead IA to ensure a co-ordinated sequence in the activities;

(c) Providing reports to the Lead IA on these activities, for inclusion in the consolidated reports as per Appendix 4-A; and

(d) Reaching consensus with the Lead IA on any planning, co-ordination and reporting arrangements required to facilitate the implementation of the Plan.

APPENDIX 7-A: REDUCTIONS IN FUNDING FOR FAILURE TO COMPLY

1. In accordance with paragraph 11 of the Agreement, the amount of funding provided may be reduced by US $180 per ODP kg of consumption beyond the level defined in row 1.2 of Appendix 2-A for each year in which the target specified in row 1.2 of Appendix 2-A has not been met, on the understanding that the maximum funding reduction would not exceed the funding level of the tranche being requested. Additional measures might be considered in cases where non-compliance extends for two consecutive years.

2. In the event that the penalty needs to be applied for a year in which there are two Agreements in force (two stages of the HPMP being implemented in parallel) with different penalty levels, the application of the penalty will be determined on a case-by-case basis taking into consideration the specific sectors that lead to the non-compliance. If it is not possible to determine a sector, or both stages are addressing the same sector, the penalty level to be applied would be the largest.