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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Twenty-fifth Meeting
Montreal, 29-31 July 1998

PROJECT PROPOSAL: SRI LANKA

This document includes the comments and recommendations of the Fund Secretariat on the following project proposal:

Solvent

- National programme for the replacement of carbon tetrachloride with n-butane in the activated carbon industries (6 companies)

UNDP

PROJECT EVALUATION SHEET **SRI LANKA**

SECTOR:	Solvents	ODS use in sector (1991):	26.7 ODP tonnes
		CTC use in 1991	25.0 ODP tonnes
		CTC use in 1997	24.6 ODP tonnes

Sub-sector cost-effectiveness thresholds: N.A.

Project Title:

National programme for the replacement of carbon tetrachloride with n-butane in the activated carbon industry at 6 companies.

Project Data	CTC
ODS phase-out (ODP tonnes)	13.5
Proposed project duration	3 years
Incremental capital cost (US \$)	174,609
- including contingency (%)	10
Incremental operational cost (US \$)	43,435
Total project cost (US \$)	218,044
Local ownership (%)	100
Export component (%)	72%
Amount requested (US \$) {Original}	247,413
{Revised}	218,044
Cost effectiveness (US \$/kg)	16.2
National Coordinating Agency	Ministry of Forestry and Environment (MOFE)
Implementing Agency	UNDP
Technical review completed?	Yes

<i>Secretariat's Recommendations:</i>	
Amount recommended (US \$)	218,044
Project impact (ODP tonnes)	13.5
Cost effectiveness (US \$/kg)	16.2
Implementing Agency support cost (US \$)	28,346
Total cost to Multilateral Fund (US \$)	246,390

PROJECT DESCRIPTION

National programme for the replacement of carbon tetrachloride with N-Butane in the activated carbon industries at 6 companies.

1. A national programme is proposed to eliminate the consumption of carbon tetrachloride (CTC) in six enterprises which comprise the activated carbon industry in Sri Lanka. CTC is presently used as a reagent to test the activity of each batch of activated carbon produced. This is done because the activity of the activated carbon, specified when it is offered for sale, determines the sale price.
2. It is proposed to replace CTC with n-butane, the only alternative specified in an internationally recognized testing procedure. To use the new reagent, the testing facilities require modification. Since n-butane is flammable, some safety equipment is required.
3. Total ODS consumption in the solvent sector in Sri-Lanka in 1991 is indicated in the country programme as 26.7 ODP tonnes of which CTC was 25 ODP tonnes. CTC consumption in 1997 in Sri-Lanka is indicated in the project document as 24.6 ODP tonnes including 13.5 ODP tonnes purchased by the 6 enterprises for the purpose of testing activated carbon.
4. Baseline information is provided on the production levels and existing testing equipment of each of the six enterprises. Enterprise-level information is also provided on the replacement test equipment sought and the incremental operating costs involved.
5. The main components of capital costs are test equipment, gas supply bottles, gas detection equipment, total cost US \$99,435, and training and technical assistance, US \$38,800.
6. The main component of the incremental operating costs, which are sought for two years, (total US \$43,435) is the additional cost of using n-butane instead of CTC.
7. The proposal indicates that about 72 percent of the activated carbon is exported to non-Article 5 countries.
8. The overall cost effectiveness of the proposal is 16.2 US \$/kg. Individual cost effectiveness figures are provided for each enterprise and range from 5.1 to 34.8 US \$/kg.

SECRETARIAT'S COMMENTS AND RECOMMENDATIONS

COMMENTS

1. This is the first project involving the use of CTC for industrial testing purposes. The TEAP has advised that CTC in this application is not a process agent. TEAP has also advised that the use does not appear to be exempt as a laboratory or analytical use, because an alternative

test procedure exists (i.e. using n-butane as proposed). Therefore, in relation to the nature of ODS use, the project could be considered by the Executive Committee as eligible for funding.

2. Several issues were discussed with UNDP relating to establishing the CTC consumption of the enterprises for testing purposes (as opposed to the quantities they purchased) and to the numbers of tests required before and after conversion. Initial project documentation appeared to base the equipment needs on the planned future configuration of the industry in Sri-Lanka, rather than the existing capacity of each enterprise. These issue were resolved and the documentation and costs of the proposal revised accordingly.

3. The project will not assist Sri-Lanka to meet its 1999 freeze obligations, however, legislation is already in place which prohibits the use of CTC for new applications (i.e. not for servicing applications) after the year 2000.

4. There are no outstanding cost issues. However, the 72 percent exports to non-article 5 countries raises a policy issue. At the 15th Meeting the Executive Committee decided that where exports to non-Article 5 countries exceed 70% of total production, the project shall not be eligible. However the decision also provides that where the exports are in the form of agricultural products, the project shall be eligible for total incremental costs. The activated charcoal is produced by burning the husks of coconuts which are a by-product of coconut production. Advice is sought from the Committee as to whether activated charcoal produced in this way should be considered as an agricultural product, in terms of application of the decision on exports.

5. The annual level of production of activated carbon in Article-5 countries has been estimated by an industry source in the US as around 200,000 tonnes annually, of which Sri-Lanka produces some 15,000 tonnes. On the basis of the funding proposed in this project, additional funding requests from Article-5 countries for phase-out of this application could total up to US \$3.3 million.

RECOMMENDATION

1. The Executive Committee might consider whether, in relation to exports, this project is eligible for funding at the level indicated in the table below, together with agency support costs as also indicated.

Project Title	Project Cost US \$	Support Cost US \$	Implementing Agency
National programme for the replacement of carbon tetrachloride with N-Butane in the activated carbon industries at 6 companies.	218,044	28,346	UNDP