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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL

Eighty-fifth Meeting

Montreal, 25-29 May 2020

Postponed to 19-22 July 2020*

PROJECT PROPOSAL: SERBIA

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) UNIDO and UNEP

* 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

SERBIA

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

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2018	6.61 (ODP tonnes)
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(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					5.98				5.98
HCFC-123					0.02				0.02
HCFC-141b					0.18				0.18
HCFC-142b					0.21				0.21

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	8.4	Starting point for sustained aggregate reductions:	8.37
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	2.94	Remaining:	5.43

(V) BUSINESS PLAN		2020	2021	2022	After 2022	Total
UNEP	ODS phase-out (ODP tonnes)	0.55	0	0	0.82	1.37
	Funding (US \$)	62,797	0	0	94,198	156,995
UNIDO	ODS phase-out (ODP tonnes)	1.10	0	1.10	0.60	2.8
	Funding (US \$)	74,223	0	73,857	37,020	185,100

(VI) PROJECT DATA		2020	2021	2022	2023	2024	2025	Total	
Montreal Protocol consumption limits		5.46	5.46	5.46	5.46	5.46	2.73	n/a	
Maximum allowable consumption (ODP tonnes)		5.46	5.46	5.46	5.46	5.46	2.73	n/a	
Projects costs requested in principle (US \$)	UNIDO	Project costs	124,175	0	93,450	0	0	30,875	248,500
		Support costs	11,176	0	8,410	0	0	2,779	22,365
	UNEP	Project costs	22,000	0	22,000	0	0	0	44,000
		Support costs	2,860	0	2,860	0	0	0	5,720
Total project costs requested in principle (US \$)		146,175	0	115,450	0	0	30,875	292,500	
Total support costs requested in principle (US \$)		14,036	0	11,270	0	0	2,779	28,085	
Total funds requested in principle		160,211	0	126,720	0	0	33,654	320,585	

(VII) Request for funding for the first tranche (2020)		
Agency	Funds requested (US \$)	Support costs (US \$)
UNIDO	124,175	11,176
UNEP	22,000	2,860
Total	146,175	14,036
Funding request:	Approval of funding for the first tranche (2020) as indicated above	

Secretariat's recommendation:	For individual consideration
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PROJECT DESCRIPTION

Background

1. On behalf of the Government of Serbia, UNIDO 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 \$667,663, consisting of US \$547,500, plus agency support costs of US \$41,063 for UNIDO, and US \$70,000, plus agency support costs of US \$9,100 for UNEP, as originally submitted.¹ The implementation of stage II of the HPMP will phase out 5.22 ODP tonnes of HCFCs to meet the target of 97.5 per cent reduction in HCFC baseline consumption by 2028.

2. The first tranche for stage II of the HPMP being requested at this meeting amounts to US \$272,389, consisting of US \$233,150, plus agency support costs of US \$17,486 for UNIDO, and US \$19,250, plus agency support costs of US \$2,503 for UNEP, as originally submitted.

Status of implementation of stage I of the HPMP

3. Stage I of the HPMP for Serbia was approved at the 62nd meeting² to meet the 35 per cent reduction from the baseline by 2020, resulting in the phase-out of 2.94 ODP tonnes of HCFC-22, including 2.27 ODP tonnes from an investment project in the refrigeration and air-conditioning (RAC) manufacturing sector, at a total cost of US \$973,260, excluding agency support costs.

4. The fourth and final tranche of stage I was approved at the 84th meeting; stage I will be completed by 31 December 2020. A progress report on the implementation of the work programme associated with the final tranche and the project completion report will be submitted to the 87th meeting, in line with decision 84/79(b).

HCFC consumption

5. The Government of Serbia reported under country programme (CP) implementation report a consumption of 6.39 ODP tonnes of HCFC in 2019, which is 24 per cent below the HCFC baseline for compliance. The Article 7 data for 2019 has not been reported yet. The 2015-2019 HCFC consumption is shown in Table 1.

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

HCFC	2015	2016	2017	2018	2019*	Baseline
Metric tonnes						
HCFC-22	114.52	107.82	109.88	113.78	108.73	141.0
HCFC-123	0.9	0.9	0.9	0.0	0.9	1.1
HCFC-141b	3.81	4.08	4.08	2.18	1.63	0.0
HCFC-142b	2.85	0.0	2.32	1.67	3.24	9.1
Total (metric tonnes)	122.08	112.8	117.18	117.63	114.50	151.2
ODP tonnes						
HCFC-22	6.30	5.93	6.04	6.26	5.98	7.76
HCFC-123	0.02	0.02	0.02	0.0	0.02	0.02
HCFC-141b	0.42	0.45	0.45	0.24	0.18	0.00
HCFC-142b	0.19	0.0	0.15	0.11	0.21	0.59
Total (ODP tonnes)	6.92	6.4	6.66	6.61	6.39	8.37

*CP data.

¹ As per the letter of 31 January 2020 from the Ministry of Environmental Protection of Serbia to UNIDO.

² UNEP/OzL.Pro/ExCom/62/47. The Agreement between the Government of Serbia and the Executive Committee for stage I of the HPMP was revised at the 71st and the 84th meetings.

6. Consumption of HCFC-22, which initially decreased substantially in 2015 due to the conversions in the RAC manufacturing sector, has remained steady as demand for servicing RAC equipment, the sole use of HCFC-22, continues. HCFC-142b is imported as a blend (R-406a),³ which is used as a drop-in for CFC-12-based equipment; that consumption is expected to be phased out with improved servicing practices and retirement of CFC-based equipment. Serbia started consuming HCFC-141b in 2011 for flushing and cleaning RAC circuits; awareness-raising activities are targeting this consumption. HCFC-123 is imported as a blend (NAF P-IV),⁴ which is used as a drop-in for halon-1211 fire extinguishing equipment.⁵

CP implementation report

7. The Government of Serbia reported HCFC sector consumption data under the 2018 CP implementation report which is consistent with the data reported under Article 7 of the Montreal Protocol.

ODS policy and regulatory framework

8. The only ODS for which imports are permitted are HCFCs. A ban on the manufacture or assembly of equipment, and the import of products and equipment containing or relying on HCFCs was implemented on 15 April 2018. Draft amendments on the regulation on ODS management and on conditions for license issuance are still under review, as to harmonize regulations with the European Union (EU), including restrictions on the use of high-global warming potential (GWP) HFCs for certain uses.

9. Imports are subject to customs control; suspicious shipments are detained and the national ozone unit (NOU) and environmental inspectors are informed. Shipments found to be in contravention to applicable regulations are returned to the sender and the NOU notifies the exporting country through the informal Prior-Informed Consent (iPIC) mechanism; and the importer may be charged with a customs, economic or administrative penalty (e.g., a fine, a ban on business activities, or imprisonment). To date, no suspicious shipments have been found to contain CFC-11 or CFC-12.

10. Two workshops to train five customs officers, 23 environment inspectors and 24 representatives from the Ministry of Environmental Protection (MEP), of which 26 were women, were held in 2017 and 2018 with a focus on updates in the legislation and on practical inspection exercises (simulated inspections) at four AC and refrigeration installations. The workshops included one woman trainer. A further workshop, with two women trainers, to train 40 customs officers is planned for March 2020.

Manufacturing sector

11. The four RAC manufacturing enterprises have completed their conversion to ammonia and R-410A resulting in the phase-out of 2.27 ODP tonnes of HCFC-22. While their manufacture of low-GWP-based equipment remains limited, continued efforts by the industry and the Government will facilitate the introduction of such equipment into the market. The alignment of regulations as part of the process for EU accession, and ratification of the Kigali Amendment, will further facilitate the market introduction of low-GWP-based RAC equipment.

Refrigeration servicing sector

12. During the first quarter of 2020, three-day training sessions on good refrigeration servicing practices combining theoretical (eight hours) and practical exercises (16 hours) for 72 service technicians, of which two were women, from 14 service shops were held. In addition, in cooperation with the Serbian RAC association (KGH), awareness-raising activities included organization of refrigeration roundtables

³ R-406a, consisting of 41 per cent HCFC-142b, 55 per cent HCFC-22 and 4 per cent R-600a.

⁴ NAF P-IV, consisting of 90 per cent HCFC-123, 8 per cent HFC-125 and 2 per cent limonene.

⁵ UNEP/OzL.Pro/ExCom/84/59 incorrectly indicated that HCFC-123 was consumed intermittently to service a small number of chillers.

and exhibition booths at the annual KGH congress in 2019; the publishing of “Ozone Pages” in the quarterly KGH journal; and participation of the NOU at the 2019 EcoFair where presentations on the Montreal Protocol and Kigali Amendment were made.

Status of disbursements

13. As of January 2020, of the total funds of US \$973,260 approved (US \$658,260 for the RAC manufacturing conversion and US \$315,000 for activities in the refrigeration servicing sector), all of the funds for the RAC manufacturing conversion had been disbursed and US \$268,153 had been disbursed for the servicing sector. The balance of US \$46,847, including US \$33,250 approved for the fourth and final tranche, will be disbursed in 2020 and 2021.

Stage II of the HPMP

Remaining consumption eligible for funding

14. After deducting 2.94 ODP tonnes associated with stage I of the HPMP, the remaining consumption eligible for funding in stage II amounts to 5.43 ODP tonnes of HCFCs, as shown in Table 2.

Table 2. Remaining consumption eligible for funding for stage II of the HPMP in Serbia (ODP tonnes)

HCFC	Starting point	Stage I		Stage II	
		Approved	Remaining	Requested	Remaining
HCFC-22	7.76	2.94	4.82	4.61	0.21
HCFC-123	0.02	0.00	0.02	0.02	0.00
HCFC-142b	0.59	0.00	0.59	0.59	0.00
Total HCFCs	8.37	2.94	5.43	5.22	0.21

Sector distribution of HCFCs

15. Based on the survey conducted during the preparation of stage II, there are approximately 2,500 technicians and 1,300 workshops in the servicing sector, consuming HCFC-22, HCFC-141b used for flushing refrigeration circuits, and small amounts of HCFC-142b and HCFC-123 contained in blends.

Phase-out strategy in stage II

16. Stage II of the HPMP for Serbia covers eight years to reduce 67.5 per cent by 1 January 2025 and 97.5 per cent by 1 January 2028.

Proposed activities in stage II of the HPMP

17. During stage II, the Government will strengthen the legal framework including the licensing and quota system to control the import of HCFCs, and strengthen the refrigeration servicing sector, as follows:

- (a) Update the legislation by introducing new quotas to control HCFCs in line with the proposed accelerated phase-out; implement a ban on the import and use of HCFC-141b; implement mandatory inspections to verify leakage rate of HCFC-based equipment and installations; develop incentives to encourage RAC equipment owners to regularly service their equipment and check for leaks, improve data collection and reporting including electricity consumption of the RAC equipment (UNIDO) (US \$64,000);

- (b) Training of customs and enforcement inspectors through six workshops for approximately 10-20 participants per workshop on the updated legislation and new policy instruments for the accelerated phase-out, and development of training materials (UNEP) (US \$20,000);
- (c) Developing guidelines for recovery, recycle and reuse and for leak checks for HCFC- and HFC-based RAC equipment; four workshops for approximately 100 technicians, equipment owners, operators and importers on the guidelines and good servicing practices; training technicians, owners, operators, and importers on the use of the software for data collection and statistical processing that was purchased in 2016 for the survey on ODS alternatives and modification of that software to track electricity use; introduction of required annual reporting by service shops of amounts of refrigerants recovered and recycled; procurement of equipment and tools (e.g., portable recovery and recycling (R&R) machines, leak detectors, cylinders) for technicians and to upgrade the four training centres; procurement of additional refrigerant identifiers for customs and training centres; implementing a workshop on alternatives for flushing and cleaning RAC circuits; and procurement of spare parts for the four reclaiming machines that are stored at the four training centres, and training staff on their use (UNIDO) (US \$399,500);
- (d) Training focused on the introduction of new flammable and high-pressure alternative refrigerants; procurement of low-GWP-based RAC equipment for demonstration (i.e., transcritical carbon dioxide unit and hydrocarbon-based units) and tools for servicing such equipment; and updating the training manual for service technicians to address safe practices to handle flammable and high-pressure refrigerants (UNIDO) (US \$69,000);
- (e) Awareness-raising activities in cooperation with the KGH, including organization of roundtables and exhibition booths on low-GWP-based refrigerants and equipment at the annual KGH congress, and publication of “Ozone Pages” in the quarterly KGH journal (UNEP) (US \$50,000); and
- (f) Independent verification of consumption for each future tranche (UNIDO) (US \$15,000).

Project implementation, monitoring and reporting (PMU)

18. The NOU, established within the MEP, will be responsible for the overall coordination of activities under stage II. The NOU will work with the lead and cooperating agencies, and stakeholders to implement stage II, and to identify opportunities to promote gender equality and women’s empowerment, and will monitor the number of women that participate in the HPMP activities. No additional funding is allocated for this purpose.

Total cost of stage II of the HPMP

19. The total cost of stage II of the HPMP for Serbia has been estimated at US \$617,500, plus agency support costs. The proposed activities will result in the phase-out of 5.22 ODP tonnes (i.e. 4.61 ODP tonnes of HCFC-22; 0.02 ODP tonnes of HCFC-123; and 0.59 ODP tonnes of HCFC-142b), as summarized in Table 3.

Table 3. Total cost of stage II of the HPMP for Serbia as submitted

Item	2020-23	2024-25	2026-27	2028	Total
Policy instruments	32,400	22,000	6,000	3,600	64,000
Measures in servicing sector					
Update guidelines	4,000	4,000	-	-	8,000
Equipment for training centres	32,000	16,000	16,000	16,000	80,000
Equipment for technicians	82,750	82,750	-	-	165,500

Item	2020-23	2024-25	2026-27	2028	Total
Identifiers	24,000	24,000	-	-	48,000
Communication, coordination and consultancy	10,000	8,750	8,750	3,500	31,000
Workshops for technicians, owners, operators, and importers	9,000	9,000	9,000	9,000	36,000
Workshops for users of HCFC-141b	1,000	-	-	-	1,000
Servicing, testing, spare parts and training for four reclaiming machines	30,000	-	-	-	30,000
Introduction of low-GWP alternatives	4,000	30,000	35,000	-	69,000
Verification	-	5,000	5,000	5,000	15,000
Sub-total (UNIDO)	229,150	201,500	79,750	37,100	547,500
Customs and enforcement training	8,000	7,000	5,000	-	20,000
Awareness-raising	13,750	13,750	11,250	11,250	50,000
Sub-total (UNEP)	21,750	20,750	16,250	11,250	70,000
Total	250,900	222,250	96,000	48,350	617,500

Activities planned for the first tranche of stage II of the HPMP

20. The first funding tranche of stage II, at the total of US \$250,900, will be implemented from 2020 to 2023 and will include the following activities:

- (a) Assess regulations through legal consultants, update quotas, and implement a ban on the import and use of HCFC-141b effective by 1 January 2021 ; develop incentives to encourage equipment owners to regularly service equipment and check for leaks, improve equipment data collection and reporting, and decrease energy use (UNIDO) (US \$32,400);
- (b) Training for approximately 30 customs officers and inspectors, and development of training materials (UNEP) (US \$8,000);
- (c) Develop guidelines for recovery, recycle and reuse, and hold training workshops on the guidelines and good servicing practices; procurement of equipment for technicians (portable R&R machines, leak detectors, cylinders), to upgrade the four training centres, and refrigerant identifiers; workshop on alternatives for flushing and cleaning RAC circuits; and servicing, testing and procurement of spare parts for the four reclaiming machines that are stored at the four training centres, and training staff on their use; and update training manual for service technicians to address safe practices to handle flammable and high-pressure alternative refrigerants (UNIDO) (US \$196,750); and
- (d) Public awareness activities with KGH to promote alternative, ozone and climate-friendly technologies and publications (UNEP) (US \$13,750).

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

21. The Secretariat reviewed stage II of the HPMP for Serbia in light of stage I, the policies and the 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.

Overarching strategy for stage II

22. Serbia proposed an accelerated phase-out to reduce consumption of HCFCs by 97.5 per cent by 2028, two years in advance of the Montreal Protocol control schedule at a cost of US \$617,500, the maximum funding available to the country for the total phase-out of HCFCs. In this regard, the Secretariat noted:

- (a) At its 71st meeting, the Executive Committee updated the Agreement for stage I of the HPMP for the country based on the established HCFC baseline for compliance and revised the funding level, accordingly. Based on the established baseline, and in line with decision 74/50(c)(xii), the Government of Serbia would be eligible to receive up to US \$585,000 for the total phase-out of HCFCs;
- (b) Decision 74/50(c)(xii) *inter alia* specifies the maximum level of funding available to low-volume consuming countries to meet the 2020 reduction target, the 2025 reduction target, and the total phase-out of HCFCs; however, it does not specify the level of funding to meet 97.5 per cent phase-out;
- (c) While Serbia remains in compliance with the Montreal Protocol and the targets specified in its Agreement with the Executive Committee under stage I, consumption in Serbia has not shown a significant decrease notwithstanding the implementation of the HPMP. The basis for a projected rapid reduction in consumption and the rationale for an accelerated phase-out were therefore unclear;
- (d) In line with decision 76/16(b), the last tranche of the stage of the HPMP must include at least 10 per cent of the total funding approved in principle for the refrigeration servicing sector; and
- (e) In line with Article 5, paragraph 8 ter(e)(i) of the Montreal Protocol, Serbia'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 ten, does not exceed 2.5 per cent of Serbia's baseline (i.e., less than 2.10 ODP tonnes), provided that such consumption is restricted to: the servicing of RAC equipment existing on 1 January 2030; 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.

23. The Secretariat also noted the following policy issues:

- (a) If the target in 2030 was zero but the country nonetheless wished to be able to consume HCFCs in line with the Montreal Protocol schedule in 2030-2040, the Agreement should include an exemption specifying that the country could consume HCFCs for the specific uses identified in Article 5, paragraph 8 ter(e)(i) as long as the cumulative consumption for such uses between 1 January 2030 and 1 January 2040 was less than 2.10 ODP tonnes. It is not clear how such HCFC consumption and such specific uses would be monitored and verified; whether and how a penalty would be applied in the unlikely event that Serbia were to consume more than 2.1 ODP tonnes of HCFCs in 2030-2040 or to consume HCFCs for a use other than that specified in the Article 5 of the Protocol; how Serbia would modify its licensing and quota system to ensure compliance with the relevant obligations; the date of completion of the HPMP given that HCFC consumption could continue until 1 January 2040; the roles and responsibilities of the lead and cooperating agencies during the 2030-2040 period; and other matters; and

- (b) If the target in 2030 was 2.5 per cent of the baseline (i.e., 0.21 ODP tonnes), the total funding for stage II would be less than US \$585,000; the funding available for stage III to address the remaining 2.5 per cent of the baseline would need to be determined, noting that sufficient funding would need to be made available to be able to practically implement stage III; the country would have less flexibility in how much HCFCs it consumed in any given year in the 2030-2040 period as the maximum consumption in any given year would be 0.21 ODP tonnes; and other matters.

24. The Secretariat further noted that Serbia was a candidate for accession to the EU and may wish to consider an accelerated HPMP in 2024 once the timeline of its possible accession was better known; and that the country was likely to have a better understanding in 2024 of its potential servicing needs in 2030-2040. Accordingly, the Secretariat suggested that Serbia may wish to consider revising its stage II of the HPMP to end in 2025 to meet the 67.5 per cent reduction target, on the understanding that the Government could submit a proposal for stage III of the HPMP in 2024. That stage III could be for a complete phase-out of HCFCs in 2030 or an accelerated phase-out, depending on developments in the country, *inter alia* progress toward EU accession; a better understanding of servicing needs in 2030-2040, if any; and any other considerations the country deems appropriate.

25. In light of those considerations, the Government of Serbia decided to revise its proposal for stage II of the HPMP to end in 2025 to phase-out 2.70 ODP tonnes of HCFC-22 to meet the 67.5 per cent reduction target at the amount of US \$292,500, plus agency support costs.

Legal framework

26. The Government of Serbia has already issued HCFC import quotas for 2020 at 5.44 ODP tonnes, which is lower than the Montreal Protocol control targets.

Refrigeration servicing sector

27. In line with the recommendations included in the 2018 verification of consumption submitted to the 84th meeting,⁶ stage II of the HPMP includes measures to strengthen the refrigeration servicing sector and enforcement measures, including providing newer refrigerant analysers for custom officers, updating the customs training manual and additional training of customs officers, and strengthened communication between customs and the NOU in cases where a suspicious import is found. Regarding the recommended ban on the import of refrigerants in disposable cylinders, the Government of Serbia would consider its implementation at the time of submission of stage III, when there would be further clarity on the timeline for Serbia's possible accession to the EU.

Total project cost

28. The agreed cost of the activities proposed in stage II of the HPMP amounts to US \$292,500, plus agency support costs, as shown in Table 4.

Table 4. Agreed costs for stage II of the HPMP for Serbia

Item	2020	2022	2025	Total
Policy instruments	11,200	14,200	2,600	28,000
Measures in servicing sector				
Update guidelines	-	8,000	-	8,000
Equipment for training centres	6,000	4,000	-	10,000
Equipment for technicians	52,500	30,000	-	82,500
Identifiers	16,000	16,000	-	32,000
Communication, coordination and consultancy	5,975	5,250	5,275	16,500

⁶ UNEP/OzL.Pro/ExCom/84/59.

Item	2020	2022	2025	Total
Workshops for technicians, owners, operators, and importers	4,000	4,000	4,000	12,000
Workshops for users of HCFC-141b	2,000	-	-	2,000
Servicing, testing, spare parts and training for four reclaiming machines	20,500	-	-	20,500
Introduction of low-GWP alternatives	6,000	12,000	19,000	37,000
Sub-total (UNIDO)	124,175	93,450	30,875	248,500
Customs and enforcement training	5,500	5,500	-	11,000
Awareness-raising	16,500	16,500	-	33,000
Sub-total (UNEP)	22,000	22,000	-	44,000
Total	146,175	115,450	30,875	292,500

29. In line with the revised stage II of the HPMP, the first funding tranche, at a total of US \$146,175, will be implemented from 2020 to 2022 and will include the following activities:

- (a) Assess regulations through legal consultants, update of quotas, and implement a ban on the import and use of HCFC-141b effective by 1 January 2021; develop incentives to encourage RAC equipment owners to regularly service their equipment and check for leaks, improve equipment data collection and reporting, and decrease energy use (UNIDO) (US \$11,200);
- (b) Training for approximately 90 customs officers and inspectors, and development of training materials (UNEP) (US \$5,500);
- (c) Implementation of two workshops for approximately 50 technicians, owners, operators, and importers on good servicing practices and use of software; procurement of equipment for technicians (portable R&R machines, leak detectors, cylinders), to upgrade the four training centres, and refrigerant identifiers; implementation of a workshop on alternatives for flushing and cleaning of RAC circuits; and procurement of spare parts for the four reclaiming machines that are stored at the four training centres, and training staff on their use; update training manual for service technicians to address safe practices to handle flammable and high-pressure refrigerants (UNIDO) (US \$112,975); and
- (d) Public awareness activities with KGH to promote alternative, ozone and climate-friendly technologies and publications (UNEP) (US \$16,500).

Impact on the climate

30. 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 refrigeration servicing. Each kilogramme of HCFC-22 not emitted due to better refrigeration practices results in a savings of approximately 1.8 CO₂-equivalent tonnes. Although a calculation of the impact on the climate was not included in stage II of the HPMP, the activities planned by Serbia, including its efforts to promote low-GWP alternatives, refrigerant recovery and reuse, indicate that the implementation of the HPMP will reduce the emission of refrigerants into the atmosphere therefore resulting in benefits on the climate. In addition, the monitoring of electricity use will help equipment operators monitor the efficient operation of their equipment.

2020-2022 draft business plan of the Multilateral Fund

31. UNIDO and UNEP are requesting US \$292,500, plus agency support costs for the implementation of stage II of the HPMP for Serbia. The total value requested of US \$286,931 including support costs for the period 2020–2022, is US \$76,054 above the amount in the business plan.

Draft Agreement

32. A draft Agreement between the Government of Serbia 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

33. The Executive Committee may wish to consider:

- (a) Approving, in principle, stage II of the HCFC phase-out management plan (HPMP) for Serbia for the period from 2020 to 2025 to reduce HCFC consumption by 67.5 per cent of the country's baseline, in the amount of US \$320,585, consisting of US \$248,500, plus agency support costs of US \$22,365 for UNIDO, and US \$44,000, plus agency support costs of US \$5,720 for UNEP;
- (b) Noting the commitment of the Government of Serbia to ban the import and use of HCFC-141b by 1 January 2021;
- (c) Deducting 2.70 ODP tonnes of HCFCs from the remaining HCFC consumption eligible for funding;
- (d) Approving the draft Agreement between the Government of Serbia 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 Serbia, and the corresponding tranche implementation plan, in the amount of US \$160,211 consisting of US \$124,175, plus agency support costs of US \$11,176 for UNIDO; and US \$22,000, plus agency support costs of US \$2,860 for UNEP.

Annex I

DRAFT AGREEMENT BETWEEN THE GOVERNMENT OF SERBIA 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 Serbia (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 2.73 ODP tonnes by 1 January 2025 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 rows 4.1.3, 4.2.3 and 4.3.3 (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; and
 - (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;
- (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; and
- (c) 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. UNIDO has agreed to be the lead implementing agency (the “Lead IA”) and UNEP has agreed to be the cooperating implementing 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/or 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	7.76
HCFC-123	C	I	0.02
HCFC-142b	C	I	0.59
Total	C	I	8.37

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	2020	2021	2022	2023	2024	2025	Total	
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	5.46	5.46	5.46	5.46	5.46	2.73	n/a	
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	5.46	5.46	5.46	5.46	5.46	2.73	n/a	
2.1	Lead IA (UNIDO) agreed funding (US \$)	124,175	0	93,450	0	0	30,875	248,500	
2.2	Support costs for Lead IA (US \$)	11,176	0	8,410	0	0	2,779	22,365	
2.3	Cooperating IA (UNEP) agreed funding (US \$)	22,000	0	22,000	0	0	0	44,000	
2.4	Support costs for Cooperating IA (US \$)	2,860	0	2,860	0	0	0	5,720	
3.1	Total agreed funding (US \$)	146,175	0	115,450	0	0	30,875	292,500	
3.2	Total support costs (US \$)	14,036	0	11,270	0	0	2,779	28,085	
3.3	Total agreed costs (US \$)	160,211	0	126,720	0	0	33,654	320,585	
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)								2.70
4.1.2	Phase-out of HCFC-22 to be achieved in the previous stage (ODP tonnes)								2.94
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)								2.12
4.2.1	Total phase-out of HCFC-123 agreed to be achieved under this Agreement (ODP tonnes)								0
4.2.2	Phase-out of HCFC-123 to be achieved in the previous stage (ODP tonnes)								0
4.2.3	Remaining eligible consumption for HCFC-123 (ODP tonnes)								0.02
4.3.1	Total phase-out of HCFC-142b agreed to be achieved under this Agreement (ODP tonnes)								0
4.3.2	Phase-out of HCFC-142b to be achieved in the previous stage (ODP tonnes)								0
4.3.3	Remaining eligible consumption for HCFC-142b (ODP tonnes)								0.59

*Date of completion of stage I as per stage I Agreement: 31 December 2020

APPENDIX 3-A: FUNDING APPROVAL SCHEDULE

1. Funding for the future tranches will be considered for approval at the first 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 national ozone unit (NOU) is the central administrative unit established within the administrative structure of the Ministry of Environmental Protection (MEP), responsible for the co-ordination of governmental activities with respect to the ozone layer protection and facilitation of ODS phase-out.
2. The NOU within the MEP will be responsible for the overall co-ordination of national activities towards the HPMP phase-out plan implementation.

3. The management of the implementation of the planned project activities will be allocated to the NOU in cooperation with UNIDO as the lead IA.

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 each 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.