



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/85/48
1 May 2020

ORIGINAL: ENGLISH



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: SRI LANKA

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

Phase-out

- HCFC phase-out management plan (stage I, fourth tranche) UNDP 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

Sri Lanka

(I) PROJECT TITLE	AGENCY	MEETING APPROVED	CONTROL MEASURE
HCFC phase-out plan (stage I)	UNDP (lead)	62 nd	35% by 2020

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2018	10.31 (ODP tonnes)
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(III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes)								Year: 2018	
Chemical	Aerosol	Foam	Fire fighting	Refrigeration		Solvent	Process agent	Lab use	Total sector consumption
				Manufacturing	Servicing				
HCFC-22					10.31				10.31

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	13.9	Starting point for sustained aggregate reductions:	14.1
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	4.76	Remaining:	9.14

(V) BUSINESS PLAN		2020	Total
UNDP	ODS phase-out (ODP tonnes)	0.22	0.22
	Funding (US \$)	33,433	33,433
UNEP	ODS phase-out (ODP tonnes)	0.18	0.18
	Funding (US \$)	28,137	28,137

(VI) PROJECT DATA			2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Montreal Protocol consumption limits			n/a	n/a	n/a	13.9	13.9	12.5	12.5	12.5	12.5	12.5	9.1	n/a
Maximum allowable consumption (ODP tonnes)			n/a	n/a	n/a	13.9	13.9	12.5	12.5	12.5	12.5	12.5	9.1	n/a
Agreed funding (US \$)	UNDP	Project costs	180,000	0	0	60,000	0	0	127,766	0	0	0	31,100	398,866
		Support costs	13,500	0	0	4,500	0	0	9,582	0	0	0	2,333	29,915
Agreed funding (US \$)	UNEP	Project costs	125,000	0	0	4,000	0	0	75,100	0	0	0	24,900	249,000
		Support costs	16,250	0	0	3,100	0	0	9,763	0	0	0	3,237	32,370
Funds approved by ExCom (US \$)		Project costs	305,000	0	0	84,000	0	0	202,866	0	0	0	0	591,866
		Support costs	29,750	0	0	7,620	0	0	19,345	0	0	0	0	56,715
Total funds requested for approval at this meeting (US \$)		Project costs	0	0	0	0	0	0	0	0	0	0	56,000	56,000
		Support costs	0	0	0	0	0	0	0	0	0	0	5,570	5,570

Secretariat's recommendation:	For blanket approval
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PROJECT DESCRIPTION

1. On behalf of the Government of Sri Lanka, UNDP as the lead implementing agency has submitted a request for funding for the fourth and final tranche of stage I of the HCFC phase-out management plan (HPMP), at a total cost of US \$61,570, consisting of US \$31,100, plus agency support costs of US \$2,333 for UNDP, and US \$24,900, plus agency support costs of US \$3,237 for UNEP.¹ The submission includes a progress report on the implementation of the third tranche, and the tranche implementation plan for 2020-2021.

Report on HCFC consumption

2. The Government of Sri Lanka estimated a consumption of 10.00 ODP tonnes of HCFC in 2019, which is 28 per cent below the HCFC baseline for compliance. The 2015-2019 HCFC consumption is shown in Table 1.

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

HCFC	2015	2016	2017	2018	2019*	Baseline
Metric tonnes						
HCFC-22	187.45	191.68	164.97	187.46	181.81	218.40
HCFC-123	0.00	0.00	1.98	0.00	0.00	0.00
HCFC-141b	0.00	0.00	0.00	0.00	0.00	16.80
Total (mt)	187.45	191.68	166.95	187.46	181.81	235.20
ODP tonnes						
HCFC-22	10.31	10.54	9.07	10.31	10.00	12.00
HCFC-123	0.00	0.00	0.04	0.00	0.00	0.00
HCFC-141b	0.00	0.00	0.00	0.00	0.00	1.90
Total (ODP tonnes)	10.31	10.54	9.11	10.31	10.00	13.90

* Estimate provided by UNDP.

3. Since 2015, the overall HCFC consumption has been below the allowable consumption of 12.5 ODP tonnes under the Montreal Protocol and the Agreement between the Government and the Executive Committee, due to the implementation of HPMP activities *inter alia* enforcement of the licensing and quota system, technical assistance in the assembly sector, training of customs officers and technicians, and public awareness in the refrigeration and air-conditioning (RAC) servicing sector. The reduction in consumption is also due to the introduction of non-HCFC-22 based RAC equipment.

Country programme (CP) implementation report

4. The Government of Sri Lanka reported sector consumption data in the 2018 CP implementation report that is consistent with the data reported under Article 7 of the Montreal Protocol. The 2019 CP implementation report will be submitted by 1 May 2020.

Verification report

5. Prior to the submission of the fourth funding tranche of the HPMP, the verification of HCFC consumption for 2016 to 2019 was being conducted; however, due to contingencies associated with the COVID-19 pandemic, by the time of issuance of the present document, the report had not been submitted. UNDP expects that the verification report will be submitted by end of July 2020, and in any case no later than 12 weeks before the 86th meeting.

¹ As per the letter of 12 March 2020 from the Director of the National Ozone Unit of Sri Lanka to UNDP.

Progress report on the implementation of the third tranche of the HPMP

Legal framework

6. In addition to the operation of the licensing and quota system for HCFC imports/exports, the Government has issued bans on imports of HCFC-141b and HCFC-141b-based pre-blended polyols in place since January 2015 and December 2015, respectively. In 2017, the methodology for allocating HCFC quota to importers was updated and since then being used.² The ban on the import of used HCFC-based equipment is in place since January 2018, and a proposal to ban the import of new HCFC-based equipment by 2020 is under discussion. On 1 January 2019, the use of a refrigerant recovery machine became mandatory for all RAC service workshops, as a condition for obtaining an Environment Protection Licence. Sri Lanka ratified the Kigali Amendment in September 2019.

7. The Government of Sri Lanka confirmed that the 2004 regulation banning the import of controlled substances already phased out is in force and that the Customs department continues to monitor all controlled ODS. Two attempts of illegal HCFC trade were identified and the shipments were returned to the country of origin; and the Government is not aware of any use or any stockpiles of phased-out ODS in the country.

8. A total of 243 customs officers have received training on the latest methods for monitoring and preventing illegal trade of controlled substances, especially HCFCs. The national ozone unit (NOU) has published a guide on the Harmonized System³ codes and nomenclature of controlled substances under the Protocol, the HCFC phase-out schedule and related regulations for enforcement officers and importers. The NOU also provided two multiple refrigerant identifiers to Customs authorities.

Refrigeration servicing sector

9. The main activities implemented included:

- (a) The Technical and Vocational Education Commission updated the syllabus of RAC courses in technical institutions to include an introduction to the Montreal Protocol and on recovery, recycling and reclamation practices;
- (b) Five training workshops on good servicing practices for 238 technicians from the RAC servicing, installation, and assembling sector; and 30 training workshops for 1,261 technicians in the informal sector;
- (c) A total of 199 residential air-conditioning units with a total charge of 520 kg of HCFC-22, were replaced by new HFC-32-based air-conditioners with a cooling capacity varying from 9,000 to 24,000 Btu/h;⁴ most of the HCFC-22 was recovered and reclaimed by the service contractor, as a pre-condition for granting the incentive;
- (d) One reclamation centre set up in June 2018, leading to a total of nine centres established as a result of the HPMP; a reclamation machine and recovery sets were procured and distributed; and stakeholder meetings were conducted to promote the recovery and reclamation of refrigerants. This activity saves approximately one tonne of HCFC per year;

² Ninety-five per cent of the quota is allocated to RAC enterprises that can prove consumption of HCFCs higher than 680 kg/year during the last five years; the remaining 5 per cent is reserved for emergency purposes.

³ Harmonized Commodity Description and Coding System.

⁴ British thermal units per hour.

- (e) Awareness-raising workshops on HCFC phase-out obligations, country regulations, and zero-ODP and low-global-warming potential (GWP) technology, for importers, engineers, and end-users.

Project management unit (PMU)

10. A PMU has been established under the NOU as the project implementation arm. The PMU provided support through developing strategies under each sub-component of HPMP; coordinating with stakeholders and enforcement agencies in implementing activities; developing and maintaining a database of HCFC supplies and users; and working closely with technical experts and implementing agencies on implementation matters. The budget for the PMU of US \$27,766 for the third tranche was disbursed for staff and consultants (US \$16,000); travel, workshops and meetings (US \$5,500); and other miscellaneous office expenses (US \$6,266).

Level of fund disbursement

11. As of 29 February 2020, all of the funds approved so far (i.e., US \$591,866), had been disbursed.

Implementation plan for the fourth and final tranche of the HPMP

12. The following activities will be implemented between July 2020 and December 2021:
- (a) Finalization and publication in the National Gazette of the regulation to ban the imports of new HCFC-based equipment; training workshops on existing and new regulations on HCFC and RAC equipment controls for 20 customs and enforcement officers (UNEP) (US \$2,000);
 - (b) Training workshops on good servicing practices for 160 RAC technicians; and awareness programmes on new RAC technologies for servicing workshops (UNEP) (US \$14,000);
 - (c) Procurement of two recovery machines for the training centres and continuing the incentive programme to replace additional 41 HCFC-22-based residential air-conditioning units (UNDP) (US \$18,866);
 - (d) Awareness workshops and training for importers and end-users on the latest HCFC phase-out policies and regulations, the recovery and reclamation programme, and the incentive programme to replace residential air-conditioning units (UNEP) (US \$8,900); and,
 - (e) Monitoring of HPMP project activities (i.e., staff and consultants US \$7,000, travel and meetings US \$2,000, office expenses US\$ 3,234) (UNDP) (US \$12,234).

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

Report on HCFC Consumption

13. The fourth tranche of stage I of the HPMP requires the submission of a verification report. Noting that the completion of this report would be delayed given the constraints arising from the COVID-19 pandemic, and that the estimated 2019 HCFC consumption was 28 per cent below the baseline, the Secretariat is recommending, for consideration by the Executive Committee, approval of this funding tranche request, on an exceptional basis and without setting a precedent, on the understanding that:

- (a) The Treasurer would be requested to transfer the approved funds to UNDP and UNEP;⁵
- (b) UNDP had committed to submitting the verification report no later than 12 weeks prior to the 86th meeting;
- (c) The recommendations included in the verification report would be addressed during the implementation of the fourth tranche and that the actions implemented towards that end would be included in the progress report of stage I of the HPMP to be submitted with the country's request for its stage II of the HPMP; and
- (d) In the unlikely event of non-compliance by the Government of Sri Lanka with its Agreement with the Executive Committee, relevant actions would be taken by the Executive Committee.

Progress report on the implementation of the third tranche of the HPMP

Legal framework

14. The Government of Sri Lanka has set the HCFC import quota for 2020 at 9.14 ODP tonnes consistent with Montreal Protocol targets. The Government will retain approximately 0.5 ODP tonnes (i.e., 5 per cent of the quota) for emergency purposes.

Refrigeration servicing sector

15. The Secretariat sought details on the mandatory use of a refrigerant recovery machine at all servicing workshops. UNDP informed that the Government requires that all large-scale workshops obtain an Environment Protection License, which requires a mandatory recovery and recycling of refrigerants when servicing equipment. The Ministry of Industries, in collaboration with the Ministry of Environment, has introduced a loan scheme for small and medium-sized enterprises engaged in environment-friendly businesses; the NOU would be able to assist service workshops in accessing loans to purchase the mandatory recovery and recycling equipment. Through this approach, the Government ensures that each service workshop, coupled with training of technicians, will be able to manage the demand for HCFC for servicing and meet compliance with the Montreal Protocol commitments.

16. At the 84th meeting, UNDP submitted a report on the implementation of the incentive programme in Sri Lanka,⁶ summarized below:

- (a) Based on preliminary results, the Government is being able to promote HFC-32-based equipment as a suitable replacement to HCFC-22-based equipment; a strong awareness programme has been put in place; at present, importers of RAC equipment are aware of existence and technical features of HFC-32-based equipment and have access to main global suppliers;
- (b) It has been recommended to include a clause to the Government procurement guidelines to prioritize purchase of RAC equipment based on low-GWP refrigerants; furthermore, use of low-GWP technologies had been incorporated into the Green Building Guidelines;

⁵ Decision 72/19(b) states that if the verification report was not ready in time, transfer of approved funds to the agencies would occur only after receipt by the Secretariat of the verification report confirming that the country was in compliance. Given the current circumstances, it is proposed that, on an exceptional basis, the funds be transferred to the agency at the time of approval.

⁶ Annex II of document UNEP/OzL.Pro/ExCom/84/63

- (c) The NOU had provided training on handling of flammable refrigerants to RAC technicians;
- (d) Currently, there is no external monitoring of the programme; however, it is perceived that customers are open for new technologies (HFC-32, R-290); the NOU is continuing follow up the market trends; and
- (e) At the beginning of the programme, the use of flammable refrigerants was a barrier for market penetration, and is still a great barrier for introduction of R-290-based units; however, the incentive programme has been critical to support the market penetration of the HFC-32 technology, where incentive payments for end-users helped to bridge the gap of the difference of cost of the HFC-32-based equipment. The Government is highly recommending to continue similar incentives under stage II of the HPMP.

17. UNDP indicated that stage I of the HPMP for Sri Lanka will be completed by 31 December 2021, as established in paragraph 14 of the Agreement.

Gender policy implementation⁷

18. The Secretariat noted that the Government of Sri Lanka has committed to following gender mainstreaming policy during the HPMP implementation. During the fourth tranche, women's participation would be promoted when organizing training and capacity-building programme, in outreach activities and in the distribution of tools and equipment.

Sustainability of the HCFC phase-out

19. The Government of Sri Lanka has strong legal measures to control the import of HCFCs and HCFC-based equipment. Customs capacity-building activities for HCFC phase-out are within the Customs Department. The Government is implementing a green loan scheme to assist refrigeration servicing workshops to purchase the mandatory recovery and recycling equipment. Servicing technicians are provided with training courses to keep their skills and information up to date. A formal certification of technicians is being developed, and will be implemented during stage II of the HPMP. The incentive programme to replace residential air-conditioning equipment encourages and raise awareness of the use of low-GWP-alternatives-based equipment. All these measures would ensure sustainability of the HCFC phase-out in the country.

Conclusion

20. The Government of Sri Lanka continues to be in compliance with the Montreal Protocol and its Agreement with the Executive Committee. The country's licensing and quota system is operational; a ban on imports of second-hand HCFC-based equipment is in force and that on imports of new HCFC-based equipment is under discussion and planned for 2020. Customs and enforcement officers and servicing technicians continue to be trained and equipment support is provided to training institutions. The recovery and reclamation programme and the incentive programme to encourage the use of low-GWP alternatives are progressing. The funds approved so far have been fully disbursed. As the verification report could not be concluded and submitted at the time of issuance of the present document due to contingencies related to the COVID-19 pandemic, the Secretariat is recommending blanket approval of the fourth tranche on the understanding that UNDP had committed that the verification report would be submitted to the Secretariat not later than 12 weeks prior to the 86th meeting.

⁷ Decision 84/92(d) requested bilateral and implementing agencies to apply the operational policy on gender mainstreaming throughout the project cycle.

RECOMMENDATION

21. The Fund Secretariat recommends that the Executive Committee takes note of the progress report on the implementation of the third tranche of stage I of the HCFC phase-out management plan (HPMP) for Sri Lanka; and further recommends blanket approval of the fourth and final tranche of stage I of the HPMP for Sri Lanka, and the corresponding 2020-2021 tranche implementation plan, at the funding levels shown in the table below, on an exceptional basis and without setting a precedent, and on the understanding that:

- (a) The Treasurer would be requested to transfer the approved funds to UNDP and UNEP upon approval;
- (b) UNDP had committed to submitting the verification report no later than 12 weeks prior to the 86th meeting;
- (c) The recommendations included in the verification report would be addressed during the implementation of the fourth and final tranche of stage I of the HPMP and that the actions implemented towards that end would be included in the progress report of stage I of the HPMP to be submitted as part of the request for stage II of the HPMP for Sri Lanka; and
- (d) In the event that the verification report confirmed that Sri Lanka had not been in compliance with the Montreal Protocol and its Agreement with the Executive Committee, the Secretariat would inform the Executive Committee so that relevant actions, *inter alia*, the application of the penalty clause, could be considered at the 86th meeting.

	Project title	Project funding (US \$)	Support cost (US \$)	Implementing agency
(a)	HCFC phase-out management plan (stage I, fourth tranche)	31,100	2,333	UNDP
(b)	HCFC phase-out management plan (stage I, fourth tranche)	24,900	3,237	UNEP