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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 2021¹

PROJECT PROPOSALS: HONDURAS

This document consists of the comments and recommendations of the Secretariat on the following project proposals:

Phase-out

- HCFC phase-out management plan (stage I, fifth tranche) UNIDO and UNEP
- HCFC phase-out management plan (stage II, first tranche) UNIDO and UNEP

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

Honduras

(I) PROJECT TITLE	AGENCY	MEETING APPROVED	CONTROL MEASURE
HCFC phase-out plan (Stage I)	UNEP, UNIDO (lead)	63 rd	35% by 2020

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2019	9.04 (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					9.04				9.04

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:	19.90	Starting point for sustained aggregate reductions:	20.70
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:	6.97	Remaining:	13.73

(V) BUSINESS PLAN		2020	Total
UNIDO	ODS phase-out (ODP tonnes)	0.44	0.44
	Funding (US \$)	43,000	43,000
UNEP	ODS phase-out (ODP tonnes)	0.28	0.28
	Funding (US \$)	28,250	28,250

(VI) PROJECT DATA			2011-2012	2013	2014	2015	2016	2017	2018	2019	2020	Total
Montreal Protocol consumption limits			n/a	19.91	19.91	17.92	17.92	17.92	17.92	17.92	12.94	n/a
Maximum allowable consumption (ODP tonnes)			n/a	19.91	19.91	17.92	17.92	17.92	17.92	17.92	12.94	n/a
Agreed funding (US \$)	UNIDO	Project costs	100,000	90,000	0	0	90,000	0	60,000	0	40,000	380,000
		Support costs	7,500	6,750	0	0	6,750	0	4,500	0	3,000	28,500
	UNEP	Project costs	75,000	50,000	0	0	50,000	0	50,000	0	25,000	250,000
		Support costs	9,750	6,500	0	0	6,500	0	6,500	0	3,250	32,500
Funds approved by ExCom (US \$)	Project costs		175,000	140,000	0	0	140,000	0	110,000	0	0	565,000
	Support costs		17,250	13,250	0	0	13,250	0	11,000	0	0	54,750
Total funds requested for approval at this meeting (US \$)	Project costs										65,000	65,000
	Support costs										6,250	6,250

Secretariat's recommendation:	Blanket approval
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PROJECT DESCRIPTION

1. On behalf of the Government of Honduras, UNIDO as the lead implementing agency has submitted a request for funding for the fifth and final tranche of stage I of the HCFC phase-out management plan (HPMP), at a total cost of US \$71,250, consisting of US \$40,000, plus agency support costs of US \$3,000 for UNIDO, and US \$25,000, plus agency support costs of US \$3,250 for UNEP.² The submission includes a progress report on the implementation of the fourth tranche, the verification report on HCFC consumption for 2016 to 2019³ and the tranche implementation plan for 2020 to 2021.

Report on HCFC consumption

2. The Government of Honduras reported a consumption of 9.04 ODP tonnes of HCFC in 2019, which is 55 per cent below the HCFC baseline for compliance. The 2015-2019 HCFC consumption is shown in Table 1.

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

HCFC	2015	2016	2017	2018	2019	Baseline
Metric tonnes (mt)						
HCFC-22	184.01	225.50	196.45	170.32	164.36	327.4
HCFC-141b	6.64	9.40	0.00	0.00	0.00	17.3
Total (mt)	190.66	234.9	196.45	170.32	164.36	344.7
HCFC-141b in imported pre-blended polyols*	3.08	10.10	0.00	0.00	0.00	n/a
ODP tonnes						
HCFC-22	10.12	12.40	10.81	9.37	9.04	18.0
HCFC-141b	0.73	1.03	0.00	0.00	0.00	1.9
Total (ODP tonnes)	10.85	13.44	10.81	9.37	9.04	19.9
HCFC-141b in imported pre-blended polyols*	0.34	1.11	0.00	0.00	0.00	n/a

* Data from country programme (CP) implementation report.

3. Following the ban on the import of pure HCFC-141b and HCFC-141b contained in imported pre-blended polyols from 1 January 2017, HCFC-22 used for servicing refrigeration and air-conditioning (RAC) equipment became the only HCFC imported into Honduras. The decrease in consumption of HCFC-22 since 2016 is attributed to the enforcement of the licensing and quota system; regulations on the management of ODS; the implementation of the training programmes for customs officers and refrigeration technicians under stage I; and the increase in RAC equipment based on non-HCFC-22 refrigerants, including HFC-134a, R-410A, R-404A, R-507A, and R-507C, which represent 97 per cent of the total alternatives contained in RAC equipment. The import of hydrocarbon (HC) refrigerants, such as R-600a and R-290, represents less than three per cent of the market.

CP implementation report

4. The Government of Honduras reported HCFC sector consumption data under the 2019 CP implementation report that is consistent with the data reported under Article 7 of the Montreal Protocol.

Verification report

5. The verification report confirmed that the Government implementing a licensing and quota system for HCFC imports and exports and that the annual consumption of HCFCs for 2016 to 2019 was lower than the targets in the Agreement. However, while still in compliance, HCFC consumption data for 2016 to 2019 was different from the data reported under Article 7 of the Montreal Protocol, as shown in Table 2. The differences between the two data sets were caused by oversights in implementing the system or preparing

² As per the letter of 16 March 2020 from the Ministry of Natural Resources and Environment of Honduras to UNIDO.

³ The verification was conducted remotely due to the constraints arising from the COVID-19 pandemic.

the official HCFC consumption reports, including recording unfulfilled import authorizations as imports; the omission of one export and one import during the preparation of official data reports; and the double recording of one import, as well as allocating the same license number to two imports by the same importer.

Table 2. HCFC consumption for 2016 to 2019 (Article 7 and verified data)

Particulars	2016	2017	2018	2019
Article 7 data	234.90	196.45	170.32	164.36
Verified data	181.13	197.81	161.66	180.01
Difference (mt)	(53.77)	1.36	(8.66)	15.65
Article 7 data	13.44	10.81	9.37	9.04
Verified data	10.28	10.87	8.89	9.90
Difference (ODP tonnes)	(3.16)	0.06	(0.48)	0.86

6. The verification report recommends *inter alia*: to continue efforts to get accurate customs declarations, especially regarding the net weight declared; to require export authorizations (licenses) for every export of HCFC (and ODS in general) without exception; to ensure that the numerical identification of each import authorization issued is unique; and to ensure the accuracy of consumption reports.

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

Legal framework

7. Through the implementation of stage I, the Government of Honduras established a comprehensive regulatory system to control HCFCs that includes an operational licensing and quota system. The Government has also introduced the licensing system information in the informal Prior-Informed Consent (iPIC) electronic portal developed by UNEP, and has banned the import of used HCFC-based equipment since 18 July 2012. The ban on imports of HCFC-141b pure or contained in imported pre-blended polyols from 1 January 2017 resulted in the replacement of HCFC-141b in polyols with HFC-365mfc as a blowing agent⁴ in the foam sector, and the introduction of alternatives to HCFC-141b as cleaning agents in the RAC sector.

8. A total of 596 customs officers were trained between 2013 and 2018; in 2019, 48 additional customs agents were trained on import controls for HCFC and HCFC-based equipment. A virtual training programme on the licensing system, illegal trade, and identification of refrigerants and RAC equipment was held between August and October 2020 with the participation of 417 customs officers and administrative staff at 21 customs entry points. In June 2020, an international consultant developed an electronic system for the registration of importers, suppliers and end-users, which became operational in September 2020, and prepared learning modules for the online system to support the training of customs and enforcement officers.

9. The Government of Honduras ratified the Kigali Amendment to the Montreal Protocol on 29 January 2019. In accordance with the General Regulation on the use of ODS, specifically Executive Agreement 006/2012, it is mandatory to obtain an import/export license for substances controlled by the Montreal Protocol, including HFCs, and to report the information on the imports and sales of HCFCs, HFCs and their alternatives.

⁴ Honduras did not request assistance from the Multilateral Fund to phase out HCFC-141b in the polyurethane foam sector.

Refrigeration servicing sector

10. The following activities were implemented between July 2018 and September 2020:

- (a) A study tour to Colombia, during which three staff of the Technical Ozone Unit of Honduras (UTOH) and nine instructors from the national training institute (INFOP) were certified in good practices in refrigeration, allowing them to be evaluators under the RAC certification system in Honduras; the tour also included a visit to a refrigerant stockpiling, recovery and reclaiming centre;
- (b) A memorandum of understanding between UNEP, the UTOH, the Ministry of Natural Resources and Environment of Honduras (Mi Ambiente) and INFOP was signed in 2018 with the purpose of promoting good environmental practices in the RAC sector through RAC training and certification; the labour competency standard on good practices in RAC (Code B712703) was approved in September 2019; and a UTOH/INFOP workshop in February 2020 developed an evaluation scheme for RAC technicians in accordance with the labour competency standard;
- (c) Nineteen training workshops in seven cities provided training to a total of 1,323 RAC technicians and students in good refrigeration practices; six dissemination and awareness-raising sessions for a total of 478 RAC technicians and students promoted the evaluation and certification of good refrigeration practices; 15 vocational training centres were upgraded with equipment and tools for training purposes (e.g., recovery equipment, hand-held electronic leak detectors, service manifold for R-600a and R-290, electronic vacuum gauges, nitrogen kit, and flushing system);
- (d) An international expert hired in June 2020 drafted basic safety measures for the installation/service of RAC equipment based on flammable/toxic refrigerants to be included in the manual of good refrigeration practices;
- (e) An agreement between Mi Ambiente and INFOP established a refrigerant reclaiming centre in Tegucigalpa (capital city), which was equipped with equipment purchased under the third tranche (i.e., a refrigeration reclaim unit, cylinders, a cylinder valve remover, and acid test kits); and recovery and recycling practices have been included in the labour competency standard (Code B712703) including a practical test for technicians; and
- (f) Awareness raising through dissemination of information on new regulations, good refrigeration practices, and the use of low-GWP alternatives to 86 end-user enterprises, and distribution of 3,000 brochures on HCFC alternatives and 1,000 manuals on good refrigeration practices.

Project implementation and monitoring

11. Monitoring and follow-up of project activities were undertaken by national experts under the supervision of the national ozone officer. A total of US \$80,735 was disbursed on project monitoring activities during the nine years of implementation of stage I, including staff and consultants (US \$11,000), travel and transport (US \$34,735), workshops (US \$23,000), and other expenses (US \$12,000).

Level of fund disbursement

12. As of 20 September 2020, of the US \$565,000 approved so far, US \$544,804 had been disbursed (US \$336,444 for UNIDO and US \$208,360 for UNEP), as shown in Table 3. The balance of US \$20,196 will be disbursed by 31 December 2020.

Table 3. Financial report of stage I of the HPMP for Honduras (US \$)

Tranche		UNIDO	UNEP	Total	Disbursement rate (%)
First	Approved	100,000	75,000	175,000	100.0
	Disbursed	100,000	75,000	175,000	
Second	Approved	90,000	50,000	140,000	100.0
	Disbursed	90,000	50,000	140,000	
Third	Approved	90,000	50,000	140,000	98.0
	Disbursed	89,871	*47,360	137,231	
Fourth	Approved	60,000	50,000	110,000	84.2
	Disbursed	56,573	*36,000	92,573	
Total	Approved	340,000	225,000	565,000	96.4
	Disbursed	336,444	208,360	544,804	

* An additional US \$2,640 from the third tranche and US \$8,360 from the fourth tranche were advanced in September 2020 and are expected to be recorded as disbursement in November 2020.

Implementation plan for the fifth and final tranche of the HPMP

13. The following activities will be implemented between December 2020 and December 2021:
- Training of an additional 80 customs and enforcement officers on the effective control of imports of HCFC and HCFC-based equipment; an awareness campaign on the certification system for RAC technicians, the safety criteria related to flammable refrigerants, the operation of recovery centres, the recycling and reclaiming of refrigerants and the importance of energy-efficient refrigeration equipment to achieve the certification of at least 200 technicians; and implementation of the recommendations of the verification report (UNEP) (US \$20,000);
 - Continued inspections and audits at the stores and warehouses of the importers of RAC equipment and refrigerants gases (UNEP) (US \$5,000);
 - Finalization of a standard for handling flammable refrigerants (UNEP) (balance from previous tranches);
 - Continuation of training workshops to certify 200 RAC technicians in good refrigeration practices (UNEP) (balance from previous tranches);
 - Continued support of refrigerant recovery and recycling; training of at least 100 technicians on the safe use of flammable refrigerants; establishment of an end-user programme to promote refrigerant containment and energy-efficiency through leak reduction and good refrigeration practices (two or three “Zero Leaks” projects⁵) (UNIDO) (US \$30,000); and
 - Project monitoring (UNIDO) (US \$10,000): US \$2,000 for staff and US \$8,000 for local travel.

⁵ Through the “Zero Leaks” project UNIDO provides technical assistance to end-users of highly emissive RAC systems to establish a proper plan for refrigerant containment, optimizing the system efficiency and energy use. It includes a review of the management of the refrigeration system including service provider (certified technicians, proper tools and spare parts), repair of leaks, required service, and awareness about the fact that refrigerant is not a consumable and it is not expected to be refilled on a regular basis, while leakage prevention will reduce costs and energy use.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

Report on HCFC consumption and verification

14. With regard to the differences identified between the verified and the reported consumption under Article 7 of the Montreal Protocol and the CP report from 2016 to 2019, UNIDO explained that corrective action would be taken to address the clearly identified causes for the discrepancies, and that a check for a valid export licence would be included in the customs system. Despite the deficiencies in the implementation of the system identified in the report, UNIDO and the independent verifier confirmed that the licencing system was robust and could continue to ensure compliance. UNIDO indicated that in light of the findings of the 2016-2019 verification report, the National Ozone Unit submitted a request to the Ozone Secretariat to correct the data reported under Article 7 on 21 October 2020 and would submit the corrected CP reports to the Fund Secretariat in November 2020.

15. Given the findings and recommendations in the verification report and accordingly the need to ensure further improvement of the system's implementation, the Secretariat recommended that during implementation of the fifth tranche, UNIDO assists the Government of Honduras in addressing the recommendations of the verification report and to report to the 88th meeting on the progress made.

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

Legal framework

16. The Government of Honduras has issued HCFC import quotas for 2020 at 9.63 ODP tonnes (175 mt), which is lower than the Montreal Protocol control target for 2020.

Refrigeration servicing sector

Compliance with decision 84/18

17. At its 81st meeting, the Executive Committee approved (under the list of projects for blanket approval) the fourth tranche of stage I of the HPMP for Honduras, and the corresponding 2018-2020 tranche implementation plan on the understanding that the Government of Honduras and UNEP would *inter alia* intensify efforts to implement the training activities for refrigeration technicians; and that specific disbursement targets would be met.⁶ As there were still commitments that required further action, at its 84th meeting the Committee noted that the fifth tranche of stage I could be submitted only once the following conditions had been met (decision 84/18):

- (a) Completion of training for customs and enforcement officers, covering 31 customs entry points, on the control of imports of HCFCs and HCFC-based equipment;
- (b) Completion of the establishment of an electronic system for the registration of importers, suppliers, and end-users;
- (c) Substantive progress in the revision of technical standards, including safety measures for flammable refrigerants; and

⁶ At the 81st meeting, the disbursement targets set for the total amount of funds approved for the UNEP components of the first, second and third tranches were 50 per cent by 30 September 2018, 80 per cent by 31 March 2019, and 100 per cent by December 2019, and the disbursement targets for the UNEP component of the fourth tranche were 20 per cent disbursement by 31 March 2019 and 50 per cent disbursement by December 2019.

- (d) Disbursement of 100 per cent of the total funds approved for the UNEP components of the first, second and third tranches of stage I of the HPMP and disbursement of 70 per cent for the UNEP component of the fourth tranche.

18. The Secretariat noted that all the conditions related to implementation progress in decision 84/18 had been fulfilled or even surpassed, as explained below:

- (a) In addition to the 48 customs officers trained in 2019, three online thematic workshops were held in early August 2020 for 50 customs staff from different administrative departments. From 17 August to 9 October 2020, 10 online workshops for 367 customs and enforcement officers on subjects including the licensing system, illegal trade, and refrigerant identification covering 21 entry points⁷ were held;
- (b) The electronic registration system for importers, suppliers, and end-users was developed; two modules, one on trade control and one on end-users, became fully operational in September 2020 and will be operated and maintained by UTOH; and
- (c) The draft basic safety measures for handling flammable refrigerants during the installation and servicing of RAC equipment containing flammable/toxic refrigerants were prepared and reviewed by INFOP and UTOH; the safety measure would be included in the manual of good refrigeration practices under the work plan for the fifth tranche of stage I of the HPMP.

19. Regarding the condition related to levels of disbursement, the Secretariat noted that UNEP disbursed 98.0 per cent of the total funds approved for the third tranche, and that the 2.0 per cent balance of US \$2,640 had already been reported as spent by the country, and would be recorded as disbursement in UNEP's financial system (Umoja) in early November 2020.

Technical and cost issues

20. The Secretariat requested clarification on the need for continued inspections and audits of importers included in the plan of action for the fifth tranche. UNIDO explained that with the support of Mi Ambiente, mandatory regulations had been established including the certification of RAC technicians, the registration of enterprises, and the obligation to have the necessary tools for ODS management as a requirement for an environmental license. Approximately five monthly inspections are carried out at the national level, including the stores and warehouses of importers, to ensure compliance with environmental regulations including proper disposal of decommissioned equipment and recovery of refrigerant, proper handling of waste, or possible relocation of equipment reaching end-of-life to technical institutes.

21. Regarding the "Zero Leaks" initiative, UNIDO clarified that under the fourth tranche this activity had involved 86 end-users in an awareness-raising programme that aimed to increase their commitment to prevent refrigerant emissions and promote refrigerant recovery during servicing. Some users reported positive results, but no quantifiable data were available. The funds budgeted for "Zero Leaks" activities under the fifth tranche (US \$30,000) would be used to provide pilot technical assistance to two or three end-users to quantify the results through the review of logbooks, servicing programme, tools used, service providers' skills, leaks identified and repaired, and refrigerant quality. The result of these experiences will be shared with other end-users to promote good servicing practices and the reduction of leakage.

⁷ The Secretariat recalled that in its previous plan of action UNEP referred to 31 customs entry points to be included in the training. UNIDO clarified that there are 21 entry points in Honduras, including 19 formal customs points (air, sea, and land) and two border points.

Gender policy implementation⁸

22. During the implementation of the fifth tranche, the UTOH will discuss equal opportunities for female technicians with customs and the Association of Refrigeration Technicians, to include the topic of gender in customs and RAC technician training, and to record numbers of female technicians and customs and enforcement officers participating in training.

Sustainability of the HCFC phase-out

23. Honduras has an operational licensing and quota system, and technical assistance and refrigerant identifiers have been provided to customs. A customs manual has been developed, the customs training curricula include subjects related to the Montreal Protocol, and an online customs training module will be developed. The national curriculum for vocational training for RAC students includes topics related to the Montreal Protocol, and toolkits have been provided to the national technical institute for RAC training programmes. RAC instructors receive ongoing training and updates on good practices and the handling of alternative refrigerants. These measures are intended to help ensure the sustainability of HCFC phase-out and the continuation of activities started under the HPMP.

24. The General Regulation on the use of ODS (Executive Agreement 006/2012) includes the obligation to report on: ODS sales and imports; the HCFC licensing and quota system; import bans on CFCs, second-hand HCFC-based equipment and HCFC-141b; and the quota allocation among importers. ODS imports and exports are also monitored through customs records. The Government of Honduras is not aware of any use of controlled substances that have been phased out in the national market other than occasional cases where CFC-12 or HCFC-22 has been found in second-hand equipment. Honduras has stocks of about 2 mt of HCFC-141b in imported pre-blended polyols stored in customs and planned to be used for training purposes.

Date of completion of stage I of the HPMP

25. UNIDO indicated that stage I of the HPMP for the Honduras would be completed by December 2021 as established in paragraph 14 of the Agreement.

Conclusion

26. The verified HCFC consumption in 2019 was 9.90 ODP tonnes, which is 50 per cent below the HCFC baseline and 45 per cent below the maximum allowable consumption under the Agreement with the Executive Committee for that year. The Government continues to implement a licensing and quota system for monitoring and controlling HCFCs, to enforce the ban on imports of used HCFC-based equipment and HCFC-141b both pure and contained in pre-blended polyols, and is successfully operating recovery and recycling centres. Furthermore, the Government plans to address all the issues identified in the verification report on HCFC consumption under the fifth tranche of stage I and the first tranche of stage II of the HPMP which is also being submitted to the present meeting. The Government of Honduras and UNEP overcame the challenges that delayed the UNEP activities under the third and fourth tranches and are addressing the challenges posed by the COVID-19 pandemic through the development and implementation of innovative virtual training for customs officers, surpassing initial targets. The overall disbursement rate stands at 96.4 per cent and the conditions imposed by decision 84/18 are expected to be completely fulfilled by November 2020, when the last disbursement of US \$2,640 is recorded in UNEP's financial system (Umoja).

⁸ Decision 84/92(d) requested bilateral and implementing agencies to apply the operational policy on gender mainstreaming throughout the project cycle.

RECOMMENDATION

27. The Fund Secretariat recommends that the Executive Committee:

- (a) Takes note of the progress report on the implementation of the fourth tranche of stage I of the HCFC phase-out management plan of (HPMP) for Honduras; and
- (b) Requests UNIDO to submit to the 88th meeting an update on progress towards implementing the recommendations in the verification report, including actions taken by Honduras to ensure the accuracy of country programme implementation data and Article 7 data submitted to the Multilateral Fund and Ozone Secretariats, respectively.

28. The Fund Secretariat further recommends blanket approval of the fifth tranche of stage I of the HPMP for Honduras, and the corresponding 2020-2021 tranche implementation plan, at the funding levels shown in the table below:

	Project title	Project funding (US \$)	Support cost (US \$)	Implementing agency
(a)	HCFC phase-out management plan (stage I, fifth tranche)	40,000	3,000	UNIDO
(b)	HCFC phase-out management plan (stage I, fifth tranche)	25,000	3,250	UNEP

PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

Honduras

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

(II) LATEST ARTICLE 7 DATA (Annex C Group I)	Year: 2019	9.04 (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					9.04				9.04

(IV) CONSUMPTION DATA (ODP tonnes)			
2009 - 2010 baseline:		19.90	Starting point for sustained aggregate reductions: 20.70
CONSUMPTION ELIGIBLE FOR FUNDING (ODP tonnes)			
Already approved:		6.97	Remaining: 13.73

(V) BUSINESS PLAN		2020	2021	2022	After 2022	Total
UNIDO	ODS phase-out (ODP tonnes)	2.70	0.00	2.70	1.30	6.70
	Funding (US \$)	150,228	0	150,000	75,342	375,570
UNEP	ODS phase-out (ODP tonnes)	0.55	0.00	0.00	5.80	6.35
	Funding (US \$)	93,600	0	0	140,400	234,000

(VI) PROJECT DATA			2020	2021	2022	2023	2024	2025	2026	2027	2028-2029	2030	Total
Montreal Protocol consumption limits			12.94	12.94	12.94	12.94	12.94	6.47	6.47	6.47	6.47	0	n/a
Maximum allowable consumption (ODP tonnes)			12.94	12.94	9.91	9.91	9.91	6.47	6.47	6.47	2.70	0	n/a
Projects costs requested in principle (US \$)	UNIDO	Project costs	197,000	0	0	164,500	0	298,500	0	157,000	0	177,500	994,500
		Support costs	13,790	0	0	11,515	0	20,895	0	10,990	0	12,425	69,615
	UNEP	Project costs	26,500	0	0	36,500	0	36,500	0	43,000	0	33,000	175,500
		Support costs	3,445	0	0	4,745	0	4,745	0	5,590	0	4,290	22,815
Total project costs requested in principle (US \$)			223,500	0	0	201,000	0	335,000	0	200,000	0	210,500	1,170,000
Total support costs requested in principle (US \$)			17,235	0	0	16,260	0	25,640	0	16,580	0	16,715	92,430
Total funds requested in principle (US \$)			240,735	0	0	217,260	0	360,640	0	216,580	0	227,215	1,262,430

(VII) Request for approval of funding for the first tranche (2020)		
Agency	Funds requested (US \$)	Support costs (US \$)
UNIDO	197,000	13,790
UNEP	26,500	3,445
Total	223,500	17,235

Secretariat's recommendation:	Individual consideration
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PROJECT DESCRIPTION

Background

29. On behalf of the Government of Honduras, 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 \$1,262,430, consisting of US \$994,500, plus agency support costs of US \$69,615 for UNIDO, and US \$175,500, plus agency support costs of US \$22,815 for UNEP, as originally submitted.⁹ The implementation of stage II of the HPMP will phase out the remaining eligible consumption of HCFCs by 2030.

30. The first tranche of stage II of the HPMP being requested at this meeting amounts to US \$336,236, consisting of US \$268,300, plus agency support costs of US \$18,781 for UNIDO, and US \$43,500, plus agency support costs of US \$5,655 for UNEP, as originally submitted.

Status of implementation of stage I of the HPMP

31. Stage I of the HPMP for Honduras was originally approved at the 63rd meeting,¹⁰ to achieve the 35 per cent reduction from the baseline by 2020, at a total cost of US \$630,000, plus agency support costs, to phase out 6.97 ODP tonnes of HCFCs used in the RAC servicing sector. An overview of the implementation of stage I, including an analysis of the HCFC consumption; the progress and financial reports; and the request for the fifth and final tranche submitted to the current meeting, is available in paragraphs 1 to 28 of the present document.

Stage II of the HPMP

Remaining consumption eligible for funding

32. After deducting from the starting point a total of 6.97 ODP tonnes of HCFC associated with stage I of the HPMP, the remaining HCFC consumption eligible for funding amounts to 11.71 ODP tonnes of HCFC-22, noting that 2.02 ODP tonnes of HCFC-141b that were eligible for funding had been phased out and the ban on the import of HCFC-141b pure and contained in pre-blended polyols entered into force on 1 January 2017.

33. HCFC-22 is mainly consumed to service residential air-conditioning (AC) units, commercial cold stores, chillers, and industrial refrigeration, as shown in Table 4.

Table 4. Estimation of demand for HCFC-22 in the RAC servicing sector in Honduras

Sector/Applications using HCFC-22		Equipment inventory	Installed (mt)	Average annual leakage rate (%)	Consumption (mt)
Commercial refrigeration	Condenser unit	3,940	70.91	12	8.55
	Centralized system	2,658	106.33	12	12.82
Industrial refrigeration		5,647	395.30	12	47.66
Residential AC		584,260	408.98	12	49.31
Commercial AC		36,356	327.20	12	39.45
Chillers		364	27.29	12	3.29
Others		390	27.29	12	3.29
Total		633,614	1,363.30	12	164.36

⁹ As per the letter of 25 June 2020 from the Ministry of Natural Resources and the Environment of Honduras to UNIDO.

¹⁰ UNEP/OzL.Pro/ExCom/65/33 and Annex XVI of document UNEP/OzL.Pro/ExCom/63/60.

34. The annual consumption for refrigeration servicing amounts to 164.36 mt of HCFC-22. The main imported HFC refrigerants are HFC-134a, R-410A, and R-404A, accounting for 93 per cent of ODS alternatives used in the RAC sector. It was estimated in 2019 that there were approximately 4,000 technicians in the informal and formal servicing sector, of whom 1,500 were trained in stage I of the HPMP.

Phase-out strategy in stage II of the HPMP

35. Stage II of the HPMP aims to meet the 67.5 per cent reduction from the HCFC baseline by 2025 and 100 per cent by 2030 and will build upon the experience gained during implementation of stage I. The Government of Honduras is committing not to use any HCFCs after 2030. In order to minimize the ongoing introduction of HFC-based equipment as alternatives to HCFCs, the Government proposes to strengthen the regulatory framework, introducing standards for handling RAC equipment based on flammable/high pressure/toxic refrigerants, reinforcing training in good practices with a focus on capacity building for the safe handling of flammable refrigerants, and establishing a specialized training centre on the safe handling of flammable refrigerants during installation, operation, repair, maintenance and decommissioning of RAC equipment. End-users will be assisted in optimizing their RAC equipment, thus reducing refrigerant leakages and energy consumption, and delaying its replacement. Pilot projects will demonstrate the operation of high energy efficiency RAC equipment based on zero-ODP, low-GWP refrigerants for replacing HCFC-based equipment reaching its end-of-life.

Proposed activities in stage II of the HPMP

36. The activities for stage II and their cost are presented below.

- (a) *Strengthening the national capacity for customs and trade controls*: training at least 20 customs and enforcement officers per session in 27 updated training courses (three per year), with both theoretical and practical elements, on import controls of Montreal Protocol substances and the equipment containing them; updating the online customs training module; purchasing four refrigerant identifiers; organizing at least two international study missions to update knowledge and share lessons learned with customs from other countries; holding periodic meetings with enforcement institutions and monitoring the local refrigerant market; strengthening the licensing process and the UTOH management system to ensure the accuracy of data reports on consumption (US \$120,500) (UNEP);
- (b) *Strengthening the regulatory framework*: formulation and enforcement of import restrictions for new HCFC-based equipment, including the energy efficiency criterion, and policies for HCFC life-cycle management; HCFC emission/venting control measures by 1 January 2024; a ban on import of new HCFC-based equipment and a ban on disposable cylinders estimated by 2025; regulations on record-keeping of refrigeration servicing practices and schedules for leakage checks; standard on the safe handling of flammable refrigerants; consultations with stakeholders; and outreach meetings to disseminate regulations to associations, importers, consumers, and RAC companies (US \$55,000) (UNEP);
- (c) *Capacity building and sustainable technician training in the RAC servicing sector*: a standard training programme incorporated into curricula; distribution of 1,000 copies of a manual on good refrigeration practices; five trainer-training courses for at least 75 trainers; 30 training courses on good refrigeration practices for at least 1,500 technicians, including three courses for female RAC technicians and provision of toolkits for two female RAC technicians; and three international study missions for RAC trainers (UNIDO) (US \$110,000);

- (d) *Advancing sustainable certification, registration, and licensing:* implementing the mandatory certification for RAC technicians or for anyone handling refrigerants as early as 1 January 2023;¹¹ technical assistance to certify 1,000 RAC technicians according to a RAC labour competency; formulation and validation of a labour competency standard for the safe handling of flammable refrigerants to come into effect by 1 January 2024 and a standardized course based on it; design of a licence to identify certified RAC technicians and issuance of 1,000 licenses; further development of the electronic registry database through the addition of a module with details of certified RAC technicians including the expiration date of their certification (1,000 records); and an awareness campaign on the certification programme (UNIDO) (US \$95,000);
- (e) *Adoption of safety codes and technical procedures for flammable and low-GWP refrigerants:* development of a risk assessment guide and a specialized training programme on the process to follow for servicing RAC equipment based on flammable, toxic or high-pressure refrigerants; 20 toolkits for training institutes; establishment of a specialized training centre at INFOP in Tegucigalpa; 45 trainers and 1,500 technicians to be trained in the safe handling of flammable refrigerants; at least four specialized courses for engineers responsible for the design and assembly of RAC systems based on natural refrigerants (UNIDO) (US \$296,000);
- (f) *Improving the refrigerant recovery, recycling and reclaiming (RRR) network:* development of a business plan to operationalize a sustainable RRR network; establishment of two reclaiming centres in the second and third largest cities (San Pedro Sula and La Ceiba),¹² and a campaign to raise awareness about the RRR network among technicians and end-users (UNIDO) (US \$170,000);
- (g) *Technical assistance to RAC end-users:* at least two “Zero Leaks” pilot projects to provide technical assistance to reduce leakage at an end-user with high refrigerant consumption; a leak control guide; creation of an online consultation centre for end-users; at least two demonstration projects to replace HCFC-22 equipment by low-GWP-refrigerant-based equipment in high-HCFC-consuming sectors such as hotels, hospitals or the dairy industry; five regional seminars for end-users on the HCFC phase-out strategy; and five seminars to disseminate the results of end-user projects (UNIDO) (US \$147,000);
- (h) *Environmental education, dissemination, and awareness-raising for the HCFC phase-out:* an awareness-raising campaign targeting RAC servicing technicians and end-users about RRR services, certification, and low-GWP/non-ODS alternative refrigerants; a mobile application to provide to stakeholders all information related to the integral refrigerant management in the country (e.g., information on RRR centres, technicians’ certification, training courses, events) (UNIDO) (US \$65,000); and
- (i) *Project coordination, monitoring and reporting:* hiring consultants to implement HPMP activities, monitor trends in the use of HCFC and substitutes, and report on project progress (US \$50,000); and regular compliance monitoring visits to stakeholders and partner institutions to ensure the sustainability of the activities implemented (US \$61,500)

¹¹ The certification system would be jointly implemented by Mi Ambiente and INFOP. Operating costs would be covered by certification fees charged to RAC technicians.

¹² The total cost of equipment and installation for the two reclaiming centres amounts to US \$130,000, consisting of the following: two reclaiming units (US \$30,000), 15 recovery units (US \$15,000), two storage tanks (US \$3,000); four transfer pumps (US \$10,000); two load scales (US \$1,000); 48 recovery tanks (US \$9,600); two refrigerant identifiers (US \$10,000); two sets of cylinder cleaning, inspection and testing equipment (US \$21,300); and spare parts, freight, transport, clearance and contingencies (US \$30,100).

(UNIDO) (US \$111,500).

Total cost of stage II of the HPMP

37. The total cost of stage II of the HPMP amounts to US \$1,170,000, as originally submitted, for achieving 100 per cent reduction from the country's HCFC baseline consumption by 2030, which is in accordance with decision 74/50(c)(xii) on the eligible funding level for a low-volume-consuming country.

Gender policy implementation

38. In line with decision 84/92(d),¹³ the Government of Honduras has taken into account gender mainstreaming and equity in the implementation of stage II of the HPMP to ensure that men and women have equal opportunities to participate in RAC training and workshops and in the decision-making process. A RAC training workshop exclusively for female technicians will be held once every three years in order to increase the participation of women in the RAC sector, and two female technicians will each be provided with a toolkit as an incentive. In Honduras two of the four staff at the UTOH are women and there is also a female consultant. The number of female RAC technicians in the country is estimated at about 30. Between 10 and 15 per cent of students in RAC courses are women, the majority of whom move to administrative activities following graduation. About 70 per cent of customs officers are women.

39. UNIDO will work with the Government of Honduras to include the applicable indicators as per the Multilateral Fund policy on gender, and specific indicators will be reported as part of tranche requests of stage II of the HPMP.

Activities planned for the first tranche of stage II as proposed

40. The first funding tranche of stage II of the HPMP, at the total amount of US \$311,800, was proposed to be implemented between January 2021 and December 2023 and to include the following activities:

- (a) *Strengthening the national capacity of customs and trade controls*: eight updated training courses for a total of 160 customs and enforcement officers on ODS import control; an annual tour to monitor the local refrigerant market and periodic meetings with enforcement institutions (US \$22,000) (UNEP);
- (b) *Strengthening the regulatory framework*: formulation and enforcement of standards on the safe handling of flammable refrigerants; stakeholder consultation meetings; and six outreach meetings to disseminate regulations (US \$21,500) (UNEP);
- (c) *Capacity building and sustainable technician training in the RAC servicing sector*: development of a standard training programme to be incorporated into the curricula of training institutes; distribution of 500 copies of a manual on good refrigeration practices; two trainer-training courses for at least 30 trainers; and nine courses to train 270 technicians, including female technicians, in good refrigeration practices (UNIDO) (US \$34,800);
- (d) *Advancing sustainable certification, registration, and licensing in the RAC servicing sector*: certification of 300 RAC technicians; a standardized course on the safe handling of flammable refrigerants; design of a technician licence and issuance of 300 such licences; three awareness-raising meetings on the certification programme; and an annual follow-up

¹³ Decision 84/92(d) requested bilateral and implementing agencies to apply the operational policy on gender mainstreaming throughout the project cycle.

meeting on the implementation of the certification programme (UNIDO) (US \$36,000);

- (e) *Adoption of safety codes and technical procedures for flammable and low-GWP refrigerants*: establishment of the HC training centre; a risk assessment guide and associated training programme; 15 trainers trained on handling flammable refrigerants; 12 training courses for a total of 240 RAC technicians on handling flammable refrigerants; courses for engineers on the use of natural refrigerants including ammonia, HCs and CO₂; and one study mission (UNIDO) (US \$96,000);
- (f) *Improving the refrigerant RRR network*: development of a business plan to operationalize a sustainable RRR network; and a campaign to raise awareness on the RRR network (UNIDO) (US \$14,000);
- (g) *Technical assistance to RAC end-users*: one demonstration project to replace HCFC-22 equipment by low-GWP-refrigerant-based equipment; a regional seminar to disseminate the results of the pilot project; and a regional seminar on alternative technologies (UNIDO) (US \$44,500);
- (h) *Environmental education, dissemination, and awareness-raising*: a campaign on HCFC phase-out and activities under the HPMP targeting RAC servicing technicians and end-users and 3,000 brochures to be distributed to RAC technicians and students (UNIDO) (US \$15,000); and
- (i) *Project monitoring and reporting* (UNIDO) (US \$28,000): staff and local consultants (US \$12,556) and monitoring visits (US \$15,444).

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

41. 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.

HCFC phase-out and duration of stage II

42. The Secretariat queried the rationale for selecting annual HCFC consumption targets equal to those of the Montreal Protocol when the HCFC consumption in Honduras in 2019 was already 55 per cent below the baseline for compliance and had been gradually decreasing due to the strict enforcement of the licensing system, regulatory measures, the activities that have been implemented under stage I and an increase in imports of HFC-based equipment.

43. UNIDO explained that during the preparation of stage II of the HPMP the Government, in consultation with stakeholders, had determined that keeping the Montreal Protocol consumption targets would be the best option to maintain compliance as large amount of HCFC-based equipment (with an estimated charge of 1,360 mt) was still in operation. The option of an accelerated phase-out was not selected given the possible impact that the post-COVID-19 pandemic scenario could have in terms of increased HCFC consumption. A single stage up to 2030 would allow sufficient time to obtain the needed response from the market and to increase the availability of alternative refrigerants. Upon further consultations,

UNIDO reported that the Government agreed to commit to annual consumption targets lower than those set out by the Montreal Protocol, as shown in Table 5.

Table 5. HCFC phase-out commitments under stage II of the HPMP for Honduras

Target	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Montreal Protocol	12.94	12.94	12.94	12.94	12.94	6.47	6.47	6.47	6.47	6.47
Agreement	12.94	12.94	9.91	9.91	9.91	6.47	6.47	6.47	2.70	2.70

44. The Government of Honduras indicated that it would not require any HCFC for servicing needs after 2030. While noting the commitment with appreciation, the Secretariat recalled the provisions of Article 5, paragraph 8 ter(e)(i)¹⁴ of the Montreal Protocol and paragraph 13 of decision XIX/6 and, in order to be equitable across Article 5 countries, recommended noting the commitment of the Government to 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.

45. Based on the strategy presented, the justification provided and the commitment by the Government of Honduras to phase out higher amounts of HCFCs than those allowed under the Montreal Protocol between 2022 and 2029, the Secretariat supports the total HCFC phase-out approach for stage II of the HPMP.

Technical and cost-related issues

46. Noting the high number of study tours proposed in several projects of stage II, including for customs officers and RAC technicians, UNIDO agreed to reduce the overall number of study tours and reallocate the funding to higher-priority activities, including strengthening the licensing system and addressing issues raised in the verification report, as well as increasing the number of RAC technicians trained in the safe handling of natural refrigerants from 1,000 to 1,500.

47. Noting that about 1,300 of a total of 4,000 technicians had received training under stage I, and that Executive Agreement 006/2012 requires all technicians to be trained, it was agreed to increase the target for technicians to be trained from 900 to 1,500. However, the actual number of technicians trained would likely be higher since mandatory certification would create an incentive for RAC technicians to participate in the training programme.

48. Regarding the RRR project, the Secretariat questioned whether the RRR infrastructure, consisting of 145 units of recovery and recycling equipment distributed among technicians during implementation of the terminal phase-out management plan (TPMP) and stage I of the HPMP, was sufficient and effective for Honduras given apparent low levels of HCFC-22 recovered so far. UNIDO explained that the equipment provided under the TPMP was in poor condition and was no longer in use. Furthermore, it is estimated that the amount of recovered HCFC-22 refrigerant is much larger than that recorded, as in many cases technicians recover and reuse the refrigerant in the same equipment without recording the amounts. UNIDO has estimated that about 900 kg could be reclaimed annually from large end-users using the recently established INFOP reclaiming centre.

49. With regard to the business model for the RRR operation, UNIDO reported that once the administrative processes were strengthened under stage II of the HPMP, the main motivation for enterprises to pay for the reclaiming of refrigerant rather than venting would be the environmental licensing system, which includes mandatory recovery and reclamation. UNIDO also noted that the high price of HCFC-22 in

¹⁴ 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.

Honduras (US \$11.25/kg) would be an incentive for end-users to recover and reclaim refrigerant at a lower cost. UNIDO also reported that the unusable refrigerant recovered was stockpiled in four refrigerant collection centres with maximum storage capacity of 1 mt each, and the UTOH collection centre with a storage capacity of 2 mt. One tonne of unusable HCFC-22 and other blended refrigerants from small enterprises is currently stockpiled at the UTOH centre.

50. The Secretariat highlighted the importance of refrigerant emission control measures¹⁵ to support effective RRR operations. UNIDO clarified that during stage II the capacity of enterprises importing, selling, and/or installing, repairing and maintaining RAC systems will be strengthened to apply the already mandatory requirement to use the RRR network. In addition, measures for the proper management of RAC equipment throughout their life cycle have been included, and a ban on venting any kind of refrigerants during servicing and decommissioning of equipment is proposed by 1 January 2024.

51. Upon the suggestion of the Secretariat, UNIDO indicated that the Government of Honduras had agreed to move the pilot project to introduce equipment with low-GWP alternatives from the first tranche to a future one in line with the requirements of decision 84/84, and to focus efforts on the “Zero Leaks” component in the first years of stage II of the HPMP.

Plan of action and first tranche implementation amid COVID-19

52. The Secretariat notes the efforts made by the Government, UNIDO, UNEP, and other stakeholders to ensure the continued implementation of activities supported by the Multilateral Fund during the COVID-19 pandemic. Virtual customs training has been implemented under the fourth tranche of stage I with the support of the Customs Directorate. UNIDO reported that if COVID-19 restrictions continued, a contingency plan would be formulated to ensure consultations with stakeholders and the RAC sector so that training sessions and workshops could take place through webinars and digital platforms. Given the challenges and limitations imposed through remote working, the Government would make additional efforts to fulfill its Montreal Protocol commitments.

53. The Secretariat noted that the first tranche of stage II (US \$311,800) would be implemented concurrently with the fifth tranche of stage I (US \$65,000), with funds available from 2021 to 2023 amounting to US \$390,803. Following a discussion, UNIDO agreed to reduce the value for the first tranche to US \$223,500 and to request the funding over five rather than four tranches to ensure that the minimum disbursement requirement for approval of the second tranche would be achievable for the country. Table 6 presents the tranche distribution for stage II of the HPMP.

Table 6. Tranche distribution of stage II of the HPMP (US \$)

Agency/tranche-year	2020	2023	2024	2025	2027	2030	Total
As submitted	311,800		415,300		206,700	236,200	1,170,000
As agreed	223,500	201,000		335,000	200,000	210,500	1,170,000
UNIDO	197,000	164,500		298,500	157,000	177,500	994,500
UNEP	26,500	36,500		36,500	43,000	33,000	175,500

54. The activities planned for the first tranche of stage II of the HPMP, adjusted to take into account the revised timeframe from January 2021 to June 2023 and the discussion with the Secretariat, are presented in Table 7.

¹⁵ E.g. penalties (for end-users and/or technicians) for intentional venting of HCFC into the atmosphere during installation, operation, servicing and decommissioning of RAC equipment; mandatory leak checking for larger equipment; or mandatory recovery of HCFC from containers and equipment at end-of-life.

Table 7. Agreed plan of action for the first tranche of stage II of the HPMP for Honduras

Activity	Agency	First tranche (January 2020 to June 2023)	Amount US \$
Strengthening the national capacity of customs and trade controls	UNEP	Three updated training courses for a total of 60 customs and enforcement officers on theoretical and practical components of ODS import control; an annual tour to monitor the local refrigerant market; strengthening the licensing process and the UTOH management system to ensure the accuracy of data reports on consumption; and periodic meetings with enforcement institutions for project feedback	11,500
Strengthening the regulatory framework	UNEP	Formulation and enforcement of standards on the safe handling of flammable refrigerants; formulation of measures related to the integral management of HCFC-based equipment/products and substances throughout their life cycle; stakeholder consultation meetings; five outreach meetings to disseminate regulations	15,000
Capacity building and sustainable technician training in the RAC servicing sector	UNIDO	Development of a standard training programme to incorporate into the curricula of training institutes; distribution of 500 copies of a manual on good refrigeration practices; two trainer-training courses for at least 30 trainers; nine courses to train 150 technicians including female technicians in good refrigeration practices; gender mainstreaming including one toolkit for a female technician; one international study mission	33,000
Certification, registration, and licensing in the RAC servicing sector	UNIDO	Certification of 200 RAC technicians; a standardized course on the safe handling of flammable refrigerants; design of a technician licence and issuance of 200 such licences; three awareness-raising meetings on the certification programme; and an annual follow-up meeting on the implementation of the certification programme	26,000
Adoption of safety codes and technical procedures for flammable and low-GWP refrigerants	UNIDO	A risk assessment guide and associated training programme; 15 trainers trained on HCs; eight training courses for a total of 200 RAC technicians on handling HCs; 10 toolkits delivered to strengthen the laboratories of 10 training institutes/schools	64,000
Improving the refrigerant RRR network	UNIDO	Development of the business model to operationalize a sustainable RRR network; campaign to raise awareness on the RRR network including one annual meeting of technicians and end-users	17,000
Technical assistance to RAC end-users	UNIDO	Implementation of one “Zero Leaks” project with a large consumer of refrigerants in the commercial refrigeration sector; a leak control guide; one regional seminar for end-users to raise awareness about good refrigeration practices and alternative technologies	27,000
Dissemination and awareness-raising	UNIDO	Campaign targeting RAC servicing technicians and end-users on responsible HCFC consumption; participation in two relevant trade fairs and conferences; and 3,000 brochures distributed to RAC technicians and students	8,000
Monitoring and reporting	UNIDO	Staff and local consultants (US \$9,865) and monitoring visits (US \$12,135)	22,000
Total			223,500

Impact on the climate

55. The proposed activities in the servicing sector, which include better containment of refrigerants through training and the 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 CO₂-equivalent tonnes. The activities planned by the Government of Honduras, including its efforts to promote low-GWP alternatives, energy-efficient technology, and training in good

servicing practices including refrigerant recovery and reuse, indicate that the implementation of the HPMP will reduce the emission of refrigerants into the atmosphere, resulting in climate benefits.

Co-financing

56. Although an estimation of the level of co-financing was not included in the HPMP, UNIDO indicated that the training facilities, instructors and tools for the RAC training programme would be provided by the vocational training institutes and that the RAC certifying entity, INFOP, would cover the salaries of the evaluators for the certification scheme. UNIDO further indicated that the operation and administrative costs of the RRR centres would be covered by the centres themselves, and as for the implementation of the four pilot conversion projects, the beneficiaries would contribute a large portion of the cost of conversion. The remaining commercial and industrial RAC installations would adopt HCFC-free equipment entirely at their own expense.

2020-2022 draft business plan of the Multilateral Fund

57. UNIDO and UNEP are requesting US \$1,170,000, plus agency support costs, for the implementation of stage II of the HPMP for Honduras. The total requested value of US \$240,735 for the first tranche, including agency support costs for the period of 2020–2022, is US \$153,093 below the amount in the business plan.

Draft Agreement

58. A draft Agreement between the Government of Honduras 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

59. The Executive Committee may wish to consider:

- (a) Approving, in principle, stage II of the HCFC phase-out management plan (HPMP) for Honduras for the period from 2020 to 2030 for the complete phase-out of HCFC consumption, in the amount of US \$1,262,430, consisting of US \$994,500, plus agency support costs of US \$69,615 for UNIDO, and US \$175,500, plus agency support costs of US \$22,815 for UNEP, 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 Honduras:
 - (i) To reduce HCFC consumption by 50.2 per cent by 2022, 67.5 per cent by 2025, 86.4 per cent by 2028 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 establish regulatory measures to control intended emissions of refrigerant during installation, servicing and decommissioning by 1 January 2024;
- (c) Deducting 11.71 ODP tonnes of HCFCs from the remaining HCFC consumption eligible for funding;
- (d) Approving the draft Agreement between the Government of Honduras 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 Honduras, and the corresponding tranche implementation plans, in the amount of US \$240,735, consisting of US \$197,000, plus agency support costs of US \$13,790 for UNIDO, and US \$26,500, plus agency support costs of US \$3,445 for UNEP.

Annex I

DRAFT AGREEMENT BETWEEN THE GOVERNMENT OF HONDURAS 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 Honduras (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 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;
 - (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; 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 Cooperating IA taking part in this Agreement.

10. The Lead IA will be responsible for ensuring coordinated 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, and 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	18.00
HCFC-141b	C	I	1.90
Sub-total			19.90
HCFC-141b contained in imported pre-blended polyols	C	I	0.80
Total	C	I	20.70

APPENDIX 2-A: THE TARGETS, AND FUNDING

Row	Particulars	2020	2021	2022	2023	2024	2025	2026	2027	2028-2029	2030	Total
1.1	Montreal Protocol reduction schedule of Annex C, Group I substances (ODP tonnes)	12.94	12.94	12.94	12.94	12.94	6.47	6.47	6.47	6.47	0	n/a
1.2	Maximum allowable total consumption of Annex C, Group I substances (ODP tonnes)	12.94	12.94	9.91	9.91	9.91	6.47	6.47	6.47	2.70	0	n/a
2.1	Lead IA (UNIDO) agreed funding (US \$)	197,000	0	0	164,500	0	298,500	0	57,000	0	177,500	994,500
2.2	Support costs for Lead IA (US \$)	13,790	0	0	11,515	0	20,895	0	10,990	0	12,425	69,615
2.3	Cooperating IA (UNEP) agreed funding (US \$)	26,500	0	0	36,500	0	36,500	0	43,000	0	33,000	175,500
2.4	Support costs for Cooperating IA (US \$)	3,445	0	0	4,745	0	4,745	0	5,590	0	4,290	22,815
3.1	Total agreed funding (US \$)	223,500	0	0	201,000	0	335,000	0	100,000	0	210,500	1,170,000
3.2	Total support costs (US \$)	17,235	0	0	16,260	0	25,640	0	16,580	0	16,715	92,430
3.3	Total agreed costs (US \$)	240,735	0	0	217,260	0	360,640	0	116,580	0	227,215	1,262,430
4.1.1	Total phase-out of HCFC-22 agreed to be achieved under this Agreement (ODP tonnes)											11.71
4.1.2	Phase-out of HCFC-22 to be achieved in the previous stage (ODP tonnes)											6.30
4.1.3	Remaining eligible consumption for HCFC-22 (ODP tonnes)											0.00
4.2.1	Total phase-out of HCFC-141b agreed to be achieved under this Agreement (ODP tonnes)											0.00
4.2.2	Phase-out of HCFC-141b to be achieved in the previous stage (ODP tonnes)											1.90
4.2.3	Remaining eligible consumption for HCFC-141b (ODP tonnes)											0.00
4.3.1	Total phase-out of HCFC-141b contained in imported pre-blended polyols agreed to be achieved under this Agreement (ODP tonnes)											0.00
4.3.2	Phase-out of HCFC-141b contained in imported pre-blended polyols to be achieved in the previous stage (ODP tonnes)											0.80
4.3.3	Remaining eligible consumption for HCFC-141b contained in imported pre-blended polyols (ODP tonnes)											0.00

*Date of completion of stage I as per stage I Agreement: 31/12/2021

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 Honduras Ozone Technical Unit (UTOH), under the Natural Resources and Environment Secretariat, will coordinate the project implementation including the activities proposed in the HPMP.
2. UTOH as focal point will be responsible for the national coordination of the whole HPMP programme with the assistance of UNIDO as the Lead IA and UNEP as Cooperating IA. The Unit will support the Lead IA and the Cooperating IA in the preparation the annual implementation plans and progress reports for the Executive Committee.
3. The UTOH will be responsible for the monitoring of the phase-out implementation plan, of making the follow up of the promulgation, and the enforcement of the policies and legislation, the procedures the procedures to carry out these activities are:
 - (a) Implementation of all the activities of the components within the HPMP, including a detailed activity design, audit of the involved parties, identification and selection of the beneficiaries, contracting of goods and services, continuous technical assistance to the project beneficiaries, etc.;
 - (b) Regular monitoring of the trends and attitudes in the local private sector related to the HCFC use and its possible substitutes;
 - (c) Design, organization and implementation (annual) of the project monitoring activities, including the design of the data gathering and analysis instruments;
 - (d) Analysis and report of results of the monitoring, including the design of the implementation of the corrective measures and/or activities of technical assistance, and organization of the corresponding meetings for review and management of the monitoring;
 - (e) Design and implementation of the corrective measures;
 - (f) Regular implementation of activities of technical assistance to the project beneficiaries; and
 - (g) Preparation of annual progress reports, biannual reports on the HPMP implementation, and biannual implementation plan for the Multilateral Fund Executive Committee, according to the defined format. It will also include the preparation of any other report necessary for the adequate operation of the HPMP project.
4. The Government will create strategic alliances with other government bodies, industry associations, and academic institutions, which will allow it to strengthen the strategy and expand its range of action, including:

- (a) Vocational and basic training institutions to support the whole training programme to the sectors involved in the use of the refrigerants to be phased out and the alternatives to all the servicing sector;
- (b) Provincial, inter-provincial, and city Customs Departments organize, guides and implements the regulations, among others, those related to the substances controlled by the Montreal Protocol. It implements procedures, inspections and supervises the exports and imports of ODS substances. It executes the necessary operational measures to prevent smuggling and illegal trade of ODS. Together with the UTOH, it inspects and verifies substances and equipment controlled by the Montreal Protocol. When required by the UTOH, customs prepare reports that serve as input to the reports that the country must submit against the Montreal Protocol.

5. The phase-out plan will be managed by a team dedicated to this job that consists of a coordinator that will be designated by the UTOH and have the support of the representatives and experts of the implementing agencies and the necessary support infrastructure. The component of support to the management and update of the legal instruments of the phase-out plan will include the following activities:

- (a) Management and coordination of the implementation of the plan;
- (b) Establishment of a policy development and application programme to allow the Government to exercise the required mandates and ensure the industry fulfilment with the obligations of the ODS consumption reduction;
- (c) Development and implementation of training, awareness and capacity building activities to ensure a high-level commitment to the Plan objectives and obligations;
- (d) Preparation of annual implementation plans including the determination of the sequence of participation of the companies in the activities;
- (e) Establishment and operation of a report system on the ODS use /substitutes by the users;
- (f) Report on the progress of the plan implementation for the annual disbursement based on performance; and
- (g) Establishment and operation of the decentralized mechanism to monitor and evaluate the plan results, in association with local environmental regulatory entities to ensure sustainability.

6. 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 any of the agencies taking part in this Agreement.

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-coordinating 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 coordinated 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.