



**United Nations
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EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Forty-seventh Meeting
Montreal, 21-25 November 2005

PROJECT PROPOSAL: BRAZIL

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

Phase out

- National CFC phase-out plan: fourth tranche

UNDP and
Germany

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 issue of the document.

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PROJECT EVALUATION SHEET (MULTI-YEAR PROJECTS)
BRAZIL

PROJECT TITLE**BILATERAL/IMPLEMENTING AGENCY**

National CFC phase-out plan: fourth tranche	UNDP and Germany
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SUB-PROJECT TITLES

(a) Technical assistance for MDI transition strategy	UNDP
(b) MDI technical assistance/investment projects	UNDP
(c) Investment projects – CFC-113 solvents	UNDP
(d) Investment projects – CFC-12 sterilants	UNDP
(e) Investment projects – foam manufacturing	UNDP
(f) Investment projects – comm. refrigeration manufacturing	UNDP
(g) Investment project – MAC CFC-12 R & R project	UNDP
(h) Investment project – industrial refrigeration and central air-conditioning R & R project	UNDP
(i) Domestic & commercial refrigeration service sector: technician training project	Germany
(j) Domestic & commercial refrigeration service sector: CFC-12 recovery project	UNDP
(k) Domestic & commercial refrigeration service sector: regional CFC-12 recycle/reclaim project	UNDP
(l) Customs training	Germany
(m) Project implementation & monitoring unit	UNDP

NATIONAL CO-ORDINATING AGENCY:	CONAMA
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LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT**A: ARTICLE 7 DATA (ODP tonnes, 2004, as of 26 September 2005)**

Annex A Group I, CFCs	1,870.50		
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B: COUNTRY PROGRAMME SECTORAL DATA (ODP tonnes, 2003, as of May 2004)

ODS	Foam	Ref.	Aerosol	Solvents	CFC consumption remaining eligible for funding (ODP tonnes)
CFC-11	0	0	0	n.a.	0
CFC-12	0	3,149	55.33	n.a.	
CFC-113	n.a.	n.a.	n.a.	12	
CFC-114	n.a.	18.7	0	n.a.	
CFC-115	n.a.	n.a.	n.a.	n.a.	

CURRENT YEAR BUSINESS PLAN: Total funding US \$7.411 million: total phase-out 1,950 ODP tonnes

PROJECT DATA		2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
CFCs (ODP tonnes)	Montreal Protocol limits		10,521	10,521	5,261	5,261	1,578	1,578	1,578	0	n.a.
	Annual consumption limit	8,280	6,967	5,020	3,070	2,050	1,000	424	74	0	n.a.
	Annual phase-out from ongoing projects	745	313	1,210	1,207	0	0	0	0	0	3,475
	Annual phase-out newly addressed	251	1,000	737	743	1,020	1,050	576	350	74	5,801
	Annual unfunded phase-out	0	0	0	0	0	0	0	0	0	0
TOTAL ODS CONSUMPTION TO BE PHASED OUT		996	1,313	1,947	1,950	1,020	1,050	576	350	74	9,276
Total ODS consumption to be phased-in (HCFCs)		0	0	0	0	0	0	0	0	0	0
Final Project costs (US \$):											
Funding for lead agency UNDP		7,860,000	5,720,000	0	3,970,000	2,856,400	1,190,000	870,000	250,000	100,000	22,816,400
Funding for Germany bilateral		1,640,000	700,000	0	0	1,543,600*	0	0	0	0	3,883,600
Total project funding		9,500,000	6,420,000	0	3,970,000	4,400,000	1,190,000	870,000	250,000	100,000	26,700,000
Final Support costs (US \$)											
Support cost for lead agency UNDP		705,400	500,000	0	342,500	242,276	92,300	63,500	12,500	5,000	1,963,278
Support cost for Germany bilateral		147,600	63,000	0	0	138,924*	0	0	0	0	349,524
Total support costs		853,000	563,000	0	342,500	381,200	92,300	63,500	12,500	5,000	2,313,000
TOTAL COST TO MULTILATERAL FUND (US \$)		10,353,000	6,983,000	0	4,312,500	4,781,200	1,282,300	933,500	262,500	105,000	29,013,000
Final Project cost-effectiveness (US \$/kg)											4.60

FUNDING REQUEST: Approval of the fourth tranche funding (2006) for UNDP activities only as indicated above.

*The Government has agreed to delay the 3rd and 4th tranches of the Germany allocation to the first meeting of 2006.

PROJECT DESCRIPTION

1. The National CFC phase-out plan (NCP) for Brazil was approved in July 2002 at the 37th Meeting of Executive Committee, at a total level of funding of US \$26.7 million. With the support of this plan, the Government of Brazil intends to achieve complete phase out of its CFC consumption by 2010, starting at a consumption level of 8,280 ODP tonnes in 2002.
2. The Plan is being implemented with the assistance of UNDP as lead implementing agency and the Government of Germany as co-operating agency for the service technician and customs officer training programmes. So far, requests for three tranches have been approved. UNDP, on behalf of the Government of Brazil, submitted for the 47th Meeting a request for approval of the fourth tranche, accompanied by the documentation required.
3. The document submitted by UNDP to the 47th Meeting, on behalf of the Government of Brazil, consists of:
 - (a) A comparison of achievements versus performance indicators for 2004, such as consumption, work plan targets etc.;
 - (b) An independent verification report regarding 2004 consumption data;
 - (c) Report on the progress achieved in the first eight month of the Third Phase Implementation Work Plan (2005); and
 - (d) Fourth Phase Implementation Work Plan (2006) and related funding request.

Status

4. The plan covers activities in multiple sub-sectors and activities. An overview of the current status is provided in the following table.

<i>ACTIVITY/SECTOR</i>	<i>OVERVIEW</i>
Project management unit (I&M unit)	The unit worked closely with the Government and UNDP, providing technical and operational assistance, as well as support for the implementation of activities. All the activities implemented described in the progress report were undertaken with the assistance of the I&M Unit.
Foam manufacturing sector	The conversion of 71 enterprises was completed in the integral skin, Rigid PU and Flexible Molded PU sub-sectors. There is still a current bidding process for all of 32 companies in the Flexible Foam sub-sector. Project completion reports are being written for completed projects. Implementation of this component is following the original schedule as planned. Conclusion is expected for 2006.
Commercial refrigeration	As there were no companies that met the Government's criteria,

ACTIVITY/SECTOR	OVERVIEW
manufacturing sector	the Government decided to transfer the funds to the recovery component.
MAC servicing sector	Workshops on best practices in servicing of MAC as well as Recovery and Recycling equipment distribution have started in the state of São Paulo. Conclusion is expected by mid of 2006.
Industrial refrigeration and central air-conditioning servicing sector – chillers	The project document is being evaluated by the Government. The equipment specifications have been prepared. The demonstration project is considered high priority by the Government. Its conclusion is expected in 2007.
CFC recovery	The implementation has been initiated with the acquisition of 2000 recovery machines. An additional 1,500 machines are in the final phase of procurement process. This project is considered as priority by the Government aiming to speed up implementation and achievement of outcomes. Its conclusion is expected in 2008.
CFC reclaim center	The first reclaim centre was established in São Paulo. The process of establishment of the centre in Rio de Janeiro has started by launching of equipment bidding process in September 2005. A study is being considered aiming the selection of the enterprise that would operate the reclaim centres in the regions of Northeast, Center, East and South. Presently it is being considered whether to reduce the number of reclaim centres into 5 instead of 10 as originally planned. The conclusion of this activity is expected in 2008.
MDI transition strategy	A survey is being carried out by the Technical Federal Registry and the Health Ministry. Presently there is insufficient data from various Government institutions, thus the country strategy could not yet be finalized. The conclusion of the activity is expected in 2006.
CFC-113 solvents	A survey is being carried out by Technical Federal Registry. The conclusion of the activity is expected in 2006.
CFC-12 sterilants	A survey is being carried out by Technical Federal Registry. The conclusion of the activity is expected in 2006.
Refrigeration service technician training *	More than 3.000 technicians were trained in São Paulo where a reclaim centre is already established. Training in some of the other States started this year. The conclusion of training activities is expected in 2009.
Customs officer training *	Two workshops on ODS customs control were held in 2003 in Rio de Janeiro. Amongst the trained there were 55 customs officers/instructors from the Secretaria de Receita Federal as well 9 staff members from the national environmental protection agency (IBAMA) that issues import licenses.

* Implemented by Government of Germany

5. The following comparison of expenditures relates to the sub-sectors and activities mentioned in the previous table. In combination it provides valuable insights into the progress of implementation.

6. The first two years of implementation, covered in the report, show a relatively slow start of expenditures, as typical for many phase-out plans. The table below provides an overview of the fund utilisation, which was low in the first years. It should be noted, though, that this is not necessarily a bad sign since multiyear agreements had repeatedly been frontloaded. It should also be noted that the plan met all its objectives.

Activity / Sector	Total budget 1st, 2nd tranche	Expenditures until 12.04	
		Amount	Share of budget
Project management unit (I&M unit)	\$1,260,000	\$507,503	34.9%
Foam manufacturing sector	\$4,200,000	\$2,418,490	57.6%
Comercial refrigeration manufacturing sector	\$770,000	\$49,124	3.6%
MAC service sector	\$1,756,400	\$247,074	12.3%
Industrial refrigeration and central air conditioning service sector - chillers	\$863,600	\$3,127	0.4%
CFC recovery	\$3,330,000	\$1,743,606	31.3%
CFC reclaim center	\$1,400,000	\$349,117	18.0%
MDIs	\$0	\$0	0.0%
CFC-113 solvents	\$0	\$0	0.0%
CFC-12 sterilants	\$0	\$0	0.0%
Refrigeration service technician training*	\$2,198,000	\$868,104	39.5%
Customs officer training*	\$141,200	\$90,900	64.4%
Total	\$15,919,200	\$6,277,044	31.6%

*Implemented by Government of Germany

7. Within 2005 expenditures under the plan increased measurably, almost doubling their pace. The expenditures are actually larger than the approval for 2005, consequently the financial reserves of the project are decreasing. The foam, MAC and recovery components, all tied to equipment supplies, had relatively high relative and absolute expenditures during 2005.

Activity / Sector	Total budget 1st - 3rd tranche	Expenditures and commitments until 12.05	
		Amount	Share of budget
Project management unit (I&M unit)	\$1,455,000	\$959,526	65.9%
Foam manufacturing sector	\$4,200,000	\$3,874,952	92.3%
Comercial refrigeration manufacturing sector	\$1,370,000	\$49,124	3.6%
MAC service sector	\$2,006,400	\$1,567,364	78.1%
Industrial refrigeration and central air conditioning service sector - chillers	\$863,600	\$3,127	0.4%
CFC recovery	\$5,568,200	\$3,186,606	57.2%
CFC reclaim center	\$1,936,800	\$699,117	36.1%
MDIs	\$50,000	\$4,938	9.9%
CFC-113 solvents	\$50,000	\$0	0.0%
CFC-12 sterilants	\$50,000	\$0	0.0%
Refrigeration service technician training*	\$2,198,000	\$1,254,308	57.1%
Customs officer training*	\$141,200	\$116,700	82.6%
Total	\$19,889,200	\$11,715,762	58.9%

*Implemented by Government of Germany

8. The available budget for the different activities in 2006 and in the following years has the largest amount associated with recovery and recycling as well as reclamation. Commercial

refrigeration, chillers training of refrigeration technicians and project management remain significant in the coming years. In comparison, activities in the MAC and foam sector have been largely implemented. Certain smaller sectors, such as MDIs, solvents and sterilisants, have so far seen hardly any activities. Reports regarding the sectors are supposed to be finalised in 2006, the available funding will then be used for activities linked directly to phase-out. Despite the availability of funds, it seems unlikely that the activities will commence in 2006.

Activity / Sector	Remaining budget post 12.05	2006 request (4th tranche)	
		Amount	New total
Project management unit (I&M unit)	\$495,474	\$500,000	\$995,474
Foam manufacturing sector	\$325,048	\$0	\$325,048
Commercial refrigeration manufacturing sector	\$1,320,876	\$0	\$1,320,876
MAC service sector	\$439,036	\$0	\$439,036
Industrial refrigeration and central air conditioning service sector - chillers	\$860,473	\$200,000	\$1,060,473
CFC recovery	\$2,381,594	\$1,000,000	\$3,381,594
CFC reclaim center	\$1,237,683	\$0	\$1,237,683
MDIs	\$45,062	\$400,000	\$445,062
CFC-113 solvents	\$50,000	\$500,000	\$550,000
CFC-12 sterilants	\$50,000	\$500,000	\$550,000
Refrigeration service technician training*	\$943,692	\$0	\$943,692
Customs officer training*	\$24,500	\$0	\$24,500
Total	\$8,173,438	\$3,100,000	\$11,273,438

*Implemented by Government of Germany

Issues

9. Decision 45/45 requested UNDP to provide clarification as to the relationship between the reported national CFC consumption and the phase-out activities being funded under the NCPP for Brazil, and to include this information in its annual report when requesting the 2006 funding tranche at the 47th Meeting. UNDP reported that “a major effect in consumption is expected from the application of the quota system while the activities undertaken in the servicing sector (current main consumer of CFC) are focused to alleviate the impact of the reductions in CFCs in the internal market due to the application of the legislation”. Accordingly the report provided by UNDP reflects this understanding.

10. A request for the UNDP share of the third tranche was submitted to the 45th Meeting along with the required documentation and received approval. The corresponding share for the Government of Germany of US \$1,300,000 plus support cost of US \$117,000 was not requested, on the basis of an agreement between the Governments of Brazil and Germany that the German shares of the third and fourth tranche could be approved as late as 2006. The request for approval of the fourth tranche submitted to this 47th Meeting has similar characteristics, containing the required documentation and a request for full funding of the UNDP share of the tranche, and no request for funding for Germany’s share. With approval of this request, and on the basis of mutual agreement between the Governments of Brazil and Germany as well as the Executive Committee, the approved funding for the NCPP for Brazil will be US \$1,548,168 plus support cost of US \$134,356 in arrears as compared to the original agreement. Approval for this amount will be requested at the 48th Meeting in 2006, to be funded through the bilateral contribution of the Government of Germany.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

11. The proposal has been submitted for consideration at the 47th Meeting, and the Secretariat has reviewed it accordingly. The report and subsequent information provide a very transparent picture regarding previous progress, status and planned activities of the NCPP

12. A number of issues were raised and clarified by UNDP and Brazil. These were clarifications on the decision making processes, achieved phase-out in the foam sector and associated costs, and clear separation of activities and expenditures under the NCPP from other activities funded by the Multilateral Fund, in order to ensure that no double counting of activities took place. The Secretariat voiced its concern regarding the volume of the recovery, recycling and reclamation activities versus their potential benefit in the project, requesting UNDP to ensure that Brazil is making an informed decision regarding the use of funds in particular in this area. UNDP clarified that changes in this budget item, some already part of this request, continue to be considered. Detailed data about expenditures for different activities was requested, which was used to prepare the tables in this paper. UNDP and GTZ provided detailed explanations regarding all questions, all open issues were subsequently resolved.

RECOMMENDATION

13. The Fund Secretariat recommends blanket approval of the fourth tranche of the phase-out plan with associated support costs at the funding levels shown in the table below:

	Project Title	Project Funding (US\$)	Support Cost (US\$)	Implementing Agency
(a)	National CFC phase-out plan: fourth tranche	2,856,400	242,276	UNDP
(b)	National CFC phase-out plan: fourth tranche	0	0	Germany
