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EXECUTIVE COMMITTEE OF  
THE MULTILATERAL FUND FOR THE  
IMPLEMENTATION OF THE MONTREAL PROTOCOL  
Fifty-first Meeting  
Montreal, 19-23 March 2007

**PROJECT PROPOSAL: PHILIPPINES**

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

Phase-out

- National CFC phase-out plan: 2007 annual programme Sweden and World Bank

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**PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS  
PHILIPPINES**

**PROJECT TITLE****BILATERAL/IMPLEMENTING AGENCY**

National CFC phase-out plan: 2007 annual programme	Sweden and World Bank
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**NATIONAL CO-ORDINATING AGENCY:**

Department of Environment and Natural Resources

**LATEST REPORTED CONSUMPTION DATA FOR ODS ADDRESSED IN PROJECT****A: ARTICLE-7 DATA (ODP TONNES, 2005, AS OF FEBRUARY 2007)**

CFC	1,014.2		

**B: COUNTRY PROGRAMME SECTORAL DATA (ODP TONNES, 2005, AS OF FEBRUARY 2007)**

ODS	Aerosol	Foam	Ref. Mfg.	Ref. Servicing	Solvents	Process agent	Fumigant
CFC				1,049.85			

**CFC consumption remaining eligible for funding (ODP tonnes)**

CURRENT YEAR BUSINESS PLAN: Total funding US \$474,000: total phase-out 88.0 ODP tonnes.

PROJECT DATA		2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
CFC (ODP tonnes)	Montreal Protocol limit			3,055.9	1528	1,528	458.4	458.4	458.4	0	
	Annual consumption limit	2,017.6	1,960	1,810	1,509	1,360	453	400	300	0	
	Annual phase-out from ongoing projects	31.7									31.7
	Annual phase-out newly addressed		57.6	150	301	149	907	53	100	300	2,017.6
	Annual unfunded phase-out										
<b>TOTAL ODS CONSUMPTION TO BE PHASED OUT</b>											2,049.3
Total ODS consumption to be phased-in (HCFCs)		N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
<b>Final project costs (US \$):</b>											
Funding for Lead IA: World Bank		2,858,473	1,877,418	2,160,071	2,873,197	337,717	110,000	0	0		10,216,876
Funding for Cooperating IA: Sweden		152,400	166,134	40,000	0	0	0	0	0		358,534
<b>Total project funding</b>		3,010,873	2,043,552	2,200,071	2,873,197	337,717	110,000	0	0		10,575,410
<b>Final support costs (US \$):</b>											
Support cost for Lead IA: World Bank		248,663	160,968	186,006	248,588	20,795	5,500	0	0		870,520
Support cost for Cooperating IA: Sweden		11,316	12,952	2,000	0	0	0	0	0		26,268
<b>Total support costs</b>		259,979	173,920	188,006	248,588	20,795	5,500	0	0		896,788
<b>TOTAL COST TO MULTILATERAL FUND (US \$)</b>		3,270,852	2,217,472	2,388,077	3,121,785	358,512	115,500	0	0		11,472,197
Final project cost effectiveness (US \$/kg)											

**FUNDING REQUEST:** Approval of funding for delayed fifth tranche.**SECRETARIAT'S RECOMMENDATION**

Blanket approval

## PROJECT DESCRIPTION

1. The World Bank has submitted to the 51st Meeting of the Executive Committee, on behalf of the Philippines, a document requesting the fifth tranche of the national CFC phase-out plan (NCP) for the Philippines, at a total cost of US \$337,717 plus agency support cost of US \$20,795. This is intended for the implementation of the NCP's 2007 annual work-plan. The submission consists of:

- (a) Part I: 2006 annual programme accomplishments;
- (b) Part II: 2007 annual plan; and
- (c) Part III: Consumption verification for 2005.

### Background information

2. The Philippines' national CFC phase-out plan was approved in principle at the 38th Meeting of the Executive Committee in November 2002, with a total value of US \$10,575,410 and agency support cost of US \$896,788, to phase out 2,017.6 ODP tonnes of CFCs. The plan is being implemented over eight years from 2002-2009. The first tranche of US \$3,010,873 with agency support cost of US \$259,979 was approved at the 38th Meeting in December 2002 for the first phase (2002-2003), with expected CFC phase-out of 89.3 ODP tonnes. The second tranche of US \$2,043,552 was approved at the 41st Meeting in December 2003 for the implementation of the 2004 work-plan with expected phase-out of 150 ODP tonnes. The third tranche of US \$2,200,071 was approved at the 44th Meeting in December 2004, for the implementation of the 2005 work-plan to phase out 301 ODP tonnes. The fourth tranche for this project was approved at the 47th Meeting in November 2005 for the implementation of the 2006 work programme, at a cost of US \$2,873,197. The fourth tranche was expected to phase out 149 ODP tonnes.

3. The CFC control targets and disbursement schedule under the Agreement are shown in the table below:

Table 1

### **Disbursement schedule and control targets for total CFC phase-out in the Philippines (ODP tonnes and US \$)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Maximum allowable CFC consumption	2,049.3	2017.6	1,960	1,810	1,509	1,360	453	400	300	0	
Reduction from ongoing projects	-	31.7	-	-	-	-	-	-	-	-	31.7
New reduction under plan	-	-	57.6	150	301	149	907	53	100	300	2,017.6
Total annual reduction	-	31.7	57.6	150	301	149	907	53	100	300	2,049.3
Agreed funding (WB Component I)	-	2,858,473	1,877,418	2,160,071	2,873,197	337,717	110,000	0	0		10,216,876
WB support costs	-	248,663	160,968	186,006	248,588	20,795	5,500	-			870,520

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Total
Agreed funding (Swedish Component II)	-	152,400	166,134	40,000	0	0	0	0	0		358,534
Swedish bilateral support costs	-	11,316	12,952	2,000	0	0	0	0	0		26,268
Total agreed funding (US \$)	-	3,010,873	2,043,552	2,200,071	2,873,197	337,717	110,000	0	0		10,575,410
Total agency support costs (US \$)	-	259,979	173,920	188,006	248,588	20,795	5,500	0	0		896,788
Total cost to the MLF		3,270,852	2,217,472	2,388,077	3,121,785	358,512	115,500	0	0		11,472,198

4. Payments in 2007 and subsequent years are subject to:

- (a) Achievement of the reduction targets and consumption limits specified in Table 1 and other performance requirements contained in this Agreement;
- (b) Approval of the annual implementation programme for the following year; and
- (c) Compliance with the milestones outlined in Table 12.2 of Chapter 12 of the NCPP and the relevant annual implementation programme.

5. In addition, payments in 2007 will be released based on confirmation that: the agreed reductions and maximum consumption targets noted in Table 1 for the previous year have been achieved; it has been verified that CFC phase-out has taken place; and a substantial proportion of the activities planned for the previous year were undertaken, in accordance with the annual implementation programme.

6. The maximum allowable CFC consumption level in the Philippines for 2005 was set at 1,509 ODP tonnes. Verified CFC consumption based on actual import in 2005 was at the level of 1,014.17 ODP tonnes. The 2005 consumption was therefore 494.83 ODP tonnes less than the maximum allowable consumption level listed in Table 1 of the Agreement. Based on quotas issued by the Government as well as unallocated quotas, CFC consumption in 2006 is projected to be 641.82 ODP tonnes, which is well below the maximum allowable consumption of 1,360 ODP tonnes established by the Agreement. The actual CFC consumption level will be provided in the 2006 verification report.

7. Based on information obtained by the Government through addressing the relevant sectors in 2004, 2005 and 2006, the reduction target of 149 ODP tonnes was achieved from completed activities in the servicing sector, as follows:

Foam manufacturing	0 ODP tonnes
Refrigeration	0 ODP tonnes
Servicing sector	149 ODP tonnes
<b>TOTAL</b>	<b>149 ODP tonnes</b>

Industry actions

8. The downward trend in the consumption of CFCs in foam and refrigeration manufacturing continued, driven by the regulatory climate and market trends. These include:

- (a) Continuous enforcement of the licensing system and monitoring conducted by the Department of Environment and Natural Resources (DENR) and the Bureau of Customs (BOC);
- (b) A reduction in the demand for importation of CFC as a result of an increasing trend towards the importation of transitional substances/alternatives;
- (c) Importation of CFC-12 is allocated for the servicing sector only; and
- (d) Records from the DENR show that at the end of December 2006, four importers had not fully used their allocated quota, while two importers were granted, upon their request, additional quota for servicing.

9. The foam and refrigeration equipment manufacturing sector has eliminated its use of CFCs in the last few years. Most foam manufacturers have already switched to methylene chloride (MC), and some have stopped operations due to the economic conditions in the country.

10. In the aerosol sector, the sole manufacturer of CFC-12 propellant switched to HFC-134a in 2005.

11. A survey conducted of the five major pharmaceutical companies in 2004 identified 1,063,071 units of CFC-free MDIs sold on the market against 271,138 units of CFC-containing MDIs, indicating that phase-out of CFC containing MDIs has already commenced. The MDI strategy was completed, however the PMU has continued to support various stakeholder workshops to build awareness and support for the strategy and the need to switch to CFC-free MDIs. The Department of Health (DOH) Administrative Order no. 156 specifies a ban on the importation of salbutamol MDIs containing CFC-12 by 31 December 2007.

Technical assistance activities

12. The NCPP includes a comprehensive technical assistance programme aimed at assisting the manufacturing and servicing sectors with the safe and sustainable phase-out of CFCs.

13. In the foam and refrigeration manufacturing sectors the focus is on monitoring and providing technical assistance to five remaining enterprises. An audit team surveyed 5 of the 13 identified foam manufacturing enterprises. The results of the survey showed that all 5 companies used methylene chloride and none used CFC-11 in 2005. The other enterprises will be monitored in 2007 by the NCPP-PMU.

14. The servicing sector is where the bulk of remaining ODS phase-out will have to be implemented. In an effort to achieve ODS phase-out in this sector, activities to upgrade skills and raise technical standards for the sustainable recovery and recycling programme continue to be

developed and implemented. These include: full implementation of the voucher system to provide tools and equipment to service shops, including certification of suppliers of tools and equipment; training and assessment (certification) of technicians, and the implementation of mandatory inspection of motor vehicles with mobile air-conditioning (MAC) systems.

15. The PMU launched the voucher system in 2006, to signify the nation-wide implementation of the scheme, and collaborated with the Environmental Management Bureau's (EMB) regional offices to conduct eight nation-wide orientation seminars to disseminate information about the NCPP and the voucher system. The PMU allocated a total of 3,030 vouchers to be issued nation-wide, based on data provided by the Department of Trade and Industry on the number of accredited service shops per region. The report indicates that at the end of 2006, 2,209 vouchers had already been issued. The remaining 821 vouchers will be issued in 2007.

16. For the training component, the pilot implementation of the voucher system in the last quarter of 2005 involved 7 training institutions initiating training of service shop technicians. By mid-December 2006, 112 training institutions had trained a total of 2,656 service shop technicians nation-wide

17. The mandatory inspection of motor vehicles with MAC systems also continued, with the signing of a joint Administrative Order between the Department of Environment and the Department of Transportation and Communication (DOTC) in January 2006. This Administrative Order mandates the Land Transportation Office (LTO) to conduct mandatory inspection of air conditioned vehicles prior to registration, with a view to regulating the cars that still use CFC-MACs. As part of this scheme, random inspections and roadside emission testing carried out by the PMU staff and the LTO in November 2006, revealed that about 10 per cent of the inspected vehicles contained adulterated refrigerants.

#### Facilitating establishment of reclamation facility

18. The report indicates that the agreements for the establishment of the reclamation facility were finalised only at the end of 2006, although the procurement of tools and equipment for the facility was initiated in the last quarter of 2005. Activities for this component will continue in 2007.

#### Audit of 2005 CFC consumption

19. As required by the Agreement in the NCPP, the Government commissioned an independent audit of CFC phase-out, covering 2005 consumption and CFC phase-out data. A copy of the report was attached to the request for release of the fifth tranche for information, and is available upon request. The consumption verified by the audit was 1,014.17 ODP tonnes, corresponding to the figure reported under Article 7 to the Ozone Secretariat. Achievement of the 2006 reduction target will be similarly confirmed by an audit report in the 2008 annual programme.

Budget and financial performance

20. A table showing the amounts approved for the phase-out plan for the 2003 to 2006 annual programmes was included in the status report of the 2006 annual programme. Information was provided on the distribution of the approved amounts and their expenditure.

**Budget and financial performance of Philippine NCPP**

21. The following table shows the funding allocated for the manufacturing and servicing sectors under the NCPP and the actual expenditure by sector.

Sector	Allocation of approved funds (US\$)	Actual Expenditure in 2003 (US\$)	Actual Expenditure in 2004 (US\$)	Actual Expenditure in 2005 (US\$)	Actual Expenditure (Jan – mid-Dec 2006) (US\$)	Total Expenditure 2003-2006	Approved amount remaining unutilized at mid 2006 (US\$)	Percentage disbursed as at mid-Dec 2006
Manufacturing	1,043,429.0	3,250.57	24,784.00	62,102.06	21,023.50	111,159.56	932,269.4	10.65
Project Management Unit	1,025,000.0	106,090.41	202,363.01	99,642.89	227,495.29	635,591.67	389,408.3	62

Annual implementation programme for 2007

22. Under the 2007 annual programme, the Philippines will be limited to a maximum CFC consumption of 453 ODP tonnes requiring a net CFC phase-out of 907 ODP tonnes. This will be met through the continuous implementation of the voucher system, operationalisation of the reclamation facility and the enforcement of the ban on the consumption of CFC-11 in the foam and refrigeration manufacturing sectors, which took effect in 2005.

23. A set of new activities are envisaged, as well as continuation of the activities initiated in previous years. These include:

- (a) Monitoring of grant recipients and other enterprises listed in the NCPP (foam and refrigeration enterprises) to ensure their compliance;
- (b) Technical assistance to the MDI sector;
- (c) Technical assistance for MAC inspection and training;
- (d) Implementation of the Code of Practice to ensure improved standards of servicing;
- (e) Implementation of the voucher system to provide tools and equipment for proper servicing of refrigerators and air-conditioners; and
- (f) Establishment of the reclamation facility and implementation of the reclamation scheme.

24. The budget for the 2007 programme is as follows:

Financial subsidy for purchasing MAC recovery and recycling machines	US \$97,717
PMU	US \$240,000
Total PMU Operations	US \$121,429.19
Monitoring and Evaluation (under PMU)	US \$118,570.81
<b>TOTAL</b>	<b>US \$337,717</b>

## SECRETARIAT'S COMMENTS AND RECOMMENDATION

### COMMENTS

25. The conditions for the release of funds for the Philippines' annual programmes are set out in paragraphs 4 and 5 above. A review of the status of implementation of the NCPP revealed that the country had achieved the reduction targets and the specified consumption limits. CFC consumption reported for 2005 is 1,014.17 ODP tonnes, about 494.83 ODP tonnes less than the maximum consumption allowable for the year, that is, 1,509 ODP tonnes. The reduction target of 149 ODP tonnes was therefore achieved.

26. While it is clear from the report that the manufacturing sector has achieved CFC phase-out, the Philippines continues to experience implementation difficulties in the servicing sector, as evidenced by the low level of disbursement. The World Bank indicated that there were a number of delays, especially in 2005 and early 2006, however, the country has prepared a "catch up" plan in order to meet their outputs for 2006.

27. Although several difficulties were encountered with the move to full scale implementation of the voucher system and the application of new rules and policies, the full programme was formally launched in 2006. By the end of December 2006, more than half of the targeted vouchers had been distributed. While this shows the Government's commitment to push forward the activities in the servicing sector, the report does not indicate the length of time for final delivery of equipment to the voucher recipients, and how this delay in the implementation of the voucher system will impact total CFC phase-out.

28. The Secretariat also notes that the annual plan submitted is not comprehensive and lacks elements that show how the activities in the servicing sector, which is one of the most difficult to phase out are being addressed, apart from the continued implementation of the voucher system. The World Bank is requested to provide this information.

29. The World Bank is also requested to provide clarification on other activities that will be undertaken in 2007, taking into account the fact that there are still remaining funds allocated to the manufacturing sector which has already been phased out. Notwithstanding the flexibility clause in the Agreement, these activities are not clearly addressed in the annual implementation plan.

30. In response to the Secretariat's request for additional analysis on the impact of the 2007 annual work-plan and how the country will meet the 85 per cent reduction target, the World



Bank provided a revised annual implementation plan for 2007, as well as the additional information below:

- (a) The steep decrease envisaged from the 2005 consumption to meeting the 2007 target (i.e. decrease of 907 ODP tonnes according to the NCPP targets) has in fact been managed with gradual decreases in importation and demand. The World Bank says that, in reality, the phase-out required to meet the target would only be 228 ODP tonnes, which is a manageable target;
- (b) For 2007, the PMU and responsible Government officials will now focus on meeting the final milestone which is to ensure that CFC imports are consistent with the import quota through monitoring and enforcement of policies;
- (c) In the mobile air-conditioning subsector, a functional database of trained technicians will be completed for this year, to complement regulations which control motor vehicle inspections. Training and tools for Land Transportation Office inspectors across the country have been distributed and the existing database of registered motor vehicles has been modified to include reporting and monitoring of MAC systems and refrigerants;
- (d) The full implementation of the voucher system will be a priority in 2007, with the next step being to take stock of the assistance provided to shops in all regions and to determine the remaining needs in the sector, in terms of financial resources for facilitating the transition to good practice and less dependence on CFCs within the regulated sector; and
- (e) Implementation of the reclamation scheme had not commenced as of the end of 2006. The Government will make this a priority in 2007, because a large number of shops will have the capacity to recover CFCs and because of the simultaneous reduction in the supply of virgin CFCs as a result of the 85% reduction. One of the issues that needs to be addressed is the strengthening of the direct link between the service shops and the reclamation facility. This is seen as a major challenge given the archipelagic configuration of the Philippines. "Sub-stations" or local collection facilities/arrangements (e.g., existing distribution network, etc.) will have to be established and/or improved.

31. The World Bank also indicates that the demand for virgin CFCs by the servicing sector in the Philippines will continue to decrease, with the attainment of a minimum level by 2012, when all pre-1999 motor vehicles will have been retrofitted with CFC-free systems under LTO regulations. The minimal (or zero) demand for virgin CFCs will be driven by lack of supply (i.e., a total ban on importation by 2010), the LTO regulation that prohibits re-conversion and the other measures outlined above. The report also shows that the LTO will no longer register vehicles containing CFC-MACs in 2012. At this point in time, the price of CFCs does not seem to be playing a role in the demand reduction as CFCs still cost less than the alternatives and transitional substances, however, this in itself could be a sign that there is lower CFC demand.

**RECOMMENDATION**

32. The Fund Secretariat recommends blanket approval of the project with associated support costs at the funding level shown in the table below.

	<b>Project Title</b>	<b>Project Funding (US \$)</b>	<b>Support Cost (US \$)</b>	<b>Implementing Agency</b>
(a)	National CFC phase-out plan: 2007 annual programme	337,717	20,795	World Bank