



**United Nations
Environment
Programme**

Distr.
GENERAL

UNEP/OzL.Pro/ExCom/54/35
20 March 2008

ORIGINAL: ENGLISH



EXECUTIVE COMMITTEE OF
THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL
Fifty-fourth Meeting
Montreal, 7-11 April 2008

PROJECT PROPOSAL: INDONESIA

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

Phase-out

- National phase-out plan for Annex A Group I and Annex B Groups II and III substances based on the following sector activities:
 - Phase-out of CFCs in the refrigeration sector (manufacturing) (sixth tranche)
 - Phase-out of residual CFCs in the foam sector (fourth tranche)

UNDP

World Bank

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PROJECT EVALUATION SHEET – MULTI-YEAR PROJECTS

Indonesia

| | |
|--------------------------|-------------------|
| (I) PROJECT TITLE | AGENCY |
| ODS phase out plan | IBRD, UNDP, UNIDO |

| | | | | | |
|--|--------|-----------|----------|-------------------|--|
| (II) LATEST ARTICLE 7 DATA (ODP Tonnes) | | | | Year: 2006 | |
| CFC: 231 | CTC: 0 | Halons: 0 | MB: 22.8 | TCA: 0 | |

| (III) LATEST COUNTRY PROGRAMME SECTORAL DATA (ODP Tonnes) | | | | | | | Year: 2006 | | | | | | |
|--|---------|------|-------|---------------|-----------|---------|-------------------|-----|---------|----------------|---------|------------------|--------------------------|
| Substances | Aerosol | Foam | Halon | Refrigeration | | Solvent | Process Agent | MDI | Lab Use | Methyl Bromide | | Tobacco fluffing | Total Sector Consumption |
| | | | | Manufacturing | Servicing | | | | | QPS | Non QPS | | |
| CFC | | 37.1 | | | 193.9 | | | | | | | | 231 |
| CTC | | | | | | | | | | | | | 0 |
| Halons | | | | | | | | | | | | | 0 |
| Methyl Bromide | | | | | | | | | 126.6 | 22.8 | | | 149.4 |
| TCA | | | | | | | | | | | | | 0 |

| (IV) PROJECT DATA | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total | |
|--|---------------|---------------|------------|------------|------------|------------|----------|----------|------|------|-------------|-------------|
| Maximum Allowable Consumption (ODP Tonnes) | CFC | | | 5,546. | 3,880. | 2,331. | 1,122. | 30. | 30. | 0. | | |
| | | | | | | | | | | | | |
| Project Costs (US\$) | IBRD | Project Costs | 1,369,800. | 1,347,300. | 3,444,210. | 1,176,800. | 273,364. | 35,000. | | | 7,646,474. | |
| | | Support Costs | 121,962. | 119,937. | 277,205. | 88,842. | 21,069. | 2,625. | | | 631,640. | |
| | UNDP | Project Costs | 3,484,758. | 4,005,987. | 2,486,000. | 1,000,000. | 376,555. | 181,000. | | | | 11,534,300. |
| | | Support Costs | 307,628. | 354,939. | 213,740. | 88,800. | 32,690. | 16,290. | | | | 1,014,087. |
| | UNIDO | Project Costs | | | 1,464,733. | | | | | | | 1,464,733. |
| | | Support Costs | | | 108,974. | | | | | | | 108,974. |
| Total Funds Approved in Principle (US\$) | Project Costs | 4,854,558. | 5,353,287. | 7,394,943. | 2,176,800. | 649,919. | 216,000. | | | | 20,645,507. | |
| | Support Costs | 429,590. | 474,876. | 599,919. | 177,642. | 53,759. | 18,915. | | | | 1,754,701. | |
| Total Funds Released by the ExCom (US\$) | Project Costs | 4,854,558. | 5,353,287. | 7,394,943. | 0. | 2,176,800. | 649,919. | | | | 20,429,507. | |
| | Support Costs | 429,590. | 474,876. | 599,919. | 0. | 177,642. | 53,759. | | | | 1,735,786. | |
| Total Funds Requested for Current Year (US\$) | Project Costs | | | | | | | 216,000. | | | 216,000. | |
| | Support Costs | | | | | | | 18,915. | | | 18,915. | |

| | |
|--|-----------------------------|
| (V) SECRETARIAT'S RECOMMENDATION: | For blanket approval |
|--|-----------------------------|

PROJECT DESCRIPTION

1. On behalf of the Government of Indonesia, UNDP has submitted to the 54th Meeting of the Executive Committee, a request for the 2008 funding tranche of the national phase-out plan (NPP) for Indonesia, at a total cost of US \$181,000 plus agency support costs of US \$16,290 for UNDP and US \$35,000 plus agency support costs of US \$2,625 for the World Bank.

Background

2. The NPP for Indonesia was approved at the 44th Meeting of the Executive Committee, with UNDP as lead implementing agency and UNIDO and the World Bank as cooperating implementing agencies. The NPP for Indonesia was a combination of several earlier sector plans and new activities and introduced, for Indonesia, the concept of verification of consumption on a national level.

3. The implementation of this NPP supports the Government of Indonesia in meeting its Montreal Protocol obligations, including the complete phase-out of the controlled use of CFCs, CTC and TCA, prior to 1 January 2008. In order to achieve these targets, a series of investment, non-investment, technical assistance and capacity building activities will be, and are being, implemented by Indonesia with the assistance of UNDP, UNIDO and the World Bank. The total funds approved in principle for the NPP amounted to US \$20,645,507 plus agency support costs of US \$1,754,701.

4. The second tranche was approved at the 48th Meeting on the understanding that funding would not be released until the Secretariat had been officially informed by the Government that the new ODS import control regulations had been adopted and were being implemented. In its letter dated 18 December 2006, the Multilateral Fund Secretariat informed UNDP and the World Bank that the revised regulation has fulfilled these criteria. At the 51st Meeting, the third tranche was approved. The tranche requested at this Meeting is the final tranche of the project, delayed from 2007 due to issues related to the verification of consumption.

Verification

5. As part of the submission to the 51st Meeting, UNDP provided a report on the experience in the initial implementation of a new regulation regarding the “Provision of Ozone Depleting Substances (ODS) Import”, signed in June 2006, prepared by the verifier. At that time, the verifier stated that progress in the implementation of the regulation is apparent and that the steps undertaken are likely to lead to an effective mechanism for controlling the supply of ODS.

6. In the case of Indonesia, the consumption is equal to imports. The verified consumption for 2006 remained at or below 177.88 ODP tonnes, reduced from 1,074.9 ODP tonnes in the previous year, and is considerably below the maximum allowable consumption of 2,331 ODP tonnes. Since neither the annual plan nor the verification contained further information about the background and reasons for this drop in consumption, and because the regulation came only into force in the middle of 2006, the Secretariat requested more detailed information to be included in the verification. This data request related to the verification of imports in the first half of the year, and to the reasons for the decrease in consumption.

7. UNDP provided an amended verification report. The verification report indicates that excessive imports did take place in 2005 in anticipation of an increase in prices and a decrease in supply due to imminent closure of production facilities in China. This led to significant stockpiles and to zero imports in the first half of 2006. The report also shows that the demand decreased significantly, both due to the phase-out activities as well to increased ODS prices. It also provides insights into a sample of enterprises and their CFC consumption pattern, showing a strong decrease in consumption between 2005 and 2006. The prices of CFCs and alternatives are shown in the following table. According to the information provided, CFC-11 appears to have been more expensive than the alternative HCFC-141b for some years. In 2006, CFC-12 was for the first time more expensive than its most prevalent replacement, HFC-134a.

Prices for different chemicals in Indonesia from 2005 to 2007, per kg

| | Year | | |
|--|------------|------------|------------|
| | 2005 | 2006 | 2007 |
| Exchange rate: IDR 1000 equivalence in US \$ (June 30) | 0.1032 | 0.172 | 0.1103 |
| Chemical | | | |
| CFC-11 | IDR 31,000 | IDR 32,000 | IDR 33,500 |
| CFC-12 | IDR 33,000 | IDR 50,000 | IDR 45,000 |
| HCFC-141b | IDR 16,500 | IDR 18,000 | IDR 20,000 |
| HCFC-22 | IDR 17,500 | IDR 17,500 | IDR 19,000 |
| HFC-134a | IDR 48,000 | IDR 48,000 | IDR 42,750 |

8. The verification report provided an assessment of the regulatory implementation, as a follow up to the preliminary assessment of legislation in the previous verification report, relating then only to the first weeks after the regulation had been passed. This assessment is positive and concludes that the system, while not yet perfect, has been a significant improvement over the previous situation, has shown very rapid improvement in its implementation, and has a broad buy-in from stakeholders, including a number of different ministries and customs.

9. The verification report mentions ODS imports for 2007 of 186.92 ODP tonnes; the maximum allowable consumption for 2007 is 1,122 ODP tonnes. At the same time, the imports of HCFCs seem to have increased dramatically, from 656.91 metric tonnes in 2005 to 1,729.21 and 1,799 metric tonnes in 2006 and 2007. According to the verification report, Indonesia has, in the year 2006, clearly consumed significantly less than the maximum allowable consumption under the Agreement.

Implementation report for 2006

10. UNDP reports that the protracted consultative process to amend the existing ODS regulations in Indonesia, with close coordination of the implementing agencies, the Secretariat, the PMU and the various ministries, was finally concluded with the issuance of a Ministerial Decree dated 22 June 2006 by the Ministry of Trade.

11. In the refrigeration manufacturing sector, 14 enterprises received support in 2006, bringing the total to 77 enterprises, which consumed 781 ODP tonnes annually. In addition, a survey showed that at least an additional 286 ODP tonnes were effectively phased out by enterprises either no longer operating or consuming ODS.

12. A total of 134 training establishments are now fully equipped for providing technician training as of early 2007, 1,156 master trainers have been trained, and 2,296 technicians have received training during 2006 and 2007. Equipment for 186 refrigeration servicing companies was distributed in 2007. Equipment for five potential reclaim centre enterprises is currently under distribution. UNDP provided also technical assistance for establishing a National Competency Standard for Refrigeration Technicians. Twenty-one new end-users from the hotels, hospitals, ice factories, restaurants and food processing sectors entered the pilot retrofitting/replacement demonstration programme in 2007, while conversion activities for 39 end-users which entered the programme in earlier years were completed.

13. Three workshops for MAC servicing technicians were held in 2007, after 11 workshops had trained a total of 351 technicians in 2006. In 2006 a total of 108 recovery and recycling machines were distributed to MAC workshops. In 2007 another 167 recovery and recycling machines were distributed, with an additional 62 deliveries expected in the first quarter of 2008.

14. In the foam sector, ten rigid foam enterprises and three integral skin/shoe sole enterprises have been converted to alternatives. In the aerosol sector a workshop on aerosol technology and safety was organized.

Annual implementation plan 2008 and outlook for 2009

15. The Secretariat had requested a consolidation of activities in 2008 and an outlook on activities for 2009 in light of the reported remaining balances of the three agencies implementing the programme. UNDP provided revised balances, and a programme foreseeing activities during the year 2009 in the refrigeration manufacturing, refrigeration servicing, MAC servicing, aerosol, foam and solvent sub-sectors. The expected expenditures for equipment and reimbursement of trial cost for the refrigeration manufacturing sector are US \$260,000; US \$40,000 are foreseen for retrofits of refrigeration equipment, and US \$25,000 for safety equipment in the aerosol sector. The remaining funds of about US \$1.91 million are planned for non-investment activities during the year 2008. These include workshops and training, development of safety guidelines, other technical assistance, policy development and enforcement, monitoring, and verification. For 2009, activities are foreseen for all of the above sectors with focus on refrigeration and foam sectors, for a total of US \$0.62 million.

SECRETARIAT'S COMMENTS AND RECOMMENDATION

COMMENTS

16. The amended verification of the 2006 consumption data provided sufficient certainty that the actual consumption under Indonesia's National phase-out plan remained below the maximum allowable consumption. The absence of imports in the first half of the year was sufficiently explained in the verification report, and even in case of significant unlicensed imports during that time, the maximum allowable consumption would not have been reached. Further, in 2006 the economic incentives started working against CFCs in Indonesia, something which could also be observed for other countries; and the introduction of a licensing system was long announced, leading to likely stockpiling in 2005 when CFC prices were still low. Finally, the consumption figures in previous years were unusually high for a country of the size of Indonesia, and might have been overstated in the verification in the attempt to prove, with a high degree of certainty,

that the maximum allowable consumption under the agreement had not been reached. The combination of the above can be regarded as sufficient to explain the very significant drop in consumption figures by about 90 per cent between 2005 and 2006.

17. The implementation in the different sectors in the years 2006 and 2007 has proceeded satisfactory and is clearly near its end. Investment activities have largely been completed, and Indonesia is now focussing on follow-up and certain activities that were delayed or had a secondary priority. The plan for the year 2008 and the outlook into the year 2009 clearly reflect that. Given the low consumption, the complete stop of imports from 2008 onwards, and the virtual completion of investment activities, the proposed plan presents a meaningful approach for the year 2008.

RECOMMENDATION

18. The Fund Secretariat recommends blanket approval of the 2008 and final tranche of the phase-out plan with associated support costs at the funding levels shown in the table below, on the understanding that UNDP, on behalf of the Government of Indonesia, will continue providing annual reports and verification of the CFC consumption for the remaining duration of the Agreement.

| | Project Title | Project Funding (US \$) | Support Cost (US \$) | Implementing Agency |
|-----|---|------------------------------------|---------------------------------|--------------------------------|
| (a) | Phase-out of CFCs in the refrigeration sector (manufacturing) (sixth tranche) | 181,000 | 16,290 | UNDP |
| (b) | Phase-out of residual CFCs in the foam sector (fourth tranche) | 35,000 | 2,625 | World Bank |
